

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="81"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2012"/> - * <input type="text" value="23"/>	Amendment No. (req. for Amendments *) <input type="text"/>		
Proposed Rule Change by NASDAQ OMX PHLX LLC. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
Description					
Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).					
Amending Registration Requirements					
Contact Information					
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.					
First Name * <input type="text" value="Edith"/>		Last Name * <input type="text" value="Hallahan"/>			
Title * <input type="text" value="Counsel"/>					
E-mail * <input type="text" value="Edith.hallahan@nasdaqomx.com"/>					
Telephone * <input type="text" value="(215) 496-5179"/>		Fax <input type="text"/>			
Signature					
Pursuant to the requirements of the Securities Exchange Act of 1934,					
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.					
Date <input type="text" value="02/16/2012"/>					
By <input type="text" value="Edward S. Knight"/>		<input type="text" value="Executive Vice President and General Counsel"/>			
(Name *)		(Title *)			
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.		<input style="background-color: #cccccc;" type="button" value="Edward S Knight,"/>			

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposes to delete Rule 604 as well as amend and adopt several new rules governing the registration and qualification of members and persons associated with³ member organizations, as described below.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed rule change is set forth in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors on June 3, 2011. Questions and comments on the proposed rule change may be directed to Edith Hallahan at (215) 496-5179.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The term “associated person” or “person associated with” a member organization means any partner, officer, director, or branch manager of an Exchange member organization or applicant (or person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with such member organization or applicant, or any employee of such member or applicant, except that any person associated with a member organization or applicant whose functions are solely clerical or ministerial shall not be included in the meaning of such term for purposes of the Exchange Rules. See Rule 1(b).

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

a. Purpose

The purpose of the proposed rule change is to strengthen the Exchange's current registration provisions in a number of ways. In 2010,⁴ in connection with the Exchange's proposal to launch the Exchange's equity trading platform for NMS Stocks, NASDAQ OMX PSX ("PSX"),⁵ the Exchange amended Rule 604 to adopt paragraph (h) to govern the registration of representatives and Supplementary Material .04 to Rule 604 regarding the specific category of such registration. In addition, with respect to principal registration, the Exchange adopted paragraph (g), Principal Registration, and Supplementary Material .01 - .03 governing the specific categories of principal registration, to require that every member organization covered by those rules have at least two registered principals as well as a Financial/Operations Principal. The Exchange also adopted paragraph (i) to establish which persons are exempt from registration. These provisions became applicable only to PSX users pursuant to paragraph (f). In that filing, the Exchange stated:

"The Exchange intends to separately revise its registration and qualification rules related to activity other than business conducted on PSX, including its options business. The Exchange understands that other self-regulatory organizations are expected to adopt a framework that requires more fulsome registration and qualification requirements clearly spelled out in rules. The Exchange supports the Commission's commitment to ensure that such rules are adopted by all self-regulatory organizations on a consistent basis."

⁴ See Securities Exchange Act Release No. 62776 (August 26, 2010), 75 FR 53727 (September 1, 2010)(SR-Phlx-2010-91).

⁵ See Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010)(SR-Phlx-2010-79).

Accordingly, the Exchange is now proposing to extend the principal and representative registration requirements of Rule 604(g) and (h) to all members, member organizations and associated persons by adopting Rules 611-616 to replace Rule 604. As a result of the new registration requirements, additional persons will become subject to the Exchange's continuing education requirement in Rule 640.

Background and Current Requirements

Currently, Rules 604(a)-(e) apply to all member organizations and generally require the Series 7 examination for Registered Representatives,⁶ off-floor traders⁷ and persons compensated directly or indirectly for the solicitation or handling of business in securities who are not otherwise required to register with the Exchange by Rule 604(a).⁸ Furthermore, Rule 604(f) provides that members and persons associated with member organizations that are registered with the Exchange for the purpose of trading NMS Stocks⁹ through the facilities of the Exchange, which is the PSX platform, are subject to the provisions of Rule 604(g) and (h) governing principal and representative registration, respectively. Thus, these provisions currently cover members that trade on PSX, and are substantially similar to the rules of The NASDAQ Stock Market LLC ("NASDAQ"), Financial Industry Regulatory Authority ("FINRA") and NASDAQ OMX BX, Inc. ("BX") requiring PSX users to register and qualify representatives and principals with the Exchange in accordance with such rules.

⁶ See Rule 604(a).

⁷ See Rule 604(e).

⁸ See Rule 604(d).

⁹ See Rule 1(t).

Proposal

The Exchange is proposing to extend the current principal requirement beyond PSX users to include all member organizations, including those who trade options. This more extensive principal requirement will be embodied in new Rules 611 and 612, which are substantially similar to current Rule 604(g) and Supplementary Material .01 - .03.

In connection with strengthening its registration rules, the Exchange is proposing to reorganize and renumber its registration rules to better align with those of NASDAQ and FINRA, albeit within its own rule numbering structure. The following summarizes the new rule numbering structure:

Current Phlx Rule #	Topic	New Phlx Rule #	NASDAQ Rule #
604(g)	Principal Registration	611	1021
604.01-.03	Categories of Principal Registration	612	1022
604(h)	Representative Registration	613	1031
604.04	Categories of Representative Registration	613	1032
604(i)	Persons Exempt from Registration	614	1060
604(j)	Waiver	615	1070(d)
None	Electronic Filing	616	1140

Representative Registration

Rule 604(h) currently governs the registration of representatives¹⁰ with the Exchange; specifically, Rule 604(h)(1) requires that all persons engaged or to be engaged

¹⁰ The term “representative” is defined in Rule 1 as a member or an associated person of a registered broker or dealer, including assistant officers other than principals, who is engaged in the investment banking or securities business for the member organization

in the investment banking or securities business¹¹ of a member organization who are to function as representatives shall be registered as such with the Exchange through WebCRD¹² in the category of registration appropriate to the function to be performed as specified in Supplementary Material .04 of Rule 604. Before their registration can become effective, they shall pass the Series 7 examination. Rule 604(h) is applicable today only to PSX users pursuant to Rule 604(f).

The provisions currently contained in Rule 604(h) are proposed to be moved to new Rule 613, Representative Registration, in substantially the same form, except with respect to trading floor personnel subject to Rule 620. Specifically, new Rule 613(a) will expressly state that, except members whose activities are limited to the Exchange's options trading floor and who are registered pursuant to Rule 620(a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to Rule 620(b), all persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as representatives shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in Rule

including the functions of supervision, solicitation or conduct of business in securities or who is engaged in the training of persons associated with a broker or dealer for any of these functions. To the extent provided in Rule 604, all representatives are required to be registered with the Exchange, and representatives that are so registered are referred to herein as "Registered Representatives." See Rule 1(cc).

¹¹ The term "investment banking or securities business" means the business, carried on by a broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer, or of purchasing and selling securities upon the order and for the account of others. See Rule 1(m). Of course, the federal securities laws may require broker-dealers to become members of the FINRA in order to perform some of these functions. See e.g., 15 U.S.C. 78o(b)(8).

¹² WebCRD is FINRA's automated Central Registration Depository.

613(e). This is the only change to the language currently in Rule 604(h) that is being moved to new Rule 613.

Accordingly, trading floor personnel will continue to be required to register pursuant to Rule 620, in lieu of new Rule 613,¹³ such that trading floor personnel will not be required to successfully complete the Series 7 examination, as long as their activities are limited to the trading floor. The Exchange believes that it is appropriate to permit trading floor members and associated persons to operate pursuant to a registration and qualification framework tailored to their specific functions. These functions include handling and executing electronic and phoned-in orders on the trading floor, as well as providing markets, both verbally and electronically. Members on the trading floor will continue to be subject to the Exchange's Trading Floor Qualification Examination in lieu of the Series 7, which the Exchange believes is appropriate because the examination focuses on the rules and procedures most applicable to floor members.¹⁴ For example, there are questions regarding the quoting obligations of Rule 1014(b), crossing orders pursuant to Rule 1064, and Floor Broker obligations in Rule 1063.

Respecting trading floor members, Rule 620 requires registration on Form U4 through WebCRD. Rule 620 will now require all trading floor personnel, including clerks, interns and any other associated persons, of a member organization not required to register pursuant to Rule 620(a) to register on Form U4 through WebCRD. Accordingly, the same registration information will be available electronically within WebCRD for

¹³ However, trading floor personnel and members on the trading floor will be subject to new principal registration requirements, as described below.

¹⁴ The Exchange recently revised this examination. See Securities Exchange Act Release No. 63603 (December 22, 2010), 75 FR 82419 (December 30, 2010)(SR-Phlx-2010-180).

trading floor members and associated persons as is available for persons registered as General Securities Representatives.

In terms of the actual category of registration that applies, currently, Supplementary Material .04 to Rule 604, titled Categories of Representative Registration - General Securities Representative, contains the basic requirement¹⁵ that each member and each person associated with a member organization who is included within the definition of a representative in Rule 1(cc) is required to register with the Exchange as a General Securities Representative and shall pass the Series 7 examination before such registration may become effective. The appropriate registration category on WebCRD is “GS.” This provision is not changing, and was intended to capture traditional securities personnel in a rule similar to that of several other SROs.¹⁶ The Exchange continues to believe that this provision is broad and should not generate gaps that permit a member organization to operate differently than under the registration rules of BX, NASDAQ or FINRA. The Exchange proposes to move the provisions of Rule 604(h) into Rule 613 and Supplementary Material .04 of Rule 604 into Rule 613(e). The Exchange believes that it is clearer to place the “registered representative” requirement and category of registration all in one rule, even though that differs from the FINRA and NASDAQ rules slightly.

The Exchange also proposes to adopt a new limited category of representative registration as Rule 613(f). The Exchange has been working with other exchanges and

¹⁵ This provision is the same as BX Rule 1032.

¹⁶ See e.g., BX Rules 1031 and 1032, NASDAQ Rules 1031 and 1032, and NASD Rules 1031 and 1032.

FINRA to develop a registration category and qualification examination for proprietary traders in lieu of the Series 7, which is now available through WebCRD. Accordingly, the Exchange proposes to recognize the new registration category, Proprietary Trader, and related examination, the Series 56,¹⁷ and to incorporate it into Rule 613(f), subject to filing the Series 56 content outline with the Commission.¹⁸ The Exchange intends to file the Series 56 content outline with the Commission shortly.¹⁹ Proposed Rule 613(f) would provide that members and associated persons engaged solely in proprietary trading, market making or effecting transactions on behalf of a broker-dealer account may register instead as a Proprietary Trader and pass the Series 56 examination.²⁰ The term “persons engaged in effecting transactions on behalf of a broker-dealer account” is equivalent to persons engaged in proprietary trading or market making, because it covers persons who do not deal with the public. For example, this would include both Floor Brokers on the Exchange’s trading floor as well as persons performing brokerage functions off the trading floor (“upstairs”).²¹ The Exchange believes that the Series 56

¹⁷ This new examination, the Series 56, would also serve as a prerequisite for a new principal registration category, which the Exchange would recognize; the Series 24 would be the appropriate examination for the new principal registration category, as described below.

¹⁸ See e.g., Securities Exchange Act Release No. 64699 (June 17, 2011)(SR-CBOE-2011-056).

¹⁹ The Exchange is also proposing that the Series 56 serve as a prerequisite to the Series 24, as described further below.

²⁰ See supra note 17.

²¹ This provision is the same as the provision in Chicago Board Options Exchange Incorporated (“CBOE”) rules which requires that an individual Permit Holder or associated person who effects transactions on behalf of a broker-dealer account register and pass the Series 56 examination. See CBOE Rule 3.6A, Interpretation and Policy .06.

helps ensure that such persons are qualified, because it addresses industry topics that establish the foundation for the regulatory and procedural knowledge necessary for individuals required to register as a Proprietary Trader.

The Exchange is proposing to delete Rule 604 in its entirety.²² With respect to paragraphs (a), (d) and (e), the Exchange believes that the requirements of new Rule 613 cover every person subject to registration as a representative and the Series 7 examination. The Exchange believes that Rule 613 is broader, because it is not limited to member organizations for which the Exchange is the designated examining authority (“DEA”) nor is it limited to specific categories of persons, such as Rule 604(e). In addition, the language of Rule 613 more closely aligns with the rules of FINRA and NASDAQ, which should facilitate compliance by broker-dealers. Thus, although Rule 604 is being deleted, the same persons will continue to be required to successfully complete the Series 7 examination and be registered as a “Registered Representative” on Form U4 through WebCRD. This proposal will extend the requirements of Rule 604(h) to all member organizations, whereas today Rule 604(h) only applies to member organizations registered to use PSX.²³

²² The Exchange proposes to amend the following additional rules to replace references to Rule 604 with the new applicable rule number: Rule 1(cc), Rule 1090, Rule 3202, Equity Floor Procedure Advice (“EFPA”) A-7 and Options Floor Procedure Advice (“OFPA”) F-34. Rule 3202 will now refer to the applicability of Rules 611- 616 to PSX users.

