

# Nasdaq's Proposed Sponsored Access Rule

## Three types of sponsored access:

- >> **Direct Market Access:** The sponsored participant's orders go through the sponsoring member's systems before reaching the exchange
- >> **Direct Sponsored Access:** The sponsored participant's orders are sent directly to the exchange via a dedicated port provided by the sponsoring member
- >> **Third-Party Sponsored Access:** A service bureau or third party provides the sponsored participant with technology to access the exchange via an arrangement with the sponsoring member

## **For direct sponsored access and third-party sponsored access, the sponsoring exchange member must execute an agreement with the sponsored participant (and service bureau, where necessary) that includes the following:**

- >> **Contractual Provisions:** The sponsored participant must agree to...
  - 1) Comply with federal securities laws and exchange rules
  - 2) Provide the sponsoring member with access to its books and records upon request
  - 3) Obey credit, product and other financial limits laid out by the sponsoring member
  - 4) Prevent unauthorized individuals from accessing the exchange
  - 5) Provide sponsoring member with complete corporate and financial information about the sponsored participant
  - 6) Recognize that the sponsoring member or the exchange can terminate access if the sponsored participant or third-party access provider doesn't abide by its commitments
- >> **Financial Controls:** The sponsoring member must prevent the sponsored participant from...
  - 1) Entering orders that in aggregate exceed credit limits
  - 2) Trading restricted products
  - 3) Submitting erroneous orders
- >> **Regulatory Controls:** The sponsoring member must...
  - 1) Maintain systematic controls to ensure that the sponsored participant complies with rules related to short selling, trading halts, proper use of order types and ISOs, trading ahead of customer limit orders, and prohibitions against manipulative trading practices, among other applicable trading rules
  - 2) Ensure that its compliance personnel receive immediate post-trade reports from the sponsored participant to make sure regulatory requirements are being met, and to monitor for illegal activity such as market manipulation and insider trading