

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70597; File No. SR-CHX-2013-14)

October 2, 2013

Self Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Registration, Qualification, Supervision, and Continuing Education of Individuals Associated with Participant Firms

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that on September 24, 2013, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CHX proposes to amend Exchange Rules relating to the registration and qualification and continuing education of individuals associated with CHX Participant Firms, and the supervision of registered persons and firm activity. The text of this proposed rule change is available on the Exchange’s website at http://www.chx.com/rules/proposed_rules.htm, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend the rules in Article 6 regarding the qualification, registration, supervision and Continuing Education (“CE”) of CHX Participant Firms and their associated persons⁴ to be virtually consistent with the requirements of the Financial Industry Regulatory Authority (“FINRA”).⁵ The Exchange believes that the proposed amendments are also consistent with Exchange Act Rule 15b7-1, which provides: “[n]o registered broker or dealer shall effect any transaction in . . .any security unless any natural person associated with such broker or dealer who effects or is involved in effecting such transaction is registered or

⁴ Under Article 1, Rule 1(d) of the Exchange’s rules, the term "Associated Person" has the meaning set forth in Section 3(a)(21) of the Exchange Act. That section provides that “[t]he term ‘persons associated with a member’ or ‘associated person of a member’ when used with respect to a member of a national securities exchange or registered securities association means any partner, officer, director, or branch manager of such member (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with such member, or any employee of such member.” For purposes of these provisions, a CHX Participant Firm is considered a member of the Exchange.

⁵ Other self-regulatory organizations (“SROs”) have made similar rule changes. *See e.g.*, Securities Exchange Act Release Nos. 63314 (November 12, 2010), 75 FR 70957 (November 19, 2010) (SR-CBOE-2010-084); 63843 (February 4, 2011), 76 FR 7884 (February 11, 2011) (SR-ISE-2010-115); 64958 (July 25, 2011), 76 FR 45629 (July 29, 2011) (SR-NASDAQ-2011-095); 66453 (February 23, 2012), 77 FR 12345 (February 29, 2012) (SR-NYSEAMEX-2012-11); and 66452 (February 23, 2012), 77 FR 12347 (February 29, 2012) (SR-NYSEARCA-2012-15).

approved in accordance with the standards of training, experience, competence, and other qualification standards...established by the rules of any national securities exchange.”⁶

i. Exchange Membership Overview:

Exchange Participants are considered "members" of the Exchange for purposes of the Exchange Act and are defined as Firms that hold a valid Trading Permit and any person associated with a Participant Firm who is registered with the Exchange under Articles 16 and 17 as a Market Maker Trader or Institutional Broker Representative, respectively.⁷ If a Participant is not a natural person, the Participant may also be referred to as a "Participant Firm," but unless the context requires otherwise, the term Participant refers to an individual Participant and/or a Participant Firm.⁸ The Exchange’s Participant Firms have varying business models. For example, some conduct solely proprietary trading; others conduct solely agency transactions, while still others conduct a mixture of both.

Participants may also elect to register under a Participant subcategory such as the Institutional Broker category of Participants. "Institutional Broker" means a member of the Exchange who is registered as an Institutional Broker pursuant to the provisions of Article 17 and has satisfied all Exchange requirements to operate as an Institutional Broker on the Exchange.⁹ Like those firms registered solely as an Exchange Participant, firms that also elect to register as Institutional Brokers also have varying business models ranging, for example, from proprietary to agency trading or a mixture of both.

⁶ 17 CFR.240.15b7-1.

⁷ Article 1, Rule 1(s).

⁸ Id.

⁹ Article 1, Rule 1(n).

The rule changes proposed herein will apply to all Participant Firms. Individual associated persons registered at Participant Firms, including Participant Firms registered as Institutional Brokers will be required to pass the appropriate examinations as defined in the proposed rules. The appropriate examinations for associated persons at all categories of Participant Firms will depend on the Firm's business, size, and other factors as described below. The only varying requirement regarding examinations between Participant Firms and Institutional Broker firms is that individuals registered as Institutional Broker Representatives at Institutional Broker firms are required to pass the Exchange's internal Institutional Broker Examination.¹⁰ The proposed rules clarify that Institutional Broker Representatives will need to pass the internal Institutional Broker Examination as under current requirements, and, like all Participant Firms [sic], will be required to pass either the Series 7 or Series 56 examinations depending on the firm's business model.¹¹

ii. Current Rules:

Exchange rules currently require that persons associated with CHX Participants meet the registration and qualification requirements in Article 6, Rules 2 and 3. According to Article 6, Rule 2, all Representatives of a Participant must be registered with the Exchange. A Representative is defined as a person, who is engaged or will be engaged in the securities business of a Participant.¹² According to Article 6, Rule 3, the Exchange may require the successful completion of a training course or an examination, or both, in connection with the registration of Participants and persons associated with a Participant, and may charge fees for such registration and examination. CHX also requires that a Participant shall not make

¹⁰ Proposed Article 6, Rule 3(d).

¹¹ Id.