²³ See Rule 604(f).

Principal Registration

With respect to principal registration on the Exchange, Rule 604(g)²⁴ currently provides that certain member organizations must register at least two principals with the Exchange,²⁵ unless an exception applies. The Exchange is proposing to adopt new Rule 611, Principal Registration, and to move the provisions of existing Rule 604(g) over into this new rule. Accordingly, the principal registration rules will now apply beyond PSX users to all Phlx member organizations, with the addition of two new registration categories to satisfy the principal requirement: Registered Options Principal and Proprietary Trader Principal.

Phlx rules will require that each principal must successfully complete the General Securities Principal Examination (“Series 24”) and submit a Form U4 via WebCRD reflecting registration as such, using the category “GP,” unless a different category of principal registration applies to such person. Specifically, new Rule 611 will provide that all persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as principals shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in Rule 612, Categories of Principal Registration, which replaces existing Supplementary Material .01 - .03 of Rule 604. Before their registration can become effective, they shall pass a qualification examination for principals appropriate to the category of registration. Persons associated with a member organization who are actively engaged in the management of the member organization's

²⁴ This rule is similar to NASDAQ Rule 1021, BX Rule 1021 and NASD Rule 1021.

²⁵ All persons who engage in specified supervisory functions will be registered as principals. All principals are first required to register as and qualify as Representatives.

investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member organization for any of these functions are principals. Such persons shall include: sole proprietors, officers, partners, managers of offices of supervisory jurisdiction,²⁶ and directors of corporations. This requirement will now appear in Rule 611(b) and apply to all member organizations.

Rule 604(g)(5) currently requires at least two registered principals, which will now be contained in new Rule 611(e).²⁷ Specifically, an Exchange member organization, except a sole proprietorship, shall have at least two officers or partners who are registered as principals with respect to each aspect of the member organization's investment banking and securities business pursuant to the applicable provisions of Rule 611; provided, however, that a proprietary trading firm²⁸ with 25 or fewer registered

²⁶ The Exchange defined the term “office of supervisory jurisdiction” to mean any office of a member organization at which any one or more of the following functions take place: order execution and/or market making; structuring of public offerings or private placements; maintaining custody of customers' funds and/or securities; final acceptance (approval) of new accounts on behalf of the member organization; review and endorsement of customer orders; final approval of advertising or sales literature for use by persons associated with the member organization, pursuant to Rule 605, except for an office that solely conducts final approval of research reports; or responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization. This definition is drawn from NASD Rule 3010. The Exchange is adopting the reference to this term in order to cover these managers in the new principal registration requirement. The Exchange is not, at this time, adopting a comprehensive program with regard to such offices, such as that found in NASD Rule 3010. See proposed Rule 611(b).

²⁷ All persons who engage in specified supervisory functions must be registered as Principals.

²⁸ The term “proprietary trading firm” means a member organization or applicant with the following characteristics: (A) the applicant is not required by Section 15(b)(8) of the Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Act; (B) all funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts; (C) the applicant does not, and will not have

representatives shall only be required to have one officer or partner who is registered as a principal. This exception to the two principal requirement is similar to that of several other exchanges and reflects that such firms do not necessitate the same level of supervisory structure as firms who have customers or larger firms. This exception is not changing and will now be in Rule 611(e)(i), applicable to all member organizations.²⁹

Rule 611(e)(ii) will provide, like Rule 604(g) currently does, that the Exchange may waive the two principal requirement in situations that indicate conclusively that only one person should be required to register as a principal. This provision is identical to that of several other exchanges, and the Exchange believes that such waiver is appropriate in certain situations, but should be carefully applied; for example, the Exchange may determine to apply this provision to a very small firm, with only a few employees in one location.

To help determine how a person should register as a principal, Supplementary Material .01 - .03 to Rule 604 currently enumerates the three categories of principal registration. These categories will now be in new Rule 612. First, Rule 604.01, titled General Securities Principal, provides that each member or person associated with a member organization who is included within the definition of principal, and each person designated as a Chief Compliance Officer on Schedule A of Form BD shall be required to register with the Exchange as a General Securities Principal and shall pass the Series 24

customers; and (D) all Principals and Representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant. See proposed Rule 611(e)(i).

²⁹ Member organizations operating on the trading floor will be subject to the minimum “two principal” requirement, except to the extent that the “proprietary trading firm” exception permits certain firms to have one principal.

examination before such registration may become effective, unless such person's activities are so limited as to qualify such person for one or more of the limited categories of principal registration specified in Rule 612.³⁰ The Exchange proposes to move these provisions of Rule 604.01 to new Rule 612(a), also titled General Securities Principal.

The Exchange also proposes to recognize two new principal registration categories. First, the Exchange proposes to adopt Rule 612(d) in order to permit Registered Options Principals to satisfy the principal registration requirements of Rule 611. Specifically, each member or person associated with a member organization who is included within the definition of principal, and each person designated as a Chief Compliance Officer on Schedule A of Form BD of a member organization may register as a Registered Options Principal and successfully complete the Series 4 examination, instead of registering as a General Securities Principal and successfully completing the Series 24 examination, if such person's activities are limited solely to options. Specifically, Rule 612(d) will provide that such person's supervisory responsibilities in the investment banking and securities business must be limited to the options activities of a member organization, that he or she must be registered pursuant to Exchange Rules as a General Securities Representative, that he or she is qualified to be so registered by passing the Series 4 examination, and that he or she shall not be qualified to function in a principal capacity with responsibility over any area of business activity other than the supervision of persons involved exclusively in options activity. The Exchange believes that the

³⁰ However, pursuant to Rule 604.01(c), a person registered solely as a General Securities Principal shall not be qualified to function as a FINOP or a Limited Principal – General Securities Sales Supervisor unless that person is also qualified and registered as such.

Registered Options Principal category is appropriate for a principal whose activities are limited solely to options.³¹ The Series 4 examination covers options-related topics, which should help ensure that principals whose activities are limited to options are properly qualified. Furthermore, Rule 1024 currently requires persons who supervise options sales practice activities to register as a Registered Options Principal; thus, the Exchange believes that some member organizations have already registered certain associated persons in this category, such that these persons could satisfy the new principal registration requirement for applicable firms.

Second, the Exchange proposes to recognize the new Proprietary Trader Principal category as a limited principal category in Rule 612(e). It would apply to persons whose supervisory responsibilities in the investment banking and securities business are limited to the activities of a member organization that involve proprietary trading, market making and effecting transactions on behalf of broker-dealers. It would require that he or she be registered pursuant to Exchange Rules as a Proprietary Trader, be qualified to be so registered by passing the Series 24 examination, and not function in a principal capacity with responsibility over any area of business activity other than proprietary trading, market making and effecting transactions on behalf of broker-dealer accounts.

The Exchange has been working with other exchanges and FINRA to develop this registration category, which is limited to persons who supervise persons engaged in proprietary trading, market making or effecting transactions on behalf of broker-dealer

³¹ This is similar to BATS Exchange, Inc. (“BATS”) Rule 17.1(g).

accounts.³² This category is in lieu of registration as a General Securities Principal, for which the prerequisite qualification examination is the Series 7. The appropriate qualification examination for the proposed new registration category of Proprietary Trader Principal is the Series 24, which is the same qualification required for registration as a General Securities Principal; no new examination has been developed. However, the prerequisite examination for the new Proprietary Trader Principal category is the new Series 56, which is described above. Accordingly, a person who has passed the Series 56 can register as a Proprietary Trader Principal and take the Series 24 examination, under this proposal, but cannot register as a General Securities Principal without first qualifying as a General Securities Representative and passing the Series 7. Thus, although the Series 24 will now be the appropriate qualification examination for both categories (General Securities Principal and Proprietary Trader Principal), different prerequisites apply and different registration categories result.

The new Proprietary Trader Principal category is expected to become available to Phlx member organizations in WebCRD soon and the Exchange will communicate the implementation date to the membership. The Exchange believes that the new principal registration category is an appropriate corollary to the new representative registration category discussed above and reflects a substantial joint-exchange effort to develop a registration framework specific to principals supervising persons engaged in proprietary trading, market making and effecting transactions on behalf of broker-dealer accounts. Furthermore, the Exchange believes that the Series 24 is the appropriate examination for

³² In effect, supervisors who supervise persons engaged only in activities covered by the proposed new Proprietary Trader registration category can meet the principal registration requirement by registering as a Proprietary Trader Principal.

Proprietary Trader Principals, because it tests knowledge and understanding of supervision-related rules.

Both the Registered Options Principal and the Proprietary Trader Principal registrations count towards the minimum two principal requirement in Rule 611. The Exchange believes that this is appropriate because both of these principals are subject to a comprehensive qualification examination that covers their area of supervision. Of course, if the member organization is involved in activity other than what a Proprietary Trader Principal and a Registered Options Principal are permitted under these rules to supervise, an additional principal would be required.

Two other provisions of the current principal registration framework are also becoming applicable to all member organizations, in addition to the basic principal requirement. Rule 604.02, titled Limited Principal – Financial and Operations, currently requires that each member organization of the Exchange that is subject to Rule 604(g) and that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), designate as Limited Principal—Financial and Operations (“FINOP”) those persons associated with it, at least one of whom shall be its chief financial officer, who perform the following duties: final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body; final preparation of such reports; supervision of individuals who assist in the preparation of such reports; supervision of and responsibility for individuals who are involved in the actual maintenance of the member organization's books and records from which such reports are derived; supervision and/or performance of the member organization's responsibilities under all financial responsibility rules promulgated pursuant to the

provisions of the Act; overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member organization's back office operations; or any other matter involving the financial and operational management of the member organization. Each FINOP must register with the Exchange and pass the Series 27 examination. The Exchange proposes to move this provision to Rule 612(b) and extend it beyond PSX users, including trading floor members. This provision is intended to ensure that persons handling the financial affairs of a firm are properly registered and qualified. This requirement also harmonizes the Exchange's rules with those of other exchanges³³ and recognizes the importance and complexity of the rules governing financial responsibility for broker-dealers.³⁴ Although the FINOP is a type of principal registration, because its scope is limited to financial matters, the FINOP does not count toward the two principal requirement of Rule 611.

Rule 604.03, Limited Principal – General Securities Sales Supervisor, is also being extended to all member organizations as new Rule 612(c). It currently provides that each person associated with a member organization who is included in the definition of principal in Rule 604(g) (changing to Rule 611) may register with the Exchange as a Limited Principal—General Securities Sales Supervisor, or “SU,” if applicable. This provision is being moved, unchanged, in its entirety to new Rule 612(c). Like the FINOP, the General Securities Sales Supervisor does not count toward satisfying the two principal requirement of Rule 611.

³³ See e.g., CBOE Rule 3.6A(b).

³⁴ See e.g., Phlx Rule 703.

In total, although various other supervisory rules currently operate, such as Phlx Rule 748,³⁵ extending these principal registration requirements beyond Exchange member organizations doing business on PSX should strengthen the framework of supervisory rules. The Exchange believes that the broader application of the principal registration requirement is an important change. The Exchange also believes that offering categories of limited principal registration should help ensure that principals are properly qualified for their specific functions, such as supervising persons involved in options and proprietary trading.

Other Rules

The Exchange proposes to renumber Rule 604(i), Persons Exempt from Registration, as new Rule 614. No changes are proposed thereto. These registration exemptions will now apply to all member organizations and are intended to make clear that registration of certain, specific persons is not necessary, because of their functions. This provision is based on exemptions contained in, for example, NASDAQ Rule 1060 and BX Rule 1060.

Rule 604(i)(2) provides that member organizations, and persons associated with a member organization, may pay nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations under certain conditions detailed in the rule. This provision is intended to cover the payment of fees to finders,³⁶ and is being moved to Rule 614(b), without change.

³⁵ Currently, Rule 748, Supervision, establishes the supervisory requirement for member organizations, including that all locations and activities of a member organization be supervised by a qualified supervisor.

³⁶ This provision is identical to NASDAQ Rule 1060(b) and BX Rule 1060(b).

The Exchange proposes to renumber Rule 604(j) as Rule 615, Waiver of Requirements. Currently, Rule 604(j) provides that the Exchange may, in exceptional cases and where good cause is shown, waive the applicable Qualification Examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a Qualification Examination. Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a Qualification Examination. The rule is not changing and is based on corresponding rules of FINRA, NASDAQ and BX.

