

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-84896; File No. SR-CHX-2018-07)

December 20, 2018

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Qualification, Registration and Continuing Education Requirements Applicable to Participants

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on December 18, 2018, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (the “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

The Exchange proposes amendments to the Exchange’s rules (“Rules”) regarding qualification, registration and continuing education requirements applicable to Participants,⁴ so as to harmonize such provisions with similar provisions under the rules of NYSE National, Inc. (“NYSE National”), a national securities exchange affiliated with the Exchange,⁵ and thus

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ A Participant is a “member” of the Exchange for purposes of the Act. See Article 1, Rule 1(s).

⁵ The Exchange has four registered national securities exchange affiliates: NYSE National, NYSE Arca, Inc. (“NYSE Arca”), New York Stock Exchange LLC (“NYSE”), NYSE America LLC (“NYSE American” and together with the Exchange, NYSE National, NYSE Arca and NYSE, the “NYSE Group Exchanges”).

promote consistency within the securities industry. Like NYSE National,⁶ the Exchange is only adopting rules that are relevant to the Exchange’s Participants. Specifically, the Exchange is not adopting registration categories under FINRA rules that are not applicable to Participants because Participants do not engage in the type of business that would require such registration. As such, the Exchange is amending current Article 1, Rule 1 to adopt a definition for the term “Registered Person” similar to NYSE National Rule 2.2(e); amending current Article 6, Rule 2 regarding registration and approval of Participant personnel; amending current Article 6, Rule 3 regarding the training and examination of registrants; amending current Article 6, Rule 10 regarding fingerprinting of securities industry personnel to be similar to Commentary .08 of NYSE National Rule 2.2; amending current Article 6, Rule 11 regarding continuing education requirements to be similar to NYSE National Rule 2.2(e); amending current Article 16, Rule 3(b)(2) to require that Market Maker Authorized Traders successfully complete, in addition to current examination requirements, the Securities Industry Essentials qualification examination; adopting new Article 6, Rule 13 regarding registration requirements and related Interpretations and Policies to new Rule 13; adopting new Article 6, Rule 14 regarding registration categories⁷

⁶ The Financial Industry Regulatory Authority (“FINRA”) recently amended certain registration rules. See Securities Exchange Act Release No. 81098 (July 7, 2017), 82 FR 32419 (July 13, 2017) (SR-FINRA-2017-007) (Approval Order) (the “FINRA Filing”). Thereafter, other self-regulatory organizations, such as NYSE National, submitted proposed rule changes to harmonize their registration rules with the corresponding FINRA rules amended pursuant to the FINRA Filing. See e.g., Securities Exchange Act Release No. 84350 (October 3, 2018), 83 FR 51030 (October 10, 2018) (SR-NYSENat-2018-21) (the “NYSE National Filing”).

⁷ The relevant principal registration categories the Exchange proposes to adopt are (1) Principal; (2) General Securities Principal; (3) Compliance Officer; (4) Financial and Operations Principal and Introducing Broker-Dealer Financial and Operations Principal; (5) Securities Trader Principal; and (6) General Securities Sales Supervisor. The relevant representative registration categories the Exchange proposes to adopt are (1) Representative; (2) General Securities Representative; and (3) Securities Trader. Upon

and related Interpretations and Policies to new Rule 14; and adopting new Article 6, Rule 15 regarding associated persons exempt from registration and related Interpretations and Policies to new Rule 15. Each of these rule changes, which are described in more detail below, would become operative upon filing. The proposed rule change is available on the Exchange's website at www.nyse.com, 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

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 its qualification, registration and continuing education requirements applicable to Participants. The proposed amendments are intended to: (i) provide transparency and clarity with respect to the Exchange's registration, qualification and examination requirements; (ii) amend its rules relating to categories of registration and respective qualification examinations required for Participants that engage in trading activities on the Exchange; (iii) harmonize the Exchange's qualification, registration and examination rules with

filing of this proposed rule change, the Exchange's registration categories will be identical to those of NYSE National. See NYSE National Rule 2.1220.

those of NYSE National so as to promote uniform standards across the securities industry;⁸ and (iv) add new definitions of terms and make other conforming changes to enhance the comprehensiveness and clarity of the Rules.⁹ The proposed changes are discussed below.

A. Proposed New Article 6, Rules 13-15

As a general matter, FINRA administers qualification examinations that are designed to establish that persons associated with Participants have attained specified levels of competence and knowledge. Over time, the examination program has increased in complexity to address the introduction of new products and functions, and related regulatory concerns and requirements. As a result, today, there are a large number of examinations, considerable content overlap across the representative-level examinations and requirements for individuals in various segments of the industry to pass multiple examinations. To address these issues, FINRA has formulated a general knowledge examination called the Securities Industry Essential (“SIE”) that all potential representative-level registrants would take.¹⁰ Rule changes related to the adoption of the SIE and other proposed new rules are discussed below.

⁸ The Exchange notes that in order to maintain consistency with the NYSE National Filing, the Exchange proposes to incorporate certain terms from the relevant NYSE National rule into the Exchange’s rule that may not be applicable to all Participants. For example, while Participants may not be engaged in “investment banking” activity, the Exchange proposes to adopt that term within these registration rules to conform them to the NYSE National rules.

⁹ The conforming changes the Exchange proposes would substitute the term “Participant” for “ETP Holder.”

¹⁰ The SIE would assess basic product knowledge; the structure and function of the securities industry markets, regulatory agencies and their functions; and regulated and prohibited practices. In particular, the SIE will cover four major areas. The first, “Knowledge of Capital Markets,” focuses on topics such as types of markets and offerings, broker-dealers and depositories, and economic cycles. The second, “Understanding Products and Their Risks,” covers securities products at a high level as well as associated investment risks. The third, “Understanding Trading, Customer Accounts and Prohibited Activities,” focuses on accounts, orders, settlement and

1. Proposed Article 6, Rule 13 - Registration Requirements¹¹

Proposed Rule 13 provides that each person engaged in the investment banking or securities business of a Participant must register with the Exchange as a representative or principal in each category of registration appropriate to his or her functions and responsibilities as specified in proposed Article 6, Rule 14, unless exempt from registration pursuant to proposed Article 6, Rule 15. Proposed Article 6, Rule 13 also provides that such person is not qualified to function in any registered capacity other than that for which the person is registered, unless otherwise stated in the Rules.

2. Proposed paragraph .01 of the Interpretations and Policies of Article 6, Rule 13 - Permissive Registrations¹²

The Exchange currently does not have a specific rule that provides for permissive registrations. With this proposed rule change, and to conform its rules to the FINRA and NYSE National rules, the Exchange proposes to adopt a specific rule regarding permissive registrations. Proposed paragraph .01 allows any associated person to obtain and maintain any registration permitted by a Participant. For instance, an associated person of a Participant working solely in a clerical or ministerial capacity, such as in an administrative capacity, would be able to obtain and maintain a General Securities Representative registration with the Participant. As another example, an associated person of a Participant who is registered and functioning solely as a General Securities Representative would be able to obtain and maintain a General Securities Principal registration with the Participant. Further, proposed paragraph .01 allows an individual

prohibited activities. The final area, “Overview of the Regulatory Framework,” encompasses topics such as SROs, registration requirements and specified conduct rules.

¹¹ The proposed rule is substantially similar to NYSE National Rule 2.1210.

¹² The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .01.

engaged in the securities business of a foreign securities affiliate or subsidiary of a Participant to obtain and maintain any registration permitted by the Participant.

The Exchange is proposing to permit the registration of such individuals for several reasons. First, a Participant may foresee a need to move a former representative or principal who has not been registered for two or more years back into a position that would require such person to be registered. Currently, such persons are required to requalify (or obtain a waiver of the applicable qualification examinations) and reapply for registration. Second, the proposed rule change would allow Participants to develop a depth of associated persons with registrations in the event of unanticipated personnel changes. Finally, allowing registration in additional categories encourages greater regulatory understanding.

Individuals maintaining a permissive registration under the proposed rule change would be considered Registered Persons, as defined under proposed Article 1, Rule 1(yy), as discussed below, and subject to all CHX Rules, to the extent relevant to their activities. Additionally, consistent with the requirements of the Exchange's supervision rules, as proposed, Participants would be required to have adequate supervisory systems and procedures reasonably designed to ensure that individuals with permissive registrations do not act outside the scope of their assigned functions. With respect to an individual who solely maintains a permissive registration, such as an individual working exclusively in an administrative capacity, the individual's day-to-day supervisor may be a non-Registered Person. However, for purposes of compliance with the Exchange's supervision rules, a Participant would be required to assign a registered supervisor who would be responsible for periodically contacting such individual's day-to-day supervisor to verify that the individual is not acting outside the scope of his or her assigned functions. If such individual is permissively registered as a representative, the registered supervisor must be

registered as a representative or principal. If the individual is permissively registered as a principal, the registered supervisor must be registered as a principal.¹³

In light of proposed paragraph .01 under Article 6, Rule 13, the Exchange proposes to replace Article 6, Rule 2(e) with proposed Article 6, Rule 2(d), as discussed below, which provides that Participants shall not register or maintain the registration of any person unless consistent with the requirements of proposed Article 6, Rule 13.

