

Proposed new language is underlined;
Proposed deletions are in [brackets].

[Order Audit Trail System (Rules 7400 - Equities)]

Rule 7410 - Equities. Definitions

For purposes of the Rule 7400 Series:

- a. Terms shall have the same meaning as those defined in the Exchange Rules, unless otherwise specified.
- b. "Bunched Order" shall mean two or more orders that are aggregated prior to execution.
- c. "Customer" shall mean a person other than a broker or dealer.
- d. "Electronic Communication Network" shall mean any electronic system that widely disseminates to third parties orders entered therein by an exchange market maker or over-the-counter market maker, and permits such orders to be executed in whole or in part, and as further defined in Rule 600(b)(23) of SEC Regulation NMS.
- e. "Electronic Order" shall mean an order captured by a member organization in an electronic order-routing or execution system.
- f. "Exchange System" shall mean the service provided by the Exchange that provides for the automated execution and reporting of transactions in NMS stocks.
- g. "Index Arbitrage" shall mean a trading strategy in which pricing is based on discrepancies between a "basket" or group of stocks and the derivative index product (i.e. a basis trade) involving the purchase or sale of a "basket" or group of stocks in conjunction with the purchase or sale, or intended purchase or sale, of one or more derivative index products in an attempt to profit by the price difference between the "basket" or group of stocks and the derivative index products. While the purchase or sale of the stocks must be in conjunction with the purchase or sale of derivative index products, the transaction need not be executed contemporaneously to be considered index arbitrage. The term "derivative index

- products” refers to cash-settled options or futures contracts on index stock groups, and options on any such futures contracts.
- h. "Intermarket sweep order" shall have the same meaning as contained in Rule 600(b)(30) of SEC Regulation NMS.
 - i. "Manual Order" shall mean an order that is captured by a member organization other than in an electronic order-routing or execution system.
 - j. "NMS stock" shall have the same meaning as contained in Rule 600(b)(47) of SEC Regulation NMS.
 - k. "Order" shall mean any oral, written, or electronic instruction to effect a transaction in an NMS stock that is received by a member organization from another person for handling or execution, or that is originated by a department of a member organization for execution by the same or another member organization, other than any such instruction to effect a proprietary transaction originated by a trading desk in the ordinary course of a member organization’s market making activities.
 - l. "Order Audit Trail System" shall mean the automated system owned and operated by FINRA that is designed to capture order information in NMS stocks reported by member organizations for integration with trade and quotation information to provide the Exchange with an accurate time sequenced record of orders and transactions.
 - m. "Program Trading" means either (A) index arbitrage or (B) any trading strategy involving the related purchase or sale of a “basket” or group of 15 or more stocks. Program trading includes the purchases or sales of stocks that are part of a coordinated trading strategy, even if the purchases or sales are neither entered nor executed contemporaneously, nor part of a trading strategy involving options or futures contracts on an index stock group, or options on any such futures contracts, or otherwise relating to a stock market index.
 - n. "Reporting Agent" shall mean a third party that enters into any agreement with a member organization pursuant to which the Reporting Agent agrees to fulfill such member organization’s obligations under Rule 7450.
 - o. "Reporting Member Organization" shall mean a member organization that receives or originates an order and has an obligation to record and report information under Rules 7440 and 7450.

1. A member organization shall not be considered a Reporting Member Organization in connection with an order, if the following conditions are met:
 - A. the member organization engages in a non-discretionary order routing process, pursuant to which it immediately routes, by electronic or other means, all of its orders to a single receiving Reporting Member Organization;
 - B. the member organization does not direct and does not maintain control over subsequent routing or execution by the receiving Reporting Member Organization;
 - C. the receiving Reporting Member Organization records and reports all information required under Rules 7440 and 7450 with respect to the order; and
 - D. the member organization has a written agreement with the receiving Reporting Member Organization specifying the respective functions and responsibilities of each party to effect full compliance with the requirements of Rules 7440 and 7450.
 2. A member organization shall not be considered a Reporting Member Organization in connection with an order if:
 - A. the member organization was approved as a member organization pursuant to NASD IM-1013-1 or NASD IM-1013-2;
 - B. the member organization operates consistent with NASD IM-1013-1 or NASD IM-1013-2, including limiting its business operations to "permitted floor activities," as that term is defined in NASD IM-1013-1 and NASD IM-1013-2; and
 - C. the order was received by the member organization through systems operated and regulated by the Exchange.
- p. "Proprietary Trading Firm" shall mean a member organization that trades its own capital and that does not have "customers", as that term is defined in Rule 7410(c) - Equities, and that is not a FINRA member. The funds used by a Proprietary Trading firm must be exclusively firm funds and all trading must be in the firm's accounts. Traders must be owners of, employees of, or contractors to the firm.

