



To: **ALL NYSE and NYSE MKT MEMBERS AND MEMBER ORGANIZATIONS**

Subject: **ADOPTION OF FINRA SUPERVISORY RULES**

New York Stock Exchange LLC (“NYSE”) and NYSE MKT LLC (“NYSE MKT”, together with NYSE the “Exchange”) members and member organizations are advised that the Exchange has adopted a new set of rules concerning supervision modeled on the rules of the Financial Industry Regulatory Authority (“FINRA”). These new rules will become effective as of **December 1, 2014** (with a limited exception discussed in note 4, below).¹

This Information Memo summarizes key changes to the Exchange’s rules regarding supervision resulting from these amendments, but does not attempt to detail each and every issue impacted by the revisions. Accordingly, we urge the membership to carefully review the new rules and supplemental materials, which are attached at the end of this memo. Members are also advised to review FINRA’s March 2014 Regulatory Notice 14-10, which describes its consolidated supervision rules (upon which the Exchange’s supervisory rules are based).

I. Overview of Rule Changes

FINRA recently harmonized NASD and FINRA Incorporated NYSE Rules and interpretations concerning supervision.² In order to reduce regulatory duplication and provide for less burdensome and more efficient compliance with member firm conduct rules and requirements, the Exchange has adopted new rules concerning supervision that are substantially similar to those that have been

¹ See Securities Exchange Act Release No. 73554 (November 6, 2014), 79 FR 67508 (November 13, 2014) (SR-NYSE-2014-56); Securities Exchange Act Release No. 73640 (November 19, 2014), 79 FR 70237 (November 25, 2014) (SR-NYSEMKT-2014-93).

² See Securities Exchange Act Release No. 71179 (December 23, 2013), 78 FR 79542 (December 30, 2013) (SR-FINRA-2013-025); see also FINRA Regulatory Notice 14-10 (March 2014). In particular, FINRA: (1) adopted FINRA Rules 3110 and 3120 to largely replace NASD Rules 3010 and 3012, respectively; (2) incorporated into FINRA Rule 3110 and its supplementary material the requirements of NASD IM-1000-4, NASD IM-3010-1, FINRA Incorporated Exchange Rule 401A, and FINRA Incorporated Exchange Rule 342.21; (3) replaced NASD Rule 3010(b)(2) with new FINRA Rule 3170; (4) replaced NASD Rule 3110(i) with new FINRA Rule 3150; and (5) deleted the following FINRA Incorporated Exchange Rules and Exchange Rule Interpretations -- (i) Exchange Rule 342 and related Exchange Rule Interpretations; (ii) Exchange Rule 343 and related Exchange Rule Interpretations; (iii) Exchange Rule 351(e) and related Exchange Rule Interpretation; (iv) Exchange Rule 354; (v) Exchange Rule 401; and (vi) Exchange Rule 401A.

adopted by FINRA.³ The new Exchange supervisory rules will become effective on December 1, 2014 -- the same effective date that FINRA has announced for its supervisory rule changes.⁴ In order to conform its supervisory rules to those adopted by FINRA, the Exchange is:

- Deleting the following Exchange rules and related rule interpretations:
 - Rule 342 (Offices -- approval, supervision and control) -- except for certain text in Rule 342.13 and related rule interpretations concerning examination requirements;
 - Rules 343 (Offices-Sole Tenancy and Hours) and 343.10;⁵
 - Rule 351(e) (concerning certain reporting requirements);
 - Rule 354 (Reports to Control Persons);
 - Rule 401 (Business Conduct); and
 - Rule 401A (Customer Complaints)

- Adopting the following Exchange rules that are substantially similar to the corresponding FINRA Rules:
 - Rule 3110 (Supervision);
 - Rule 3120 (Supervisory Control System);
 - Rule 3150 (Holding of Customer Mail); and
 - Rule 3170 (Tape Recording of Registered Persons by Certain Firms)

³ Except where specifically noted otherwise in the new Exchange Rules, all FINRA interpretations and published guidance relating to its supervisory rules apply equally to the new Exchange Rules, and future FINRA guidance on its supervisory rules will be instructive for the interpretation of these Exchange rules.

⁴ There is one exception. Effective as of April 7, 2014, in order to coincide with related changes to Form BR, the Exchange deleted Exchange Rule 343 and the related interpretations and FINRA deleted the related FINRA Incorporated Exchange Rule and Exchange Rule Interpretations. See FINRA Regulatory Notices 14-10 and 14-11 and Securities Exchange Act Release No. 71989 (April 22, 2014), 79 FR 23391 (April 28, 2014) (SR-NYSE-2014-21); see also Securities Exchange Act Release No. 73325 (October 9, 2014), 79 FR 62229 (October 16, 2014) (SR-NYSE-2014-55) (conforming amendments related to the deletion of Exchange Rule 343).

⁵ This deletion was effective April 7, 2014. See n. 4, supra.

- Making other conforming changes to existing Exchange Rules and/or Supplemental Material.

II. Highlights Of The New Exchange Supervisory Rules

A. Rule 3110 (Supervision)

Rule 3110 is based primarily on requirements in the FINRA rulebook and current Rule 342 relating to, among other things, supervisory systems, written procedures, internal inspections, and review of correspondence.

Rule 3110(a) covers supervisory systems and requires each member organization to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws/regulations and Exchange rules. Like under the old Rule 342, both member organizations and individual supervisors at member organizations may be liable for failing to reasonably discharge their duties and obligations with supervision and control of those employees under their supervision.

Final responsibility for proper supervision rests with the member organization. A member organization's supervisory system must provide for, at a minimum:

- The establishment and maintenance of written procedures as required by Rule 3110.
- The designation, where applicable, of an appropriately registered principal with authority to carry out the supervisory responsibilities of the member organization for each type of business in which it engages for which registration as a broker-dealer is required.
- The registration and designation as a branch office or an office of supervisory jurisdiction ("OSJ") of each location, including the main office, that meets the definitions contained in Rule 3110(e).⁶
- The designation of one or more appropriately registered principals in each OSJ and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office by the member organization.
- The assignment of each registered person to an appropriately registered representative or principal who will be responsible for supervising that person's activities.
- The use of reasonable efforts to determine that all supervisory personnel are qualified, either by virtue of experience or training, to carry out their assigned responsibilities.

⁶ The terms "OSJ" and "Branch Office" are specifically defined in Rule 3110(e). While the definition of "Branch Office" is substantially similar to what was used in the old Exchange Rule 342.10, the term "OSJ" is a new designation by the Exchange. As such, the requirements relating to OSJs described herein will be new for member organizations.

- The participation of each registered representative and registered principal (either individually or collectively), no less than annually, in an interview or meeting discussing compliance matters relevant to the activities of the representative.

See Rule 3110(a).

Rule 3110(b) consolidates provisions from the old Rule 401A relating to the review of customer complaints, with various provisions and rules from the FINRA rulebook that have required written procedures (including provisions relating to the supervision and review of registered representatives' transactions and correspondence). In addition, the rule's supplementary material codifies and expands guidance in these areas. In particular, this rule requires each member organization to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons. These procedures must be reasonably designed to achieve compliance with applicable securities laws/regulations and Exchange rules. See Rule 3110(b)(1). The supervisory procedures must:

- Provide for the review by a registered principal, evidenced in writing, of all transactions relating to the investment banking or securities business of the member organization. See Rule 3110(b)(2).⁷
- Include procedures for the review of incoming and outgoing written (including electronic) correspondence and internal communications relating to the member organization's investment banking or securities business that are appropriate for the member organization's business, size, structure, and customers. See Rule 3110(b)(4).⁸
- Include procedures to capture, acknowledge, and respond to all written (including electronic) customer complaints. See Rule 3110(b)(5).⁹
- Set forth the supervisory system established by the member pursuant to Rule 3110(a) and include:
 - certain required information regarding the supervisory personnel and their responsibilities, a record of which must be preserved;

⁷ Section 3110(b)(3) is reserved.

⁸ Section 3110(b)(4) further details the specific types of internal and outgoing communications that must be reviewed.

⁹ The Exchange believes that oral complaints are difficult to capture and assess, and they raise competing views as to the substance of the complaint being alleged. Consequently, oral complaints do not lend themselves as effectively to a review program as written complaints, which are more readily documented and retained. However, the Exchange reminds member organizations that the failure to address any customer complaint, written or oral, may be a violation of Rule 2010 (regarding Standards of Commercial Honor and Principles of Trade).

- procedures prohibiting supervisors (subject to certain exceptions) from supervising their own activities or reporting to (or having their compensation or continued employment determined by) any of their supervisees; and
- procedures to protect against conflicts of interest relating to the associated person being supervised (including, without limitation, the position of such person, the revenue such person generates for the firm, or any compensation that the person conducting the supervision may derive from the person being supervised)

See Rule 3110(b)(6).

The supervisory procedures must also be:

- Kept and maintained by the member in each OSJ and at each location where supervisory activities are conducted.
- Promptly amended to reflect changes in applicable securities laws or regulations, Exchange rules, and changes in the member organization's supervisory system.
- Promptly communicated to all associated persons to whom such written supervisory procedures and amendments are relevant.

See Rule 3110(b)(7).

Rule 3110(c) covers internal inspections. It requires each member organization to conduct a review (at least annually) of the businesses in which it engages that is reasonably designed to assist the member organization in detecting and preventing violations of, and achieving compliance with, applicable securities laws/regulations and Exchange rules.¹⁰ The review of the activities of each office shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses. Pursuant to the rule, each member organization must:

- Inspect (at least annually) every OSJ and branch office that supervises one or more non-branch locations.
- Inspect (at least every three years) every branch office that does not supervise one or more non-branch locations.¹¹

¹⁰ The member organization must retain a written record of the date each review and inspection is conducted.

¹¹ The rule further discusses factors that should be considered when deciding how often to inspect each non-supervisory branch office and requires that a member organization's written supervisory and inspection procedures must set forth the non-supervisory branch office examination cycle, an explanation of the factors the member organization used in determining the frequency of the examinations in the cycle, and the manner in which a member organization will comply with Rule 3110(c)(2) if using more frequent inspections than every three years.

- Inspect every non-branch location on a regular, periodic schedule.¹²

See Rule 3110(c)(1).

A member organization's 3110(c)(1) inspection and review must be memorialized as a written report that is kept on file (subject to certain exceptions) for three years. If applicable to the location being inspected, the location's written report must include, without limitation, the testing and verification of the member organization's policies and procedures, including supervisory policies and procedures in several specific areas.¹³ For each inspection conducted under this rule, a member organization is required to: (1) have procedures reasonably designed to prevent the effectiveness of inspections from being compromised due to the conflicts of interest that may be present with respect to the location being inspected (including, but not limited to, economic, commercial, or financial interests in the associated persons and businesses being inspected); and (2) ensure that the person conducting an inspection is not an associated person assigned to the location or is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the location.

See Rule 3110(c)(2).¹⁴

Rule 3110(d) concerns the supervisory procedures related to Section 15(g) of the Exchange Act's¹⁵ requirement that every registered broker or dealer establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material, non-public information. This rule incorporates provisions of the old Rule 342.21, with some modifications, and extends the old rule's requirements beyond Exchange-listed securities and related financial instruments to cover all securities. Specifically, Rule 3110(d) requires each member organization to include in its supervisory procedures a process for the review of securities transactions reasonably designed to

¹² The rule further discusses factors that should be considered when establishing a periodic schedule, and requires that the member organization's written supervisory and inspection procedures set forth the schedule and an explanation regarding how the frequency of the examination is determined.

¹³ Such areas include, among other things: safeguarding customer funds and securities; maintaining books and records; supervision of supervisory personnel; transmittals of funds (e.g., wires or checks, etc.) or securities between several kinds of entities; and changes of customer account information (including address and investment objective changes), along with the validation of such changes. The rule further details additional requirements concerning transmittals of funds and changes of customer account information. If a member organization does not engage in all of these activities in the location being inspected, the member organization must identify those activities in its written supervisory procedures or the location's written inspection report and state that supervisory policies and procedures for such activities are required to be in place at that location before the member organization can engage in such activities.

¹⁴ If a member organization determines that compliance with this requirement is not possible either because of a member organization's size or its business model, the member organization must document in the inspection report both the factors the member organization used to make this determination and how the inspection otherwise complies with Rule 3110(c)(1).

¹⁵ See 15 U.S.C. 78o(g).

identify trades that may violate the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices. See Rule 3110(d)(1).¹⁶ Each member organization must promptly conduct an internal investigation into any such trade to determine whether a violation of those laws or rules has occurred. See Rule 3110(d)(2).

In addition, a member organization engaging in “investment banking services” (as defined by Rule 3110(d)(4)) must file with the Exchange written reports signed by a senior officer of the member organization regarding such investigations, including such content as follows:

- Within ten business days of the end of each calendar quarter, a member organization engaging in investment banking services must file a written report describing each internal investigation initiated in the previous calendar quarter pursuant to Rule 3110(d)(2), including the identity of the member organization, the date each internal investigation commenced, the status of each open internal investigation, the resolution of any internal investigation reached during the previous calendar quarter, and, with respect to each internal investigation, the identity of the security, trades, accounts, associated persons of the member organization, or associated person of the member organization’s family members holding a covered account,¹⁷ under review, and that includes a copy of the member organization’s policies and procedures required by Rule 3110(d)(1).
- Within five business days of completion of an internal investigation pursuant to Rule 3110(d)(2) in which it is determined that a violation of the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices had occurred, a member organization engaging in investment banking services must file a written report detailing the completion of the investigation, including the results of the investigation, any internal disciplinary action taken, and any referral of the matter to the Exchange, another SRO, the SEC, or any other federal, state, or international regulatory authority.

See Rule 3110(d)(3).

In addition to adopting Rule 3110, the Exchange is also adopting Supplementary Materials to the rule, which elaborate on numerous specific details regarding the rule’s requirements and should be reviewed by member organizations.¹⁸

¹⁶ These rules must apply to accounts of the member organization; accounts introduced or carried by the member organization in which a person associated with the member organization has a beneficial interest or the authority to make investment decisions; accounts of a person associated with the member organization that are disclosed to the member organization pursuant to Exchange Rule 407 or NASD Rule 3050, as applicable; and covered accounts.

¹⁷ The term covered account is defined by Rule 3110(d)(4).

¹⁸ The Supplementary Materials concern: (1) Registration of a Main Office; (2) Designation of Additional OSJs, (3) Supervision of Multiple OSJs by a Single Principal, (4) the Annual

B. Rule 3120 (Supervisory Control System)

Rule 3120 concerns member organizations' Supervisory Control Systems. It requires each member organization to designate and specifically identify to the Exchange one or more principals who must establish, maintain, and enforce a system of supervisory control policies and procedures that:

- Tests and verifies that the member organization's supervisory procedures are reasonably designed with respect to the activities of the member organization and its associated persons,¹⁹ to achieve compliance with applicable securities laws/regulations and Exchange rules; and
- Creates additional or amends supervisory procedures where the need is identified by such testing and verification.

Similar to the requirements of the old Rule 342.30, the designated principal or principals must submit to the member organization's senior management, no less than annually, a report detailing each member organization's system of supervisory controls, a summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results. See Rule 3120(a).

Each report provided to senior management pursuant to Rule 3120(a) in the calendar year following a calendar year in which a member organization reported \$200 million or more in gross revenue (as defined by Rule 3120(c)) must also include, to the extent applicable to the member organization's business:

- A tabulation of the reports pertaining to customer complaints and internal investigations made to the Exchange during the preceding year; and
- Discussion of the preceding year's compliance efforts, including procedures and educational programs, in each of the following areas: trading and market activities; investment banking activities; antifraud and sales practices; finance and operations; supervision; and anti-money laundering.

Compliance Meeting, (5) Risk-based Review of a Member Organization's Investment Banking and Securities Business; (6) Risk-based Review of Correspondence and Internal Communications; (7) Evidence of Review of Correspondence and Internal Communications; (8) Delegation of Correspondence and Internal Communication Review Functions; (9) Retention of Correspondence and Internal Communications; (10) Supervision of Supervisory Personnel; (11) Use of Electronic Media to Communicate Written Supervisory Procedures; (12) Standards for Reasonable Review; (13) the General Presumption of Three-Year Limit for Periodic Inspection Schedules; (14) Exceptions to Persons Prohibited from Conducting Inspections; and (15) the Definition of "Associated Persons".

¹⁹ Supplementary Material .01 to Rule 3120 defines "associated person" for the purposes of this rule.

See Rule 3110(b).²⁰

C. Rule 3150 (Holding of Customer Mail)

Rule 3150 concerns the holding of customer mail. It provides that a member organization may hold mail for a customer who will not be receiving mail at his or her usual address so long as certain specified provisions are met. See Rule 3150(a). During the time that a member organization is holding mail for a customer, the member organization must be able to communicate with the customer in a timely manner to provide important account information (e.g., privacy notices, the Securities Investor Protection Corporation information disclosures required by Rule 2266), as necessary. See Rule 3150(b). A member organization holding a customer's mail pursuant to this rule must take actions reasonably designed to ensure that the customer's mail is not tampered with, held without the customer's consent, or used by an associated person²¹ of the member organization in any manner that would violate Exchange rules or the federal securities laws. See Rule 3150(c).

D. Rule 3170 (Tape Recording of Registered Persons by Certain Firms)

Rule 3170 concerns the mandatory tape recording of registered persons by certain firms designated as "taping firms". A "taping firm" is defined as:

- A member organization with at least five but fewer than ten registered persons, where 40% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years;
- A member organization with at least ten but fewer than twenty registered persons, where four or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years; and/or
- A member organization with at least twenty registered persons where 20% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years.²²

²⁰ The categories listed above are incorporated from the annual report content requirements of the old Rule 342.30, which apply to all member organizations regardless of revenue. The new rule seeks to mitigate compliance costs and burdens with respect to Rule 3120's annual reporting requirements by requiring that only member organizations reporting \$200 million or more in gross revenues in the preceding year include in their annual reports supplemental information from Rule 342.30's annual report content requirements.

²¹ Supplementary Material .01 to Rule 3150 provides a definition for "associated person" for the purposes of this rule.

