



NASDAQ OMX PHLXSM Registration and Qualification Requirement **FAQs**

1.) What is changing?

NASDAQ OMX PHLXSM ("PHLX[®]") is deleting Rule 604 - Registration and Termination of Registered Persons, as well as amending and adopting several new rules governing the registration and qualification of members and persons associated with member organizations. These changes introduce a new principal registration requirement for PHLX member organizations and a Financial/Operations Principal ("FINOP") requirement. They also introduce three new registration categories: Floor Employee ("FE"), Proprietary Trader ("PT") and Limited Principal - Proprietary Trader Principal ("TP").

2.) Why is this changing?

The Exchange is strengthening its current registration provisions in a number of ways. Today, similar rules apply to participants on PHLX's equity trading platform for NMS Stocks, NASDAQ OMX PSXSM ("PSXSM"). PHLX understands that other exchanges adopted or are expected to adopt a framework that requires more fulsome registration and qualification requirements clearly spelled out in their rules. In addition, PHLX is supporting the SEC's efforts to ensure that registration and qualification rules are adopted more uniformly by the various exchanges.

3.) Who does this apply to?

All member organizations and their members and associated persons are affected by this change.

4.) How are the new rules like PSX rules?

The Exchange is proposing to extend PSX equities registration rules to all members and member organizations on PHLX, with certain modifications. Just like for PSX, every member organization must now have at least two registered principals,¹ as well as a Financial and Operations Principal ("FINOP").

5.) What new provisions apply to PSX?

PHLX is adopting two new registration categories: Proprietary Trader and Proprietary Trader Principal.

¹ See FAQ #18 for information on exceptions to the two-principal requirement.

6.) What are the applicable registration rules on PHLX today?

Currently, Rules 604(a)-(e) apply to all member organizations and generally require the Series 7 examination for Registered Representatives, off-floor traders 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). 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 Stocks 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[®], Financial Industry Regulatory Authority ("FINRA") and NASDAQ OMX BXSM, requiring PSX users to register and qualify representatives and principals with the Exchange in accordance with such rules.

7.) If I hold a Series 7 ("GS") license and am associated with a proprietary trading organization do I need to take the Series 56 ("PT") exam to qualify under the new registration requirements? What if I am required to register as a principal?

PHLX will accept the Series 7 or the Series 56 as evidence of qualification to engage in proprietary trading. The Series 56 is in lieu of the Series 7 for certain associated persons. Furthermore, if you must register as principal, you may satisfy this requirement as a General Principal ("GP" - S7 and S24) or Limited Principal-Proprietary Trader Principal ("TP" - S56 and S24) depending on who you supervise.

8.) How does this affect the trading floor?

All non-member trading floor personnel will be required to register in the Central Registration Depository ("Web CRD") pursuant to Rule 620. The specific registration category will be Floor Employee ("FE") under PHLX. The Exchange's trading floor qualification examination will not be required for non-member trading floor personnel. Member organizations will have **90 days to comply** with this new registration requirement for non-member personnel.

Members on the trading floor will continue to be subject to the Exchange's trading floor qualification examination and the registration category thru Web CRD will remain Member Exchange ("ME").

All firms, including those on the trading floor, will be subject to the new two-principal requirement, plus the requirement for a registered FINOP.

9.) What is the new Series 56 exam?

The Series 56 is a new exam developed by FINRA and several other exchanges. It is an alternate exam for proprietary traders in lieu of the Series 7. Members and associated persons engaged in proprietary trading, market making or effecting transactions on behalf of a broker-dealer account may register as PT and pass the Series 56 examination.

The Series 56 consists of 100 multiple choice questions. Candidates will have 150 minutes to complete the exam. The content outline describes the following topical sections comprising the examination:

- Personnel, Business Conduct and Recordkeeping and Reporting Requirements: 9 questions;
- Markets, Market Participants, Exchanges and Self Regulatory Organizations: 8 questions;
- Types and Characteristics of Securities and Investments: 20 questions;
- Trading Practices and Prohibited Acts: 50 questions; and Display, Execution and Trading Systems: 13 questions.

10.) Is there a prerequisite for the Series 56?

No.

11.) What fees will apply?

Please refer to the following link to FINRA's examination chart which provides the cost associated with each qualification examination administered by FINRA.

<http://www.finra.org/Industry/Compliance/Registration/QualificationsExams/RegisteredReps/Qualifications/p011096>

12.) How do I register?

All registration is electronic through Web CRD by filing or amending Form U4.

New Rule 616 provides that every application for registration filed with the Exchange shall be kept current at all times by supplementary amendments via electronic filing. 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.

13.) If some of a firm's associated persons do not deal with PHLX at all, do they still have to register?

Yes, all associated persons (employees) of a PHLX member organization are required to be registered in their applicable capacities with the PHLX, whether or not they act in that capacity at the PHLX.

