

ATTACHMENT B to *Regulatory Notice 09-70*

Below is the text of the proposed new FINRA Rules.

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1200. REGISTRATION AND QUALIFICATION

1210. Registration Requirements

(a) Persons Engaged in the Investment Banking or Securities Business of a Member

Each associated person engaged in the investment banking or securities business of a member shall be registered with FINRA as a principal or representative, pursuant to Rule 1230, in the category of registration appropriate to his or her functions and responsibilities, unless exempt from registration pursuant to Rule 1240. Such person shall not be qualified to function in any registered capacity other than that for which the person is registered, unless otherwise stated in the rules.

A person registered pursuant to this paragraph (a) shall be presumed to have an active registration with respect to such registration, unless FINRA is otherwise notified in a manner specified under paragraphs (b), (c) or (d) of this Rule that such registration is inactive.

(b) Persons Engaged in a Bona Fide Business Purpose of a Member

(1) A member may make application for or maintain the registration as a principal or representative, pursuant to Rule 1230, of any associated person of the member engaged in a bona fide business purpose of the member.

(2) A person registered solely pursuant to this paragraph (b) shall be deemed to have an inactive registration with respect to such registration upon

notification to FINRA of such registration status in a manner specified by FINRA. A member shall also notify FINRA when such inactive registration status has been terminated. Such person shall be an associated person for all purposes, but shall be considered a registered person only for purposes of the following FINRA provisions: FINRA By-Laws and Schedule A to the By-Laws; Forms U4 and U5; Rule 1200 Series; and NASD Rules 1120, 3010(a)(5) and 3010(a)(7). For purposes of compliance with NASD Rule 3010(a)(5), such person shall be appropriately supervised to ensure that such person is not engaged in any activities that would require registration under paragraph (a) of this Rule and is complying with the FINRA provisions set forth in this subparagraph (2).

(3) A person registered pursuant to both paragraphs (a) and (b) of this Rule shall be deemed to have active registrations with respect to all such registrations for purposes of paragraph (a) of this Rule and shall be an associated person and a registered person and subject to all applicable FINRA rules. Such person shall be appropriately supervised by a member to ensure that such person is not acting outside the scope of his or her assigned functions.

(4) Notwithstanding paragraph (b)(2) of this Rule, a person registered as a Compliance Officer as set forth in Rule 1230(a)(4) solely pursuant to this paragraph (b) (i.e., a person who is not required to register as a Compliance Officer) and who is not otherwise required to register in any other category of registration pursuant to Rule 1230 may have an active or inactive registration with respect to such registration, provided, however, that such person shall be engaged in compliance activities at the member to be eligible to have an active registration.

If a member elects to designate such person as having an active registration, such person shall be subject to the requirements of paragraph (b)(3) of this Rule. If a member elects to designate such person as having an inactive registration, such person shall be subject to the requirements of paragraph (b)(2) of this Rule.

(c) Persons Engaged in the Business of a Financial Services Industry

Affiliate of a Member

(1) A member may make application for or maintain the registration as a principal or representative, pursuant to Rule 1230, of any individual engaged in the business of a financial services industry affiliate of the member that controls, is controlled by or is under common control with the member, provided that such person is not registered concurrently pursuant to paragraphs (a) or (b) of this Rule.

A person registered pursuant to this paragraph (c) shall be designated as a Retained Associate and deemed to have an inactive registration with respect to such registration upon notification to FINRA of such registration status in a manner specified by FINRA. A member shall also notify FINRA when such inactive registration status has been terminated.

(2) A person may be designated as a Retained Associate with one or more members for a period not to exceed ten consecutive years commencing on the date the person is initially designated as a Retained Associate, subject to the following:

(A) If such person subsequently registers pursuant to paragraphs (a) or (b) of this Rule, such person shall be required to remain in such registration(s) for at least a consecutive twelve-month period to be eligible

for any years that may be remaining on the ten-year period set forth in this subparagraph (2). This twelve-month period may be divided among members subject to the requirements of subparagraph (2)(D);

(B) FINRA shall toll the ten-year period set forth in this subparagraph (2) for each day that such person is in active registration pursuant to paragraph (a) of this Rule, provided that the person is in active registration for at least a consecutive twelve-month period and FINRA is properly notified of such person's period of active registration. This twelve-month period may be divided among members subject to the requirements of subparagraph (2)(D);

(C) If such person subsequently engages in any other business activities instead of those that require registration pursuant to paragraph (a) of this Rule or permit registration pursuant to paragraph (b) of this Rule or this paragraph (c), such person shall forfeit any years that may be remaining on the ten-year period set forth in this subparagraph (2); and

(D) Such person shall have no more than thirty days following the submission of a Form U5 to register with another member pursuant to this paragraph (c), or paragraphs (a) or (b) of this Rule, to be eligible for any years that may be remaining on the ten-year period set forth in this subparagraph (2).

(3) A Retained Associate shall only be subject to the following FINRA provisions: FINRA By-Laws and Schedule A to the By-Laws; Forms U4 and U5; Rule 1200 Series; Rule 5130; Rule 8000 and 9000 Series; and NASD Rules 1120,

3010(a)(5), 3010(a)(7), 3050 and 3070. For purposes of compliance with NASD Rule 3010(a)(5), such person shall be appropriately supervised to ensure that while on Retained Associate status such person:

(A) is engaged in the business of the member's financial services industry affiliate;

(B) is not engaged in any activities that would require or permit registration under paragraphs (a) or (b) of this Rule, respectively; and

(C) is complying with the FINRA provisions set forth in this subparagraph (3).

(4) A person subject to a disqualification pursuant to Article III, Section 4 of the FINRA By-Laws shall not be eligible to be placed on, or remain in, a Retained Associate status.

(5) A person's Retained Associate status shall be forfeited unless such person and the member that designated such person as a Retained Associate are in compliance with this paragraph (c).

(6) The term "financial services industry" as used in this paragraph (c) means any industry regulated by the SEC, CFTC, state securities authorities, federal or state banking authorities, state insurance authorities, or substantially equivalent foreign regulatory authorities.

(d) Persons Serving in the Armed Forces of the United States

(1) Inactive Status of Currently Registered Persons

(A) A registered person of a member who volunteers for or is called into active duty in the Armed Forces of the United States shall be

placed, after proper notification to FINRA, on inactive status and need not be re-registered by such member upon his or her return to active employment with the member. Such person will remain eligible to receive transaction-related compensation, including continuing commissions. The employing member also may allow such person to enter into an arrangement with another registered person of the member to take over and service the person's accounts and to share transaction-related compensation based upon the business generated by such accounts. However, since such persons are inactive, they may not perform any of the functions and responsibilities performed by a registered person.

(B) A registered person who is placed on inactive status pursuant to this subparagraph (1) shall not be included within the definition of "Personnel" for purposes of the dues or assessments as provided in Article VI of the FINRA By-Laws.

