

## Written Supervisory Procedures Review Checklist for Proprietary Trading Firms

(Please complete only the applicable areas)

This Written Supervisory Procedures Checklist (WSP Checklist) is an outline of selected key topics representative of the range of business activities typically proposed by applicants that are proprietary trading firms seeking approval to become NASDAQ members.

Nasdaq Rule 1011 defines a proprietary trading firm as an applicant for membership in NASDAQ with the following characteristics:

(1) the applicant is not required by Section 15(b)(8) of the Securities Exchange Act of 1934 (the "Act") to become a member of the Financial Industry Regulation Authority ("FINRA") but is a member of another registered securities exchange not registered solely under Section 6(g) of the Act;

(2) all funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts;

(3) the applicant does not, and will not have "customers," as that term is defined in Nasdaq Rule 0120(g); and

(4) all principals and representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant.

As part of the application process, applicants are required to submit a completed WSP Checklist, together with a copy of their Written Supervisory Procedures (WSPs). NASDAQ staff reviews the checklist and the WSPs in conjunction with its determination of whether the applicant meets the standards for admission specified in NASDAQ Rule 1014(a).

Note that the outline of topics in the WSP Checklist is not all-inclusive and does not necessarily represent all of the areas of inquiry that the staff will make when evaluating supervisory procedures proposed in an application. The full extent of the staff's inquiry and evaluation will depend on a number of factors, including the precise nature of the proposed business activities.

The WSPs are a "living document" and should provide a road map for the supervisory personnel to follow when they conduct each review. WSPs should be updated not only to reflect changes to rules and regulations, but also when changes are made to the supervisory process.

***IMPORTANT NOTE: This outline of topics should not be considered by the user to include all topics and issues applicable to the user's business. It is merely to be used as an aid in preparing written supervisory procedures.***

*Certain references to specific rules and other guidance have been provided for some topics and line items contained within the checklist, although the list of references may not be exhaustive. Please review all references relevant to the firm's business plan prior to completing and submitting the checklist. All references to Notices to*

*Members (NTM) refer to NTMs issued by FINRA with regard to its comparable rule. Although the NTMs have not been formally adopted by NASDAQ, applicants may find the information contained in them useful in preparing their applications.*

ITEM REQUIRED	Reference Unless otherwise noted, Rule references are to NASDAQ Rules.	N/A	Page No.	Super. Assigned	When Reviewed	How Evidenced
<b>I. General Administrative</b>						
<b>Form Filing NASD Rule 1140</b>						
Form BD Amendments	1013					
Form U4/Form U5	1013, 1140					
Fingerprint Cards	SEC Rule 17f-2					
Designation of Executive Representative	1150					
Designation of principal responsible for supervision of form filings	1140					
<b>General B/D Activities</b>						
Correspondence - incoming, outgoing, including facsimiles and electronic messages (e-mail, instant messages, etc.)	3010(d); SEC Rule 17a-4(b)(4); NTM 98-11, 99-3, 01-80, 03-33; SEC Rule 17a(3)(20)					
Material Event & Customer Complaint Reporting	3070					
Distribution of procedures and amendments	3010(b)(4)					
Gifts & Gratuities	3060					
Outside Business Activities	3030					
Periodic review of business and supervisory system	3010(c)					
Private Securities Transactions	3040; NTM 85-84, 94-44, 96-33					

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Regulation SP of Gramm Leach Bliley <ul style="list-style-type: none"> <li>• requirement to provide initial, annual &amp; revised privacy policy notice;</li> <li>• description of how &amp; when policy is distributed to customers;</li> <li>• administrative, technical &amp; physical safe guard of information; and</li> <li>• testing of firewalls.</li> </ul>	<i>Regulation SP</i>					
<b>Registered Representative Activities/Associated Persons</b>						
Designation of Supervisors and Supervisory Duties For Each Supervisor - <i>include location of supervisor; title; date duties assumed; registration status (maintain for 3 years)(include Chief Compliance Officer as appropriate)</i>	<i>3010(a)(2); 3010(b)(3); NTM 99-45</i>					
Determine qualifications of Supervisory Personnel	<i>3010(a)(6); NTM 99-45</i>					
All associated persons are properly registered	<i>1070; 1021; 1022; IM-1022-2; 1030; 1040; 1100</i>					
Investigation of Background and Qualifications	<i>3010(a)(6); 3010(e);</i>					
Records for all Associated Persons	<i>SEC Rule 17a-3(a)(12); NTM 01-80</i>					
Assign each registered rep to a supervisor and create a record of all reps supervised by each supervisor	<i>3010(a)(5); NTM 99-45</i>					
Require reps to attend an annual compliance meeting	<i>3010(a)(7); NTM 99-45</i>					
Heightened supervisory/hiring procedures	<i>NTM 97-19; 03-49</i>					

