

An alternative trading system (ATS) is an SEC-regulated trading venue in which a computerized system matches buy and sell orders of securities. An ATS is not a national securities exchange. An ATS may apply to the SEC to become a national securities exchange.<sup>1</sup> An ATS that registers as a broker-dealer must also comply with the obligations associated with being a registered broker-dealer, including FINRA membership and compliance with FINRA rules.<sup>2</sup>

A prospective FINRA member firm must seek approval for new FINRA membership through the submission of a [New Membership Application \(NMA or Form NMA\)](#). An existing FINRA member firm that is contemplating a material change in business operations, among other changes specified by applicable FINRA rules, must submit a [Continuing Membership Application \(CMA or Form CMA\)](#).<sup>3</sup> Both types of applications are reviewed by FINRA's Membership Application Program (MAP) Group. MAP's review of Forms NMA and CMA are governed by Rules 1011 through 1019 (collectively, the MAP rules) under the FINRA Rule 1000 Series (Member Application and Associated Persons Registration). For purposes of this Guidance, a prospective applicant for new membership should carefully review, in particular, Rules 1012 (General Provisions), 1013 (New Member Application and Interview), 1014 (Department Decision), and for an existing member that is contemplating the operation of an ATS, Rules 1012, 1014 and 1017 (Application for Approval of Change in Ownership, Control, or Business Operations).

Forms CMA and NMA are organized into sections that align with the standards for admission set forth under Rule 1014(a) followed by a series of questions related to that standard that are intended to help the applicant provide the responses needed to demonstrate that it can meet each of the Rule 1014(a) standards for FINRA membership, and to facilitate FINRA's review of the application. A common impediment to an efficient review of an application (NMA or CMA) pertains to missing or incomplete documentation and information in an application when it is first submitted to FINRA. This Guidance is intended to provide applicants basic information that may help prepare an application for submission to FINRA.

Forms NMA and CMA identify certain information as mandatory or required submissions in the applications. Please note that the information and documents listed in this Guidance are not exhaustive, and while there may be some items listed in this Guidance that may not be mandatory or required in the application, such information and documents are often provided to facilitate the review process. Rules 1013 and 1017 permit FINRA to request additional documents and information as necessary to render a decision on an application. In addition, applicants should review their submissions for consistency so that various documents, such as transaction flows, written procedures, customer disclosures and other written submissions reconcile to one another. Finally, please note that redacted documents will not be accepted, and that responses and documentation in a foreign language must be certified and translated to English, and all foreign currencies converted to U.S. dollars. For additional guidance or questions concerning the CMA or NMA processes, a prospective applicant is encouraged to participate in a "pre-filing" meeting with MAP by contacting [membership@finra.org](mailto:membership@finra.org) or (212) 858-4000 – Option 5 – Membership Applications.

1. See generally "Alternative Trading Systems (ATSs)," SEC's [Investor.gov](https://www.investor.gov).

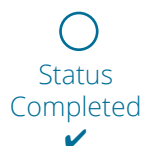
2. See Securities Exchange Act Release No. [40760](#) (December 8, 1998), [63 FR 70844](#) (December 22, 1998) (Regulation of Exchanges and Alternative Trading Systems). See also [FINRA Regulatory Notice 18-25](#) (August 2018) (reminding ATSs of their obligations to supervise activity on their platforms).

3. When FINRA receives a CMA or NMA, it will conduct an initial review to determine whether the application is substantially complete in order for FINRA to begin a meaningful review of it. An application that is not substantially complete will be rejected, and the applicant will lose a portion of the application fee. For NMAs, there also may be additional consequences for the submission of an application that is not substantially complete, such as the inability to use the prospective firm's Central Registration Depository (CRD®) number or name.

## 1

**STANDARD 1: OVERVIEW OF THE APPLICANT**

Standard 1 requires an application and all supporting documents to be complete and accurate.