(C) A registered person who is placed on inactive status pursuant to this subparagraph (1) shall not be required to complete either of the Regulatory or Firm Elements of the continuing education requirements set forth in NASD Rule 1120 during the pendency of such inactive status.

(D) The relief provided in subparagraphs (1)(A), (1)(B) and (1)(C) shall be available to a registered person who is placed on inactive status pursuant to this subparagraph (1) during the period that such person remains registered with the member with which he or she was registered at the beginning of active duty in the Armed Forces of the United States,

regardless of whether the person returns to active employment with another member upon completion of his or her active duty in the Armed Forces of the United States.

(E) The relief described in this subparagraph (1) will be provided only to a person registered with a member and only while the person remains on active military duty. The member with which such person is registered shall promptly notify FINRA in such manner as FINRA may specify of such person's return to active employment with the member.

(2) Inactive Status of Sole Proprietorships

(A) A member that is a sole proprietor who temporarily closes his or her business by reason of volunteering for or being called into active duty in the Armed Forces of the United States, shall be placed, after proper notification to FINRA, on inactive status while the member remains on active military duty.

(B) A sole proprietor member placed on inactive status as set forth in this subparagraph (2) shall not be required to pay dues or assessments during the pendency of such inactive status and shall not be required to pay an admission fee upon return to active participation in the investment banking or securities business.

(C) The relief described in this subparagraph (2) will be provided only to a sole proprietor member and only while the person remains on active military duty. The sole proprietor shall promptly notify FINRA in

such manner as FINRA may specify of his or her return to active participation in the investment banking or securities business.

(3) Status of Formerly Registered Persons

(A) If a person who is currently not registered with a member volunteers for or is called into active duty in the Armed Forces of the United States at any time within two years after the date the person ceases to be registered with a member, FINRA will defer the lapse of registration requirements set forth in Rule 1220(f) (i.e., toll the two-year expiration provisions for qualification examination requirements). FINRA will defer the lapse of registration requirements commencing on the date the person begins actively serving in the Armed Forces of the United States, provided that FINRA is properly notified of the person's period of active military service within 90 days following his or her completion of active service or upon his or her re-registration with a member, whichever occurs first. The deferral will terminate 90 days following the person's completion of active service in the Armed Forces of the United States. Accordingly, if such person does not re-register with a member within 90 days following his or her completion of active service in the Armed Forces of the United States, the amount of time in which the person must become re-registered with a member without being subject to the qualification examination requirements shall consist of the standard two-year period provided in Rule 1220(f) reduced by the period of time between the person's

termination of registration and beginning of active service in the Armed Forces of the United States.

(B) If a person placed on inactive status while serving in the Armed Forces of the United States ceases to be registered with a member, FINRA will defer the lapse of registration requirements set forth in Rule 1220(f) (i.e., toll the two-year expiration provisions for qualification examination requirements) during the pendency of his or her active service in the Armed Forces of the United States. FINRA will defer the lapse of registration requirements based on existing information in the Central Registration Depository, provided that FINRA is properly notified of the person's period of active military service within two years following his or her completion of active service or upon his or her re-registration with a member, whichever occurs first. The deferral will terminate 90 days following the person's completion of active service in the Armed Forces of the United States. Accordingly, if such person does not re-register with a member within 90 days following his or her completion of active service in the Armed Forces of the United States, the amount of time in which the person must become re-registered with a member without being subject to the qualification examination requirements shall consist of the standard two-year period provided in Rule 1220(f).

(e) Requirement of Two Registered Principals

(1) Each member, except a member with only one associated person, shall have at least two officers or partners who are registered as General Securities

Principals pursuant to Rule 1230(a)(2)(A) and who have satisfied the prerequisite requirements of Rule 1230(a)(2)(B)(i). However, if a member's business is limited to investment company and variable contracts products or direct participation programs as defined in Rule 1230(a)(9)(A), the requirement of this paragraph (e)(1) shall be satisfied if such member has at least two officers or partners who are registered as Investment Company and Variable Contracts Products Principals or Direct Participation Programs Principals, respectively, pursuant to Rule 1230. The requirement of this paragraph (e)(1) applies to persons seeking admission as members and existing members.

(2) Pursuant to the Rule 9600 Series, FINRA may waive the requirement of paragraph (e)(1) of this Rule in situations that indicate conclusively that only one person associated with an applicant for membership or existing member should be required to register as a principal.

(3) In addition to the requirement of paragraph (e)(1) of this Rule, an applicant for membership or existing member shall have at least one person registered pursuant to Rules 1230(a)(4)(A) and (a)(5)(A) and shall have person(s) registered pursuant to Rule 1230(a)(5)(B). An applicant for membership or existing member, if the nature of its business so requires, shall also have at least one person registered as a General Securities Principal pursuant to Rule 1230(a)(2)(A) and who has satisfied the prerequisite requirements of Rule 1230(a)(2)(B)(ii) and at least one person registered pursuant to Rules 1230(a)(3) and (a)(6).

(f) Responsibility of Member to Investigate Applicants for Registration

Each member shall ascertain by investigation the good character, business reputation, qualifications and experience of an applicant before the member applies to register that applicant with FINRA.

If the applicant previously has been registered with FINRA, the member shall review a copy of the applicant's most recent Form U5, including any amendments thereto, within 60 days of the filing date of an application for registration, or demonstrate to FINRA that it has made reasonable efforts to do so. In conducting its review of the Form U5, the member shall take such action as may be deemed appropriate.

The member shall also review an applicant's employment experience to determine if the applicant has been recently employed by a Futures Commission Merchant or an Introducing Broker that is notice-registered with the SEC pursuant to Section 15(b)(11) of the Exchange Act. In such a case, the member shall also review a copy of the applicant's most recent CFTC Form 8-T, including any amendments thereto, within 60 days of the filing date of an application for registration, or demonstrate to FINRA that it has made reasonable efforts to do so. In conducting its review of a Form 8-T, the member shall take such action as may be deemed appropriate.

(g) Impermissible Registrations

A member shall not:

(1) make application for the registration of any person unless:

(A) the member intends to associate with such person in the member's investment banking or securities business pursuant to paragraph (a) of this Rule or for a bona fide business purpose of the member pursuant to paragraph (b) of this Rule; or

(B) the person is engaged in the business of a financial services industry affiliate of the member pursuant to paragraph (c) of this Rule; and

(2) maintain the registration of any person unless such registration is in accordance with paragraphs (g)(1)(A) or (g)(1)(B) above or the person is serving in the Armed Forces of the United States pursuant to paragraph (d) of this Rule.

1220. Qualification Examination Requirements and Waiver of Requirements

(a) Requirement to Pass an Examination

Before the registration of a person can become effective under Rule 1210, such person shall pass a qualification examination, including any applicable prerequisite examination(s), appropriate to the category of registration pursuant to Rule 1230, unless such person is granted a waiver from such requirements pursuant to paragraph (c) of this Rule or is registered solely for purposes of Rules 1230(b)(6) or 1230(b)(8).

