

Long-Term Stock Exchange, Inc.  
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### **Exhibit E**

**Describe the manner of operation of the System. This description should include the following:**

- 1. The means of access to the System.**
- 2. Procedures governing entry and display of quotations and orders in the System.**
- 3. Procedures governing the execution, reporting, clearance and settlement of transactions in connection with the System.**
- 4. Proposed fees.**
- 5. Procedures for ensuring compliance with System usage guidelines.**
- 6. The hours of operation of the System, and the date on which applicant intends to commence operation of the System.**
- 7. Attach a copy of the users' manual.**
- 8. If applicant proposes to hold funds or securities on a regular basis, describe the controls that will be implemented to ensure safety of those funds or securities.**

#### **Introduction**

##### **General**

The Long-Term Stock Exchange, Inc. ("Exchange") is proposing to register as a national securities exchange under Section 6 of the Securities Exchange Act of 1934 (the "Exchange Act"). The Exchange will be owned by its parent company, LTSE Holdings, Inc. ("LTSE Holdings"), which will elect all members of the Board of Directors of the Exchange (the "Board"), except for those Board members approved by members of the Exchange ("Members") pursuant to Article III, Section 3.4 of the Bylaws of the Exchange. Members will consist of those broker-dealers admitted to membership and entitled to enter orders in, and receive executions through, the Exchange's Order Book (as defined below) or otherwise. Members will be subject to the rules of the Exchange, and will have representation on the Exchange's Board and certain Board committees. Members who are not also shareholders of LTSE Holdings shall not have any ownership interest in the Exchange.

Once registered, the Exchange will operate a fully automated electronic book ("Order Book") for market and limit orders to buy or sell securities ("orders") with a continuous, automated matching function, as described in Chapter 11 of the Exchange's Rules, contained in Exhibit B to this Form 1. For non-LTSE-listed securities, the Exchange will also conduct an Opening Process for the Regular Market Session pursuant to Rule 11.231 and, for LTSE-listed securities, the Exchange will conduct Opening Auctions, Closing Auctions and other auctions pursuant to Rule 11.350. Orders not eligible for trading prior to the commencement of the Regular Market Session that are received and eligible to be queued during the Pre-Market Session pursuant to Rules 11.190(a)(1)(E) and 11.190(b)(11)(F) will be queued in the time sequence of their receipt by the System pursuant to Rule 11.220(a)(2). Orders queued during the Pre-Market Session are processed as incoming orders pursuant to Rule 11.230 at the commencement of Regular Market Session. During the Exchange's trading sessions, liquidity will be derived from orders to buy and orders to sell submitted to the Exchange electronically by its Members from remote locations. There will be no Exchange trading floor.

Membership in the Exchange will be open to any broker-dealer registered under Section 15(b) of the Exchange Act that meets the standards for membership set forth in proposed Rules 2.130 through 2.160. To be a Member of the Exchange, a firm must be registered as a broker-dealer, be a member of at least one other national securities exchange or national securities association, be able to clear trades or must clear through a Member clearing firm, and meet the additional criteria prescribed by Rule 2.170. There will be one class of membership, with all Members enjoying the same rights and privileges on the Exchange. Members may further register as LTSE Market Makers, subject to the requirements and obligations of Rules 11.150 and 11.151. Members will be subject to fees for orders executed on the Exchange as set forth in Chapter 15 of the Rules of the Exchange or as may otherwise be determined by the Board from time-to-time, subject to filing with the Commission. Exchange memberships will not be transferable except in the event of a change in control of a Member, and such transfer will be subject to the written consent of the Exchange, and to any conditions to such transfers imposed by the Exchange. The Exchange currently does not contemplate charging a fee for membership in the Exchange. A more detailed description of the membership criteria is set forth in Chapter 2 of the Exchange's rules contained in Exhibit B to this Form 1.

### **Regulation SCI**

Regulation Systems Compliance and Integrity ("Regulation SCI") requires self-regulatory organizations (defined in the regulation as SCI entities) to have, among other things, robust and resilient technological systems that ensure the self-regulatory organization's own operational capability, including the ability to maintain effective operations, minimize or eliminate the effect of performance degradations, and have sufficient backup and recovery capabilities. Specifically, Regulation SCI Rule 1001(a) requires each SCI entity to establish, maintain and enforce written policies and procedures reasonably designed to ensure that its SCI systems have levels of capacity, integrity, resiliency, availability,

and security, adequate to maintain the SCI entity's operational capability and promote the maintenance of fair and orderly markets.

Regulation SCI Rule 1001(a)(2)(v) further requires business continuity and disaster recovery plans that include maintaining backup and recovery capabilities that are both sufficiently resilient and geographically diverse and that are reasonably designed to achieve next business day resumption of trading and two-hour resumption of critical SCI systems following a wide-scale disruption. To be deemed sufficiently resilient, Regulation SCI has established a goal for SCI entities of next business day resumption of trading and two-hour resumption of critical SCI systems following a wide-scale disruption. To be considered geographically diverse, Regulation SCI provides a reasonable degree of flexibility to an SCI entity to determine the precise nature and location of its backup site. Regulation SCI does not specify a minimum distance for an SCI entity's backup and recovery facilities. However, the backup site should not rely upon the same infrastructure components nor be subject to the same vulnerabilities or risks as its primary site.

