

## **SEC Rule 15c3-5**

Rule 15c3-5 requires a broker-dealer with market access, or that provides a customer (which includes other broker-dealers, individuals or institutions such as a hedge fund, mutual fund, bank or insurance company) or any other person with access to an Exchange or ATS through use of its market participant identifiers or otherwise, to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks, such as legal and operational risks, related to market access. The rule requires that we apply these controls on a pre-trade basis. In addition, these controls, with limited exceptions, must be under our direct and exclusive control if we are providing market access.

## **Maximum Nominal Risk-Aggregate Daily Value**

This control is applied at the entity level and the limit is re-established overnight, prior to the next trading day. This value is applied so that if the entity reaches the limit set for the client all orders that would increase the entity Maximum Nominal Risk-Aggregate Daily Value are rejected. To compute the Maximum Nominal Risk-Aggregate Daily Value for an account we sum the absolute value of nominal order value for equity and options, including open orders and positions for the day. The absolute value of the PNL is netted per symbol for filled orders.

## **Maximum Nominal Order Value**

This control is applied to the entity level. This limit is set up to reject all placed orders that would exceed the maximum notional value of the order. See below for a calculation of how the notional value per order is determined for both equities and options.

This value is calculated as follows:

For Equities: | price x # of shares|

For Options: | # of contracts x premium x multiplier|

## **Maximum Order Size**

This control is applied to the entity level and puts a maximum limit on the number of option contracts for options and shares for equities that an entity can place at one time.

For Equities: Maximum number of shares per order.

For Options: Maximum number of contracts per order.

## **Maximum Per Second Message Rate**

Limits the number of order messages a client entity can transmit to the equity and option markets. Order messages transmitted at a rate higher than the rate limit set for the entity are rejected.

## **Wash Trade/Self Trade Rule**

Matrix Executions has a "Cross Check" process that rejects cross orders at the entity level. This check applies to equity, option, and futures trades and prevents wash trades within an entity. A cross order occurs when a buy order and a sell order is entered by an

entity at the same time for the same stock, futures contract, or option contract, under the same terms.

Matrix Executions also has in place a cross order block for the CBOE (Rule 8.20), ISE (Options 3 Section 22), etc. known as the “Market Maker Rules.”

This block prevents entry of customer orders if (i) the orders are limit orders for the account or accounts of the same beneficial owner(s) and (ii) the limit orders are entered in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such securities on a regular or continuous basis.

### **Cross Accounts**

Certain Matrix clients have designated accounts as “cross accounts.” For the ability to cross trades on behalf of multiple clients or on behalf of the client’s proprietary trading desk. Matrix has allocated 15c3-5 regulatory responsibility to its broker dealer clients in ensuring that accounts set as cross accounts are not conducting manipulative activity, because Matrix broker dealer clients have better access to the ultimate customers and their trading information and can therefore implement controls and procedures that can effectively monitor the cross activity.

### **Price Out of Range**

All limit orders entered with prices through the market at a price greater than those defined below will be rejected.

- Orders for equities trading at \$3.00 per share or below are rejected if the limit price is 75% or more through the market.
- Orders for equities trading above \$3.00 per share are rejected if the limit price is 30% or more through the market.
- Orders for options trading at \$5.00 per contract or below are rejected if the limit price is \$0.50 or more through the market.
- Orders for options trading above \$5.00 - \$100.00 per contract are rejected if the limit price is \$1.00 or more through the market.
- Orders for options trading above \$100.00 - \$1000.00 are rejected if the limit price is 1% or more through the market.
- Orders for options trading at \$1000 or greater are rejected if the limit price is greater than \$15.00.
- Orders for option spreads at any price are rejected if the limit price is greater than or equal to \$1.00.