(b) General Examination Information

Qualification examinations shall consist of a series of questions based upon topics contained in content outlines provided by FINRA, a list of which is available from the Testing and Continuing Education Department. Examinations shall be given at such times and places and under such conditions as shall be prescribed by the Board of Governors, or its designee, and shall be scored according to the procedure approved by the Board, or its designee. Examination results shall be reported to members and may be accompanied by an analysis of the candidate's performance on the examination. Passing scores assigned to each qualification examination shall be approved by the Board of Governors, or its designee.

(c) Waiver of Examination Requirements

Pursuant to the Rule 9600 Series, FINRA may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. Age or disability will not individually of themselves constitute sufficient grounds to waive a qualification examination. Experience in fields ancillary to the investment banking or securities business may constitute sufficient grounds to waive a qualification examination.

(d) Retaking Failed Examinations

Any person who fails to pass a qualification examination prescribed by FINRA shall be permitted to take the examination again after a period of 30 calendar days has elapsed from the date of the prior examination, except that any person who fails to pass an examination three or more times in succession shall be prohibited from again taking such examination until a period of 180 calendar days has elapsed from the date of such person's last attempt to pass the examination.

(e) Confidentiality of Examinations

FINRA considers all of its qualification examinations to be highly confidential. The removal of examination content from an examination center, reproduction, disclosure, receipt from or passing to any person, or use for study purposes of any portion of such qualification examination or any other use that would compromise the effectiveness of the examinations and the use in any manner and at any time of the questions or answers to the examinations are prohibited and are deemed to be a violation of Rule 2010. An applicant cannot receive assistance while taking the examination and shall certify that no assistance was given to or received by him or her during the examination.

(f) Requirements for Examination on Lapse of Registration

Any person whose registration has been revoked pursuant to Rule 8310 or whose most recent registration as a principal or representative has been terminated for a period of two or more years immediately preceding the date of receipt by FINRA of a new application shall be required to pass a qualification examination for principal or representative appropriate to his or her category of registration pursuant to Rule 1230, unless such person is granted a waiver from such requirements pursuant to paragraph (c) of this Rule or is registering solely for purposes of Rules 1230(b)(6) or 1230(b)(8).

(g) Requirements for Representatives Functioning as Principals for a Limited Period

Subject to the requirements of Rule 1230.03, any person currently registered, or who becomes registered, with a member as a representative who is designated by the member to function as a principal and who has been registered as a representative in active registration pursuant to Rule 1210(a) for at least 18 months within five years immediately preceding such designation shall be allowed a period of 120 calendar days to pass the applicable principal qualification examination specified under Rule 1230, provided that such person has fulfilled all applicable prerequisite registration, fee and examination requirements prior to his or her designation as a principal. Such a representative may function as a principal for the member during the 120 calendar day period prior to passing the applicable principal qualification examination. However, in no event may such person function as a principal beyond the initial 120 calendar day period without having successfully passed the applicable principal qualification examination specified under Rule 1230.

A person registered as an Order Processing Assistant Representative or a person registered solely as a Proctor, Securities Lending Representative or Securities Lending Supervisor, pursuant to Rule 1230, shall not be eligible to be designated as a principal pursuant to this paragraph (g).

1230. Registration Categories

(a) Definition of Principal and Principal Registration Categories

(1) Definition of Principal

A “principal” is any person associated with a member, including, but not limited to, sole proprietor, officer, partner, manager of office of supervisory jurisdiction, director or other person occupying a similar status or performing similar functions, who is actively engaged in the management of the member’s investment banking or securities business, such as supervision, solicitation, conduct of business in securities or the training of persons associated with a member for any of these functions. Such persons shall include, among other persons, a member’s chief executive officer and chief financial officer (or equivalent officers).

A “principal” also includes any other person associated with a member who is performing functions or carrying out responsibilities that are required to be performed or carried out by a principal under the FINRA rules.

The term “actively engaged in the management of the member’s investment banking or securities business” includes the management of, and the implementation of corporate policies related to, such business. The term also includes managerial decision-making authority with respect to the member’s

investment banking or securities business and management-level responsibilities for supervising any aspect of such business, such as serving as a voting member of the member's executive, management or operations committees.

(2) General Securities Principal

(A) Requirement

Subject to the limitations in paragraph (a)(2)(C) of this Rule, each principal as defined in paragraph (a)(1) of this Rule shall be required to register with FINRA as a General Securities Principal and shall pass an appropriate qualification examination before such registration may become effective.

Subject to the requirements of Rule 1210(e)(1), if a principal's activities are limited to one or more of the functions specified in paragraphs (a)(5) through (a)(11) of this Rule, then such person shall register in such limited category and shall not be required to also register as a General Securities Principal. Such person is not, however, precluded from registering as a General Securities Principal.

(B) Prerequisite

(i) Each person seeking to register as a General Securities Principal shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

(ii) Each person seeking to register as a General Securities Principal who will have supervisory responsibility over investment banking activities described in paragraph (b)(5) of this Rule shall also, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(5) of this Rule, as an Investment Banking Representative.

(C) Limitation

A person registered solely as a General Securities Principal shall not be qualified to function as a Research Principal, Financial and Operations Principal; Introducing Broker-Dealer Financial and Operations Principal; Principal Financial Officer; Principal Operations Officer; Registered Options Principal; General Securities Sales Supervisor; Municipal Securities Principal; or Municipal Fund Securities Limited Principal, unless that person is also qualified and registered as such.

A person registered as a Corporate Securities Representative or Private Securities Offerings Representative pursuant to paragraphs (b)(11) and (b)(13) of this Rule, respectively, shall be deemed to have satisfied the prerequisite registration requirements for a General Securities Principal. However, such person may only have supervisory responsibility over the activities specified in paragraphs (b)(11) and (b)(13), as applicable.

(3) Research Principal

(A) Requirement

Subject to the exceptions in paragraph (a)(3)(C) of this Rule, each principal as defined in paragraph (a)(1) of this Rule who is responsible for approving research reports or who is responsible for supervising the overall conduct of a Research Analyst pursuant to paragraph (b)(3) of this Rule or a Supervisory Analyst pursuant to paragraph (a)(11) of this Rule shall be required to register with FINRA as a Research Principal and shall pass either the General Securities Principal and Research Analyst qualification examinations or the General Securities Principal and Supervisory Analyst qualification examinations before such registration may become effective.

(B) Prerequisite

Each person seeking to register as a Research Principal shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

(C) Exception

A person who has been registered as a Research Principal immediately prior to [insert effective date of proposed rule change] shall not be subject to the qualification examination requirements of paragraph (a)(3)(A) of this Rule.

In addition, a registered principal responsible for reviewing and approving third-party research reports pursuant to NASD Rule

2711(h)(13)(C), a registered principal responsible for reviewing research reports for compliance with the disclosure provisions of NASD Rule 2711 or a Supervisory Analyst engaged in the activities specified in paragraph (a)(11) of this Rule shall not be subject to the requirements of this paragraph (a)(3).