The Exchange proposes to adopt Rule 616, Electronic Filing Requirements for Uniform Forms. Rule 616(a), WebCRD Filing, will provide that forms required to be filed under the Rule 600 Series shall be filed electronically through WebCRD.³⁷ Currently, some of the rules in the 600 series state this and others do not, such that adopting a separate, new rule should be clearer. Similarly, new Rule 616(b), Form U4 and U5 Filing Requirements, will require that initial filings and amendments of Forms U4 and U5 be submitted electronically. Furthermore, as part of the member organization's recordkeeping requirements, it shall retain such records for a period of not less than three years, the first two years in an easily accessible place, in accordance with Exchange Act Rule 17a-4, and make such records available promptly upon regulatory request. In addition, every application for registration filed with the Exchange shall be kept current at all times by supplementary amendments via electronic filing or such other process as

³⁷ This is similar to International Securities Exchange, LLC (“ISE”) Rules 313.01 and .02.

the Exchange may prescribe. Such amendments shall be filed not later than 30 days after the applicant learns of the facts or circumstances giving rise to the need for the amendment. These requirements also currently may appear in various rules but not each applicable rule, such that adopting a separate, new rule should be clearer.³⁸

The Exchange also proposes to amend OFPA F-34 and EFPA A-7, both titled Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD; these are the corollary minor rule plan provisions for Rule 623, which are being amended only to add new rule numbers 611-613 and 616 and to delete reference to Rule 604.

The Exchange proposes to amend Rule 620, Trading Floor Registration, to specifically state the registration categories governed by the rule, to require all trading floor associated persons of member organizations to register via Form U4, to delete unnecessary language and to strengthen a time requirement. Specifically, the Exchange proposes to add to Rule 620(a), which requires the registration of Floor Brokers, Specialists and Registered Options Traders on an Exchange trading floor via Form U4, that the appropriate registration category on such form is “Member Exchange (“ME”)” under “PHLX.” This is intended to specify registration categories in the Exchange’s rules whenever possible, for clarity. The Exchange notes that this provision covers members operating on the trading floor and that such members are required to successfully complete the Exchange’s Trading Floor Qualification Examination. The Exchange also proposes to delete a reference in Rule 620(a) to updating Form U4 within a certain time period, because this requirement will now appear in new Rule 616, as explained above.

³⁸ This rule is similar to NASDAQ Rule 1031(d)(3).

Currently, Rule 620(b) covers all trading floor personnel, such as clerks, interns, and other associated persons of member organizations, not required to register under Rule 620(a) and requires them to register with the Exchange on a form supplied by the Exchange. The Exchange proposes to significantly strengthen this requirement by requiring these individuals to be registered on Form U4 on WebCRD, not just with the Exchange. Accordingly, these associated persons will be subject to the comprehensive disclosure obligations of Form U4, which the Exchange believes is an important enhancement. For example, once a Form U4 submission is required, the background information of these individuals will be available electronically within WebCRD for access by the appropriate regulators. The specific registration category will be “Floor Employee (“FE”)” under “PHLX,” which will be stated expressly in the rule. The Exchange does not intend to require a qualification examination for non-member trading floor personnel at this time. The Exchange does not believe that the Series 7, Series 56 or the Exchange’s own Trading Floor Qualification Examination are appropriate for the limited functions of a trading floor clerk, because these persons are not members trading on the floor and they are supervised by members. These persons do not execute transactions on the Exchange, but rather enter orders and report trades, for example, and related clerical functions.³⁹ Specifically, the types of questions covered by the Exchange’s Trading Floor Qualification Examination include announcing trades, trade allocation and floor broker responsibilities, all of which are rules that apply to trading floor members, but not clerks or off-floor persons.

³⁹ See Rule 1090.

The Exchange also proposes to amend Rule 620(b) to provide that following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department no later than 9:30 A.M. the next business day by the member organization employer. The Exchange proposes to strengthen this requirement by adding that such submission should occur, rather than no later than 9:30 A.M. the next business day, as soon as possible but no later than 9:30 A.M. the next business day.

Lastly, the Exchange proposes to amend Rule 623, Fingerprinting, to adopt a new paragraph (b), which is similar to NASDAQ Rule 1140(d). Upon filing an electronic Form U4 pursuant to Rule 616 on behalf of a person applying for registration, a member shall promptly submit fingerprint information for that person. The Exchange may make a registration effective pending receipt of the fingerprint information. The fingerprinting requirement is not new, but rather is being codified into the appropriate rule.⁴⁰

Conclusion

The Exchange believes that these proposed new rules should form a solid framework for the registration and qualification of all member organizations and their personnel. As a result of the new registration requirements, additional persons will become subject to the Exchange's continuing education requirement in Rule 640. The

⁴⁰ OFPA F-25 and EFPA A-4 are the corollary minor rule plan provisions for Rule 623; these are not changing.

Exchange will announce to the membership when these new requirements will be implemented and available for member organizations to access.

The Exchange proposes to require that member organizations comply with the new registration and qualification requirements within 90 days of the Exchange's issuance of an alert to its membership, announcing Commission approval; respecting any registration category and related examination that has a prerequisite, the Exchange proposes to require its member organizations to comply therewith 90 days after successful completion of the prerequisite exam.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁴¹ in general, and furthers the objectives of : (1) Section 6(c)(3)(B) of the Act,⁴² pursuant to which a national securities exchange prescribes standards of training, experience and competence for members and their associated persons; and (2) Section 6(b)(5) of the Act,⁴³ in that it is designed, among other things, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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, by extending its registration and qualification requirements beyond PSX users. Overall, as discussed in more detail above, the Exchange believes that these new requirements bolster the integrity of the Exchange by helping to ensure that all associated persons

⁴¹ 15 U.S.C. 78f(b).

⁴² 15 U.S.C. 78(c)(3)(B).

⁴³ 15 U.S.C. 78f(b)(5).

engaged in a securities business are, and will continue to be, properly trained and qualified to perform their functions, will be supervised, and can be identified by regulators.

4. 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.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is based on the rules of CBOE, ISE, BATS, BX, NASDAQ and FINRA, as discussed herein.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
5. Text of proposed rule change.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2012-23)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ
OMX PHLX LLC Relating to Amending Registration Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on February 16, 2012, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to delete Rule 604 as well as amend and adopt several new rules governing the registration and qualification of members and persons associated with³ member organizations, as described below.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The term “associated person” or “person associated with” a member organization means any partner, officer, director, or branch manager of an Exchange member organization or applicant (or person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with such member organization or applicant, or any employee of such member or applicant, except that any person associated with a member organization or applicant whose functions are solely clerical or ministerial shall not be included in the meaning of such term for purposes of the Exchange Rules. See Rule 1(b).

The text of the proposed rule change is available on the Exchange's Website at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, 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 Exchange 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 purpose of the proposed rule change is to strengthen the Exchange's current registration provisions in a number of ways. In 2010,⁴ in connection with the Exchange's proposal to launch the Exchange's equity trading platform for NMS Stocks, NASDAQ OMX PSX ("PSX"),⁵ the Exchange amended Rule 604 to adopt paragraph (h) to govern the registration of representatives and Supplementary Material .04 to Rule 604 regarding the specific category of such registration. In addition, with respect to principal registration, the Exchange adopted paragraph (g), Principal Registration, and Supplementary Material .01 - .03 governing the specific categories of principal

⁴ See Securities Exchange Act Release No. 62776 (August 26, 2010), 75 FR 53727 (September 1, 2010)(SR-Phlx-2010-91).

⁵ See Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010)(SR-Phlx-2010-79).

registration, to require that every member organization covered by those rules have at least two registered principals as well as a Financial/Operations Principal. The Exchange also adopted paragraph (i) to establish which persons are exempt from registration. These provisions became applicable only to PSX users pursuant to paragraph (f). In that filing, the Exchange stated:

“The Exchange intends to separately revise its registration and qualification rules related to activity other than business conducted on PSX, including its options business. The Exchange understands that other self-regulatory organizations are expected to adopt a framework that requires more fulsome registration and qualification requirements clearly spelled out in rules. The Exchange supports the Commission’s commitment to ensure that such rules are adopted by all self-regulatory organizations on a consistent basis.”

Accordingly, the Exchange is now proposing to extend the principal and representative registration requirements of Rule 604(g) and (h) to all members, member organizations and associated persons by adopting Rules 611-616 to replace Rule 604. As a result of the new registration requirements, additional persons will become subject to the Exchange’s continuing education requirement in Rule 640.

Background and Current Requirements

Currently, Rules 604(a)-(e) apply to all member organizations and generally require the Series 7 examination for Registered Representatives,⁶ off-floor traders⁷ and persons compensated directly or indirectly for the solicitation or handling of business in securities who are not otherwise required to register with the Exchange by Rule 604(a).⁸ Furthermore, Rule 604(f) provides that members and persons associated with member

⁶ See Rule 604(a).

⁷ See Rule 604(e).

⁸ See Rule 604(d).

organizations that are registered with the Exchange for the purpose of trading NMS Stocks⁹ through the facilities of the Exchange, which is the PSX platform, are subject to the provisions of Rule 604(g) and (h) governing principal and representative registration, respectively. Thus, these provisions currently cover members that trade on PSX, and are substantially similar to the rules of The NASDAQ Stock Market LLC (“NASDAQ”), Financial Industry Regulatory Authority (“FINRA”) and NASDAQ OMX BX, Inc. (“BX”) requiring PSX users to register and qualify representatives and principals with the Exchange in accordance with such rules.

Proposal

The Exchange is proposing to extend the current principal requirement beyond PSX users to include all member organizations, including those who trade options. This more extensive principal requirement will be embodied in new Rules 611 and 612, which are substantially similar to current Rule 604(g) and Supplementary Material .01 - .03.

In connection with strengthening its registration rules, the Exchange is proposing to reorganize and renumber its registration rules to better align with those of NASDAQ and FINRA, albeit within its own rule numbering structure. The following summarizes the new rule numbering structure:

⁹ See Rule 1(t).

Current Phlx Rule #	Topic	New Phlx Rule #	NASDAQ Rule #
604(g)	Principal Registration	611	1021
604.01-.03	Categories of Principal Registration	612	1022
604(h)	Representative Registration	613	1031
604.04	Categories of Representative Registration	613	1032
604(i)	Persons Exempt from Registration	614	1060
604(j)	Waiver	615	1070(d)
None	Electronic Filing	616	1140

Representative Registration

Rule 604(h) currently governs the registration of representatives¹⁰ with the Exchange; specifically, Rule 604(h)(1) requires that all persons engaged or to be engaged in the investment banking or securities business¹¹ of a member organization who are to function as representatives shall be registered as such with the Exchange through

¹⁰ The term “representative” is defined in Rule 1 as a member or an associated person of a registered broker or dealer, including assistant officers other than principals, who is engaged in the investment banking or securities business for the member organization including the functions of supervision, solicitation or conduct of business in securities or who is engaged in the training of persons associated with a broker or dealer for any of these functions. To the extent provided in Rule 604, all representatives are required to be registered with the Exchange, and representatives that are so registered are referred to herein as “Registered Representatives.” See Rule 1(cc).

¹¹ The term “investment banking or securities business” means the business, carried on by a broker or dealer, of underwriting or distributing issues of securities, or of purchasing securities and offering the same for sale as a dealer, or of purchasing and selling securities upon the order and for the account of others. See Rule 1(m). Of course, the federal securities laws may require broker-dealers to become members of the FINRA in order to perform some of these functions. See e.g., 15 U.S.C. 78o(b)(8).

WebCRD¹² in the category of registration appropriate to the function to be performed as specified in Supplementary Material .04 of Rule 604. Before their registration can become effective, they shall pass the Series 7 examination. Rule 604(h) is applicable today only to PSX users pursuant to Rule 604(f).

The provisions currently contained in Rule 604(h) are proposed to be moved to new Rule 613, Representative Registration, in substantially the same form, except with respect to trading floor personnel subject to Rule 620. Specifically, new Rule 613(a) will expressly state that, except members whose activities are limited to the Exchange's options trading floor and who are registered pursuant to Rule 620(a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to Rule 620(b), all persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as representatives shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in Rule 613(e). This is the only change to the language currently in Rule 604(h) that is being moved to new Rule 613.

Accordingly, trading floor personnel will continue to be required to register pursuant to Rule 620, in lieu of new Rule 613,¹³ such that trading floor personnel will not be required to successfully complete the Series 7 examination, as long as their activities are limited to the trading floor. The Exchange believes that it is appropriate to permit

¹² WebCRD is FINRA's automated Central Registration Depository.