¹² Article 6, Rule 2(b).

application for the registration of any person associated with the Participant where there is no intent to employ such person in the securities business of the Participant.¹³ This requirement thereby prohibits Participants from “parking” registrations. Notably, under the current rule structure, the registration requirements apply only to Participant Firms for which the Exchange is the Designated Examining Authority (“DEA”)¹⁴ and to associated persons of other Participant Firms where the associated persons act as Institutional Broker Representatives or Market Maker Traders on the Exchange.¹⁵

Current Exchange rules recognize four qualification examinations for registration with the Exchange.¹⁶ Those examinations are (1) the Series 7 qualification examination administered by FINRA to conduct a public business, (2) the Series 7A examination historically administered by NYSE to conduct a public business limited to accepting orders from professional customers for execution on the Exchange, (3) the Institutional Broker Exam administered by CHX to conduct business on behalf of an Institutional Broker, and (4) the Market Maker Trader Exam administered by CHX to qualify as a Market Maker Trader.¹⁷

Current Exchange rules also require that members that are Joint Back Office (“JBO”) Participants designate a Financial Operations Principal (“FINOP”) who must pass the Series 27 Exam administered by FINRA. The Exchange also currently requires all Participant Firms for

¹³ Article 6, Rule 2(d).

¹⁴ NYSE Arca, Inc. (“NYSE Arca”) historically limited its Options registrations requirements to traders of member organizations for which NYSE Arca was the DEA but removed the limitation in a 2012 rule change. *See* SR-NYSEARCA-2012-15, NYSE Arca Options Rule 2.

¹⁵ Article 6, Rule 2, Interpretations and Policies .03.

¹⁶ Article 6, Rule 3, Interpretations and Policies .01.

¹⁷ Id.

which the Exchange is the DEA to designate a person or persons responsible for supervision and compliance at the firm.¹⁸

Through this filing, the Exchange proposes to require that all persons that function as Representatives of a Participant under Article 6, Rule 2(b) register, pass appropriate examinations and participate in CE requirements. In this regard, the Exchange proposes to make a number of amendments to its registration and qualification standards including (1) expanding its registration requirements to all Participant Firms rather than solely Firms for which CHX is the DEA, (2) recognizing the Proprietary Traders Qualification Examination (Series 56) as one of the applicable qualification examinations,¹⁹ and (3) requiring each Participant Firm to register at least two officers or partners as principals with respect to each aspect of the Participant's securities business.²⁰ According to the proposed rules, Principals are persons associated with a Participant who are actively engaged in the management of the Participants' securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member for any of these functions are designated as Principals.²¹

iii. Registration of Representatives:

First, CHX proposes to amend Article 6, Rule 2 to require that all persons associated with a Participant who are engaged or will be engaged in the securities business of a Participant

¹⁸ Article 6, Rule 5.

¹⁹ According to proposed Article 6, Rule 3(a)(ii), a proprietary trader is a person who does not handle or execute transactions for customers and only enters or executes orders on behalf of the Participant.

²⁰ Proposed Article 6, Rule 2(c)(v).

²¹ Proposed Article 6, Rule 2(c)(i).

register as a [sic] Representative.²² This will ensure that all associated persons who conduct business at the Exchange must be registered, including proprietary traders and their supervisors, and will ensure that all are appropriately qualified and supervised.²³

iv. Registration of Principals:

To strengthen the supervisory systems of Participant Firms and thereby enhance investor protection, the Exchange proposes to require each Participant Firm to have at least two officers or partners who are registered as Principals with respect to each aspect of the Participant's securities business.²⁴ In addition to the two registered Principals, Participants shall also have at least one person registered as a Limited Principal FINOP. Thus, each individual supervising the securities businesses and associated persons of Participant Firms must qualify for registration as a Principal by passing the relevant Principal examination as listed in Article 6, Rule 3.

Notably, the proposed rules allow the Exchange to waive the two-principal requirement and only require Participant Firms to have one Principal under certain enumerated circumstances. Such circumstances include when a Participant demonstrates conclusively, upon written application, that only one individual should be required to register. Also, a Participant that conducts a proprietary trading business only and has 25 or fewer Representatives shall only be required to have one officer or partner who is registered as a Principal. According to proposed Article 6 Rule 2(c)(vi), a Participant shall be considered to conduct only proprietary

²² The Exchange is also proposing to change the term "registered person(s)" as used throughout Article 6 and in Article 7, Rule 3A to "Representative(s)" as part of this filing.

²³ Notably, persons engaged in the supervision of a Participant's securities business will also be required to register as Principals under the provisions of Article 6, Rule 2(c).

²⁴ Proposed Article 6, Rule 2(c)(i). These categories include Sole Proprietors; Officers; Partners; Branch office managers; and Directors. This proposed requirement is also consistent with the registration requirements set forth in other SRO rules such as NASD Rule 1021(e) and BATS Rule 2.5 Interpretations and Policies .01(d).

trading if the Participant has the following characteristics: (1) The Participant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member; (2) All funds used or proposed to be used by the Participant are the Participant's own capital, traded through the Participant's own accounts; (3) The Participant does not, and will not, have customers; and (4) All persons registered on behalf of the Participant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the Participant. According to proposed Article 6, Rule 3(a)(ii), a proprietary trader is a person who only enters or executes orders on behalf of the Participant and does not handle or execute transactions for customers. The Exchange notes that these provisions are similar to the registration requirements of other exchanges and believes that they are appropriate given the limited size and scope of activities of such firms.²⁵

a. Financial and Operations Principals:

The Exchange proposes that all CHX Participant Firms designate at least one individual as a FINOP who must maintain the appropriate registration status.²⁶ The designated FINOP must pass the Series 27.²⁷ The Exchange currently requires FINOPs associated with Participant Firms that maintain a JBO to maintain a Series 27 license.²⁸ However, as the Exchange sees no

²⁵ See NASD Rule 1021(e) and Chicago Board Options Exchange ("CBOE") Rule 3.6A, Interpretations and Policies .07.