3. Proposed paragraph .02 of the Interpretations and Policies of Article 6, Rule 13 - Qualification Examinations and Waivers of Examinations¹⁴

Proposed paragraph .02, provides that before the registration of a person as a representative can become effective under proposed Article 6, Rule 13, such person must pass the SIE and an appropriate representative-level qualification examination as specified in proposed Article 6, Rule 14(b).¹⁵ Proposed paragraph .02 also provides that before the registration of a person as a principal can become effective under proposed Article 6, Rule 13, such person must pass an appropriate principal-level qualification examination as specified in proposed Article 6, Rule 14(a).

Further, proposed paragraph .02 provides that if a Registered Person's job functions change and he or she needs to become registered in another representative-level category, he or she would not need to pass the SIE again. Rather, the Registered Person would need to pass only the appropriate representative-level qualification examination.

¹³ In either case, the registered supervisor of an individual who solely maintains a permissive registration would not be required to be registered in the same representative or principal registration category as the permissively-registered individual.

¹⁴ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .02.

¹⁵ Proposed Article 6, Rule 14 sets forth each registration category and applicable qualification examination for Participants on the Exchange.

Moreover, proposed paragraph .02 provides that all associated persons, such as associated persons whose functions are solely and exclusively clerical or ministerial, are eligible to take the SIE. Proposed paragraph .02 also provides that individuals who are not associated persons of firms, such as members of the general public, are eligible to take the SIE. The Exchange believes that expanding the pool of individuals who are eligible to take the SIE would enable prospective securities industry professionals to demonstrate to prospective employers a basic level of knowledge prior to submitting a job application. Further, this approach would allow for more flexibility and career mobility within the securities industry. While all associated persons of firms as well as individuals who are not associated persons would be eligible to take the SIE pursuant to the proposed rule, passing the SIE alone would not qualify them for registration with the Exchange. Rather, to be eligible for registration with the Exchange, an individual must pass an applicable representative or principal qualification examination and complete the other requirements of the registration process.

Proposed paragraph .02 also provides that the Exchange may, in exceptional cases and where good cause is shown waive the applicable qualification examination(s) and accept other standards as evidence of an applicant's qualifications for registration. In light of these provisions, the Exchange proposes to delete current paragraph .02 under Article 6, Rule 3, as discussed below. The proposed rule further provides that the Exchange will only consider examination waiver requests submitted by a Participant for individuals associated with the Participant who are seeking registration in a representative- or principal-level registration category. Moreover, the proposed rule states that the Exchange will consider waivers of the SIE alone or the SIE and the representative- and principal-level examination(s) for such individuals.

The Exchange would not consider a waiver of the SIE for non-associated persons or for associated persons who are not registering as representatives or principals.

4. Proposed paragraph .03 of the Interpretations and Policies of Article 6, Rule 13 - Requirements for Registered Persons Functioning as Principals for a Limited Period¹⁶

Proposed paragraph .03 provides that a Participant may designate any person currently registered, or who becomes registered, with the Participant as a representative to function as a principal for a limited period, provided that such person has at least 18 months of experience functioning as a registered representative with the five-year period immediately preceding the designation. The proposed rule is intended to ensure that representatives designated to function as principals for the limited period under the proposal have an appropriate level of registered representative experience. The proposed rule clarifies that the requirements of the rule apply to designations to any principal category, including those categories that are not subject to a prerequisite representative-level registration requirement, such as the Financial and Operations Principal registration category.¹⁷

The proposed rule also clarifies that the individual must fulfill all applicable prerequisite registration, fee and examination requirements before his or her designation as a principal. Further, the proposed rule provides that in no event may such person function as a principal beyond the initial 120 calendar days without having successfully passed an appropriate principal qualification examination. The proposed rule also provides an exception to the experience requirement for principals who are designated by a Participant to function in other principal

¹⁶ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .03.

¹⁷ The Exchange notes that qualifying as a registered representative is a prerequisite to qualifying as a principal except with respect to the following principal-level registrations: (1) Compliance Official; (2) Financial and Operations Principal; and (3) Introducing Broker-Dealer Financial and Operations Principal.

categories for a limited period. Specifically, the proposed rule states that a Participant may designate any person currently registered, or who becomes registered, with the Participant as a principal to function in another principal category for 120 calendar days before passing any applicable examinations.

5. Proposed paragraph .04 of the Interpretations and Policies of Article 6, Rule 13 - Rules of Conduct for Taking Examinations and Confidentiality of Examinations¹⁸

Proposed paragraph .04 states that associated persons taking the SIE would be subject to the SIE Rules of Conduct, and associated persons taking a representative or principal examination would be subject to the Rules of Conduct for representative and principal examinations. Pursuant to proposed paragraph .04, a violation of the SIE Rules of Conduct or the Rules of Conduct for representative and principal examinations by an associated person would be deemed to be a violation of Article 9, Rule 2. Moreover, if an associated person is deemed to have violated the SIE Rules of Conduct or the Rules of Conduct for representative and principal examinations, the associated person may forfeit the results of the examination and may be subject to disciplinary action by the Exchange.

Further, the proposed rule states that individuals taking the SIE who are not associated persons must agree to be subject to the SIE Rules of Conduct. Among other things, the SIE Rules of Conduct would require individuals to attest that they are not qualified to engage in the investment banking or securities business based on passing the SIE and would prohibit individuals from cheating on the examination or misrepresenting their qualifications to the public subsequent to passing the SIE. Moreover, non-associated persons may forfeit their SIE results

¹⁸ The proposed rule is substantially similar to NYSE National Rule 2.1210, Commentary .04.

and may be prohibited from retaking the SIE if the Exchange determines that they cheated on the SIE or that they misrepresented their qualifications to the public subsequent to passing the SIE.

The proposed rule further notes that the Exchange considers all qualification examinations content to be highly confidential and that the removal of examination content from an examination center, reproduction, disclosure, receipt from or passing to any person, or use for study purposes of any portion of such qualification examination or any other use that would compromise the effectiveness of the examinations and the use in any manner and at any time of the questions or answers to the examinations is prohibited and would be deemed a violation of Article 9, Rule 2 (Just and Equitable Trade Principles).

6. Proposed paragraph .05 of the Interpretations and Policies of Article 6, Rule 13 - Waiting Periods for Retaking a Failed Examination¹⁹

Proposed paragraph .05 provides that any person who fails a qualification examination may retake that examination after 30 calendar days from the date of the person's last attempt to pass that examination. The proposed rule further provides that if a person fails an examination three or more times in succession within a two-year period, he or she would be prohibited from retaking the examination either until a period of 180 calendar days from the date of the person's last attempt to pass it. These waiting periods would apply to the SIE and the representative- and principal-level examinations. Moreover, the proposed rule provides that non-associated persons taking the SIE must agree to be subject to the same waiting periods for retaking the SIE.

¹⁹ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .05.

7. Proposed paragraph .06 under the Interpretations and Policies of Article 6, Rule 13 - All Registered Persons Must Satisfy the Regulatory Element of Continuing Education²⁰

Pursuant to Article 6, Rule 11, the continuing education requirements applicable to Registered Persons consist of a Regulatory Element²¹ and a Firm Element.²² The Regulatory Element applies to Registered Persons and must be completed within prescribed time frames.²³ The term “Registered Person” means any person registered with the Exchange under any registration categories specified under Articles 6 or 16, any person who is permissively registered or any person designated as eligible for a waiver pursuant to the Rules.²⁴ The Firm Element consists of annual, Participant-developed and administered training programs designed to keep covered Registered Persons current regarding securities products, services and strategies offered by the Participant. For purposes of the Firm Element, the term covered Registered Persons means any Person registered with a Participant who has direct contact with customers in

²⁰ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .06.

²¹ See Article 6, Rule 11(a).

²² See Article 6, Rule 11(b).

²³ Pursuant to amended Article 6, Rule 11(a), as described in detail below, each specified Registered Person is required to complete the Regulatory Element initially within 120 days after the person’s second registration anniversary date and, thereafter, within 120 days after every third registration anniversary date. A Registered Person who has not completed the Regulatory Element program within the prescribed time frames will have his or her registrations deemed inactive and designated as “CE inactive” on the CRD system until such time as the requirements of the program have been satisfied. A CE inactive person is prohibited from performing, or being compensated for, any activities requiring registration, including supervision. Moreover, if a Registered Person is CE inactive for a two-year period, the Exchange will administratively terminate the person’s registration status. The two-year period would be calculated from the date the person becomes CE inactive. In either case, such person must requalify (or obtain a waiver of the applicable qualification examination(s)) to be re-eligible for registration.

²⁴ See proposed Article 1, Rule 1(yy).

the conduct of the Participant's securities sales, trading and investment banking activities and to the immediate supervisors of such Persons.

The Exchange believes that all Registered Persons, regardless of their activities, should be subject to the Regulatory Element of the CE requirements so that they can keep their knowledge of the securities industry current. Therefore, the Exchange proposes to adopt proposed paragraph .06 to clarify that all Registered Persons, including those who solely maintain a permissive registration, are required to satisfy the Regulatory Element, as specified under Article 6, Rule 11(a). The Exchange is making corresponding changes to Article 6, Rule 11(a), as well as additional changes to harmonize the Article 6, Rule 11(a) with NYSE National Rule 2.2(e)(1), as discussed below. The Exchange is also proposing to substantively amend the Firm Element requirement under Article 6, Rule 11(b)(B)(ii) to require that the program used to implement a Participant's training plan include at a minimum, in addition to the items already stated, training in ethics and professional responsibility, as described below. Individuals who have passed the SIE but not a representative- or principal-level examination and do not hold a registered position would not be subject to any CE requirements.

