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NASDAQ PHLX Rules

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Rule 748. Supervision

(a) *General*—Each office, location, department, [or] business activity, trading system and internal surveillance system of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of an appropriately qualified supervisor, as described in (c) below.

Each member or member organization and registered representative, employee, and associated person of a member or member organization shall be under the supervision and control of an appropriately qualified supervisor, as described in (c) below.

For the purposes of this Rule, individuals engaged in acting as back-up specialist unit will be considered to be engaged in a business activity for the specialist unit they are assisting pursuant to Rule 501(b)(4).

(b) *Designation of Supervisor by Member Organizations*—The general partners or directors of each member organization shall provide for appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities['] laws and regulations, including the By-Laws and Rules of the Exchange. The designated person shall:

- (1) Delegate to qualified principals or qualified employees responsibility and authority for supervision and control of each office, location, department, [or] business activity, trading system and internal surveillance system (including foreign incorporated branch offices), and provide for appropriate written procedures of supervision and control; and
- (2) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) *Qualification of Supervisor*—Each member or member organization must make reasonable efforts to determine that each person with supervisory control, as described in paragraphs (a) and (b) above, is qualified by virtue of experience or training to carry out his or her assigned responsibilities. Each person with supervisory control, as described in paragraphs (a) and (b) above, must meet the Exchange's qualification requirements for supervisors, including successful completion of the appropriate examination.

(d) *Standards for Supervision*—Each person with supervisory control, as described in paragraphs (a) and (b) above, shall reasonably discharge his duties and obligations in connection with such supervision and control to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

(e) *Interviews or Meetings and Reviews of Business*—At least annually, each member or member organization for which the Exchange is the Designated Examining Authority ("DEA") shall:

- (1) Conduct an interview or meeting with all registered representatives, employees, or associated persons, at which compliance matters relevant to the activities of the registered representatives, employees, or associated persons are discussed; and
- (2) Conduct a review of the business(es) in which it engages, which shall be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

Each member or member organization shall retain a written record of the dates upon which each interview or meeting and review of business occurred, the participants in the interview or meeting, and the results thereof.

(f) *Branch Offices*—Each member organization for which the Exchange is the Designated Examining Authority ("DEA") shall file with the Exchange a list identifying each of its branch offices by completing a Branch Office Disclosure Form and submitting the Form to the Exchange's Membership Department. Member organizations for which the Exchange is the DEA shall file amendments to the Branch Office Disclosure Form with the Exchange no later than thirty (30) days from the date of any change to the information in the Form. Member organizations for which the Exchange is the DEA shall provide information about its branch offices, including, but not limited to: location, designated supervisor, contact information, number of traders at the location and type of activity conducted at the branch office.

(g) *Office Inspections*—Each member or member organization for which the Exchange is the DEA shall inspect each office or location (including foreign incorporated branch offices) of the member or member organization according to a cycle that shall be established in its written supervisory procedures. An inspection may not be conducted by any person within that office or location who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). In establishing such inspection cycle, the member or member organization shall give consideration to the nature and complexity of the securities activities for which the office or location is responsible, the volume of business done, and the number of registered representatives, employees, and associated persons at each office or location. The inspection schedule and an explanation of the factors considered in determining the frequency of the inspections in the cycle shall be set forth in the member's or member organization's written supervisory procedures. The inspection shall be reasonably designed to assist in preventing and detecting violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules.

Each member or member organization shall retain a written record of the dates upon which each inspection is conducted, the participants in the inspection, and the results thereof.

(h) *Written Supervisory Procedures*—Each member or member organization shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business(es) in which the member or member organization engages in and to supervise the activities of all registered representatives, employees, and associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be [expected]designed to prevent and detect, insofar as practicable, violations of the applicable securities laws and regulations, including the By-Laws and Rules of the Exchange.

The written supervisory procedures shall set forth the supervisory system established by the member or member organization and shall include the name, title, registration status, and location of all supervisory personnel required by this rule, the dates for which supervisory designations were or are effective, and the responsibilities of supervisory personnel as these relate to the types of business(es) the member or member organization engages in, and securities laws and regulations, including the By-Laws and Rules of the Exchange. This record must be preserved for a period of not less than three years, the first two in an easily accessible place.

A copy of the written supervisory procedures shall be kept and maintained at each location where supervisory activities are conducted on behalf of the member or member organization. Each member or member organization shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, Exchange rules, supervisory personnel or supervisory procedures. Each member or member organization shall be responsible for communicating such changes throughout its organization within a reasonable time.

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