The Exchange will be compliant with all aspects of Regulation SCI including the requirements for its backup and recovery capabilities. The Exchange's disaster recovery plans in general and its backup data center in particular will be robust and resilient. It should be noted that the Exchange does not plan to initially operate any critical SCI systems and therefore will not be required to meet the two-hour resumption of service goal set forth in the Regulation. However, if and when the Exchange lists securities, it will operate critical SCI systems and will comply with the two-hour resumption of service goal in Regulation SCI.

The Exchange plans to be primarily operated out of New Jersey (the "Primary Data Center"). The Exchange plans to have its Disaster Recovery ("Disaster Recovery") site located in Chicago.

The topology of the system will include complete redundancy of software level components such that a failure of a single software component, due to server hardware or network device failures, will recover to a backup instance running in a Hot/Hot or a Hot/Warm configuration. Depending on the specific failed component, redundancy will be able to exist within the primary system or within an independent secondary hardware system. In the event of a widespread Primary Data Center site failure, the Disaster Recovery Data Center will be available for the site failover. The systems deployed in the Disaster Recovery Data Center will be designed, deployed and tested to be sufficiently resilient and comply with the Regulation SCI requirement to be operational the next business day after declaring a disaster in the Primary Data Center.

The Disaster Recovery Data Center will be sized with servers and networking equipment such that it will provide identical functional services as the Primary Data Center site. The Disaster Recovery site selected for the Exchange will be in accordance with the Regulation SCI requirements for maintaining backup and recovery capabilities that are both sufficiently resilient and geographically diverse. The Disaster Recovery site will be more than 500 miles away from the Primary Data Center with reasonable geographical and supporting infrastructure diversity.

In accordance with Regulation SCI requirements, the supporting framework will be designed and implemented to operate and maintain robust and resilient technological systems that ensure the Exchange's own operational capability. This will include the ability to maintain effective operations, minimize or eliminate the effect of performance degradations, and provide sufficient backup and recovery capabilities. The supporting framework will also facilitate maintaining and enforcing written policies and procedures reasonably designed to ensure that its SCI systems have levels of capacity, integrity, resiliency, availability, and security adequate to maintain the SCI entity's operational capability and promote the maintenance of fair and orderly markets.

In addition, with respect to personnel necessary to operate the Exchange's market in the event of a wide-scale disruption that forces the Exchange to activate its back-up recovery sites, the Exchange's staff will work remotely. Should the Exchange need to operate in a Disaster Recovery mode, all of the Exchange's market and technology operations staff will have the full set of tools necessary to operate the market remotely. Additionally, staff members of each of these departments will work remotely on a rotating schedule to ensure that their remote configuration is fully functioning and that there are no issues interacting remotely with the Exchange or any of its supporting systems. The Exchange will regularly test the use of the remote working configurations on an individual basis.

In accordance with Rule 1001(a) of Regulation SCI, the Exchange will have written policies and procedures in place that reflect its operational capabilities, including the ability to maintain effective operations, minimize or eliminate the effect of performance degradations, and have sufficient backup and recovery capabilities.

LTSE Rule 2.250, Mandatory Participation in Testing of Backup Systems, provides that pursuant to Regulation SCI and with respect to the Exchange's business continuity and disaster recovery plans, including its disaster recovery systems, the Exchange is required to establish standards for the designation of Members that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of such plans. The Exchange will establish standards and will publish such standards in a circular to Members prior to launch of the Exchange and will designate Members according to those standards as set forth below. All Members will be permitted to connect to the Exchange's disaster recovery systems and to participate in testing of such systems.

LTSE Rule 2.250 further provides that certain Members will be required to connect to the Exchange's disaster recovery systems and participate in functional and performance testing as announced by the Exchange, which will occur at least once every 12 months. The following Members, as provided in LTSE Rule 2.250, must participate in mandatory testing of the Exchange's disaster recovery systems: Members that have been determined by the Exchange to contribute a meaningful percentage of the Exchange's overall volume.

For purposes of identifying Members that contribute a meaningful percentage of the Exchange's overall volume ("meaningful percentage"), LTSE Rule 2.250 provides that the Exchange will measure volume executed on the Exchange on a quarterly basis (the "measurement quarter") and published in a circular distributed to Members. The meaningful percentage will be determined by the Exchange and will be published in a circular distributed to Members. LTSE Rule 2.250 further provides that the Exchange will

also individually notify all Members that will be subject to mandatory testing based on the meaningful percentage following the completion of the measurement quarter. If a Member has not previously been subject to the requirement to participate in functional and performance testing, such Member will have until the next calendar quarter before such requirements are applicable.

Any changes to the designation standards will be published by the Exchange in a circular distributed to Members in advance of the start of any measurement quarter and will not be applied retroactively to any measurement quarter then completed or in progress.

This Exhibit E describes, in summary form, the proposed operation of the Exchange. More detailed descriptions of the proposed Exchange are set forth in the Exchange's Bylaws and Rules. See Exhibits A and B to this Form 1.

## **1. The means of access to the System.**

*User Access.* Members of the Exchange and/or Sponsored Participants on behalf of Members (collectively referred to as "Users") will be permitted to send orders to buy and sell securities listed or traded on the Exchange to the Exchange electronically through the use of a variety of systems.

