



**Automated Trading Desk Financial Services, LLC**  
**AUTO – Leveraging Technology for Smarter Execution**

AUTO's automated systems have been designed and are continually enhanced to automatically provide the highest level of regulatory compliance and strive to obtain the best execution quality available. We believe that AUTO's automation provides a level of quality and consistency that is not available in a manual environment.

**Technology**

1) Please provide a general description of the firm's trading system:

AUTO's technology is based upon a highly redundant platform. More than 99% of all orders entered into the system are handling on a completely automated basis. The system accepts, validates, executes, routes, and reports executions without human intervention. AUTO accesses many markets simultaneously. Despite the multitude of market centers that our systems can access, orders are filled and confirmed, often in under a second.

2) How is AUTO trading system accessible?

AUTO is dedicated to providing top quality accessibility through most major messaging protocols (i.e. FIX, CMS, ACES, etc.) AUTO also accepts order flow through many service bureau arrangements (i.e. BETA, NYFIX, S1-Davidge, BRASS/BNET, etc.). Connection can be made via direct link (T1, VPN, etc.) or through extranet providers such as Radianz or TNS.

3) What automated trading information can AUTO provide?

AUTO provides real time trade reporting back to its clients. Further, AUTO can provide daily open order reconciliation reports, quality of execution reports, and other client specific reporting to meet its client's needs. These reports can be made available via email, ftp, fax, dedicated server, etc.

4) What is the firm's capacity readiness and systems monitoring?

AUTO's systems have a high standard of readiness and "uptime". We run real time diagnostic checks across all system components, and any issue discovered is immediately reported to both technical personnel and principals of the firm.

**Price Benchmarks**

5) How does the firm determine the execution price of an order?

AUTO's execution procedures are completely automated and are based upon this "best execution" principle: Each marketable order is to be executed at a price that is equal to or better than the best indicator of the "true market" for the stock given the existing market conditions. As opposed to a manual execution, our systems never deviate from this principle. Of course, the "true market" for a stock at any given point in time depends upon market conditions. Certain conditional order types (MOC, MOO, etc.) are set to specific industry benchmarks.

6) How does the firm determine the execution price of an order under normal market conditions?

During normal market conditions, our execution procedures and post-execution quality control procedures utilize a stock's best consolidated inside quote (NBBO) as the price benchmark.

7) How does the firm determine the execution price of an order under non-normal market conditions?

During periods of unusual market conditions, often characterized by inordinate volumes and volatility, AUTO will attempt to continue providing our clients with the enhanced service benefits that are generally offered during normal market conditions. These enhanced service benefits include, but are not limited to, automatic execution, automated display of eligible client limit orders, automated price improvement opportunities and acceptance of stop orders<sup>1</sup>. During unusual market conditions, however, it is possible that some or all of these features may be temporarily modified or suspended.

**Pricing Engine**

8) AUTO utilizes its automated price prediction technology to help its clients achieve best execution, either through smart order routing or internalization with price improvement. AUTO generally makes a market in all NMS securities and active OTCBB and Pink Sheet securities.

**Automatic Execution**

9) What orders are eligible for automatic execution?

Generally automatic execution is available during normal market conditions. Additionally, the automatic execution criteria vary by client.

**Non-Normal Market Conditions**

10) How does the firm determine when market conditions are non-normal?

AUTO reserves the right, at the sole discretion of its Principals, to determine if and when market conditions are normal. Principals determine when and if market conditions are considered normal. Non-normal market conditions include, but are not limited to:

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<sup>1</sup> Beginning November 5<sup>th</sup>, 2007 stop orders will be activated from the quote for all NMS securities. Orders that would immediately activate are generally rejected.

Locked or crossed markets  
Fast or volatile markets  
Periods of order imbalances  
Non-regulatory trading halts (beginning from the time of the last print on the stock's primary exchange prior to the exchange's declaration of the halt and ending when the stock's primary exchange ends the halt by resuming its normal quoting and printing operations)  
Periods of time when an exchange places a stock in "non-firm" quote mode or similar quoting mode  
Periods of unusually wide spreads (in the inside market or by the stock's primary exchange)  
Periods of time surrounding significant news stories  
Stocks whose normal unit of trading is less than 100 shares  
Periods of time affected by a communications or systems outage  
The hours between 4:00 pm and 9:30 am

11) How does the firm notify its clients when market conditions are non-normal?