- Provide a written narrative describing the scope of the applicant's activities to be conducted, including:
  - An overview of the ATS: The applicant should provide an overview of the specific products and services that it will offer on the ATS. The applicant should consider the following items for inclusion in the overview:
    - A description of the type of ATS being proposed, its purpose and its function, and method of operation.
    - A description of the types of participants (subscribers and issuers) on the ATS.
    - The types of securities and order types in which the applicant intends to engage, including any order routing or execution strategies and clearing and settlement. This may be accompanied by an order flow chart.
    - A description of fees to be charged to participants, including how the ATS sets prices, with a schedule of fees.
    - The disclosures that will be made available to participants, including timing and location of these disclosures.
  - Form ATS: Submit with its NMA or CMA, a draft copy of the Form ATS. The Form ATS notifies the SEC of its activities pursuant to Regulation ATS, ATS Sections [242.300](#) et seq. The Form ATS explains how the applicant has determined that its system will qualify as an ATS. The Form ATS should be accompanied by related exhibits, attachments, and agreements between the applicant and users of the ATS (both participant and subscriber agreements). If submitting a CMA, as opposed to an NMA, a draft copy of the amended Form ATS for the proposed activities.<sup>4</sup>
  - Operation of the ATS: The applicant should provide an overview of the specific products and services it will offer to be transacted in on the ATS. The ATS should be operationally ready when the applicant submits the application, and the applicant should be prepared to evidence operational readiness by providing MAP with screenshots of the system.<sup>5</sup> Information concerning the operation of the ATS should include:
    - A description of each step of a typical transaction to be conducted by the applicant, beginning with any initial customer contact. The applicant should describe the process by which orders are received, executed, cleared and settled and identify the specific roles or function for each party involved in the process, including the applicant.
    - A detailed description of how a typical transaction will be settled and cleared, including handling of funds and securities. Indicate what, if any, exemption to SEA Rule [15c3-3](#) will be claimed.
    - A graphical depiction of the steps involved in each transaction to be conducted by the applicant that will not involve a clearing firm, including, but not limited to, order receipt, execution, clearance and settlement.
    - An identification of which entity (applicant, issuer, transfer agent) has control over the definitive record of ownership. As part of that analysis, the applicant should note which entity (applicant, issuer, transfer agent) has control to enforce transfer restrictions or correct errors.
    - A statement describing how the applicant and its associated persons, registered and unregistered, will be compensated for the proposed activities.
- Provide a detailed description of the type of customers and counterparties with which the applicant intends to conduct business as well as describe any minimum criteria the applicant intends to utilize to determine acceptability of customers or counterparties for the applicant. This description should also identify whether activity will be solicited or unsolicited.

4. The applicant should include all agreements and documentation material to the operation of the ATS with the copy of the most recent Form ATS, such as the Form ATS exhibits, subscriber agreement, and subscriber manual.

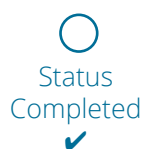
5. See [MAP Guidance for Operational Readiness for Online Platforms and Mobile Applications](#).

- Provide a statement describing both the direct and indirect ownership structure of the applicant, including the percentage ownership of the applicant held by each individual or entity.
  - Provide a business organizational chart, identifying the applicant's owners and affiliated entities. This chart should indicate all direct and indirect owners of the applicant and percentage of ownership for each, totaling 100 percent.
  - If owner consist of non-natural persons, such as corporations, partnership, trusts, provide formation documents for itself and all owners, including holding companies.
- Identify by name all entities, including other broker-dealers and investment advisory firms, under common control with the applicant, describe the nature of each such entity's business, and identify each entity's relationship to the applicant.
- **Applicant Practice Point – The application should be internally consistent. The applicant's proposed business plan should comport with the written supervisory procedures, supervisory systems, transaction flows, narratives, and operational and internal controls. The applicant should also consider whether it should provide a glossary of terms of art specific to the applicant's business model or define other commonly used terms in the application.**

## 2

**STANDARD 2: LICENSES AND REGISTRATIONS**

Standard 2 requires that an applicant and its associated persons to have all licenses and registrations required by FINRA, the SEC and state regulatory authorities.