The Exchange will allow Users to individually determine the best method for accessing the Exchange. Thus, Users may develop their own customized front-end software using protocols determined by the Exchange, or may use third-party vendors to route orders to the Exchange via a front end or service bureau configuration. Users will be able to access the Exchange remotely through a variety of connections that support a minimum data exchange rate, as may be determined by the Exchange from time-to-time.

Direct access to the Exchange will be available to Users at an Internet Protocol ("IP") address by one or more of the following methods: (i) at the Exchange's IP network address by the Users' own software, via communications that are compliant with the Financial Information Exchange (FIX) protocol application programming interface ("API") provided by the Exchange; (ii) at the Exchange's IP network address by the Users' own software, via communications that are compliant with another API provided by the Exchange; and/or (iii) other means of access provided from time to time by the Exchange.

Users must provide a unique IP address range to the Exchange for each requested connection, and the Exchange can then configure its routers to only allow access from the User's IP address to a dedicated IP address on the Exchange's order message handling network. In this way, only authorized Users can gain access to the Exchange via registered physical IP addresses.

Users will be responsible for having procedures reasonably designed for safeguarding access to the Exchange and for notifying the Exchange upon learning that such

safeguards have or may have been compromised. Connectivity to the Exchange will occur through secure telecommunications “ports” or points of entry. Specifically, each User will be assigned a specific port, or multiple ports, each of which has a unique session identification code provided only to such User.

As necessary, the Exchange will join any applicable plan that other national securities exchanges and/or Market Centers (as such term is defined in Rule 600(b)(38) of Regulation NMS) have joined (the “Plans”). For example, as it relates to receiving inbound orders, the Exchange plans to become a participant in the Nasdaq-UTP Plan. If admitted as a participant to the Nasdaq-UTP Plan, other Plan participants would be able to send orders to the Exchange in accordance with the terms of the Plan. In addition, the Exchange intends to become a participant in the Consolidated Tape Association (“CTA”) Plan and Consolidated Quotation (“CQ”) Plan and will collect and submit to the relevant Plan processor the best priced buy order and the best priced sell order displayed on the Exchange in Eligible Securities, as defined in these Plans. The Exchange will likewise join all other applicable Plans as deemed necessary and in the interest of its Users, including, but not limited to, the NMS Plan to Address Extraordinary Market Volatility, the NMS Plan Governing the Consolidated Audit Trail (the “CAT NMS Plan”), the NMS Plan for the Selection and Reservation of Securities Symbols and 17d-2 Plans for Allocation of Regulatory Responsibilities.

*Sponsored Participant Access to the Exchange.* The Exchange plans to permit access to the Exchange by entities (“Sponsored Participants”) whose access is authorized in advance by one or more Members (“Sponsoring Member”) in accordance with LTSE Rules. The Sponsoring Member must agree to be responsible for all orders entered into on the Exchange by the Sponsored Participant. In addition, Sponsored Participants must agree to comply with all applicable rules of the Exchange governing the entry, execution, reporting, clearing, and settling of orders in securities eligible for trading on the Exchange.

## **2. Procedures governing entry and display of quotations and orders in the System.**

*Entry of Orders on the Exchange.* The Exchange will accept the submission of orders by Users in securities listed on LTSE and may accept orders in securities admitted to unlisted trading privileges (“UTPs”) on the Exchange. The Exchange will not list securities initially, though it anticipates doing so in the future. Accordingly, while this Application, including certain rules included in Exhibit B, contains references to securities listed or trading pursuant to UTPs, the reference to securities listed on the Exchange is intended to be read prospectively.

Orders entered into the Exchange must be orders to buy or sell a stated amount of a security at the national best bid or offer when the order reaches the Exchange (i.e., market orders), or must be orders to buy or sell a stated amount of a security with a limit

price (i.e., limit orders). Limit orders and market orders, as defined above, are hereinafter collectively referred to as “orders”.

Orders will be accepted for any such security, whether submitted by a User on a proprietary or agency basis, in any size up to 1,000,000 shares or \$30,000,000, whichever is higher. Orders may be submitted in round lots, mixed lots, or odd lots. To reduce the possibility of the entry of erroneously large orders, the Exchange will provide Users with the ability to establish parameters as to the maximum number of shares that can be entered on their behalf or on behalf of their clients in any given order. Users may receive status reports regarding orders submitted to the Exchange or change or cancel an order at any time before that order is executed on the Exchange pursuant to Rule 11.190(d).

The Exchange intends for its System to be relatively simple, without many of the complex order types or instructions available on other national securities exchanges. All orders submitted to the Exchange are treated as LTSE Only, but may also include the execution instructions of Inter-Market Sweep Order. Users may submit orders to the Exchange with the following time-in-force terms: IOC; Day; Good ‘til Extended Day; System Session; and Good ‘till Time. Users may submit orders to the Exchange with display instructions that will be classified as one of the following: Reserve; Non-Displayed, or Displayed. Orders submitted without display instructions will be, by default, fully displayed. Users may submit orders to the Exchange for any size which will be classified as one of the following: Round Lot; Odd Lot; or Mixed Lot. Orders may be marked with an Anti-Internalization Group Identifier (“AGID”) modifier. Each of these types of orders is described in detail in proposed Rule 11.190; however, several have been described below.

*Active and Resting Orders.* The term “active order” is defined by LTSE to mean an order checking against the LTSE Order Book for contra-side interest against which to execute. For each symbol, only one order may be active at any given time. The term “resting order” is defined by LTSE to mean any order with unexecuted, open share interest that has been posted to the LTSE Order Book pursuant to LTSE Rule 11.190.

