

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76835; File No. SR-ISE-2015-44)

January 5, 2016

Self-Regulatory Organizations; International Securities Exchange; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Establish the Securities Trader and Securities Trader Principal Registration Categories

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 23, 2015, the International Securities Exchange, LLC (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II, and III below, of which Items I and II 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

ISE proposes to codify, in the Supplementary Material to Rule 313 Registration Requirements, the categories of registration and respective qualification examinations required for individual associated persons ("associated persons") that engage in the securities activities of members on the Exchange. Specifically, the Exchange proposes to 1) replace the Proprietary Trader registration category and the Series 56 Proprietary Trader registration qualification examination with the newly codified Securities Trader category of registration and the Series 57 Securities Trader registration qualification examination for Securities Traders respectively and 2) replace the Proprietary Trader Principal registration category with the newly codified registration category of Securities Trader Principal and require Securities Trader Principals to take the Series

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

57 qualification examination in addition to the Series 24 qualification examination. The Exchange also proposes to amend Rule 604, Continuing Education for Registered Persons, by deleting the rule text referring to the S501 continuing education program currently applicable to Proprietary Traders and replacing it with the S101, and replacing a reference to the Series 56 with the 57. Specifically, the Exchange proposes that Series 57 registered persons take the S101 General Program for Series 7 and all other registered persons. Finally, the Exchange proposes to amend Rule 604 to provide for Web-based delivery of the continuing education regulatory element for registered persons. The text of the proposed rule change is available on the Exchange's website at [www.ise.com](http://www.ise.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 these 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 aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 313 Registration Requirements. This amendment will replace the Proprietary Trader (PT) registration category and qualification examination (Series 56) with the newly codified Securities Trader (TD) registration category and qualification examination (Series 57). In addition, the Exchange proposes to replace the Proprietary Trader

Principal (TP) registration category with the newly codified Securities Trader Principal (TP) registration category for associated persons who either: (i) supervise or monitor proprietary trading, market-making and/or brokerage activities for broker-dealers; (ii) supervise or train those engaged in proprietary trading, market-making and/or effecting transactions on behalf of a broker-dealer, with respect to those activities; and/or (iii) are officers, partners or directors of a member, as described in paragraph in proposed paragraph (a) to .08 of Supplementary Material to Rule 313. The Exchange also proposes to replace the Proprietary Trader Compliance Officer (CT) registration category with the newly codified Securities Trader Compliance Officer (CT) registration category for Chief Compliance Officers (or individuals performing similar functions) of a member or member organization. This filing is, in all material respects, based upon SR-FINRA-2015-015 and 2015-017, and SR-C2-2015-027.<sup>3</sup>

Currently, Rule 313 requires, among other things, an associated person engaged or to be engaged in the securities business of a member to register with the Exchange in the category of registration appropriate to the function to be performed and to pass the qualification examination appropriate to the category of registration as prescribed by the Exchange. Among the qualification and registration requirements set forth by the Exchange, an associated person who engages in proprietary trading, market-making, or effecting transactions on behalf of a broker-dealer must register and qualify as a Proprietary Trader (PT) in WebCRD.<sup>4</sup> To qualify as a

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<sup>3</sup> See Securities Exchange Act Release No. 75581 (July 31, 2015), 80 FR 47018 (August 6, 2015) (SR-FINRA-2015-015); Securities Exchange Act Release No. 75783 (August 28, 2015), 80 FR 53369 (September 3, 2015) (SR-FINRA-2015-017); and Securities Exchange Act Release No. 76408 (November 10, 2015) (SR-C2-2015-027).

