

**Underlined changes are approved but will not be operative until March 8, 2011.**

#### **4611. Nasdaq Market Center Participant Registration**

- (a) Participation in the Nasdaq Market Center as a Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm requires current registration as such with Nasdaq. Such registration shall be conditioned upon the participant's initial and continuing compliance with the following requirements:
- (1) execution of applicable agreements with Nasdaq;
  - (2) membership in, or access arrangement with a participant of, a clearing agency registered with the Commission which maintains facilities through which Nasdaq Market Center compared trades may be settled;
  - (3) compliance with all applicable rules and operating procedures of Nasdaq and the Commission in their use of the System;
  - (4) maintenance of the physical security of the equipment located on the premises of the Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm to prevent the improper use or access to Nasdaq systems, including unauthorized entry of information into the Nasdaq Market Center;
  - (5) acceptance and settlement of each Nasdaq Market Center trade that the Nasdaq Market Center identifies as having been effected by such participant, or if settlement is to be made through another clearing member, guarantee of the acceptance and settlement of such identified Nasdaq Market Center trade by the clearing member on the regularly scheduled settlement date; and
  - (6) input of accurate information into the System, including, but not limited to, whether the member acted in a principal, agent, or riskless principal capacity.

A member's registration shall become effective upon receipt by the member of notice of an approval of registration by Nasdaq. The registration required hereunder will apply solely to the qualification of a Participant to participate in the System. Such registration shall not be conditioned upon registration in any particular Nasdaq Market Center securities.

- (b) Each Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm shall be under a continuing obligation to inform Nasdaq of noncompliance with any of the registration requirements set forth above.
- (c) Nasdaq may impose upon any Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm such temporary restrictions upon the automated entry or updating of orders or Quotes/Orders as Nasdaq may determine to be necessary to protect the integrity of Nasdaq's systems. For example, such temporary restrictions may be necessary to address a system problem at a particular Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm or at Nasdaq, or an unexpected period of extremely high message traffic. The scope of any such restrictions shall be communicated to the affected Nasdaq Market Maker, Nasdaq ECN or Order Entry Firm in writing.
- (d) Access to a Trading Center. Members that enter into an arrangement with another person or entity (e.g., a customer, another member, or a non-member broker-

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dealer) to provide that person with access to Nasdaq or otherwise allow such person to route its orders to Nasdaq using the member's market participant identifier ("MPID"), shall do so through either a Sponsored Access System or a Member System. Members that provide such access are responsible for all trading conducted pursuant to that arrangement to the same extent as trading directly conducted by the member for customers. Consequently, the member is responsible for implementing policies and procedures for supervising and monitoring the trading effected pursuant to the arrangement to ensure that it is in compliance with all applicable federal securities laws and rules and Exchange rules. This obligation applies irrespective of the manner in which orders pursuant to such arrangements reach Nasdaq.

**(1) Definition.**

(A) Sponsored Access is the practice by a member ("Sponsoring Member") of providing access to Nasdaq to another person, firm or customer ("Sponsored Participant") whereby the Sponsored Participant enters orders into Nasdaq using a Sponsored Access System but the orders do not pass through a Member System prior to reaching Nasdaq.

(B) Direct Market Access ("DMA") is the practice by a member ("Sponsoring Member") of providing access to Nasdaq to another person, firm or customer ("Sponsored Participant") whereby the Sponsored Participant makes decisions regarding order routing and order entry but the orders pass through a Member System prior to reaching Nasdaq.

(C) A Member System is any system administered and controlled solely by the Sponsoring Member and that applies the pre- and post-trade financial and regulatory controls set forth in sections (4) and (5) below.

(D) A Sponsored Access System is any system that applies pre- and post-trade financial and regulatory controls set forth in sections (4) and (5) below and that is not administered and controlled solely by the Sponsoring Member.

**(2) Compliance.** To ensure that Sponsored Access is consistent with high market quality and the protection of investors, Sponsoring Members providing Sponsored Access shall at a minimum comply with the Contractual Provisions, Financial Controls, and Regulatory Controls set forth in sections (3), (4), and (5) below. Sponsoring Members providing Direct Market Access shall at a minimum comply with the Financial Controls and Regulatory Controls set forth in sections (4) and (5) below.

**(3) Contractual Provisions.**

(A) A Sponsoring Member that provides Sponsored Access shall execute and maintain agreements with each Sponsored Participant containing the commitments below.

(i) All trading activity by the Sponsored Participant shall comply with all applicable federal securities laws and rules and Exchange rules.

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including but not limited to the Nasdaq Certificate of Incorporation, Bylaws, Rules and procedures with regard to the Nasdaq Market Center ("Regulatory Requirements").