(4) Compliance Officer

(A) Requirement

Subject to the exceptions in paragraph (a)(4)(C) of this Rule, each person designated as a Chief Compliance Officer on Schedule A of Form BD as required pursuant to Rule 3130(a) shall be required to register with FINRA as a Compliance Officer and shall pass the Compliance Officer qualification examination before such registration may become effective.

(B) Prerequisite

Each person seeking to register as a Compliance Officer shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

(C) Exception

A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD as required pursuant to Rule 3130(a), or registered as a Compliance Official, immediately prior to [insert effective date of proposed rule change] shall be qualified to register as a

Compliance Officer without having to pass the Compliance Officer qualification examination.

A person designated as a Chief Compliance Officer on Schedule A of Form BD as required pursuant to Rule 3130(a) after [insert effective date of proposed rule change], but before the introduction of the Compliance Officer qualification examination shall be required to pass the General Securities Principal qualification examination and the prerequisite requirements of paragraph (a)(2)(B)(i) of this Rule to qualify to register as a Compliance Officer. Such person shall not be required to pass the Compliance Officer qualification examination after its introduction.

A person who has passed the General Securities Principal qualification examination and the prerequisite requirements of paragraph (a)(2)(B)(i) of this Rule and has earned the FINRA Institute at Wharton Certified Regulatory and Compliance ProfessionalTM designation shall be qualified to register as a Compliance Officer without having to pass the Compliance Officer qualification examination.

(5) Financial and Operations Principal and Introducing Broker-

Dealer Financial and Operations Principal

(A) Requirement

Each member that is operating pursuant to the provisions of SEA Rules 15c3-1(a)(1)(ii), (a)(2)(i) or (a)(8), shall designate a Financial and Operations Principal. Each member subject to the requirements of SEA Rule 15c3-1, other than a member operating pursuant to SEA Rules 15c3-

1(a)(1)(ii), (a)(2)(i) or (a)(8), shall designate either a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal.

A Financial and Operations Principal and an Introducing Broker-Dealer Financial and Operations Principal shall be responsible for performing the following duties:

- (i) final approval and responsibility for the accuracy of financial reports submitted to any duly established securities industry regulatory body;
- (ii) final preparation of such reports;
- (iii) supervision of individuals who assist in the preparation of such reports;
- (iv) supervision of and responsibility for individuals who are involved in the actual maintenance of the member's books and records from which such reports are derived;
- (v) supervision and performance of the member's responsibilities under all financial responsibility rules promulgated pursuant to the provisions of the Exchange Act;
- (vi) overall supervision of and responsibility for the individuals who are involved in the administration and maintenance of the member's back office operations; or
- (vii) any other matter involving the financial and operational management of the member.

A person required to register with FINRA as a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal shall pass the Financial and Operations Principal qualification examination or Introducing Broker-Dealer Financial and Operations Principal qualification examination, respectively, before such registration may become effective.

A person who is currently qualified as a Financial and Operations Principal or is registered as such shall be qualified for registration as an Introducing Broker-Dealer Financial and Operations Principal and shall not be required to take the Introducing Broker-Dealer Financial and Operations Principal qualification examination before such registration may become effective.

(B) Designation and Registration of Principal Financial Officer and Principal Operations Officer

Each member shall designate a:

(i) Principal Financial Officer with primary responsibility for financial filings and those books and records related to such filings; and

(ii) Principal Operations Officer with primary responsibility for the day-to-day operations of the member's business, including overseeing the receipt and delivery of securities and funds, safeguarding customer and member assets, calculation and collection of margin from customers and

processing dividend receivables and payables and reorganization redemptions and those books and records related to such activities.

Each person designated as a Principal Financial Officer or Principal Operations Officer shall be required to register with FINRA as a Financial and Operations Principal or an Introducing Broker-Dealer Financial and Operations Principal pursuant to paragraph (a)(5)(A) of this Rule and shall pass the Financial and Operations Principal qualification examination or Introducing Broker-Dealer Financial and Operations Principal qualification examination, respectively, before such registration may become effective.

Each member that self-clears, or that clears for other firms, shall be required to designate separate persons to function as Principal Financial Officer and Principal Operations Officer. Such persons may also carry out the other responsibilities of a Financial and Operations Principal specified in paragraph (a)(5)(A) of this Rule. If such member is limited in size and resources, it may, pursuant to the Rule 9600 Series, request a waiver of the requirement to designate separate persons to function as Principal Financial Officer and Principal Operations Officer.

Each member that is an introducing member may designate the same person to function as Financial and Operations Principal (or Introducing Broker-Dealer Financial and Operations Principal), Principal Financial Officer and Principal Operations Officer.

(6) Registered Options Principal

(A) Requirement

Each member that is engaged in transactions in options with the public shall have at least one Registered Options Principal who shall have satisfied the requirements of this paragraph (a)(6). In addition, each associated person engaged in the supervision of options sales practices with the public, including a person designated pursuant to NASD Rule 3010(a)(2), shall be registered as a Registered Options Principal pursuant to this paragraph (a)(6), or a General Securities Sales Supervisor pursuant to paragraph (a)(10) of this Rule with respect to those activities that may be supervised by a General Securities Sales Supervisor pursuant to Rule 2360.

A person required to register with FINRA as a Registered Options Principal shall pass the Registered Options Principal qualification examination before his or her registration may become effective.

(B) Prerequisite

Subject to the exception in paragraph (a)(6)(C) of this Rule, each person required to register as a Registered Options Principal shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

(C) Exception

A person who has been registered as a Registered Options Principal immediately prior to [insert effective date of proposed rule change] shall not be subject to the prerequisite qualification examination requirements of paragraph (a)(6)(B) of this Rule.

(7) Government Securities Principal

(A) Requirement

Each principal as defined in paragraph (a)(1) of this Rule shall be registered as a Government Securities Principal if such person is:

- (i) engaged in the management or supervision of the member's government securities business, including:
 - a. underwriting, trading or sales of government securities;
 - b. financial advisory or consultant services for issuers in connection with the issuance of government securities;
 - c. research or investment advice, other than general economic information or advice, with respect to government securities in connection with the activities described in subparagraphs a. and b. above;
 - d. activities other than those specifically described above that involve communication, directly or indirectly, with public investors in government securities in

connection with the activities described in subparagraphs a.
and b. above; or

(ii) responsible for supervision of:

a. the processing and clearance activities with
respect to government securities; or

b. the maintenance of records involving any of the
activities described in paragraph (a)(7)(A)(i) above.

A person registered as a General Securities Principal who has
satisfied the General Securities Representative, United Kingdom
Securities Representative or Canada Securities Representative prerequisite
registration or who is also registered as a Government Securities
Representative, shall be qualified to function as a Government Securities
Principal pursuant to this paragraph (a)(7), without having to register
separately in such category.