²⁶ Proposed Article 6, Rule 3(c). *See also*, CBOE Rule 3.6A(b), NASD Rule 1021(e) for examples of similar requirements.

²⁷ The Exchange proposes to delete the existing requirement that only FINOPs for JBO firms pass the Series 27 examination.

²⁸ Article 6, Rule 3, Interpretation and Policy .01(e). JBO arrangements and the obligations related thereto are described in Article 7, Rule 3A, which provides that "[a]n arrangement may be established between two or more registered broker-dealers pursuant to Regulation T Section 220.7 to form a JBO arrangement for carrying and clearing accounts of participating broker-dealers." Section 220.7(c) of Regulation T authorizes the creation of JBO arrangements which permit a creditor to effect or finance transactions of any of its

compelling reason to limit the registration of FINOPs to JBO firms, the Exchange is proposing to broaden the registration requirement for FINOPs to all Participant Firms. The Exchange also proposes to add a basic description of the responsibilities of a person registered as a FINOP, as well as the related notices which the Participant Firm must make to the Exchange.²⁹

b. Chief Compliance Officers:

In accordance with other SROs, the Exchange proposes to require Participant Firms to designate a Chief Compliance Officer (“CCO”).³⁰ The CCO must pass the Series 24 examination unless the Participant Firm with which the CCO is associated meets the requirements to take, in the alternative, the Compliance Officer Exam (Series 14).³¹

owners if the creditor is a clearing and servicing broker or dealer owned jointly or individually by other creditors (12 CFR 220.7(c)). Under CHX Article 7, Rule 3A(a), each JBO Participant is required to (1) be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934, (2) be subject to the capital requirements prescribed by Rule 15c3-1 therein, and shall not be eligible to operate under the provisions of SEC Rule 15c3-1(b)(i), (3) meet and maintain a minimum account equity requirement of \$1,000,000 with each clearing broker-dealer where an account of the JBO Participant is carried, (4) meet and maintain the ownership standards established by the carrying broker-dealer and (5) designate one registered person associated with such Participant as a financial and operations principal (Series 27).

²⁹ Proposed Article 6, Rule 2(c)(iii). The duties of a FINOP shall include taking appropriate actions to assure that the Participant Firm complies with applicable financial and operational requirements under the Rules of the Exchange and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. A FINOP may be a full-time employee, a part-time employee or independent contractor of the Participant Firm. Participant Firms for which CHX is the Designated Examining Authority (“DEA”) must provide prompt written notice to the Exchange's Member Regulation Department for each person designated as a FINOP. The Exchange utilizes such information as part of its examination process.

³⁰ See FINRA Rule 3130 and ISE Rule 313(c).

³¹ Proposed Article 6, Rules 2(c)(iv) and 3(b). Participant Firms that conduct solely proprietary trading and otherwise meet the two-principal requirement may allow their Compliance Officer to take the less broad Series 14 examination rather than the comprehensive Series 24 examination for General Securities Principals.

A Compliance Officer at such Participant Firm would qualify for the alternate exam if the firm, (1) engages solely in proprietary trading, (2) otherwise meets the registration requirements for Principals as defined in Article 6, Rule 2(c), and (3) meets the supervisory requirements in Rule 3(b). The Compliance Officer Exam is intended to ensure that the individuals who have compliance responsibilities for their respective firms or who supervise ten or more people engaged in compliance activities have the knowledge necessary to carry out their job responsibilities. Therefore, the Series 14 measures the knowledge and skills related to the position of a compliance official. Accordingly, compliance officials at Participant Firms that meet the above requirements would be permitted to take the compliance-focused Series 14 examination rather than the broader Series 24 examination. Notably, if the CCO passed the Series 24 examination, they [sic] would qualify as one of the two registered Principals as outlined in Article 6, Rule 2(v). A CCO that does not also pass the Series 24 would not qualify as a Principal for purposes of the two principal requirement in Article 6, Rule 2(c)(v). The Exchange believes that it is important that CCOs demonstrate heightened knowledge with respect to compliance responsibilities for their respective firms.

v. Exemption from Registration:

The Exchange proposes to enumerate in its rules the list of persons exempt from any registration requirements to include such persons not actively engaged in the securities business or, in some circumstances, individuals who are already registered at other exchanges.³² The proposed list includes those individuals whose functions are related solely and exclusively to the Participant's need for nominal corporate officers or for capital participation, or whose functions are related solely and exclusively to transactions in commodities, security futures; and/or who

³² Proposed Article 6, Rule 2(d).

effect transactions on the floor of another national securities exchange. In the latter case, such individuals would already be registered as members with the other national securities exchange. The Exchange believes the registration exemption for individuals registered on another national securities exchange is appropriate to avoid the burden of dual registration. The Exchange also believes that incorporating these exemptions into the rule provides additional clarity for individual Participants and associated persons as to who will be required to register under the proposed rule.³³

vi. Other Registration Requirements:

The Exchange also proposes to clarify the circumstances under which a Participant is prohibited from seeking registration for an individual person. In addition to the existing limitations precluding a Participant from applying for registration for an associated person where there is no intent to employ the individual in the Participant's securities business, the amendments would preclude a Participant Firm from maintaining a registration with the Exchange of a person, (1) who is no longer active in the Participant's securities business; (2) who is no longer functioning in the registered capacity; or (3) where the sole purpose is to avoid an examination requirement. The Exchange believes that these provisions appropriately prohibit Participant Firms from "warehousing" registrations for persons who are not actively engaged in the securities business.