AUTO notifies its clients that market conditions are not normal on an as needed / best efforts basis. Methods of communicating with clients may include, but are not limited to, email, electronic message, phone call, and facsimile. Under certain circumstances, AUTO might not notify clients that certain non-normal market conditions exist because the event causing the non-normal market conditions are readily available to clients, (e.g. locked and crossed markets, non-firm quotes, etc...). For instance, orders executed while the stock's primary exchange was disseminating non-firm quotes will not be the subject of notification because the non-firm nature of the exchange's quotes are disseminated by the exchange along with the quote.

12) How does the firm handle orders during non-normal market conditions?

Orders received during non-normal market conditions may be ineligible for automatic execution and may also be ineligible for price improvement. Our automated systems will continue to seek out available liquidity and attempt to provide opportunities for price improvement and enhanced liquidity. In the event of an interruption in automated order processing, AUTO will handle orders on a manual, best efforts basis.

13) What is the firm's trading policy when orders are received in locked or crossed markets?

Locked and crossed markets are not normal market conditions. Generally, AUTO will process incoming orders at the first unlocked and uncrossed market.

14) What is the firm's trading policy with respect to trading halts?

In NASDAQ securities, when trading is suspended due to a regulatory halt no executions can occur based on SEC rules. All orders received during the halt will be executed on a best efforts basis immediately following the resumption of trading in the security. In exchange listed securities, when trading on the primary market is halted either on a regulatory basis or as the result of an order imbalance, it is AUTO's policy not to execute any customer orders during the halt. In the event that there is a delay in the primary market officially declaring the trading halt, we deem the halt to be effective at the time of the last transaction reported to the consolidated tape by the primary market. While we understand that SEC rules permit trading during order imbalance halts, we have determined that it is in the best interests of our customers to refrain from trading during order imbalance trading halts. All orders received during the halt will be executed on a best efforts basis immediately following the resumption of trading in the security. Please note that AUTO reserves the right to trade during non-regulatory halts on all markets on a best efforts basis.

15) What is the firm's policy with respect to individual symbol circuit breakers or trading pauses?

It is the Firm's policy to refrain from trading during an individual symbol "circuit breaker" or "trading pause". Subsequent to the initiation of a trading pause all orders will be directed (or re-directed) to the Listing Market for participation in the re-open of the stock. If the listing market does not re-open for trading after 10 minutes and other national securities exchanges have resumed trading, the firm reserves the right to manually open the stock for trading as determined on a case by case basis by the principals of the firm. All orders received prior to or during a trading pause will be executed on a best efforts basis immediately following the resumption of trading in the security.

### **Price Improvement**

16) What are the firm's price improvement parameters?

Price Improvement occurs when an order is executed in full or in part at a price which is superior to the price benchmark in effect at the time the order is executed. Generally, orders that AUTO internalizes receive price improvement based on a percentage of the spread at the time of order execution. Price improvement protocols can vary on a stock by stock and client by client basis.

### **Compliance with Regulatory Obligations**

17) How does the firm comply with the SEC's Order Handling Rules as they pertain to the firm's Limit Order Display Obligations?

AUTO's proprietary system automatically enforces Limit Order Display Obligations against incoming order flow.

18) How does the firm comply with its Limit Order Protection (Manning) Obligations?

AUTO's proprietary trading system maintains a central order book. Every proprietary execution AUTO receives is compared to the central order book, and Manning obligations are automatically enforced.

19) How does the firm comply with Regulation NMS?

AUTO's proprietary system automatically prevents the trade through of a protected quotation. Please refer to AUTO's Reg NMS Document for more detailed information regarding specific policies and procedures developed to comply with Reg NMS.

20) How does the firm comply with its Trade Reporting (ACT) obligations?

Depending upon the clearing arrangement with each client (i.e. ACT AGU, Accept and Match, Correspondent Clearing, QSR), AUTO's proprietary systems automatically produce proper and timely ACT reports. However, please be advised that if AUTO prepares the ACT on behalf of its client, the client may remain primarily responsible for the ACT reporting (pursuant to rules and guidance from FINRA). AUTO will use its best efforts in connection with the ACT reporting done on behalf of its clients.