(B) Prerequisite

Each person seeking to register as a Government Securities
Principal shall, prior to or concurrent with such registration, become
registered, pursuant to paragraph (b)(2) of this Rule, as a General
Securities Representative, United Kingdom Securities Representative or
Canada Securities Representative or, pursuant to paragraph (b)(12) of this
Rule, as a Government Securities Representative.

(8) Investment Company and Variable Contracts Products Principal

(A) Principals Engaged in Limited Activities

Each principal as defined in paragraph (a)(1) of this Rule may register with FINRA as an Investment Company and Variable Contracts Products Principal if his or her activities in the investment banking or securities business are limited to the solicitation, purchase or sale of:

- (i) redeemable securities of companies registered pursuant to the Investment Company Act;

- (ii) securities of closed-end companies registered pursuant to the Investment Company Act during the period of original distribution only; or,

- (iii) variable contracts and insurance premium funding programs and other contracts issued by an insurance company except contracts that are exempt securities pursuant to Section 3(a)(8) of the Securities Act.

Such person shall pass an appropriate qualification examination before such registration may become effective.

A person registered as a General Securities Principal who has satisfied the General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative prerequisite registration shall be qualified to function as an Investment Company and Variable Contracts Products Principal pursuant to this paragraph (a)(8), without having to register separately in such category.

(B) Prerequisite

Each person seeking to register as an Investment Company and Variable Contracts Products Principal shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative or, pursuant to paragraph (b)(9) of this Rule, as an Investment Company and Variable Contracts Products Representative.

(9) Direct Participation Programs Principal

(A) Principals Engaged in Limited Activities

Each principal as defined in paragraph (a)(1) of this Rule may register with FINRA as a Direct Participation Program Principal if his or her activities in the investment banking or securities business are limited to the equity interests in or the debt of direct participation programs as defined in this paragraph (a)(9)(A).

“Direct participation programs” shall mean programs that provide for flow-through tax consequences regardless of the structure of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, cattle programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof. Excluded from this definition are real estate investment trusts, tax qualified pension and profit sharing plans pursuant to Sections 401 and 403(a) of the Internal Revenue Code (“Code”) and individual retirement

plans under Section 408 of the Code, tax sheltered annuities pursuant to the provisions of Section 403(b) of the Code and any company including separate accounts registered pursuant to the Investment Company Act. Also excluded from this definition is any program that is listed on a national securities exchange or any program for which an application for listing on a national securities exchange has been made.

Such person shall pass an appropriate qualification examination before such registration may become effective.

A person registered as a General Securities Principal who has satisfied the General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative prerequisite registration shall be qualified to function as a Direct Participation Program Principal pursuant to this paragraph (a)(9), without having to register separately in such category.

(B) Prerequisite

Each person seeking to register as a Direct Participation Program Principal shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative or, pursuant to paragraph (b)(10) of this Rule, as a Direct Participation Programs Representative.

(10) General Securities Sales Supervisor

(A) Principals Engaged in Limited Activities

Subject to the limitations in paragraph (a)(10)(C) of this Rule, each principal as defined in paragraph (a)(1) of this Rule may register with FINRA as a General Securities Sales Supervisor if his or her supervisory responsibilities in the investment banking or securities business are limited to the securities sales activities of a member, including the approval of customer accounts, training of sales and sales supervisory personnel and the maintenance of records of original entry or ledger accounts of the member required to be maintained in branch offices by SEA record-keeping rules.

Such person shall pass an appropriate qualification examination before such registration may become effective.

(B) Prerequisite

Each person seeking to register as a General Securities Sales Supervisor shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative.

(C) Limitation

A person registered solely as a General Securities Sales Supervisor shall not be qualified to perform for a member any of the following activities:

- (i) supervision of the origination and structuring of underwritings;
- (ii) supervision of market making commitments;

(iii) supervision of the custody of firm or customer funds or securities for purposes of SEA Rule 15c3-3; or

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

(11) Supervisory Analyst

(A) Principals Engaged in Limited Activities

Each principal as defined in paragraph (a)(1) of this Rule may register with FINRA as a Supervisory Analyst if his or her activities in the investment banking or securities business are limited to approving research reports pursuant to paragraph (b)(3)(D) of this Rule, NASD Rule 2210(b)(1)(B) and NASD Rule 2711(h)(13)(C).

Such person shall pass the Supervisory Analyst qualification examination before such registration may become effective.

The activities of a Supervisory Analyst shall be supervised by a Research Principal pursuant to paragraph (a)(3) of this Rule.

(B) Examination Waiver

Upon written request pursuant to the Rule 9600 Series, FINRA will grant a waiver from the securities analysis portion (Part II) of the Supervisory Analyst qualification examination upon verification that the applicant has passed Level I of the Chartered Financial Analyst (“CFA”) Examination.

(b) Definition of Representative and Representative Registration Categories

(1) Definition of Representative

A “representative” is any person associated with a member, including assistant officers other than principals, who is engaged in the member’s investment banking or securities business, such as supervision, solicitation, conduct of business in securities or the training of persons associated with a member for any of these functions.

(2) General Securities Representative

Requirement

Each representative as defined in paragraph (b)(1) of this Rule shall be required to register with FINRA as a General Securities Representative and shall pass an appropriate qualification examination before such registration may become effective.

If a representative’s activities are limited to one or more of the functions specified in paragraphs (b)(4) through (b)(13) of this Rule, then such person shall register in such limited category and shall not be required to also register as a General Securities Representative. Such person is not, however, precluded from registering as a General Securities Representative.

A person who is authorized or approved to conduct business in accordance with the requirements of the United Kingdom’s Financial Services Authority, having passed the appropriate United Kingdom qualification examinations as specified by FINRA, and having passed the Modified General Securities Representative qualification examination

shall be qualified to be registered as a United Kingdom Securities Representative and may perform the same functions as a General Securities Representative, except that such person's activities in the investment banking or securities business may not involve the solicitation, purchase or sale of municipal securities as defined in Section 3(a)(29) of the Exchange Act.

A person presently registered and in good standing as a representative with any Canadian stock exchange, or with a securities regulator of any Canadian Province or Territory, or with the Investment Industry Regulatory Organization of Canada, who has completed the training course of the Canadian Securities Institute, and who has passed the Canada Module of the General Securities Representative qualification examination, shall be qualified to be registered as a Canada Securities Representative and may perform the same functions as a General Securities Representative, except that such person's activities may not involve the solicitation, purchase or sale of municipal securities as defined in Section 3(a)(29) of the Exchange Act.

(3) Research Analyst

(A) Requirement

Each person associated with a member who is to function as a research analyst as defined in this paragraph (b)(3)(A) shall be required to register with FINRA as a Research Analyst and pass the Research Analyst qualification examination before such registration may become effective.