Proposed paragraph .06, also provides that a Registered Person of a Participant who becomes CE inactive would not be permitted to be registered in another registration category with the Participant or be registered in any registration category with another Participant, until the person has satisfied the Regulatory Element.

8. Proposed paragraph .07 of the Interpretations and Policies of Article 6, Rule 13 - Lapse of Registration and Expiration of the SIE²⁵

Proposed paragraph .07 provides that any person who was last registered as a representative two or more years immediately preceding the date of receipt by the Exchange of a new application for registration as a representative is required to pass a qualification examination for representatives appropriate to the category of registration as specified in proposed Article 6, Rule 14(b).²⁶ Proposed paragraph .07 also sets forth that a passing result on the SIE would be valid for up to four years. Therefore, under the proposed rule change, an individual who passes the SIE and is an associated person of a Participant at the time would have up to four years from the date he or she passes the SIE to pass a representative-level examination to register as a representative with that Participant, or a subsequent Participant, without having to retake the SIE. In addition, an individual who passes the SIE and is not an associated person at the time would have up to four years from the date he or she passes the SIE to become an associated person of a Participant and pass a representative-level examination and register as a representative without having to retake the SIE.

Moreover, an individual holding a representative-level registration who leaves the industry after the effective date of this proposed rule change would have up to four years to re-associate with a Participant and register as a representative without having to retake the SIE. However, the four-year expiration period in the proposed rule change extends only to the SIE, and not the representative- and principal-level registrations. The representative- and principal-

²⁵ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .07.

²⁶ In light of these provisions, the Exchange proposes to delete current Article 6, Rule 2(g), as discussed below.

level registrations would continue to be subject to a two-year expiration period as is the case today.

Finally, paragraph .07, clarifies that, for purposes of the proposed rule, an application would not be considered to have been received by the Exchange if that application does not result in a registration.

9. Proposed paragraph .08 of the Interpretations and Policies of Article 6, Rule 13 - Waiver of Examinations for Individuals Working for a Financial Services Industry Affiliate of a Participant²⁷

Proposed paragraph .08, provides the process for individuals working for a financial services industry affiliate of a Participant²⁸ to terminate their registrations with the Participant and be granted a waiver of their requalification requirements upon re-registering with a Participant, provided the firm that is requesting the waiver and the individual satisfy the criteria for a Financial Services Affiliate (“FSA”) waiver.

Under the proposed waiver process, the first time a Registered Person is designated as eligible for a waiver based on the FSA criteria, the Participant with which the individual is registered would notify the Exchange of the FSA designation. The Participant would concurrently file a full Form U5 terminating the individual’s registration with the firm, which would also terminate the individual’s other SRO and state registrations. To be eligible for initial designation as an FSA-eligible person by a Participant, an individual must have been registered for a total of five years within the most recent 10-year period prior to the designation, including

²⁷ The proposed rule is substantially similar to NYSE National Rule 2.120, Commentary .08.

²⁸ Proposed paragraph .08 of the Interpretations and Policies of Article 6, Rule 13 defines a “financial services industry affiliate of an Participant” as a legal entity that controls, is controlled by or is under common control with an Participant and is regulated by the SEC, CFTC, state securities authorities, federal or state banking authorities, state insurance authorities, or substantially equivalent foreign regulatory authorities.

for the most recent year with that Participant. An individual would have to satisfy these preconditions only for purposes of his or her initial designation as an FSA-eligible person, and not for any subsequent FSA designation(s). Thereafter, the individual would be eligible for a waiver for up to seven years from the date of initial designation,²⁹ provided that the other conditions of the waiver, as described below, have been satisfied. Consequently, a Participant other than the Participant that initially designated an individual as an FSA-eligible person may request a waiver for the individual and more than one Participant may request a waiver for the individual during the seven-year period.³⁰

An individual designated as an FSA-eligible person would be subject to the Regulatory Element of CE while working for a financial services industry affiliate of a Participant. The

²⁹ Individuals would be eligible for a single, fixed seven-year period from the date of initial designation, and the period would not be tolled or renewed.

³⁰ The following examples illustrate this point:

Example 1. Firm A designates an individual as an FSA-eligible person by notifying the Exchange and files a Form U5. The individual joins Firm A's financial services affiliate. Firm A does not submit a waiver request for the individual. After working for Firm A's financial services affiliate for three years, the individual directly joins Firm B's financial services affiliate for three years. Firm B then submits a waiver request to register the individual.

Example 2. Same as Example 1, but the individual directly joins Firm B after working for Firm A's financial services affiliate, and Firm B submits a waiver request to register the individual at that point in time.

Example 3. Firm A designates an individual as an FSA-eligible person by notifying the Exchange and files a Form U5. The individual joins Firm A's financial services affiliate for three years. Firm A then submits a waiver request to re-register the individual. After working for Firm A in a registered capacity for six months, Firm A re-designates the individual as an FSA-eligible person by notifying the Exchange and files a Form U5. The individual rejoins Firm A's financial services affiliate for two years, after which the individual directly joins Firm B's financial services affiliate for one year. Firm B then submits a waiver request to register the individual.

Example 4. Same as Example 3, but the individual directly joins Firm B after the second period of working for Firm A's financial services affiliate, and Firm B submits a waiver request to register the individual at that point in time.

individual would be subject to a Regulatory Element program that correlates to his or her most recent registration category, and CE would be based on the same cycle had the individual remained registered. If the individual fails to complete the prescribed Regulatory Element during the 120-day window for taking the session, he or she would lose FSA eligibility (i.e., the individual would have the standard two-year period after termination to re-register without having to retake an examination). The Exchange is making corresponding changes to Article 6, Rule 11, as described below.

Upon registering an FSA-eligible person, a firm would file a Form U4 and request the appropriate registration(s) for the individual. The firm would also submit an examination waiver request to the Exchange,³¹ similar to the process used today for waiver requests, and it would represent that the individual is eligible for an FSA waiver based on the conditions set forth below. The Exchange would review the waiver request and make a determination of whether to grant the request within 30 calendar days of receiving the request. The Exchange would summarily grant the request if the following conditions are met:

(1) Prior to the individual's initial designation as an FSA-eligible person, the individual was registered for a total of five years within the most recent 10-year period, including for the most recent year with the Participant that initially designated the individual as an FSA-eligible person;

(2) The waiver request is made within seven years of the individual's initial designation as an FSA-eligible person by a Participant;

³¹ The Exchange would consider a waiver of the representative-level qualification examination(s), the principal-level qualification examination(s) and the SIE, as applicable.

(3) The initial designation and any subsequent designation(s) were made concurrently with the filing of the individual's related Form U5;

(4) The individual continuously worked for the financial services affiliate(s) of a Participant since the last Form U5 filing;

(5) The individual has complied with the Regulatory Element of CE; and

(6) The individual does not have any pending or adverse regulatory matters, or terminations, that are reportable on the Form U4, and has not otherwise been subject to a statutory disqualification while the individual was designated as an FSA-eligible person with a Participant.

Following the Form U5 filing, an individual could move between the financial services affiliates of a Participant so long as the individual is continuously working for an affiliate. Further, a Participant could submit multiple waiver requests for the individual, provided that the waiver requests are made during the course of the seven-year period.³² An individual who has been designated as an FSA-eligible person by a Participant would not be able to take additional examinations to gain additional registrations while working for a financial services affiliate of a Participant.

³² For example, if a Participant submits a waiver request for an FSA-eligible person who has been working for a financial services affiliate of the Participant for three years and re-registers the individual, the Participant could subsequently file a Form U5 and re-designate the individual as an FSA-eligible person. Moreover, if the individual works with a financial services affiliate of the Participant for another three years, the Participant could submit a second waiver request and re-register the individual upon returning to the Participant.

10. Proposed paragraph .09 of the Interpretations and Policies of Article 6, Rule 13 - Status of Persons Serving in the Armed Forces of the United States³³

Proposed paragraph .09 provides specific relief to Registered Persons serving in the Armed Forces of the United States. Among other things, the proposed rule permits a Registered Person of a Participant who volunteers for or is called into active duty in the Armed Forces of the United States to be registered in an inactive status and remain eligible to receive ongoing transaction-related compensation. The proposed rule also includes specific provisions regarding the deferment of the lapse of registration requirements for formerly Registered Persons serving in the Armed Forces of the United States. The proposed rule further requires that the Participant with which such person is registered promptly notify the Exchange of such person's return to employment with the Participant. The proposed rule would require a Participant that is a sole proprietor to also similarly notify the Exchange of his or her return to participation in the investment banking or securities business. The proposed rule also provides that the Exchange would defer the lapse of the SIE for formerly Registered Persons serving in the Armed Forces of the United States.

B. Proposed New Article 6, Rule 14 - Registration Categories³⁴

³³ The proposed rule is substantially similar to NYSE National Rule 2.1210, Commentary .09.