(ii) Sponsored Participant shall promptly upon request provide Sponsoring Member with access to such books and records and financial information that is necessary to allow the Sponsoring Member to comply with its regulatory obligations with respect to activity of the Sponsored Participant within the Sponsored Access arrangement, and otherwise cooperate with the Sponsoring Member in furtherance of Sponsoring Member's compliance with applicable Regulatory Requirements. Information provided by Sponsored Participants to Sponsoring Members pursuant to such requests shall be maintained as confidential by the Sponsoring Member, provided that such information shall be available to Nasdaq upon request for regulatory purposes.

(iii) Sponsored Participant shall maintain its trading activity within the credit, product or other financial limits specified by the Sponsoring Member.

(iv) Sponsored Participant shall maintain all technology permitting sponsored access to Nasdaq in a physically secure manner and may not permit unauthorized individuals to use or obtain access to Nasdaq. Sponsored Participant shall familiarize its authorized individuals with the Regulatory Requirements and will provide appropriate training prior to use or access to Nasdaq.

(v) Sponsored Participant shall agree that the Sponsoring Member or Nasdaq may immediately terminate the Sponsored Access if the Sponsoring Member or Nasdaq determines that continuing such access poses serious risk to the Sponsoring Member or to the integrity of the market.

(B) A Sponsoring Member that provides Sponsored Access shall execute and maintain agreements with each third party ("Third Party Provider") that provides a Sponsored Access System to Sponsored Participants for accessing Nasdaq, specifying which of the financial and regulatory controls stated in subsections (4) and (5) below are satisfied by the technology provided, and containing the commitments below.

(i) Third Party Providers shall promptly upon request provide Sponsoring Member with access to such books and records and financial information that is necessary to allow the Sponsoring Member to comply with its regulatory obligations with respect to activity of the Sponsored Participant within the Sponsored Access arrangement, and otherwise cooperate with the Sponsoring Member in furtherance of Sponsoring Member's compliance with applicable Regulatory Requirements. Information provided by Sponsored Participants to Sponsoring Members pursuant to such requests shall be maintained as confidential by the Sponsoring Member, provided that such information shall be available to Nasdaq upon request for regulatory purposes.

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(ii) Third Party Providers shall maintain all technology permitting Sponsored Access to Nasdaq in a physically secure manner and may not permit unauthorized individuals to use or obtain access to Nasdaq.

(iii) Third Party Providers shall agree that Nasdaq or its agent may audit the Sponsored Access System and that the Sponsoring Member or Nasdaq may immediately terminate the Sponsored Access if the Sponsored Participant or Third Party Provider fails to abide by its commitments.

**(4) *Financial Controls.*** Each Sponsoring Member shall establish adequate procedures and controls that permit it to effectively monitor and control the Sponsored Access or Direct Market Access to systemically limit the Sponsoring Member's financial exposure. At a minimum, the Member System or Sponsored Access System shall be reasonably designed to:

(A) Prevent each Sponsored Participant from entering orders that in aggregate exceed appropriate pre-set credit thresholds. Sponsoring Members may also set finely-tuned credit thresholds by sector, security or otherwise.

(B) Prevent Sponsored Participants from trading products that the Sponsoring Member is restricted from trading or that the Sponsored Participant is restricted from trading for reasons specific to the Sponsored Participant.

(C) Prevent Sponsored Participants from submitting erroneous orders by providing for the rejection of orders that exceed certain price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.

**(5) *Regulatory Controls.*** Each Sponsoring Member shall establish adequate procedures and controls reasonably designed to permit it to effectively monitor and control compliance with Regulatory Requirements,

(A) Each Sponsoring Member shall have systemic controls reasonably designed to ensure compliance by the Sponsored Participant with all applicable Regulatory Requirements.

(B) Each Sponsoring Member shall ensure that appropriate supervisory personnel receive and review timely reports of all trading activity by its Sponsored Participants sufficient to permit the Sponsoring Member to comply with applicable Regulatory Requirements, and to monitor for illegal activity such as market manipulation or insider trading. At a minimum, appropriate supervisory personnel should receive immediate post-trade execution reports of trading activity of all Sponsored Participants, including their identities; all required audit trail information by no later than the end of the trading day; and all information necessary to create and maintain the trading records required by applicable Regulatory Requirements by no later than the end of the trading day. Appropriate supervisory personnel shall review execution reports immediately and all other reports promptly.

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Adopted Jan. 13, 2006 (SEC Release 34-53128); amended Oct. 16, 2006 (SR-NASDAQ-2006-001); amended Jan. 21, 2007 (SR-NASDAQ-2006-061); amended Feb. 23, 2007 (SR-NASDAQ-2007-010); amended June 13, 2008 (SR-NASDAQ-2008-054); amended Feb. 23, 2009 (SR-NASDAQ-2009-014); amended Jan. 13, 2010 (SR-NASDAQ-2008-104); amended Mar. 17, 2010 (SR-NASDAQ-2010-039); amended July 12, 2010 (SR-NASDAQ-2010-086); amended Jan. 6, 2011 (SR-NASDAQ-2011-008).