For the purposes of this paragraph (b)(3), “research analyst” shall mean an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report and “research report” shall have the same meaning as in NASD Rule 2711(a)(9).

(B) Examination Waiver

Upon written request pursuant to the Rule 9600 Series, FINRA will grant a waiver from the analytical portion of the Research Analyst qualification examination (Series 86) upon verification that the applicant has passed:

- (i) Levels I and II of the CFA Examination; or
- (ii) if the applicant functions as a research analyst who prepares only technical research reports as defined in this paragraph (b)(3)(B), Levels I and II of the Chartered Market Technician (“CMT”) Examination; and
- (iii) has either functioned as a research analyst continuously since having passed the Level II CFA or CMT examination or applied for registration as a research analyst within two years of having passed the Level II CFA or CMT examination.

For the purposes of this paragraph (b)(3)(B), a “technical research report” shall mean a research report, as that term is defined in NASD Rule 2711(a)(9), that is based solely on stock price movement and trading volume and not on the subject company’s financial information, business

prospects, contact with subject company's management, or the valuation of a subject company's securities.

(C) Prerequisite

Each person seeking to register as a Research Analyst shall, prior to or concurrent with such registration, become registered, pursuant to paragraph (b)(2) of this Rule, as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

An applicant who has been granted an exemption pursuant to paragraph (b)(3)(B) of this Rule still must become registered as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative and then complete the regulatory portion of the Research Analyst Qualification Examination (Series 87) before that applicant can be registered as a Research Analyst.

(D) Foreign Research Analyst Exception

The requirements of paragraph (b)(3)(A) of this Rule shall not apply to an associated person who:

- (i) is an employee of a non-member foreign affiliate of a member ("foreign research analyst"),
- (ii) resides outside the United States, and
- (iii) contributes, partially or entirely, to the preparation of globally branded or foreign affiliate research reports but does not

contribute to the preparation of a member's research, including a mixed-team report, that is not globally branded.

Provided that the following conditions are satisfied:

a. A member that publishes or otherwise distributes globally branded research reports partially or entirely prepared by a foreign research analyst must subject such research to pre-use review and approval by a Research Principal pursuant to paragraph (a)(3) of this Rule or a Supervisory Analyst pursuant to paragraph (a)(11) of this Rule. In addition, the member must ensure that such research reports comply with NASD Rule 2711, as applicable.

b. In publishing or otherwise distributing globally branded research reports partially or entirely prepared by a foreign research analyst, a member must prominently disclose:

1. each affiliate contributing to the research report;
2. the names of the foreign research analysts employed by each contributing affiliate;
3. that such research analysts are not registered/qualified as research analysts with FINRA; and

4. that such research analysts may not be associated persons of the member and therefore may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

c. The disclosures required by paragraph (b)(3)(D)(iii)b. of this Rule must be presented on the front page of the research report or the front page must refer to the page on which the disclosures can be found. In electronic research reports, a member may hyperlink to the disclosures. References and disclosures must be clear, comprehensive and prominent.

d. Members must establish and maintain records that identify those individuals who have availed themselves of this exemption, the basis for such exemption, and evidence of compliance with the conditions of the exemption. Failure to establish and maintain such records shall create an inference of a violation of this paragraph (b)(3). Members must also establish and maintain records that evidence compliance with the applicable content, disclosure and supervision provisions of NASD Rule 2711. Members must maintain these records in accordance with

the supervisory requirements of NASD Rule 3010, and in addition to such requirement, the failure to establish and maintain such records shall create an inference of a violation of the applicable content, disclosure and supervision provisions of NASD Rule 2711.

e. Nothing in this paragraph (b)(3)(D) shall affect the obligation of any person or broker-dealer, including a foreign broker-dealer, to comply with the applicable provisions of the federal securities laws, rules and regulations and any self-regulatory organization rules.

f. The fact that a foreign research analyst avails himself of the exemption in this paragraph (b)(3)(D) shall not be probative of whether that individual is an associated person of the member for other purposes, including whether the foreign research analyst is subject to the NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

g. A member that distributes non-member foreign affiliate research reports that are clearly and prominently labeled as such must comply with the third-party research report requirements in NASD Rule 2711(h)(13).

h. For the purposes of the exemption in this paragraph (b)(3)(D), the terms “affiliate,” “globally branded research report” and “mixed-team research report” shall have the following meanings:

1. “Affiliate” shall mean a person that directly or indirectly controls, is controlled by, or is under common control with, a member.

2. “Globally branded research report” refers to the use of a single marketing identity that encompasses the member and one or more of its affiliates.

3. “Mixed-team research report” refers to any member research report that is not globally branded and includes a contribution by a research analyst who is not an associated person of the member.

(4) Equity Trader

(A) Requirement

Each representative as defined in paragraph (b)(1) of this Rule shall be required to register with FINRA as an Equity Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or

the direct supervision of such activities, other than any person associated with a member whose trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act and that controls, is controlled by or is under common control, with the member.

A person required to register with FINRA as an Equity Trader shall pass the Equity Trader qualification examination before such registration may become effective.

(B) Prerequisite

Each person seeking to register as an Equity Trader shall, prior to or concurrent with such registration, become registered pursuant to paragraph (b)(2) of this Rule as a General Securities Representative, United Kingdom Securities Representative, Canada Securities Representative or pursuant to paragraph (b)(11) of this Rule as a Corporate Securities Representative.

(5) Investment Banking Representative

(A) Requirement

Subject to the exceptions in paragraph (b)(5)(B) of this Rule, each representative as defined in paragraph (b)(1) of this Rule shall be required to register with FINRA as an Investment Banking Representative if such person's activities involve:

- (i) advising on or facilitating debt or equity securities offerings through a private placement or a public offering,

including but not limited to origination, underwriting, marketing, structuring, syndication, and pricing of such securities and managing the allocation and stabilization activities of such offerings, or

(ii) advising on or facilitating mergers and acquisitions, tender offers, financial restructurings, asset sales, divestitures or other corporate reorganizations or business combination transactions, including but not limited to rendering a fairness, solvency or similar opinion.

A person required to register with FINRA as an Investment Banking Representative shall pass the Investment Banking Representative qualification examination before such registration may become effective.

(B) Exception

(i) An associated person shall not be required to register as an Investment Banking Representative if such person's activities described in paragraph (b)(5)(A) of this Rule are limited to:

- a. advising on or facilitating the placement of direct participation program securities as defined in paragraph (a)(9)(A) of this Rule;
- b. effecting private securities offerings as defined in paragraph (b)(13) of this Rule; or
- c. retail or institutional sales and trading activities.

(ii) An associated person who participates in a new employee training program conducted by a member shall not be required to register as an Investment Banking Representative for a period of up to six months from the time the associated person first engages within the program in activities described in paragraph (b)(5)(A) of this Rule, but in no event more than two years after commencing participation in the training program. This exception is conditioned upon the member maintaining records that:

a. evidence the existence and details of the training program, including but not limited to its scope, length, eligible participants and administrator; and

b. identify those participants whose activities otherwise would require registration as an Investment Banking Representative and the date on which each participant commenced such activities.

