

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75783; File No. SR-FINRA-2015-017)

August 28, 2015

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change to Establish the Securities Trader and Securities Trader Principal Registration Categories

I. Introduction

On June 29, 2015, the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to establish the Securities Trader and Securities Trader Principal registration categories. The proposed rule change was published for comment in the Federal Register on July 14, 2015.³ The Commission received two comment letters on the proposed rule change.⁴ This order approves the proposed rule change.

II. Description of the Proposed Rule Change

A. Securities Trader Registration Category

Pursuant to NASD Rule 1032(f), each person associated with a FINRA member who is included within the definition of “representative” in NASD Rule 1031 must register with FINRA as an Equity Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities effected otherwise than on a national securities exchange, the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 75394 (July 8, 2015), 80 FR 41119 (“Notice”).

⁴ See letters to Robert W. Errett, Deputy Secretary, Commission, from Kevin Zambrowicz, Associate General Counsel & Managing Director, Securities Industry and Financial Markets Association, dated July 10, 2015 (“SIFMA Letter”) and Michele Van Tassel, President, Association of Registration Management, dated July 19, 2015 (“ARM Letter”).

person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities.⁵ Currently, before registering as an Equity Trader and taking the Series 55 examination, the associated person must be registered as either a General Securities Representative (Series 7) or a Corporate Securities Representative (Series 62) and have passed either of the exams.

The exchanges, however, currently use the Series 56 examination as a qualification standard for several registration categories relating to securities trading, including the Proprietary Trader registration category, and only NASDAQ recognizes the Series 55 examination as an acceptable qualification standard under its registration rules. Unlike the Series 55 examination, there is no prerequisite registration requirement for individuals taking the Series 56 examination. The Series 56 examination is administered by FINRA, however FINRA does not recognize the exam as an acceptable qualification examination. Associated persons of FINRA members are required to pass the Series 55 examination to engage in over-the-counter securities trading. Consequently, individuals engaged in trading activities at broker-dealers may be subject to varying qualification requirements, depending on whether their activities take place on a securities exchange or over-the-counter.⁶

In its proposal, FINRA amends NASD Rule 1032(f) to replace the Equity Trader registration category and qualification examination (Series 55) with a Securities Trader

⁵ There is an exception to this requirement for any person associated with a FINRA member whose trading activities are conducted principally on behalf of an investment company that is registered with the Commission pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member.

⁶ FINRA notes that there is significant overlap in the content of the Series 55 and 56 examinations.

registration category and qualification examination (Series 57).⁷ FINRA also amends NASD Rule 1032(f) to eliminate the prerequisite registration requirement. In addition, FINRA amends NASD Rule 1032(f) to provide that a person solely registered as a Securities Trader will not be qualified to function in any other registration category.

As proposed, a person registered as an Equity Trader in the Central Registration Depository (“CRD”) system on the effective date of the proposed rule change⁸ will be grandfathered as a Securities Trader without having to take any additional examinations and without having to take any other actions.⁹

B. Securities Trader Principal Registration Category

Currently, an associated person with direct supervisory responsibility over the securities trading activities set forth in NASD Rule 1032(f)(1) is required to qualify and register as an Equity Trader. FINRA rules do not expressly require such person to register in a specific principal registration category. On the other hand, most national securities exchanges expressly

⁷ FINRA will develop the Series 57 examination and will file the examination with the Commission as part of a separate proposed rule change. According to FINRA, while the Series 57 examination will include the core knowledge portion of the Series 7 examination, the Series 57 examination will also be based on the current job functions of securities traders and include elements of the Series 55 and 56 examination programs. In addition, FINRA will file a separate proposed rule change to establish the fee for the Series 57 examination.

⁸ The exchanges have indicated that they will replace the Series 56 examination with the Series 57 examination for those registration categories, such as the Proprietary Trader registration category, where the Series 56 is currently an acceptable qualification standard. The Commission expects the exchanges to file their proposed rule changes to effectuate this change before FINRA’s expected effective date for the Series 57 – January 4, 2016.

⁹ A person who was registered as an Equity Trader in the CRD system before the effective date of the proposed rule change will be eligible to register as a Securities Trader without having to take any additional examinations, provided that no more than two years has passed between the date the person was last registered as a representative and the date the person registers as a Securities Trader.

require that an individual associated with an exchange member who has supervisory responsibility over proprietary trading activities qualify and register as a Proprietary Trader Principal.