*Reserve Order.* An order with a portion of the quantity displayed (“display quantity”) and with a non-displayed reserve portion of the quantity (“reserve quantity”).

*Minimum Quantity Order (“MQTY”).* An IOC order which must have at least the minimum indicated share size satisfied in order to execute.

*Inter-market Sweep Orders (“ISO”).* The System will accept incoming Inter-Market Sweep Orders (as such term is defined in Regulation NMS).

*Immediate-or-Cancel (“IOC”).* Orders entered into the System marked IOC are executed on the Exchange, in whole or in part, as soon as such order is received, and the portion

not so executed is canceled. Orders marked IOC are never posted to the Order Book, and are considered by definition to be non-displayable orders.

*Day (“DAY”).* Orders entered into the System marked DAY may queue during the Pre-Market Session. When queued, orders will participate in the Opening Process before becoming available for the Regular Market Session. Orders marked DAY are only available for trading during the Regular Market Session, and expire at the end of the Regular Market Session.

*Good ‘til Extended Day (“GTX”).* Orders entered into the System marked GTX may queue during the Pre-Market Session. When queued, orders will participate in the Opening Process before becoming available for the Regular Market Session. Orders marked GTX are available for trading or routing during both the Regular Market Session and Post-Market Session, and expire at the end of the Post-Market Session.

*System Session (“SYS”).* Orders entered into the System marked SYS may trade during System Hours and expire at the end of the Post-Market Session.

*Good ‘til Time (“GTT”).* Orders entered into the System marked GTT may trade during System Hours and expire at the earlier of the User-specified expire time, or the end of the Post-Market Session.

Initially, LTSE will not offer any outbound routing functionality. As a result, until such time as LTSE adopts such functionality in the future pursuant to a rule change, all orders will be treated as LTSE Only and subject to the price sliding process described below for compliance with Rule 610(d) under Regulation NMS

*Anti-Internalization Group Identifier Modifier.* Any active order designated with an AGID modifier will be prevented from executing against a resting opposite side order also designated with the same AGID modifier and originating from the same market participant identifier (“MPID”) or Exchange User (any such identifier, a “group type”). In situations when two orders subject to anti-internalization would match, the older of the orders is canceled. A determination of “older” is based upon the time the order is received by the System, including by initial order entry or User revision (i.e., cancel/replace). The group type elected by a User controls the interaction between two orders marked with AGID modifiers.

LTSE notes that use of the AGID modifier does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. As such, market participants using the AGID modifier will need to take appropriate steps to ensure public customer orders that do not execute because they were subject to anti-internalization ultimately receive the same execution price (or better) than they would have originally obtained if execution of the order was not inhibited by anti-internalization. Market Makers and other Users must not use the AGID modifier to evade the firm quotation obligation,



as specified in LTSE Rule 11.151(b). The AGID modifier must be used in a manner consistent with just and equitable principles of trade.

*Price Sliding.* Based on Exchange system functionality and the price sliding process pursuant with Rule 11.190(g), a locked market will not be displayed by the Exchange with respect to orders to buy and orders to sell submitted to the Exchange. The Exchange will never cross its own Order Book. An order eligible for display by the Exchange that, at the time of entry, would create a violation of Rule 610(d) of Regulation NMS by locking or crossing a Protected Quotation of an external market will be ranked and displayed by the System at one (1) minimum price variant (“MPV”) below the current NBO (for bids) or one (1) MPV above the current NBB (for offers) (“display-price sliding”). An order subject to display price sliding will retain its limit price irrespective of the price at which such order is ranked and displayed. In the event the NBBO changes such that an order subject to display-price sliding would no longer lock or cross the Protected Quotation of an external market, the order will receive a new timestamp, and will be displayed and ranked at the most aggressive permissible price. Such orders may be re-priced once or multiple times, depending on changing market conditions and the order’s limit price. A non-displayed limit order posting to the Order Book that has a limit price more aggressive than the Protected Quotations of an external market will be booked and ranked by the System at the current NBO (for bids) or at the current NBB (for offers) (“non-displayed price sliding”). To reflect changes to the NBO or NBB, the order is automatically re-priced by the System in response to the changes in the NBO or NBB up to the order’s limit price.

*Regulation SHO.* Users may also be permitted to enter short sales, in accordance with the provisions of the Regulation SHO under the Exchange Act.

*Audit Trail.* The Exchange will maintain a full audit trail of every order submitted to the Exchange’s System.

*Trading Increments.* Bids, offers or orders in securities traded on the Exchange shall not be made in an increment smaller than: (1) \$0.01 if those bids or offers are priced equal to or greater than \$1.00 per share; or (2) \$0.0001 if those bids or offers are priced less than \$1.00 per share, and the security is an NMS stock pursuant to Regulation NMS Rule 600(b)(47), and is trading on the Exchange. The minimum price increment for orders for securities listed or trading pursuant to UTPs on the Exchange will be determined from time-to-time by the Board, consistent with any Commission rules or regulations adopted in this regard.