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Supervision of Statutorily Disqualified Individuals	<i>Form MC-400 (used to process statutorily disqualified individuals); 3070</i>					
Screening for SD persons hired in clerical or ministerial positions						
Require annual written attestation from registered representatives regarding:						
(a) opening a securities account						
(b) private securities transactions						
(c) outside business activities						
Obligations related to associated persons with accounts at other b/ds	<i>3010(c), 3050(d); NTM 91-27, 97-25</i>					
Parking of Securities Registrations	<i>Rule 1031(a)</i>					
Use of Exception reports & other reports	<i>3230(c), NTM 99-57</i>					
Investment Advisor Activities of Associated Persons	<i>3040; NTM 91-32, 94-44, 96-33</i>					
<b>Branch Office Activities</b> <i>3010; NTM 86-65, 88-84, 89-34, 92-18, 99-45, 04-71</i>						
Designation of branch supervisor	<i>3010(a)(4)</i>					
Designation of Offices of Supervisory Jurisdiction (OSJ)	<i>3010(a)(3); 3010(g)</i>					
Supervision of non-branch location	<i>3010(c); NTM 86-65, 04-71</i>					
Supervision of Offices of Supervisory Jurisdiction and Branch Offices	<i>3010(c)(1)</i>					
Mandatory inspection schedule for locations at which the firm conduct a business	<i>3010(c)(1)</i>					
Requirements for Inspections of branch and non-branch locations and contents of inspections reports	<i>3010(c)(1)-(3);</i>					

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Documentation of limited size and resources exception from inspection requirements (if applicable)	3010(c)(3)					
Heightened office inspections of branch and non-branch locations	3010(c)(3)					
<b>Supervisory Controls</b> 3012, 3013, NTM 04-71 and 04-79						
Designation of Chief Compliance Officer	3013(a)					
CEO's Annual Certification	3013(b)					
Designation of and Identification to <i>FINRA</i> Principal Responsible for Supervisory Controls	3012(a)(1)					
Supervisory Control Procedures for Testing the Firm's Written Supervisory Procedures to Ensure that All Rules are Addressed	3012(a)(1)					
Supervisory Control Procedures that Address Updating the Firm's Written Supervisory Procedures	3012(a)(1)					
Identification of Producing Managers and Assigning Qualified Supervisors	3012(a)(2)					
Identification of Producing Managers for Heightened Supervision	3012(a)(2)					
Documentation of Limited Size and Resources Exception for Producing Manager Supervision, including factors used in determining the exception is required	3012(a)(2)(A)					

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Designated Principal Annual Report to Senior Management on Firm's Supervisory Controls Procedures, Test Results, and Resulting Changes	3012(a)(1)					
Review and Supervision of Customer Account Activity of Producing Managers	3012(a)(2)(A)					
Review and Supervision of Transmittal of Customer Funds or Securities	3012(a)(2)(B)					
Supervision of Customer Changes of Address and Validation	3012(a)(2)(B)					
Supervision of Customer Changes of Investment Objective	3012(a)(2)(B)					
Heightened Supervision over High Producing Managers	3012(a)(2)(c)					
<b>Financial Reporting/Books and Records</b>						
Maintenance of Books and Records <ul style="list-style-type: none"> <li>• main office;</li> <li>• other offices; and,</li> <li>• update customer account information.</li> </ul>	SEC Rules 17a-3 and 17a-4; 3110; NTM 01-80, 03-33					
Net Capital Rule <ul style="list-style-type: none"> <li>• Error Procedures for handling customer funds received by fully-disclosed firms</li> <li>• Handling Customer Funds</li> <li>• Handling Customer Securities</li> </ul>	SEC Rules 15c3-1, 17a-11; NTM 92-72, 93-30, 99-44					

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Customer Protection Rule <ul style="list-style-type: none"> <li>• Reserve Computations</li> <li>• Quarterly Box Count</li> <li>• Safekeeping and Segregation of Customer Securities</li> </ul>	<i>SEC Rule 15c3-3; 3140; NTM 99-44</i>  <i>SEC Rule 17a-13</i>  <i>SEC Rules 8c-1, 15c2-1, 15c3-3, 17a-13; 2330</i>					
Financial Reporting/Backup – Net Capital Computation; FOCUS	<i>SEC Rules 17a-5, 17a-11; 3110</i>					
Margin Requirements	<i>2520; Regulation T</i>					
Clearing Agreements	<i>3230; NTM 99-57</i>					
Bank Secrecy Act; Reporting Suspicious Transactions; Recordkeeping for Funds Transfers	<i>SEC Rule 17a-8, NTM 89-12, 97-13</i>					