²² For purposes of calculating the number of registered persons who have been associated with one or more disciplined firms in a registered capacity within the last three years pursuant to Rule 3170(a)(5), member organizations should not include registered persons who have

See Rule 3170(a).²³

Under this rule, each member organization that is notified by the Exchange, or otherwise has actual knowledge that it is a taping firm, must establish, maintain, and enforce special written procedures for supervising the telemarketing activities of all of its registered persons within 60 days of receiving notice from the Exchange or obtaining actual knowledge that it is a taping firm. The procedures required by Rule 3170(b) include procedures for tape recording all telephone conversations between the taping firm's registered persons and both existing and potential customers, as well as for reviewing the tape recordings to ensure compliance with applicable securities laws and regulations and applicable Exchange rules. See Rule 3170(b).²⁴

A member organization that becomes a taping firm for the first time may reduce its staffing levels to fall below the threshold levels within 30 days after receiving notice from the Exchange pursuant to the provisions of Rule 3170(b)(1) or obtaining actual knowledge that it is a taping firm, provided the member organization promptly notifies the Exchange's Department of Member Regulation in writing of its becoming subject to the Rule. Once the member organization has reduced its staffing to fall below the threshold level, it must not rehire a person terminated to accomplish the staff reduction for a period of 180 days. On or prior to reducing staffing levels in accordance with this rule, a member organization must provide the Exchange's Department of Member Regulation with written notice identifying the terminated person(s). See Rule 3170(c).

The Exchange may, in exceptional circumstances, exempt any taping firm, unconditionally or on specified terms and conditions, from the requirements of Rule 3170. A taping firm seeking an exemption must file a written application within 30 days after receiving notice from the Exchange or obtaining actual knowledge that it is a taping firm. See Rule 3170(d).²⁵

been registered for an aggregate total of 90 days or less with one or more disciplined firms within the past three years and do not have a disciplinary history.

²³ Rule 3170(a) provides other relevant definitions for the rule, including "registered person", "disciplined firm", "disciplinary history", and "tape recording".

²⁴ The procedures must be appropriate for the taping firm's business, size, structure, and customers, and must be maintained for a period of three years from the date that the taping firm establishes and implements the procedures. All tape recordings made pursuant to the requirements of Rule 3170(b) must be retained for a period of not less than three years from the date the tape was created, the first two years in an easily accessible place. Each taping firm must catalog the retained tapes by registered person and date. By the 30th day of the month following the end of each calendar quarter, each taping firm subject to the requirements of Rule 3170(b) must submit to the Exchange a report on the taping firm's supervision of the telemarketing activities of its registered persons.

²⁵ A member organization that becomes a taping firm for the first time may elect to reduce its staffing levels pursuant to the provisions of Rule 3170(c) or, alternatively, to seek an exemption pursuant to Rule 3170(d). A taping firm may not seek relief from Rule 3170 by both reducing its staffing levels pursuant to Rule 3170(c) and requesting an exemption pursuant to Rule 3170(d).

The Exchange does not currently have a rule comparable to Rule 3170, but believes that adopting this rule will provide for more effective supervision of member organizations that have a significant number of registered persons with disciplinary history, thereby resulting in enhanced customer protection.

E. Rule 342 (Compliance Supervisors)

Revised Rule 342 deletes the old rule's text regarding Offices -- Approval, Supervision, and Control (which is now covered by the new rule 3100 series). The amended Rule 342 incorporates what was previously Supplementary Material .13 in order to retain its qualification and exam requirements for individuals with supervisory responsibilities.

The revised Rule 342(a), corresponding to old Rule 342.13(a), provides that any member or employee identified as in charge of (1) any office of a member or member organization, (2) any regional or other group of offices, or (3) any sales department or activity must have a creditable record and pass the General Securities Sales Supervisor Qualification Examination (Series 9/10) or another examination acceptable to the Exchange.

The revised Rule 342(b), corresponding to old Rule 342.13(b), provides that the individuals designated as having day-to-day compliance responsibilities for their respective firms, or who supervise ten or more persons engaged in compliance activities, have the knowledge necessary to carry out their job responsibilities (i.e., overall knowledge of the securities laws and Exchange rules) and pass the Compliance Official Examination (the "Series 14") or, in the case of compliance supervisors of member organizations that conduct a Designated Market Maker ("DMM") business, the DMM Compliance Official Examination (the "Series 14A").²⁶

F. Conforming Changes

In connection with the aforementioned amendments to its supervisory rules, the Exchange is also making certain conforming changes to NYSE and/or NYSE MKT Rules 36, 70, 86, 345, 405, 407, 408, 410, 416A, 472, 476A, 2210, and 9217 (and/or their Supplemental Material) to delete or update cross-references to the new rules as applicable. The Exchange is making certain technical changes within Rule 86 and 345.10 that are unrelated to the new supervisory rules.

²⁶

The new version of Rule 342(b) retains the prior requirement in the Interpretation to Rule 342 that member organizations engaged in a public business in addition to a DMM business must have a qualified compliance supervisor who has passed both the Series 14 and Series 14A Examinations. The amended Rule 342(b) also incorporates the following exemptions from the Series 14 Examination requirement contained in the Interpretation to Rule 342: (1) compliance supervisors at member organizations whose activities are solely related to execution of orders on the Exchange trading Floor and who do not conduct any business with the public; (2) compliance supervisors at member organizations whose commissions and other fees from public business (retail and institutional) are under \$500,000 in the preceding calendar year and who introduce to another broker-dealer; and (3) supervisors of ten or more persons whose compliance responsibilities are limited to the registration of member organization employees with the various regulatory and SROs.

III. Staff Contacts

Questions concerning interpretations of Exchange rules in connection with this Information Memo should be directed to:

- Caroline Galinie, Senior Vice President, NYSE Regulation, Inc., (212) 656-3421, or
- Marco Palomba, Senior Vice President, NYSE Regulation, Inc., (212) 656-2313.

Attachments (Rules 36, 70, 86, 342, 345, 351, 354, 401, 401A, 405, 407, 408, 410, 416A, 472, 476A, 2210, 3110, 3120, 3150, 3170, and 9217)

Deletions [bracketed].

NYSE Rules

Rule 36. Communications Between Exchange and Members' Offices

••• Supplementary Material: -----

.10 No change.

.20

(a) With the approval of the Exchange, a Floor broker may maintain a telephone line or use an Exchange authorized and provided portable telephone which permits a non-member off the Floor to communicate with a member or member organization on the Floor. In addition, any Floor broker receiving orders from the public over portable phones must be properly qualified under Exchange rules to conduct such public business (See, for e.g., Rule[s 342 and] 345.) Subject to the exception contained in .23 of this Rule, the use of a portable telephone on the Floor other than one authorized and issued by the Exchange is prohibited.

Rule 70. Execution of Floor Broker Interest

••• Supplementary Material: -----

.25-.30 No change.

.40 Operation of an NYSER Approved Booth Premise

(1)-(3) No change.

(4) A member organization approved to operate its booth premise pursuant to this rule is subject to the same regulatory requirements governing the conduct of the member organization's off-Floor or "upstairs" office, including but not limited to relevant employee registration and qualification requirements pursuant to Exchange Rule 345 and supervisory responsibilities pursuant to Exchange Rule [342] 3110.

Rule 86. NYSE Bonds SM

(a)-(o) No change.

(p) Reports and Recordkeeping.

(1) NYSE Bonds Trading Reports and Records. Users of NYSE Bonds must comply with all relevant rules of the Exchange and the Securities and Exchange Commission in relation to reports and records of transactions on NYSE Bonds including but not limited to Exchange Rules [342] 3110 and 4522, and [Sections] Rules 17a-3 and 17a-4 [of] under the Securities Exchange Act of 1934.

Rule 342. [Offices—Approval, Supervision and Control] Compliance Supervisors

[(a) Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility.

The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those employees related to the business of their employer and compliance with securities laws and regulations.

(b) The general partners or directors of each member organization shall provide for appropriate supervisory control and shall designate a general partner or principal executive to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities' laws and regulations. This person shall:

(1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control.

(2) establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) A member organization shall provide notice to the Exchange of each branch office established by such member organization.

(d) Qualified persons acceptable to the Exchange shall be in charge of:

(1) any office of a member or member organization,

(2) any regional or other group of offices,

(3) any sales department or activity.

(e) The amounts and types of credit extended by a member organization shall be supervised by members or principal executives qualified by experience for such control in the types of business in which the member organization extends credit.

••• Supplementary Material: -----

.10 Definition of Branch Office.—A “branch office” is any location where one or more associated persons of a member or member organization regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

(A) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(B) any location that is the associated person’s primary residence; provided that: (i) only one associated person, or multiple associated persons, who reside at that location and are members of the same immediate family, conduct business at the location; (ii) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (iii) neither customer funds nor securities are handled at that location; (iv) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person; (v) the associated person’s correspondence and communications with the public are subject to all supervisory provisions of the Exchange’s rules including, but not limited to, Rules 342, 472, and 2210; (vi) electronic communications (e.g., e-mail) are made through the member’s or member organization’s electronic system; (vii) all orders are entered through the designated branch office or an electronic system established by the member or member organization that is reviewable at the branch office; (viii) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member or member organization; and (ix) a list of the locations is maintained by the member or member organization;

(C) any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the member or member organization complies with the provisions of (ii) through (viii) of paragraph (B) above;

(D) any office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulations) may be displayed);

(E) any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any retail communication identifying such location also sets forth the address and telephone

number of the location from which the associated person conducting business at the non-branch locations are directly supervised;

(F) the Floor of a registered national securities exchange where a member or member organization conducts a direct access business with public customers; or

(G) a temporary location established in response to the implementation of a business continuity plan.

Notwithstanding the exclusions in subparagraphs 342.10(A) - (G), any location that is responsible for supervising the activities of persons associated with a member or member organization at one or more non-branch locations of such member or member organization is considered to be a branch office.

For purposes of this Rule, the term “business day” shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

For purposes of this Rule, the term “associated person of a member or member organization” is defined as a member or employee associated with a member or member organization.

For purposes of Rule 342.10(B)(viii), written supervisory procedures shall include criteria for on-site for cause reviews of an associated person’s primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

For purposes of Rule 342.10(B)(viii) and (C), written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with NYSE Rules.

Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm’s size; (ii) the firm’s organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person’s customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person’s or associated person’s outside business activities, whether or not related to the securities business.

.11 Annual fee.—Each office of a member organization (including any foreign branch office), other than the main office of the member organization, shall be subject during its existence to a registration fee as determined by the Exchange for each calendar year or part thereof, unless specifically exempted by the Exchange.

.12 Foreign branch offices.—With prior approval of the Exchange, a member organization may establish a foreign branch office in corporate or partnership form, provided it is wholly owned by the member organization. Continuance of the arrangement is subject to any changes in the Rules of the Exchange as may be thereafter adopted.

Foreign branch offices approved pursuant to this paragraph .12 and their personnel shall be fully subject to the Rules of the Exchange to the same degree and extent as are members and member organizations and their personnel. All obligations and liabilities of such foreign branch office shall be assumed or guaranteed by its parent member organization and such member organization shall be fully responsible for all acts of such foreign branch office.

For purposes of this Rule 342.12, the term “foreign branch office” shall include any such independently organized foreign location from which the services of the member or member organization are being made available or whose financial resources are being utilized in the operation of the office or as to which either of the above is held out, respectively, as available or being utilized.

.13 Acceptability of supervisors.]

(a) [Generally.—]Any member or employee [who is a candidate for acceptability under (d)(1), (2), or (3) above] identified as being in charge of (1) any office of a member or member organization, (2) any regional or other group of offices, or (3) any sales department or activity must have a creditable record and must pass the General Securities Sales Supervisor Qualification Examination (Series 9/10) or another examination acceptable to the Exchange which demonstrates competency relevant to assigned responsibilities. Every branch office or sales manager must have at least three years’ experience as a registered representative or substantial experience in a related sales or managerial position and must pass the Series 9/10. For purposes of this rule, a related sales or managerial position would include a mutual fund salesman or an investment advisor; a position of fiduciary responsibility such as in the Trust Department of a bank or an attorney practicing securities law; or president of an established company in the financial, real estate or insurance industries. In order to qualify as a supervisory person, a principal executive should have at least three years’ experience as a registered representative unless granted an exception based upon experience over a period of years in a position of trust and responsibility. The General Securities Principal Examination (Series 24), is an acceptable alternative for persons whose duties do not include the supervision of options or municipal securities sales activity. The examination requirement may be waived at the discretion of the Exchange. In the case of a firm that is applying for registered broker-dealer status, such supervisory candidates, in addition to the requirements outlined above, must also have at least one year of direct experience or two years of related experience in the subject area to be supervised.

(b) [Compliance supervisors.—]Each member not associated with a member organization and in the case of a member organization, the person (or persons) designated to direct day-to-day compliance activity (such as the Compliance Officer, Partner or Director) and each other person at the member organization directly supervising ten or more persons engaged in compliance activity should have overall knowledge of the securities laws and Exchange rules and must pass the Compliance Official Qualification Examination (“Series 14 Examination”). Compliance supervisors of member

organizations that conduct a DMM business must pass the DMM Compliance Official Examination (“Series 14A Examination”). A member organization engaged in a public business in addition to a DMM business must have a qualified compliance supervisor who has passed the Series 14 and Series 14A Examinations. Where good cause is shown, the Exchange, at its discretion, may waive the examination requirement. The Exchange may give consideration to the scope of the member or member organization’s activity, to previous related employment, and to examination requirements of other self-regulatory organizations. In such cases, the Exchange must be satisfied that the person is qualified for the position.

The following individuals are exempt from the Series 14 Examination requirement:

(1) Compliance supervisors at member organizations whose activities are solely related to execution of orders on the Floor and who do not conduct any business with the public;

(2) Compliance supervisors at member organizations whose commissions and other fees from their public business (retail and institutional) are under \$500,000 in the preceding calendar year and who introduce to another broker-dealer; and

(3) Supervisors of ten or more persons whose compliance responsibilities are limited to the registration of member organization employees with the various regulatory and self-regulatory organizations.

.14 Experience of senior management.—Member organizations without experienced senior principals may be subject to agreements with the Exchange appropriately limiting their scope of activity.

.15 Small offices.—may be in the charge of a qualified principal or manager who is either resident or non-resident in that area. In the event that such a qualified supervisor is non-resident, a resident registered representative may be designated for subsidiary authority and is not required to meet a manager’s examination or experience requirements.

.16 Supervision of registered representatives.—Would ordinarily include at least approval of new accounts and reasonable procedures for review of registered representatives’ communications with the public relating to their business, and customer accounts and transactions. Such policies and procedures should be in writing and be designed to reasonably supervise each registered representative. Evidence that these supervisory policies and procedures have been implemented and carried out must be maintained and made available to the Exchange upon request.

See Rule 405 (“Diligence as to Accounts”) for responsibilities for supervision of customer accounts.

.17 Review of communications with the public.—Members and member organizations must develop written policies and procedures that are appropriate for their business, their size, structure and customers in connection with the review of communications with the public relating to their business.

Where such policies and procedures for the review of public communications do not require pre-use review, they must include provision for the education and training of employees as to organizational

policies and procedures, documentation of such education and training, and provide for surveillance and follow-up to ensure that such policies and procedures are implemented and adhered to.

See also Rule 472 and Rule 2210 for preapproval requirements for certain communications and standards governing all communications.

.18 Member organizations shall provide for the supervision and control of each general ledger bookkeeping account and account of like function on the basis specified in Rule 440.20.

.19 Supervision of Producing Manager.—Members and member organizations must develop and implement written policies and procedures reasonably designed to independently review and supervise customer account activity conducted by each Branch Office Manager, Sales Manager, Regional/District Sales Manager, or by any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified person pursuant to Rule 342.13 who:

(a) is either senior to, or otherwise independent of, the Producing Manager under review. For purposes of this Rule, an “otherwise independent” person: may not report either directly or indirectly to the Producing Manager under review; must be situated in an office other than the office of the Producing Manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a Producing Manager receives an override or other income derived from that Producing Manager’s customer activity that represents more than 10% of the designated person’s gross income derived from the member or member organization over the course of a rolling twelve-month period, the member or member organization must establish alternate senior or otherwise independent supervision of that Producing Manager to be conducted by a qualified person, pursuant to Rule 342.13, other than the designated person receiving the income.

(b) If a member or member organization is so limited in size and resources that there is no qualified person senior to, or otherwise independent of, the Producing Manager to conduct the reviews pursuant to (a) above (for instance, the member or member organization has only one office, or an insufficient number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a person, qualified pursuant to Rule 342.13, in compliance with (a) to the extent practicable.

(c) A member or member organization relying on (b) above must document the factors used to determine that complete compliance with all of the provisions of (a) is not possible, and that the required supervisory systems and procedures in place with respect to any Producing Manager comply with the provisions of (a) to the extent practicable.

.20 Information requests.—In connection with its investigation of anomalous trading activity and for other purposes, the Exchange from time to time requests from members and member organizations detailed information regarding trades effected by the member or member organization in specified NYSE listed securities and related financial instruments during a specified period. Each member not associated with a member organization and each member organization shall comply with each such request by the date required by the Exchange.

.21 Trade review and investigation.—In order to help assure its compliance with the provisions of the Securities Exchange Act of 1934, the rules under that act and the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices, each member not associated with a member organization and each member organization, in addition to carrying out such other supervisory procedures as may be necessary to discharge its supervisory responsibilities as to compliance with Federal Securities laws and rules and Exchange rules generally shall:

(a) Subject trades in NYSE listed securities and in related financial instruments which are effected for the account of the member or member organization or for the accounts of members or employees of the member or member organization and their family members (including trades reported by other members or member organizations pursuant to Rule 407) to review procedures that the member or member organization determines to be reasonably designed to identify trades that may violate the provisions of the Securities Exchange Act of 1934, the rules under that act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices, and

(b) Conduct promptly an internal investigation into any such trade that appears that it may have violated those laws and rules in order to determine whether it did violate those laws and rules.

The Exchange, at its discretion, may exclude from these review and investigation requirements particular classes of persons, trades, securities and related financial instruments.

.22 Definition of related financial instrument.—For the purpose of Paragraphs .20 and .21, “related financial instrument” means:

(a) Any stock underlying an NYSE listed stock option or included in an index stock group underlying an NYSE listed index stock group option,

(b) Any stock option on an NYSE listed stock,

(c) Any index stock (bond) group option on a stock (bond) group that includes an NYSE listed stock (bond),

(d) Any futures contract on a stock (bond) group that includes an NYSE listed stock (bond), and

(e) Any option on any such futures contract.

.23 Internal Controls.—Pursuant to paragraphs (a) and (b) of this Rule, members and member organizations must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for independent verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each member’s or member organization’s efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the Annual Report required by .30 of this Rule.