¹³ However, trading floor personnel and members on the trading floor will be subject to new principal registration requirements, as described below.

trading floor members and associated persons to operate pursuant to a registration and qualification framework tailored to their specific functions. These functions include handling and executing electronic and phoned-in orders on the trading floor, as well as providing markets, both verbally and electronically. Members on the trading floor will continue to be subject to the Exchange's Trading Floor Qualification Examination in lieu of the Series 7, which the Exchange believes is appropriate because the examination focuses on the rules and procedures most applicable to floor members.¹⁴ For example, there are questions regarding the quoting obligations of Rule 1014(b), crossing orders pursuant to Rule 1064, and Floor Broker obligations in Rule 1063.

Respecting trading floor members, Rule 620 requires registration on Form U4 through WebCRD. Rule 620 will now require all trading floor personnel, including clerks, interns and any other associated persons, of a member organization not required to register pursuant to Rule 620(a) to register on Form U4 through WebCRD. Accordingly, the same registration information will be available electronically within WebCRD for trading floor members and associated persons as is available for persons registered as General Securities Representatives.

In terms of the actual category of registration that applies, currently, Supplementary Material .04 to Rule 604, titled Categories of Representative Registration - General Securities Representative, contains the basic requirement¹⁵ that each member and each person associated with a member organization who is included within the

¹⁴ The Exchange recently revised this examination. See Securities Exchange Act Release No. 63603 (December 22, 2010), 75 FR 82419 (December 30, 2010)(SR-Phlx-2010-180).

¹⁵ This provision is the same as BX Rule 1032.

definition of a representative in Rule 1(cc) is required to register with the Exchange as a General Securities Representative and shall pass the Series 7 examination before such registration may become effective. The appropriate registration category on WebCRD is “GS.” This provision is not changing, and was intended to capture traditional securities personnel in a rule similar to that of several other SROs.¹⁶ The Exchange continues to believe that this provision is broad and should not generate gaps that permit a member organization to operate differently than under the registration rules of BX, NASDAQ or FINRA. The Exchange proposes to move the provisions of Rule 604(h) into Rule 613 and Supplementary Material .04 of Rule 604 into Rule 613(e). The Exchange believes that it is clearer to place the “registered representative” requirement and category of registration all in one rule, even though that differs from the FINRA and NASDAQ rules slightly.

The Exchange also proposes to adopt a new limited category of representative registration as Rule 613(f). The Exchange has been working with other exchanges and FINRA to develop a registration category and qualification examination for proprietary traders in lieu of the Series 7, which is now available through WebCRD. Accordingly, the Exchange proposes to recognize the new registration category, Proprietary Trader, and related examination, the Series 56,¹⁷ and to incorporate it into Rule 613(f), subject to

¹⁶ See e.g., BX Rules 1031 and 1032, NASDAQ Rules 1031 and 1032, and NASD Rules 1031 and 1032.

¹⁷ This new examination, the Series 56, would also serve as a prerequisite for a new principal registration category, which the Exchange would recognize; the Series 24 would be the appropriate examination for the new principal registration category, as described below.

filing the Series 56 content outline with the Commission.¹⁸ The Exchange intends to file the Series 56 content outline with the Commission shortly.¹⁹ Proposed Rule 613(f) would provide that members and associated persons engaged solely in proprietary trading, market making or effecting transactions on behalf of a broker-dealer account may register instead as a Proprietary Trader and pass the Series 56 examination.²⁰ The term “persons engaged in effecting transactions on behalf of a broker-dealer account” is equivalent to persons engaged in proprietary trading or market making, because it covers persons who do not deal with the public. For example, this would include both Floor Brokers on the Exchange’s trading floor as well as persons performing brokerage functions off the trading floor (“upstairs”).²¹ The Exchange believes that the Series 56 helps ensure that such persons are qualified, because it addresses industry topics that establish the foundation for the regulatory and procedural knowledge necessary for individuals required to register as a Proprietary Trader.

The Exchange is proposing to delete Rule 604 in its entirety.²² With respect to paragraphs (a), (d) and (e), the Exchange believes that the requirements of new Rule 613

¹⁸ See e.g., Securities Exchange Act Release No. 64699 (June 17, 2011)(SR-CBOE-2011-056).

¹⁹ The Exchange is also proposing that the Series 56 serve as a prerequisite to the Series 24, as described further below.

²⁰ See supra note 17.

²¹ This provision is the same as the provision in Chicago Board Options Exchange Incorporated (“CBOE”) rules which requires that an individual Permit Holder or associated person who effects transactions on behalf of a broker-dealer account register and pass the Series 56 examination. See CBOE Rule 3.6A, Interpretation and Policy .06.

²² The Exchange proposes to amend the following additional rules to replace references to Rule 604 with the new applicable rule number: Rule 1(cc), Rule 1090, Rule 3202,

cover every person subject to registration as a representative and the Series 7 examination. The Exchange believes that Rule 613 is broader, because it is not limited to member organizations for which the Exchange is the designated examining authority (“DEA”) nor is it limited to specific categories of persons, such as Rule 604(e). In addition, the language of Rule 613 more closely aligns with the rules of FINRA and NASDAQ, which should facilitate compliance by broker-dealers. Thus, although Rule 604 is being deleted, the same persons will continue to be required to successfully complete the Series 7 examination and be registered as a “Registered Representative” on Form U4 through WebCRD. This proposal will extend the requirements of Rule 604(h) to all member organizations, whereas today Rule 604(h) only applies to member organizations registered to use PSX.²³

Principal Registration

With respect to principal registration on the Exchange, Rule 604(g)²⁴ currently provides that certain member organizations must register at least two principals with the Exchange,²⁵ unless an exception applies. The Exchange is proposing to adopt new Rule 611, Principal Registration, and to move the provisions of existing Rule 604(g) over into this new rule. Accordingly, the principal registration rules will now apply beyond PSX users to all Phlx member organizations, with the addition of two new registration

Equity Floor Procedure Advice (“EFPA”) A-7 and Options Floor Procedure Advice (“OFPA”) F-34. Rule 3202 will now refer to the applicability of Rules 611- 616 to PSX users.

²³ See Rule 604(f).

²⁴ This rule is similar to NASDAQ Rule 1021, BX Rule 1021 and NASD Rule 1021.

²⁵ All persons who engage in specified supervisory functions will be registered as principals. All principals are first required to register as and qualify as Representatives.

categories to satisfy the principal requirement: Registered Options Principal and Proprietary Trader Principal.

Phlx rules will require that each principal must successfully complete the General Securities Principal Examination (“Series 24”) and submit a Form U4 via WebCRD reflecting registration as such, using the category “GP,” unless a different category of principal registration applies to such person. Specifically, new Rule 611 will provide that all persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as principals shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in Rule 612, Categories of Principal Registration, which replaces existing Supplementary Material .01 - .03 of Rule 604. Before their registration can become effective, they shall pass a qualification examination for principals appropriate to the category of registration. Persons associated with a member organization who are actively engaged in the management of the member organization's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member organization for any of these functions are principals. Such persons shall include: sole proprietors, officers, partners, managers of offices of supervisory jurisdiction,²⁶ and directors of corporations. This requirement will now appear in Rule 611(b) and apply to all member organizations.

²⁶ The Exchange defined the term “office of supervisory jurisdiction” to mean any office of a member organization at which any one or more of the following functions take place: order execution and/or market making; structuring of public offerings or private placements; maintaining custody of customers' funds and/or securities; final acceptance (approval) of new accounts on behalf of the member organization; review and endorsement of customer orders; final approval of advertising or sales literature for use by persons associated with the member organization, pursuant to Rule 605, except for an

Rule 604(g)(5) currently requires at least two registered principals, which will now be contained in new Rule 611(e).²⁷ Specifically, an Exchange member organization, except a sole proprietorship, shall have at least two officers or partners who are registered as principals with respect to each aspect of the member organization's investment banking and securities business pursuant to the applicable provisions of Rule 611; provided, however, that a proprietary trading firm²⁸ with 25 or fewer registered representatives shall only be required to have one officer or partner who is registered as a principal. This exception to the two principal requirement is similar to that of several other exchanges and reflects that such firms do not necessitate the same level of

office that solely conducts final approval of research reports; or responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization. This definition is drawn from NASD Rule 3010. The Exchange is adopting the reference to this term in order to cover these managers in the new principal registration requirement. The Exchange is not, at this time, adopting a comprehensive program with regard to such offices, such as that found in NASD Rule 3010. See proposed Rule 611(b).

²⁷ All persons who engage in specified supervisory functions must be registered as Principals.

²⁸ The term "proprietary trading firm" means a member organization or applicant with the following characteristics: (A) the applicant is not required by Section 15(b)(8) of the Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Act; (B) all funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts; (C) the applicant does not, and will not have customers; and (D) all Principals and Representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant. See proposed Rule 611(e)(i).

supervisory structure as firms who have customers or larger firms. This exception is not changing and will now be in Rule 611(e)(i), applicable to all member organizations.²⁹

Rule 611(e)(ii) will provide, like Rule 604(g) currently does, that the Exchange may waive the two principal requirement in situations that indicate conclusively that only one person should be required to register as a principal. This provision is identical to that of several other exchanges, and the Exchange believes that such waiver is appropriate in certain situations, but should be carefully applied; for example, the Exchange may determine to apply this provision to a very small firm, with only a few employees in one location.

To help determine how a person should register as a principal, Supplementary Material .01 - .03 to Rule 604 currently enumerates the three categories of principal registration. These categories will now be in new Rule 612. First, Rule 604.01, titled General Securities Principal, provides that each member or person associated with a member organization who is included within the definition of principal, and each person designated as a Chief Compliance Officer on Schedule A of Form BD shall be required to register with the Exchange as a General Securities Principal and shall pass the Series 24 examination before such registration may become effective, unless such person's activities are so limited as to qualify such person for one or more of the limited categories

²⁹ Member organizations operating on the trading floor will be subject to the minimum “two principal” requirement, except to the extent that the “proprietary trading firm” exception permits certain firms to have one principal.

of principal registration specified in Rule 612.³⁰ The Exchange proposes to move these provisions of Rule 604.01 to new Rule 612(a), also titled General Securities Principal.

The Exchange also proposes to recognize two new principal registration categories. First, the Exchange proposes to adopt Rule 612(d) in order to permit Registered Options Principals to satisfy the principal registration requirements of Rule 611. Specifically, each member or person associated with a member organization who is included within the definition of principal, and each person designated as a Chief Compliance Officer on Schedule A of Form BD of a member organization may register as a Registered Options Principal and successfully complete the Series 4 examination, instead of registering as a General Securities Principal and successfully completing the Series 24 examination, if such person's activities are limited solely to options. Specifically, Rule 612(d) will provide that such person's supervisory responsibilities in the investment banking and securities business must be limited to the options activities of a member organization, that he or she must be registered pursuant to Exchange Rules as a General Securities Representative, that he or she is qualified to be so registered by passing the Series 4 examination, and that he or she shall not be qualified to function in a principal capacity with responsibility over any area of business activity other than the supervision of persons involved exclusively in options activity. The Exchange believes that the Registered Options Principal category is appropriate for a principal whose activities are

³⁰ However, pursuant to Rule 604.01(c), a person registered solely as a General Securities Principal shall not be qualified to function as a FINOP or a Limited Principal – General Securities Sales Supervisor unless that person is also qualified and registered as such.

limited solely to options.³¹ The Series 4 examination covers options-related topics, which should help ensure that principals whose activities are limited to options are properly qualified. Furthermore, Rule 1024 currently requires persons who supervise options sales practice activities to register as a Registered Options Principal; thus, the Exchange believes that some member organizations have already registered certain associated persons in this category, such that these persons could satisfy the new principal registration requirement for applicable firms.

Second, the Exchange proposes to recognize the new Proprietary Trader Principal category as a limited principal category in Rule 612(e). It would apply to persons whose supervisory responsibilities in the investment banking and securities business are limited to the activities of a member organization that involve proprietary trading, market making and effecting transactions on behalf of broker-dealers. It would require that he or she be registered pursuant to Exchange Rules as a Proprietary Trader, be qualified to be so registered by passing the Series 24 examination, and not function in a principal capacity with responsibility over any area of business activity other than proprietary trading, market making and effecting transactions on behalf of broker-dealer accounts.

The Exchange has been working with other exchanges and FINRA to develop this registration category, which is limited to persons who supervise persons engaged in proprietary trading, market making or effecting transactions on behalf of broker-dealer accounts.³² This category is in lieu of registration as a General Securities Principal, for

³¹ This is similar to BATS Exchange, Inc. (“BATS”) Rule 17.1(g).

