



Form ATS Page 2	<b>UNITED STATES SECURITIES AND EXCHANGE COMMISSION</b> <b>WASHINGTON, D.C. 20549</b> <b>INITIAL OPERATION REPORT, AMENDMENT TO INITIAL OPERATION REPORT AND</b> <b>CESSATION OF OPERATIONS REPORT FOR ALTERNATIVE TRADING SYSTEMS</b>	OFFICIAL USE	OFFICIAL USE ONLY
Alternative trading system name: <u>PDQ ATS, Inc.</u>		CRD Number: <u>36187</u>	
Filing date: <u>10/31/14</u>		SEC File Number: <u>8-47077</u>	
<p>2. If this is an initial operation report, the date the alternative trading system expects to commence operation: _____</p> <p>3. Attach as Exhibit A, a description of classes of subscribers (for example, broker-dealer, institution, or retail). Also describe any differences in access to the services offered by the alternative trading system to different groups or classes of subscribers.</p> <p>4. Attach as Exhibit B:</p> <p style="margin-left: 20px;">a. A list of the types of securities the alternative trading system trades (for example, debt, equity, listed, Nasdaq NM), or if this is an initial operation report, the types of securities it expects to trade. Note whether any types of securities are not registered under Section 12(a) of the Exchange Act of 1934 ("Exchange Act").</p> <p style="margin-left: 20px;">b. A list of the securities the alternative trading system trades, or if this is an initial operation report, the securities it expects to trade. Note whether any securities are not registered under Section 12(a) of the Exchange Act.</p> <p>5. Attach as Exhibit C, the name, address, and telephone number of counsel for the alternative trading system.</p> <p>6. Attach as Exhibit D, a copy of the constitution, articles of incorporation or association, with all amendments, and of the existing bylaws or corresponding rules or instruments, whatever the name, of the alternative trading system. If this information is publicly available on a continuous basis on an Internet site controlled by the alternative trading system, the alternative trading system may indicate the location of the Internet web site where such information may be found in lieu of filing such information with the Commission.</p> <p>7. Attach as Exhibit E, the name of any entity, other than the alternative trading system, that will be involved in operation of the alternative trading system, including the execution, trading, clearing, and settling of transactions on behalf of the alternative trading system. Provide a description of the role and responsibilities of each entity.</p> <p>8. Attach as Exhibit F, the following information:</p> <p style="margin-left: 20px;">a. The manner of operation of the alternative trading system;</p> <p style="margin-left: 20px;">b. Procedures governing entry of orders into the alternative trading system;</p> <p style="margin-left: 20px;">c. The means of access to the alternative trading system;</p> <p style="margin-left: 20px;">d. The procedures governing execution, reporting, clearance, and settlement of transactions effected through the alternative trading system;</p> <p style="margin-left: 20px;">e. Procedures for ensuring subscriber compliance with system guidelines; and</p> <p style="margin-left: 20px;">f. A copy of the alternative trading system's subscriber manual and any other materials provided to subscribers.</p> <p>9. Attach as Exhibit G, a brief description of the alternative trading system's procedures for reviewing system capacity, security, and contingency planning procedures.</p> <p>10. If any other entity other than the alternative trading system, will hold or safeguard subscriber funds or securities on a regular basis, attach as Exhibit H the name of such entity and a brief description of the controls that will be implemented to ensure the safety of such funds and securities.</p> <p>11. Attach as Exhibit I, a list providing the full legal name of those direct owners reported on Schedule A of Form BD.</p>			

**Exhibit A**

**A description of classes of subscribers (for example, broker-dealer, institution, or retail). Also describe any differences in access to the services offered by the alternative trading system to different groups or classes of subscribers.**

PDQ ATS, Inc. is the sponsor of the PDQ Alternative Trading System, or PDQ ATS (“PDQ”). Registered broker-dealers and institutions are eligible to become subscribers to PDQ. As participants of PDQ, all subscribers are required to meet credit and other criteria pursuant to PDQ’s policies and procedures set forth in its Written Supervisory Procedures, which include “know your customer” guidelines.

PDQ has two classes of subscribers:

**1) Liquidity Seekers**

Liquidity Seekers are generally agency execution firms, algorithmic execution desks, retail brokers and institutional subscribers seeking liquidity discovery and potential price improvement by routing orders to PDQ. Liquidity Seekers may access and trade at PDQ using a variety of order types, including order types that allow Liquidity Seeker to “provide liquidity”. These order types include, but are not necessarily limited to Market, Limit, Managed and Conditional orders. Please refer to Section (b) and (c) of Exhibit F for additional detail related to access and available services specific to Liquidity Seekers.