The independent verification and testing procedures shall not apply to members and member organizations that do not conduct a public business, or that have a capital requirement of \$5,000 or less, or that employ 10 or fewer registered representatives.

(See also Rule 401(b))

.24 Annual Branch Office Inspection

(A) Each member organization business location designated as a branch office pursuant to Rule 342.10 must be inspected no less often than once each calendar year unless:

(1) it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy the Rule's requirements for a particular branch office; or

(2) based upon the written policies and procedures of such member organization providing for a systematic risk-based surveillance system, the member organization submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to Rule 342.25.

(B) Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct supervision and control of the branch office in question (i.e., not the Branch Office Manager, or any person who directly or indirectly reports to such Manager, or any person to whom such Manager directly reports). Written reports reflecting the results of such inspections are to be maintained at the member organization for the longer of three years or until the next branch inspection.

.25 Risk-Based Surveillance and Branch Office Identification

(A) Any member organization seeking an exemption, pursuant to Rule 342.24(A)(2), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member organization's business model, and product mix. Such policies and procedures must also, at a minimum, provide for:

(1) The inspection of branches where developments during the year require a reconsideration of such branch's exemption;

(2) A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and

(3) A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.

(B) For purposes of paragraph (A) the risk-based factors to be considered should include, but not necessarily be limited to, the following:

- (1) Number of registered representatives;
- (2) A significant increase in the number of registered representatives;
- (3) Number of customers and volume of transactions;
- (4) A significant increase in branch office revenues;
- (5) Incidence of concentrated securities positions in customers' accounts;
- (6) Aggregate customer assets held;
- (7) Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g., options, equities, mutual funds, annuities, etc.);
- (8) Numbers of accounts serviced on a discretionary basis;
- (9) Compliance and regulatory history of the branch, including:
 - (a) Registered representatives subject to special supervision by the member organization, self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission in years other than the previous or current year;
 - (b) Complaints, arbitrations, internal discipline, or prior inspection findings; and
 - (c) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.
- (10) Operational factors, such as the number of errors and account designation changes per registered representative;
- (11) Incidence of accommodation mailing addresses (e.g., post office boxes and "care of" accounts);
- (12) Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;
- (13) Experience, function (producing or non-producing) and compensation structure of branch office manager;
- (14) Branch offices recently opened or acquired; and
- (15) Changes in branch location, status or management personnel.

(C) Notwithstanding any policies or procedures implemented pursuant to this rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

(1) Offices with one or more registered representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year;

(2) Offices with 25 or more registered individuals;

(3) Offices in the top 20% of production or customer assets for the member organization;

(4) Any branch office not inspected within the previous two calendar years; and

(5) Any branch office designated as exercising supervision over another branch office.

.26 Criteria for Inspection Programs

(A) An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

(1) Safeguarding of customer funds and securities;

(2) Maintaining books and records;

(3) Supervision of customer accounts serviced by Branch Office Managers;

(4) Transmittal of funds between customers and registered representatives and between customers and third parties;

(5) Validation of customer address changes; and

(6) Validation of changes in customer account information.

.30 Annual Report and Certification.— By April 1 of each year, each member not associated with a member organization and each member organization shall submit to the Exchange a report on the member or member organization's supervision and compliance effort during the preceding year and on the adequacy of the member or member organization's ongoing compliance processes and procedures. The report shall include:

(a) A tabulation of the reports pertaining to customer complaints and internal investigations made to the Exchange during the preceding year pursuant to Rules 351(e)(ii) and 4530(d).

(b) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year's efforts of this nature, and

(c) Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas (if any of these areas do not apply to the member or member organization, the report should so state):

(i) Antifraud and trading practices,

(ii) Investment banking activities,

(iii) Sales practices,

(iv) Books and records,

(v) Finance and operations,

(vi) Supervision,

(vii) Internal Controls, and

(viii) Anti-money laundering.

(d) Reserved.

(e) Reserved.]

Rule 345. Employees—Registration, Approval, Records

••• Supplementary Material: -----

Registration of Employees

.10 Employees required to be registered or approved.—See definitions of “branch office manager”[,] and “registered representative” [and “registered options representative”] contained in Rules 9 and 10 and Rule [342] 3110 for qualification requirements for supervisors.

.11 Investigation and Records

(a) Members and member organizations shall thoroughly investigate the previous record of persons whom they contemplate employing including, (1) persons required to be registered with the Exchange, (2) persons who regularly handle or process securities or monies or maintain the books and records relating to securities or monies and (3) persons having direct supervisory responsibility over persons engaged in the activities referred to in (1) and (2) above who are not otherwise required to be registered.

Investigatory requirements pertaining to persons specified in (a)(2) and (3) above shall be satisfied if a member or member organization verifies the information obtained pursuant to paragraph (c) below. Notwithstanding the above, further inquiry shall be made where appropriate in light of background information developed, the position for which the person is being considered or other circumstances. Investigation and verification shall be done by a member or person designated under the provisions of Rule [342(b)(1)] 3110(a).

Rule 351. Reporting Requirements

(a) Reserved.

(b) Reserved.

(c) Reserved.

(d) Reserved.

(e) Reserved. [Each member not associated with a member organization and a principal executive of each member organization shall take one or both of the following two actions in relation to the trades that are subject to the review procedures required by Rule 342.21(a):

(i) Sign a written statement in the form specified below and deliver it to the Exchange by the 15th day of the month following the calendar quarter in which the trade occurred, and

(ii) As to any such trade that is the subject of an internal investigation pursuant to Rule 342.21(b), but has not been both resolved and included in the written statement made pursuant to subparagraph (i) above, report in writing to the Exchange:

(A) The commencement of the internal investigation, the identity of the trade and the reason why the trade could not be the subject of a written statement made pursuant to subparagraph (i) above (report by the 15th day of the month, following the calendar quarter in which the trade occurred).

(B) The quarterly progress of each open investigation (report by the 15th day of the month following the quarter).

(C) The completion of the investigation, detailing the methodology and results of the investigation, any internal disciplinary action taken, and any referral of the matter to the Exchange, another self-regulatory organization, the Securities and Exchange Commission or another Federal agency; and including, where no internal disciplinary action has been taken and no such referral has been made, a written statement in relation to the trade in the form specified below (report within one week after completion of the investigation).

The statement that subparagraph (i) requires shall read substantially as follows:

(1) [I/NAME OF MEMBER ORGANIZATION] [have/has] established procedures for reviewing the facts and circumstances surrounding trades in NYSE listed securities and related financial instruments for [my/the] account [of NAME OF MEMBER ORGANIZATION] (“Proprietary Trades”) and for the accounts of [my/its] [members, allied members and] employees and their family members, including trades reported by other members or member organizations pursuant to Rule 407, (“Employee Trades”), which procedures [I/NAME OF MEMBER ORGANIZATION] [have/has] determined to be reasonably designed to identify trades that may violate the provisions of the Securities Exchange Act of 1934, the rules under that act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices,

(2) I, my designees or the senior supervisors responsible for particular activities have carried out those procedures in relation to Proprietary Trades and Employee Trades effected during the [ORDINAL NUMBER] quarter of [YEAR], and

(3) Based upon my assessment of the adequacy of those procedures and of the diligence of those carrying out those procedures, and except as to those Proprietary Trades and Employee Trades that I have reported to the Exchange pursuant to Rule 351(e)(ii) as the subject of internal investigation, I have no reasonable cause to believe that: (a) any one or more of the Proprietary Trades effected during the period referred to in clause (2) above, or (b) any one or more of the Employee Trades both effected during that period and reviewed under those procedures violated the provisions of the Securities Exchange Act of 1934, the rules under the act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices.

When a statement pertains to one or more trades that have been the subject of an internal investigation pursuant to Rule 342.21(b) but as to which no internal disciplinary action has been taken and no referral of the matter to the Exchange, to another self-regulatory organization or to a Federal agency has been made, the statement that subparagraph (ii) (C) requires shall be as above, except that it shall refer to the particular trade(s) (rather than to the trades of a particular calendar quarter) and shall omit the clause excepting trades reported as the subject of an investigation.]

(f) No change.

••• Supplementary Material: -----

No change.

Rule 354. Reserved. [Reports to Control Persons

(a) By April 1 of each year, each member organization shall submit a copy of the report that Rule 342.30 requires the member organization to prepare to its one or more control persons or, if the member organization has no control person, to the audit committee of its Board of Directors or its equivalent committee or group. In the case of a control person that is an organization (a “controlling organization”), the member organization shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization’s Board of Directors or its equivalent committee or group.

(b) For the purpose of paragraph (a), “control person” means a person who controls the member organization within the meaning of Rule 2 otherwise than solely by virtue of being a director, general partner or principal executive (or person occupying a similar status or performing similar functions) of the member organization.]

Rule 401. Reserved. [Business Conduct

(a) Reserved

(b) Each member and member organization shall maintain written policies and procedures, administered pursuant to the internal control requirements prescribed under Rule 342.23, specifically with respect to the following activities:

(1) Transmittals of funds (e.g., wires, checks, etc.) or securities:

(i) from customer accounts to third party accounts (i.e., a transmittal that would result in a change of beneficial ownership.);

(ii) from customer accounts to outside entities (e.g., banks, investment companies, etc.);

(iii) from customer accounts to locations other than a customer’s primary residence (e.g., post office box, “in care of” accounts, alternate address, etc.);

(iv) between customers and registered representatives (including the hand-delivery of checks).

(2) Customer changes of address.

(3) Customer changes of investment objectives.

The policies and procedures required under (b)(1), (2), and (3) above must include a means/method of customer confirmation, notification, or follow-up that can be documented.]

Rule 401A. Reserved. [Customer Complaints

(a) For every customer complaint they receive that is subject to the reporting requirements of Rule 4530(d), members and member organizations must:

(1) Acknowledge receipt of the complaint within 15 business days of receiving it, and

(2) Respond to the issues raised in the complaint within a reasonable period of time.

(b) Each acknowledgement and response required by this rule must be conveyed to the complaining customer by appropriate method:

(1) Acknowledgements and responses to written complaints must be either:

(i) In writing, mailed to the complaining customer's last known address, or

(ii) Electronically transmitted to the e-mail address from which the complaint was sent (method only permissible for electronically transmitted complaints).

(2) Acknowledgements and responses to verbal complaints must be either:

(i) In writing, mailed to the complaining customer's last known address, or

(ii) Made verbally to the complaining customer, and recorded in a log of verbal acknowledgements and responses to customer complaints.

(c) Written records of the acknowledgements, responses, and logs required by this rule must be retained in accordance with Rule 440 ("Books and Records").]

Rule 405. Diligence as to Accounts

Every member organization is required through a principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a) to

(1)-(2) No change.

(3) Approval of Accounts

Specifically approve the opening of an account prior to or promptly after the completion of any transaction for the account of or with a customer, provided, however, that in the case of branch offices, the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall within a reasonable time be approved by a principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a). The member, principal executive or other designated person approving the opening of the account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which is a part of the permanent records of his office or organization.

Rule 407. Transactions - Employees of Members, Member Organizations and the Exchange

(a) No change.

(b) No member (associated with a member or member organization) or employee associated with a member or member organization shall establish or maintain any securities or commodities account or enter into any securities transaction with respect to which such person has any financial interest or the power, directly or indirectly, to make investment decisions, at another member or member organization, or a domestic or foreign non-member broker-dealer, investment adviser, bank, other financial institution, or otherwise without the prior written consent of another person designated by the member or member organization under Rule [342(b)(1)] 3110(a) to sign such consents and review such accounts.

Persons having accounts or transactions referred to above shall arrange for duplicate confirmations and statements (or their equivalents) relating to the foregoing to be sent to another person designated by the member or member organization under Rule [342(b)(1)] 3110(a) to review such accounts and transactions. All such accounts and transactions periodically shall be reviewed by the member or member organization employer [(see also Rule 342.21)].

Rule 408. Discretionary Power in Customers' Accounts

(a) No change.

(b) No member or employee of a member organization shall exercise any discretionary power in any customer's account, without first notifying and obtaining the approval of another person delegated under Rule [342(b)(1)] 3110(a) with authority to approve the handling of such accounts. Every order entered on a discretionary basis by a member, [allied member] principal executive or employee of a member organization must be identified as discretionary on the order at the time of entry. Such discretionary accounts shall receive frequent appropriate supervisory review by a person delegated such responsibility under Rule [342(b)(1)] 3110(a), who is not exercising the discretionary authority. A written statement of the supervisory procedures governing such accounts must be maintained.

Rule 410. Records of Orders

(a) Every member or member organization must preserve for at least three years, the first two years in an easily accessible place, a record of:

(1)-(2) No change.

(3) the time of the entry of every cancellation of an order covered by (1) and (2) above.

Changes In Account Name or Designation

Before any order covered by (1) or (2) above is executed, there must be placed upon the order slip or other similar record of the member or member organization the name or designation of the account for which such order is to be executed. No change in such account name (including related accounts) or designation (including error accounts) shall be made unless the change has been authorized by a member, principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a). Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member or member organization. The essential facts relied upon by the person approving the change must be documented in writing and maintained with the order or other similar record for at least three years, the first two in an easily accessible place as that term is used in Securities Exchange Act Rule 17a-4.

••• Supplementary Material -----

.10 For purposes of this Rule, a person designated under the provisions of Rule [342(b)(1)] 3110(a) to approve account name or designation changes must pass an examination acceptable to the Exchange.

Rule 416A. Member And Member Organization Profile Information Updates And Quarterly Certifications Via The Electronic Filing Platform

(a)-(b) No change.

(c) Each member and member organization shall designate to the Exchange an appropriate senior officer as referenced in Rule [351(e)] 3110(a), or his or her designee, as its membership profile contact person.

Rule 472. Communications With The Public

(a)-(k)(4)(ii) No change.

(iii) Subject to paragraph (k)(4)(iv) of this Rule, a supervisory analyst, qualified under NYSE Rule 344, or a qualified person, designated pursuant to Rule [342(b)(1)] 3110(a), must approve by signature or initial all third-party research reports distributed by a member organization. The approval of third-party research shall be based on a review by the designated supervisory analyst or qualified person to determine that the content of the research report, pursuant to Rule 472(i), contains no untrue statement of material fact or is otherwise not false or misleading. For the purposes of paragraph (k)(4) of this Rule only, a member organization’s obligation to review a third-party research report pursuant to Rule 472(i) extends to any untrue statement of material fact or any false or misleading information that:

Rule 476A. Imposition of Fines for Minor Violation(s) of Rules

••• *Supplementary Material:* -----

• Failure to Obtain Exchange Approval Rule Violations (Rules 312(h) & (i), [342(c), 342.10,] 346(e) & (f), 382(a), 791(c), and 4110)

• Failure of a member organization to have individuals responsible and qualified for the positions of Financial Principal, Operations Principal, Compliance Official, Branch Office Manager and Supervisory Analyst (Rules [342(b), (d) & . 13,] 311(b)(5), 344, 3110(a) and 3130(a))

Conduct Rules (Rules 2010—7470)

Rule 2210. Communications with the Public

(a) No change.

(b) Approval, Review and Recordkeeping

(1) Retail Communications

(A)-(C) No change.

(D) The requirements of paragraph (b)(1)(A) shall not apply with regard to the following retail communications, provided that the member organization supervises and reviews such communications in the same manner as required for supervising and reviewing correspondence pursuant to Rule [342] 3110:

(F) Notwithstanding any other provision of this Rule, an appropriately qualified principal must approve a communication prior to a member organization filing the communication with the Department.

(2) Correspondence

All correspondence is subject to the supervision and review requirements of Rule [342] 3110.

Rule 3110. Supervision

(a) Supervisory System

Each member organization shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules. Final responsibility for proper supervision shall rest with the member organization. A member organization's supervisory system shall provide, at a minimum, for the following:

(1) The establishment and maintenance of written procedures as required by this Rule.

(2) The designation, where applicable, of an appropriately registered principal(s) with authority to carry out the supervisory responsibilities of the member organization for each type of business in which it engages for which registration as a broker-dealer is required.

(3) The registration and designation as a branch office or an office of supervisory jurisdiction (OSJ) of each location, including the main office, that meets the definitions contained in paragraph (e) of this Rule.

(4) The designation of one or more appropriately registered principals in each OSJ and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office by the member organization.

(5) The assignment of each registered person to an appropriately registered representative(s) or principal(s) who shall be responsible for supervising that person's activities.

(6) The use of reasonable efforts to determine that all supervisory personnel are qualified, either by virtue of experience or training, to carry out their assigned responsibilities.

(7) The participation of each registered representative and registered principal, either individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the member organization at which compliance matters relevant to the activities of the representative(s) and principal(s) are discussed. Such interview or meeting may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative's(') or principal's(') place of business.

(b) Written Procedures

(1) General Requirements

Each member organization shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules.

(2) Review of Member Organization's Investment Banking and Securities Business

The supervisory procedures required by this paragraph (b) shall include procedures for the review by a registered principal, evidenced in writing, of all transactions relating to the investment banking or securities business of the member organization.

(3) Reserved.

(4) Review of Correspondence and Internal Communications

The supervisory procedures required by this paragraph (b) shall include procedures for the review of incoming and outgoing written (including electronic) correspondence and internal communications relating to the member organization's investment banking or securities business. The supervisory procedures must be appropriate for the member organization's business, size, structure, and customers. The supervisory procedures must require the member organization's review of:

(A) incoming and outgoing written (including electronic) correspondence to properly identify and handle in accordance with firm procedures, customer complaints, instructions, funds and securities, and communications that are of a subject matter that require review under Exchange rules and federal securities laws.

(B) internal communications to properly identify those communications that are of a subject matter that require review under Exchange rules and federal securities laws.

Reviews of correspondence and internal communications must be conducted by a registered principal and must be evidenced in writing, either electronically or on paper.

(5) Review of Customer Complaints

The supervisory procedures required by this paragraph (b) shall include procedures to capture, acknowledge, and respond to all written (including electronic) customer complaints.

(6) Documentation and Supervision of Supervisory Personnel

The supervisory procedures required by this paragraph (b) shall set forth the supervisory system established by the member organization pursuant to paragraph (a) above, and shall include:

(A) the titles, registration status, and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in, applicable securities laws and regulations, and Exchange rules.

(B) a record, preserved by the member organization for a period of not less than three years, the first two years in an easily accessible place, of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective.