In its proposal, FINRA amends NASD Rule 1022(a) to require each person associated with a FINRA member who is included within the definition of “principal” in NASD Rule 1021 and who has supervisory responsibility over the securities trading activities described in NASD Rule 1032(f)(1) to qualify and register as a Securities Trader Principal. To qualify for registration as a Securities Trader Principal, a person must first qualify and register as a Securities Trader and then pass the General Securities Principal qualification examination (Series 24).¹⁰ As proposed, a person who is qualified and registered only as a Securities Trader Principal may only have supervisory responsibility over the activities specified in NASD Rule 1032(f)(1). Moreover, a person who is registered as a General Securities Principal will not be qualified to supervise the trading activities described in NASD Rule 1032(f)(1), unless the person qualifies and registers as a Securities Trader by passing the Series 57 examination and affirmatively registers as a Securities Trader Principal.

As proposed, a person registered as a General Securities Principal and an Equity Trader in the CRD system on the effective date of the proposed rule change will be eligible to register as a Securities Trader Principal without having to take any additional examinations.¹¹ FINRA

¹⁰ The exchanges have indicated that they plan to replace the Series 56 examination with the Series 57 examination under their respective registration rules, thus the Series 57 examination will also replace the Series 56 examination for those registration categories, such as the Proprietary Trader Principal registration category, where the Series 56 examination is currently an acceptable prerequisite.

¹¹ An individual who was registered as a General Securities Principal and an Equity Trader in the CRD system before the effective date of the proposed rule change will also be eligible to register as a Securities Trader Principal without having to take any additional examinations, provided that no more than two years has passed between the date that

members, however, will be required to affirmatively register persons who transition to Securities Trader Principals on or after the effective date of the proposed rule change.¹²

III. Comment Letters

The Commission received two comment letters that support the proposed rule change.¹³ These commenters note that the proposal would eliminate or reduce redundancies and inefficiencies that exist in the current qualification regime.¹⁴ These commenters also support the timeline for implementing the proposed rule change.¹⁵

IV. Discussion and Commission Findings

person was last registered as a principal and the date that person registers as a Securities Trader Principal. Moreover, on the effective date of the proposed rule change, FINRA will convert Proprietary Trader Principal registrations in the CRD system into Securities Trader Principal registrations.

¹² In connection with the proposals discussed above, and in anticipation of the national securities exchanges filing similar proposed rule changes to replace the Series 56 examination with the Series 57 examination in their respective registration rules, FINRA proposes to amend the Form U4 to replace: (1) the Equity Trader registration category with the Securities Trader registration category as well as references to the Series 55 examination with the Series 57 examination; (2) references to the Series 56 examination with the Series 57 examination; and (3) the Proprietary Trader Principal registration category with the Securities Trader Principal registration category.

¹³ See supra note 4.

¹⁴ See SIFMA Letter at 3-4 and ARM Letter at 2.

¹⁵ See SIFMA Letter at 4 and ARM Letter at 2. However, one commenter requests that FINRA provide some flexibility in the timeline given the other initiatives that member firms are currently undertaking or will undertake in the near future. See SIFMA Letter at 4. See also ARM Letter at 2. This commenter also encourages FINRA to coordinate the current proposal and the Algorithmic Trading proposal that was set forth in FINRA Regulatory Notice 15-06, and to implement the Series 57 regime before implementing the Algorithmic Trading proposal (assuming the Algorithmic Trading proposal moves forward). See SIFMA Letter at 5. Moreover, this commenter encourages FINRA to solicit comment on the Series 57 examination content through a Regulatory Notice. See id. The Commission notes that FINRA will file a proposed rule change to implement the new exam. See Notice, supra note 3, at n. 6.

After careful review of the proposed rule change and the comment letters, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities association.¹⁶ Specifically, the Commission finds that the proposed rule change is consistent with Section 15A(b)(6) of the Act,¹⁷ which requires, among other things, that FINRA rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. The Commission also finds that the proposed rule change is consistent with Section 15A(g)(3) of the Act,¹⁸ which requires FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members. The proposed rule change should harmonize the qualification and registration requirements for individuals engaged in securities trading activities across different markets and for principals responsible for supervising such activities. In addition, by explicitly requiring the registration of Securities Trader Principals, as such, the proposal will help FINRA to identify and contact principals with supervisory responsibility over the securities trading activities described in NASD Rule 1032(f)(1).

¹⁶ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁷ 15 U.S.C. 78o-3(b)(6).

¹⁸ 15 U.S.C. 78o-3(g)(3).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁹ that the proposed rule change (SR-FINRA-2015-017) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Robert W. Errett
Deputy Secretary

¹⁹ 15 U.S.C. 78s(b)(2).

²⁰ 17 CFR 200.30-3(a)(12).