<sup>4</sup> WebCRD is a secure registration and licensing system operated by FINRA and is the central licensing and registration system for the U.S. securities industry and its regulators. The system contains the registration records of more than 6,500 registered broker-dealers, and the qualification, employment and disclosure histories of more than 650,000 active registered associated persons. In addition, Web CRD facilitates the processing and

Proprietary Trader, an associated person must either pass the Series 56 Proprietary Trader qualification examination<sup>5</sup> or Series 7 General Securities Representative qualification examination. Several exchanges, including ISE currently use the Series 56 examination as a qualification standard.<sup>6</sup>

.07 of Supplementary Material to Rule 313 further requires that an associated person with supervisory responsibility over proprietary trading activities or who is an (i) officer; (ii) partner; (iii) director; (iv) supervisor of proprietary trading, market-making or brokerage activities; and/or (v) supervisor of those engaged in proprietary trading, market-making or brokerage activities with respect to those activities is required to register and qualify as a Proprietary Trader Principal (TP) in WebCRD and satisfy prerequisite registration and qualification requirements, including, but not limited to passing the Series 24 General Securities Principal Examination or an acceptable alternative qualification examination. An associated person who is a Chief Compliance Officer (or performs similar functions) for a member that engages in proprietary

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payment of FINRA registration-related fees such as form filings, fingerprint submissions, qualification exams and continuing education sessions.

<sup>5</sup> The Series 56 Proprietary Trader Examination is a two hour and thirty minute exam, consisting of 100 scored multiple-choice questions. The Series 56 examination is administered by FINRA, but is not recognized by FINRA as an acceptable qualification examination for associated persons engaged in securities trading. Under FINRA rules, associated persons of FINRA members that engage in over-the-counter securities trading are required to pass the Series 55 Equity Trader Exam. Nevertheless, as FINRA has recognized, because the Series 55 and Series 56 are intended to test the core knowledge required of associated persons engaged in trading activities as well as self-regulatory organization (“SRO”) rules, including trading rules that are common across all SROs, there is significant overlap in the content of the Series 55 and Series 56 qualification examinations. See Securities Exchange Act Release No. 75394 (July 8, 2015), 80 FR 41119 (Notice of Filing of a Proposed Rule Change to Establish the Securities Trader and Securities Trader Principal Registration Categories) (SR-FINRA-2015-017).

<sup>6</sup> See, e.g., BATS Exchange, Inc. (“BATS”) Interpretation and Policy .01 to Rule 2.5 (Proficiency Examinations); Miami International Securities Exchange, LLC (“MIAX”) Rule 1302 (Registration of Representatives).

trading, market-making, or effecting transactions on behalf of a broker-dealer is also required to register and qualify as a Proprietary Trader Compliance Officer (CT) in WebCRD and satisfy the prerequisite registration and qualification requirements, including, but not limited to passing the Series 14 Compliance Official Examination or an acceptable alternative qualification exam.

#### Codification of Examination and Registration Requirements

The Exchange proposes to replace the Series 56 qualification examination with the newly codified Series 57 qualification examination for those registration categories where the Series 56 is currently an acceptable qualification standard. Specifically, with respect to the Proprietary Trader registration, the Exchange proposes to replace the Proprietary Trader (PT) registration category with the newly codified Securities Trader (TD) registration category as well as eliminate the current Series 56 Proprietary Trader Exam prerequisite and, instead, include a Series 57 Securities Trader qualification examination in its place.<sup>7</sup> The Proprietary Trader Principal (PT) and Proprietary Trader Compliance Officer (CT) registration categories would be replaced with the newly codified renamed registration categories of Securities Trader Principal (TP) and Securities Trader Compliance Officer respectively (CT).<sup>8</sup>

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<sup>7</sup> Neither the Exchange's current Rules nor the proposal would require that a Proprietary Trader or Securities Trader work at, or be associated with, a "proprietary trading firm." Rather, both the current Rules and the proposal would require that an associated person that engages in proprietary trading, market-making, or effecting transactions on behalf of a broker-dealer qualify and register as a Proprietary Trader (or Securities Trader) in WebCRD. Whereas the current rule allows an associated person to qualify and register as a Proprietary Trader by either passing the Series 56 Proprietary Trader qualification examination or Series 7 General Securities Representative qualification examination, the proposal would require an associated person to pass the Series 57 Securities Trader qualification examination in order to qualify as a Securities Trader after the effective date of the proposal.

