

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78445; File No. SR-CHX-2016-11)

July 29, 2016

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt the Securities Trader Registration Category and the Series 57 Securities Trader Examination Registration Requirement

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on July 20, 2016, the Chicago Stock Exchange, Inc. (“CHX” or the “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 Exchange. 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 the Rules of the Exchange (“CHX Rules”) to adopt the Securities Trader registration category and the Series 57 Securities Trader Examination registration requirement.

CHX has designated this proposed rule change as non-controversial pursuant to Section 19(b)(3)(A)³ of the Act and Rule 19b-4(f)(6)⁴ thereunder and has provided the Commission with the notice required by Rule 19b-4(f)(6)(iii).⁵

The text of this proposed rule change is available on the Exchange’s website at

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ 17 CFR 240.19b-4(f)(6)(iii).

www.chx.com) and in the Commission's Public Reference Room.

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

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

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

1. Purpose

The Exchange proposes to amend various provisions under Article 6 to adopt the Securities Trader registration category and the Series 57 Securities Trader Examination registration requirement and to eliminate references to the Proprietary Trader registration category and the Series 56 Proprietary Trader Examination registration requirement. The Series 56 exam was discontinued by FINRA on January 4, 2016.⁶ Thus, the Exchange proposes the following amendments, as discussed in further detail below:

- Amend Rule 3(a) and Rule 3(d) to replace references to the Proprietary Trader registration category and the Series 56 exam with the Securities Trader registration category and the Series 57 exam, respectively.
- Amend Article 6, Rule 3(a) to require any Representative⁷ that engages in securities trading activities, on either an agency or principal basis, for the

⁶ See Securities Exchange Act Release No. 75783 (August 28, 2015), 80 FR 53369 (September 3, 2015) (Order Approving a Proposed Rule Change To Establish the Securities Trader and Securities Trader Principal Registration Categories) (SR-FINRA-2015-017).

⁷ CHX Article 6, Rule 2(b) defines "Representatives" as follows:

Participant with which the Representative is associated, to register with the Exchange as a Securities Trader and to pass the Series 57 exam. The Series 7 General Securities Representative Examination will not be an acceptable qualification examination to register as a Securities Trader.

- Amend Article 6, Rule 3(b)(1) to modify the current Proprietary Trader Exception, which permits Chief Compliance Officers of Participants that engage solely in proprietary trading to maintain the Series 14, in lieu of the Series 24, as an expanded Securities Trading Exception for Participants that engage solely in securities trading activities, on either an agency or principal basis.
- Amend Article 6, Rule 2(c)(2) to replace the Limited Principal – Proprietary Trader registration category with the Securities Trader Principal registration category and update related requirements.
- Amend Article 6, Rule 11 to delete references to the S501 Series 56 Proprietary Trader Program for Series 56 registered persons and the Series 56 exam and, instead, require Securities Traders to take the S101 General Program to fulfill Regulatory Element requirements.⁸

This filing is similar to SR-FINRA-2015-017,⁹ which has been approved by the Commission.

Proposed Representative Registration Requirements

Current CHX Rules provide that Representatives are required to be registered with the Exchange in the category of registration appropriate to the function to be performed.¹⁰ As CHX

Persons associated with a Participant who are engaged or will be engaged in the securities business of a Participant, or the management of such securities business, including the functions of supervision, solicitation, conduct of business or the training of persons associated with a Participant for any of these functions are Representatives.

A “Participant” is a “member” of the Exchange for purposes of the Act. See CHX Article 1, Rule 1(s).

⁸ Pursuant to CHX Article 6, Rule 11(a), each registered person shall complete the Regulatory Element of the continuing education program on the occurrence of their second registration anniversary date(s), and every three years thereafter or as otherwise prescribed by the Exchange. On each occasion, the Regulatory Element must be completed within 120 days after the person's registration anniversary date. A person's initial registration date, also known as the "base date," shall establish the cycle of anniversary dates for purposes of this rule.

⁹ See supra note 6.

¹⁰ See current CHX Article 6, Rule 2(a).

Rules have not yet been updated to reflect the new Securities Trader registration category and the Series 57 exam registration requirement, CHX Rules currently require the following:

- A Representative must register with the Exchange as a General Securities Representative (Series 7) or Proprietary Trader (Series 56)¹¹ before such registration is effective.¹²
- Each Representative is required to register as a General Securities Representative and pass the Series 7 General Securities Representative Examination; provided that in the event a 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, the Representative may register as a Proprietary Trader without registering as a General Securities Representative.¹³
- In order to qualify as a Proprietary Trader, a Representative must pass either the Series 7 exam or Series 56 exam.¹⁴

The Exchange now proposes to amend current Article 6, Rule 3(a). Specifically, the Exchange proposes to amend paragraph (a)(1) to provide that each Representative shall be required to register with the Exchange as a General Securities Representative and pass the Series 7 General Securities Representative Examination. However, a Representative that is engaged in securities trading activities, on either an agency or principal basis, for the Participant with which the Representative is associated, must register with the Exchange as a Securities Trader and pass the Series 57 Securities Trader Examination, subject to amended paragraph (a)(2).