- Identify the applicant's management and registered principals, including:
  - If the applicant is adding new principals for the operation of an ATS, address the principals' direct or relevant experience and securities licenses, including licenses required to supervise that business.<sup>6</sup> This is also addressed below in Standard 10.
- If possible, provide an attestation for all non-registered owners and managing directors attesting that they will not be involved in the day-to-day operations of the broker-dealer, including but not limited to, hiring, firing, management without proper securities license registrations.

6. See [FINRA Qualification and Registration Requirements Frequently Asked Questions](#).

## 3

**STANDARD 3: COMPLIANCE WITH SECURITIES LAWS, JUST AND EQUITABLE PRINCIPLES OF TRADE**

Standard 3 requires a determination as to whether an applicant and its associated persons are “capable of complying with” the federal securities laws, the rules and regulations thereunder, and FINRA rules. Standard 3 takes into consideration whether any persons associated with the applicant have any disciplinary actions taken against them by other industry authorities, customer complaints, adverse arbitrations, pending or unadjudicated matters, civil actions, remedial actions imposed, or other industry-related matters that could pose a threat to public investors.



Status  
Completed  
✓

- If applicable, provide an explanation of how the applicant may overcome the presumption to deny the CMA or NMA, notwithstanding the existence of the events set forth under Rule 1014(a)(3)(A), (C), (D), (E),<sup>7</sup> (F) and (G).<sup>8</sup>
  - The explanation should demonstrate how the applicant can comply with this standard in light of any pending or potential regulatory actions, including those initiated by the U.S. Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission, a federal or state regulatory agency, a foreign financial regulatory authority or a self-regulatory organization.
- If applicable, an applicant should also be prepared to provide information related to:
  - Adjudicated and pending disciplinary and regulatory actions, including pending FINRA Enforcement actions and certain disciplinary and regulatory actions, which trigger the presumption to deny the application;
  - Pending and unpaid arbitrations for the applicant’s associated persons; and
  - An explanation of how the applicant intends to pay for any pending and unpaid awards, which includes documentation supporting that funds are available to cover the awards, *i.e.*, arbitration plans or escrow agreements.<sup>9</sup>
- If applicable, identify any associated persons with a significant history of misconduct, including:
  - Providing details about any heightened supervisory plans for such associated persons; and
  - Addressing whether any natural person seeking to become an owner, control person, principal or registered person of the applicant, in the prior five years, one or more “final criminal matters” or two or more “specified risk events” and a heightened supervisory plan.<sup>10</sup>

7. The rebuttable presumption created in Rule [1014\(a\)\(3\)\(E\)](#) applies only to NMAs.

8. See [Regulatory Notice 20-15](#) (May 2020) (describing, among other things, the rebuttable presumption to deny an application); see also [Notice to Members 04-10](#) (February 2004).

9. See [IM-1014-1](#) (Evidence of Ability to Satisfy Unpaid Arbitration Awards, Other Adjudicated Customer Awards, Unpaid Arbitration Settlements or, for New Member Applications, Pending Arbitration Claims); see also [Regulatory Notice 20-15](#) (FINRA Amends Governing its Membership Application Program to Incentivize Payment of Arbitration Awards).

10. See [Regulatory Notice 21-09](#) (FINRA Adopts Rules to Address Brokers With a Significant History of Misconduct).

## 4

**STANDARD 4: CONTRACTUAL AND BUSINESS RELATIONSHIPS**

Standard 4 requires that, at the time the application is submitted or shortly thereafter, the applicant should be in a position to describe the contractual or other arrangements and other business relationships that will allow the applicant to operate in accordance with the business plan as submitted. The applicant is also required to submit copies of all draft or final agreements for the proposed business, including those with banks, clearing entities, or service bureaus.