*Display of Orders.* All orders submitted to the Exchange will be displayed unless designated otherwise by the User submitting the order (i.e., as Reserve Orders or Non-Displayed Orders). Orders submitted to the Exchange for display shall be displayed on an anonymous basis at the price specified by the User submitting the order, pursuant to the price sliding process in proposed Rule 11.190(g). Non-Displayed Orders will not be

displayed to any User of the Exchange and will not have time priority over displayed orders at the same price.

Finally, to enhance transparency throughout the market, the Exchange intends to make publicly available, free of charge, through its public website, aggregated top of book quotations for all displayed orders resting on the Order Book, aggregated depth of book quotations for all displayed orders resting on the Order Book at each price level, execution information (i.e., last sale information) for executions on the Exchange and LTSE Auction Information for LTSE-listed securities.

### **3. Procedures governing the execution, reporting, clearance and settlement of transactions in connection with the System.**

*Execution of Orders Submitted to Exchange's Order Book.* Trades will occur when an order to buy and an order to sell match on the Exchange's Order Book. For any execution to occur during Regular Market Session, the price must be equal to or better than the Protected National Best Bid ("NBB") or National Best Offer ("NBO"), unless the order is marked ISO or unless the execution falls within another exception set forth in Rule 611(b) of Regulation NMS. For any execution to occur during the Pre-Market Session or the Post-Market Session, the price must be equal to or better than the highest Protected Bid or lowest Protected Offer, as determined by the System from all Top of Book information for away trading centers' quotations meeting the requirements defined in rules of Regulation NMS, pursuant to Rule 11.410, unless the order is marked ISO or a Protected Bid is crossing a Protected Offer. The Exchange will use the applicable securities information processor market data feeds as the sources for Top of Book information.

Notwithstanding the above, in the event that a Protected Bid is crossing a Protected Offer, whether during or outside of the Regular Market Session, unless the order is marked ISO, the Exchange will enforce the Crossed Market Collar pursuant to LTSE Rule 11.190(f)(3) and the price sliding process pursuant to Rule 11.190(g)(3). For any executions to occur during the Regular Market Session, such executions must comply with the Limit Up-Limit Down Plan, as set forth in Rule 11.280(e) and the price sliding process pursuant to Rule 11.190(g)(5). For any execution of a short sale order to occur on the Exchange when a short sale price test restriction is in effect, the price must be better than the NBB, unless the sell order was initially displayed by the System at a price above the then current NBB or is marked "short exempt" pursuant to Regulation SHO. Short sale orders are subject to the price sliding process pursuant to Rule 11.190(g)(4).

An incoming order will first attempt to be matched for execution against orders in the Order Book. An order will be canceled back to the User if, based on market conditions, User instructions, or applicable Exchange rules and/or the Exchange Act and the rules and regulations thereunder, such order is not executable under Rule 11.230, and cannot be posted to the Order Book for price sliding.

An incoming active order to buy submitted to the Exchange's Order Book will be automatically executed by the Exchange's Order Book to the extent that it is priced at an amount that equals or exceeds any order to sell for the same security submitted to the Exchange's Order Book. Such order to buy shall be executed at the price of the lowest-priced order to sell having priority on the Exchange's Order Book. All orders are matched according to price-display-time priority. An incoming active order to sell submitted to the Exchange's Order Book will be automatically executed by the Exchange's Order Book to the extent that it is priced at an amount that equals or is less than any order to buy for the same security submitted to the Exchange's Order Book. Such order to sell shall be executed at the price of the highest-priced order to buy having priority on the Exchange's Order Book.

Rule 11.220 describes the priority given to orders at the same price. Non-Displayed Orders will have priority over orders at inferior prices, whether displayed or Non-Displayed, but will not have priority over orders displayed at equal or superior prices. Older orders (i.e., orders entering the Order Book first) will have priority over newer orders at the same price with the same display. In the event that less than the full size of an order is executed, whether displayed or Non-Displayed, the unexecuted size of the order will continue to reside on the Exchange's Order Book. If displayed, the order will continue to be displayed at, and retain priority and precedence at, the same price, unless the displayed portion was decremented less than one round lot. Displayed Orders must be at least one round lot. If an order marked for display is submitted with, or decremented either by execution or the User Order amendment to an order quantity of less than one round lot, it will be treated as a Non-Displayed Order, as defined in Rule 11.190(b)(3). Odd-lot orders are treated as Non-Displayed Orders.

*Equal Access.* In executing orders submitted to the Exchange's Order Book, the Exchange will not distinguish between orders submitted by Users for their own accounts and orders submitted by Users for their customers. Orders on the Exchange will be executed automatically and Users will have no ability to control the timing of execution (other than to change or cancel an order prior to execution).

Moreover, as noted above, the general public will have access to view the best priced quotes and aggregate size of such orders at those prices on the Exchange's Order Book through the public website.

*Order Price Collars and Constraints.* The Exchange will utilize the collars and constraints defined in LTSE Rule 11.190(f) in an effort to reduce the occurrence of erroneous trades. The collars and constraints include the following: Order Collar, Crossed Market Collar, One Sided Market Handling, and Zero Markets Handling.