Amended paragraph (a)(2)¹⁵ provides that a Representative that is engaged solely in securities trading activities, on either an agency or principal basis, for the Participant with which

¹¹ The Series 56 exam was discontinued on January 4, 2016. See supra note 6.

¹² See current CHX Article 6, Rule 3(a).

¹³ See id.

¹⁴ See id.; see also Securities Exchange Act Release No. 70597 (October 2, 2013), 78 FR 62728 (October 22, 2013) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Registration, Qualification, Supervision, and Continuing Education of Individuals Associated with Participant Firms) (SR-CHX-2013-14).

the Representative is associated, shall not be required to register with the Exchange as a General Securities Representative. Moreover, a Representative registered with the Exchange solely as a Securities Trader will not be qualified to function in any other registration category.

Current Article 6, Rule 3(d) provides, among other things, that Institutional Broker Representatives¹⁶ at Participant Firms that do not hold customer accounts and that only execute orders from other brokers or dealers or engage in proprietary trading only may, in the alternative to passing the Series 7, pass the Series 56 Proprietary Trader Exam. The Exchange now proposes to replace all references under current Article 6, Rule 3(d) to the “Series 56” with the “Series 57.” The Exchange also proposes to replace the reference to the “Proprietary Trader Exam” with the “Securities Trader Exam” and the reference to the “Proprietary Trader Exception” under current Article 6, Rule 3(b)(1) with the proposed “Securities Trading Exception” under amended Article 6, Rule 3(b)(1), as described below. In addition, the Exchange proposes to capitalize the term “Customer,” as it is defined under CHX Rules.¹⁷ Moreover, the Exchange proposes to amend the third sentence under Rule 3(d) to provide that Institutional Broker Representatives at Participant Firms that do not carry Customers accounts and that only execute orders from other brokers or dealers or engage in proprietary trading must pass the Series 57 Securities Trader Exam.

The Exchange also proposes to delete current Article 6, Rule 3(e) as it provides obsolete compliance dates.¹⁸

¹⁵ The Exchange proposes to delete current Article 6, Rule 3(a)(2) in its entirety as it defines the Proprietary Trader registration category, which will be eliminated pursuant to this proposed rule change.

¹⁶ See CHX Article 1, Rule 1(gg) defining “Institutional Broker Representative.”

¹⁷ See CHX Article [sic], Rule 1(hh) defining “Customer.”

¹⁸ See supra note 14.

Proposed Securities Trading Exception for Certain Chief Compliance Officers

Current Article 6, Rule 3(b)(1) permits the Chief Compliance Officer of a Participant Firm to maintain the Series 14 Compliance Official qualification, in lieu of the Series 24 General Securities Principal qualification, if the Participant Firm engages solely in proprietary trading and otherwise meets the requirements listed under current Article 6, Rule 3(b) and Article 6, Rule 2(c)(1).¹⁹ The Exchange now proposes to conform the exception to apply to firms that engage solely in securities trading activities, on either an agency or principal basis. Thus, the Exchange proposes to amend Article 6, Rule 3(b) by replacing the term “Proprietary Trading” with the phrase “securities trading activities, on either an agency or principal basis” and rename the exception as the “Securities Trading Exception.”

Proposed Securities Trader Principal

Current Article 6, Rule 2(c)(2) provides for a limited principal registration category called the “Limited Principal – Proprietary Trader.” Specifically, current subparagraph (A) provides that each person associated with a Participant who is included within the definition of a

¹⁹ CHX Article 6, Rule 2(c)(1) provides as follows:

Definition of Principals. Persons associated with a Participant, enumerated in subparagraphs (A) through (E) hereafter, 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. Such persons shall include:

- (A) Sole Proprietors;
- (B) Officers;
- (C) Partners;
- (D) Branch office managers; and
- (E) Directors.

Principal²⁰ may register with the Exchange as a Limited Principal – Proprietary Trader if: (i) his or her supervisory responsibilities in the securities business are limited solely to the activities of a Participant that involve proprietary trading; (ii) he or she is registered pursuant to Exchange Rules as a Proprietary Trader; and (iii) he or she is qualified to be so registered by passing the Series 24 examination. Current subparagraph (B) provides that a person registered in this category shall not be qualified to function in a Principal capacity with responsibility over any area of business activity not described in paragraph (c)(2)(A)(i) of this Rule.