**2) Liquidity Providers**

Liquidity Providers are generally market makers, quantitative trading firms, proprietary trading firms, high-frequency trading firms and agency execution firms, all of which trade electronically by responding to liquidity-seeking order flow. Liquidity Providers may connect to PDQ as a non-resident or resident Liquidity Provider. Liquidity Providers may only trade at PDQ on an Immediate or Cancel (“IOC”) basis using Limit or Pegged order types. Please refer to Section (a) and (c) of Exhibit F for additional detail related to access and available services specific to Liquidity Providers.

Institutions and other non-broker-dealer trading firms may also become users of PDQ via sponsored access by PDQ subscribers.

Neither PDQ ATS, Inc. nor PDQ Enterprises, LLC, nor any of their employees acts as principal or trades for its own account in PDQ.

**Exhibit B**

**A list of the types of securities the alternative trading system trades (for example, debt, equity, listed, NASDAQ NM), or if this is an initial operation report, the types of securities it expects to trade. Note whether any types of securities are not registered under Section 12(a) of the Exchange Act of 1934 (“Exchange Act”).**

PDQ trades only listed equity securities as defined by Regulation NMS rule 600(b)(34) which defines a listed equity security as any equity security listed and registered, or admitted to unlisted trading privileges, on a national securities exchange.

**Exhibit C**

**Name, address, and telephone number of counsel for the alternative trading system.**

David L Haselkorn, Esq.  
Law Office of David L Haselkorn, PC

[REDACTED]  
[REDACTED]

Telephone: [REDACTED]  
Facsimile: [REDACTED]  
Email: [REDACTED]

**Exhibit D**

**Copy of the constitution, articles of incorporation or association, with all amendments, and of the existing by-laws or corresponding rules or instruments, whatever the name, of the alternative trading system. If this information is publicly available on a continuous basis on an Internet site controlled by the alternative trading system, the alternative trading system may indicate the location of the Internet web site where such information may be found in lieu of filing such information with the Commission.**

- Certificate of Incorporation (as amended) of PDQ ATS, Inc.
- Bylaws of PDQ ATS, Inc.

Copies of each were provided with Exhibit D of the Initial Operating Report for PDQ ATS Inc., filed 8/21/2008.

**Exhibit E**

**Name of any entity, other than the alternative trading system, that will be involved in operation of the alternative trading system, including the execution, trading, clearing, and settling of transactions on behalf of the alternative trading system. Provide a description of the role and responsibilities of each entity.**

The PDQ Alternative Trading System, or PDQ ATS (“PDQ”), is operated by PDQ ATS, Inc. and its parent company/technology provider, PDQ Enterprises, LLC. PDQ ATS, Inc. serves as the broker-dealer sponsor of, and is the executing broker-dealer for all trades matched by, PDQ. PDQ Enterprises, LLC provides PDQ ATS, Inc. a license to the technology and software used to operate PDQ. PDQ Enterprises, LLC is responsible for the maintenance and continued development of the technology and software. PDQ Enterprises, LLC may also provide operational and administrative support to PDQ.

Subscribers are able to route orders to PDQ by various methods, including subscriber’s proprietary algorithms and proprietary or third-party order/execution management systems. All trade executions are executed at PDQ or a destination market center such as an exchange (if requested by the subscriber). Clearing and settlement of all such executed trades are handled by PDQ’s clearing firm, Merrill Lynch, Pierce, Fenner & Smith Inc. (Broadcort division).

**Exhibit F**

- a) Manner of Operation of the Alternative Trading System**
- b) Procedures Governing Entry of Orders into the Alternative Trading System**
- c) Means of Access to the Alternative Trading System**
- d) Procedures Governing Execution, Reporting, Clearance, and Settlement of Transactions Effected through the Alternative Trading System**
- e) Procedures for Ensuring Subscriber Compliance with System Guidelines**
- f) Copy of the Alternative Trading System's Subscriber Manual and any Other Materials Provided to Subscribers**

**a) Manner of Operation of the Alternative Trading System**

The PDQ Alternative Trading System, or PDQ ATS ("PDQ"), which is operated by PDQ ATS, Inc. and its parent company/technology provider, PDQ Enterprises, LLC, identifies and executes orders that can be matched or crossed in an agency capacity via PDQ's auction matching protocols. The auction matching engine logics are designed to optimize liquidity and price discovery while minimizing information leakage and promoting fair competition amongst subscribers.