*Order Collar.* The Exchange Order Collar, as described in 11.190(f)(1), prevents any incoming order or order resting on the Order Book, including those marked ISO, from executing at a price outside the Order Collar price range (i.e., prevents buy orders from trading at prices above the collar and prevents sell orders from trading at prices below

the collar). The Order Collar price range is calculated using the numerical guidelines for clearly erroneous executions. Executions are permitted at prices within the Order Collar price range, inclusive of the boundaries. Any portion of a market order that would execute at a price beyond the Order Collar is canceled. Any remainder of a limit order that would execute at a price beyond the Order Collar is posted on the Order Book or canceled as per User instructions. Both displayed and non-displayed portions of limit orders may post on the Order Book at the Order Collar Price, but never more aggressive. Such orders may be repriced to a compliant price within or at the Order Collar as the Order Collar price changes due to changing market conditions.

*Crossed Market Collar.* As described in Rule 11.190(f)(3), in the event that a Protected Bid is crossing a Protected Offer, the System does not execute any portion of an active buy order at a price more than the greater of five cents (\$0.05) or one half of a percent (0.5%) higher than the lowest Protected Offer, or any portion of an active sell order at a price more than the greater of five cents (\$0.05) or one half of a percent (0.5%) lower than the highest Protected Bid, unless such order is marked ISO. When an order posts to or is resting on the Order Book while a Protected Bid is crossing a Protected Offer, the order will price slide in accordance with the price sliding process, pursuant to LTSE Rule 11.190(g).

*One-Sided Markets.* As defined in Rule 11.190(f)(4), One-Sided Markets are markets which lack either a Protected Bid or a Protected Offer. In a One-Sided Market, non-displayed interest is handled in the following manner: (i) Non-Displayed Orders entering the System will first test for marketable interest resting on the Order Book; any unexecuted non-displayed interest will be unavailable to trade once it posts on the Order Book; and (ii) resting non-displayed interest on the Order Book is unavailable to trade. When a two-sided market returns, Non-Displayed Orders become available at their relative priority. In a One-Sided Market, displayable interest is handled in the following manner: (i) when the Exchange receives displayable interest on the same side of the market as the Protected Bid or Protected Offer, displayable interest marked LTSE Only posts and displays at the most aggressive allowable price; and (ii) when the Exchange receives displayable interest on the side of the market opposite a best Protected Quote, displayable interest marked LTSE Only is eligible to trade with interest that is present on the Exchange and will post any unexecuted shares, to the extent allowed by the order's instructions, subject to displayed-price sliding, pursuant to Rule 11.190(g)(1).

*Zero Markets.* As defined in Rule 11.190(f)(5), Zero Markets are markets in which neither a Protected Bid nor a Protected Offer exists. In a Zero Market, resting non-displayed interest is unavailable to trade. When a Two-Sided Market returns, Non-Displayed Orders become available at their relative priority. In a Zero Market, displayable interest will post and display at the most aggressive allowable price.

*Clearly Erroneous Executions.* The Exchange, like all other national securities exchanges, will have a rule that will permit it to address those instances in which transactions occurring on the Exchange involve clearly erroneous executions ("Clearly

Erroneous Rule”). Under the Clearly Erroneous Rule, Users receiving an execution based on the entry of a buy or sell order that clearly was in error in terms of price, quantity, or an incorrect symbol for a security will be permitted to request that the Exchange void or modify the transaction. Designated Exchange personnel will review the transaction to determine whether, in fact, the transaction was clearly erroneous. If such personnel determine that a trade is clearly erroneous, they shall void or modify the terms of the trade to achieve an equitable rectification of the error. A User may appeal the initial decision by Exchange personnel to the Clearly Erroneous Execution Panel, which will be comprised of the Chief Regulatory Officer (“CRO”), or a designee of the CRO, and representatives from two (2) Members. The Exchange will retain the authority to review and declare null and void, or otherwise modify the terms of, transactions arising out of the use of the Exchange’s Order Book during a period of disruption or malfunction, or in the event of extraordinary market conditions or other circumstances in which the nullification or modification of transactions may be necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest.

*Opening Process for Non-LTSE-Listed Securities.* The Exchange will conduct an opening process for non-LTSE-listed securities at the start of Regular Market Hours pursuant to Rule 11.231 (the “Opening Process”). Prior to the beginning of Regular Market Hours, Users who wish to participate in the Opening Process may enter orders designated with a TIF of DAY and limit orders designated with a TIF of GTX, which shall queue in the System and are eligible for execution in the Opening Process (the “Cross Book”); interest resting on the Order Book in the Pre-Market Session available for continuous trading (i.e., orders on the Continuous Book) are also eligible for execution in the Opening Process (collectively, “Cross Eligible Orders”). Orders with a Minimum Quantity as defined in LTSE Rule 11.190(b)(11) are not eligible for execution in the Opening Process, and therefore not Cross Eligible Orders. In performing the Opening Process, the Exchange will match buy and sell Cross Eligible Orders that are executable at the Opening Match Price, as described in Rule 11.231(c).

*Auctions for LTSE-Listed Securities.* The Exchange will conduct various auctions for LTSE-listed securities pursuant to Rule 11.350, including “Opening Auctions,” “Closing Auctions” and “IPO Auctions.” Users may submit orders to the Exchange at the beginning of the Pre-Market Session for participation in the Opening Auction. Any orders designated for the Opening Auction Book will be queued until the Opening Auction match. Auction Ineligible Orders (as defined in LTSE Rule 11.350(a)(3)) that may rest on the Order Book will be queued and maintained prior to the auction match in accordance with LTSE Rule 11.220(a)(1); Auction Ineligible Orders with a TIF of IOC will be rejected prior to the auction match.