³⁴ Like NYSE National, the Exchange is not adopting the following categories from the FINRA Filing because Participants do not engage in the type of business that would require registration with the Exchange: Investment Banking Principal, Research Principal, Registered Options Principal, Government Securities Principal, Investment Company and Variable Contracts Products Principal, Direct Participation Programs Principal, Private Securities Offerings Principal, Supervisory Analyst, Operations Professional, Investment Banking Representative, Research Analyst, Investment Company and Variable Contracts Products Representative, Direct Participation Programs Representative, and Private Securities Offering Representative. Also, like NYSE National, the Exchange is also not adopting the following categories because the FINRA Filing eliminated them: Order Processing Assistant Representative, United Kingdom Securities Representative, Canadian Securities Representative, Options Representative, Corporate Securities Representative and Government Securities Representative.

1. Proposed Rule 14(a)(1) - Principal

Article 6, Rule 2(c)(1) currently defines the term “Principal” to mean any Person 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 and such persons include: (A) Sole Proprietors; (B) Officers; (C) Partners; (D) Branch office managers; and (E) Directors.

The Exchange is proposing to move the definition of “Principal” to proposed Article 6, Rule 14(a)(1), which is similar to current Article 6, Rule 2(c)(1), except that proposed Rule 14(a)(1) codifies the phrase “actively engaged in the management of the Participant’s securities business” to include the management of, and the implementation of corporate policies related to, such business. The term also includes managerial decision-making authority with respect to the Participant’s securities business and management-level responsibilities for supervising any aspect of such business, such as serving as a voting member of the Participant’s executive, management or operations committee. In addition, the term “principal” is lowercase to be stylistically consistent with the use of the term throughout NYSE National rules³⁵ and therefore the Exchange propose to replace a reference to “Principal” under current Article 6, Rule 2(c) with “principal.” Correspondingly, the Exchange propose to delete current Article 6, Rule 2(c)(1) as repetitive.

2. Proposed Rule 14(a)(2) - General Securities Principal³⁶

Proposed Rule 14(a)(2)(A) states that each principal as defined in proposed Rule 14(a)(1) is required to register with the Exchange as a General Securities Principal, subject to the

³⁵ See e.g., NYSE National Rule 2.1210, Commentary .09.

³⁶ The proposed rule is substantially similar to NYSE National Rule 2.1220(a)(2).

following exceptions. The proposed rule provides that if a principal's activities include the functions of a Compliance Officer, a Financial and Operations Principal (or an Introducing Broker-Dealer Financial and Operations Principal, as applicable), a Principal Financial Officer, a Principal Operations Officer, or a Securities Trader Principal, then the principal must appropriately register in one or more of these categories.

Proposed Rule 14(a)(2)(A) further provides that if a principal's activities are limited solely to the functions of a General Securities Sales Supervisor, then the principal may appropriately register in that category in lieu of registering as a General Securities Principal.

Proposed Rule 14(a)(2)(B) requires that an individual registering as a General Securities Principal satisfy the General Securities Representative prerequisite registration and pass the General Securities Principal qualification examination. Proposed Rule 14(a)(2)(B) also clarifies that an individual may register as a General Securities Sales Supervisor and pass the General Securities Sales Supervisor qualification examination in lieu of passing the General Securities Principal examination.

Proposed Rule 14(a)(2)(B) also provides that, subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, each person registered with the Exchange as a General Securities Principal on October 1, 2018 and each person who was registered with the Exchange as a Corporate Securities Representative and a General Securities Principal within two years prior to October 1, 2018 would be qualified to register as a General Securities Principal without having to take any additional qualification examinations, provided that such person's supervisory responsibilities in the investment banking and securities business of a Participant are limited to corporate securities activities of the Participant. The proposed rule further provides that all other individuals registering as General Securities Principals after

October 1, 2018 shall, prior to or concurrent with such registration, become registered as a General Securities Representative and either (1) pass the General Securities Principal qualification examination; or (2) register as a General Securities Sales Supervisor and pass the General Securities Sales Supervisor qualification examination.

In light of proposed Rule 14(a)(2), the Exchange proposes to delete the portion of current Article 6, Rule 2(c) requiring that a person pass the “Series 24” exam as prerequisite to registering as a General Securities Principal, as discussed below.

3. Proposed Rule 14(a)(3) - Compliance Officer³⁷

Proposed Rule 14(a)(3) establishes a Compliance Officer registration category and requires all persons designated as CCOs on Schedule A of Form BD to register as Compliance Officers, subject to an exception for Participants engaged in limited investment banking or securities business. The proposed rule only addresses the registration requirements for CCOs. However, consistent with proposed paragraph .01 under Article 6, Rule 13 relating to permissive registrations, a firm may allow other associated persons to register as Compliance Officers.

In addition, the Exchange is proposing to provide CCOs of firms that engage in limited investment banking or securities business with greater flexibility to satisfy the qualification requirements for CCOs. Specifically, proposed Rule 14(a)(3) set forth the following qualification requirements for Compliance Officer registration:

- Subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, each person registered with the Exchange as a General Securities Representative and a General Securities Principal on October 1, 2018 and each person who was registered with the Exchange as a General Securities

³⁷ The proposed rule is substantially similar to NYSE National Rule 2.1220(a)(3).

Representative and a General Securities Principal within two years prior to October 1, 2018 would be qualified to register as Compliance Officers without having to take any additional examinations. In addition, subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, individuals registered as Compliance Officials in the CRD system on October 1, 2018 and individuals who were registered as such within two years prior to October 1, 2018 would also be qualified to register as Compliance Officers without having to take any additional examinations.

- All other individuals registering as Compliance Officers after October 1, 2018 would have to: (1) satisfy the General Securities Representative prerequisite registration and pass the General Securities Principal qualification examination; or (2) pass the Compliance Official qualification examination.
- An individual designated as a CCO on Schedule A of Form BD of a Participant that is engaged in limited investment banking or securities business may be registered in a principal category under proposed Article 6, Rule 14(a) that corresponds to the limited scope of the Participant's business.

In light of proposed Rule 14(a)(3), the Exchange proposes to delete the portion of current Article 6, Rule 2(c) permitting a person pass the "Series 14" Compliance Official qualification exam in lieu of the "Series 24" exam as prerequisite to registering as a General Securities Principal, as discussed below.

4. Proposed Rule 14(a)(4) - Financial and Operation Principal and Introducing Broker-Dealer Financial and Operations Principal³⁸

Proposed Rule 14(a)(4) provides that each principal who is responsible for the financial and operational management of a Participant that has a minimum net capital requirement of \$250,000 under SEA Rules 15c3-1(a)(1)(ii) and 15c3-1(a)(2)(i), or a Participant that has a minimum net capital requirement of \$150,000 under SEA Rule 15c-3-1(a)(8) must be designated as a Financial and Operations Principal (“FINOP”).³⁹ In addition, proposed Rule 14(a)(4) provides that a principal who is responsible for the financial and operational management of a Participant that is subject to the net capital requirements of SEA Rule 15c3-1, other than a Participant that is subject to the net capital requirements of SEA Rules 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), must be designated and registered as either a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal.⁴⁰ Financial and Operations Principals and Introducing Broker-Dealer Financial and Operation Principals are not subject to a prerequisite representative registration, but they must pass the Financial and Operations Principal or Introducing Broker-Dealer Financial and Operations Principal examination, as applicable.

Additionally, proposed Rule 14(a)(4)(B) requires a Participant to designate a Principal Financial Officer with primary responsibility for the day-to-day operations of the business, including overseeing the receipt and delivery of securities and funds, safeguarding customer and firm assets, calculation and collection of margin from customers and processing dividend receivable and payables and reorganization redemptions and those books and records related to

³⁸ The proposed rule is substantially similar to NYSE National Rule 2.1220(a)(4).

³⁹ In light of these provisions, the Exchange proposes to delete current Article 6, Rule 2(c)(3), as discussed below.

⁴⁰ The Exchange does not currently recognize the Introducing Broker-Dealer Financial and Operations Principal registration category.

such activities. Further, the proposed rule requires that a firm's Principal Financial Officer and Principal Operations Officer qualify and register as Financial and Operations Principals or Introducing Broker-Dealer Financial and Operations Principals, as applicable.

Because the financial and operational activities of Participants that neither self-clear nor provide clearing services are more limited, such Participants may designate the same person as the Principal Financial Officer, Principal Operations Officer and Financial and Operations Principal or Introducing Broker-Dealer Financial and Operations Principal (that is, such Participants are not required to designate different persons to function in these capacities).

Given the level of financial and operational responsibility at clearing and self-clearing members, the Exchange believes that it is necessary for such Participants to designate separate persons to function as Principal Financial Officer and Principal Operations Officer. Such persons may also carry out the other responsibilities of a Financial and Operations Principal, such as supervision of individuals engaged in financial and operational activities. In addition, the proposed rule provides that a clearing or self-clearing Participant that is limited in size and resources may request a waiver of the requirement to designate separate persons to function as Principal Financial Officer and Principal Operations Officer.

In light of proposed Rule 14(a)(4), the Exchange proposes to delete current Article 6, Rule 2(c)(3), which describes the Limited Principal – Financial and Operations registration category, as discussed below.

5. Proposed Rule 14(a)(5) - Securities Trader Principal⁴¹

Proposed Rule 14(a)(5) requires that a principal responsible for supervising the securities trading activities specified in proposed Rule 14(b)(3) register as a Securities Trader Principal.

⁴¹ The proposed rule is substantially similar to NYSE National Rule 2.1220(a)(5).