A Participant may, however, maintain or make application for registration of an individual who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the Participant. The rule will also allow application for registration for a person who performs administrative support functions for registered personnel, as well as a

³³ The Exchange notes that its proposed changes are similar to the rules of FINRA, NASD Rule 1060.

person engaged in the securities business of a foreign securities affiliate or subsidiary of the Participant. The Exchange believes that in allowing persons who perform legal, compliance, audit or similar functions to apply for registration, such persons will receive additional training and expertise to better perform their functions.

vii. Lapse and Waivers of Registration:

After an individual's registration lapses, the amended rules will require the individual to pass an appropriate qualification examination. A lapse in registration occurs when the registration has been revoked by the Exchange or when an individual's registration has been terminated for a period of two or more years. The Exchange believes that these provisions reasonably permit an individual to transfer his or her registrations when changing firms or looking for employment if the individual is also within the two-year time period. Such individual will still meet the requirement of active involvement in the securities industry.

The proposed amendments provide that the Exchange may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualification for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a qualification examination. Experience in fields ancillary to the securities business may constitute sufficient grounds to waive a qualification examination.³⁴ The Exchange notes that other exchanges and SROs have the same waiver provisions in their registration rules.³⁵ The Exchange will keep documentation related to all waiver requests whether granted or not.

viii. Training and Examination of Registrants:

³⁴ This rule is substantially similar to NASD Rule 1070 and CBOE Rule 3.6A(e) Interpretation and Policies .05.

³⁵ Id.

a. General Securities Representatives and Proprietary Traders:

Persons associated with a CHX Participant who meet the definition of a Representative must pass the Series 7 General Securities Representative Qualification Examination unless such individuals meet the definition of Proprietary Trader.³⁶ A Representative will qualify for the Proprietary Trader category if the Representative's activities are confined to making trading decisions regarding, or otherwise engaging in, proprietary trading for the broker-dealer with which he or she is associated. Proprietary Traders may satisfy the qualification requirements by passing either the Series 7 or the Series 56 Proprietary Traders Qualification Examination.³⁷ The proposed rule change is not intended to replace the Series 7 requirement for all traders,³⁸ but simply to offer an alternative to that requirement for those qualified individuals who solely conduct a business in proprietary trading and have shown their proficiency by passing the Series 56.

³⁶ Proposed Article 6, Rule 3(a).

³⁷ The Exchange's current rules require that associated persons of Participant Firms for which CHX acts as the DEA and who enter orders or make trading decisions, whether or not such orders are in a principal or proprietary capacity, must maintain a Series 7 registration. *See*, Interpretations and Policies .02 of Article 6, Rule 3. This requirement is being moved to Rule 3(a). Pursuant to this proposal, a proprietary trader could satisfy the testing and examination requirements by successfully completing either the Series 7 or Series 56 exam to align with the requirements of other exchanges. The limitation of this requirement to Participant Firms for which the Exchange acts as the DEA is being eliminated as part of this filing. Given these changes, the Exchange is also deleting as unnecessary the references to a "public business examination" in Article 6, Rule 3(c), Interpretation and Policy .01(c).

³⁸ Currently, some associated persons of CHX-registered Institutional Broker firms may not have to pass the Series 7 examination if they do not engage in a customer business and would instead pass the Series 56. The Exchange is proposing to add a definition of the term "customer" to its rules. Customer shall mean any person or entity other than a broker or dealer registered with the Commission. Proposed Article 1, Rule 1(hh).

The Exchange also proposes to delete the references to the Series 7A examination in the new exam requirements of Rule 3. The Series 7A examination is obsolete with the retirement of the CHX trading “floor” and is therefore no longer appropriate for Participants.

b. Supervisory Requirements:

As part of this proposal, the Exchange will require all supervisors at all Participant Firms to pass the Series 24 examination for General Securities Principals.³⁹ The Exchange currently requires only Participant Firms for which the Exchange is the DEA to designate a person or persons responsible for supervision and compliance at the firm.⁴⁰ This current limitation would be eliminated and the requirement would be extended to all Participant Firms. Extending the requirement will provide for uniformity among supervisors at Participant Firms and, as all supervisors will be subject to a heightened standard under the new rules [sic]. The Exchange believes that the new standard will benefit the industry as a whole as well as the public.

c. Compliance Date:

Proposed Article 6, Rule 3(e) provides that all Participants shall be in compliance with the examination qualification language by no later than four months after the Effective Date of these provisions for associated persons who only need to take one exam.⁴¹ For associated persons who need to take more than one exam, the Rule would allow a period of six months to come into compliance with the registration requirements.⁴² The Exchange believes that these

³⁹ Proposed Article 6, Rule 3(b).