#### **Trading Pre-Opening and At-the-Opening**

21) How does the firm define the opening of a stock?

For NYSE listed and NYSEArca (Pacific) listed securities, AUTO defines the opening of a stock as the time at which AUTO receives the opening message from the primary exchange. For NASDAQ and AMEX listed securities<sup>2</sup>, AUTO defines the opening of a stock as the NASDAQ market open unless the security in question is halted.

22) When does the firm's trading system begin to display orders?

AUTO's system displays orders after the opening of the security as defined above.

#### **Single Price Open/Market on Close Orders – AUTO Default settings<sup>3</sup>**

23) For NYSE and Pacific Listed Securities, eligible orders will be routed to the primary for participation in the primary open/close. In order to be eligible for participation in the primary open orders must be received by 9:28 or 9:29 am ET for NYSE and NYSEArca Listed Securities respectively. In order to be eligible for participation in the primary close orders must be received by 3:45 or 3:59 pm ET for NYSE and NYSEArca Listed Securities respectively.

For NASDAQ and AMEX Listed Securities, eligible orders will be routed to NASDAQ for participation in the NASDAQ Official Open Pricing (NOOP) and NASDAQ Official Closing Price (NOCP). In order to be eligible for NOOP participation orders must be received by 9:28 am ET. In order to be eligible for NOCP participation orders must be received by 3:50 pm ET.

#### **Single Price Open/Market on Close Orders – Alternate settings**

24) Clients may elect to route eligible NYSE and NYSEArca Listed orders to the NASDAQ Open and Closing Cross. In order to be eligible for NOOP participation orders must be received by 9:28 am ET. In order to be eligible for NOCP participation orders must be received by 3:50 pm ET.

Clients may elect to route eligible AMEX Listed orders to the primary for participation in the primary open/close. In order to be eligible for participation in the primary open orders must be received by 9:28 am ET. In order to be eligible for participation in the primary close orders must be received by 3:45 pm.

**\*\*\*\* Note: AUTO will default to the above default settings unless otherwise instructed in writing. It is the responsibility of the Client to provide written notification of alternative Single Price Open/Market On Close elections. An Order Handling Selection Form is available upon request. Also note that clients routing orders to AUTO through external service providers (such as Brass, NYFX, Bloomberg) may be subject to the SPO/MOC selections of the service provider.**

#### **Single Price Open/Market on Close Orders -- Cancellations**

25) SINGLE PRICE OPEN: For market orders received prior to 9:27:55 am ET, orders may not be systematically cancelled after 9:27:55 am ET. However, client and AUTO hereby agree that all cancel requests can be made telephonically by either party at any time prior to execution. Cancels are contingent upon AUTO's receipt of an out from the venue the order was routed to. If the client cancels the order, the client receives either (1) the average price of the executions obtained by AUTO in reliance on the client's order, if any, or (2) the Market on Open price on the executed portion, if any, at AUTO's discretion. If AUTO cancels the order, the client receives either (1) the average price of the executed portion at the time of cancellation, if any, or (2) the Market on Open price on the executed portion, if any, at the client's discretion. For clients requesting the NOOP, AUTO will guarantee the price of the NOOP for eligible orders whenever the NASDAQ Opening Cross executes. In the rare event that NASDAQ does not execute an opening cross, AUTO will guarantee the price of the first round lot transaction in an unlocked/uncrossed market, up to the size of the initial transaction. Market on Open orders (OPG) received after 9:27:55 am ET will be rejected.