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Completed  
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- Provide a detailed description of each contractual, business, or other arrangement that the applicant has, or will enter into, as it relates to the proposed business activities involving the ATS. In doing so, the applicant should describe how each agreement supports the applicant's ability to conduct its proposed ATS.
- Provide copies of any service agreements or business contracts that the applicant will execute, such as expense sharing agreements, clearing agreements, and technology service agreements, which includes arrangements with third-party providers of electronic storage media pursuant to SEA Rule [17a-4](#).
- Provide all exhibits, schedules, disclosure schedules, addenda and relevant materials for the documents noted above.

## 5

**STANDARD 5: FACILITIES**

Standard 5 requires that the applicant has facilities that are sufficient to initiate the operations described in the applicant's business plan, considering the nature and scope of operations and the number of personnel.



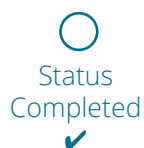
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- Provide a statement regarding the adequacy of the applicant's facilities to conduct the proposed business activities and meet the applicant's personnel needs. The statement should address:
  - The designated supervisor for each office;
  - The total number of associated persons that will be located in each office;
  - The business activities to be conducted from each location;
  - The business equipment and secure storage for books and records; and
  - Whether the applicant, at any of its locations, will share office space with an entity or an individual conducting activities other than the applicant's business activities.

## 6

**STANDARD 6: COMMUNICATIONS AND OPERATIONAL SYSTEMS**

Standard 6 requires that the communications and operational systems that the applicant intends to employ for the purpose of conducting business with customers and other members must be adequate and provide reasonably for business continuity with respect to: system capacity to handle the anticipated level of usage; contingency plans in the event of systems or other technological or communications problems or failures that may impede customer usage or firm order entry or execution; system redundancies; disaster recovery plans; system security; disclosures to be made to potential and existing customers who may use such systems; and supervisory or customer protection measures that may apply to customer use of, or access to, such systems.

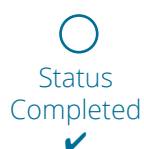


- If the application includes a communication platform, the applicant may be expected to present a demonstration of the functionality of the platform as part of the application review process.<sup>11</sup>
- In addition to the demonstration of the communication platform, during the membership interview, or during a separate meeting, the applicant is expected to demonstrate:
  - Onboarding of customers (e.g., subscribers to the ATS) and onboarding of issuers on the ATS;
  - Flow of a typical transaction from start to finish, including execution, clearance and settlement;
  - Trade reporting, if applicable; and
  - Risk management controls.
- Provide an overview of the applicant's surveillance and reporting functionality for the platform.
- If the application is an NMA, include a business continuity plan (BCP). If the application is a CMA include an updated or amended BCP, if applicable. The BCP plan should contain information on how the applicant will contact customers in the event of a system outage, and how the customer can access their funds or securities in the event of a system outage (i.e., a phone number customers can call).

## 7

### STANDARD 7: MAINTAINING ADEQUATE NET CAPITAL

Standard 7 notes that, if determined to be necessary, FINRA has the right to impose higher net capital requirements beyond the minimum requirements. An applicant must meet the provisions of SEA Rules 15c3-1 and 17a-11, the SEC's net capital rule and early warning rule, respectively. These are two of the key financial responsibility rules of the SEC, and FINRA members must strictly comply with these provisions at all times.



- Identify the applicant's statutory minimum net capital requirement.
- Provide a detailed description of the source(s) of the funds to be used for capitalization of the applicant, evidence of the source of funds (e.g., three months trail of bank statements), and evidence of financial wherewithal to fund the ATS and demonstrate an ability to meet net capital requirements (i.e., bank statements).
- Provide evidence of financial wherewithal to sustain the applicant for 12 months, where financial wherewithal is, at a minimum, calculated as fixed expenses minus reasonable projected revenue.
- Provide pro forma financial statements indicating 12-month projected revenue from the applicant's business activity or any expenses the applicant anticipates in connection with the introduction of the ATS, such as vendor agreements to be signed or equipment to be purchased.
- Applicant may not submit redacted documents or responses and documentation, including bank statements, in a foreign language. Responses and documentation must be certified and translated to English, and all foreign currencies converted to US dollars.