(C) procedures prohibiting associated persons who perform a supervisory function from:

(i) supervising their own activities; and

(ii) reporting to, or having their compensation or continued employment determined by, a person or persons they are supervising.

a. If a member organization determines, with respect to any of its supervisory personnel, that compliance with subparagraph (i) or (ii) above is not possible because of the member organization's size or a supervisory personnel's position within the firm, the member organization must document:

1. the factors the member organization used to reach such determination; and

2. how the supervisory arrangement with respect to such supervisory personnel otherwise complies with paragraph (a) of this Rule.

(D) procedures reasonably designed to prevent the supervisory system required pursuant to paragraph (a) of this Rule from being compromised due to the conflicts of interest that may be present with respect to the associated person being supervised, including the position of such person, the revenue such person generates for the firm, or any compensation that the associated person conducting the supervision may derive from the associated person being supervised.

(7) Maintenance of Written Supervisory Procedures

A copy of a member organization's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained in each OSJ and at each location where supervisory activities are conducted on behalf of the member organization. Each member organization shall promptly amend its written supervisory procedures to reflect changes in applicable securities laws or regulations, including Exchange rules, and as changes occur in its supervisory system. Each member organization is responsible for promptly communicating its written supervisory procedures and amendments to all associated persons to whom such written supervisory procedures and amendments are relevant based on their activities and responsibilities.

(c) Internal Inspections

(1) Each member organization shall conduct a review, at least annually (on a calendar-year basis), of the businesses in which it engages. The review shall be reasonably designed to assist the member organization in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules. Each member organization shall review the activities of each office, which shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses. Each member organization shall also retain a written record of the date upon which each review and inspection is conducted.

(A) Each member organization shall inspect at least annually (on a calendar-year basis) every OSJ and any branch office that supervises one or more non-branch locations.

(B) Each member organization shall inspect at least every three years every branch office that does not supervise one or more non-branch locations. In establishing how often to inspect each non-supervisory branch office, the member organization shall consider whether the nature and complexity of the securities activities for which the location is responsible, the volume of business done at the location, and the number of associated persons assigned to the location require the non-supervisory branch office to be inspected more

frequently than every three years. If a member organization establishes a more frequent inspection cycle, the member organization must ensure that at least every three years, the inspection requirements enumerated in paragraph (c)(2) have been met. The member organization's written supervisory and inspection procedures shall set forth the non-supervisory branch office examination cycle, an explanation of the factors the member organization used in determining the frequency of the examinations in the cycle, and the manner in which a member organization will comply with paragraph (c)(2) if using more frequent inspections than every three years.

(C) Each member organization shall inspect on a regular periodic schedule every non-branch location. In establishing such schedule, the member organization shall consider the nature and complexity of the securities activities for which the location is responsible and the nature and extent of contact with customers. The member organization's written supervisory and inspection procedures shall set forth the schedule and an explanation regarding how the member organization determined the frequency of the examination.

(2) An inspection and review by a member organization pursuant to paragraph (c)(1) must be reduced to a written report and kept on file by the member organization for a minimum of three years, unless the inspection is being conducted pursuant to paragraph (c)(1)(C) and the regular periodic schedule is longer than a three-year cycle, in which case the report must be kept on file at least until the next inspection report has been written.

(A) If applicable to the location being inspected, that location's written inspection report must include, without limitation, the testing and verification of the member organization's policies and procedures, including supervisory policies and procedures in the following areas:

(i) safeguarding of customer funds and securities;

(ii) maintaining books and records;

(iii) supervision of supervisory personnel;

(iv) transmittals of funds (e.g., wires or checks, etc.) or securities from customers to third party accounts; from customer accounts to outside entities (e.g., banks, investment companies, etc.); from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and between customers and registered representatives, including the hand-delivery of checks; and

(v) changes of customer account information, including address and investment objectives changes and validation of such changes.

(B) The policies and procedures required by paragraph (c)(2)(A)(iv) must include a means or method of customer confirmation, notification, or follow-up that can be documented. Member organizations may use reasonable risk-based criteria to determine the authenticity of the transmittal instructions.

(C) The policies and procedures required by paragraph (c)(2)(A)(v) must include, for each change processed, a means or method of customer confirmation, notification, or follow-up that can be documented and that complies with SEA Rules 17a-3(a)(17)(i)(B)(2) and 17a-3(a)(17)(i)(B)(3).

(D) If a member organization does not engage in all of the activities enumerated in paragraphs (c)(2)(A)(i) through (c)(2)(A)(v) at the location being inspected, the member organization must identify those activities in the member organization's written supervisory procedures or the location's written inspection report and document in the member organization's written supervisory procedures or the location's written inspection report that supervisory policies and procedures for such activities must be in place at that location before the member organization can engage in them.

(3) For each inspection conducted pursuant to paragraph (c), a member organization must:

(A) have procedures reasonably designed to prevent the effectiveness of the inspections required pursuant to paragraph (c)(1) of this Rule from being compromised due to the conflicts of interest that may be present with respect to the location being inspected, including but not limited to, economic, commercial, or financial interests in the associated persons and businesses being inspected; and

(B) ensure that the person conducting an inspection pursuant to paragraph (c)(1) is not an associated person assigned to the location or is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the location.

(C) If a member organization determines that compliance with paragraph (c)(3)(B) is not possible either because of a member organization's size or its business model, the member organization must document in the inspection report both the factors the member organization used to make its determination and how the inspection otherwise complies with paragraph (c)(1).

(d) Transaction Review and Investigation

(1) Each member organization shall include in its supervisory procedures a process for the review of securities transactions reasonably designed to identify trades that may violate the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices that are effected for the:

(A) accounts of the member organization;

(B) accounts introduced or carried by the member organization in which a person associated with the member organization has a beneficial interest or the authority to make investment decisions;

(C) accounts of a person associated with the member organization that are disclosed to the member organization pursuant to Rule 407 or NASD Rule 3050, as applicable; and

(D) covered accounts.

(2) Each member organization must conduct promptly an internal investigation into any such trade to determine whether a violation of those laws or rules has occurred.

(3) A member organization engaging in investment banking services must file with the Exchange, written reports, signed by a senior officer of the member organization, at such times and, without limitation, including such content, as follows:

(A) within ten business days of the end of each calendar quarter, a written report describing each internal investigation initiated in the previous calendar quarter pursuant to paragraph (d)(2), including the identity of the member organization, the date each internal investigation commenced, the status of each open internal investigation, the resolution of any internal investigation reached during the previous calendar quarter, and, with respect to each internal investigation, the identity of the security, trades, accounts, associated persons of the member organization, or associated person of the member organization's family members holding a covered account, under review, and that includes a copy of the member organization's policies and procedures required by paragraph (d)(1).

(B) within five business days of completion of an internal investigation pursuant to paragraph (d)(2) in which it was determined that a violation of the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices had occurred, a written report detailing the completion of the investigation, including the results of the investigation, any internal disciplinary action taken, and any referral of the matter to the Exchange, another self-regulatory organization, the SEC, or any other federal, state, or international regulatory authority.

(4) Definitions

For purposes of this Rule:

(A) The term "covered account" shall include any account introduced or carried by the member organization that is held by:

(i) the spouse of a person associated with the member organization;

(ii) a child of the person associated with the member organization or such person's spouse, provided that the child resides in the same household as or is financially dependent upon the person associated with the member organization;

(iii) any other related individual over whose account the person associated with the member organization has control; or

(iv) any other individual over whose account the associated person of the member organization has control and to whose financial support such person materially contributes.

(B) The term "investment banking services" shall include, without limitation, acting as an underwriter, participating in a selling group in an offering for the issuer, or otherwise acting in furtherance of a public offering of the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital or equity lines of credit or serving as placement agent for the issuer or otherwise acting in furtherance of a private offering of the issuer.

(e) Definitions

(1) "Office of Supervisory Jurisdiction" means any office of a member organization at which any one or more of the following functions take place:

(A) order execution or market making;

(B) structuring of public offerings or private placements;

(C) maintaining custody of customers' funds or securities;

(D) final acceptance (approval) of new accounts on behalf of the member organization;

(E) review and endorsement of customer orders, pursuant to paragraph (b)(2) above;

(F) final approval of retail communications for use by persons associated with the member organization, pursuant to Rule 2210(b)(1), except for an office that solely conducts final approval of research reports; or

(G) responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization.

(2)(A) A “branch office” is any location where one or more associated persons of a member organization regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security, or is held out as such, excluding:

(i) Any location that is established solely for customer service or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(ii) Any location that is the associated person’s primary residence; provided that

a. Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;

b. The location is not held out to the public as an office and the associated person does not meet with customers at the location;

c. Neither customer funds nor securities are handled at that location;

d. The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;

e. The associated person’s correspondence and communications with the public are subject to the firm’s supervision in accordance with this Rule;

f. Electronic communications (e.g., e-mail) are made through the member organization’s electronic system;

g. All orders are entered through the designated branch office or an electronic system established by the member organization that is reviewable at the branch office;

h. Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member organization; and

i. A list of the residence locations is maintained by the member organization;

(iii) Any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar

year, provided the member organization complies with the provisions of subparagraphs (2)(A)(ii)a. through h. above;

(iv) Any office of convenience, where associated persons occasionally and exclusively by appointment meet with customers, which is not held out to the public as an office;*

(v) Any location that is used primarily to engage in non-securities activities and from which the associated person(s) effects no more than 25 securities transactions in any one calendar year; provided that any retail communication identifying such location also sets forth the address and telephone number of the location from which the associated person(s) conducting business at the non-branch locations are directly supervised;

(vi) The Floor of a registered national securities exchange where a member organization conducts a direct access business with public customers; or

(vii) A temporary location established in response to the implementation of a business continuity plan.

(B) Notwithstanding the exclusions in subparagraph (2)(A), any location that is responsible for supervising the activities of persons associated with the member organization at one or more non-branch locations of the member organization is considered to be a branch office.

(C) The term “business day” as used in paragraph (e)(2)(A) of this Rule shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

••• Supplementary Material: -----

.01 Registration of Main Office. A member organization’s main office location is required to be registered and designated as a branch office or OSJ if it meets the definitions of a “branch office” or “office of supervisory jurisdiction” as set forth in Rule 3110(e). In general, the nature of activities conducted at a main office will satisfy the requirements of such terms.

.02 Designation of Additional OSJs. In addition to the locations that meet the definition of OSJ in Rule 3110(e), each member organization shall also register and designate other offices as OSJs as is necessary to supervise its associated persons in accordance with the standards set forth in Rule 3110. In making a determination as to whether to designate a location as an OSJ, the member organization should consider the following factors:

(a) whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers;

(b) whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location;

(c) whether the location is geographically distant from another OSJ of the firm;

(d) whether the member organization's registered persons are geographically dispersed; and

(e) whether the securities activities at such location are diverse or complex.

.03 Supervision of Multiple OSJs by a Single Principal. Rule 3110(a)(4) requires a member organization to designate one or more appropriately registered principals in each OSJ with the authority to carry out the supervisory responsibilities assigned to that office ("on-site principal"). The designated on-site principal for each OSJ must have a physical presence, on a regular and routine basis, at each OSJ for which the principal has supervisory responsibilities. Consequently, there is a general presumption that a principal will not be designated and assigned to be the on-site principal pursuant to Rule 3110(a)(4) to supervise more than one OSJ. If a member organization determines it is necessary to designate and assign one appropriately registered principal to be the on-site principal pursuant to Rule 3110(a)(4) to supervise two or more OSJs, the member organization must take into consideration, among others, the following factors:

(a) whether the on-site principal is qualified by virtue of experience and training to supervise the activities and associated persons in each location;

(b) whether the on-site principal has the capacity and time to supervise the activities and associated persons in each location;

(c) whether the on-site principal is a producing registered representative;

(d) whether the OSJ locations are in sufficiently close proximity to ensure that the on-site principal is physically present at each location on a regular and routine basis; and

(e) the nature of activities at each location, including size and number of associated persons, scope of business activities, nature and complexity of products and services offered, volume of business done, the disciplinary history of persons assigned to such locations, and any other indicators of irregularities or misconduct.

The member organization must establish, maintain, and enforce written supervisory procedures regarding the supervision of all OSJs. In all cases where a member organization designates and assigns one on-site principal to supervise more than one OSJ, the member organization must document in the member organization's written supervisory and inspection procedures the factors used to determine why the member organization considers such supervisory structure to be reasonable and the determination by the member organization will be subject to scrutiny.

.04 Annual Compliance Meeting. A member organization is not required to conduct in-person meetings with each registered person or group of registered persons to comply with the annual compliance meeting (or interview) required by Rule 3110(a)(7). A member organization that chooses

to conduct compliance meetings using other methods (e.g., on-demand webcast or course, video conference, interactive classroom setting, telephone, or other electronic means) must ensure, at a minimum, that each registered person attends the entire meeting (e.g., an on-demand annual compliance webcast would require each registered person to use a unique user ID and password to gain access and use a technology platform to track the time spent on the webcast, provide click-as-you go confirmation, and have an attestation of completion at the end of a webcast) and is able to ask questions regarding the presentation and receive answers in a timely fashion (e.g., an on-demand annual compliance webcast that allows registered persons to ask questions via an email to a presenter or a centralized address or via a telephone hotline and receive timely responses directly or view such responses on the member organization's intranet site).

.05 Risk-based Review of Member Organization's Investment Banking and Securities Business.

A member organization may use a risk-based review system to comply with Rule 3110(b)(2)'s requirement that a registered principal review all transactions relating to the investment banking or securities business of the member organization. A member organization is not required to conduct detailed reviews of each transaction if a member organization is using a reasonably designed risk-based review system that provides a member organization with sufficient information that permits the member organization to focus on the areas that pose the greatest numbers and risks of violation.

.06 Risk-based Review of Correspondence and Internal Communications. By employing risk-based principles, a member organization must decide the extent to which additional policies and procedures for the review of:

(a) incoming and outgoing written (including electronic) correspondence that fall outside of the subject matters listed in Rule 3110(b)(4) are necessary for its business and structure. If a member organization's procedures do not require that all correspondence be reviewed before use or distribution, the procedures must provide for:

(1) the education and training of associated persons regarding the firm's procedures governing correspondence;

(2) the documentation of such education and training; and

(3) surveillance and follow-up to ensure that such procedures are implemented and followed.

(b) internal communications that are not of a subject matter that require review under Exchange rules and federal securities laws are necessary for its business and structure.

.07 Evidence of Review of Correspondence and Internal Communications. The evidence of review required in Rule 3110(b)(4) must be chronicled either electronically or on paper and must clearly identify the reviewer, the internal communication or correspondence that was reviewed, the date of review, and the actions taken by the member organization as a result of any significant regulatory issues identified during the review. Merely opening a communication is not sufficient review.

.08 Delegation of Correspondence and Internal Communication Review Functions. In the course of the supervision and review of correspondence and internal communications required by Rule 3110(b)(4), a supervisor/principal may delegate certain functions to persons who need not be registered. However, the supervisor/principal remains ultimately responsible for the performance of all necessary supervisory reviews, irrespective of whether he or she delegates functions related to the review. Accordingly, supervisors/principals must take reasonable and appropriate action to ensure delegated functions are properly executed and should evidence performance of their procedures sufficiently to demonstrate overall supervisory control.

.09 Retention of Correspondence and Internal Communications. Each member organization shall retain the internal communications and correspondence of associated persons relating to the member organization's investment banking or securities business for the period of time and accessibility specified in SEA Rule 17a-4(b). The names of the persons who prepared outgoing correspondence and who reviewed the correspondence shall be ascertainable from the retained records, and the retained records shall be readily available to the Exchange, upon request.

.10 Supervision of Supervisory Personnel. A member organization's determination that it is not possible to comply with paragraphs (b)(6)(C)(i) or (b)(6)(C)(ii) of Rule 3110 prohibiting supervisory personnel from supervising their own activities and from reporting to, or otherwise having compensation or continued employment determined by, a person or persons they are supervising generally will arise in instances where:

(a) the member organization is a sole proprietor in a single-person firm;

(b) a registered person is the member organization's most senior executive officer (or similar position); or

(c) a registered person is one of several of the member organization's most senior executive officers (or similar positions).

.11 Use of Electronic Media to Communicate Written Supervisory Procedures. A member organization may use electronic media to satisfy its obligation to communicate its written supervisory procedures, and any amendment thereto, pursuant to Rule 3110(b)(7), provided that: (1) the written supervisory procedures have been promptly communicated to, and are readily accessible by, all associated persons to whom such supervisory procedures apply based on their activities and responsibilities through, for example, the member organization's intranet system; (2) all amendments to the written supervisory procedures are promptly posted to the member organization's electronic media; (3) associated persons are notified that amendments relevant to their activities and responsibilities have been made to the written supervisory procedures; (4) the member organization has reasonable procedures to monitor and maintain the security of the material posted to ensure that it cannot be altered by unauthorized persons; and (5) the member organization retains current and prior versions of its written supervisory procedures in compliance with the applicable record retention requirements of SEA Rule 17a-4(e)(7).

.12 Standards for Reasonable Review. In fulfilling its obligations under Rule 3110(c), each member organization must conduct a review, at least annually, of the businesses in which it engages. The

review must be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations and with Exchange rules. Each member organization shall establish and maintain supervisory procedures that must take into consideration, among other things, the firm's size, organizational structure, scope of business activities, number and location of the firm's offices, the nature and complexity of the products and services offered by the firm, the volume of business done, the number of associated persons assigned to a location, the disciplinary history of registered representatives or associated persons, and any indicators of irregularities or misconduct (i.e., "red flags"), etc. The procedures established and reviews conducted must provide that the quality of supervision at remote locations is sufficient to ensure compliance with applicable securities laws and regulations and with Exchange rules. A member organization must be especially diligent in establishing procedures and conducting reasonable reviews with respect to a non-branch location where a registered representative engages in securities activities. Based on the factors outlined above, member organizations may need to impose reasonably designed supervisory procedures for certain locations or may need to provide for more frequent reviews of certain locations.

.13 General Presumption of Three-Year Limit for Periodic Inspection Schedules. Rule 3110(c)(1)(C) requires a member organization to inspect on a regular periodic schedule every non-branch location. In establishing a non-branch location inspection schedule, there is a general presumption that a non-branch location will be inspected at least every three years, even in the absence of any indicators of irregularities or misconduct (i.e., "red flags"). If a member organization establishes a longer periodic inspection schedule, the member organization must document in its written supervisory and inspection procedures the factors used in determining that a longer periodic inspection cycle is appropriate.

.14 Exception to Persons Prohibited from Conducting Inspections. A member organization's determination that it is not possible to comply with Rule 3110(c)(3)(B) with respect to who is not allowed to conduct a location's inspection will generally arise in instances where:

(a) the member organization has only one office; or

(b) the member organization has a business model where small or single-person offices report directly to an OSJ manager who is also considered the offices' branch office manager.