Rule 7420 - Equities. Applicability

- (a) Unless otherwise indicated, the requirements of the Rule 7400 Series are in addition to the requirements contained elsewhere in Exchange Rules.
- (b) Unless otherwise indicated, the requirements of the Rule 7400 Series shall apply to all member organizations and to their associated persons.
- (c) Unless otherwise indicated, the requirements of the Rule 7400 Series shall apply to all executed or unexecuted orders for all NMS stocks traded on the Exchange.

• • • *Supplementary Material:*

.01 "associated person". For the purposes of this Rule, the term "associated person" shall have the same meaning as the terms "person associated with a member" or "associated person of a member" as defined in Article I (rr) of the FINRA By-Laws.

Rule 7430 - Equities. Synchronization of Member Organization Business Clocks

Each member organization shall synchronize its business clocks that are used for purposes of recording the date and time of any event that must be recorded pursuant to the Rules of the Exchange, with reference to a time source as designated by the Exchange, and shall maintain the synchronization of such business clocks in conformity with such procedures as are prescribed by the Exchange.

Rule 7440 - Equities. Recording of Order Information

(a) Member organizations and associated persons shall comply with FINRA Rule 7440 as if such Rule were part of the Exchange's rules. The Exchange and FINRA are parties to the Regulatory Services Agreement pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, member organizations are complying with Rule 7440 - Equities by complying with FINRA Rule 7440 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Rule 7440 - Equities are being performed by FINRA on behalf of the Exchange.

(b) For purposes of this Rule, references to Rules 7420 through 7460 shall be construed as references to Rules 7420 - Equities through 7460 - Equities.

(c) Member organizations shall assign and enter a unique order identifier, in the form prescribed by the Exchange, to all orders that are electronically transmitted to the Exchange. An order identifier shall not be required for orders that are manually transmitted.

Rule 7450 - Equities. Order Data Transmission Requirements

(a) Except as provided in paragraph (b), member organizations and associated persons shall comply with FINRA Rule 7450 as if such Rule were part of the Exchange's rules. The Exchange and FINRA are parties to the Regulatory Services Agreement pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, member organizations are complying with Rule 7450 - Equities by complying with FINRA Rule 7450 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Rule 7450 - Equities are being performed by FINRA on behalf of the Exchange.

(b) Proprietary Trading Firms shall be required to comply with FINRA Rule 7450 as if such Rule were part of the Exchange's rules, only when they receive a request from the Exchange to submit order information with respect to specific time periods identified in such request. Nothing in this Rule shall be construed to limit the obligations of Proprietary Trading Firms under any other Rule of the 7400 Series, including but not limited to, Rule 7440.

(c) For purposes of this Rule, references to Rule 7440 shall be construed as references to Rule 7440 - Equities.

Rule 7460 - Equities. Violation of Order Audit Trail System Rules

Failure of a member organization or associated person to comply with any of the requirements of Rule 7410 through Rule 7460 may be considered conduct that is inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2010.

Rule 7470 - Equities. Exemption to the Order Recording and Data Transmission Requirements

(a) The Exchange, for good cause shown after taking into consideration all relevant factors, may exempt subject to specified terms and conditions, a member organization from the recording and order data transmission requirements of Rules 7440 and 7450, respectively, for manual orders, if such exemption is consistent with the protection of investors and the public interest, and the member organization meets the following criteria:

1. the member organization and current control affiliates and associated persons have not been subject within the last five years to any final disciplinary action, and within the last ten years to any disciplinary action involving fraud;
2. the member organization has annual revenues of less than \$2 million;

3. the member organization does not conduct any market making activities in NMS stocks:
4. the member organization does not execute principal transactions with its customers (with limited exception for principal transactions executed pursuant to error corrections); and
5. the member organization does not conduct clearing or carrying activities for other firms.

(b) An exemption provided pursuant to this Rule shall not exceed a period of two years. At or prior to the expiration of a grant of exemptive relief under this Rule, a member organization meeting the criteria set forth in paragraph (a) above may request a subsequent exemption, which will be considered at the time of the request consistent with the protection of investors and the public interest.

(c) This Rule shall be in effect until November 15, 2019.]