³² In effect, supervisors who supervise persons engaged only in activities covered by the proposed new Proprietary Trader registration category can meet the principal registration requirement by registering as a Proprietary Trader Principal.

which the prerequisite qualification examination is the Series 7. The appropriate qualification examination for the proposed new registration category of Proprietary Trader Principal is the Series 24, which is the same qualification required for registration as a General Securities Principal; no new examination has been developed. However, the prerequisite examination for the new Proprietary Trader Principal category is the new Series 56, which is described above. Accordingly, a person who has passed the Series 56 can register as a Proprietary Trader Principal and take the Series 24 examination, under this proposal, but cannot register as a General Securities Principal without first qualifying as a General Securities Representative and passing the Series 7. Thus, although the Series 24 will now be the appropriate qualification examination for both categories (General Securities Principal and Proprietary Trader Principal), different prerequisites apply and different registration categories result.

The new Proprietary Trader Principal category is expected to become available to Phlx member organizations in WebCRD soon and the Exchange will communicate the implementation date to the membership. The Exchange believes that the new principal registration category is an appropriate corollary to the new representative registration category discussed above and reflects a substantial joint-exchange effort to develop a registration framework specific to principals supervising persons engaged in proprietary trading, market making and effecting transactions on behalf of broker-dealer accounts. Furthermore, the Exchange believes that the Series 24 is the appropriate examination for Proprietary Trader Principals, because it tests knowledge and understanding of supervision-related rules.

Both the Registered Options Principal and the Proprietary Trader Principal registrations count towards the minimum two principal requirement in Rule 611. The Exchange believes that this is appropriate because both of these principals are subject to a comprehensive qualification examination that covers their area of supervision. Of course, if the member organization is involved in activity other than what a Proprietary Trader Principal and a Registered Options Principal are permitted under these rules to supervise, an additional principal would be required.

Two other provisions of the current principal registration framework are also becoming applicable to all member organizations, in addition to the basic principal requirement. Rule 604.02, titled Limited Principal – Financial and Operations, currently requires that each member organization of the Exchange that is subject to Rule 604(g) and that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), designate as Limited Principal—Financial and Operations (“FINOP”) those persons associated with it, at least one of whom shall be its chief financial officer, who perform the following duties: final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body; final preparation of such reports; supervision of individuals who assist in the preparation of such reports; supervision of and responsibility for individuals who are involved in the actual maintenance of the member organization's books and records from which such reports are derived; supervision and/or performance of the member organization's responsibilities under all financial responsibility rules promulgated pursuant to the provisions of the Act; overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member organization's back

office operations; or any other matter involving the financial and operational management of the member organization. Each FINOP must register with the Exchange and pass the Series 27 examination. The Exchange proposes to move this provision to Rule 612(b) and extend it beyond PSX users, including trading floor members. This provision is intended to ensure that persons handling the financial affairs of a firm are properly registered and qualified. This requirement also harmonizes the Exchange's rules with those of other exchanges³³ and recognizes the importance and complexity of the rules governing financial responsibility for broker-dealers.³⁴ Although the FINOP is a type of principal registration, because its scope is limited to financial matters, the FINOP does not count toward the two principal requirement of Rule 611.

Rule 604.03, Limited Principal – General Securities Sales Supervisor, is also being extended to all member organizations as new Rule 612(c). It currently provides that each person associated with a member organization who is included in the definition of principal in Rule 604(g) (changing to Rule 611) may register with the Exchange as a Limited Principal—General Securities Sales Supervisor, or “SU,” if applicable. This provision is being moved, unchanged, in its entirety to new Rule 612(c). Like the FINOP, the General Securities Sales Supervisor does not count toward satisfying the two principal requirement of Rule 611.

³³ See e.g., CBOE Rule 3.6A(b).

³⁴ See e.g., Phlx Rule 703.

In total, although various other supervisory rules currently operate, such as Phlx Rule 748,³⁵ extending these principal registration requirements beyond Exchange member organizations doing business on PSX should strengthen the framework of supervisory rules. The Exchange believes that the broader application of the principal registration requirement is an important change. The Exchange also believes that offering categories of limited principal registration should help ensure that principals are properly qualified for their specific functions, such as supervising persons involved in options and proprietary trading.

Other Rules

The Exchange proposes to renumber Rule 604(i), Persons Exempt from Registration, as new Rule 614. No changes are proposed thereto. These registration exemptions will now apply to all member organizations and are intended to make clear that registration of certain, specific persons is not necessary, because of their functions. This provision is based on exemptions contained in, for example, NASDAQ Rule 1060 and BX Rule 1060.

Rule 604(i)(2) provides that member organizations, and persons associated with a member organization, may pay nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations under certain conditions detailed in the rule. This provision is intended to cover the payment of fees to finders,³⁶ and is being moved to Rule 614(b), without change.

³⁵ Currently, Rule 748, Supervision, establishes the supervisory requirement for member organizations, including that all locations and activities of a member organization be supervised by a qualified supervisor.

³⁶ This provision is identical to NASDAQ Rule 1060(b) and BX Rule 1060(b).

The Exchange proposes to renumber Rule 604(j) as Rule 615, Waiver of Requirements. Currently, Rule 604(j) provides that the Exchange may, in exceptional cases and where good cause is shown, waive the applicable Qualification Examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a Qualification Examination. Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a Qualification Examination. The rule is not changing and is based on corresponding rules of FINRA, NASDAQ and BX.

The Exchange proposes to adopt Rule 616, Electronic Filing Requirements for Uniform Forms. Rule 616(a), WebCRD Filing, will provide that forms required to be filed under the Rule 600 Series shall be filed electronically through WebCRD.³⁷ Currently, some of the rules in the 600 series state this and others do not, such that adopting a separate, new rule should be clearer. Similarly, new Rule 616(b), Form U4 and U5 Filing Requirements, will require that initial filings and amendments of Forms U4 and U5 be submitted electronically. Furthermore, as part of the member organization's recordkeeping requirements, it shall retain such records for a period of not less than three years, the first two years in an easily accessible place, in accordance with Exchange Act Rule 17a-4, and make such records available promptly upon regulatory request. In addition, every application for registration filed with the Exchange shall be kept current at all times by supplementary amendments via electronic filing or such other process as

³⁷ This is similar to International Securities Exchange, LLC (“ISE”) Rules 313.01 and .02.

the Exchange may prescribe. Such amendments shall be filed not later than 30 days after the applicant learns of the facts or circumstances giving rise to the need for the amendment. These requirements also currently may appear in various rules but not each applicable rule, such that adopting a separate, new rule should be clearer.³⁸

The Exchange also proposes to amend OFPA F-34 and EFPA A-7, both titled Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD; these are the corollary minor rule plan provisions for Rule 623, which are being amended only to add new rule numbers 611-613 and 616 and to delete reference to Rule 604.

The Exchange proposes to amend Rule 620, Trading Floor Registration, to specifically state the registration categories governed by the rule, to require all trading floor associated persons of member organizations to register via Form U4, to delete unnecessary language and to strengthen a time requirement. Specifically, the Exchange proposes to add to Rule 620(a), which requires the registration of Floor Brokers, Specialists and Registered Options Traders on an Exchange trading floor via Form U4, that the appropriate registration category on such form is “Member Exchange (“ME”)” under “PHLX.” This is intended to specify registration categories in the Exchange’s rules whenever possible, for clarity. The Exchange notes that this provision covers members operating on the trading floor and that such members are required to successfully complete the Exchange’s Trading Floor Qualification Examination. The Exchange also proposes to delete a reference in Rule 620(a) to updating Form U4 within

³⁸ This rule is similar to NASDAQ Rule 1031(d)(3).

a certain time period, because this requirement will now appear in new Rule 616, as explained above.

Currently, Rule 620(b) covers all trading floor personnel, such as clerks, interns, and other associated persons of member organizations, not required to register under Rule 620(a) and requires them to register with the Exchange on a form supplied by the Exchange. The Exchange proposes to significantly strengthen this requirement by requiring these individuals to be registered on Form U4 on WebCRD, not just with the Exchange. Accordingly, these associated persons will be subject to the comprehensive disclosure obligations of Form U4, which the Exchange believes is an important enhancement. For example, once a Form U4 submission is required, the background information of these individuals will be available electronically within WebCRD for access by the appropriate regulators. The specific registration category will be “Floor Employee (“FE”)” under “PHLX,” which will be stated expressly in the rule. The Exchange does not intend to require a qualification examination for non-member trading floor personnel at this time. The Exchange does not believe that the Series 7, Series 56 or the Exchange’s own Trading Floor Qualification Examination are appropriate for the limited functions of a trading floor clerk, because these persons are not members trading on the floor and they are supervised by members. These persons do not execute transactions on the Exchange, but rather enter orders and report trades, for example, and related clerical functions.³⁹ Specifically, the types of questions covered by the Exchange’s Trading Floor Qualification Examination include announcing trades, trade

³⁹ See Rule 1090.

allocation and floor broker responsibilities, all of which are rules that apply to trading floor members, but not clerks or off-floor persons.

The Exchange also proposes to amend Rule 620(b) to provide that following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department no later than 9:30 A.M. the next business day by the member organization employer. The Exchange proposes to strengthen this requirement by adding that such submission should occur, rather than no later than 9:30 A.M. the next business day, as soon as possible but no later than 9:30 A.M. the next business day.

Lastly, the Exchange proposes to amend Rule 623, Fingerprinting, to adopt a new paragraph (b), which is similar to NASDAQ Rule 1140(d). Upon filing an electronic Form U4 pursuant to Rule 616 on behalf of a person applying for registration, a member shall promptly submit fingerprint information for that person. The Exchange may make a registration effective pending receipt of the fingerprint information. The fingerprinting requirement is not new, but rather is being codified into the appropriate rule.⁴⁰

Conclusion

The Exchange believes that these proposed new rules should form a solid framework for the registration and qualification of all member organizations and their

⁴⁰ OFPA F-25 and EFPA A-4 are the corollary minor rule plan provisions for Rule 623; these are not changing.

personnel. As a result of the new registration requirements, additional persons will become subject to the Exchange's continuing education requirement in Rule 640. The Exchange will announce to the membership when these new requirements will be implemented and available for member organizations to access.

The Exchange proposes to require that member organizations comply with the new registration and qualification requirements within 90 days of the Exchange's issuance of an alert to its membership, announcing Commission approval; respecting any registration category and related examination that has a prerequisite, the Exchange proposes to require its member organizations to comply therewith 90 days after successful completion of the prerequisite exam.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁴¹ in general, and furthers the objectives of : (1) Section 6(c)(3)(B) of the Act,⁴² pursuant to which a national securities exchange prescribes standards of training, experience and competence for members and their associated persons; and (2) Section 6(b)(5) of the Act,⁴³ in that it is designed, among other things, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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, by extending its registration and qualification requirements beyond PSX users. Overall, as

⁴¹ 15 U.S.C. 78f(b).

⁴² 15 U.S.C. 78(c)(3)(B).

⁴³ 15 U.S.C. 78f(b)(5).

discussed in more detail above, the Exchange believes that these new requirements bolster the integrity of the Exchange by helping to ensure that all associated persons engaged in a securities business are, and will continue to be, properly trained and qualified to perform their functions, will be supervised, and can be identified by regulators.

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.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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-Phlx-2012-23 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2012-23. 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 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. 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-Phlx-2012-23 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.⁴⁴

Kevin M. O'Neill
Deputy Secretary

⁴⁴ 17 CFR 200.30-3(a)(12).

Exhibit 5

Additions are underlined; deletions are bracketed.

Rule 1. Definitions

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Directors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

(a) - (bb) No Change.

Representative

(cc) The term "representative" means a member or an associated person of a registered broker or dealer, including assistant officers other than principals, who is engaged in the investment banking or securities business for the member organization including the functions of supervision, solicitation or conduct of business in securities or who is engaged in the training of persons associated with a broker or dealer for any of these functions. To the extent required by the provisions of Rule [604] 613, all representatives are required to be registered with the Exchange, and representatives that are so registered are referred to herein as "Registered Representatives."

(dd) - (jj) No Change.

Rule 604. Reserved [Registration and Termination of Registered Persons

(a) Every qualified Registered Representative of a member organization must be registered with and approved by the Exchange. Members and member and participant organizations must use Web CRD to submit Form U4, Uniform Application for Securities Industry Registration or Transfer filings on behalf of Registered Representatives. Members and member organizations shall amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment. No member organization shall permit any natural persons to conduct a public business or duties customarily performed by a Registered Representative unless such person is registered and qualified as a Registered Representative, except in accordance with Rule 1024.