PDQ accepts orders from PDQ subscribers that are broker-dealers, institutions and from users that are sponsored participants of broker-dealer subscribers of PDQ. PDQ is intended to provide subscribers (and sponsored users) a way of discovering unique liquidity while receiving executions consistent with best execution requirements, minimizing market impact and helping to reduce overall execution costs.

PDQ does not provide any visible quote book or disseminate market data or quote information to subscribers or other users, or to any third parties outside of PDQ and PDQ Enterprises, LLC as needed for software and technology development, as well as for operational and administrative support.. Currently, PDQ only executes trades at or within the National Best Bid and Offer ("NBBO"). PDQ uses market data provided by the SIP (Securities Information Processor). As further explained below, PDQ spawns contra liquidity orders via auction matching protocols for liquidity seeking orders either from Liquidity Providers' proprietary algorithms which are hosted and running within PDQ (resident Liquidity Provider) or Liquidity Providers' algorithms that are hosted remotely (non-resident Liquidity Provider) using a "symbol only" model (defined below).

Individual auctions are initiated by unique Liquidity Seeker orders. Following receipt of an auction-initiating liquidity-seeking order PDQ sends Request-for-Trade ("RFT") notifications to its Liquidity Providers. The RFT process is used to solicit liquidity from Liquidity Providers that will potentially trade with the initiating liquidity-seeking order. RFTs are sent to Liquidity Providers in two unique formats determined by how the specific Liquidity Provider is connected to PDQ. RFTs sent to resident Liquidity Providers include symbol, side, size and price information from the Liquidity Seeker's order. Hosting the Liquidity Provider's algorithms within PDQ and restricting their outbound communication allows PDQ to withhold and contain all order information thereby maintaining full confidentiality and



eliminating gaming risk for Liquidity Seekers. To minimize information leakage and protect Liquidity Seekers' orders, the information included in RFTs sent to non-resident Liquidity Providers is limited to the ticker symbol from the Liquidity Seekers' orders. This document and other PDQ materials refer to this RFT format as "symbol only". All Liquidity Providers receive additional information related to the trading opportunity on RFTs, including a commission amount to be assessed to the Liquidity Provider if they trade, midpoint pegging instructions, as well as the duration of and matching engine logic for the corresponding auction (discussed in detail below). In order to provide Liquidity Seekers with additional flexibility they may request in writing that PDQ send RFTs containing their full order detail (symbol, side, size and price) to one or more non-resident Liquidity Providers instead of the default "symbol only" RFTs. Liquidity Seekers may also elect to interact exclusively with "symbol only" Liquidity Providers.

During the basic PDQ process a liquidity seeking order is routed to PDQ and paused for up to 20 milliseconds (ms)<sup>1</sup> (the "Pause"). Upon receipt of the order, a RFT is sent, as discussed above, to all Liquidity Providers simultaneously and anonymously (unless directed otherwise by Liquidity Seeker). Any executable contra liquidity generated from the Liquidity Providers within the Pause is crossed on a "first-to-respond first-to-trade" basis or via a "price improvement auction" (detailed below). PDQ ensures that all trades are at or inside the NBBO, as required by Regulation SHO. Executed trades are reported to a Trade Reporting Facility ("TRF"). Residual liquidity can be cancelled back or routed out to other market centers or brokers, as directed by the Liquidity Seeker, under PDQ's Market Participant ID ("MPID"), the subscriber's MPID or the subscriber/participant's clearing/sponsoring firm's MPID. External routing functionality is discussed below in Section (c) under the Service Bureau/Agency Routing Broker sub-section. Liquidity Provider orders are not eligible for outbound routing outside of PDQ.

PDQ may send drop copies of execution reports to subscribers and/or their clearing firms or third-party risk management systems (upon request). PDQ may send additional drop copies to PDQ's clearing firm.

PDQ executes trades during locked market conditions for a particular symbol, but will not execute trades if the market is crossed for that symbol.

## **b) Procedures Governing Entry of Orders into the Alternative Trading System**

### Matching Protocols

The internal matching engine at PDQ offers Liquidity Seekers the option of two distinct matching protocols:

- 1) "First-to-respond-first-to-trade" (time / price priority for Liquidity Provider responses)
- 2) "Price improvement auction" (price / time priority for Liquidity Provider responses)

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<sup>1</sup> As determined and specified by the Liquidity Seeker. The pause may be longer or shorter than the default 20ms based on preference or strategy of the Liquidity Seeker.

Liquidity-seeking orders tagged to use the “first-to-respond-first-to-trade” protocol trade with Liquidity Provider responses on a first come, first served basis provided that the response is at or inside the NBBO. Executed trades print individually to the TRF as they occur. For example, a liquidity-seeking order configured for a 20ms Pause may execute and print in 2ms if a Liquidity Provider responds with executable contra side liquidity within the 2ms timeframe.