⁴⁰ Article 6, Rule 5.

⁴¹ These provisions are the requirements for Representatives to pass and maintain the Series 7 or Series 56, or for Supervisors to pass the Series 24 examination or Series 14 and, finally, for FINOPs to pass and maintain the Series 27 examination.

⁴² Some CHX Institutional Broker firms that handle no public customer business have no Representatives with a Series 7 Qualification. To designate a Principal under proposed

periods should afford Participants adequate time to ensure that their designated Principals pass the appropriate qualifications exams.

ix. Supervision of Representatives:

The Exchange further proposes to amend its existing supervision rule (Article 6, Rule 5) to include a basic declaration that CHX Participants are responsible for adherence with the federal securities laws and Exchange rules, and that they must reasonably supervise their operations and associated persons to prevent violations thereof. These obligations already exist under Section 15 of the Exchange Act and Article 8, Rule 1 of the CHX rules, but the Exchange believes that the inclusion of the proposed additions will provide direction to Participant Firms designing their supervisory systems and reinforce the importance of having adequate supervisory programs. Such reinforcement will be beneficial to Participants and the marketplace in general.

The Exchange believes that the imposition of the additional registration, examination, training and CE requirements implicit in Series 24 and 27 registrations will strengthen existing supervisory and compliance structures and help to assure that its Participants are conducting their businesses in compliance with all applicable rules and regulations.

x. Continuing Education:

The Exchange is also proposing to amend Article 6, Rule 11 (“Rule 11”) to specify the different CE requirements for registered persons based upon their registration with the Exchange. This change will authorize the Exchange to administer different CE programs to differently registered individuals while bringing clarity to Exchange Participants about what CE requirement they must fulfill. More specifically, the Exchange is proposing to: (1) enumerate the

Article 6, Rule 2(h), a Representative at those firms will have to pass both the Series 7 and Series 24 examinations. The Exchange believes that six months is necessary to afford those persons a reasonable opportunity to pass both those examinations.

required Regulatory Element programs, (2) add language to Rule 11 that would outline which program Exchange registered persons engaging in proprietary trading must take, and (3) add language to Rule 11(b) specifying that registered persons with a Series 56 registration must complete the Firm Element of the CE requirement.

Background

Currently, Exchange Rule 11 states that “[n]o member or member organization shall permit any registered person to continue to, and no registered person shall continue to, perform duties as a registered person, unless such person has complied with the continuing education requirements of Section (a) of this Rule.”⁴³ Exchange Rule 11(a) specifies the CE requirements for registered persons subsequent to their initial qualification and registration with the Exchange. The requirements consist of a Regulatory Element and a Firm Element.⁴⁴ The Regulatory Element is a computer-based education program administered by FINRA to help ensure that registered persons are kept up to date on regulatory, compliance and sales practice matters in the industry. Currently, there are two Regulatory Element programs: the S201 Supervisor Program for registered principals and supervisors and the S101 General Program for Series 7 and all other registered persons.⁴⁵ The Exchange is proposing to enumerate these programs in the Exchange

⁴³ Rule 11(a).

⁴⁴ Currently, the Firm Element of the CE Program applies to any person registered with a Participant who has direct contact with customers in the conduct of the Participant’s securities sales, trading and investment banking activities, and to the immediate supervisors of such persons (collectively called “covered registered persons”). The requirement stipulates that each Participant must maintain a continuing education program for its covered registered persons to enhance their securities knowledge, skill and professionalism. Each Participant has the requirement to annually conduct a training needs analysis, develop a written training plan, and implement the plan.

⁴⁵ FINRA also offers the S106 Series 6 Program for Series 6 registered persons. However, as the Exchange does not currently enumerate the Series 6 exam in its rules, the S106 is inapplicable.

Rulebook along with adding the S501 Series 56 Proprietary Trader Continuing Education Program for Series 56 registered persons.

Introduction of the Proprietary Trading Continuing Education Program

The Exchange is proposing to introduce a new CE Program for proprietary traders registered with the Exchange who have passed the Series 56 and who have no other registrations. As discussed above, proposed Article 6, Rule 3 outlines the registration and qualification requirements (including prerequisite examinations) for Participants conducting proprietary trading, market-making and/or effecting transactions on behalf of other broker dealers. According to proposed Article 6 Rule 3(a)(ii), if the activities of the registered person are confined to making trading decisions regarding, or otherwise engaging in, proprietary trading for the broker-dealer with which he or she is associated, however, he or she may register with the Exchange as a Proprietary Trader and shall pass the Series 56 Proprietary Trader exam before such registration may become effective. The Proprietary Trader Continuing Education Program (S501) is a computer-based education program developed by many of the SROs⁴⁶ and administered by FINRA to ensure that registered persons are kept current on regulatory, compliance and trading practice matters in the industry. Unlike the other offered CE Programs, the Proprietary Trader Continuing Education Program is not part of the Uniform Continuing

⁴⁶ The Participating SROs that have assisted with the development of, and plan to administer, the S501 are the Exchange, C2 Options Exchange, Incorporated (“C2”), the Chicago Board Options Exchange, Inc. (“CBOE”), the New York Stock Exchange, LLC (“NYSE”), NYSE Arca, Inc. (“Arca”), NYSE Amex, LLC (“Amex”), the NASDAQ Stock Market LLC (“NASDAQ”), the National Stock Exchange, Inc. (“NSX”), NASDAQ OMX BX, Inc. (“BX”), NASDAQ OMX PHLX, LLC. (“PHLX”), BATS YExchange, Inc. (“BATS Y”), BATS Exchange, Inc. (“BATS”), EDGA Exchange, Inc. (“EDGA”), EDGX Exchange, Inc. (“EDGX”), International Securities Exchange, LLC (“ISE”), and BOX Options Exchange, LLC (“BOX”).