(i) To satisfy the registration requirement of this Rule, a qualified Registered Representative must be registered as a "PHLX" registrant on Form U4.

(ii) For the purposes of this Rule, a person is deemed to be a qualified Registered Representative if he or she maintains an effective Series 7 General Securities Registered Representative Examination registration or an equivalent predecessor of this examination/registration.

(b) Members and member organizations must use Web CRD to submit Form U5, Uniform Termination Notice for Securities Industry Registration on behalf of the qualified Registered Representative. Members and member organizations shall amend Form U5 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

(c) Reserved

(d) Every person who is compensated directly or indirectly by a member organization for which the Exchange is the Designated Examining Authority ("DEA") for the solicitation or handling of business in securities, including trading securities for the account of the member or participant organization, whether such securities are those dealt in on the Exchange or those dealt in over-the-counter, who is not otherwise required to register with the Exchange by paragraph (a) of this Rule or another rule shall file Form U4, Uniform Application for Securities Industry Registration or Transfer, in a manner prescribed by the Exchange.

(e)(i) Every person who is compensated directly or indirectly by a member organization for which the Exchange is the DEA, or any other associated person of such member organization, and who executes, makes trading decisions with respect to, or otherwise engages in proprietary or agency trading of securities, including, but not limited to, equities, preferred securities, convertible debt securities or options off the floor of the Exchange ("off-floor traders"), must successfully complete the Series 7 General Securities Registered Representative Examination.

(ii) The requirement to successfully complete the Series 7 examination applies to current off-floor traders as well as future off-floor traders who affiliate with members at a later date.

(iii) Any off-floor trader who (A) is currently a member in good standing of a national securities exchange or has ever been a member in good standing of a national securities exchange for not less than 12 consecutive years, (B) is a MMAT, or (C) solely handles and/or makes trading decisions regarding agency orders, and any bona fide errors related to those agency orders, shall be exempt from the examination requirements set forth in section (i) and (ii) hereof.

(f) All member organizations that are registered with the Exchange for the purpose of trading NMS Stocks through the facilities of the Exchange, and all members and other persons associated with such member organizations, must comply with paragraphs (g) and (h).

(g) Principal Registration.

(1) All persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as Principals shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in this rule. Before their registration can become effective, they shall pass a Qualification Examination for Principals appropriate to the category of registration as specified in this Rule.

A member organization shall not maintain a Principal registration with the Exchange for any person (A) who is no longer active in the member organization's investment banking or securities business, (B) who is no longer functioning as a Principal, or (C) where the sole purpose is to avoid the examination requirement of this Rule. A member organization shall not make application for the registration of any person as Principal where there is no intent to employ such person in the member organization's investment banking or securities business. A member organization may, however, maintain or make application for the registration as a Principal of a person who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the member organization or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member organization.

(2) Definition of Principal

Persons associated with a member organization, enumerated in subparagraphs (A) through (E) hereafter, who are actively engaged in the management of the member organization's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member organization for any of these functions are designated as Principals. Such persons shall include:

(A) Sole Proprietors

(B) Officers

(C) Partners

(D) Managers of offices of supervisory jurisdiction, and

(E) Directors of Corporations.

"Office of supervisory jurisdiction" means any office of a member organization at which any one or more of the following functions takes place: order execution and/or market making; structuring of public offerings or private placements; maintaining custody of customers' funds and/or securities; final acceptance (approval) of new accounts on behalf of the member organization; review and endorsement of customer orders; final approval of advertising or sales literature for use by persons associated with the member organization, pursuant to Rule 605, except for an office that solely conducts final

approval of research reports; or responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization.

(3) Requirements for Examination on Lapse of Registration

Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration as a Principal has been terminated for a period of two or more years immediately preceding the date of receipt by the Exchange of a new application shall be required to pass a Qualification Examination for Principals appropriate to the category of registration as specified in this Rule.

(4) Application for Principal Status

(A) Any person associated with a member organization as a Registered Representative whose duties are changed by the member organization so as to require registration in any Principal classification shall be allowed a period of 90 calendar days following the change in his or her duties during which to pass the appropriate Qualification Examination for Principals. Upon elevation, the member organization shall submit to the Exchange through WebCRD an amended "Uniform Application for Securities Industry Registration or Transfer" and any applicable fees. In no event may a person function as a Principal beyond the initial 90 calendar day period following the change in his or her duties without having successfully passed the appropriate Qualification Examination. This provision shall apply to (i) a person associated with a member organization of another registered national securities exchange or association who is required to register in a Principal classification under Exchange Rules but who is not required to be so registered under the rules of the other exchange or association, or (ii) a person associated with a member organization who was not required to register with the Exchange as a Principal prior to the adoption of this Rule 604(g) by the Exchange.

(B) Any person not presently associated with a member organization as a Registered Representative seeking registration as a Principal shall submit the appropriate application for registration and any required registration and examination fees. Such person shall be allowed a period of 90 days after all applicable prerequisites are fulfilled to pass the appropriate Qualification Examination for Principals. In no event may a person previously unregistered in any capacity applying for Principal status function as a Principal until fully qualified.

(5) Requirement of Two Registered Principals

(A) An Exchange member organization, except a sole proprietorship, shall have at least two officers or partners who are registered as Principals with respect to each aspect of the member organization's investment banking and securities business pursuant to the applicable provisions of Rule 604(g); provided, however, that a proprietary trading

firm with 25 or fewer registered representatives shall only be required to have one officer or partner who is registered as a Principal.

The term "proprietary trading firm" means a member organization or applicant with the following characteristics:

- (i) The applicant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act.
 - (ii) All funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts.
 - (iii) The applicant does not, and will not have customers.
 - (iv) All Principals and Representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant.
- (B) The Exchange may waive the provisions of subparagraph (A) in situations that indicate conclusively that only one person should be required to register as a Principal.
- (C) In addition to the provisions of subparagraph (A) above, an applicant for membership shall have at least one person qualified for registration as a Limited Principal - Financial and Operations, pursuant to Supplementary Material .02(a) below.

(h) Representative Registration

- (1) All persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as representatives shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in Supplementary Material .04. Before their registration can become effective, they shall pass the Series 7 examination.

A member organization shall not maintain a representative registration with the Exchange for any person (A) who is no longer active in the member organization's investment banking or securities business, (B) who is no longer functioning as a representative, or (C) where the sole purpose is to avoid the examination requirement prescribed in this rule. A member organization shall not make application for the registration of any person as representative where there is no intent to employ such person in the member organization's investment banking or securities business. A member may, however, maintain or make application for the registration as a representative of a person who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the member organization, or a person who performs administrative support functions for registered personnel, or a person engaged in the investment

banking or securities business of a foreign securities affiliate or subsidiary of the member organization.

(2) Requirement for Examination on Lapse of Registration

Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration as a Representative or Principal has been terminated for a period of two or more years immediately preceding the date of receipt by the Exchange of a new application shall be required to pass the Series 7 examination for Representatives appropriate to the category of registration as specified in this Rule.

(3) Qualification Requirements

No member organization shall permit any member or person associated with it to engage in the investment banking or securities business unless the member organization determines that such person satisfies the qualification requirements established by the Board and is not subject to statutory disqualification as defined in Section 3(a)(39) of the Act.

(i) Persons Exempt from Registration

(1) The following persons associated with a member organization are not required to be registered with the Exchange:

(A) persons associated with a member organization whose functions are solely and exclusively clerical or ministerial;

(B) persons associated with a member organization who are not actively engaged in the investment banking or securities business;

(C) persons associated with a member organization whose functions are related solely and exclusively to the member organization's need for nominal corporate officers or for capital participation; and

(D) persons associated with a member organization whose functions are related solely and exclusively to:

(i) effecting transactions on the floor of another national securities exchange and who are registered as floor members with such exchange;

(ii) transactions in municipal securities;

(iii) transactions in commodities;

- (iv) transactions in security futures, provided that any such person is registered with FINRA or a registered futures association;
 - (v) transactions in variable contracts and insurance premium funding programs and other contracts issued by an insurance company;
 - (vi) transactions in direct participation programs;
 - (vii) transactions in government securities; or
 - (viii) effecting sales as part of a primary offering of securities not involving a public offering pursuant to Section 3(b), 4(2), or 4(6) of the Securities Act of 1933 and the rules and regulations thereunder.
- (2) Member organizations, and persons associated with a member organization, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations if the following conditions are met:
- (A) the member organization has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;
 - (B) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;
 - (C) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;
 - (D) customers receive a descriptive document, similar to that required by Rule 206(4)-3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;
 - (E) customers provide written acknowledgment to the member organization of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;
 - (F) records reflecting payments to finders are maintained on the member organization's books and actual agreements between the member organization and persons compensated are available for inspection by the Exchange; and
 - (G) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

(j) Waiver of Requirements. The Exchange may, in exceptional cases and where good cause is shown, waive the applicable Qualification Examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a Qualification Examination. Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a Qualification Examination.

••• *Supplementary Material:* -----

.01 General Securities Principal

(a) Each member and person associated with a member organization to which Rule 604(g) applies and who is included within the definition of Principal in Rule 604(g), and each person designated as a Chief Compliance Officer on Schedule A of Form BD of a member organization to which Rule 604(g) applies, shall be required to register with the Exchange as a General Securities Principal and shall pass the Series 24 examination before such registration may become effective, unless such person's activities are so limited as to qualify such person for one or more of the limited categories of Principal registration specified hereafter. A person whose activities in the investment banking or securities business are so limited is not, however, precluded from attempting to become qualified for registration as a General Securities Principal, and if qualified, may become so registered. Each person seeking to register and qualify as a General Securities Principal must, prior to or concurrent with such registration, become registered as a General Securities Representative. A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD for at least two years immediately prior to January 1, 2002, and who has not been subject within the last ten years to any statutory disqualification as defined in Section 3(a)(39) of the Act; a suspension; or 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 shall be required to register as a General Securities Principal, but shall be exempt from the requirement to pass the Series 24 examination.

(b) Except as provided in Rule 604(g)(3), a person who was registered with FINRA as a Principal, shall not be required to pass the Series 24 examination and shall be qualified as a General Securities Principal.

(c) A person registered solely as a General Securities Principal shall not be qualified to function as a Limited Principal—Financial and Operations or Limited Principal—General Securities Sales Supervisor unless that person is also qualified and registered as such.

.02 Limited Principal—Financial and Operations

(a) Every member organization to which Rule 604(g) applies and that is operating pursuant to the provisions of SEC rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8) shall designate as Limited Principal—Financial and Operations those persons associated with it, at least one of whom shall be its chief financial officer, who performs the duties described in subparagraph (b) hereof. Each person associated with a member organization who performs such duties shall be required to register as a Limited Principal—Financial and Operations with the Exchange and shall pass the Series 27 examination before such registration may become effective.

(b) The term "Limited Principal—Financial and Operations" shall mean a person associated with a member organization whose duties include:

- (1) final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body;
- (2) final preparation of such reports;
- (3) supervision of individuals who assist in the preparation of such reports;
- (4) supervision of and responsibility for individuals who are involved in the actual maintenance of the member organization's books and records from which such reports are derived;
- (5) supervision and/or performance of the member organization's responsibilities under all financial responsibility rules promulgated pursuant to the provisions of the Act;
- (6) overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member organization's back office operations; or
- (7) any other matter involving the financial and operational management of the member organization.

(c) A person registered solely as a Limited Principal—Financial and Operations shall not be qualified to function in a Principal capacity with responsibility over any area of business activity not described in subparagraph (b) hereof.

.03 Limited Principal—General Securities Sales Supervisor

(a) Each person associated with a member organization to which Rule 604(g) applies and who is included in the definition of Principal in Rule 604(g) may register with the Exchange as a Limited Principal—General Securities Sales Supervisor if:

- (1) his or her supervisory responsibilities in the investment banking and securities business are limited to the securities sales activities of a member organization, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and/or ledger accounts of the member organization required to be maintained in branch offices by SEC record keeping rules;
- (2) he or she is registered pursuant to Exchange Rules as a General Securities Representative; and
- (3) he or she is qualified to be so registered by passing the Series 9 or Series 10 examination.

(b) A person registered in this category solely on the basis of having passed the Series 9 or Series 10 examination for Limited Principal—General Securities Sales Supervisor shall NOT be qualified to:

- (1) function in a Principal capacity with responsibility over any area of business activity not described in paragraph (a)(1);
- (2) be included for purposes of the Principal numerical requirements of Rule 604(g)(5); or
- (3) perform for a member organization any or all of the following activities:
 - (A) supervision of the origination and structuring of underwritings;
 - (B) supervision of market making commitments;
 - (C) final approval of advertisements as these are defined in Rule 605;
 - (D) supervision of the custody of firm or customer funds and/or securities for purposes of SEC rule 15c3-3; or
 - (E) supervision of overall compliance with financial responsibility rules for broker/dealers promulgated pursuant to the provisions of the Act.