Liquidity-seeking orders tagged to use the “price improvement auction” protocol trade with Liquidity Provider responses via an auction environment. During the Pause, PDQ assembles the Liquidity Provider responses based on price (price improvement) / time priority. In the final millisecond of the Pause, PDQ rechecks the NBBO and the internal matching logic of PDQ will calculate the final execution price or prices for the trade(s) based on price (price improvement) / time priority. The liquidity-seeking order first trades against the best possible price spawned during the Pause, then moves to the second best price, if necessary, and so on until the entire liquidity-seeking order is filled, cancelled back or routed out as directed by the Liquidity Seeker. Trades are individually printed to the TRF at the completion of the auction. RFTs for “price improvement auction” orders indicate the triggering order has been tagged as a “price improvement auction” order so Liquidity Providers do not interpret the additional latency as a system issue.

Both matching protocols allow Liquidity Providers to generate firm Immediate or Cancel (“IOC”) orders from their proprietary algorithms in response to liquidity-seeking order flow. When responding to “price improvement auction” orders the Liquidity Provider responses remain tagged as IOC; however, they are paused for the full length of the auction in order for PDQ to identify and provide the best possible price to the Liquidity Seeker. At the completion of a “price improvement auction” any unfilled Liquidity Provider responses are cancelled. Liquidity Providers may only enter orders when responding to a RFT. All Liquidity Provider orders are IOC and are not eligible for routing via PDQ’s service bureau / agency routing broker offering (described below).

Liquidity Seekers may set either of the two matching engine protocols described above as their default, or have both available for use on an order-by-order basis.

#### Price Improvement / Sub-penny Executions

To provide price improvement to Liquidity Seekers, Liquidity Providers can populate a FIX tag in their response. This tag will identify the amount (numeric value) to which they are willing to provide price improvement. When PDQ matches a Liquidity Provider’s order indicating a willingness to provide price improvement against a liquidity-seeking order, internal logic of PDQ will add the value in that FIX tag to the price on the Liquidity Provider’s order to calculate the final price for the trade. PDQ does not accept orders with sub-penny values in the price tag; however, price improved and midpoint executions may occur at sub-penny values.

## Order Types

PDQ accepts the following types of orders from Liquidity Seekers except as described below under “Service Bureau / Agency Routing Broker”:

- **Limit**
- **Market**
- **Pegged (midpoint)**
  - Midpoint pegged orders allow the Liquidity Seeker to use either matching protocol to source liquidity at the midpoint of the NBBO or better (“Midpoint Order”). PDQ identifies an order as a Midpoint Order in each RFT sent to the Liquidity Providers. When responding to Midpoint Orders, a Liquidity Provider sends a Midpoint Order (pegged) or populates the appropriate FIX tags in their response with the price and price improvement values they calculate to equal the midpoint at the time of their response. PDQ internal matching logic uses the values in these tags to calculate final execution prices. Liquidity Provider responses to Midpoint Orders will be matched against the Liquidity Seeker’s order if the midpoint price on the Liquidity Provider response is equal to or better than the midpoint as calculated by PDQ’s market data feed. If a liquidity-seeking order is unfilled or partially filled, the balance may be cancelled back or routed out as specified and directed by the Liquidity Seeker. If the Liquidity Provider responds with a price worse than the midpoint price, the order will be cancelled.
- **Managed**
  - Managed orders reside in PDQ and allow Liquidity Seekers to interact with and execute against order flow from other Liquidity Seekers. PDQ automatically generates IOC responses based on the detail of the Managed order and on behalf of the Liquidity Seeker if the Managed order provides executable contra side liquidity to either matching protocol listed above. Managed orders are not guaranteed to have priority over Liquidity Provider responses. Managed orders on the same side in the same symbol are given price / time priority over each other.
- **Conditional**
  - Conditional orders offer similar benefits to Managed orders in that Liquidity Seekers can provide liquidity via both matching protocols. A Conditional order sent to PDQ is invited to firm up when PDQ receives an executable contra side liquidity-seeking order. A Conditional order must be replaced with a firm

(Market, Limit, Midpoint) order prior to execution. The process of replacing Conditional orders with firm orders introduces latency to the execution process. As such, Conditional orders may not be eligible to interact with latency sensitive liquidity-seeking order flow. During the matching process Managed orders that are firm orders are given priority over Conditional orders if their prices are the same. Detailed information regarding use of Conditional orders is available in the Conditional Order Addendum to the PDQ Liquidity Seeker Guide – FIX Specification.