.15 "Associated person." For the purposes of this rule, the term "associated person" and "person associated with a member organization" shall have the same meaning as the terms "person associated with a member" or "associated person of a member" as defined in Article I (rr) of the FINRA By-Laws.

* Where such office of convenience is located on bank premises, signage necessary to comply with applicable federal and state laws, rules and regulations and applicable rules and regulations of other self-regulatory organizations, and securities and banking regulators may be displayed and shall not be deemed "holding out" for purposes of this section.

Rule 3120. Supervisory Control System

(a) Each member organization shall designate and specifically identify to the Exchange one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures that:

(1) test and verify that the member organization's supervisory procedures are reasonably designed with respect to the activities of the member organization and its associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules; and

(2) create additional or amend supervisory procedures where the need is identified by such testing and verification. The designated principal or principals must submit to the member organization's senior management no less than annually, a report detailing each member organization's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

(b) Each report provided to senior management pursuant to paragraph (a) in the calendar year following a calendar year in which a member organization reported \$200 million or more in gross revenue must include, to the extent applicable to the member organization's business:

(1) a tabulation of the reports pertaining to customer complaints and internal investigations made to the Exchange during the preceding year; and

(2) discussion of the preceding year's compliance efforts, including procedures and educational programs, in each of the following areas:

(A) trading and market activities;

(B) investment banking activities;

(C) antifraud and sales practices;

(D) finance and operations;

(E) supervision; and

(F) anti-money laundering.

(c) For purposes of paragraph (b), "gross revenue" is defined as:

(1) total revenue as reported on FOCUS Form Part II or IIA (line item 4030) less commodities revenue (line item 3990), if applicable; or

(2) total revenue as reported on FOCUS Form Part II CSE (line item 4030) less, if applicable, (A) commissions on commodity transactions (line item 3991); and (B) commodities gains or losses (line items 3924 and 3904).

••• Supplementary Material: -----

.01 “Associated person.” For the purposes of this rule, the term “associated person” and “person associated with a member organization” shall have the same meaning as the terms “person associated with a member” or “associated person of a member” as defined in Article I (rr) of the FINRA By-Laws.

Rule 3150. Holding of Customer Mail

(a) A member organization may hold mail for a customer who will not be receiving mail at his or her usual address, provided that:

(1) the member organization receives written instructions from the customer that include the time period during which the member organization is requested to hold the customer’s mail. If the requested time period included in the instructions is longer than three consecutive months (including any aggregation of time periods from prior requests), the customer’s instructions must include an acceptable reason for the request (e.g., safety or security concerns). Convenience is not an acceptable reason for holding mail longer than three months;

(2) the member organization:

(A) informs the customer in writing of any alternate methods, such as email or access through the member organization’s website, that the customer may use to receive or monitor account activity and information; and

(B) obtains the customer’s confirmation of the receipt of such information; and

(3) the member organization verifies at reasonable intervals that the customer’s instructions still apply.

(b) During the time that a member organization is holding mail for a customer, the member organization must be able to communicate with the customer in a timely manner to provide important account information (e.g., privacy notices, the SIPC information disclosures required by Rule 2266), as necessary.

(c) A member organization holding a customer’s mail pursuant to this Rule must take actions reasonably designed to ensure that the customer’s mail is not tampered with, held without the customer’s consent, or used by an associated person of the member organization in any manner that would violate Exchange rules or the federal securities laws.

••• Supplementary Material: -----

.01 “Associated person.” For the purposes of this rule, the term “associated person” and “person associated with a member organization” shall have the same meaning as the terms “person associated

with a member” or “associated person of a member” as defined in Article I (rr) of the FINRA By-Laws.

Rule 3170. Tape Recording of Registered Persons by Certain Firms

(a) Definitions

(1) For purposes of this Rule, the term “registered person” means any person registered with the Exchange.

(2) For purposes of this Rule, the term “disciplined firm” means:

(A) a member organization that, in connection with sales practices involving the offer, purchase, or sale of any security, has been expelled from membership or participation in any securities industry self-regulatory organization or is subject to an order of the SEC revoking its registration as a broker-dealer;

(B) a futures commission merchant or introducing broker that has been formally charged by either the Commodity Futures Trading Commission or a registered futures association with deceptive telemarketing practices or promotional material relating to security futures, those charges have been resolved, and the futures commission merchant or introducing broker has been closed down and permanently barred from the futures industry as a result of those charges; or

(C) a futures commission merchant or introducing broker that, in connection with sales practices involving the offer, purchase, or sale of security futures is subject to an order of the SEC revoking its registration as a broker or dealer.

(3) For purposes of this Rule, the term “disciplinary history” means a finding of a violation by a registered person in the past five years by the SEC, a self-regulatory organization, or a foreign financial regulatory authority of one or more of the following provisions (or comparable foreign provision) or rules or regulations thereunder: violations of the types enumerated in Exchange Act Section 15(b)(4)(E); Exchange Act Section 15(c); Securities Act Section 17(a); SEA Rules 10b-5 and 15g-1 through 15g-9; NASD Rule 2110 (Standards of Commercial Honor and Principles of Trade) or FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade) or NYSE Rule 2010 (Standards of Commercial Honor and Principles of Trade) or NYSE Rule 476(a)(6) (Failure to Observe High Standards of Commercial Honor and Just and Equitable Principles of Trade) (only if the finding of a violation of NASD Rule 2110, FINRA Rule 2010, NYSE Rule 2010 or NYSE Rule 476(a)(6) is for unauthorized trading, churning, conversion, material misrepresentations or omissions to a customer, front-running, trading ahead of research reports or excessive markups), FINRA Rule 5280 (Trading Ahead of Research Reports), NASD Rule 2120 (Use of Manipulative, Deceptive or Other Fraudulent Devices) or FINRA Rule 2020 (Use of Manipulative, Deceptive or Other Fraudulent Devices) or NYSE Rule 2020 (Use of

Manipulative, Deceptive or Other Fraudulent Devices) or NYSE Rule 476(a)(5) (effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance), NASD Rule 2310 (Recommendations to Customers (Suitability)) or FINRA Rule 2111 (Suitability) or NYSE Rule 405 (Diligence as to Accounts), NASD Rule 2330 (Customers' Securities or Funds) or FINRA Rule 2150 (Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts) or NYSE Rule 2150 (Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts), NASD Rule 2440 (Fair Prices and Commissions), NASD Rule 3010 (Supervision) or FINRA Rule 3110 (Supervision) or NYSE Rule 3110 (Supervision) or NYSE Rule 342 (Offices – Approval, Supervision and Control) (failure to supervise only for NASD Rule 3010, FINRA Rule 3110, NYSE Rule 3110 and NYSE Rule 342), NASD Rule 3310 (Publication of Transactions and Quotations) or FINRA Rule 5210 (Publication of Transactions and Quotations) or NYSE Rule 5210 (Publication of Transactions and Quotations) and NASD Rule 3330 (Payment Designed to Influence Market Prices, Other than Paid Advertising) or FINRA Rule 5230 (Payments Involving Publications that Influence the Market Price of a Security); and MSRB Rules G-19, G-30, and G-37(b) & (c).

(4) For purposes of this Rule, the term “tape recording” includes without limitation, any electronic or digital recording that meets the requirements of this Rule.

(5) (A) For purposes of this Rule, the term “taping firm” means:

(i) A member organization with at least five but fewer than ten registered persons, where 40% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years;

(ii) A member organization with at least ten but fewer than twenty registered persons, where four or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years;

(iii) A member organization with at least twenty registered persons where 20% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years.

(B) For purposes of calculating the number of registered persons who have been associated with one or more disciplined firms in a registered capacity within the last three years pursuant to this subparagraph (5), member organizations should not include registered persons who:

(i) have been registered for an aggregate total of 90 days or less with one or more disciplined firms within the past three years; and

(ii) do not have a disciplinary history.

(b) Supervisory Procedures Regarding the Tape Recording of Conversations

(1) Each member organization that either is notified by the Exchange or otherwise has actual knowledge that it is a taping firm shall establish, maintain, and enforce special written procedures for supervising the telemarketing activities of all of its registered persons.

(2) A taping firm required to establish, maintain, and enforce special written procedures pursuant to this paragraph must establish and implement the procedures within 60 days of receiving notice from the Exchange or obtaining actual knowledge that it is a taping firm.

(3) The procedures required by this paragraph shall include procedures for tape recording all telephone conversations between the taping firm's registered persons and both existing and potential customers and for reviewing the tape recordings to ensure compliance with applicable securities laws and regulations and applicable Exchange rules. The procedures must be appropriate for the taping firm's business, size, structure, and customers, and shall be maintained for a period of three years from the date that the taping firm establishes and implements the procedures.

(4) All tape recordings made pursuant to the requirements of this paragraph shall be retained for a period of not less than three years from the date the tape was created, the first two years in an easily accessible place. Each taping firm shall catalog the retained tapes by registered person and date.

(5) By the 30th day of the month following the end of each calendar quarter, each taping firm subject to the requirements of this paragraph shall submit to the Exchange a report on the taping firm's supervision of the telemarketing activities of its registered persons.

(c) A member organization that becomes a taping firm for the first time may reduce its staffing levels to fall below the threshold levels within 30 days after receiving notice from the Exchange pursuant to the provisions of paragraph (b)(1) or obtaining actual knowledge that it is a taping firm, provided the member organization promptly notifies the Exchange's Department of Member Regulation in writing of its becoming subject to the Rule. Once the member organization has reduced its staffing levels to fall below the threshold levels, it shall not rehire a person terminated to accomplish the staff reduction for a period of 180 days. On or prior to reducing staffing levels pursuant to this paragraph, a member organization must provide the Exchange's Department of Member Regulation with written notice identifying the terminated person(s).

(d) Pursuant to the Rule 9600 Series, the Exchange may, in exceptional circumstances, taking into consideration all relevant factors, exempt any taping firm unconditionally or on specified terms and conditions from the requirements of this Rule. A taping firm seeking an exemption must file a written application pursuant to the Rule 9600 Series within 30 days after receiving

notice from the Exchange or obtaining actual knowledge that it is a taping firm. A member organization that becomes a taping firm for the first time may elect to reduce its staffing levels pursuant to the provisions of paragraph (c) or, alternatively, to seek an exemption pursuant to paragraph (d), as appropriate. A taping firm may not seek relief from the Rule by both reducing its staffing levels pursuant to paragraph (c) and requesting an exemption.

Rule 9217. Violations Appropriate for Disposition Under Plan Pursuant to SEA Rule 19d-1(c)(2)

- Failure to Obtain Exchange Approval Rule Violations (Rules 312(h) & (i), [342(c), 342.10,] 382(a), 791(c), and 4110).
- Failure of a member organization to have individuals responsible and qualified for the positions of Financial Principal, Operations Principal, Compliance Official, Branch Office Manager and Supervisory Analyst (Rules 342[(b), (d) & . 13], 311(b)(5), 344, 3010(a) and 3130(a)).

- Failure to acknowledge customer complaint [within 15 business days,] as required by Rule 3110(b)(5) [401A].

NYSE Rule Interpretations

[Rule 342 OFFICES – APPROVAL, SUPERVISION AND CONTROL]

Entire text deleted.

[Rule 351 REPORTING REQUIREMENTS]

Entire text deleted.

Additions underlined.
Deletions [bracketed].

NYSE MKT Equities Rules

Rule 476A. Imposition of Fines for Minor Violation(s) of Rules

••• *Supplementary Material:* -----

- Failure to Obtain Exchange Approval Rule Violations (Rules 312(h) - Equities, 312(i) - Equities, [342(c) - Equities, 342.10 - Equities,] 382(a) - Equities, and 4110 – Equities)
- Failure of a member organization to have individuals responsible and qualified for the positions of Financial Principal, Operations Principal, Compliance Official, Branch Office Manager and Supervisory Analyst (Rules [342(b) - Equities, 342(d) - Equities, 342.13 - Equities,] 311(b)(5) - Equities, 344 - Equities, 3110(a) - Equities and 3130(a) - Equities)

Rule 36 - Equities. Communications Between Exchange and Members' Offices

••• Supplementary Material:

.10 No change.

.20 (a) With the approval of the Exchange, a Floor broker may maintain a telephone line or use an Exchange authorized and provided portable telephone which permits a non-member off the Floor to communicate with a member or member organization on the Floor. In addition, any Floor broker receiving orders from the public over portable phones must be properly qualified under Exchange rules to conduct such public business (See, for e.g., Rule[s 342 - Equities and] 345 - Equities.) Subject to the exception contained in .23 of this Rule, the use of a portable telephone on the Floor other than one authorized and issued by the Exchange is prohibited.

Rule 70 - Equities. Execution of Floor Broker Interest

••• Supplementary Material:

.25-.30 No change.

.40 Operation of an NYSE Approved Booth Premise

(1)-(3) No change.

(4) A member organization approved to operate its booth premise pursuant to this rule is subject to the same regulatory requirements governing the conduct of the member organization's off-Floor or 'upstairs' office, including but not limited to relevant employee registration and qualification requirements pursuant to Rule 345 - Equities and supervisory responsibilities pursuant to Rule [342] 3110 - Equities.

Rule 86 - Equities. NYSE MKT Bonds

(a)-(o) No change.

(p) Reports and Recordkeeping.

(1) NYSE MKT Bonds Trading Reports and Records. Users of NYSE MKT Bonds must comply with all relevant rules of the Exchange and the Securities and Exchange Commission in relation to reports and records of transactions on NYSE MKT Bonds including but not limited to Rules [342] 3110 - Equities and [440] 4522 - Equities, and Rules 17a-3 and 17a-4 [of] under the Securities Exchange Act of 1934.

Rule 342 - Equities. [Offices—Approval, Supervision and Control] Compliance Supervisors.

[(a) Each office, department or business activity of a member or member organization (including foreign incorporated branch offices) shall be under the supervision and control of the member or member organization establishing it and of the personnel delegated such authority and responsibility.

The person in charge of a group of employees shall reasonably discharge his duties and obligations in connection with supervision and control of the activities of those employees related to the business of their employer and compliance with securities laws and regulations.

(b) The general partners or directors of each member organization shall provide for appropriate supervisory control and shall designate a general partner or principal executive to assume overall

authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person shall:

(1) delegate to qualified principals or employees responsibility and authority for supervision and control of each office, department or business activity, and provide for appropriate procedures of supervision and control.

(2) establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) The prior consent of the Exchange shall be obtained for each office established by a member or member organization, other than a main office.

(d) Qualified persons acceptable to the Exchange shall be in charge of:

(1) any office of a member or member organization,

(2) any regional or other group of offices,

(3) any sales department or activity.

(e) The amounts and types of credit extended by a member organization shall be supervised by members or principal executives qualified by experience for such control in the types of business in which the member organization extends credit.

••• Supplementary Material:

.10 Definition of Branch Office.—A ‘branch office’ is any location where one or more associated persons of a member or member organization regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

(A) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(B) any location that is the associated person’s primary residence; provided that: (i) only one associated person, or multiple associated persons, who reside at that location and are members of the same immediate family, conduct business at the location; (ii) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (iii) neither customer funds nor securities are handled at that location; (iv) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person; (v) the associated person’s correspondence and communications with the public are subject to all supervisory provisions of the Exchange’s rules including, but not limited to, Rules 342 - Equities, 472 - Equities, and 2210 - Equities; (vi) electronic communications (e.g., e-mail) are made through the member’s or

member organization's electronic system; (vii) all orders are entered through the designated branch office of an electronic system established by the member or member organization that is reviewable at the branch office; (viii) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member or member organization; and (ix) a list of the locations is maintained by the member or member organization;

(C) any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the member or member organization complies with the provisions of (ii) through (viii) of paragraph (B) above;

(D) any office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulation) may be displayed);

(E) any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any retail communication identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch locations are directly supervised;

(F) the Floor of a registered national securities exchange where a member or member organization conducts a direct access business with public customers; or

(G) a temporary location established in response to the implementation of a business continuity plan.

Notwithstanding the exclusions in subparagraphs 342.10(A) - (G) - Equities, any location that is responsible for supervising the activities of persons associated with a member or member organization at one or more non-branch locations of such member or member organization is considered to be a branch office.

For purposes of this Rule, the term "associated person of a member or member organization" is defined as a member or employee associated with a member or member organization.

For purposes of this Rule, the term "associated person of a member or member organization" is defined as a member, or employee associated with a member or member organization.

For purposes of Rule 342.10(B)(viii) - Equities, written supervisory procedures shall include criteria for on-site for cause reviews of an associated person's primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

For purposes of Rule 342.10(B)(viii) and (C) - Equities, written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with the Exchange Rules.

Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm's size; (ii) the firm's organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person's customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person's or associated person's outside business activities, whether or not related to the securities business.

.11 Annual Fee.—Each office of a member organization (including any foreign branch office), other than the main office of the member organization, shall be subject during its existence to a registration fee as determined by the Exchange for each calendar year or part thereof, unless specifically exempted by the Exchange.

.12 Foreign branch offices.—With prior approval of the Exchange, a member organization may establish a foreign branch office in corporate or partnership form, provided it is wholly owned by the member organization. Continuance of the arrangement is subject to any changes in the Rules of the Exchange as may be thereafter adopted.

Foreign branch offices approved pursuant to this paragraph .12 and their personnel shall be fully subject to the Rules of the Exchange to the same degree and extent as are members and member organizations and their personnel. All obligations and liabilities of such foreign branch office shall be assumed or guaranteed by its parent member organization and such member organization shall be fully responsible for all acts of such foreign branch office.

For purposes of this Rule 342.12 - Equities, the term 'foreign branch office' shall include any such independently organized foreign location from which the services of the member or member organization are being made available or whose financial resources are being utilized in the operation of the office or as to which either of the above is held out, respectively, as available or being utilized.

.13 Acceptability of supervisors.]