(c) Explanation of Category. Limited Principal—General Securities Sales Supervisor

Limited Principal—General Securities Sales Supervisor 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 could be required to separately qualify pursuant to the rules of multiple exchanges. While persons may continue to separately qualify with all relevant self-regulatory organizations, the Limited Principal—General Securities Sales Supervisor Examination permits qualification as a supervisor of sales of all securities by one examination. Persons registered as Limited Principals—General Securities

Sales Supervisor 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 Limited Principals—General Securities Sales Supervisor.

Functions that may be performed by Limited Principals—General Securities Sales Supervisors. Any person required to be registered as a Principal who supervises sales activities in corporate, municipal and option securities, investment company products, variable contracts, direct participation programs, and security futures may be registered solely as a Limited Principal—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 Limited Principals—General Securities Sales Supervisor as long as they supervise only sales activities. Qualification as a General Securities Representative is a prerequisite for registration as a Limited Principal—General Securities Sales Supervisor.

Functions that may not be performed by Limited Principals—General Securities Sales Supervisors. Certain functions may not be performed by persons registered solely as Limited Principal—General Securities Sales Supervisor. These include supervisory responsibility for the origination and structuring of underwritings, market-making, final approval of advertising, custody of firm or customer funds and/or securities for purposes of SEC rule 15c3-3 and overall compliance with financial responsibility rules for broker/dealers. Persons responsible for any of these activities are still required to qualify in the appropriate categories of Principal registration. Moreover, persons qualified only as Limited Principals—General Securities Sales Supervisor are not included for purposes of the two Principal requirements of Rule 604.

.04 Categories of Representative Registration - General Securities Representative

Each member and each person associated with a member organization who is required to register with the Exchange as a General Securities Representative under Rule 604 shall pass the Series 7 examination before such registration may become effective.

••• *Supplementary Material:* -----

The exemption in Rule 604(e)(iii)(B) for MMATs is independent of the requirement in Rule 171(b)(5) on MMATs regarding the Series 7 Examination. MMATs must meet, if applicable, the requirements in both Rule 171(b)(5) and Rule 604(e)(i)-(ii).]

* * * * *

Rule 611 Principal Registration Requirements

(a) All persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as Principals shall be registered as such with the Exchange through WebCRD in the category of registration appropriate to the function to be performed as specified in this rule. Before their registration can become effective, they shall pass a Qualification Examination for Principals appropriate to the category of registration as specified in this rule.

A member organization shall not maintain a Principal registration with the Exchange for any person (A) who is no longer active in the member organization's investment banking or securities business, (B) who is no longer functioning as a Principal, or (C) where the sole purpose is to avoid the examination requirement of this rule. A member organization shall not make application for the registration of any person as Principal where there is no intent to employ such person in the member organization's investment banking or securities business. A member organization may, however, maintain or make application for the registration as a Principal of a person who performs legal, compliance, internal audit, back-office operations, or similar duties for the member organization or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member organization.

(b) Definition of Principal. Persons associated with a member organization, enumerated in subparagraphs (i) through (v) hereafter, who are actively engaged in the management of the member organization's investment banking or securities business, including supervision, solicitation, conduct of business or the training of persons associated with a member organization for any of these functions are designated as Principals. Such persons shall include:

- (i) Sole Proprietors
- (ii) Officers
- (iii) Partners
- (iv) Managers of offices of supervisory jurisdiction, and
- (v) Directors of Corporations.

“Office of supervisory jurisdiction” means any office of a member organization at which any one or more of the following functions takes place: order execution and/or market making; structuring of public offerings or private placements; maintaining custody of customers' funds and/or securities; final acceptance (approval) of new accounts on behalf of the member organization; review and endorsement of customer orders; final approval of advertising or sales literature for use by persons associated with the member organization, pursuant to Rule 605, except for an office that solely conducts final approval of research reports; or responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization.

(c) Requirements for Examination on Lapse of Registration. Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration as a

Principal has been terminated for a period of two or more years immediately preceding the date of receipt by the Exchange of a new application shall be required to pass a Qualification Examination for Principals appropriate to the category of registration as specified in this rule.

(d) Application for Principal Status

(i) Any person associated with a member organization as a Registered Representative whose duties are changed by the member organization so as to require registration in any Principal classification shall be allowed a period of 90 calendar days following the change in his or her duties during which to pass the appropriate Qualification Examination for Principals. Upon elevation, the member organization shall submit to the Exchange through WebCRD an amended "Uniform Application for Securities Industry Registration or Transfer" and any applicable fees. In no event may a person function as a Principal beyond the initial 90 calendar day period following the change in his or her duties without having successfully passed the appropriate Qualification Examination. This provision shall apply to (i) a person associated with a member organization of another registered national securities exchange or association who is required to register in a Principal classification under Exchange Rules but who is not required to be so registered under the rules of the other exchange or association, or (ii) a person associated with a member organization who was not required to register with the Exchange as a Principal prior to the adoption of this Rule 611 by the Exchange.

(ii) Any person not presently associated with a member organization as a Registered Representative seeking registration as a Principal shall submit the appropriate application for registration and any required registration and examination fees. Such person shall be allowed a period of 90 days after all applicable prerequisites are fulfilled to pass the appropriate Qualification Examination for Principals. In no event may a person previously unregistered in any capacity applying for Principal status function as a Principal until fully qualified.

(e) Requirement of Two Registered Principals

(i) An Exchange member organization, except a sole proprietorship, shall have at least two officers or partners who are registered as Principals with respect to each aspect of the member organization's investment banking and securities business pursuant to the applicable provisions of Rule 611; provided, however, that a proprietary trading firm with 25 or fewer registered representatives shall only be required to have one officer or partner who is registered as a Principal.

The term "proprietary trading firm" means a member organization or applicant with the following characteristics:

(A) The applicant is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act.

(B) All funds used or proposed to be used by the applicant for trading are the applicant's own capital, traded through the applicant's own accounts.

(C) The applicant does not, and will not have customers.

(D) All Principals and Representatives of the applicant acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the applicant.

(ii) The Exchange may waive the provisions of paragraph (e)(i) in situations that indicate conclusively that only one person should be required to register as a Principal.

(iii) In addition to the provisions of paragraph (e)(i) above, an applicant for membership shall have at least one person qualified for registration as a Limited Principal - Financial and Operations, pursuant to Rule 612(b)(i) below.

Rule 612 Categories of Principal Registration

(a) General Securities Principal

Each member and person associated with a member organization to which Rule 611 applies and who is included within the definition of Principal in Rule 611, and each person designated as a Chief Compliance Officer on Schedule A of Form BD of a member organization to which Rule 611 applies, shall be required to register with the Exchange as a General Securities Principal and shall pass the Series 24 examination before such registration may become effective, unless such person's activities are so limited as to qualify such person for one or more of the limited categories of Principal registration specified hereafter in paragraphs (b) - (e). A person whose activities in the investment banking or securities business are so limited is not, however, precluded from attempting to become qualified for registration as a General Securities Principal, and if qualified, may become so registered. Each person seeking to register and qualify as a General Securities Principal must, prior to or concurrent with such registration, become registered as a General Securities Representative. A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD for at least two years immediately prior to January 1, 2002, and who has not been subject within the last ten years to any statutory disqualification as defined in Section 3(a)(39) of the Act; a suspension; or 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 shall be required to register as a General Securities Principal, but shall be exempt from the requirement to pass the Series 24 examination.

Except as provided in Rule 611(c), a person who was registered with FINRA as a Principal, shall not be required to pass the Series 24 examination and shall be qualified as a General Securities Principal.

A person registered solely as a General Securities Principal shall not be qualified to function as a Limited Principal—Financial and Operations or Limited Principal—General Securities Sales Supervisor.

(b) Limited Principal—Financial and Operations

(i) Every member organization to which Rule 611 applies and that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8) shall designate as Limited Principal—Financial and Operations those persons associated with it, at least one of whom shall be its chief financial officer, who perform the duties described in subparagraph (ii) hereof. Each person associated with a member organization who performs such duties shall be required to register as a Limited Principal—Financial and Operations with the Exchange and shall pass the Series 27 examination before such registration may become effective.

(ii) The term "Limited Principal—Financial and Operations" shall mean a person associated with a member organization whose duties include:

(A) final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body;

(B) final preparation of such reports;

(C) supervision of individuals who assist in the preparation of such reports;

(D) supervision of and responsibility for individuals who are involved in the actual maintenance of the member organization's books and records from which such reports are derived;

(E) supervision and/or performance of the member organization's responsibilities under all financial responsibility rules promulgated pursuant to the provisions of the Act;

(F) overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member organization's back office operations; or

(G) any other matter involving the financial and operational management of the member organization.

(iii) A person registered solely as a Limited Principal—Financial and Operations shall not be qualified to function in a Principal capacity with responsibility over any area of business activity not described in subparagraph (ii) hereof.

(c) Limited Principal—General Securities Sales Supervisor

(i) Each person associated with a member organization to which Rule 611 applies and who is included in the definition of Principal in Rule 611 may register with the Exchange as a Limited Principal—General Securities Sales Supervisor if:

(A) his or her supervisory responsibilities in the investment banking and securities business are limited to the securities sales activities of a member organization, including the training of sales and sales supervisory personnel and the maintenance of records of original entry and/or ledger accounts of the member organization required to be maintained in branch offices by SEC record keeping rules;

(B) he or she is registered pursuant to Exchange Rules as a General Securities Representative; and

(C) he or she is qualified to be so registered by passing the Series 9 or Series 10 examination.

(ii) A person registered in this category solely on the basis of having passed the Series 9 or Series 10 examination for Limited Principal—General Securities Sales Supervisor shall NOT be qualified to:

(A) function in a Principal capacity with responsibility over any area of business activity not described in paragraph (c)(i)(A);

(B) be included for purposes of the Principal numerical requirements of Rule 611(e); or

(C) perform for a member organization any or all of the following activities:

(1) supervision of the origination and structuring of underwritings;

(2) supervision of market making commitments;

(3) final approval of advertisements as these are defined in Rule 605;

(4) supervision of the custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3; or

(5) supervision of overall compliance with financial responsibility rules for broker/dealers promulgated pursuant to the provisions of the Act.

(iii) Explanation of Category. Limited Principal—General Securities Sales Supervisor

- (A) Limited Principal—General Securities Sales Supervisor 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 could be required to separately qualify pursuant to the rules of multiple exchanges. While persons may continue to separately qualify with all relevant self-regulatory organizations, the Limited Principal—General Securities Sales Supervisor Examination permits qualification as a supervisor of sales of all securities by one examination. Persons registered as Limited Principals—General Securities Sales Supervisor 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 Limited Principals—General Securities Sales Supervisor.
- (B) Functions that may be performed by Limited Principals—General Securities Sales Supervisors. Any person required to be registered as a Principal who supervises sales activities in corporate, municipal and option securities, investment company products, variable contracts, direct participation programs, and security futures may be registered solely as a Limited Principal—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 Limited Principals—General Securities Sales Supervisor as long as they supervise only sales activities. Qualification as a General Securities Representative is a prerequisite for registration as a Limited Principal—General Securities Sales Supervisor.
- (C) Functions that may not be performed by Limited Principals—General Securities Sales Supervisors. Certain functions may not be performed by persons registered solely as Limited Principal—General Securities Sales Supervisor. These include supervisory responsibility for the origination and structuring of underwritings, market-making, final approval of advertising, custody of firm or customer funds and/or securities for purposes of SEC Rule 15c3-3 and overall compliance with financial responsibility rules for broker/dealers. Persons responsible for any of these activities are still required to qualify in the appropriate categories of Principal registration. Moreover, persons qualified only as Limited Principals—General Securities Sales Supervisor are not included for purposes of the two Principal requirement of Rule 611.

(d) Limited Principal—Registered Options Principal

(i) Each person associated with a member organization to which Rule 611 applies and who is included in the definition of Principal in Rule 611 may register with the Exchange as a Limited Principal—Registered Options Principal if:

- (A) his or her supervisory responsibilities in the investment banking and securities business are limited exclusively to the options activities of a member organization.

(B) he or she is registered pursuant to Exchange Rules as a General Securities Representative; and

(C) he or she is qualified to be so registered by passing the Series 4 examination.

(ii) A person registered in this category solely on the basis of having passed the Series 4 examination for Limited Principal—Registered Options Principal shall NOT be qualified to function in a Principal capacity with responsibility over any area of business activity not described in paragraph (d)(i)(A).