Education Program, which is developed and maintained by the Securities Industry Regulatory Council on Continuing Education.

The Proprietary Trader Continuing Education Program will logistically operate as the currently offered CE Programs do. Specifically, registered persons will be required, through CRD, to complete the Regulatory Element of the CE on the second anniversary of the base date and then every three years thereafter. While creating the S501, the Participating SROs⁴⁷ believe that the current procedures of the other CE programs work well. The Securities Industry Regulatory Council on Continuing Education has tailored the process of the other CE Programs since its inception to a process that has been successful. Thus, as proposed, the S501 will work in the same manner. In addition, consistency between the different programs will avoid creating confusion amongst the registered persons and FINRA.

The Proprietary Trader Continuing Education Program (S501) is required for those registrants who registered as Proprietary Traders and do not maintain any other registration through CRD.⁴⁸ Individuals that are registered under any other registration are required to maintain the CE obligations associated with those registrations. For example, an individual that is registered as a Proprietary Trader with the Exchange and has a Series 7 registration will be required to continue taking the Series 7 Continuing Education Program (S101).⁴⁹ Though such

⁴⁷ Id.

⁴⁸ Any registered person who receives a waiver of the Series 56 under Exchange Article 6, Rule 3, Interpretations and Policies .02 and does not maintain any other registrations in CRD, will be required to complete the Proprietary Trader Continuing Education Program (S501). Such individuals will also be required to complete the Firm Element which is currently described in Exchange Rule 9.3A(b).

⁴⁹ If a registered person has received a Series 56 waiver under Exchange Article 6, Rule 3, Interpretations and Policies .02 but continues to maintain a Series 7 registration (that predates the introduction of the Series 56 on the Exchange) that registered individual will only be required to continue taking the Series 7 CE Program (S101). Through CRD,

individual may be engaging in the same capacity as one registered as a Proprietary Trader, because the Series 7 examination is a more comprehensive exam, the Exchange believes that this individual continuing to maintain a Series 7 registration should complete a CE that covers all aspects of his or her registration.

As part of the new Proprietary Trader CE, registered persons will also be required to complete the Firm Element outlined in Exchange Rule 9.3A(c). Though proprietary traders with a Series 56 registration do not interact with the public, the Exchange believes this requirement is appropriate as it ensures these registered persons continue to enhance their securities knowledge, skill and professionalism. As stated in Exchange Rule 11(b)(2)(ii), the program should be tailored to fit the business of the Participant. Thus, the Exchange believes it is appropriate that these individuals also complete the Firm Element.

The introduction of the Proprietary Trader Continuing Education Program allows the Exchange to tailor its CE requirements more closely to those registered individuals who are registered as Series 56. More specifically, the Exchange believes allowing individuals engaging in proprietary trading and registered under the Series 56 to complete a separate CE Program than those maintaining a Series 7 registration is appropriate as all individuals have the option of taking either test. In comparison to the Series 7, the Series 56 Examination is more closely tailored to the practice of proprietary trading while the Series 7 is more comprehensive. As such, the Exchange believes a Series 56 CE Program should be tailored as well. At the same time, if an individual would like to remain registered as a Series 7, the Exchange believes it is appropriate they [sic] continue to be required to complete the broader CE program. As stated

FINRA will recognize the Series 56 as waived while still requiring the Series 7 CE completion.

above, though an individual maintaining a Series 7 registration may be engaging in the same capacity as one registered as a Proprietary Trader, because the Series 7 examination is a more comprehensive exam, the Exchange believes that such individual that continues to maintain a Series 7 registration should complete a CE that covers all aspects of his or her registration.

xi. Fee Changes:

The Exchange proposes to amend Section J.5 of the Fee Schedule to include the registration fees for the Series 14 and Series 56 exams.⁵⁰ Specifically, the Exchange proposes to insert the following information:

- \$335 registration fee for the Series 14 Examination;⁵¹ and
- \$195 registration fee for the Series 56 Examination.⁵²

CHX also proposes to adopt a fee applicable to Proprietary Trader Regulatory Element. Currently, the applicable fee for the Regulatory Element (S101 and S201) is \$100. CHX proposes to adopt a \$60 fee for the S501. FINRA administers these programs on behalf of the exchanges and therefore the fees are payable directly to FINRA.⁵³ The \$60 fee will only be used for the administration of the S501 versus the S101 which utilizes the \$100 fee for both development and administration. The costs associated with the development of the S501 are

⁵⁰ See CHX Article 6, Rules 3(b)(i); See also CHX Article 6, Rule 3(a)(ii); and CHX Article 6, Rule 11(a)(3).

⁵¹ See Section 4(c) of Schedule A to the FINRA By-Laws.