- **Extended Liquidity Auction**

- An Extended Liquidity Auction functions similar to the above-described “price improvement auction”; however, this order type allows for a longer auction time window (start/stop time). An initiating liquidity-seeking order first interacts with Managed and Conditional orders (“Naturals”) using the matching protocol for “price improvement auctions”. Additional liquidity is then sourced from Liquidity Providers, again via the “price improvement auction” protocol. PDQ may enforce minimum quantity requirements for both Liquidity Seekers and Liquidity Providers in the Extended Liquidity Auction. When an Extended Liquidity Auction is complete, all trades are printed to the TRF. PDQ may aggregate all trades from an individual Extended Liquidity Auction and report a single print to the TRF at a single price that optimizes both liquidity and price for the participating Subscribers in that Extended Liquidity Auction. As a result PDQ may aggregate multiple participating orders to satisfy minimum acceptable execution quantities (described below) in Extended Liquidity Auctions. PDQ offers the option to specify a “Naturals only” Extended Liquidity Auction which only interacts with Managed and Conditional orders. PDQ will not send RFTs to any Liquidity Providers if an initiating Liquidity Seeker selects this option.

- **Algorithmic**

- This order type represents a suite of order types for Liquidity Seekers that route orders to PDQ as well as other dark and lit market centers based on logic that determines ideal market conditions for order entry, designed to improve trading profits, reduce execution costs and increase the likelihood of receiving price improvement for the subscriber. These orders may trade at PDQ, but are mostly focused on PDQ’s service bureau/agency routing broker offering (described below).

PDQ allows the following Time-in-Force values for Liquidity Seekers:

- **Day** (At the request of the Liquidity Seeker, Day orders that remain unfilled or the balance of a Day order that was partially filled following one of PDQ's matching protocols may be treated as Managed orders and/or utilize PDQ's Service Bureau/Agency Routing Broker functionality described below).
- **Immediate or Cancel ("IOC")**

Liquidity Seekers may specify unique IOC instructions including:

IOC PDQ Only – non-routable IOC orders (PDQ will act solely in the capacity of an ATS)

IOC PLUS – routable IOC orders that use PDQ's service bureau / agency routing broker functionality (described below)

IOC ALL – routable IOC orders that use PDQ's service bureau / agency routing broker functionality (described below) and may access additional liquidity than IOC PLUS

Liquidity Seekers using PDQ's service bureau/agency routing broker functionality may request, in writing, that PDQ handle orders specified as IOC PDQ Only as IOC PLUS or IOC ALL. This may be used if a Liquidity Seeker's trading platform cannot distinguish between the various IOC instructions.

- **GTC** (GTC orders are also cancelled when PDQ's system shuts down)
- **Managed** (alternative method of entering a Managed order, as described above)

PDQ accepts orders between 9:30:00 a.m. U.S. Eastern time and 4:00:00 p.m. U.S. Eastern time ("Core Trading Session") on each trading day except as described below in the paragraph titled "Service Bureau/Agency Routing Broker." Orders residing in PDQ at the end of the normal trading day (*i.e.*, 4:00:00 p.m. U.S. Eastern time) are cancelled. PDQ will not accept any orders past 4:00:00 p.m. U.S. Eastern time except as described below under "Service Bureau/Agency Routing Broker."

PDQ trades only listed equity securities as defined by Regulation NMS rule 600(b)(34) which defines a listed equity security as any equity security listed and registered, or admitted to unlisted trading privileges, on a national securities exchange. PDQ sources this list from the FINRA Start-of-Day file or other equivalent database.

### Service Bureau/Agency Routing Broker

PDQ may accept orders from subscribers and route those orders, if instructed to do so, to other market centers or brokers. Subscriber's orders will be routed to other market centers or brokers under PDQ's Market Participant ID ("MPID"), the subscriber's MPID or the subscriber/participant's clearing/sponsoring firm's MPID.

During times outside the Core Trading Session, PDQ will not provide subscribers with execution and matching functionality within PDQ, but will provide connectivity to other brokers and market centers. The systems used to provide connectivity will be the same systems used during the Core Trading Session.

PDQ anticipates that order acceptance and order routing in its capacity as a service bureau/agency routing broker will occur for the 210 minute period prior and 30 minute period subsequent to the Core Trading Session (the "non-Core Trading Session"). Market, Limit and other pre- and post- order types will be accepted and routed during the non-Core Trading Session. PDQ only acts in the capacity of an Alternative Trading System during the Core Trading Session, but may also act in the capacity of a service bureau/agency routing broker during that time (as described below). During the non-Core Trading Session PDQ only acts in the capacity of a service bureau/agency routing broker, solely transmitting orders, without intervention of PDQ's matching engine protocols.