(a) [Generally.—]Any member or employee [who is a candidate for acceptability under (d)(1), (2), or (3) above] identified as being in charge of (1) any office of a member or member organization, (2) any regional or other group of offices, or (3) any sales department or activity must have a creditable record and must pass the General Securities Sales Supervisor Qualification Examination (Series 9/10) or another examination acceptable to the Exchange which demonstrates competency relevant to assigned responsibilities. Every branch office or sales manager must have at least three years' experience as a registered representative or substantial experience in a related sales or managerial position and must pass the Series 9/10. For purposes of this rule, a related

sales or managerial position would include a mutual fund salesman or an investment advisor; a position of fiduciary responsibility such as in the Trust Department of a bank or an attorney practicing securities law; or president of an established company in the financial, real estate or insurance industries. In order to qualify as a supervisory person, a principal executive should have at least three years' experience as a registered representative unless granted an exception based upon experience over a period of years in a position of trust and responsibility. The General Securities Principal Examination (Series 24), is an acceptable alternative for persons whose duties do not include the supervision of options or municipal securities sales activity. The examination requirement may be waived at the discretion of the Exchange. In the case of a firm that is applying for registered broker-dealer status, such supervisory candidates, in addition to the requirements outlined above, must also have at least one year of direct experience or two years of related experience in the subject area to be supervised.

(b) [Compliance supervisors.—]Each member not associated with a member organization and in the case of a member organization, the person (or persons) designated to direct day-to-day compliance activity (such as the Compliance Officer, Partner or Director) and each other person at the member organization directly supervising ten or more persons engaged in compliance activity should have overall knowledge of the securities laws and Exchange rules and must pass the Compliance Official Qualification Examination (“Series 14 Examination”). Compliance supervisors of member organizations that conduct a DMM business must pass the DMM Compliance Official Examination (“Series 14A Examination”). A member organization engaged in a public business in addition to a DMM business must have a qualified compliance supervisor who has passed the Series 14 and Series 14A Examinations. Where good cause is shown, the Exchange, at[s] its discretion, may waive the examination requirement. The Exchange may give consideration to the scope of the member or member organization’s activity, to previous related employment, and to examination requirements of other self-regulatory organizations. In such cases, the Exchange must be satisfied that the person is qualified for the position.

The following individuals are exempt from the Series 14 Examination requirement:

(1) Compliance supervisors at member organizations whose activities are solely related to execution of orders on the Floor and who do not conduct any business with the public;

(2) Compliance supervisors at member organizations whose commissions and other fees from their public business (retail and institutional) are under \$500,000 in the preceding calendar year and who introduce to another broker-dealer; and

(3) Supervisors of ten or more persons whose compliance responsibilities are limited to the registration of member organization employees with the various regulatory and self-regulatory organizations.

[.14 Experience of senior management.—Member organizations without experienced senior principals may be subject to agreements with the Exchange appropriately limiting their scope of activity.

.15 Small offices.—may be in the charge of a qualified principal or manager who is either resident or non-resident in that area. In the event that such a qualified supervisor is non-resident, a resident

registered representative may be designated for subsidiary authority and is not required to meet a manager's examination or experience requirements.

.16 Supervision of registered representatives.—Would ordinarily include at least approval of new accounts and reasonable procedures for review of registered representatives' communications with the public relating to their business, and customer accounts and transactions. Such policies and procedures should be in writing and be designed to reasonably supervise each registered representative. Evidence that these supervisory policies and procedures have been implemented and carried out must be maintained and made available to the Exchange upon request.

See Rule 405 - Equities ("Diligence as to Accounts") for responsibilities for supervision of customer accounts.

.17 Review of communications with the public.—Members and member organizations must develop written policies and procedures that are appropriate for their business, their size, structure and customers in connection with the review of communications with the public relating to their business.

Where such policies and procedures for the review of public communications do not require pre-use review, they must include provision for the education and training of employees as to organizational policies and procedures, documentation of such education and training, and provide for surveillance and follow-up to ensure that such policies and procedures are implemented and adhered to.

See also Rule 472 - Equities and Rule 2210 - Equities for preapproval requirements for certain communications and standards governing all communications.

.18 Member organizations shall provide for the supervision and control of each general ledger bookkeeping account and account of like function on the basis specified in Rule 440.20 - Equities.

.19 Supervision of Producing Manager.—Members and member organizations must develop and implement written policies and procedures reasonably designed to independently review and supervise customer account activity conducted by each Branch Office Manager, Sales Manager, Regional/District Sales Manager, or by any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified person pursuant to Rule 342.13 - Equities who:

(a) is either senior to, or otherwise independent of, the Producing Manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the Producing Manager under review; must be situated in an office other than the office of the Producing Manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a Producing Manager receives an override or other income derived from that Producing Manager's customer activity that represents more than 10% of the designated person's gross income derived from the member or member organization over the course of a rolling twelve-month period, the member or member organization must establish alternate senior or otherwise independent supervision of that Producing Manager to be conducted by a

qualified person, pursuant to Rule 342.13 - Equities, other than the designated person receiving the income.

(b) If a member or member organization is so limited in size and resources that there is no qualified person senior to, or otherwise independent of, the Producing Manager to conduct the reviews pursuant to (a) above (for instance, the member or member organization has only one office, or an insufficient number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a person, qualified pursuant to Rule 342.13 - Equities, in compliance with (a) to the extent practicable.

(c) A member or member organization relying on (b) above must document the factors used to determine that complete compliance with all of the provisions of (a) is not possible, and that the required supervisory systems and procedures in place with respect to any Producing Manager comply with the provisions of (a) to the extent practicable.

.20 Information requests.—In connection with its investigation of anomalous trading activity and for other purposes, the Exchange from time to time requests from members and member organizations detailed information regarding trades effected by the member or member organization in specified Exchange listed or traded securities and related financial instruments during a specified period. Each member not associated with a member organization and each member organization shall comply with each such request by the date required by the Exchange.

.21 Trade review and investigation.—In order to help assure its compliance with the provisions of the Securities Exchange Act of 1934, the rules under that act and the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices, each member not associated with a member organization and each member organization, in addition to carrying out such other supervisory procedures as may be necessary to discharge its supervisory responsibilities as to compliance with Federal Securities laws and rules and Exchange rules generally shall:

(a) Subject trades in Exchange listed or traded securities and in related financial instruments which are effected for the account of the member or member organization or for the accounts of members or employees of the member or member organization and their family members (including trades reported by other members or member organizations pursuant to Rule 407 - Equities) to review procedures that the member or member organization determines to be reasonably designed to identify trades that may violate the provisions of the Securities Exchange Act of 1934, the rules under that act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices, and

(b) Conduct promptly an internal investigation into any such trade that appears that it may have violated those laws and rules in order to determine whether it did violate those laws and rules.

The Exchange, at its discretion, may exclude from these review and investigation requirements particular classes of persons, trades, securities and related financial instruments.

.22 Definition of related financial instrument.—For the purpose of Paragraphs .20 and .21, ‘related financial instrument’ means:

(a) Any stock underlying an Exchange listed stock option or included in an index stock group underlying an Exchange listed index stock group option,

(b) Any stock option on an Exchange listed or traded stock,

(c) Any index stock (bond) group option on a stock (bond) group that includes an Exchange listed or traded stock (bond),

(d) Any futures contract on a stock (bond) group that includes an Exchange listed or traded stock (bond), and

(e) Any option on any such futures contract.

.23 Internal Controls.—Pursuant to paragraphs (a) and (b) of this Rule, members and member organizations must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for independent verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each member's or member organization's efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the Annual Report required by .30 of this Rule.

The independent verification and testing procedures shall not apply to members and member organizations that do not conduct a public business, or that have a capital requirement of \$5,000 or less, or that employ 10 or fewer registered representatives.

(See also Rule 401(b) - Equities)

.24 Annual Branch Office Inspection

(A) Each member organization business location designated as a branch office pursuant to Rule 342.10 - Equities must be inspected no less often than once each calendar year unless:

(1) it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy the Rule's requirements for a particular branch office; or

(2) based upon the written policies and procedures of such member organization providing for a systematic risk-based surveillance system, the member organization submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to Rule 342.25 - Equities.

(B) Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct

supervision and control of the branch office in question (i.e., not the Branch Office Manager, or any person who directly or indirectly reports to such Manager, or any person to whom such Manager directly reports). Written reports reflecting the results of such inspections are to be maintained at the member organization for the longer of three years or until the next branch inspection.

.25 Risk-Based Surveillance and Branch Office Identification

(A) Any member organization seeking an exemption, pursuant to Rule 342.24(A)(2) - Equities, from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member organization's business model, and product mix. Such policies and procedures must also, at a minimum, provide for:

- (1) The inspection of branches where developments during the year require a reconsideration of such branch's exemption;
- (2) A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and
- (3) A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.

(B) For purposes of paragraph (A) the risk-based factors to be considered should include, but not necessarily be limited to, the following:

- (1) Number of registered representatives;
- (2) A significant increase in the number of registered representatives;
- (3) Number of customers and volume of transactions;
- (4) A significant increase in branch office revenues;
- (5) Incidence of concentrated securities positions in customers' accounts;
- (6) Aggregate customer assets held;
- (7) Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g., options, equities, mutual funds, annuities, etc.);
- (8) Numbers of accounts serviced on a discretionary basis;
- (9) Compliance and regulatory history of the branch, including:

(a) Registered representatives subject to special supervision by the member organization, self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission in years other than the previous or current year;

(b) Complaints, arbitrations, internal discipline, or prior inspection findings; and

(c) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.

(10) Operational factors, such as the number of errors and account designation changes per registered representative;

(11) Incidence of accommodation mailing addresses (e.g., post office boxes and ‘care of’ accounts);

(12) Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;

(13) Experience, function (producing or non-producing) and compensation structure of branch office manager;

(14) Branch offices recently opened or acquired; and

(15) Changes in branch location, status or management personnel.

(C) Notwithstanding any policies or procedures implemented pursuant to this rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

(1) Offices with one or more registered representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year;

(2) Offices with 25 or more registered individuals;

(3) Offices in the top 20% of production or customer assets for the member organization;

(4) Any branch office not inspected within the previous two calendar years; and

(5) Any branch office designated as exercising supervision over another branch office.

.26 Criteria for Inspection Programs

(A) An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

(1) Safeguarding of customer funds and securities;

- (2) Maintaining books and records;
- (3) Supervision of customer accounts serviced by Branch Office Managers;
- (4) Transmittal of funds between customers and registered representatives and between customers and third parties;
- (5) Validation of customer address changes; and
- (6) Validation of changes in customer account information.

.30 Annual Report and Certification.— By April 1 of each year, each member not associated with a member organization and each member organization shall submit to the Exchange a report on the member or member organization’s supervision and compliance effort during the preceding year and on the adequacy of the member or member organization’s ongoing compliance processes and procedures. The report shall include:

- (a) A tabulation of the reports pertaining to customer complaints and internal investigations made to the Exchange during the preceding year pursuant to Rules 351(e)(ii) - Equities and 4530(d) - Equities.
- (b) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year’s efforts of this nature, and
- (c) Discussion of the preceding year’s compliance efforts, new procedures, educational programs, etc. in each of the following areas (if any of these areas do not apply to the member or member organization, the report should so state):
 - (i) Antifraud and trading practices,
 - (ii) Investment banking activities,
 - (iii) Sales practices,
 - (iv) Books and records,
 - (v) Finance and operations,
 - (vi) Supervision,
 - (vii) Internal Controls, and
 - (viii) Anti-money laundering.

(d) Reserved.

(e) Reserved.]

Rule 345 - Equities. Employees—Registration, Approval, Records

••• Supplementary Material:

Registration of Employees

.10 Employees required to be registered or approved.—See definitions of “branch office manager” and “registered representative” contained in Rules 9 - Equities and 10 - Equities and Rule [342] 3110 - Equities for qualification requirements for supervisors.

.11 Investigation and Records

(a) Members and member organizations shall thoroughly investigate the previous record of persons whom they contemplate employing including, (1) persons required to be registered with the Exchange, (2) persons who regularly handle or process securities or monies or maintain the books and records relating to securities or monies and (3) persons having direct supervisory responsibility over persons engaged in the activities referred to in (1) and (2) above who are not otherwise required to be registered.

Investigatory requirements pertaining to persons specified in (a)(2) and (3) above shall be satisfied if a member or member organization verifies the information obtained pursuant to paragraph (c) below. Notwithstanding the above, further inquiry shall be made where appropriate in light of background information developed, the position for which the person is being considered or other circumstances. Investigation and verification shall be done by a member or person designated under the provisions of Rule [342(b)(1)] 3110(a) - Equities.

Rule 351 - Equities. Reporting Requirements

(a) Reserved.

(b) Reserved.

(c) Reserved.

(d) Reserved.

(e) Reserved. [Each member not associated with a member organization and a principal executive of each member organization shall take one or both of the following two actions in relation to the trades that are subject to the review procedures required by Rule 342.21(a) - Equities:

(i) Sign a written statement in the form specified below and deliver it to the Exchange by the 15th day of the month following the calendar quarter in which the trade occurred, and

(ii) As to any such trade that is the subject of an internal investigation pursuant to Rule 342.21(b) - Equities, but has not been both resolved and included in the written statement made pursuant to subparagraph (i) above, report in writing to the Exchange:

(A) The commencement of the internal investigation, the identity of the trade and the reason why the trade could not be the subject of a written statement made pursuant to subparagraph (i) above (report by the 15th day of the month, following the calendar quarter in which the trade occurred).

(B) The quarterly progress of each open investigation (report by the 15th day of the month following the quarter).

(C) The completion of the investigation, detailing the methodology and results of the investigation, any internal disciplinary action taken, and any referral of the matter to the Exchange, another self-regulatory organization, the Securities and Exchange Commission or another Federal agency; and including, where no internal disciplinary action has been taken and no such referral has been made, a written statement in relation to the trade in the form specified below (report within one week after completion of the investigation).

The statement that subparagraph (i) requires shall read substantially as follows:

(1) [I/NAME OF MEMBER ORGANIZATION] [have/has] established procedures for reviewing the facts and circumstances surrounding trades in Exchange listed or traded securities and related financial instruments for [my/the] account [of NAME OF MEMBER ORGANIZATION] ('Proprietary Trades') and for the accounts of [my/its] [members, allied members and] employees and their family members, including trades reported by other members or member organizations pursuant to Rule 407 - Equities, ('Employee Trades'), which procedures [I/NAME OF MEMBER ORGANIZATION] [have/has] determined to be reasonably designed to identify trades that may violate the provisions of the Securities Exchange Act of 1934, the rules under that act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices,

(2) I, my designees or the senior supervisors responsible for particular activities have carried out those procedures in relation to Proprietary Trades and Employee Trades effected during the [ORDINAL NUMBER] quarter of [YEAR], and

(3) Based upon my assessment of the adequacy of those procedures and of the diligence of those carrying out those procedures, and except as to those Proprietary Trades and Employee Trades that I have reported to the Exchange pursuant to Rule 351(e)(ii) - Equities as the subject of internal investigation, I have no reasonable cause to believe that: (a) any one or more of the Proprietary Trades effected during the period referred to in clause (2) above, or (b) any one or more of the Employee Trades both effected during that period and reviewed under those procedures violated the provisions of the Securities Exchange Act of 1934, the rules under the act or the rules of the Exchange prohibiting insider trading and manipulative and deceptive devices.

When a statement pertains to one or more trades that have been the subject of an internal investigation pursuant to Rule 342.21(b) - Equities but as to which no internal disciplinary action has been taken and no referral of the matter to the Exchange, to another self-regulatory organization or to a Federal agency has been made, the statement that subparagraph (ii) (C) requires shall be as above, except that it shall refer to the particular trade(s) (rather than to the trades of a particular calendar quarter) and shall omit the clause excepting trades reported as the subject of an investigation.]

(f) No change.

••• Supplementary Material:

No change.

Rule 354 - Equities. Reserved. [Reports to Control Persons

(a) By April 1 of each year, each member organization shall submit a copy of the report that Rule 342.30 - Equities requires the member organization to prepare to its one or more control persons or, if the member organization has no control person, to the audit committee of its Board of Directors or its equivalent committee or group. In the case of a control person that is an organization (a “controlling organization”), the member organization shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization’s Board of Directors or its equivalent committee or group.

(b) For the purpose of paragraph (a), “control person” means a person who controls the member organization within the meaning of Rule 2 - Equities otherwise than solely by virtue of being a director, general partner or principal executive (or person occupying a similar status or performing similar functions) of the member organization.]

Rule 401 - Equities. Reserved. [Business Conduct

(a) Reserved.

(b) Each member and member organization shall maintain written policies and procedures, administered pursuant to the internal control requirements prescribed under Rule 342.23 - Equities, specifically with respect to the following activities:

(1) Transmittals of funds (e.g., wires, checks, etc.) or securities:

(i) from customer accounts to third party accounts (i.e., a transmittal that would result in a change of beneficial ownership.);

(ii) from customer accounts to outside entities (e.g., banks, investment companies, etc.);

(iii) from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.);

(iv) between customers and registered representatives (including the hand-delivery of checks).

(2) Customer changes of address.

(3) Customer changes of investment objectives.

The policies and procedures required under (b)(1), (2), and (3) above must include a means/method of customer confirmation, notification, or follow-up that can be documented.]

Rule 401A - Equities. Reserved. [Customer Complaints

(a) For every customer complaint they receive that is subject to the reporting requirements of Rule 4530(d) - Equities, members and member organizations must:

(1) Acknowledge receipt of the complaint within 15 business days of receiving it, and

(2) Respond to the issues raised in the complaint within a reasonable period of time.

(b) Each acknowledgement and response required by this rule must be conveyed to the complaining customer by appropriate method:

(1) Acknowledgements and responses to written complaints must be either:

(i) In writing, mailed to the complaining customer's last known address, or

(ii) Electronically transmitted to the e-mail address from which the complaint was sent (method only permissible for electronically transmitted complaints).

(2) Acknowledgements and responses to verbal complaints must be either:

- (i) In writing, mailed to the complaining customer's last known address, or
- (ii) Made verbally to the complaining customer, and recorded in a log of verbal acknowledgements and responses to customer complaints.
- (c) Written records of the acknowledgements, responses, and logs required by this rule must be retained in accordance with Rule 440 - Equities ("Books and Records").]

Rule 405 - Equities. Diligence as to Accounts

Every member organization is required through a principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a) - Equities to

- (1)-(2) No change.

Approval of Accounts

(3) Specifically approve the opening of an account prior to or promptly after the completion of any transaction for the account of or with a customer, provided, however, that in the case of branch offices, the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall within a reasonable time be approved by a principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a) - Equities. The member, principal executive or other designated person approving the opening of the account shall, prior to giving his approval, be personally informed as to the essential facts relative to the customer and to the nature of the proposed account and shall indicate his approval in writing on a document which is a part of the permanent records of his office or organization.

Rule 407 - Equities. Transactions - Employees of Members, Member Organizations and the Exchange

- (a) No change.