11. See [MAP Guidance for Operational Readiness for Online Platforms and Mobile Applications](#).

## 8

**STANDARD 8: FINANCIAL CONTROLS**

Standard 8 requires the applicant to have financial controls to ensure compliance with the federal securities laws, the rules and regulations thereunder, and FINRA rules.



Status  
Completed  
✓

- Provide a detailed description of the prior work experience of the applicant's financial and operational principal (FinOp) in support of its ability to maintain and oversee financial compliance of the applicant given the applicant's proposed business activities.
- Provide a detailed description of the financial controls to be employed by the applicant.
- Provide a description of the procedures the applicant will follow in the event the applicant encounters a situation that may cause a net capital deficiency, including describing what action will be taken to comply with SEA Rules [17a-5](#) and [17a-11](#).

## 9

**STANDARD 9: WRITTEN PROCEDURES**

Standard 9 requires the applicant to have compliance, supervisory, operational, and internal control practices and standards that are consistent with practices and standards regularly employed in the investment banking or securities business, taking into account the nature and scope of the applicant's proposed business.



Status  
Completed  
✓

- Provide an attestation of the applicant's acknowledgement that heightened supervisory procedures and special educational programs may be required for an associated person whose record reflects disciplinary actions or sales practice events.<sup>12</sup>
- Provide written supervisory procedures (WSPs), which include written supervisory control procedures, anti-money laundering procedures, financial control procedures, internal operating procedures, and internal control procedures.
- Procedures should describe the protection of data and information within the ATS, addressing the following:<sup>13</sup>
  - Whether the ATS is proprietary or white label, who developed it, and who will operate and maintain it;
  - The technology on which the ATS operates (e.g., blockchain), and whether the ATS is private and permissioned or public;
  - Who has access to the ATS (e.g., trading personnel, non-trading personnel, roles) and describe their permissions and reason for access;
  - Any testing conducted on the ATS and the results of such testing;
  - What personally identifiable information (PII) will be obtained and how it is handled;
  - Procedures by which covered securities will be monitored to ensure compliance with the public display and fair access requirements of SEC Regulation ATS;
  - Any algorithmic controls, including market access, trade reporting for both the ATS and its participants, and how risks will be evaluated; and
  - How the applicant will ensure data integrity, how data will be safeguarded, and the controls to be implemented to protect against cybersecurity threats (including how threats can be detected and any vendors to be utilized for testing).
- The applicant should be prepared to discuss with MAP any monitoring and enforcement of customer or proprietary trading limits, as applicable.

12. See [Notice to Members 97-19](#) (April 1997), NASD Regulation And New York Stock Exchange Memorandum Discusses Sweep Report And Provides Guidance On Heightened Supervision Recommendations.

13. See SEC [Regulation ATS Section](#) 301(b)(10) for guidance related to the protection of confidential trading information.



- The applicant's WSPs must:
  - Contain a Designation of Principals identifying the principals responsible for each area (e.g., AML, Supervisory Controls) and type of business;
  - Be tailored to the specific activities in which the applicant plans to engage; and
  - Clearly and accurately describe how the activities involving an ATS will be conducted at the applicant.
- Confirm that all WSPs clearly state:
  - Who – Identify the principal or supervisor responsible for conducting the subject procedure;
  - What – Provide a description of the specific procedure that is to be conducted by the principal or supervisor;
  - When – State when or how often the specific procedure is to be conducted; and
  - How Evidenced – Address how the applicant will evidence the fact that the procedure has been conducted.
- Indicate whether the applicant will conduct due diligence reviews. If due diligence reviews will be conducted, provide a description of the applicant's due diligence review process and indicate where, in the WSPs, the due diligence review process is detailed.

## 10

### STANDARD 10: SUPERVISORY STRUCTURE

Standard 10 requires the applicant to have a supervisory system, including written supervisory procedures, internal operating procedures (including operational and internal controls), and compliance procedures designed to prevent and detect, to the extent practicable, violations of the federal securities laws, the rules and regulations thereunder, and FINRA rules.