<sup>8</sup> As is the case under the current Rules, under the proposed rule, only individuals qualified and registered as a Proprietary Trader Principal (TP) (Securities Trader Principal TP)) would be permitted to supervise a Proprietary Trader (PT) (Securities Trader (TD)).

The Exchange will announce the effective date of the proposed rule change in a Regulatory Circular. Currently, the Exchange intends for the effective date to be January 4, 2016. Under the proposed rule, associated persons who have passed the Proprietary Trader (Series 56) qualification examination and who have registered as a Proprietary Trader (PT) in WebCRD on or before the effective date of the proposed rule change, and associated persons who have passed the General Securities Representative (Series 7) qualification examination and who have registered as Proprietary Traders (PT) in WebCRD on or before the effective date of the proposed rule change, would be grandfathered as Securities Traders (TDs) without having to take any additional examinations and without having to take any other action, provided that the associated person's registration has not been revoked by the Exchange as a disciplinary sanction and no more than two years have passed between the date that the associated person last registered as a Proprietary Trader (PT) and the effective date. After the effective date, an associated person would need to pass the new Series 57 Securities Trader qualification examination and register as a Securities Trader (TD).

In addition, associated persons who have either passed the Proprietary Trader (PT) qualification examination or the General Securities Representative (Series 7) qualification examination and who have registered as Proprietary Traders (PT) in WebCRD on or before the effective date of the proposed rule change, and who have also passed the General Securities Principal (Series 24) qualification examination (or have completed any of the alternative acceptable qualifications requirements as defined in new .08 of Supplementary Material to Rule 313) and who have also registered as Proprietary Trader Principals (TP) in WebCRD on or before the effective date of the proposed rule change, would be eligible to register as Securities Trader Principals (TPs), provided that the associated person's registration has not been revoked

by the Exchange as a disciplinary sanction and no more than two years have passed between the date that the associated person last registered as a Proprietary Trader Principal (TP) and the date they register as a Securities Trader Principal (TP).<sup>9</sup> After the effective date, a Securities Trader Principal (TP) would need to pass the Securities Trader (Series 57) qualification examination and the General Securities Principal (Series 24) qualification examination (or have completed any of the alternative acceptable qualifications as defined in new .08 of Supplementary Material to Rule 313) and be registered as such in order to register as a Securities Trader Principal (TP).<sup>10</sup>

#### Continuing Education Requirements

Persons registered in the new category would be subject to the continuing education requirements of Rule 604 Continuing Education for Registered Persons. The Exchange proposes to amend Rule 604 by removing the option for Series 56 registered persons to participate in the S501 Series 56 Proprietary Trader continuing education program in order to satisfy the Regulatory Element. The S501 Series 56 Proprietary Trader continuing education program is being phased out along with the Series 56 Proprietary Trader qualification examination. As a result, effective January 4, 2016, the S501 Series 56 Proprietary Trader continuing education program for Series 56 registered persons will cease to exist. In place of the S501 Series 56 Proprietary Trader continuing education program for Series 56 registered persons, the Exchange proposes that Series 57 registered persons be permitted to enroll in the S101 General Program for Series 7 and all other registered persons.

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<sup>9</sup> See Rule 313(e) (Requirement for Examination on Lapse of Registration).

<sup>10</sup> As part of codifying this rule, the Exchange will include text .08 of Supplementary Material to Rule 313 regarding the supervisory responsibilities of the Securities Trader Principals, which would limit Securities Trader Principals' supervisory responsibilities to supervision of the securities trading functions of members as described in paragraph (a)(2) of .08 of Supplementary Material to Rule 313, and the activities of officers, partners, and directors of members.