26) MARKET ON CLOSE: Market on Close orders may not be systematically cancelled after 3:44:55 pm ET for orders guaranteed the AMEX or NYSE close (or 5 seconds prior to the cut-off time designated by the exchange on rebalance days) or after 3:49:55 pm ET for orders guaranteed the NASDAQ Official Closing Price (NOCP) (or 5 seconds prior to the cut-off time designated on rebalancing days). However, client and AUTO hereby agree that all cancel requests may be made telephonically by either party at any time prior to execution. Cancels are contingent upon AUTO's receipt of an out from the venue the order was routed to. If the client cancels the order, the client receives either (1) the average price of the executions obtained by AUTO in reliance on the client's order,

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<sup>2</sup> Beginning on November 5, 2007

<sup>3</sup> Beginning November 17, 2008, orders priced at a sub-penny level in NYSE and NYSEArca listed stocks priced below \$1.05 will not be guaranteed an open or closing price. These orders will be executed on a best-efforts basis by routing to the NASDAQ Open and Closing Cross.

if any, or (2) the Market on Close price on the executed portion, if any, at AUTO's discretion. If AUTO cancels the order, the client receives either (1) the average price of the executed portion at the time of cancellation, if any, or (2) the Market on Close price on the executed portion, if any, at the client's discretion. Market on Close orders received after the cutoff time will be rejected.

### **Execution Quality Monitoring**

27) What are the firm's controls to monitor execution timeliness?

Orders received by AUTO are handled in an automated environment. AUTO may act in a principal, riskless principal or combination of riskless principal and principal capacity when handling client orders. AUTO may modify its order handling protocol for orders of size or in the event of unusual market conditions. Speed of execution is one of the parameters that appears on the Rule 605 reports and is a parameter that we closely monitor.

28) What are the firm's controls to monitor overall execution and price improvement quality?

AUTO closely monitors its execution quality on both an automated and manual review basis. Daily exception reports (internal and external) are reviewed by Principals each day. Further, AUTO reports its trades to Market Systems, Inc. and the Transaction Auditing Group. In addition, AUTO's SEC Rule 605 reports are available on the MSI website. AUTO routinely reviews its execution quality against the industry reports, and makes adjustments where appropriate.

29) What are the firm's controls to ensure execution quality in connection with automatic executions?

On internalized orders, AUTO's proprietary trading systems generally provide price improvement based on a percentage of the spread at the time of order execution.

30) What are the firm's controls to ensure execution quality in connection with manual executions?

Except in the rare instance of system problems, all of AUTO's trading is performed on a completely automated basis.

31) What information does the firm supply to its clients to assist them in performing their regular and rigorous reviews of their best execution obligations to their clients?

In addition to publishing its 605 data on the MSI website, AUTO can supply its clients with monthly execution analyses containing execution speed, price improvement rates and other important data broken down by order size and stock type.

### **Caveats**

32) Are the firm's order handling protocols always static for a given client or a given period of time?

AUTO reserves the right at its sole discretion to reduce, modify, suspend, or cancel any of its order handling protocols, including, but not limited to, automated price improvement and automatic execution, without notice on a stock by stock or client by client basis, when non-normal market conditions exist, when attempts are made to circumvent its automatic execution size limitations, or when AUTO otherwise deems it appropriate.

AUTO also reserves the right at its sole discretion and at any time, to route any order to any national exchange, ECN, or ATS for pricing and/or display, as long as the facility to which the order is routed complies with the Limit Order Display Rule.

33) Not Held Order Handling: A "not held" order may be handled with price and time discretion by the executing firm, and does not have standing in the firm's book. "Not held" order treatment may apply to orders entered as "not held" as well as to block size orders. AUTO may use its discretion regarding display size when seeking best execution for not held orders.

34) Does the firm guarantee its executions?

It is the mission of this firm to provide the highest quality execution services. Toward that end, AUTO's automated trading systems will use best efforts in connection with the handling of each of its clients' orders. While it is our goal that these efforts may enable our clients to satisfy their regulatory obligations associated with the orders and the relevant fiduciary obligations that they owe to their customers (including, but not limited to, our clients' obligations to provide best execution for its customers' orders), nothing in the foregoing materials should be construed to mean that AUTO is a guarantor of any of those obligations, that AUTO has agreed, either expressly or implicitly, to take on those obligations, that AUTO has agreed to indemnify its clients with respect to any alleged or actual breach of such obligations, nor that AUTO is a fiduciary of its broker-dealer clients or their customers. AUTO reserves the right to reject any order presented to it by its Clients.