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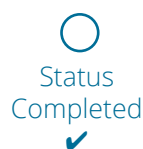
- Explain the one year of direct, or two years of related, experience in the activity the individual(s) intend to supervise.
- Provide details regarding the supervisory structure, including:
  - Providing a chart depicting names of supervisors and the corresponding reporting registered representatives;
  - Addressing whether the supervisors are producing;
  - Explaining the one year direct, or two years related, experience in the activity the individual(s) intend to supervise;
  - Explaining any remedial action(s), such as heightened supervision; and
  - Providing a detailed description of the direct experience of the proposed chief compliance officer (CCO).



## 11

**STANDARD 11: BOOKS AND RECORDS**

Standard 11 requires the applicant to have a recordkeeping system that enables the applicant to comply with federal, state, and self-regulatory organization recordkeeping requirements and a staff that is sufficient in qualifications and number to prepare and preserve required records.



- With respect to the operation of an ATS, the applicant should provide a list of the books and records that will be generated by the ATS.
  - Describe the applicant's recordkeeping system, specifically identifying:
    - Procedures;
    - Books and records;
    - Communication systems; and
    - The software and systems used to prepare business and financial records, including general ledger, trial balance, balance sheet, and net capital computation (e.g., PeopleSoft, ADP, Creative Solutions).
- Describe the entities and the scope of services provided by any recordkeeping services used by the applicant, specifically identifying any service bureaus, clearing or correspondent arrangements, or other arrangements involving the creation and retention of books and records.
- Describe how the applicant's records, including email, will be stored.
- List the types of proposed records to be maintained by the applicant.
- If the applicant will have a foreign main office, if possible, provide a statement to confirm that it will remain in compliance with Standard 11, and FINRA will have access to all books and records.<sup>14</sup>

14. This guidance does not address Standards 12-14. FINRA may require the applicant to provide materials to address Standards 12-14, as appropriate. Standard 12 requires that the applicant complete a training needs assessment and has a written training plan that complies with the continuing education requirements imposed by the federal securities laws, the rules and regulations thereunder, and FINRA's rules. Standard 13 requires FINRA to assess whether it possesses any information indicating that the applicant may circumvent, evade, or otherwise avoid compliance with the federal securities laws, the rules and regulations thereunder, or FINRA rules. Standard 14 requires that the applicant's application and supporting documents are consistent with the federal securities laws, the rules and regulations thereunder, and FINRA's rules.

## FINRA Compliance Tool Disclaimer

This optional tool is provided to assist member firms in fulfilling their regulatory obligations. This tool is provided as a starting point and you must tailor this tool to reflect the size and needs of the applicant. Using this tool does not guarantee compliance with or create any safe harbor with respect to FINRA rules, the federal securities laws or state laws, or other applicable federal or state regulatory requirements. This tool does not create any new legal or regulatory obligations for firms or other entities.

**Updates** – This tool was last updated on June 29, 2023. This tool does not reflect any regulatory changes since that date. FINRA periodically reviews and updates these tools. FINRA reminds member firms to stay apprised of new or amended laws, rules and regulations, and update their WSPs and compliance programs on an ongoing basis.

**Additional Guidance** – Member firms seeking additional Guidance on certain regulatory obligations should review the [Broker-Dealer Registration Topic Page](#) and other relevant FINRA [Topic Pages](#). Applicants are also encouraged to avail themselves of MAP's pre-filing meeting process by contacting MAP at [membership@finra.org](mailto:membership@finra.org) or (212) 858-4000 – Option 5 – Membership Applications.

**Staff Contacts** – FINRA's Office of General Counsel (OGC) staff provides broker-dealers, attorneys, registered representatives, investors, and other interested parties with interpretative guidance relating to FINRA's rules. Please see [Interpreting the Rules](#) for more information.

### OGC Staff Contacts:

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(202) 728-8000

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