⁵² See FINRA, FINRA Administered Qualification Examinations, available at <http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/Qualifications/p011096>.

⁵³ The S501 was established for those registrants who have passed the Series 56 Qualification Exam as reflected in WebCRD. WebCRD is the central licensing and registration system for the U.S. securities industry. The CRD system enables individuals and firms seeking registration with multiple states and self-regulatory organizations to do so by submitting a single form, fingerprint card and a combined payment of fees to FINRA. Through the CRD system, FINRA maintains the qualification, employment and disciplinary histories of registered associated persons of broker-dealers.

included in the examination fee. The Exchange notes that the proposed changes are not otherwise intended to address any other issues surrounding regulatory fees and that the Exchange is not aware of any problems that Participants would have in complying with the proposed changes.

2. Statutory Basis

The Exchange has proposed the above rule changes for the purpose of requiring certain persons associated with CHX Participants to maintain appropriate licenses and registrations. These changes will help to assure competency of Representatives and provide for more effective supervision and oversight of the Participant's activities.

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁵⁴ in general, and furthers the objectives of Sections 6(b)(5) of the Act in particular to aid in preventing “fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and [to] not permit unfair discrimination between customers, issuers, brokers, or dealers” by ensuring individuals are properly registered and supervised.⁵⁵

The Exchange believes that the proposed amendment requiring that all persons associated with a Participant and who are engaged or will be engaged in the securities business register as a Representative will continue to promote the development and maintenance of adequate training

⁵⁴ 15 U.S.C. 78f(b).

⁵⁵ 15 U.S.C. 78f(b)(5).

and supervisory programs by CHX Participants.⁵⁶ This change in Representative registration will ensure that such persons are appropriately qualified and supervised to aid in preventing fraudulent and manipulative practices, further just and equitable principles of trade and protect investors and the public interest in general.⁵⁷

The Exchange also believes that adding the Proprietary Trader (Series 56) examination to its list of qualifying exams will allow individuals who solely conduct a business in proprietary trading to demonstrate their proficiency in that area. In offering an alternative to the Series 7 examination, CHX will permit proprietary traders who pass the Series 56 to trade on a proprietary basis. As stated above, Representatives will qualify for the Proprietary Trader category at CHX if the Representative is a person who does not handle or execute transactions for customers and only enters or executes orders on behalf of the Participant. Further, and as noted above, other SROs have similarly recognized the Proprietary Trader registration category and the Series 56 exam.⁵⁸

As the Exchange is continuing to strengthen the supervisory systems of Participant Firms and thereby contribute to greater investor protection through the proposed changes, the Exchange has proposed to require each Participant Firm to register as representatives with the Exchange at least two Principals in specified categories as described above. In addition to the requirement of

⁵⁶ The Exchange is also proposing to change the term “registered person(s)” as used throughout Article 6 and in Article 7, Rule 3A to “Representative(s)” as part of this filing.

⁵⁷ Notably, persons engaged in the supervision of a Participant’s securities business will also be required to register as Principals under the provisions of Article 6, Rule 2(c).

⁵⁸ See e.g., Securities Exchange Act Release Nos. 63314 (November 12, 2010), 75 FR 70957 (November 19, 2010) (SR-CBOE-2010-084); 63843 (February 4, 2011), 76 FR 7884 (February 11, 2011) (SR-ISE-2010-115); 66453 (February 23, 2012), 77 FR 12345 (February 29, 2012) (SR-NYSEAMEX-2012-11); and 66452 (February 23, 2012), 77 FR 12347 (February 29, 2012) (SR-NYSEARCA-2012-15).

two registered Principals, each Participant would also be required to register an additional associated person as a FINOP. Further, the Exchange proposes to require Participant Firms to designate a CCO.⁵⁹ To qualify for registration, the CCO must pass the Series 24 examination unless the Participant Firm met the requirements to take, in the alternative, the Compliance Officer Exam (Series 14).⁶⁰ A Compliance Officer at such Participant Firm would qualify for the alternative examination if the firm engaged solely in proprietary trading; and it otherwise meets the applicable registration and supervisory requirements for Principals. Thus, all individuals supervising the securities businesses and associated persons of Participant Firms must qualify for registration as Principals by passing the relevant Principal examination as listed in Article 6, Rule 3. The Exchange believes that adding the proposed rules related to firm supervision helps prevent fraudulent and manipulative acts and protect investors and the public interest in general, and notes that CHX's proposed provisions are similar to those of other SROs.⁶¹

In addition, the Exchange believes that the proposed amendments are consistent with Section 6(c) of the Exchange Act,⁶² in general, and furthers [sic] the objectives of Section 6(c)(3) of the Exchange Act,⁶³ which allows the Exchange to stipulate qualification, training, experience

⁵⁹ See FINRA Rule 3130 and International Stock Exchange ("ISE") Rule 313(c) for similar requirements.

⁶⁰ Proposed Article 6, Rules 2(c)(iv) and 3(b). Participant Firms that conduct solely proprietary trading and otherwise meet the two-principal requirement may allow their Compliance Officer to take the less broad Series 14 examination rather than the comprehensive Series 24 examination for General Securities Principals.

⁶¹ See, for example, NASD Rule 1021(e) and BATS Rule 2.5 Interpretations and Policies .01(d).

⁶² 15 U.S.C. 78f(c).