The proposed rule requires that individuals registering as Securities Trader Principals must be registered as Securities Traders and pass the General Securities Principal qualification examination.

In light of proposed Rule 14(a)(5), the Exchange proposes to delete current Article 6, Rule 2(c)(2), which describes the Securities Trader Principal registration category, as discussed below.

6. Proposed Rule 14(a)(6) - General Securities Sales Supervisor⁴²

Proposed Rule 14(a)(6) provides that a principal may register with the Exchange as a General Securities Sales Supervisor if his or her supervisory responsibilities in the investment banking or securities business of a Participant are limited to the securities sales activities of the Participant, including the approval of customer accounts, training of sales and sales supervisory personnel and the maintenance of records of original entry or ledger accounts of the Participant required to be maintained in branch offices by Exchange Act record-keeping rules.⁴³

A person registering as a General Securities Sales Supervisor must satisfy the General Securities Representative prerequisite registration and pass the General Securities Sales Supervisor examinations.⁴⁴ Moreover, a General Securities Sales Supervisor is precluded from performing any of the following activities: (1) Supervision of the origination and structuring of underwritings; (2) supervision of market-making commitments; (3) supervision of the custody of firm or customer funds or securities for purposes of SEA Rule 15c3-3; or (4) supervision of overall compliance with financial responsibility rules.

⁴² The proposed rule is substantially similar to NYSE National Rule 2.1220(a)(6).

⁴³ The Exchange does not currently recognize the General Securities Sales Supervisor registration category.

⁴⁴ An individual may also register as a General Securities Sales Supervisor by passing a combination of other principal-level examinations.

7. Proposed Rule 14(b)(1) - Representative⁴⁵

Proposed Rule 14(b)(1) defines a representative as any person associated with a Participant, including assistant officers other than principals, who is engaged in the Participant's investment banking or securities business, such as supervision, solicitation, conduct of business in securities or the training of persons associated with a Participant for any of these functions.

In light of proposed Rule 14(b)(1), the Exchange proposes to delete definition of "Representative" under current Article 6, Rule 2(b), as discussed below.

8. Proposed Rule 14(b)(2) - General Securities Representative⁴⁶

Proposed Rule 14(b)(2)(A) states that each representative as defined in proposed Rule 14(b)(1) is required to register with the Exchange as a General Securities Representative, subject to the following exceptions. The proposed rule provides that if a representative's activities include the function of a Securities Trader, then the representative must appropriately register in that category.

The proposed rule further provides that, subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, each person registered with the Exchange as a General Securities Representative on October 1, 2018 and each person who was registered with the Exchange as a General Securities Representative within two years prior to October 1, 2018 would be qualified to register as a General Securities Representative without having to take any additional qualification examinations. Additionally, the proposed rule would require that individuals registering as General Securities Representatives after October 1, 2018 shall, prior to or concurrent with such registration, pass the SIE and the General Securities Representative examination.

⁴⁵ The proposed rule is substantially similar to NYSE National Rule 2.1220(b)(1).

⁴⁶ The proposed rule is substantially similar to NYSE National Rule 2.1220(b)(2).

9. Proposed Rule 14(b)(3) - Securities Trader⁴⁷

Proposed Rule 14(b)(3) provides that each representative as defined in proposed Rule 14(b)(1) is required to register as a Securities Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities. The proposed rule provides an exception from the registration requirement for any associated person of a Participant whose trading activities are conducted primarily on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act and that controls, is controlled by, or is under common control with a Participant. The Exchange proposes to adopt NYSE National's definition of Securities Trader in proposed Rule 14(b)(3) in order to align the text of the rule to that adopted by NYSE National and other exchanges.⁴⁸

The proposed rule also requires that associated persons primarily responsible for the design, development or significant modification of algorithmic trading strategies (or responsible for the day-to-day supervision or direction of such activities) register as Securities Traders. Individuals registering as Securities Traders must pass the SIE and the Securities Trader Examination.

Finally, the proposed rule provides that, subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, each person registered with the Exchange as a Securities Trader on October 1, 2018 and each person who was registered with the Exchange as a Securities Trader within two years prior to October 1, 2018 would be qualified to register as a

⁴⁷ The proposed rule is substantially similar to NYSE National Rule 2.1220(b)(3).

⁴⁸ See e.g., NYSE National Rule 2.1220(b)(3); see also e.g., MIAX International Stock Exchange, LLC Rule 203(d).

Securities Trader without having to take any additional qualification examinations. Additionally, the proposed rule would require that individuals registering as Securities Traders after October 1, 2018 shall, prior to or concurrent with such registration, pass the SIE and the Securities Trader qualification examination.

10. Proposed paragraph .01 of the Interpretations and Policies of Rule 14 - Foreign Registrations⁴⁹

Proposed paragraph .01 states that individuals who are in good standing as representatives with the Financial Conduct Authority in the United Kingdom or with a Canadian stock exchange or securities regulator would be exempt from the requirement to pass the SIE, and thus would be required only to pass a specialized knowledge examination to register with the Exchange as a representative. The proposed approach would provide individuals with a United Kingdom or Canadian qualification more flexibility to obtain a representative-level registration. Additionally, proposed paragraph .01 provides that, subject to the lapse of registration provisions in proposed paragraph .07 under Article 6, Rule 13, each person who is registered with the Exchange as a United Kingdom Securities Representative or a Canada Securities Representative on October 1, 2018 and each person who was registered with the Exchange in such categories within two years prior to October 1, 2018 would be eligible to maintain such registrations with the Exchange. However, if persons registered in such categories subsequently terminate such registration(s) with the Exchange and the registration remains terminated for two or more years, they would not be eligible to re-register in such categories.

⁴⁹ The proposed rule is substantially similar to NYSE National Rule 2.1220, Commentary .01.

11. Proposed paragraph .02 of the Interpretations and Policies of Rule 14 - Additional Qualification Requirements for Persons Engaged in Security Futures⁵⁰

Proposed paragraph .02 states that each person who is registered with the Exchange as a General Securities Representative, United Kingdom Securities Representative, Canada Securities Representative, or General Securities Sales Supervisor shall be eligible to engage in security futures activities as a representative or principal, as applicable, provided that such individual completes a Firm Element program as set forth in Article 6, Rule 11(b) that addresses security futures products before such person engages in security futures activities.⁵¹

12. Proposed paragraph .03 of the Interpretations and Policies of Rule 14 - Scope of General Securities Sales Supervisor Registration Category⁵²

Proposed paragraph .03 explains the purpose of the General Securities Sales Supervisor registration category. The General Securities Sales Supervisor category is an alternate category of registration designed to lessen the qualification burdens on principals of general securities firms who supervise sales. Without this category of limited registration, such principals would be required to separately qualify pursuant to the rules of FINRA, the MSRB, the NYSE and the options exchanges. While persons may continue to separately qualify with all relevant self-regulatory organizations, the General Securities Sales Supervisor examination permits qualification as a supervisor of sales of all securities through one registration category. Persons

⁵⁰ The proposed rule is substantially similar to NYSE National Rule 2.1220, Commentary .02.

⁵¹ FINRA Rule 1220.02 also includes Options Representative and Registered Options Principal registration categories. Like NYSE National, the Exchange does not trade options and Participants of the Exchange therefore would not be required to register with the Exchange in those categories and therefore the Exchange is not adopting those categories within proposed paragraph .02.

⁵² The proposed rule is substantially similar to NYSE National Rule 2.1220, Commentary .03.

registered as General Securities Sales Supervisors may also qualify in any other category of principal registration. Persons who are already qualified in one or more categories of principal registration may supervise sales activities of all securities by also qualifying as General Securities Sales Supervisors.

The proposed rule further provides that any person required to be registered as a principal who supervises sales activities in corporate, municipal and option securities, investment company products, variable contracts, and security futures (subject to the requirements of paragraph .02 under Rule 14) may be registered solely as a General Securities Sales Supervisor. In addition to branch office managers, other persons such as regional and national sales managers may also be registered solely as General Securities Sales Supervisors as long as they supervise only sales activities.

C. Proposed Article 6, Rule 15 - Associated Persons Exempt from Registration⁵³

Proposed Rule 15 provides an exemption from registration with the Exchange for certain associated persons. Specifically, the proposed rule provides that persons associated with a Participant whose functions are solely and exclusively clerical or ministerial would be exempt from registration.⁵⁴

⁵³ The proposed rule is substantially similar to NYSE National Rule 2.1230.

⁵⁴ FINRA Rule 1230 provides an exemption from registration with FINRA to persons associated with a FINRA member whose functions are solely and exclusively clerical or ministerial and persons associated with a FINRA member whose functions are related solely and exclusively to (i) effecting transactions on the floor of a national securities exchange and who are appropriately registered with such exchange; (ii) effecting transactions in municipal securities; (iii) effecting transactions in commodities; or (iv) effecting transactions in security futures, provided that any such person is registered with a registered futures association. Participants of the Exchange do not solely and exclusively engage in any of the foregoing transactions and therefore, like NYSE National, the Exchange is not adopting that portion of FINRA Rule 1230.