During the Core Trading Session, Liquidity Seekers may also request that after (or in some cases before) their order is processed by either of PDQ's matching protocols, PDQ act as a service bureau/agency routing and execution broker for any unfilled portion of an order. Subscribers opting to utilize this functionality may work with PDQ personnel to create customized execution strategies to access liquidity from other market centers and brokers. The routing and execution logic strategies can take into consideration venue, counterparty, latency and price sensitivities of the specific Liquidity Seeker.

#### **c) Means of Access to the Alternative Trading System**

PDQ's main data center is the Savvis NJ2 data center in Weehawken, NJ. PDQ maintains a point of presence ("POP") in NY5, an Equinix data center in Secaucus, NJ. PDQ routinely synchronizes its system components with the NIST Atomic Clock.

All PDQ subscribers must be a U.S. registered broker-dealer, qualified institution or a sponsored access participant through a registered broker-dealer subscriber. As part of the onboarding process PDQ performs requisite due diligence on each new subscriber or sponsored participant. All subscribers must have a valid executed PDQ Liquidity Provider Agreement or PDQ Liquidity Seeker Agreement on file with PDQ ATS, Inc.

Before trading at PDQ all broker/dealer subscribers must have an appropriate clearing agreement (for example, a Qualified Service Representative ("QSR") or correspondent clearing agreement) in place with Broadcort, a division of Merrill Lynch Pierce, Fenner & Smith Inc., either directly or through their respective clearing firms.

Subscribers are subject to PDQ's internal risk controls. PDQ performs risk checks on all orders upon receipt. Risk limits are specified for each subscriber or subscriber connection and include a maximum allowed order quantity and maximum allowed notional value. Additional checks are in place to prevent duplicate orders and orders with obvious errors. PDQ will reject orders that are priced a specified percentage above or below the NBBO (currently this is set at 20%). Orders that fail any of the aforementioned risk checks are rejected.

PDQ, at its discretion or at the request of a subscriber, may impose a maximum order/second threshold for an individual subscriber or subscriber's order entry connection.

Subscribers gain access to PDQ through a variety of methods.

Liquidity Seekers connect to PDQ via a third-party network, VPN, extranet, private leased line, or a cross-connect in one of the data centers in which the PDQ systems reside. Liquidity Seekers using participating third-party order/execution management systems may have PDQ available as a destination ATS/broker-dealer on their trader consoles. Liquidity Seekers and order/execution management systems code to PDQ's Liquidity Seeker Guide – FIX Specification. New connections for Liquidity Seekers and order/execution management systems are tested and certified with PDQ prior to being installed in the production environment. Orders are routed to PDQ via FIX protocol.

Liquidity Providers connect to PDQ by coding their proprietary algorithms and/or broker approved risk management systems to the PDQ Liquidity Provider Guide – FIX Specification. Liquidity Provider algorithms and risk management platforms are tested and certified with PDQ and the Liquidity Provider prior to being installed in the production environment. Orders are routed to PDQ via FIX protocol.

Resident Liquidity Provider algorithms are hosted and running in the PDQ facility and behind a firewall. The algorithms are the individual Liquidity Provider's proprietary code and provide the mechanism to respond to RFTs for Liquidity Seeker orders. Liquidity Providers must "subscribe" for every symbol they desire to trade. To subscribe to a particular symbol, a Liquidity Provider sends a Reference Order to PDQ for that symbol. PDQ can also generate a Reference Order on behalf of the Liquidity Provider. The Reference Order includes the symbol for which the Liquidity Provider would like to receive RFTs. Liquidity Provider will only receive RFTs for orders for those symbols for which they have active Reference Orders.

Throughout a trading day Liquidity Providers send information to their algorithms at PDQ. A Liquidity Provider uses this information to keep their algorithms synched with current data for its procedure to respond to RFTs. Resident Liquidity Providers cannot communicate information out of the PDQ facility other than predefined / preapproved messages. The firewall will prohibit the outbound transmission of any other messages or altered predefined /preapproved messages. Additionally, Liquidity Provider algorithms resident in PDQ cannot generate orders other than those generated in response to RFTs. Liquidity Provider orders are never routed to other market centers or brokers.

Subscribers and Sponsored Participants may elect to not trade with any number of specified counterparties at PDQ. Subscribers and Sponsored Participants can identify the counterparties by name or by reference to historical executions. If identified by name, PDQ will not confirm or deny any active subscriptions of any Subscribers or Sponsored Participants (unless authorized to do so by a Subscriber or Sponsored Participant), but PDQ will satisfy the request if the active subscription exists.