The Exchange now proposes to amend Article 6, Rule 2(c)(2)(A) to provide that each Principal shall register with the Exchange as a Securities Trader Principal if such Principal supervises the securities trading activities of a Participant. Moreover, a Principal is required to pass the Series 57 exam as a prerequisite to registration as a Securities Trader Principal.²¹

The Exchange also proposes to amend Article 6, Rule 2(c)(2)(B) to provide that a person registered as a Securities Trader Principal shall only be qualified to supervise the securities trading activities of a Participant and shall not be qualified to supervise any other activities of a Participant. Moreover, a Principal shall not be qualified to supervise the trading activities of a Participant, unless such person is registered as a Securities Trader Principal.

The Exchange also proposes to amend Article 6, Rule 2(c) to provide that all persons engaged or to be engaged in the securities business of a Participant who are to function as a Principal shall be registered with the Exchange as a General Securities Principal, unless the Principal meets the requirements under this Rule 2(c), so as to contemplate the proposed Securities Trader Principal registration requirement. Moreover, for the purpose of clarifying the

²⁰ See id.

²¹ All Principals are required to pass the Series 24 or Series 14 exam, as applicable, pursuant to current Article 6, Rule 3(b).

examination requirements for all Principals, the Exchange proposes to amend the last sentence of current Rule 2(c) to provide that each Principal shall pass the Series 24 or Series 14 exam, as applicable, pursuant to Article 6, Rule 3(b).²²

Proposed Continuing Education Requirements

Current Article 6, Rule 11 provides continuing education requirements for registered persons, including Proprietary Traders. The Exchange now proposes to amend Article 6, Rule 11(a)(3) to eliminate reference to the S501 Series 56 Proprietary Trader continuing education program for Series 56 registered persons, as the S501 Series 56 Proprietary Trader continuing education program was phased out along with the Series 56 exam on January 4, 2016.²³ The Exchange now proposes to require Series 57 registered persons to take the S101 General Program to fulfill the Regulatory Element requirement. Thus, the Exchange proposes to replace current Article 6, Rule 11(a)(3) with new language that provides that the following sets forth the Regulatory Element appropriate for each registration category:

CATEGORY OF REGISTRATION	REGULATORY ELEMENT
General Securities Representative	S101 General Program
Securities Trader	S101 General Program
General Securities Principal	S201 Supervisor Program
Securities Trader Principal	S201 Supervisor Program
Financial and Operations Principal	S201 Supervisor Program

The Exchange also proposes to replace a reference to “Series 56” with “Series 57” under the first sentence of Article 6, Rule 11(b)(1), which describes persons subject to the Firm Element continuing education requirement.

²² See id.

²³ See supra note 6.

2. Statutory Basis

The Exchange believes that proposed rule change is consistent with Section 6(b) of the Act²⁴ in general and Section 6(b)(5) of the Act²⁵ in particular, which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest. Additionally, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5) requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that adoption of the Securities Trader registration category and Series 57 exam registration requirement is consistent with the Act. FINRA indicated that the Series 57 exam was being developed in an effort to adopt a more tailored examination. The Exchange believes that adopting the Series 57 exam for Representatives engaging in trading activities will help ensure professionalism among market participants, prevent fraudulent and manipulative practices, and promote just and equitable principles of trade. The Exchange also believes that it is in the interests of investors and the general public to adopt a tailored qualification examination for proprietary traders and that a uniform qualification standard may help ensure fair and orderly markets. Furthermore, the Exchange believes that it is in the interests of all market participants to provide consistent qualification and registration requirements across markets. The Exchange believes that harmonizing the Exchange's

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

qualification and registration requirements with those of FINRA and the other national securities exchanges would further such interests.

B. Self-Regulatory Organization's Statement on 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 Exchange believes that the proposed rule change relating to Securities Traders, which is based upon and substantially similar to recent rule changes adopted by FINRA, which is similar to the filings of other national securities exchanges, will reduce the regulatory burden placed on market participants engaged in trading activities across different markets. The Exchange believes that the harmonization of these registration requirements across the various markets will reduce burdens on competition by removing impediments to participation in the national market system.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)²⁶ of the Act and Rule 19b-4(f)(6) thereunder.²⁷

²⁶ 15 U.S.C. 78s(b)(3)(A).

²⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and the 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 has satisfied this requirement.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act²⁸ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)²⁹ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative upon filing. According to the Exchange, the Series 57 exam has already replaced the Series 56 exam, which was discontinued by FINRA as of January 4, 2016, and the waiver of the operative delay would permit new Representatives to register with the Exchange under registration standards similar to those of FINRA and other national securities exchanges.³⁰ Based on the foregoing, the Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.³¹

At any time within 60 days of the filing of the 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 shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

²⁸ 17 CFR 240.19b-4(f)(6).

²⁹ 17 CFR 240.19b-4(f)(6)(iii).

³⁰ See supra note 6.

³¹ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 No. SR-CHX-2016-11 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-CHX-2016-11. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the CHX. 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 No. SR-CHX-2016-11 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.³²

Robert W. Errett
Deputy Secretary

³² 17 CFR 200.30-3(a)(12).