1. Proposed paragraph .01 of the Interpretations and Policies of Article 6, Rule 15 - Registration Requirements for Associated Persons Who Accept Customer Orders⁵⁵

Proposed paragraph .01, clarifies that the function of accepting customer orders is not considered clerical or ministerial and that associated persons who accept customer orders under any circumstances are required to be appropriately registered. However, the proposed rule provides that an associated person is not accepting a customer order where occasionally, when an appropriately Registered Person is unavailable, the associated person transcribes the order details and the Registered Person contacts the customer to confirm the order details before entering the order.

In light of proposed Rule 15, the Exchange proposes conforming amendments to current Article 6, Rule 2(d) – Persons Exempt from Registration (proposed Article 6, Rule 2(c)), as discussed below.

D. Amendments to Article 1, Rule 1 (Definitions)

Current paragraph .01 under Article 6, Rule 11 provides that “[f]or the purposes of this Rule, the term ‘registered person’ means any Participant, registered representative or other person registered required to be registered under Exchange rules.” The Exchange now proposes to amend the definition to include, in addition to those persons required to register with the Exchange, those persons that are permissively registered under proposed paragraph .01 under Article 6, Rule 13 or any person that received a waiver under the Rules, such as pursuant to paragraphs .02 or .08 under Article 6, Rule 13. Accordingly, the Exchange proposes to (1) amend current paragraph .01 under Article 6, Rule 11 to provide that the term “Registered Person” is defined under proposed Article 1, Rule 1(yy); (2) adopt a new definition of

⁵⁵ The proposed rule is substantially similar to NYSE National Rule 2.1230, Commentary .01.

“Registered Person” similar to NYSE National Rule 2.2(e) under proposed Article 1, Rule 1(yy) (as the term is used throughout Article 6 and not only under Article 6, Rule 11), which provides that “Registered Person” shall mean any person registered with the Exchange under any registration categories specified under proposed Articles 6 and 16, any person who is permissively registered or any person designated as eligible for a waiver pursuant to the Rules; and (4) capitalize all references to “registered person” throughout amended Article 6.

E. Amendments to Article 6, Rule 2 (Registration and Approval of Participant Personnel)

1. Proposed Rule 2(a) - Registration of Representatives

Current Rule 2(a) provides, among other things, that all Representatives shall be registered as such with the Exchange in the category of registration appropriate to the function to be performed and requires individual associated persons to submit the appropriate application for registration, pass appropriate qualification examinations, submit required registration and examination fees and comply with continuing education requirements.

In light of the new definition of “representative” under proposed Article 6, Rule 14(b)(1), as described above, the Exchange proposes to amend the current rule to provide that the term “representative” is defined under proposed Article 6, Rule 14(b)(1) and that representatives shall be registered as such with the Exchange in the category of registration appropriate to the function to be performed, pursuant to amended Article 6, Rule 3, as described below, and proposed Article 6, Rule 13, as described above. Moreover, the Exchange proposes to delete the current definition of “representative” under current Article 6, Rule 2(b)⁵⁶ and replace all references to “Representative” or “Representatives” under Article 6 with “representative” or “representatives,”

⁵⁶ Subsequent paragraphs under amended Article 6, Rule 2 will be revised accordingly.

respectively. The Exchange notes that the term “representative” is not capitalized under the NYSE National rules.⁵⁷

2. Proposed Rule 2(b) – Registration of Principals

Current Rule 2(c) provides 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 current Rule 2(c) and each Principal shall pass the Series 24 or Series 14 exam, as applicable, pursuant to current Article 6, Rule 3(b).

In light of the new definition of “principal” under proposed Article 6, Rule 14(a)(1), as described above, and the provisions related to principal registration categories and requirements are now under proposed Article 6, Rule 14(a)(1), proposed Rule 2(b) provides that the term “principal” is defined under proposed Article 6, Rule 14(a)(1) and 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 in the category of registration appropriate to the function to be performed, pursuant to amended Article 6, Rule 3 and proposed Article 6, Rule 13. Moreover, the Exchange proposes to omit provisions requiring each principal to pass the Series 24 or Series 14 exam, as applicable, under proposed Rule 2(b) as repetitive of new provisions under proposed Article 6, Rules 14(a)(2) - General Securities Principal and (a)(3) - Compliance Officer, as described above.

In addition, the Exchange proposes to delete the current definition of “Principal” under current Rule 2(c)(1) given the new definition of “principals” under proposed Article 6, Rule 14(a)(1) and to replace a reference to “Principal” with “principal” under current Rule 2(c)

⁵⁷ See NYSE National Rule 2.1220(b)(1).

(proposed Rule 2(b)). The Exchange notes that the term “principal” is not capitalized under the NYSE National rules.⁵⁸

Furthermore, the Exchange propose to delete current Rule 2(c)(2), which describes the Securities Trader Principal registration category, as repetitive of proposed Article 6, Rule 14(a)(5); and delete current Rule 2(c)(3), which describes the Limited Principal – Financial and Operations registration category, as repetitive of proposed Article 6, Rule 14(a)(4). In light of these deletions, current Rule 2(c)(4) will become proposed Rule 2(b)(1).

Finally, the Exchange proposes to consolidate current Rules 2(c)(5) - Requirement of Two Registered Principals for Participants and (c)(6) - Waiver of Two Principal Requirement into proposed Rule 2(b)(2). Specifically, current Rule 2(c)(5) provides that a Participant shall have at least two officers or partners who are registered as principals with respect to each aspect of the Participant’s securities business pursuant to the applicable provisions of Rule 3 of this Article and this requirement applies to applicants seeking admission as Participants and existing Participants. Current Rule 2(c)(5) also provides that in addition to the two registered principals, Participants shall also have at least one person qualified for registration as a FINOP pursuant to current Article 6, Rule 3(c). In turn, current Rule 2(c)(6) provides that based upon the written application of the Participant or prospective Participant, the Exchange may waive the requirement to maintain two principals if the Participant demonstrates conclusively that only one individual acting in such capacity should be required to register. Current Rule 2(c)(6) also provides that 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. Current Rule 2(c)(6) further provides that a Participant shall be considered to conduct

⁵⁸ NYSE National Rule 2.1220(a)(1).

only proprietary trading if the Participant has the following characteristics: (A) The Participant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member; (B) All funds used or proposed to be used by the Participant are the Participant's own capital, traded through the Participant's own accounts; (C) The Participant does not, and will not, have customers; and (D) 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.

Proposed Rule 2(b)(2) is similar to NYSE National Rule 2.2(c)(2) and largely retains the substance of current Rules 2(c)(5) and (6). Specifically, proposed Rule 2(b)(1) provides as follows:

Each Participant, other than a sole proprietorship is required to register at least two Principals with the Exchange; provided, however, that a proprietary trading firm with 25 or fewer representatives shall only be required to register one principal with the Exchange. A person registered solely as a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal ("FINOP"), as defined under Article 6, Rule 14(a)(4), does not count toward the two-principal requirement and shall not be qualified to function in a principal capacity with responsibility over any area of business activity not described under Article 6, Rule 14(a)(4). The Exchange may waive the provisions of this paragraph (b)(2) in situations that indicate conclusively that only one person associated with an applicant for membership should be required to register as a principal. For purposes of this paragraph (b)(2), a "proprietary trading firm" shall mean a Participant meeting the following

characteristics: it trades its own capital, does not have customers, excluding broker-dealers, and is not a FINRA member. To qualify for this definition, the funds used by a proprietary trading firm must be exclusively firm funds, all trading must be in the firm's accounts, and traders must be owners of, employees of, or contractors to the firm.

3. Proposed Rule 2(c) – Persons Exempt from Registration⁵⁹

Current Rule 2(d) (Persons Exempt from Registration) the following persons associated with a Participant are not required to be registered with the Exchange: (1) persons associated with a Participant whose functions are solely and exclusively clerical or ministerial; (2) persons associated with a Participant who are not actively engaged in the securities business; (3) individual Participants and individual associated persons whose functions are related solely and exclusively to the Participant's need for nominal corporate officers or for capital participation; and (4) individual associated persons whose functions are related solely and exclusively to: (A) transactions in commodities; or (B) transactions in security futures; or (C) effecting transactions at another national securities exchange and who are registered as members with such exchange.

In light of proposed Article 6, Rule 15 (Associated Persons Exempt from Registration), the Exchange does not propose to maintain the current exemption from registration provisions as it is inconsistent with NYSE National Rule 2.1230. Accordingly, proposed Rule 2(c) provides that only persons who qualify for exemption from registration pursuant to proposed Article 6, Rule 15 shall be exempt from registration with the Exchange.

⁵⁹ See supra note 56.

4. Proposed Rule 2(d) – Impermissible Registrations⁶⁰

Current Rule 2(e) (Other Registration Requirements) provides several bases upon which a person may not be registered with a Participant. The rule provides that a Participant shall not make 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. The rule also states that a Participant shall not maintain a registration with the Exchange for any person who is no longer active in the Participant’s securities business; who is no longer functioning in the registered capacity; or where the sole purpose is to avoid an examination requirement. However, proposed paragraph .01 of Article 6, Rule 13 provides that a Participant may make application for or maintain the registration as a representative or principal of any associated person of a Participant and any individual engaged in the securities business of a foreign securities affiliate or subsidiary of the Participant. Therefore, without amending current Rule 2(e), a person may be eligible for permissive registration pursuant to proposed paragraph .01 under Article 6, Rule 13, but may be prohibited from such registration pursuant to current Rule 2(e).