#### **d) Procedures Governing Execution, Reporting, Clearance and Settlement of Transactions Effected Through the Alternative Trading System**

##### Procedures Governing Execution

PDQ accepts orders from Subscribers starting at 6:00:00 a.m. U.S. Eastern time in the capacity of a service bureau/agency routing broker and at 9:30:00 a.m. U.S. Eastern time in the capacity of an Alternative Trading System and service bureau/agency routing broker. At 4:00:00 p.m. U.S. Eastern time PDQ will cease operation in the capacity of an Alternative Trading System, but will continue to accept orders in the capacity of a service bureau/agency routing broker until 4:30:00 p.m. U.S. Eastern time.

As described above PDQ has two matching engine protocols that govern execution procedures: (1) "First-to-respond-first-to-trade" – (time / price priority for Liquidity Provider responses); and (2) "Price improvement auction" – (price / time priority for Liquidity Provider responses). Both matching protocols operate under the execution rules described below.

Price improvement is awarded to the Liquidity Seeker initiating an auction. Managed and Conditional orders are defined as liquidity providing order types. As a result, Liquidity Seekers using these order types award price improvement to the contra side counterparty.

PDQ executes trades during locked markets.

PDQ does not execute trades during crossed markets.

Currently, auctions are initiated when a liquidity seeking order is deemed "Marketable". PDQ defines Marketable as a buy order > NBB or a sell order < NBO. PDQ checks the marketability of every liquidity-seeking order upon receipt. Orders deemed non-Marketable are immediately cancelled (IOC) or routed out for execution as directed by the Liquidity Seeker. Non-Marketable orders may also be Managed and Conditional orders.

Liquidity Providers are required to respond with a minimum of 100 shares (no odd lots are permitted). To avoid information leakage all RFTs indicate a minimum acceptable quantity value equal to 100, regardless of any different value a Liquidity Seeker may specify. Extended Liquidity Auctions may require a higher minimum acceptable quantity from Liquidity Providers.



Liquidity Provider responses received after 20ms (or other specified Pause time as defined by the Liquidity Seeker) are rejected.

To avoid information leakage related to a liquidity-seeking order PDQ does not specify the reason for a cancellation on cancel messages sent to Liquidity Providers.

Currently, all executions at PDQ occur at or inside the NBBO. The NBBO is confirmed and logged upon receipt of Liquidity Seeker orders and confirmed again prior to execution during a “price improvement auction”.

Liquidity Seeker orders may receive multiple executions through partial fills for a single order if more than one executable Liquidity Provider order is generated for less than the full size of the liquidity-seeking order. Each executable Liquidity Provider order will trade individually with its share of the Liquidity Seeker order. Unpaired residual from Liquidity Seeker orders will be cancelled or routed out as specified by the Liquidity Seeker.

Subscribers may enable a maximum contra size feature that will prevent orders from executing against contra side orders of greater size. Subscribers may also use a multiplier feature to allow executions with contra side liquidity that are larger in quantity, but within a specific threshold. For example, a Subscriber may request a maximum contra size setting of two times their quantity on any potential execution. This feature is available to Liquidity Seekers using Managed Orders and to Liquidity Providers.

Subscribers may submit orders with a minimum acceptable execution quantity on an order-by-order basis. Currently, PDQ does not aggregate contra side orders to satisfy a minimum acceptable execution quantity of a liquidity-seeking order.

For additional detail on the PDQ matching logics please refer to Exhibit F – Section (b).

#### Reporting, Clearance and Settlement Procedures

PDQ utilizes much of the operational infrastructure of PDQ ATS, Inc. (the broker-dealer) and, for clearing and settlement, Merrill Lynch, Pierce, Fenner & Smith, Inc. (Broadcort division). In this regard, PDQ executions will be cleared by Merrill Lynch, Pierce, Fenner & Smith, Inc. Following an execution, both sides of the trade are reported to a Trade Reporting Facility (“TRF”) to post the trade on the consolidated tape. Currently, PDQ reports executed trades to the NYSE/FINRA TRF, but may report to any other registered TRF. Merrill Lynch, Pierce, Fenner & Smith, Inc. will complete any additional required regulatory reporting and complete the clearance and settlement process of the trade.

PDQ generates and sends a daily OATS report on data created for all PDQ activity in OATS reportable securities. The report contains combined new order/route events, combined new order/execution events, and any OATS required data to submit to FINRA.