(b) No member (associated with a member or member organization) or employee associated with a member or member organization shall establish or maintain any securities or commodities account or enter into any securities transaction with respect to which such person has any financial interest or the power, directly or indirectly, to make investment decisions, at another member or member organization, or a domestic or foreign non-member broker-dealer, investment adviser, bank, other financial institution, or otherwise without the prior written consent of another person designated by the member or member organization under Rule [342(b)(1)] 3110(a) - Equities to sign such consents and review such accounts.

Persons having accounts or transactions referred to above shall arrange for duplicate confirmations and statements (or their equivalents) relating to the foregoing to be sent to another person designated by the member or member organization under Rule [342(b)(1)] 3110(a) - Equities to review such accounts and transactions. All such accounts and transactions periodically shall be reviewed by the member or member organization employer [(see also Rule 342.21 - Equities)].

Rule 408 - Equities. Discretionary Power in Customers' Accounts

(a) No change.

(b) No member or employee of a member organization shall exercise any discretionary power in any customer's account, without first notifying and obtaining the approval of another person delegated under Rule [342(b)(1)] 3110(a) - Equities with authority to approve the handling of such accounts. Every order entered on a discretionary basis by a member or employee of a member organization must be identified as discretionary on the order at the time of entry. Such discretionary accounts shall receive frequent appropriate supervisory review by a person delegated such responsibility under Rule [342(b)(1)] 3110(a) - Equities, who is not exercising the discretionary authority. A written statement of the supervisory procedures governing such accounts must be maintained.

Rule 410 - Equities. Records of Orders

(a) Every member or member organization must preserve for at least three years, the first two years in an easily accessible place, a record of:

(1)-(2) No change.

(3) the time of the entry of every cancellation of an order covered by (1) and (2) above.

Changes In Account Name or Designation

Before any order covered by (1) or (2) above is executed, there must be placed upon the order slip or other similar record of the member or member organization the name or designation of the account for which such order is to be executed. No change in such account name (including related accounts) or designation (including error accounts) shall be made unless the change has been authorized by a member, principal executive or a person or persons designated under the provisions of Rule [342(b)(1)] 3110(a) - Equities. Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member or member organization. The essential facts relied upon by the person approving the change must be documented in writing and maintained with the order or other similar record for at least three years, the first two in an easily accessible place as that term is used in Securities Exchange Act Rule 17a-4.

••• Supplementary Material

.10 For purposes of this Rule, a person designated under the provisions of Rule [342(b)(1)] 3110(a) - Equities to approve account name or designation changes must pass an examination acceptable to the Exchange.

Rule 416A - Equities. Member And Member Organization Profile Information Updates And Quarterly Certifications Via The Electronic Filing Platform

(a)-(b) No change.

(c) Each member and member organization shall designate to the Exchange an appropriate senior officer as referenced in Rule [351(e)] 3110(a) - Equities, or his or her designee, as its membership profile contact person.

Rule 472 - Equities. Communications With The Public

(a)-(k)(4)(ii) No change.

(iii) Subject to paragraph (k)(4)(iv) of this Rule, a supervisory analyst, qualified under Rule 344 - Equities, or a qualified person, designated pursuant to Rule [342(b)(1)] 3110(a) - Equities, must approve by signature or initial all third-party research reports distributed by a member organization. The approval of third-party research shall be based on a review by the designated supervisory analyst or qualified person to determine that the content of the research report, pursuant to Rule 472(i) - Equities, contains no untrue statement of material fact or is otherwise not false or misleading. For the purposes of paragraph (k)(4) of this Rule only, a member organization's obligation to review a third-party research report pursuant to Rule 472(i) - Equities extends to any untrue statement of material fact or any false or misleading information that:

Rule 2210 - Equities. Communications with the Public

(a) No change.

(b) Approval, Review and Recordkeeping

(1) Retail Communications

(A)-(C) No change.

(D) The requirements of paragraph (b)(1)(A) shall not apply with regard to the following retail communications, provided that the member organization supervises and reviews such communications in the same manner as required for supervising and reviewing correspondence pursuant to Rule [342] 3110 - Equities:

(F) Notwithstanding any other provision of this Rule, an appropriately qualified principal must approve a communication prior to a member organization filing the communication with the Department.

(2) Correspondence

All correspondence is subject to the supervision and review requirements of Rule [342] 3110 - Equities.

Rule 3110 - Equities. Supervision

(a) Supervisory System

Each member organization shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules. Final responsibility for proper supervision shall rest with the member organization. A member organization's supervisory system shall provide, at a minimum, for the following:

(1) The establishment and maintenance of written procedures as required by this Rule.

(2) The designation, where applicable, of an appropriately registered principal(s) with authority to carry out the supervisory responsibilities of the member organization for each type of business in which it engages for which registration as a broker-dealer is required.

(3) The registration and designation as a branch office or an office of supervisory jurisdiction (OSJ) of each location, including the main office, that meets the definitions contained in paragraph (e) of this Rule.

(4) The designation of one or more appropriately registered principals in each OSJ and one or more appropriately registered representatives or principals in each non-OSJ branch office with authority to carry out the supervisory responsibilities assigned to that office by the member organization.

(5) The assignment of each registered person to an appropriately registered representative(s) or principal(s) who shall be responsible for supervising that person's activities.

(6) The use of reasonable efforts to determine that all supervisory personnel are qualified, either by virtue of experience or training, to carry out their assigned responsibilities.

(7) The participation of each registered representative and registered principal, either individually or collectively, no less than annually, in an interview or meeting conducted by persons designated by the member organization at which compliance matters relevant to the activities of the representative(s) and principal(s) are discussed. Such interview or meeting may occur in conjunction with the discussion of other matters and may be conducted at a central or regional location or at the representative's(') or principal's(') place of business.

(b) Written Procedures

(1) General Requirements

Each member organization shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules.

(2) Review of Member Organization's Investment Banking and Securities Business

The supervisory procedures required by this paragraph (b) shall include procedures for the review by a registered principal, evidenced in writing, of all transactions relating to the investment banking or securities business of the member organization.

(3) Reserved.

(4) Review of Correspondence and Internal Communications

The supervisory procedures required by this paragraph (b) shall include procedures for the review of incoming and outgoing written (including electronic) correspondence and internal communications relating to the member organization's investment banking or securities business. The supervisory procedures must be appropriate for the member organization's business, size, structure, and customers. The supervisory procedures must require the member organization's review of:

(A) incoming and outgoing written (including electronic) correspondence to properly identify and handle in accordance with firm procedures, customer complaints, instructions, funds and securities, and communications that are of a subject matter that require review under Exchange rules and federal securities laws.

(B) internal communications to properly identify those communications that are of a subject matter that require review under Exchange rules and federal securities laws.

Reviews of correspondence and internal communications must be conducted by a registered principal and must be evidenced in writing, either electronically or on paper.

(5) Review of Customer Complaints

The supervisory procedures required by this paragraph (b) shall include procedures to capture, acknowledge, and respond to all written (including electronic) customer complaints.

(6) Documentation and Supervision of Supervisory Personnel

The supervisory procedures required by this paragraph (b) shall set forth the supervisory system established by the member organization pursuant to paragraph (a) above, and shall include:

(A) the titles, registration status, and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in, applicable securities laws and regulations, and Exchange rules.

(B) a record, preserved by the member organization for a period of not less than three years, the first two years in an easily accessible place, of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective.

(C) procedures prohibiting associated persons who perform a supervisory function from:

(i) supervising their own activities; and

(ii) reporting to, or having their compensation or continued employment determined by, a person or persons they are supervising.

a. If a member organization determines, with respect to any of its supervisory personnel, that compliance with subparagraph (i) or (ii) above is not possible because of the member organization's size or a supervisory personnel's position within the firm, the member organization must document:

1. the factors the member organization used to reach such determination; and

2. how the supervisory arrangement with respect to such supervisory personnel otherwise complies with paragraph (a) of this Rule.

(D) procedures reasonably designed to prevent the supervisory system required pursuant to paragraph (a) of this Rule from being compromised due to the conflicts of interest that may be present with respect to the associated person being supervised, including the position of such person, the revenue such person generates for the firm, or any compensation that the associated person conducting the supervision may derive from the associated person being supervised.

(7) Maintenance of Written Supervisory Procedures

A copy of a member organization's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained in each OSJ and at each location where supervisory activities are conducted on behalf of the member organization. Each member organization shall promptly amend its written supervisory procedures to reflect changes in applicable securities laws or regulations, including Exchange rules, and as changes occur in its supervisory system. Each member organization is responsible for promptly communicating its written supervisory procedures and amendments to all associated persons to whom such written supervisory procedures and amendments are relevant based on their activities and responsibilities.

(c) Internal Inspections

(1) Each member organization shall conduct a review, at least annually (on a calendar-year basis), of the businesses in which it engages. The review shall be reasonably designed to assist the member organization in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules. Each member organization shall review the activities of each office, which shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses. Each member organization shall also retain a written record of the date upon which each review and inspection is conducted.

(A) Each member organization shall inspect at least annually (on a calendar-year basis) every OSJ and any branch office that supervises one or more non-branch locations.

(B) Each member organization shall inspect at least every three years every branch office that does not supervise one or more non-branch locations. In establishing how often to inspect each non-supervisory branch office, the member organization shall consider whether the nature and complexity of the securities activities for which the location is responsible, the volume of business done at the location, and the number of associated persons assigned to the location require the non-supervisory branch office to be inspected more

frequently than every three years. If a member organization establishes a more frequent inspection cycle, the member organization must ensure that at least every three years, the inspection requirements enumerated in paragraph (c)(2) have been met. The member organization's written supervisory and inspection procedures shall set forth the non-supervisory branch office examination cycle, an explanation of the factors the member organization used in determining the frequency of the examinations in the cycle, and the manner in which a member organization will comply with paragraph (c)(2) if using more frequent inspections than every three years.

(C) Each member organization shall inspect on a regular periodic schedule every non-branch location. In establishing such schedule, the member organization shall consider the nature and complexity of the securities activities for which the location is responsible and the nature and extent of contact with customers. The member organization's written supervisory and inspection procedures shall set forth the schedule and an explanation regarding how the member organization determined the frequency of the examination.

(2) An inspection and review by a member organization pursuant to paragraph (c)(1) must be reduced to a written report and kept on file by the member organization for a minimum of three years, unless the inspection is being conducted pursuant to paragraph (c)(1)(C) and the regular periodic schedule is longer than a three-year cycle, in which case the report must be kept on file at least until the next inspection report has been written.

(A) If applicable to the location being inspected, that location's written inspection report must include, without limitation, the testing and verification of the member organization's policies and procedures, including supervisory policies and procedures in the following areas:

(i) safeguarding of customer funds and securities;

(ii) maintaining books and records;

(iii) supervision of supervisory personnel;

(iv) transmittals of funds (e.g., wires or checks, etc.) or securities from customers to third party accounts; from customer accounts to outside entities (e.g., banks, investment companies, etc.); from customer accounts to locations other than a customer's primary residence (e.g., post office box, "in care of" accounts, alternate address, etc.); and between customers and registered representatives, including the hand-delivery of checks; and

(v) changes of customer account information, including address and investment objectives changes and validation of such changes.

(B) The policies and procedures required by paragraph (c)(2)(A)(iv) must include a means or method of customer confirmation, notification, or follow-up that can be documented. Member organizations may use reasonable risk-based criteria to determine the authenticity of the transmittal instructions.

(C) The policies and procedures required by paragraph (c)(2)(A)(v) must include, for each change processed, a means or method of customer confirmation, notification, or follow-up that can be documented and that complies with SEA Rules 17a-3(a)(17)(i)(B)(2) and 17a-3(a)(17)(i)(B)(3).

(D) If a member organization does not engage in all of the activities enumerated in paragraphs (c)(2)(A)(i) through (c)(2)(A)(v) at the location being inspected, the member organization must identify those activities in the member organization's written supervisory procedures or the location's written inspection report and document in the member organization's written supervisory procedures or the location's written inspection report that supervisory policies and procedures for such activities must be in place at that location before the member organization can engage in them.

(3) For each inspection conducted pursuant to paragraph (c), a member organization must:

(A) have procedures reasonably designed to prevent the effectiveness of the inspections required pursuant to paragraph (c)(1) of this Rule from being compromised due to the conflicts of interest that may be present with respect to the location being inspected, including but not limited to, economic, commercial, or financial interests in the associated persons and businesses being inspected; and

(B) ensure that the person conducting an inspection pursuant to paragraph (c)(1) is not an associated person assigned to the location or is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the location.

(C) If a member organization determines that compliance with paragraph (c)(3)(B) is not possible either because of a member organization's size or its business model, the member organization must document in the inspection report both the factors the member organization used to make its determination and how the inspection otherwise complies with paragraph (c)(1).

(d) Transaction Review and Investigation

(1) Each member organization shall include in its supervisory procedures a process for the review of securities transactions reasonably designed to identify trades that may violate the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices that are effected for the:

(A) accounts of the member organization;

(B) accounts introduced or carried by the member organization in which a person associated with the member organization has a beneficial interest or the authority to make investment decisions;

(C) accounts of a person associated with the member organization that are disclosed to the member organization pursuant to Rule 407 – Equities or NASD Rule 3050, as applicable; and

(D) covered accounts.

(2) Each member organization must conduct promptly an internal investigation into any such trade to determine whether a violation of those laws or rules has occurred.

(3) A member organization engaging in investment banking services must file with the Exchange, written reports, signed by a senior officer of the member organization, at such times and, without limitation, including such content, as follows:

(A) within ten business days of the end of each calendar quarter, a written report describing each internal investigation initiated in the previous calendar quarter pursuant to paragraph (d)(2), including the identity of the member organization, the date each internal investigation commenced, the status of each open internal investigation, the resolution of any internal investigation reached during the previous calendar quarter, and, with respect to each internal investigation, the identity of the security, trades, accounts, associated persons of the member organization, or associated person of the member organization's family members holding a covered account, under review, and that includes a copy of the member organization's policies and procedures required by paragraph (d)(1).

(B) within five business days of completion of an internal investigation pursuant to paragraph (d)(2) in which it was determined that a violation of the provisions of the Exchange Act, the rules thereunder, or Exchange rules prohibiting insider trading and manipulative and deceptive devices had occurred, a written report detailing the completion of the investigation, including the results of the investigation, any internal disciplinary action taken, and any referral of the matter to the Exchange, another self-regulatory organization, the SEC, or any other federal, state, or international regulatory authority.

(4) Definitions

For purposes of this Rule:

(A) The term "covered account" shall include any account introduced or carried by the member organization that is held by:

(i) the spouse of a person associated with the member organization;

(ii) a child of the person associated with the member organization or such person's spouse, provided that the child resides in the same household as or is financially dependent upon the person associated with the member organization;

(iii) any other related individual over whose account the person associated with the member organization has control; or

(iv) any other individual over whose account the associated person of the member organization has control and to whose financial support such person materially contributes.

(B) The term "investment banking services" shall include, without limitation, acting as an underwriter, participating in a selling group in an offering for the issuer, or otherwise acting in furtherance of a public offering of the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital or equity lines of credit or serving as placement agent for the issuer or otherwise acting in furtherance of a private offering of the issuer.

(e) Definitions

(1) "Office of Supervisory Jurisdiction" means any office of a member organization at which any one or more of the following functions take place:

(A) order execution or market making;

(B) structuring of public offerings or private placements;

(C) maintaining custody of customers' funds or securities;

(D) final acceptance (approval) of new accounts on behalf of the member organization;

(E) review and endorsement of customer orders, pursuant to paragraph (b)(2) above;

(F) final approval of retail communications for use by persons associated with the member organization, pursuant to Rule 2210(b)(1) - Equities, except for an office that solely conducts final approval of research reports; or

(G) responsibility for supervising the activities of persons associated with the member organization at one or more other branch offices of the member organization.

(2)(A) A “branch office” is any location where one or more associated persons of a member organization regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of, any security, or is held out as such, excluding:

(i) Any location that is established solely for customer service or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(ii) Any location that is the associated person’s primary residence; provided that

a. Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;

b. The location is not held out to the public as an office and the associated person does not meet with customers at the location;

c. Neither customer funds nor securities are handled at that location;

d. The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;

e. The associated person’s correspondence and communications with the public are subject to the firm’s supervision in accordance with this Rule;

f. Electronic communications (e.g., e-mail) are made through the member organization’s electronic system;

g. All orders are entered through the designated branch office or an electronic system established by the member organization that is reviewable at the branch office;

h. Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member organization; and

i. A list of the residence locations is maintained by the member organization;

(iii) Any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar

year, provided the member organization complies with the provisions of subparagraphs (2)(A)(ii)a. through h. above;

(iv) Any office of convenience, where associated persons occasionally and exclusively by appointment meet with customers, which is not held out to the public as an office;*

(v) Any location that is used primarily to engage in non-securities activities and from which the associated person(s) effects no more than 25 securities transactions in any one calendar year; provided that any retail communication identifying such location also sets forth the address and telephone number of the location from which the associated person(s) conducting business at the non-branch locations are directly supervised;

(vi) The Floor of a registered national securities exchange where a member organization conducts a direct access business with public customers; or

(vii) A temporary location established in response to the implementation of a business continuity plan.

(B) Notwithstanding the exclusions in subparagraph (2)(A), any location that is responsible for supervising the activities of persons associated with the member organization at one or more non-branch locations of the member organization is considered to be a branch office.

(C) The term “business day” as used in paragraph (e)(2)(A) of this Rule shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

••• Supplementary Material:

.01 Registration of Main Office. A member organization’s main office location is required to be registered and designated as a branch office or OSJ if it meets the definitions of a “branch office” or “office of supervisory jurisdiction” as set forth in Rule 3110(e) - Equities. In general, the nature of activities conducted at a main office will satisfy the requirements of such terms.

.02 Designation of Additional OSJs. In addition to the locations that meet the definition of OSJ in Rule 3110(e) - Equities, each member organization shall also register and designate other offices as OSJs as is necessary to supervise its associated persons in accordance with the standards set forth in Rule 3110 - Equities. In making a determination as to whether to designate a location as an OSJ, the member organization should consider the following factors:

(a) whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers;

(b) whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location;

(c) whether the location is geographically distant from another OSJ of the firm;

(d) whether the member organization's registered persons are geographically dispersed; and

(e) whether the securities activities at such location are diverse or complex.