(e) Limited Principal—Proprietary Trader Principal

(i) Each person associated with a member organization to which Rule 611 applies and who is included in the definition of Principal in Rule 611 may register with the Exchange as a Limited Principal—Proprietary Trader Principal if:

(A) his or her supervisory responsibilities in the investment banking and securities business are limited to the activities of a member organization that involve proprietary trading, market making and effecting transactions on behalf of broker-dealers;

(B) he or she is registered pursuant to Exchange Rules as a Proprietary Trader; and

(C) he or she is qualified to be so registered by passing the Series 24 examination.

(ii) A person registered in this category solely on the basis of having passed the Series 24 examination for Limited Principal—Proprietary Trader Principal shall NOT be qualified to function in a Principal capacity with responsibility over any area of business activity not described in paragraph (e)(i)(A).

Rule 613 Representative Registration

(a) Except members whose activities are limited to the Exchange's options trading floor and are registered pursuant to Rule 620(a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to Rule 620(b), all persons engaged or to be engaged in the investment banking or securities business of a member organization who are to function as representatives shall be registered as such with the Exchange through WebCRD under PHLX in the category of registration appropriate to the function to be performed as specified in paragraph (e) below. Before their registration can become effective, they shall pass the Series 7 examination.

(b) A member organization shall not maintain a representative registration with the Exchange for any person (A) who is no longer active in the member organization's investment banking or securities business, (B) who is no longer functioning as a representative, or (C) where the sole purpose is to avoid the examination requirement prescribed in this rule. A member organization

shall not make application for the registration of any person as representative where there is no intent to employ such person in the member organization's investment banking or securities business. A member may, however, maintain or make application for the registration as a representative of a person who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the member organization, or a person who performs administrative support functions for registered personnel, or a person engaged in the investment banking or securities business of a foreign securities affiliate or subsidiary of the member organization.

(c) Requirement for Examination on Lapse of Registration

Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration as a Representative or Principal has been terminated for a period of two or more years immediately preceding the date of receipt by the Exchange of a new application shall be required to pass a qualification examination appropriate to the registration category, as prescribed by the Exchange.

(d) Qualification Requirements

No member organization shall permit any member or person associated with it to engage in the investment banking or securities business unless the member organization determines that such person satisfies the qualification requirements established by the Board and is not subject to statutory disqualification as defined in Section 3(a)(39) of the Act.

(e) Categories of Representative Registration - General Securities Representative

Each member and each person associated with a member organization who is required to register with the Exchange as a General Securities Representative under this rule shall pass the Series 7 examination before such registration may become effective.

(f) Categories of Representative Registration, Limited - Proprietary Trader.

Each member and each person associated with a member organization who is engaged solely in proprietary trading, market making or effecting transactions on behalf of a broker-dealer account may register with the Exchange as a Proprietary Trader and pass the Series 56 examination, in lieu of the requirements of subparagraph (e) above.

Rule 614 Persons Exempt from Registration

(a) The following persons associated with a member organization are not required to be registered with the Exchange:

- (i) persons associated with a member organization whose functions are solely and exclusively clerical or ministerial;
- (ii) persons associated with a member organization who are not actively engaged in the investment banking or securities business;
- (iii) persons associated with a member organization whose functions are related solely and exclusively to the member organization's need for nominal corporate officers or for capital participation; and
- (iv) persons associated with a member organization whose functions are related solely and exclusively to:
 - (A) effecting transactions on the floor of another national securities exchange and who are registered as floor members with such exchange;
 - (B) transactions in municipal securities;
 - (C) transactions in commodities;
 - (D) transactions in security futures, provided that any such person is registered with FINRA or a registered futures association;
 - (E) transactions in variable contracts and insurance premium funding programs and other contracts issued by an insurance company;
 - (F) transactions in direct participation programs;
 - (G) transactions in government securities; or
 - (H) effecting sales as part of a primary offering of securities not involving a public offering pursuant to Section 3(b), 4(2), or 4(6) of the Securities Act of 1933 and the rules and regulations thereunder.

(b) Member organizations, and persons associated with a member organization, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member organizations if the following conditions are met:

- (i) the member organization has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

- (ii) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;
- (iii) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;
- (iv) customers receive a descriptive document, similar to that required by Rule 206(4)-3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;
- (v) customers provide written acknowledgment to the member organization of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;
- (vi) records reflecting payments to finders are maintained on the member organization's books and actual agreements between the member organization and persons compensated are available for inspection by the Exchange; and
- (vii) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

Rule 615 Waiver of Requirements

The Exchange may, in exceptional cases and where good cause is shown, waive the applicable Qualification Examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a Qualification Examination. Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a Qualification Examination.

Rule 616 Electronic Filing Requirements for Uniform Forms

(a) WebCRD Filing

Forms required to be filed under the Rule 600 Series shall be filed electronically through WebCRD, FINRA's automated Central Registration Depository.

(b) Form U4 and U5 Filing Requirements

Initial filings and amendments of Forms U4 and U5 shall be submitted electronically. As part of the member organization's recordkeeping requirements, it shall retain such records for a period of not less than three years, the first two years in an easily accessible place, in accordance with Exchange Act Rule 17a-4, and make such records available promptly upon regulatory request.

Every application for registration filed with the Exchange shall be kept current at all times by supplementary amendments via electronic filing or such other process as the Exchange may prescribe. Such amendments shall be filed not later than 30 days after the applicant learns of the facts or circumstances giving rise to the need for the amendment.

* * * * *

Rule 620. Trading Floor Registration

(a) Trading Floor Member Registration - Each Floor Broker, Specialist and Registered Options Trader on [any] the Exchange trading floor must be registered [as such with the Exchange. Members, and member organizations must use Web CRD to submit Form U4, Uniform Application for Securities Industry Registration or Transfer filings on behalf of the Floor Broker, Specialist or Registered Options Trader and register] as “Member Exchange” (“ME”) under “PHLX” on Form U4, pursuant to Rule 616. [Members, and member organizations shall amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.] In addition, each Floor Broker, Specialist and Registered Options Trader must successfully complete the appropriate floor trading examination(s), if prescribed by the Exchange, in addition to requirements imposed by other Exchange rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the trading status of any such member who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(b) Non-member/Clerk Registration-All trading floor personnel, including clerks, interns, stock execution clerks and any other associated persons, of a member organization not required to register pursuant to Rule 620(a) must: (i) register as such with the Exchange by completing the appropriate form(s) for non-registered persons (with periodic updates submitted by the member organization, as determined by the Exchange); and (ii) submit hard copy fingerprint cards or results of processed cards to the National Association of Securities Dealers, Inc. for processing] be registered as “Floor Employee” (“FE”) under “PHLX” on Form U4, pursuant to Rule 616. Further, the Exchange may require successful completion of an examination, in addition to requirements imposed by other Exchange rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next

business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

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Rule 623. Fingerprinting

(a) Members and member organizations are required to comply with Section 17(f) of the Securities Exchange Act of 1934 respecting the fingerprinting of required employees. Applicants for a permit must also be fingerprinted. Such fingerprints must be submitted to FINRA for identification and appropriate processing prior to any employee performing the functions listed in SEC rule 17f-2.

(b) Upon filing an electronic Form U4 pursuant to Rule 616 on behalf of a person applying for registration, a member organization shall promptly submit fingerprint information for that person. The Exchange may make a registration effective pending receipt of the fingerprint information.

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Rule 1090. Clerks

The term "Clerk" means any registered on-floor person employed by or associated with a member or member organization who is not a member and is not eligible to effect transactions on the Options Floor as a Specialist, Registered Options Trader, or Floor Broker. For purposes of this Rule, an Inactive Nominee shall be deemed a Clerk.

(a) - (b) No Change.

(c) Registration Requirements. A member or member organization who employs a Clerk that performs any function other than a solely clerical or ministerial function shall, prior to the time such Clerk performs any function as a Clerk, (i) comply with the registration requirement(s) set forth in Exchange Rules [604] 611-616, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) submit to the Exchange written supervisory procedures relating to such Clerk's activities in accordance with Exchange Rule 748.

(d) No Change.

Commentary:

.01 No Change.

.02 Specialist Clerks

- (a) *Definition.* A Specialist Clerk is any on-floor Clerk, not a member of the Exchange, employed by or associated with a member or member organization registered as a specialist.
- (b) *Registration Requirements.* Any member or member organization that employs a Specialist Clerk shall register such Specialist Clerk with the Exchange's Membership Department. A Specialist Clerk that performs any function other than a solely clerical or ministerial function shall, prior to performing any function as a Specialist Clerk, (i) comply with the registration requirement(s) set forth in Exchange Rules [604] 611-616, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) in accordance with Exchange Rule 748, submit to the Exchange written supervisory procedures relating to such Specialist Clerk's activities.
- (c) *Conduct on the trading floor.* A Specialist Clerk is permitted to communicate verbal market information (i.e., bid, offer, and size) in response to requests for such information, provided that such information is communicated under the direct supervision of his or her member employer. A Specialist Clerk may consummate electronic transactions under the express direction of his or her member employer by matching bids and offers. Such bids and offers and transactions effected under the supervision of a member employer are binding as if made by the member employer.

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Rule 3202. Application of Other Rules of the Exchange

The following Rules of the Exchange shall be applicable to market participants trading on PSX.

The Limited Liability Company Agreement of the Exchange

The By-Laws of the Exchange

Rule 1. Definitions

Rule 50. Failure to Pay Dues, Fees and Other Charges

Rule 52. Fees, Dues and Other Charges

Rule 53. Liability for Dues Until Transfer or Military Service

Rule 54. Service Fee

Rule 55. Claims by Former or Deceased Members

Rule 56. Effect of Suspension or Termination on Payment of Fees

Rule 57. Members' Contracts

Rule 58. Exchange Contracts

Rule 59. Deliveries through Registered Clearing Agencies

Rule 62. Disapproval of Business

Rule 63. Effect of Suspension or Termination

Rule 64. Office Vacated by Suspension or Termination

Rule 70. Suspension for Insolvency on Declaration

Rule 71. Suspension for Insolvency on Advice to Committee on Business Conduct

Rule 72. Investigation of Insolvency

Rule 73. Time for Settlement of Insolvent Member

Rule 74. Reinstatement of Insolvent Member

Rule 75. Disciplinary Measures During Suspension for Insolvency

Rule 76. Rights of Member Suspended for Insolvency

Rule 98. Emergency Committee

Rule 103. Dealings on the Exchange - Securities

Rule 112. Bids and Offers - "When Issued"

Rule 128. Price and Execution Binding

Rule 133. Trading Halts Due to Extraordinary Market Volatility

Rule 274. Payment on Delivery - Collect on Delivery

Rule 279. Book-Entry Settlement

Rule 431. Ex-dividend, Ex-rights

Rule 432. Ex-warrants

Rule 433. Buyer Entitled to Dividend, etc.

Rule 434. Claims for Dividend, etc.

Rule 451. Taking or Supplying Securities Named in Order

Rule 452. Limitations on Members' Trading Because of Customers' Orders

Rule 453. Successive Transactions by Members

Rule 455. Short Sales

Rule 600. Registration

Rule 601. Office, Other Than Main Offices

Rule 602. Status Verification

Rule 603. Control of Offices

[Rule 604. Registration and Termination of Registered Persons]

Rule 605. Advertisements, Market Letters, Research Reports and Sales Literature

Rule 607. Covered Sales Fee

Rule 610. Notification of Changes in Business Operations

Rule 611. Principal Registration Requirements

Rule 612. Categories of Principal Registration

Rule 613. Representative Registration

Rule 614. Persons Exempt from Registration

Rule 615. Waiver of Requirements

Rule 616. Electronic Filing Requirements for Uniform Forms

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EQUITY FLOOR PROCEDURE ADVICES

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A-7 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD

Any member, and member organization that is required to file Form U4, Form U5 or Form BD pursuant to Exchange Rules 600, [604,] 611-613, 616 or 620, or the Securities Exchange Act of 1934 and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Members, and member organizations shall amend Form U4, Form U5 or Form BD not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th and Thereafter	Sanction is discretionary with Business Conduct Committee

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OPTION FLOOR PROCEDURE ADVICES AND ORDER & DECORUM REGULATIONS

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F-34 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD

Any member, and member organization that is required to file Form U4, Form U5 or Form BD pursuant to Exchange Rules 600, [604,] 611-613, 616, or 620, or the Securities Exchange Act of 1934 and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Members, and member and participant organizations shall amend Form U4, Form U5 or Form BD not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00

4th and Thereafter

Sanction is discretionary with Business Conduct
Committee

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