Execution quality reports, in accordance with Regulation NMS, Rule 605 requirements, are made available through PDQ's third-party vendor and are also posted to PDQ's website (pdqats.com).

PDQ may also use third-party vendors for transaction cost analysis.

Historical/end-of-day, internal and external, order/execution reports may be prepared identifying data such as aggregate received volume by symbol. Subscribers may request and approve PDQ to share data, specific to their activity at PDQ, with other subscribers or third parties on an anonymous or fully disclosed basis.

As previously described, PDQ may send drop copies of execution reports to subscribers and/or their clearing firms or third-party risk management systems (upon request). PDQ may send additional drop copies to PDQ's clearing firm.

#### **e) Procedures for Ensuring Subscriber Compliance with System Guidelines**

PDQ has built-in compliance and procedures for ensuring Subscriber compliance with the Alternative Trading System requirements. PDQ operations staff monitors all trade activity throughout the trading day via a PDQ administrative front-end and the PDQ error monitoring system.

PDQ staff with administrative privileges can use the PDQ administrative front-end to manually cancel orders if necessary.

The PDQ error monitoring system continually monitors all system and trade activity throughout the day. All software components at PDQ are capable of outputting information to the PDQ error monitoring system. All errors are logged to a database. PDQ personnel monitor the error monitoring system throughout the trading day.

If PDQ encounters execution delays or if the TRF becomes unavailable, all trading at PDQ will cease. No delayed trades will be printed to the tape unless approved by senior management of PDQ. PDQ may still accept orders and act in the capacity of a service bureau/agency routing broker while trading within PDQ is ceased. If PDQ encounters other system issues, PDQ personnel may cease trading in the capacity of an Alternative Trading System as mentioned above.

#### **f) Copy of Alternative Trading System's Subscriber Manual and any Other Materials Provided to Subscribers**

The following PDQ documents and materials will be provided to Subscribers based on their business activity or upon request.

- PDQ Subscriber Information Request
- PDQ Liquidity Provider Agreement
- PDQ Liquidity Provider Guide – FIX Specification
- PDQ Liquidity Seeker Agreement

- PDQ Liquidity Seeker Guide - FIX Specification
- PDQ Conditional Addendum to LS Guide – FIX Specification
- PDQ Institutional Subscriber Agreement
- PDQ Customer Account Information Request (Institutional Accounts)
- PDQ Business Continuity Plan
- PDQ OSO Agreement

**Exhibit G****A brief description of the alternative trading system's procedures for reviewing system capacity, security, and contingency planning procedures.**

PDQ monitors system capacity utilization while it is in operation. This allows the staff to proactively increase or decrease capacity before limiting thresholds are met. The main PDQ system resides at Savvis NJ2 in Weehawken, N.J. Savvis is a SSAE-16 audited facility that will not allow unauthorized personnel access to PDQ's equipment. The system is accessible only to PDQ personnel, as part of their job requirements, over an encrypted VPN tunnel. Each individual user has their own unique username and password for tunnel authorization and authentication. New credentials are issued upon approval to new users and credentials are removed for users leaving the firm. PDQ's New York, NY, Glenview, IL, and Westport, CT, offices may all be used for system management if one of the offices were to become unavailable. PDQ also conducts annual reviews and testing of its systems.

In addition to electronic security measures, PDQ has written policies governing employees' use of confidential information. All employees are required to read, understand and agree to adhere to these policies and employment-related rules and policies.

In accordance with FINRA Rule 4370, PDQ has established a business continuity plan (BCP) that addresses alternative sites for operations in the event of a significant business disruption as well as data back-up and recovery, mission critical systems including financial and operational assessments and interaction with our Subscribers. Disclosure of the BCP is available to Subscribers at the time a relationship is established and the BCP is summarized on PDQ's website. The BCP is reviewed and approved no less than annually by senior management.

**Exhibit H**

**If any other entity, other than the alternative trading system, will hold or safeguard subscriber funds or securities on a regular basis, attach as Exhibit H the name of such entity and a brief description of the controls that will be implemented to ensure the safety of such funds and securities.**

PDQ will not hold or safeguard subscriber funds or securities.

All subscribers to PDQ are execution clients of PDQ ATS, Inc. (the broker/dealer) and will clear and settle trades through Merrill Lynch, Pierce, Fenner & Smith, Inc. (Broadcort division).

**Exhibit I**

**Attach as Exhibit I a list providing the full legal name of those direct owners reported on Schedule A of Form BD.**

PDQ ATS, Inc. is a FINRA-registered broker-dealer wholly-owned by PDQ Enterprises, LLC, a New York limited liability company.