14.) How much time do I have to comply?

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 satisfy the prerequisite requirement

within 90 days, and thereafter satisfy the registration and qualification requirement within 90 days after successful completion of the prerequisite examination.

The new registration categories (PT and TP) are expected to become available to PHLX member organizations in Web CRD upon SEC approval of these requirements.

If an individual does not pass a qualification exam, FINRA mandates a 30 day wait period prior to allowing the rescheduling of said exam.

15.) Will the continuing education requirement apply?

Yes.

16.) What is a Principal?

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 and directors of corporations.

All persons who engage in supervisory functions must be registered as principals. All principals are first required, as a prerequisite, to register and qualify as a General Securities Representative ("GS") by taking the Series 7, or a Proprietary Trader ("PT") by taking the new Series 56, depending upon the activity of the broker-dealer.

17.) What is the new principal requirement?

Member organizations must register **at least two principals** with the Exchange, unless an exception applies. However, ALL associated persons that meet the definition of principal MUST be registered as such. Although the rule requires a minimum of two principals, a member organization should consider the function of each individual associated with the firm to determine whether or not their responsibilities would cause them to meet the definition of principal, as provided for in PHLX rules.

Each principal must register as one of the following categories in Web CRD: General Securities Principal ("GP"); Proprietary Trader Principal ("TP"); or Registered Options Principal ("OP"), and must successfully complete the required qualification examinations. 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 Web CRD in the category of registration appropriate to the function to be performed.

18.) Is there an exception to the two principal requirement?

A proprietary trading firm with 25 or fewer registered representatives may 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 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.

Member organizations operating on the trading floor will be subject to the "two principal" requirement, except to the extent that the "proprietary trading firm" exception permits certain firms to have one principal. The Exchange expects that firms engaged in market making may qualify for the exception, while firms engaged in floor brokerage activity will be subject to the "two principal" requirement.

Notwithstanding the potential for qualifying for the "less than 25" relief noted in FAQ 17, if an associated person of a member organization performs supervisory functions, that person must complete the principal qualification examination and register as a principal as stated in new PHLX Rule 611 and FAQ 16.

19.) What are the different principal categories?

To help determine how a person should register as a principal, there are four categories of principal registration:

- 1) General Securities Principal ("GP"): 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 of principal registration.

- 2) Limited Principal - Registered Options Principal ("OP"): 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, if such person's activities are limited solely to options. Such person's supervisory responsibilities must be limited to the options activities of a member organization. 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 in options activity. 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 two principal registration requirement for applicable firms.

3) Limited Principal - Proprietary Trader Principal ("TP"): persons whose supervisory responsibilities in the investment banking and securities business, and each person designated as Chief Compliance Officer on Schedule A of Form BD of a member organization, may register as a Proprietary Trader Principal if such person's activities are limited to 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 or effecting transactions on behalf of broker-dealer accounts.

In effect, persons who supervise persons who engage 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.

The prerequisite examination for the new TP category is the Series 56, which is described above. Accordingly, a person who has passed the Series 56 can register as a TP and take the Series 24 examination, under this proposal, but cannot register as a GP without first qualifying as a GS and passing the Series 7. Thus, although the Series 24 will now be the appropriate qualification examination for both categories (GP and TP), different prerequisites apply and different registration categories result.

The GP, OP and TP registrations count towards the two principal requirement in Rule 611.

4) Limited Principal – General Securities Sales Supervisor ("SU"): provides that each person associated with a member organization who is included in the definition of principal may register with the Exchange as SU, if such person's supervisory responsibilities are limited to the securities sales activities of a member organization. This includes training of sales personnel and maintenance of records of original entry and/or ledger accounts of the organization required to be maintained in branch offices by SEC record keeping rules.

The SU registration does not count toward satisfying the two principal requirement of Rule 611.

20.) What is the new FINOP requirement?

Each member organization that is operating pursuant to the provisions of SEC Rule 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8) must designate as Limited Principal—Financial and Operations Principal ("FN") 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 registered through the member organization must register with the Exchange and pass the Series 27 examination. This requirement is intended to ensure that persons handling the financial affairs of a firm are properly registered and qualified.

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.

21.) What exams do I need as a Principal?

General Securities Principal ("GP") = Series 7 + Series 24

Limited Principal - Registered Options Principal ("OP") = Series 7 + Series 4

Limited Principal - Proprietary Trader Principal ("TP") = Series 56 + Series 24

Limited Principal – Financial and Operations Principal ("FN") = Series 27

22.) What other rules apply to registration?

Various other supervisory rules currently operate, such as PHLX Rules 748 and 1024.

23.) Are all of the changes in Rule 604?

No. 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

24.) Who should I contact for more information?

Please contact the NASDAQ OMX Membership Department at +1 215 496 5322 or Membership@nasdaqomx.com with any questions you may have regarding these new requirements.