## Delivery of Regulatory Element

The Exchange further proposes to provide for Web-based delivery of the Continuing Education Regulatory Element for registered persons. As proposed, Rule 604 would specify that the Continuing Education Regulatory Element set forth in the rule will be administered through Web-based delivery or such other technological manner and format as specified by the Exchange from and after January 4, 2016. Most registered persons currently complete the Regulatory Element in a test center and the remainder do so in-house. Given the advances in Web-based technology, the Exchange believes that there is diminishing utility in the test center and in-house Continuing Education delivery methods. The Exchange notes that the Web-based format will include safeguards to authenticate the identity of the Continuing Education Candidate.

Moreover, according to FINRA, registered persons have raised concerns with the current test center delivery method because of the travel involved, the limited time currently available to complete a Regulatory Element session, and the use of rigorous security measures at test centers, which are appropriate for taking qualification examinations, but onerous for a Continuing Education program.<sup>11</sup> Also, according to FINRA, the test center is expensive to operate.<sup>12</sup>

### 2. Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>13</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>14</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect

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<sup>11</sup> See supra, note 1.

<sup>12</sup> Id.

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).



the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange further believes its proposed rule change is consistent with Section 6(c) of the Act,<sup>15</sup> and in particular furthers the objectives of Section 6(c)(3) of the Act,<sup>16</sup> which authorizes the Exchange to prescribe standards of training, experience, and competence for associated persons. The Exchange believes that the requirements of the Securities Trader and Securities Trader Principal registration categories, the new Securities Trader qualification and continuing education requirement, as well as Web-based delivery of the continuing education requirement, should help ensure that proprietary traders and the principals who supervise proprietary traders and proprietary trading are, and will continue to be, properly trained and qualified to perform their functions which should protect investors and the public interest.

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 not necessary or appropriate in furtherance of the purposes of the Act.

Implementation of the proposed changes to ISE's registration rules in coordination with the FINRA Amendments does not present any competitive issues, but rather is designed to provide less burdensome and more efficient regulatory compliance for associated persons and enhance the ability of the Exchange to fairly and efficiently regulate associated persons, which will further enhance competition. Additionally, the proposed rule change should not affect intramarket competition because all similarly situated representatives and principals will be required to complete the same qualification examinations and maintain the same registrations. Finally, the proposed rule change does not impose any additional examination burdens on

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<sup>15</sup> 15 U.S.C. 78f(c).

persons who are already registered. There is no obligation to take the proposed Series 57 examination in order to continue in their present duties, so the proposed rule change is not expected to disadvantage current registered persons relative to new entrants in this regard.

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

The Exchange has neither solicited nor received written comments on this proposed rule change. The Exchange has not received any written comments from members or other interested parties.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>17</sup> and Rule 19b-4(f)(6) thereunder.<sup>18</sup> The Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing the proposed rule change, or such shorter time as designated by the Commission, as required by Rule 19b-4(f)(6).

The Exchange has requested that the Commission waive the thirty-day operative delay so that the proposal may become operative as of January 4, 2016. The Commission believes that waiving the thirty day delay is consistent with the protection of investors and the public interest,

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<sup>16</sup> 15 U.S.C. 78f(c)(3).

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f)(6).

as it will enable the Exchange to have the new requirements in effect at the same time as the other SROs. Therefore, the Commission hereby waives the thirty-day operative delay and designates the proposal operative as of January 4, 2016.<sup>19</sup>

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 Commission shall institute proceedings to determine whether the proposed rule 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](mailto:rule-comments@sec.gov). Please include File No. SR-ISE-2015-44 on the subject line.

##### Paper comments:

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

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<sup>19</sup> For purposes of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-ISE-2015-44. 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 Commissions Internet Web site (<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. Copies of such filing also will be available for inspection and copying at the principal office of the ISE. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2015-44 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

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

Robert W. Errett  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).