Users may also submit orders to the Exchange at the beginning of the Pre-Market Session for participation in the Closing Auction. Any Market-On-Open (“MOC”) and Limit-On-Close (“LOC”) orders designated for the Closing Auction Book will be queued until the Closing Auction match. LOC, MOC, as well as limit orders with a TIF of DAY

that are not fully executed at the conclusion of the Closing Auction will be canceled immediately after the Closing Auction match.

Users may submit Auction Eligible Orders to the Exchange at the beginning of the Order Acceptance Period for participation in an IPO Auction. For IPO Auctions, the Order Acceptance Period will generally begin at 8:00 a.m. and will end when the IPO Auction match occurs. All Auction Eligible Orders associated with an IPO Auction will be queued until the applicable auction match. All orders associated with an IPO Auction must be received prior to the auction match in order to be eligible to execute in the auction. Auction Ineligible Orders that may rest on the Order Book will be queued and maintained during the Order Acceptance Period in accordance with LTSE Rule 11.220(a)(1); Auction Ineligible Orders with a TIF of IOC will be rejected prior to the auction match.

The Opening, Closing and IPO Auctions will occur at the price that maximizes the number of shares of Auction Eligible Orders to be executed. The priority of Auction Eligible Orders will be determined in accordance with LTSE Rule 11.350(b). The best priced Auction Eligible Order (the highest priced resting order to buy or the lowest priced resting order to sell) has priority over all other orders to buy (or orders to sell) in all cases. Market orders have precedence over limit orders.

*Trade Reporting.* The Exchange intends to become a participant in the CTA Plan and will report trades in Eligible Securities (as defined in the CTA Plan) pursuant to the terms of the plan. Similarly, as noted above, the Exchange expects to join the Nasdaq-UTP Plan and will report trades in Nasdaq securities traded on the Exchange that have been admitted to UTPs pursuant to the provisions of that plan.

*CAT NMS Plan.* The Exchange intends to join the CAT NMS Plan. Each Participant of the CAT NMS Plan is required to enforce compliance by its Industry Members, as applicable, with the provisions of the CAT NMS Plan, by adopting a Compliance Rule applicable to their Industry Members. The rules contained in LTSE Rule Series 11.6000 set forth the Compliance Rule to require Industry Members to comply with the provisions of the CAT NMS Plan. LTSE Rules include twelve rules covering the following areas: (1) definitions; (2) clock synchronization; (3) Industry Member data reporting; (4) customer information reporting; (5) Industry Member information reporting; (6) time stamps; (7) clock synchronization rule violations; (8) connectivity and data transmission; (9) development and testing; (10) recordkeeping; (11) timely, accurate and complete data; and (12) compliance dates.

*Clearance and Settlement of Exchange Trades.* The Exchange will require each Member to be a member of a registered clearing agency or clear its transactions through a Member that is a member of a registered clearing agency.

#### **4. Proposed fees**

*Fees Generally.* The Exchange currently does not propose to charge a fee for Exchange membership, or for entering, cancelling, or executing transactions on the Exchange. The Exchange may charge a connectivity fee based on the number of ports utilized by the Member. Exchange Members will be solely responsible for all telecommunications costs and all other expenses incurred in linking to, and maintaining links to, the Exchange. The Exchange may in the future, however, determine to revise its fees or prescribe such reasonable dues, fees, and assessments or other charges as it may deem appropriate and not unfairly discriminatory. Any time the Exchange undertakes to impose or modify a due, fee, assessment, or other charge, such fee imposition or change will be subject to filing by the Exchange pursuant to Section 19 of the Exchange Act and Rule 19b-4 thereunder.

#### **5. Procedures for ensuring compliance with System usage guidelines**

The Exchange System will contain embedded order entry and trade guidelines. All data representing a User's order must comply with these guidelines. Users cannot override these embedded guidelines. With respect to technical standards, prior to allowing a new User to begin trading, the Exchange and the User will thoroughly test the User's connectivity. In addition, the User may enter orders in the Exchange's certification environment and may also enter orders for test securities on the Exchange to ensure compatibility with the Exchange's System protocol. A User may begin trading only after the Exchange is satisfied that both the User's hardware and software meet the Exchange's standards.

Users also must agree to maintain an adequate connection to the Exchange as defined from time-to-time by the Exchange that includes a connection of sufficient speed and equipment of minimum quality.

#### **6. The hours of operation of the System, and the date on which applicant intends to commence operation of the System.**

The Exchange will operate Monday through Friday from 8:00 a.m. to 5:00 p.m. (Eastern Time) (excluding legal holidays), or during any other day or time approved by the Board.

If the Commission approves the Exchange's Form 1 application and the Exchange satisfies any relevant conditions prior to operation, the Exchange will commence operations using a phased-in approach for permitting specific securities to be traded on the Exchange.

#### **7. Attach a copy of the users' manual.**

Users will be provided with the Exchange's technical specifications, which will enable them to develop or purchase their own, customized front-end software for interfacing with the Exchange. Users also may use third-party vendors to route orders to the Exchange via a front-end or service bureau configuration. The User Manual will describe the Exchange's technical specifications and will provide Users and prospective Users

with additional information that the Exchange believes will be useful to such persons for trading on the Exchange. The User Manual is attached as Addendum E-1.