(iii) Any person who was registered with FINRA as a Corporate Securities Representative pursuant to paragraph (b)(11) of this Rule or as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative pursuant to paragraph (b)(2) of this Rule prior to [effective date of the proposed rule change], shall be qualified to be registered as an Investment Banking Representative without first passing the Investment Banking Representative qualification

examination, provided that such person requests registration as an Investment Banking Representative within the time period prescribed by FINRA.

(6) Securities Lending Representative and Supervisor

Requirement

Each person associated with a member who has discretion to commit the member to any contract or agreement (written or oral) involving securities lending or borrowing activities with any other person and the direct supervisor of such associated person shall be required to register with FINRA by filing a Form U4 as a Securities Lending Representative and Securities Lending Supervisor, respectively, but shall not be required to pass a qualification examination.

(7) Order Processing Assistant Representative

(A) Requirement

Each person associated with a member whose sole function as a registered person is to accept unsolicited customer orders for submission for execution by the member shall be required to register with FINRA as an Order Processing Assistant Representative and shall pass the Order Processing Assistant Representative qualification examination before such registration may become effective.

However, a person associated with a member whose sole function as a registered person is to accept unsolicited customer orders for submission for execution by the member shall not be precluded from

registering as a General Securities Representative or in another representative registration category appropriate to his or her functions. If such person registers as a General Securities Representative or in another appropriate representative registration category, such person shall not be permitted to register as an Order Processing Assistant Representative.

(B) Limitation

An Order Processing Assistant Representative may not solicit transactions or new accounts on behalf of the member, render investment advice, make recommendations to customers regarding the appropriateness of securities transactions, effect transactions in securities markets on behalf of the member or accept customer orders for municipal securities and direct participation programs as defined in paragraph (a)(9)(A) of this Rule.

An Order Processing Assistant Representative shall not be precluded from registering as a General Securities Representative or in another registration category appropriate to his or her functions. However, upon registration in such other category, such person's registration as an Order Processing Assistant Representative shall be terminated.

Members may only compensate Order Processing Assistant Representatives on an hourly wage or salaried basis and may not in any way, directly or indirectly, relate their compensation to the number or size of transactions effected for customers. This provision shall not prohibit persons registered in this capacity from receiving bonuses or other

compensation based on a member's profit sharing plan or similar arrangement.

The activities of Order Processing Assistant Representatives may only be conducted at a business location of the member that is under the direct supervision of an appropriately registered principal.

(8) Proctors of In-Firm Delivery of Regulatory Element

(A) Requirement

Each person associated with a member who is designated as a Proctor pursuant to NASD Rule 1120 for the purposes of in-firm delivery of the Regulatory Element shall be required to register with FINRA by filing a Form U4 as a Proctor, but shall not be required to pass a qualification examination.

A person who is registered with FINRA in any other registration capacity may also function as a Proctor without being registered as such under this paragraph (b)(8).

(B) Limitation

Members may only compensate persons registered solely as Proctors pursuant to this paragraph (b)(8) on an hourly wage or salaried basis and may not in any way, directly or indirectly, relate their compensation to the number or size of transactions effected for customers. This provision shall not prohibit persons registered in this capacity from receiving bonuses or other compensation based on a member's profit sharing plan or similar arrangement.

(9) Investment Company and Variable Contracts Products

Representative

Representatives Engaged in Limited Activities

Each representative as defined in paragraph (b)(1) of this Rule may register with FINRA as an Investment Company and Variable Contracts Products Representative if his or her activities in the investment banking or securities business are limited to the solicitation, purchase or sale of:

- (A) redeemable securities of companies registered pursuant to the Investment Company Act;
- (B) securities of closed-end companies registered pursuant to the Investment Company Act during the period of original distribution only;
- (C) variable contracts and insurance premium funding programs and other contracts issued by an insurance company except contracts that are exempt securities pursuant to Section 3(a)(8) of the Securities Act; or,
- (D) Municipal fund securities as defined under MSRB Rule D-12.

Such person shall pass an appropriate qualification examination before such registration may become effective.

(10) Direct Participation Programs Representative

Representatives Engaged in Limited Activities

Each representative as defined in paragraph (b)(1) of this Rule may register with FINRA as a Direct Participation Programs Representative if his or her activities in the investment banking or securities business are limited to the solicitation, purchase or sale of equity interests in or debt of direct participation programs as defined in paragraph (a)(9)(A) of this Rule.

Such person shall pass an appropriate qualification examination before such registration may become effective.

(11) Corporate Securities Representative

Representatives Engaged in Limited Activities

Each representative as defined in paragraph (b)(1) of this Rule may register with FINRA as a Corporate Securities Representative if his or her activities in the investment banking or securities business are limited to the solicitation, purchase or sale of a “security,” as that term is defined in Section 3(a)(10) of the Exchange Act, and do not include such activities with respect to the following securities unless such person is separately qualified and registered in the category or categories of registration related to these securities:

(A) Municipal securities as defined in Section 3(a)(29) of the Exchange Act;

(B) Option securities as defined in Rule 2360;

(C) Redeemable securities of companies registered pursuant to the Investment Company Act, except for money market funds;

(D) Variable contracts of insurance companies registered pursuant to the Securities Act; or

(E) Direct Participation Programs as defined in paragraph (a)(9)(A) of this Rule.

Such person shall pass an appropriate qualification examination before such registration may become effective.

(12) Government Securities Representative

Representatives Engaged in Limited Activities

Each representative as defined in paragraph (b)(1) of this Rule may register with FINRA as a Government Securities Representative if his or her activities in the investment banking or securities business are limited to the solicitation, purchase or sale of “government securities,” as that term is defined in Sections 3(a)(42)(A) through (C) of the Exchange Act, for the account of a broker, dealer or public customer.

Such person shall pass an appropriate qualification examination before such registration may become effective.

(13) Private Securities Offerings Representative

Representatives Engaged in Limited Activities

Each representative as defined in paragraph (b)(1) of this Rule may register with FINRA as a Private Securities Offerings Representative if his

or her activities in the investment banking or securities business are limited to effecting sales as part of a primary offering of securities not involving a public offering, pursuant to Sections 3(b), 4(2) or 4(6) of the Securities Act and the Securities Act rules and regulations, provided, however, that such person shall not effect sales of municipal or government securities, or equity interests in or the debt of direct participation programs as defined in paragraph (a)(9)(A) of this Rule.

Such person shall pass an appropriate qualification examination before such registration may become effective.

However, FINRA shall, upon such evidence as it determines to be appropriate, deem any person who while employed by a bank, engaged in effecting sales of private securities offerings as described in this paragraph (b)(13), during the period from May 12, 1999 to November 12, 1999, as qualified to register as a Private Securities Offerings Representative without the need to pass the qualification examination required by this paragraph (b)(13).