In light of proposed paragraph .01 under Article 6, Rule 13, the Exchange proposes to delete current Rule 2(e) in its entirety and to adopt proposed Rule 2(d), which provides that Participants shall not register or maintain the registration of any person unless consistent with the requirements of proposed Article 6, Rule 13.⁶¹

F. Amendments to Article 6, Rule 3 - Training and Examination of Registrants

1. Proposed Rule 3(a) – Registration Requirements of Representatives

Current Rule 3(a)(1) provides the current registration requirements of representatives. The Exchange now proposes to amend Rule 2(a) to replace references to the “Series 7 General

⁶⁰ Id.

⁶¹ The proposed change is substantially similar to that contained in FINRA Rule 1210.10.

Securities Representative examination” and the “Series 57 Securities Trader Examination” with “General Securities Representative qualification examination (‘Series 7’)” and “Securities Trader Examination (‘Series 57’),” respectively, so as to be consistent with references to the examinations under NYSE National Rule 2.2, Commentaries .01 and .03. The Exchange also proposes to amend the rule to require that representatives pass the SIE in addition to the Series 7 or Series 57, as applicable, which is consistent with proposed Article 6, Rules 14(b)(2)(B) and 14(b)(3)(B). Finally, the Exchange proposes replace language describing persons who must register with the Exchange as a Securities Trader with new language providing that each representative meeting the definition of a Securities Trader under proposed Article 6, Rule 14(b)(3) must pass the Series 57 and the SIE.

Current Rule 3(a)(2) provides that a representative that is engaged solely in “securities trading activities” shall not be required to registered as a General Securities Representative. In light of proposed Article 6, Rule 14(b)(3), which outlines the types of trading activities that would require a representative to register as a Securities Trader, the Exchange proposes to amend Rule 3(a)(2) to clarify that “securities trading activities” are described under proposed Article 6, Rule 14(b)(3).

2. Proposed Rule 3(b) – Supervisory Requirements and Registration

Current Rule 3(b) provides general registration and supervisory requirements of principals. The Exchange now proposes to replace references to the “General Securities Principal examination, Series 24” with “General Securities Principal qualification examination (‘Series 24’),” so as to be stylistically consistent with the proposed references to the Series 7 and Series 57 exams under proposed Article 6, Rule 3(a)(1). In addition, the Exchange proposes to replace citations to the current definition of “Principal” under current Article 6, Rule 2(c)(1) with

the amended definition of “principal” under proposed Article 6, Rule 14(a). Finally, the Exchange proposes replace the references to “successfully complete and maintain” with the word “pass,” so as to be stylistically consistent with references under proposed Article 6, Rule 14 to “passing” or having to “pass” a qualification examination.

Current Rule 3(b)(1) provides a “Securities Trading Exception” permitting the Chief Compliance Officer of a Participant Firm that engages solely in securities trading activities to complete and maintain the Compliance Officer Exam (Series 14) as an alternative qualification to the Series 24. The Exchange now proposes to eliminate this exception and to generally provide that the Exchange will accept the New York Stock Exchange (“NYSE”) Compliance Official Examination (“NYSE Series 14”) as an alternative qualification to the Series 24 to register as a principal an individual identified as the Chief Compliance Officer on the Participant’s Form BD.⁶²

3. Proposed Rule 3(c) – Financial and Operations Principals

Current Rule 3(c) requires that each Participant designate one individual as a FINOP, who must pass the Financial Operations Principal examination, Series 27. The Exchange now proposes to replace reference to “Limited Principal – Financial and Operations (‘FINOP’)” with “FINOP,” as the abbreviation is already established under proposed Article 6, Rule 2(b)(2). In addition, the Exchange proposes to adopt additional language permitting a Participant to designate an “Introducing Broker-Dealer FINOP,” in lieu of a FINOP, if applicable, and requiring all Registered Persons designated as an Introducing Broker-Dealer FINOP to pass the Introducing Broker-Dealer Financial and Operations Principal qualification examination (“Series 28”). Finally, the Exchange propose to replace a reference to the “Financial and Operations

⁶² The proposed rule is substantially similar to NYSE National Rule 2.2, Commentary .02.

Principal examination, Series 27” with “Financial and Operations Principal qualification examination (“Series 27”),” so as to be stylistically consistent with the proposed references to other examinations, such as the Series 7 and Series 57 exams under proposed Article 6, Rule 3(a)(1).

4. Proposed Rule 3(d) – Institutional Broker Representatives

Current Rule 3(d) provides registration requirements for Institutional Broker Representatives, which is a registration category unique to CHX.⁶³ In addition, current paragraph .01(a) under Article 6, Rule 3 provides that all applicants seeking to register as Institutional Broker Representatives must successfully complete the Institutional Broker Exam. The Exchange now proposes to amend current Rule 3(d) by adding an introductory sentence that consolidates and replaces current paragraph .01(a) under Article 6, Rule 3 and the first sentence of current Rule 3(d), which states that all applicants seeking to register as Institutional Broker Representatives, as defined under current Article 1, Rule 1(gg), must pass the Exchange’s Institutional Broker Examination and comply with the provisions of Article 17. The Exchange also proposes to replace references to “Series 7 General Securities Representative examination,” “Series 57 Securities Trader Exam” and the General Securities Principal Series 24 exam” with “General Securities Representative qualification examination,” “Securities Trader qualification examination” and the “General Securities Principal qualification examination,” which is stylistically consistent with references to the examinations under proposed Article 6, Rules 3(a) and 3(b). In addition, the Exchange proposes to amend the rule to require that Institutional Broker Representatives that are required to register with the exchange as a representative pass the SIE in addition to the Series 7 or Series 57, as applicable, which is consistent with proposed

⁶³ See CHX Article 1, Rule 1(gg) defining “Institutional Broker Representative.”

Article 6, Rules 14(b)(2)(B) and 14(b)(3)(B). Also, in light of the amendments to Rule 3(b)(1) described above, the Exchange proposes to replace reference to the Securities Trading Exception, which will be eliminated, with a reference to the NYSE Compliance Official Examination. Finally, the Exchange proposes to clarify that the term “Firm” refers to “Participant Firm.”

5. Deleting current paragraph .02 under Article 6, Rule 3 – Waiver of the Examination Requirement

In light of proposed paragraph .02 under Article 6, Rule 13, which adopts new requirements related to, among other things, waiver of examination requirements, as described above, the Exchange propose to delete current paragraph .02 in its entirety.

G. Amendments to Article 6, Rule 10 (Fingerprinting)

Current Rule 10 provides that each Participant is responsible for ensuring compliance with Section 17(f)(2) of the Exchange Act and Rule 17f-2 under the Exchange Act, regarding the fingerprinting of securities industry personnel. The rule further provides that each Participant shall submit the fingerprints of its associated persons to the FINRA Web CRD prior to such persons performing the functions listed under Rule 17f-2 under the Exchange Act. The Exchange now propose to amend the fingerprinting requirement to be substantively similar to NYSE National Rule 2.2, Commentary .08 and FINRA Rule 1010(d). Specifically, the Exchange propose to replace the second sentence under current Rule 10 with the following:

Upon filing an electronic Form U4 on behalf of a person applying for registration, a Participant shall promptly submit fingerprint information for that person. The Exchange may make a registration effective pending receipt of the fingerprint information. If a Participant fails to submit the fingerprint information within 30 days after the Exchange receives the electronic Form U4, the person’s registration shall be deemed inactive. In

such case, the Exchange shall notify the Participant that the person must immediately cease all activities requiring registration and is prohibited from performing any duties and functioning in any capacity requiring registration. The Exchange shall administratively terminate a registration that is inactive for a period of two years. A person whose registration is administratively terminated may reactivate the registration only by reapplying for registration and meeting the qualification requirements under the Rules. Upon application and a showing of good cause, the Exchange may extend the 30-day period.

H. Amendments to Article 6, Rule 11 - Continuing Education for Registered Persons

Current Article 6, Rule 11 provides the continuing education requirements of certain Registered Persons subsequent to their initial qualification and registration with the Exchange, and includes a Regulatory Element and a Firm Element. The Regulatory Element applies to Registered Persons and consists of periodic computer-based training on regulatory, compliance, ethical, supervisory subjects and sales practice standards. The Firm Element consists of at least an annual, member-developed and administered training programs designed to keep Registered Persons current regarding securities products, services and strategies offered by the member.

As noted above,⁶⁴ proposed Article 1, Rule 1(yy) includes within the definition of a Registered Person any person who is permissively registered pursuant to proposed paragraph .01 under Article 6, Rule 13 and any person designated as eligible for a waiver pursuant to proposed paragraph .08 under Article 6, Rule 13.⁶⁵ The purpose of this change is to ensure all Registered

⁶⁴ See supra Section 3(a)(D).

⁶⁵ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e).

Persons, including those with permissive registrations, keep their knowledge of the securities industry current. The inclusion of persons designated as eligible for a waiver under the term “Registered Person” corresponds to the requirements of proposed paragraph .08 under Article 6, Rule 13.

1. Regulatory Element

The Exchange propose to amend Article 6, Rule 11(a) to provide that the content of the Regulatory Element of the program shall be determined by the Exchange and shall be appropriate to the status of the person subject to this Rule, which is consistent with NYSE National Rule 2.2(e)(1)(A).