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Business Continuity Plan <ul style="list-style-type: none"> <li>• identify Emergency Contact Persons</li> <li>• address data back-up and recovery</li> <li>• address mission critical systems</li> <li>• address periodic assessment of financial and operational risks</li> <li>• address alternate communications during emergency</li> <li>• address providing an alternate physical location for employees</li> <li>• address the impact of disruption upon critical counterparts</li> <li>• address regulatory reporting and communications with regulators</li> <li>• address the requirements for updating, annual review, and senior management approval provisions</li> </ul>	3500, 3510; NTM 04-37					
<b>Anti-Money Laundering (AML)</b> 3011; NTM 02-21 <a href="#">Anti-Money Laundering Small Firm Template</a> (NOTE: The AML Program may be included in the firm’s WSPs or may be a separate document.)						
Designate AML Contact person	3011(d)					
Written Anti-Money Laundering Compliance Program approved in writing by senior management of the firm						

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Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of suspicious transactions						
Compliance with the Bank Secrecy Act and implementing regulations						
Independent testing of the firm's AML Compliance Program						
On-going training of appropriate personnel						
<p>Identification and verification of customers, including a Customer Identification Program</p> <ul style="list-style-type: none"> <li>• Account documentation;</li> <li>• Verify identity of customer or persons with trading authority;</li> <li>• Description of when &amp; how the b/d will use documentary methods, non-documentary methods or both;</li> <li>• Maintain records of information used to verify identity; and</li> <li>• Description of policy when firm can not obtain adequate verification of identity.</li> </ul>	<i>Section 326 of the USA Patriot Act; NTM 03-34</i>					

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Determination if customer appears on any list of known or suspected terrorists or terrorist organizations, such as those listed on the Treasury's Office of Foreign Assets Control (OFAC) Web site, as well as on the list of embargoed countries and regions on the OFAC List						
Responding to information requests from FinCEN concerning money laundering or terrorist financing, including how the firm will protect the security and confidentiality of the information requests	<i>U.S. Patriot Act, section 314, and Bank Secrecy Act</i>					
Sharing information with other financial institutions, if applicable (including requirement to provide annual sharing agreement to FinCEN)	<i>U.S. Patriot Act, section 314, and Bank Secrecy Act</i>					
If firm does not open or maintain correspondent accounts for foreign banks: <ul style="list-style-type: none"> <li>• it must have internal controls implemented to detect any attempt to open such an account</li> </ul>						

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<p>If firm opens or maintains correspondent accounts for foreign banks:</p> <ul style="list-style-type: none"> <li>• obtain the name and address of an agent residing in the United States who is authorized to accept service of legal process for records on behalf of foreign bank correspondent accounts</li> <li>• identify the owners of foreign banks that maintain correspondent accounts in the United States and retaining applicable records</li> <li>• provide information to federal law enforcement officers not later than seven days after receipt of request</li> <li>• terminate correspondent relationships with a foreign bank not later than ten business days after notification by the Secretary of the Treasury or the Attorney General that the firm has failed to comply with a summons or contested a summons</li> </ul>						
<p><i>(Effective date to be determined)</i> Due diligence review for correspondent accounts of foreign financial institutions</p>						

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Determine the identity of the nominal and beneficial account holders and the source of funds deposited into "private banking accounts," and to conduct enhanced scrutiny of accounts of a senior foreign political figure						
If the firm does not open or maintain private banking accounts for non-U.S. persons: <ul style="list-style-type: none"> <li>internal controls detect any attempt to open such an account</li> </ul>						
Freeze accounts and prohibit transactions with persons who are suspected of terrorist activities pursuant to Executive Order #13224 that was issued through the Office of Foreign Assets Control (OFAC)						
If the firm prohibits the receipt of currency: <ul style="list-style-type: none"> <li>Procedures and internal controls to detect its receipt</li> </ul>						
Filing Currency Transaction Reports: <ul style="list-style-type: none"> <li>Identify cash transactions for filing CTRs</li> <li>Filing CTRs</li> <li>Verify the identity of customers for filing CTRs</li> </ul>	<i>SEC Rule 17a-8; Bank Secrecy Act</i>					
Filing reports of International Transportation of Currency or Monetary Instruments	<i>SEC Rule 17a-8; Bank Secrecy Act</i>					
Filing reports of Foreign Bank and Financial Accounts	<i>SEC Rule 17a-8; Bank Secrecy Act</i>					