• • • **Supplementary Material:** -----

.01 Representatives Engaged in Options Activities. Each person associated with a member who is engaged in options activities as a representative shall register with FINRA as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

However, a person who has been registered as an Options Representative immediately prior to [insert effective date of proposed rule change] may continue to

engage in options activities as a representative without having to register separately as a General Securities Representative, United Kingdom Securities Representative or Canada Securities Representative.

.02 Qualification Requirements for Persons Engaged in Security Futures Activities.

Each person associated with a member shall be eligible to engage in security futures activities as a representative, supervise sales activities in security futures as a principal or supervise all activities in security futures as a principal if such person registers with FINRA as a General Securities Representative (or United Kingdom Securities Representative or Canada Securities Representative), General Securities Sales Supervisor or Registered Options Principal, respectively, and satisfies the requirements below, as applicable.

Each person who is registered with FINRA as a General Securities Representative (or United Kingdom Securities Representative or Canada Securities Representative), General Securities Sales Supervisor or Registered Options Principal prior to the introduction of an appropriate qualification examination that addresses security futures products, shall be required to complete a firm-element continuing education program that addresses security futures products before such person can engage in security futures activities. However, such person shall not be precluded from taking an appropriate qualification examination that addresses security futures products in lieu of completing the firm-element continuing education program after such an examination has been introduced.

Each person who becomes registered with FINRA as a General Securities Representative (or United Kingdom Securities Representative or Canada Securities

Representative), General Securities Sales Supervisor or Registered Options Principal, including each person whose registration in such categories has lapsed pursuant to Rule 1220(f), after the introduction of an appropriate qualification examination that addresses security futures products, shall be required to pass such an examination before engaging in security futures activities.

.03 Members With One Registered Options Principal. A member that has one Registered Options Principal is required promptly to notify FINRA in the event such person is terminated, resigns, becomes incapacitated or is otherwise unable to perform the duties of a Registered Options Principal.

Following receipt of such notification, FINRA will require the member to agree, in writing, to refrain from engaging in any options-related activities that would necessitate the prior or subsequent approval of a Registered Options Principal until such time as a new Registered Options Principal has been qualified.

Members failing to qualify a new Registered Options Principal within two weeks following the loss of their sole Registered Options Principal, or by the earliest available date for administration of the Registered Options Principal examination, whichever is longer, shall be required to cease doing an options business; provided, however, they may effect closing transactions in options to reduce or eliminate existing open options positions in their own account as well as the accounts of their customers.

.04 General Securities Sales Supervisor. The General Securities Sales Supervisor category is an alternate category of registration designed to lessen the qualification burdens on principals of general securities firms who supervise sales. Without this category of limited registration, such principals would be required to separately qualify

pursuant to the rules of FINRA, the MSRB, NYSE and options exchanges. While persons may continue to separately qualify with all relevant self-regulatory organizations, the General Securities Sales Supervisor examination permits qualification as a supervisor of sales of all securities by one examination. Persons registered as General Securities Sales Supervisors may also qualify in any other category of principal registration. Persons who are already qualified in one or more categories of principal registration may supervise sales activities of all securities by also qualifying as General Securities Sales Supervisors.

Any person required to be registered as a principal who supervises sales activities in corporate, municipal and option securities, investment company products, variable contracts, direct participation programs as defined in paragraph (a)(9)(A) of this Rule, and security futures (subject to the requirements of Supplementary Material .02 above) may be registered solely as a General Securities Sales Supervisor. In addition to branch office managers, other persons such as regional and national sales managers may also be registered solely as General Securities Sales Supervisors as long as they supervise only sales activities. The registration and qualification requirements, including the applicable prerequisite requirements, and the limitations on a General Securities Sales Supervisor's activities are set forth in Rule 1230(a)(10).

.05 Qualification Examination Requirements for Foreign Associates. Each person who has been registered as a Foreign Associate immediately prior to [insert effective date of proposed rule change] shall be required to register with FINRA pursuant to Rule 1230 in the category of registration appropriate to such person's functions and responsibilities, unless exempt from registration pursuant to Rule 1240, by [insert one year after the

effective date of proposed rule change]. Before the registration of such person can become effective, the person shall pass a qualification examination, including any applicable prerequisite examination, appropriate to the person's category of registration pursuant to Rule 1230, unless such person is granted a waiver from such requirements pursuant to Rule 1220(c) or is registering solely for purposes of Rules 1230(b)(6) or 1230(b)(8).

1240. Associated Persons Exempt from Registration

The following persons associated with a member are not required to be registered with FINRA:

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

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

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

- (1) effecting transactions on the floor of a national securities exchange and who are appropriately registered with such exchange;
- (2) transactions in municipal securities;
- (3) transactions in commodities; or
- (4) transactions in security futures, provided that any such person is registered with a registered futures association.

• • • **Supplementary Material:** -----

.01 Restrictions Regarding Unregistered Persons That Have Contact With Prospective Customers.

(a) Unregistered associated persons may contact prospective customers for three purposes only:

(1) Extending invitations to member-sponsored events at which any substantive presentations and account or order solicitation will be conducted by appropriately registered personnel;

(2) Inquiring whether the prospective customer wishes to discuss investments with a registered person; and

(3) Determining whether the prospective customer wishes to receive investment literature from the member.

(b) In addition, the following guidelines are applicable to a member employing unregistered associated persons to perform such functions:

(1) Unregistered persons may not discuss general or specific investment products or services offered by the member, pre-qualify prospective customers as to financial status and investment history and objectives, or solicit new accounts or orders. Unregistered persons may describe in general terms the types of investment vehicles available from the member, but may not discuss the attributes or merits of any particular investment vehicle or service or class of vehicles or services;

(2) The member should provide unregistered persons with orientation and training that specifically addresses the limitations of such persons' activities, the regulatory consequences of exceeding these limitations, and the fact that such

persons are associated persons of the member, subject to the rules of FINRA and its disciplinary authority;

(3) The member should conduct a reasonable investigation of such persons' backgrounds to determine that they are not statutorily disqualified from becoming associated with the member;

(4) Unregistered persons should not be compensated on any basis other than a salary or hourly wage. The payment of performance bonuses or other forms of incentive compensation, such as through participation in a member's profit sharing plan, are permitted so long as such bonuses or incentives are not tied to transactions, commission activity or referrals generated by the unregistered person;

(5) The member should take reasonable steps to ensure that the activities of unregistered persons are consistent with applicable state statutes and rules and with the rules of other self-regulatory organizations; and

(6) The member should be able, upon request, to demonstrate that its supervisory procedures include procedures reasonably designed to prevent violative conduct by unregistered persons.

.02 Registration Requirements for Associated Persons Who Accept Customer

Orders. The function of accepting customer orders is not considered a clerical or ministerial function. Each person associated with a member who accepts customer orders under any circumstances shall be qualified and registered in an appropriate registration category pursuant to Rule 1230.

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