The SEC issued a final order, effective as of July 31, 2009 amending Reg SHO. *The effect of the order is that, if a market participant has a fail in an equity security and is unable to borrow to cover the fail, such market participant who sold the security short and did not deliver on settlement date (T+3) will be bought in no later than at the market open on the next day (T+4). There are exceptions to the T+4 buy-in deadline for fails resulting from long sales (T+6) and fails in Rule 144 securities (T+35), subject to certain requirements as set out in the order. However, other than these limited exceptions, the SEC has made clear that this is a zero tolerance policy.*

As described in the order, failure to buy in on T+4 results in a prohibition on effecting short sales in the failed equity security without pre-borrowing the security or entering into a bona-fide arrangement to borrow the security. This prohibition remains until the fail is closed out, and such close-out has cleared and settled.

Lastly, the SEC also adopted Rule 10b-21, a “naked” short selling antifraud rule, which it had been considering for some time. The new rule covers short sellers who deceive broker-dealers or any other market participants, specifically making clear that those who lie about their intention or ability to deliver securities in time for settlement, and fail to deliver such securities in time for settlement, are violating the law.

#### **DISCLAIMERS AND NOTICES**

ALL AUTOMATED EXECUTION STANDARDS PROVIDED BY AUTO MAY BE DETERMINED ON A SECURITY-BY-SECURITY AND/OR CLIENT-BY-CLIENT BASIS AND ASSUME NORMAL MARKET CONDITIONS (AS DETERMINED BY AUTO). AUTO, IN ITS SOLE DISCRETION, RESERVES THE RIGHT TO REDUCE, MODIFY, SUSPEND, OR CANCEL ITS AUTOMATED EXECUTION STANDARDS WITHOUT PRIOR NOTICE ON A SECURITY-BY-SECURITY AND/OR CLIENT-BY-CLIENT BASIS WHEN UNUSUAL MARKET CONDITIONS EXISTS, RISK MANAGEMENT PROTOCOLS SO DICTATE, ATTEMPTS ARE MADE TO CIRCUMVENT OUR AUTOMATED EXECUTION SIZE LIMITATIONS, OR AUTO OTHERWISE DEEMS IT APPROPRIATE. AUTO RESERVES THE RIGHT TO SET SHARE LIMITATIONS ON A SECURITY-BY-SECURITY AND/OR CLIENT-BY-CLIENT BASIS FOR ALL GUARANTEED ORDER TYPES.

ORDERS HANDLED ON A “NOT-HELD” BASIS HAVE NO STANDING IN THE COMPANY’S BOOK. THEREFORE, THE COMPANY MAY TRADE ALONG OR WITH SUCH ORDERS. THESE ORDERS INCLUDE, BUT ARE NOT LIMITED TO, VWAP, AUTO-PILOT, GUARANTEED, AND BLOCK ORDERS.

PLEASE NOTE THAT, ABSENT EXTRAORDINARY CIRCUMSTANCES, ANY CUSTOMER COMPLAINTS REGARDING ORDER EXECUTION MUST BE RECEIVED BY AUTO BY THE SETTLEMENT DATE OF THE TRADE IN QUESTION.

AUTO RESERVES THE RIGHT TO HANDLE ORDERS OF UNUSUAL MAGNITUDE ON A MANUAL BASIS FOR PURPOSES OF HANDLING BEST EXECUTION AND OTHER OBLIGATIONS, INCLUDING RISK MANAGEMENT.

CERTAIN ORDER TYPE COMBINATIONS, ALTHOUGH AVAILABLE ON SOME ORDER DELIVERY SYSTEMS (E.G. ACES), WILL BE REJECTED BY AUTO (E.G. STOP + IOC). PLEASE CONSULT WITH OUR CERTIFICATION SPECIALISTS TO DETERMINE IF SPECIFIC ORDER TYPE COMBINATIONS ARE SUPPORTED BY AUTO.

AUTO RESERVES THE RIGHT TO ADJUST THE PARAMETERS TO ACCEPT AND/OR CANCEL ALL ORDER TYPES AT ANY TIME.

AUTO RESERVES THE RIGHT TO REJECT ANY ORDER BASED ON RISK ANALYSIS, CAPITAL CONSTRAINTS, OR OTHER FACTORS.

PERIODS OF MARKET VOLATILITY OR OTHER SYSTEM DELAYS MAY ADVERSELY AFFECT TRADE EXECUTION AND RELATED SERVICES.

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