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Obtaining all required information regarding the transmittal/re-transmittal of wire transfers that includes the transmitter and recipient of funds						
Verifying the identity of customers in connection with wire transfers						
Procedures to detect and report suspicious transactions by filing Suspicious Activity Reports (SAR-SF)	<i>NTM 02-47</i>					
Record keeping requirements (currently a five-year requirement)	<i>SEC Rule 17a-8; Bank Secrecy Act</i>					

<b>II. Continuing Education</b>		<i>NASD Rule 1120; NTM 97-35, 98-59, 02-77</i>				
CE Contact person	<i>NTM 04-22</i>					
Monitor compliance with Regulatory Element - <ul style="list-style-type: none"> <li>• prompt notification of persons required to sit for CBT;</li> <li>• track registered persons to ensure they sit for CBT;</li> <li>• monitor inactive registrations;</li> <li>• designate contact person with <i>FINRA</i></li> </ul>						
Firm Element - requirement to prepare an annual: <ul style="list-style-type: none"> <li>• Written needs analysis;</li> <li>• Written training plan;</li> <li>• Maintenance of training material;</li> <li>• Record of persons receiving training</li> </ul>						

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<b>III. All Securities Related Activities</b>						
Best Execution	<i>2320; NTM 97-57, 00-42, 01-22</i>					
Designated securities	<i>SEC Rules 15g(1)-(9); NTM, 92-38, 92-42, 93-55</i>					
Parking of Securities	<i>2110; SEC Rules 10b-5, 15c3-1</i>					
Restricted/control securities	<i>SEC Rule 144</i>					
Transactions involving NASDAQ employees	<i>3090</i>					

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<b>V. Options</b>						
Position Limits / Exercise Limits						
Reporting options positions						

<b>VI. Insider Trading</b>						
<b>All firms:</b> <i>NTM 89-05</i>						
Periodically reviewing employee and firm trading						
Provisions for investigating suspect trades						
Initial education						
Require employee to sign attestation						
Update employees on new or revised IT regs						
<b>Arbitrage Firms</b>						
Chinese Wall Procedures	<i>NTM 91-45; IM 2110-4</i>					
Method for determining whether firm trading should be restricted						
Which activities restricted while security is on list						
Firm monitoring rep's trading of restricted security	<i>NTM 91-27</i>					
Time period covered and frequency of review						
Why, when, and how security is put on restricted list						
Record details of rep's trade in restricted security						

<b>VI. Trading/Market Making</b> <i>NTM 98-96</i>						
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Best Execution	2320; NTM 00-42, 01-22; MSRB Rule G-18					
Evaluation of execution in competing markets	2320					
Designated Securities	SEC Rules 15g(1)-(9)					
Due Diligence	SEC Rule 15c2-11					
Firm Quote/Backing Away	3320, SEC Rule 11Ac1-1; NTM 99-61, 00-42,					
Front Running / Trading ahead of research	IM 2110-3; NTM 96-25					
Limit/Market Order Handling <ul style="list-style-type: none"> <li>• Order Display/Quote Display</li> <li>• Priority Procedures</li> </ul>	2110; IM 2110-2, 2110-5; SEC Rules 11Ac1-1, 11Ac1-4 15c2-1; NTM 97-49, 97-57, 99-99, 00-26					
Locked and Crossed Markets; Trading Through Protected Quotations	SEC Regulation NMS					
Order Audit Trail System (requirement to maintain OATS data and transmit upon request)	6950 – 6957; NTM 98-33, 00-26					
Order Execution Reports	SEC Rule 605; NTM 01-16					
Order Routing Information	SEC Rule 606					
Order Ticket Procedures	3110; SEC Rule 17a-3(a)					
Passive Market Making	Regulation M, Rule 103					
Payment for Order Flow	2110; SEC Rules 10b-10, 11Ac1-3					
Position Limits						

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Anti-Competitive Practices pricing conventions; size conventions; coordination of quotations; trades and trade reports; exchange of proprietary information; improper collaboration and coordination of market maker activities; failure to honor quotations; late and inaccurate trade reporting; and harassment	<i>SEC 21(a) Report; IM 2110-5</i>					
Prohibition of payments for market making activities	<i>2460; NTM 97-46</i>					
Registration of trading personnel	<i>1022, NTM 00-46</i>					
Regulation Compliance Report Cards						
Security of Terminals						
Short interest reporting	<i>3360; NTM 03-08</i>					
Short Sales	<i>SEC Regulation SHO</i>					
Supervision of Traders						
Trading Halts	<i>4120, 6545; IM 4120-3; NTM 99-05, 00-41, 01-47, 02-82</i>					
Withdrawal of Quotes						