**8. If applicant proposes to hold funds or securities on a regular basis, describe the controls that will be implemented to ensure safety of those funds or securities.**

The Exchange will not hold Member funds or securities.

Addendum

LTSE User Manual.....E-1



Addendum E-1

LTSE User Manual

# LTSE USER Manual

1<sup>st</sup> January 20XX

## Introduction

This document provides background information regarding Long-Term Stock Exchange (“LTSE,” the “System” or the “Exchange”). Information contained in this document is subject to change at any time. For the latest updates, please refer to [www.ltse.com](http://www.ltse.com)

## Become a Member

To be a Member of the Exchange a firm must be registered as a broker-dealer, must be a member of at least one other national securities exchange or national securities association, must be able to clear trades or must clear through a clearing firm, and must meet certain additional criteria prescribed by the Exchange and set forth in Chapter 2 of the Exchange’s Rules. Non-Members may also gain access to the Exchange through a Sponsored Participant arrangement with a Sponsoring Member firm, in accordance with the Exchange’s Rules.

Membership application forms, as well as information and forms regarding sponsored access to the Exchange are available on the Exchange’s website, [www.ltse.com](http://www.ltse.com). Please contact LTSE at [to be determined] for more information about becoming a Member or a Sponsored Participant.

## How LTSE Works

Users connect to the System via the LTSE FIX Order Handler using the industry standard FIX protocol, with LTSE specific extensions. The LTSE FIX Order Handler validates incoming orders, converts them to an internal proprietary format, and forwards them to the appropriate matching unit. At the core of the System are several matching units. Each matching unit handles a bin of symbols, which can be reallocated to balance the load across the System. The matching unit compares the limit price of an incoming order with the price of resting limit orders on the LTSE Order Book and the price of other markets’ displayed quotes. If the order is immediately marketable against the LTSE Order Book, and the LTSE quote is equal to or better than the consolidated quote, an immediate match is made and communicated back to Users. If another market is displaying a better quote, the order will be handled depending on a User’s instructions.

Top of Book market data is available from the respective SIP feed and on the Exchange’s website.

Users or their clearing firms may request copies of their executions via the LTSE DROP protocol. This protocol works either in real-time or in a batch mode.

## Technology

The Exchange's trading platform is housed in a data center in [to be determined]. LTSE also maintains a copy of its trading platform at its secondary site, a data center in [to be determined]. Both data centers provide a high level of security and availability through redundant and reliable environment control systems (redundant power supplies, on-site backup generators, cooling systems, etc). Datacenter personnel are available 24/7 to maintain and service the System. The Exchange's trading platform is distributed across several servers to maximize throughput, minimize bottlenecks, and allow for simplified scalability.

## Order Types and Related Information

### LTSE Order Types

LTSE accepts limit orders and market orders. Orders are limited to a maximum of 1,000,000 shares or \$30,000,000.00.

Users may submit orders to the Exchange designated with modifiers such as IOC, Day, Good 'til Extended Day ("GTX"), System Hours ("SYS"), Good 'til Time ("GTT"), Minimum Quantity, Reserve, Odd Lot, Mixed Lot, LTSE Only, Non-Displayed and/or Intermarket Sweep. Note that this is a representative, but incomplete list of order types and modifiers.

Refer to Chapter 11 of the Exchange's Rules for more information regarding order types. Refer to the LTSE FIX Specification for more details on how various order types are implemented.

### Minimum Trading Increment

Most stocks trade in increments of \$0.01. However, some stocks are eligible for trading in sub-penny increments of \$0.0001. Orders that are priced in increments finer than the minimum trading increment are rejected.

### Time in Force Values

The term Time-In-Force ("TIF") determines the periods of time during which an order is available for potential execution and shall include:

IOC - immediate-or-cancel

DAY - available for trading during the Regular Market Session

GTX - available for trading during the Regular Market Session and Post Market Session, and expires at the end of the Post-Market Session

SYS - available for trading during System Hours, and expires at the end of the Post-Market Session

GTT - expires at the earlier of specified expire time or end of the Post-Market Session

## Locking or Crossing the Market

Orders that would lock or cross the consolidated market are price slid by the System upon entry. Refer to Rule 11.190(g) of the Exchange Rule Book for more information regarding Price Sliding.

## Trading

### Trading Hours

Orders may be executed on the Exchange during the Pre-Market, Regular Market, and Post-Market Sessions, collectively known as “System Hours.”

Session	Start and End Time (Eastern Time)
Order Acceptance Begins	8:00 a.m.
Pre-Market Session	8:00 a.m. - 9:30 a.m.
Regular Market Session	9:30 a.m. - 4:00 p.m.
Post-Market Session	4:00 p.m - 5:00 p.m

### Holiday Schedule

The Exchange will be closed in observance of the following holidays:

- New Year’s Day
- Martin Luther King, Jr. Day
- President’s Day
- Good Friday
- Memorial Day
- Independence Day
- Labor Day
- Thanksgiving Day
- Christmas

### Clearly Erroneous Executions Policy

Clearly Erroneous executions are handled in accordance with Exchange Rule 11.270.

## Data Centers

[To be determined]

## Contact Information

Main Line [to be determined] Email [to be determined]

Exchange Operations [to be determined] Email [to be determined]

Technical Operations [to be determined] Email [to be determined]

Business Development [to be determined] Email [to be determined]

Billing [to be determined] Email [to be determined]

Mailing