⁶³ 15 U.S.C. 78f(c)(3).

and competence standards for persons associated with Exchange Participants. This filing proposes to amend and clarify the registration and qualification requirements to ensure that industry standards are met.

The Exchange also believes that the proposed changes are not unfairly discriminatory as CHX is not only conforming to the rules set forth by other SROs, but the proposed changes will be applied to all associated persons of all CHX Participants.⁶⁴ Under current rules, only CHX Participants for which CHX is the DEA are subject to the rules regarding registration and qualification. By applying the registration and qualification rules to all CHX Participants, the rules will not unfairly discriminate against any Participant class.

The proposed rule also introduces a new CE program for the Series 56 registered persons as described above. We believe the content of the 501 education is tailored to the job the proprietary trader performs. The Exchange believes the proposed changes are reasonable and set forth the appropriate CE requirements for an individual Participant or individual associated person who is required to register under Exchange Article 6, Rule 2.

The Exchange believes that the proposed registration fees for the CE and Series 14 and Series 56 exams are consistent with Section 6(b) of the Act⁶⁵ in general, and, in particular, furthers [sic] the objectives of Section 6(b)(4) of the Act,⁶⁶ in that it [sic] provides for the equitable allocation of reasonable dues, fees and other charges among its members. As discussed above, the Exchange believes that the fee changes are reasonable because the proposed fees are

⁶⁴ To comply with the proposed Exchange rules, the number and types of examinations taken by individuals at Participant Firms will likely vary between Participant Firms depending on each Participant Firm's business model.

⁶⁵ 15 U.S.C. 78f(b).

⁶⁶ 15 U.S.C. 78f(b)(4).

identical to those adopted by FINRA for its members and that the proposed fees are equitably allocated because they apply to all similarly situated Non-FINRA Participants. As discussed above, the CE programs and the Series 14 and 56 exams are used across the industry. Further, the new \$60 fee is applicable to persons registered as a Proprietary Trader, which is a limited registration under CHX rules. Accordingly, the proposed S501 Regulatory Element specifically correlates to the rules and obligations applicable to Proprietary Traders, which are fewer than those applicable to persons registered in other categories. Thus, the S501 is a more limited form of continuing education. Further, as discussed above, the \$60 fee will only be used for the administration of the S501 versus the S101 which utilizes the \$100 fee for both development and administration. The costs associated with the development of the S501 are included in the examination fee. Therefore, CHX believes that the lower fee (\$60 rather than \$100) is reasonable. The proposed fee is equitable, because it applies equally to all persons registered solely as Proprietary Traders.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its rules to remain competitive with other exchanges. The Exchange notes that the rule change is reasonable in comparison to similar rule changes by certain other SROs. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

B. Self-Regulatory Organization's Statement of Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The rule change is designed to amend its current registration and qualification rules to require that

persons associated with CHX Participants maintain appropriate licenses and registrations. These rule changes will help to assure competency and provide for more effective supervision and oversight of a CHX Participant's activities and will not impose any burden on competition.

The Exchange also does not believe the administrative changes being made nor the introduction of the Proprietary Trader Continuing Education Program (S501) will affect intermarket competition as the Exchange believes all Exchanges offering the same CE requirements will file similar rules addressing those CE Programs. In addition, the Exchange does not believe the proposed changes will affect intramarket competition because all similarly situated registered persons, e.g. registered persons maintaining the same registrations, are required to complete the same CE requirements. For example, all individuals maintaining a Series 7 registration will be required to complete the Series 7 CE while all individuals maintaining a Series 56 registration (and no other registrations) will be required to complete the new Series 56 CE.

The Exchange believes that the fee changes proposed herein will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange believes that the proposed change will result in the same Series 14 and Series 56 registration fees being charged to all FINRA and Non-FINRA firms.

In addition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its rules to remain competitive with other exchanges. As noted above, many SROs have adopted similar rules relating to the registrations and qualifications of their members.⁶⁷ Therefore, and for the reasons described above, the

⁶⁷ See supra footnote 6 [sic].

Exchange believes that the proposed rule change aligns CHX rules with the rules of other SROs and promotes a competitive environment.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule does not affect a change that (A) significantly affects the protection of investors or the public interest; (B) impose any significant burden on competition; and (C) by its terms, becomes operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission, the proposed rule change will become effective pursuant to Section 19(b)(3)(A) of the Act⁶⁸ and Rule 19b-4(f)(6)⁶⁹ thereunder.

The Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes operative. The Commission believes that the proposed rule change described herein will

⁶⁸ 15 U.S.C. 78s(b)(3)(A).

⁶⁹ 17 CFR 240.19b-4(f)(6).

strengthen existing supervisory and compliance structures and align CHX's registration, qualification, and CE rules with those of other SROs. Waiving the 30-day operative delay will enable CHX to implement the changes without delay. Therefore, the Commission designates the proposal operative upon filing.⁷⁰

At any time within 60 days of the filing of this proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CHX-2013-14 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and

⁷⁰ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2013-14. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549. Copies of the filing will also be available for website viewing and printing at the CHX's principal office and on its Internet website at www.chx.com. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-CHX-2013-14 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁷¹

Kevin M. O'Neill
Deputy Secretary

⁷¹ 17 CFR 200.30-3(a)(12).