Also, the Exchange proposes to amend Article 6, Rule 11(a) to provide, consistent with proposed paragraph .08 under Article 6, Rule 13, that a waiver-eligible person would be subject to a Regulatory Element program that correlates to his or her most recent registration category, and that the content of the Regulatory Element would be based on the same cycle had the individual remain registered.⁶⁶

Furthermore, the Exchange proposes to amend Article 6, Rule 11(a)(1) to provide that any person whose registration has been deemed inactive under the rule may not accept or solicit business or receive any compensation for the purchase or sale of securities. The proposed amendment provides, however, that such person may receive trail or residual commissions resulting from transactions completed before the inactive status, unless the Participant with which the person is associated has a policy prohibiting such trail or residual commissions.⁶⁷ The proposed amendment also provides that a registration that is inactive for a period of two years

⁶⁶ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e)(1)(A).

⁶⁷ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e)(1)(B).

will be administratively terminated and that a person whose registration is so terminated may reactivate the registration only by reapplying for registration and meeting the qualification requirements of the applicable provisions of these Rules. Accordingly, the Exchange proposes to delete current paragraph .05 under Article 6, Rule 11 as repetitive. Finally, the amended rule also states that the Exchange may, upon application and a showing of good cause, allow for additional time for a Registered Person satisfy the program requirements and if a person designated as eligible for a waiver pursuant to paragraph .08 under Article 6, Rule 13 fails to complete the Regulatory Element within the prescribed time frames, the person shall no longer be eligible for such a waiver.⁶⁸

In addition, under current Article 6, Rule 11(a)(2), a Registered Person is required to retake the Regulatory Element in the event that such person (A) is subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act; (B) is subject to suspension or to the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding; or (C) is ordered as a sanction in a disciplinary action to retake the Regulatory Element by any securities governmental agency or self-regulatory organization. The Exchange proposes to amend Rule 11(a)(2) to provide an exception to a waiver-eligible person from retaking the Regulatory Element and satisfy all of its requirements.⁶⁹

⁶⁸ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e)(1)(B).

⁶⁹ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e)(1)(C).

Current Rule 11(a)(2) also provides that re-taking of the Regulatory Element shall commence with participation within 120 days of the Registered Person becoming subject to the statutory disqualification, pursuant to Rule 11(a)(2)(A), or the disciplinary action becoming final, pursuant to either Rule 11(a)(2)(B) or (C). To better comport to Rule 11(a)(2), the Exchange proposes to amend current paragraph .03 under Article 6, Rule 11 to clarify that the new base date for a Registered Person subject to statutory disqualification is the date on which such person became subject to statutory disqualification. Specifically, amended paragraph .03 provides that a Registered Person who becomes subject to a disciplinary action as enumerated in subsections (a)(2)(A)-(C) of the Rule, will be required to satisfy the requirements of the Regulatory Element of the continuing education program with the date that the person becomes subject to statutory disqualification, in the case of subsection (a)(2)(A) of the Rule, or the person's disciplinary action becomes final, in the case of subsections (a)(2)(B) or (C) of the Rule, as the person's new base date.

Also, the Exchange proposes to update current Article 6, Rule 11(a)(3) to provide that the "S201 Supervisor Program," which is the Regulatory Element program for Principals, is required for those persons registered with the Exchange as either an Introducing Broker-Dealer Financial and Operations Principals or General Securities Sales Supervisors, which are two registration categories that the Exchange is proposing to adopt under proposed Article 6, Rules 14(a)(4) and 14(a)(6), respectively.

Moreover, the Exchange proposes to adopt Article 6, Rule 11(a)(5) related to reassociation in a registered capacity, which is substantively similar to NYSE National Rule 2.2(e)(1)(D) and provides that any Registered Person who has terminated association with a Participant and who has, within two years of the date of termination, become reassociated in a

registered capacity with a Participant shall participate in the Regulatory Element at such intervals that may apply (second anniversary and every three years thereafter) based on the initial registration anniversary date rather than based on the date of reassociation in a registered capacity. Accordingly, the Exchange proposes to delete the first paragraph under current paragraph .04 under Article 6, Rule 11 as repetitive.

Finally, the Exchange propose to adopt Article 6, Rule 11(a)(6), which is substantively similar to NYSE National Rule 2.2(e)(1)(E) and provides that each Participant shall designate and identify to the Exchange (by name and e-mail address) an individual or individuals responsible for receiving e-mail notifications provided via Web CRD regarding when a Registered Person is approaching the end of his or her Regulatory Element time frame and when a Registered Person is deemed inactive due to failure to complete the requirements of the Regulatory Element program. The rule also provides that each Participant shall identify, review, and, if necessary, update the information regarding the Regulatory Element contact person(s) with Web CRD.

2. Firm Element

The Exchange propose to capitalize the term “Covered Registered Persons” defined under current Article 6, Rule 11(b)(1), which is also capitalized under NYSE National Rule 2.2(e)(2), and to make conforming amendments throughout Rule 11(b).

Also, current Article 6, Rule 11(b)(2)(B) provides that programs used to implement a Participant’s training program must be appropriate for the business of the Participant and, at a minimum must cover specific matters concerning securities products, services, and strategies offered by the Participant. The Exchange proposes to amend the current rule to expand the

minimum standard for such training programs by requiring that, at a minimum, a firm's training program must also cover training in ethics and professional responsibility.⁷⁰

I. Amendments to Article 16, Rule 3 – Obligations of Market Maker Authorized Traders (“MMATs”)

Current Article 16, Rule 3(b)(2) provides that to be eligible for registration as a MMAT, a person must successfully complete the Series 57 Securities Trader Examination and complete any other training and/or certification programs as may be required by the Exchange. In light of the adoption of the SIE, the Exchange now proposes to amend the rule to require that MMATs successfully complete both the Securities Trader Examination and the SIE. In addition, the Exchange proposes to delete a reference to the “Series 57” such that reference to the “Securities Trader Examination” is stylistically similar to a reference to the examination under proposed Article 6, Rule 3(a).

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),⁷¹ in general, and furthers the objectives of Section 6(b)(5),⁷² in particular, because it is 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, 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.

⁷⁰ The proposed change is substantially similar to that contained in NYSE National Rule 2.2(e)(2)(ii).

⁷¹ 15 U.S.C. 78f(b).

⁷² 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposed rule change will streamline, and bring consistency and uniformity to, the registration rules, which will, in turn, assist Participants and their associated persons in complying with these rules and improve regulatory efficiency. The proposed rule change will also improve the efficiency of the examination program, without compromising the qualification standards. In addition, the proposed rule change will expand the scope of permissive registrations, which, among other things, will allow Participants to develop a depth of associated persons with registrations to respond to unanticipated personnel changes and will encourage greater regulatory understanding. Further, the proposed rule change will provide a more streamlined and effective waiver process for individuals working for a financial services industry affiliate of a Participant, and it will require such individuals to maintain specified levels of competence and knowledge while working in areas ancillary to the investment banking and securities business.

Finally, the Exchange believes that, with the introduction of the SIE and expansion of the pool of individuals who are eligible to take the SIE, the proposed rule change has the potential of enhancing the pool of prospective securities industry professionals by introducing them to securities laws, rules and regulations and appropriate conduct before they join the industry in a registered capacity.

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 proposed amendments are intended to promote transparency in the Exchange's rules, and consistency with the rules of other SROs with respect to the examination, qualification, and continuing education requirements applicable to Participants and their registered personnel. The

Exchange believes that in that regard that any burden on competition would be clearly outweighed by the important regulatory goal of ensuring clear and consistent requirements applicable across SROs, avoiding duplication, and mitigating any risk of SROs implementing different standards in these important areas.

Further, the Exchange does not believe that the proposed amendments will affect competition among securities markets since all SROs are expected to adopt similar rules with uniform standards for qualification, registration and continuing education requirements.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act⁷³ and Rule 19b-4(f)(6) thereunder.⁷⁴ Because the 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

⁷³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁷⁴ 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 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 under Rule 19b-4(f)(6)⁷⁵ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b4(f)(6)(iii),⁷⁶ the Commission may 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 immediately upon filing. The Exchange has represented that, to the Exchange's knowledge, the waiver of the operative delay would not adversely or unfairly affect current or prospective Participants, and would make the Exchange's qualification requirements consistent with those of NYSE National and FINRA, which were implemented on October 1, 2018. Waiver of the 30-day operative delay will allow the Exchange to harmonize its registration, examination and continuing education requirements with the rules of FINRA and the exchanges, as of the date of filing so that registered persons will be subject to consistent requirements across the industry. Therefore, the Commission believes that the waiver is consistent with the protection of investors and hereby waives the 30-day operative delay and designates the proposal operative on December 18, 2018.⁷⁷

At any time within 60 days of the filing of such 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

⁷⁵ 17 CFR 240.19b-4(f)(6).

⁷⁶ 17 CFR 240.19b-4(f)(6)(iii).

⁷⁷ 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).

Commission shall institute proceedings under Section 19(b)(2)(B)⁷⁸ of the Act 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-2018-07 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 Number SR-CHX-2018-07. 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

⁷⁸ 15 U.S.C. 78s(b)(2)(B).

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 Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CHX-2018-07 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.⁷⁹

Brent J. Fields
Secretary

⁷⁹ 17 CFR 200.30-3(a)(12).