.03 Supervision of Multiple OSJs by a Single Principal. Rule 3110(a)(4) - Equities requires a member organization to designate one or more appropriately registered principals in each OSJ with the authority to carry out the supervisory responsibilities assigned to that office ("on-site principal"). The designated on-site principal for each OSJ must have a physical presence, on a regular and routine basis, at each OSJ for which the principal has supervisory responsibilities. Consequently, there is a general presumption that a principal will not be designated and assigned to be the on-site principal pursuant to Rule 3110(a)(4) - Equities to supervise more than one OSJ. If a member organization determines it is necessary to designate and assign one appropriately registered principal to be the on-site principal pursuant to Rule 3110(a)(4) - Equities to supervise two or more OSJs, the member organization must take into consideration, among others, the following factors:

(a) whether the on-site principal is qualified by virtue of experience and training to supervise the activities and associated persons in each location;

(b) whether the on-site principal has the capacity and time to supervise the activities and associated persons in each location;

(c) whether the on-site principal is a producing registered representative;

(d) whether the OSJ locations are in sufficiently close proximity to ensure that the on-site principal is physically present at each location on a regular and routine basis; and

(e) the nature of activities at each location, including size and number of associated persons, scope of business activities, nature and complexity of products and services offered, volume of business done, the disciplinary history of persons assigned to such locations, and any other indicators of irregularities or misconduct.

The member organization must establish, maintain, and enforce written supervisory procedures regarding the supervision of all OSJs. In all cases where a member organization designates and assigns one on-site principal to supervise more than one OSJ, the member organization must document in the member organization's written supervisory and inspection procedures the factors used to determine why the member organization considers such supervisory structure to be reasonable and the determination by the member organization will be subject to scrutiny.

.04 Annual Compliance Meeting. A member organization is not required to conduct in-person meetings with each registered person or group of registered persons to comply with the annual compliance meeting (or interview) required by Rule 3110(a)(7) - Equities. A member organization

that chooses to conduct compliance meetings using other methods (e.g., on-demand webcast or course, video conference, interactive classroom setting, telephone, or other electronic means) must ensure, at a minimum, that each registered person attends the entire meeting (e.g., an on-demand annual compliance webcast would require each registered person to use a unique user ID and password to gain access and use a technology platform to track the time spent on the webcast, provide click-as-you go confirmation, and have an attestation of completion at the end of a webcast) and is able to ask questions regarding the presentation and receive answers in a timely fashion (e.g., an on-demand annual compliance webcast that allows registered persons to ask questions via an email to a presenter or a centralized address or via a telephone hotline and receive timely responses directly or view such responses on the member organization's intranet site).

.05 Risk-based Review of Member Organization's Investment Banking and Securities Business.

A member organization may use a risk-based review system to comply with Rule 3110(b)(2) - Equities' requirement that a registered principal review all transactions relating to the investment banking or securities business of the member organization. A member organization is not required to conduct detailed reviews of each transaction if a member organization is using a reasonably designed risk-based review system that provides a member organization with sufficient information that permits the member organization to focus on the areas that pose the greatest numbers and risks of violation.

.06 Risk-based Review of Correspondence and Internal Communications. By employing risk-based principles, a member organization must decide the extent to which additional policies and procedures for the review of:

(a) incoming and outgoing written (including electronic) correspondence that fall outside of the subject matters listed in Rule 3110(b)(4) - Equities are necessary for its business and structure. If a member organization's procedures do not require that all correspondence be reviewed before use or distribution, the procedures must provide for:

(1) the education and training of associated persons regarding the firm's procedures governing correspondence;

(2) the documentation of such education and training; and

(3) surveillance and follow-up to ensure that such procedures are implemented and followed.

(b) internal communications that are not of a subject matter that require review under Exchange rules and federal securities laws are necessary for its business and structure.

.07 Evidence of Review of Correspondence and Internal Communications. The evidence of review required in Rule 3110(b)(4) - Equities must be chronicled either electronically or on paper and must clearly identify the reviewer, the internal communication or correspondence that was reviewed, the date of review, and the actions taken by the member organization as a result of any significant regulatory issues identified during the review. Merely opening a communication is not sufficient review.

.08 Delegation of Correspondence and Internal Communication Review Functions. In the course of the supervision and review of correspondence and internal communications required by Rule 3110(b)(4) - Equities, a supervisor/principal may delegate certain functions to persons who need not be registered. However, the supervisor/principal remains ultimately responsible for the performance of all necessary supervisory reviews, irrespective of whether he or she delegates functions related to the review. Accordingly, supervisors/principals must take reasonable and appropriate action to ensure delegated functions are properly executed and should evidence performance of their procedures sufficiently to demonstrate overall supervisory control.

.09 Retention of Correspondence and Internal Communications. Each member organization shall retain the internal communications and correspondence of associated persons relating to the member organization's investment banking or securities business for the period of time and accessibility specified in SEA Rule 17a-4(b). The names of the persons who prepared outgoing correspondence and who reviewed the correspondence shall be ascertainable from the retained records, and the retained records shall be readily available to the Exchange, upon request.

.10 Supervision of Supervisory Personnel. A member organization's determination that it is not possible to comply with paragraphs (b)(6)(C)(i) or (b)(6)(C)(ii) of Rule 3110 - Equities prohibiting supervisory personnel from supervising their own activities and from reporting to, or otherwise having compensation or continued employment determined by, a person or persons they are supervising generally will arise in instances where:

(a) the member organization is a sole proprietor in a single-person firm;

(b) a registered person is the member organization's most senior executive officer (or similar position); or

(c) a registered person is one of several of the member organization's most senior executive officers (or similar positions).

.11 Use of Electronic Media to Communicate Written Supervisory Procedures. A member organization may use electronic media to satisfy its obligation to communicate its written supervisory procedures, and any amendment thereto, pursuant to Rule 3110(b)(7) - Equities, provided that: (1) the written supervisory procedures have been promptly communicated to, and are readily accessible by, all associated persons to whom such supervisory procedures apply based on their activities and responsibilities through, for example, the member organization's intranet system; (2) all amendments to the written supervisory procedures are promptly posted to the member organization's electronic media; (3) associated persons are notified that amendments relevant to their activities and responsibilities have been made to the written supervisory procedures; (4) the member organization has reasonable procedures to monitor and maintain the security of the material posted to ensure that it cannot be altered by unauthorized persons; and (5) the member organization retains current and prior versions of its written supervisory procedures in compliance with the applicable record retention requirements of SEA Rule 17a-4(e)(7).

.12 Standards for Reasonable Review. In fulfilling its obligations under Rule 3110(c) - Equities, each member organization must conduct a review, at least annually, of the businesses in which it

engages. The review must be reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations and with Exchange rules. Each member organization shall establish and maintain supervisory procedures that must take into consideration, among other things, the firm’s size, organizational structure, scope of business activities, number and location of the firm’s offices, the nature and complexity of the products and services offered by the firm, the volume of business done, the number of associated persons assigned to a location, the disciplinary history of registered representatives or associated persons, and any indicators of irregularities or misconduct (i.e., “red flags”), etc. The procedures established and reviews conducted must provide that the quality of supervision at remote locations is sufficient to ensure compliance with applicable securities laws and regulations and with Exchange rules. A member organization must be especially diligent in establishing procedures and conducting reasonable reviews with respect to a non-branch location where a registered representative engages in securities activities. Based on the factors outlined above, member organizations may need to impose reasonably designed supervisory procedures for certain locations or may need to provide for more frequent reviews of certain locations.

.13 General Presumption of Three-Year Limit for Periodic Inspection Schedules. Rule 3110(c)(1)(C) - Equities requires a member organization to inspect on a regular periodic schedule every non-branch location. In establishing a non-branch location inspection schedule, there is a general presumption that a non-branch location will be inspected at least every three years, even in the absence of any indicators of irregularities or misconduct (i.e., “red flags”). If a member organization establishes a longer periodic inspection schedule, the member organization must document in its written supervisory and inspection procedures the factors used in determining that a longer periodic inspection cycle is appropriate.

.14 Exception to Persons Prohibited from Conducting Inspections. A member organization’s determination that it is not possible to comply with Rule 3110(c)(3)(B) - Equities with respect to who is not allowed to conduct a location’s inspection will generally arise in instances where:

- (a) the member organization has only one office; or
- (b) the member organization has a business model where small or single-person offices report directly to an OSJ manager who is also considered the offices’ branch office manager.

.15 “Associated person.” For the purposes of this rule, the term “associated person” and “person associated with a member organization” shall have the same meaning as the terms “person associated with a member” or “associated person of a member” as defined in Article I (rr) of the FINRA By-Laws.

* Where such office of convenience is located on bank premises, signage necessary to comply with applicable federal and state laws, rules and regulations and applicable rules and regulations of other self-regulatory organizations, and securities and banking regulators may be displayed and shall not be deemed “holding out” for purposes of this section.

Rule 3120 - Equities. Supervisory Control System

(a) Each member organization shall designate and specifically identify to the Exchange one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures that:

(1) test and verify that the member organization's supervisory procedures are reasonably designed with respect to the activities of the member organization and its associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules; and

(2) create additional or amend supervisory procedures where the need is identified by such testing and verification. The designated principal or principals must submit to the member organization's senior management no less than annually, a report detailing each member organization's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

(b) Each report provided to senior management pursuant to paragraph (a) in the calendar year following a calendar year in which a member organization reported \$200 million or more in gross revenue must include, to the extent applicable to the member organization's business:

(1) a tabulation of the reports pertaining to customer complaints and internal investigations made to the Exchange during the preceding year; and

(2) discussion of the preceding year's compliance efforts, including procedures and educational programs, in each of the following areas:

(A) trading and market activities;

(B) investment banking activities;

(C) antifraud and sales practices;

(D) finance and operations;

(E) supervision; and

(F) anti-money laundering.

(c) For purposes of paragraph (b), "gross revenue" is defined as:

(1) total revenue as reported on FOCUS Form Part II or IIA (line item 4030) less commodities revenue (line item 3990), if applicable; or

(2) total revenue as reported on FOCUS Form Part II CSE (line item 4030) less, if applicable, (A) commissions on commodity transactions (line item 3991); and (B) commodities gains or losses (line items 3924 and 3904).

••• Supplementary Material:

.01 “Associated person.” For the purposes of this rule, the term “associated person” and “person associated with a member organization” shall have the same meaning as the terms “person associated with a member” or “associated person of a member” as defined in Article I (rr) of the FINRA By-Laws.

Rule 3150 - Equities. Holding of Customer Mail

(a) A member organization may hold mail for a customer who will not be receiving mail at his or her usual address, provided that:

(1) the member organization receives written instructions from the customer that include the time period during which the member organization is requested to hold the customer’s mail. If the requested time period included in the instructions is longer than three consecutive months (including any aggregation of time periods from prior requests), the customer’s instructions must include an acceptable reason for the request (e.g., safety or security concerns). Convenience is not an acceptable reason for holding mail longer than three months;

(2) the member organization:

(A) informs the customer in writing of any alternate methods, such as email or access through the member organization’s website, that the customer may use to receive or monitor account activity and information; and

(B) obtains the customer’s confirmation of the receipt of such information; and

(3) the member organization verifies at reasonable intervals that the customer’s instructions still apply.

(b) During the time that a member organization is holding mail for a customer, the member organization must be able to communicate with the customer in a timely manner to provide important account information (e.g., privacy notices, the SIPC information disclosures required by Rule 2266 - Equities), as necessary.

(c) A member organization holding a customer’s mail pursuant to this Rule must take actions reasonably designed to ensure that the customer’s mail is not tampered with, held without the customer’s consent, or used by an associated person of the member organization in any manner that would violate Exchange rules or the federal securities laws.

••• Supplementary Material:

.01 “Associated person.” For the purposes of this rule, the term “associated person” and “person associated with a member organization” shall have the same meaning as the terms “person associated with a member” or “associated person of a member” as defined in Article I (rr) of the FINRA By-Laws.

Rule 3170 - Equities. Tape Recording of Registered Persons by Certain Firms

(a) Definitions

(1) For purposes of this Rule, the term “registered person” means any person registered with the Exchange.

(2) For purposes of this Rule, the term “disciplined firm” means:

(A) a member organization that, in connection with sales practices involving the offer, purchase, or sale of any security, has been expelled from membership or participation in any securities industry self-regulatory organization or is subject to an order of the SEC revoking its registration as a broker-dealer;

(B) a futures commission merchant or introducing broker that has been formally charged by either the Commodity Futures Trading Commission or a registered futures association with deceptive telemarketing practices or promotional material relating to security futures, those charges have been resolved, and the futures commission merchant or introducing broker has been closed down and permanently barred from the futures industry as a result of those charges; or

(C) a futures commission merchant or introducing broker that, in connection with sales practices involving the offer, purchase, or sale of security futures is subject to an order of the SEC revoking its registration as a broker or dealer.

(3) For purposes of this Rule, the term “disciplinary history” means a finding of a violation by a registered person in the past five years by the SEC, a self-regulatory organization, or a foreign financial regulatory authority of one or more of the following provisions (or comparable foreign provision) or rules or regulations thereunder: violations of the types enumerated in Exchange Act Section 15(b)(4)(E); Exchange Act Section 15(c); Securities Act Section 17(a); SEA Rules 10b-5 and 15g-1 through 15g-9; NASD Rule 2110 (Standards of Commercial Honor and Principles of Trade) or FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade) or Rule 2010 - Equities (Standards of Commercial Honor and Principles of Trade) or NYSE MKT Rule 476(a)(6) (Failure to Observe High Standards of Commercial Honor and Just and Equitable Principles of Trade) (only if the finding of a violation of NASD Rule 2110, FINRA Rule 2010, Rule 2010 - Equities or NYSE MKT Rule 476(a)(6) is for unauthorized trading, churning, conversion, material

misrepresentations or omissions to a customer, front-running, trading ahead of research reports or excessive markups), FINRA Rule 5280 (Trading Ahead of Research Reports), NASD Rule 2120 (Use of Manipulative, Deceptive or Other Fraudulent Devices) or FINRA Rule 2020 (Use of Manipulative, Deceptive or Other Fraudulent Devices) or Rule 2020 - Equities (Use of Manipulative, Deceptive or Other Fraudulent Devices) or NYSE MKT Rule 476(a)(5) (effecting any transaction in, or inducing the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance), NASD Rule 2310 (Recommendations to Customers (Suitability)) or FINRA Rule 2111 (Suitability) or Rule 405 - Equities (Diligence as to Accounts), NASD Rule 2330 (Customers' Securities or Funds) or FINRA Rule 2150 (Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts) or Rule 2150 - Equities (Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts), NASD Rule 2440 (Fair Prices and Commissions), NASD Rule 3010 (Supervision) or FINRA Rule 3110 (Supervision) or Rule 3110 - Equities (Supervision) or NYSE MKT Rule 342 (Offices – Approval, Supervision and Control) (failure to supervise only for both NASD Rule 3010, FINRA Rule 3110, Rule 3110 - Equities or NYSE MKT Rule 342), NASD Rule 3310 (Publication of Transactions and Quotations) or FINRA Rule 5210 (Publication of Transactions and Quotations), and NASD Rule 3330 (Payment Designed to Influence Market Prices, Other than Paid Advertising) or FINRA Rule 5230 (Payments Involving Publications that Influence the Market Price of a Security); and MSRB Rules G-19, G-30, and G-37(b) & (c).

(4) For purposes of this Rule, the term “tape recording” includes without limitation, any electronic or digital recording that meets the requirements of this Rule.

(5) (A) For purposes of this Rule, the term “taping firm” means:

(i) A member organization with at least five but fewer than ten registered persons, where 40% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years;

(ii) A member organization with at least ten but fewer than twenty registered persons, where four or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years;

(iii) A member organization with at least twenty registered persons where 20% or more of its registered persons have been associated with one or more disciplined firms in a registered capacity within the last three years.

(B) For purposes of calculating the number of registered persons who have been associated with one or more disciplined firms in a registered capacity

within the last three years pursuant to this subparagraph (5), member organizations should not include registered persons who:

(i) have been registered for an aggregate total of 90 days or less with one or more disciplined firms within the past three years; and

(ii) do not have a disciplinary history.

(b) Supervisory Procedures Regarding the Tape Recording of Conversations

(1) Each member organization that either is notified by the Exchange or otherwise has actual knowledge that it is a taping firm shall establish, maintain, and enforce special written procedures for supervising the telemarketing activities of all of its registered persons.

(2) A taping firm required to establish, maintain, and enforce special written procedures pursuant to this paragraph must establish and implement the procedures within 60 days of receiving notice from the Exchange or obtaining actual knowledge that it is a taping firm.

(3) The procedures required by this paragraph shall include procedures for tape recording all telephone conversations between the taping firm's registered persons and both existing and potential customers and for reviewing the tape recordings to ensure compliance with applicable securities laws and regulations and applicable Exchange rules. The procedures must be appropriate for the taping firm's business, size, structure, and customers, and shall be maintained for a period of three years from the date that the taping firm establishes and implements the procedures.

(4) All tape recordings made pursuant to the requirements of this paragraph shall be retained for a period of not less than three years from the date the tape was created, the first two years in an easily accessible place. Each taping firm shall catalog the retained tapes by registered person and date.

(5) By the 30th day of the month following the end of each calendar quarter, each taping firm subject to the requirements of this paragraph shall submit to the Exchange a report on the taping firm's supervision of the telemarketing activities of its registered persons.

(c) A member organization that becomes a taping firm for the first time may reduce its staffing levels to fall below the threshold levels within 30 days after receiving notice from the Exchange pursuant to the provisions of paragraph (b)(1) or obtaining actual knowledge that it is a taping firm, provided the member organization promptly notifies the Exchange's Department of Member Regulation in writing of its becoming subject to the Rule. Once the member organization has reduced its staffing levels to fall below the threshold levels, it shall not rehire a person terminated to accomplish the staff reduction for a period of 180 days. On or prior to reducing staffing levels pursuant to this paragraph, a member organization must

provide the Exchange's Department of Member Regulation with written notice identifying the terminated person(s).

(d) The Exchange may, in exceptional circumstances, taking into consideration all relevant factors, exempt any taping firm unconditionally or on specified terms and conditions from the requirements of this Rule. A taping firm seeking an exemption must file a written application to the Exchange within 30 days after receiving notice from the Exchange or obtaining actual knowledge that it is a taping firm. A member organization that becomes a taping firm for the first time may elect to reduce its staffing levels pursuant to the provisions of paragraph (c) or, alternatively, to seek an exemption pursuant to paragraph (d), as appropriate. A taping firm may not seek relief from the Rule by both reducing its staffing levels pursuant to paragraph (c) and requesting an exemption.
