

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 65	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2013 - * 025	Amendment No. (req. for Amendments *) 1
Filing by Financial Industry Regulatory Authority Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(6)
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) <input type="checkbox"/>		Section 806(e)(2) <input type="checkbox"/>	Section 3C(b)(2) <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text"/>				
Contact Information				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	Patricia	Last Name *	Albrecht	
Title *	Associate General Counsel			
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Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	10/02/2013	Senior Vice President and Deputy General Counsel		
By	Patrice M. Gliniecki	<input type="text"/>		
(Name *)		<input type="text"/>		
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

On June 21, 2013, FINRA filed with the Securities and Exchange Commission (“Commission”) SR-FINRA-2013-025, a proposed rule change to adopt the consolidated FINRA supervision rules. The proposed rule change would, in main part, adopt new FINRA Rules 3110 (Supervision) and 3120 (Supervisory Control System) and delete NASD Rule 3010 (Supervision) and NASD Rule 3012 (Supervisory Control System), on which they are largely based. The proposed rule change also would delete Incorporated NYSE Rule 342 (Offices—Approval, Supervision and Control) and much of its supplementary material and interpretations as they are, in main part, either duplicative of, or do not align with, the proposed supervision requirements. The proposed rule change, however, would incorporate, on a tiered basis, certain provisions from Incorporated NYSE Rule 342. The proposed rule change also would replace NASD Rule 3010(b)(2) (often referred to as the “Taping Rule”) with new FINRA Rule 3170 (Tape Recording of Registered Persons by Certain Firms) and replace NASD Rule 3110(i) (Holding of Customer Mail) with new FINRA Rule 3150 (Holding of Customer Mail).

On July 8, 2013, the SEC published the proposed rule change for comment in the Federal Register.¹ The comment period closed on July 29, 2013. The SEC received 572 comment letters in response to the proposed rule change, with 555 commenters using a form comment letter, and 17 other commenters filing individual letters. FINRA is submitting by separate letter its response to comments on the proposed rule change contemporaneously with this Partial Amendment No. 1.

In response to comments received by the Commission, FINRA is proposing to amend the proposed rule change as follows:

1. FINRA is proposing to amend proposed FINRA Rules 3110(a), (b)(1), (b)(4), (b)(6), (b)(7), (c)(1), 3110.06, 3110.12, 3120(a)(1), 3150(c), and 3170(b)(3) to delete the proposed references to the MSRB rules in light of a member’s separate obligation to comply with MSRB Rule G-27 (Supervision).
2. FINRA is proposing to delete proposed FINRA Rule 3110.03 (One-Person OSJs), which expressly provided that the registered principal at a one-person OSJ (“on-site principal”) must be under the effective supervision and control of another appropriately registered principal (referred to as a “senior principal”) who would be responsible for conducting on-site supervision of the one-person OSJ on a regular periodic schedule to be determined by the member.² The proposed supplementary material required that the designated senior principal be responsible for supervising the activities of the on-site principal at the one-person OSJ and conduct on-site supervision of the one-

¹ See Securities Exchange Act Release No. 69902 (July 1, 2013), 78 FR 40792 (July 8, 2013) (Notice of Filing of File No. SR-FINRA-2013-025).

² The deletion of this proposed supplementary material has resulted in a change in numbering of the remaining supplementary material to proposed FINRA Rule 3110. For ease of reference, the description of the proposed changes in Partial Amendment No. 1 employs the new proposed numbers in all instances.

person OSJ on a regular periodic schedule to be determined by the member. FINRA believes that OSJs conduct critical functions and one-person OSJs present unique supervisory challenges. However, FINRA has decided the best course is to eliminate the proposed supplementary material from the proposed rule. Importantly, FINRA believes that one-person OSJ locations where the on-site principal engages in sales-related activities that trigger OSJ designation should be subject to scrutiny, and firms should conduct focused reviews of such locations because of the possible conflicts of interest that may arise.

3. FINRA is proposing to revise proposed FINRA Rule 3110.03 (Supervision of Multiple OSJs by a Single Principal) to use the term “on-site principal” consistently throughout the provision. As originally proposed, FINRA Rule 3110.03 used the terms “on-site supervisor” and “designated principal” interchangeably throughout the provision; however, FINRA clarified in the rule filing that the two terms referred to one person. Also, FINRA is proposing to revise proposed FINRA Rule 3110.03 to replace the presumption that assigning one principal to be the on-site principal at more than two OSJs is unreasonable with a general statement that assigning a principal to more than one OSJ will be subject to scrutiny.
4. FINRA is proposing to amend proposed FINRA Rule 3110.05 (Risk-based Review of Member’s Investment Banking and Securities Business) to clarify that a member is not required to conduct detailed reviews of each transaction required to be reviewed pursuant to proposed FINRA Rule 3110(b)(2) (Review of Member’s Investment Banking and Securities Business) if a member is using a reasonably designed risk-based review system that provides a member with sufficient information that permits the member to focus on the areas that pose the greatest numbers and risks of violation.
5. FINRA is proposing to replace the term “correspondence with the public” used in proposed FINRA Rules 3110(b)(4) (Review of Correspondence and Internal Communications), 3110.06 (Risk-based Review of Correspondence and Internal Communications), 3110.07 (Evidence of Review of Correspondence and Internal Communications), and 3110.08 (Delegation of Correspondence and Internal Communication Review Functions) with “correspondence” to be consistent with FINRA Rule 2210’s (Communications with the Public) definition and use of the term “correspondence.”
6. FINRA is proposing to revise proposed FINRA Rule 3110(b)(6)(D) to clarify that the provision does not create a strict liability obligation requiring identification and elimination of all conflicts of interest with respect to an associated person being supervised by a member’s supervisory personnel. As revised, proposed FINRA Rule 3110(b)(6)(D) requires that a member have procedures reasonably designed to prevent the supervisory system required pursuant to proposed FINRA Rule 3110(a) 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 supervisor may derive from the associated person being supervised.

7. FINRA is proposing to revise proposed FINRA Rule 3110(c)(2)(D) to require a member to identify in its written supervisory procedures *or* in the location's written inspection report the activities enumerated in FINRA Rule 3110(c)(2)(A) the member does not engage in at a particular location and document in its written supervisory procedures *or* that location's written inspection report that supervisory policies and procedures must be in place for those activities at that location before the member can engage in them. As initially proposed, members would have been required to identify such activities in a location's written inspection report; thus, the proposed revisions provide firms with additional flexibility in complying with proposed FINRA Rule 3110(c)(2)(D).
8. FINRA is proposing to revise proposed FINRA Rule 3110(c)(3)(A) to clarify that the provision does not create a strict liability obligation requiring identification and elimination of all conflicts of interest with respect to a location's inspections. As revised, proposed FINRA Rule 3110(c)(3)(A) requires that a member have procedures reasonably designed to prevent the effectiveness of the inspections required pursuant to proposed FINRA Rule 3110(c)(1) 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.
9. FINRA is proposing to revise proposed FINRA Rules 3110.10 (Supervision of Supervisory Personnel) and 3110.14 (Exception to Persons Prohibited from Conducting Inspections) to delete the term "only" in both supplementary materials, to further clarify that the provisions provide non-exclusive examples of situations where the exceptions generally would apply.
10. FINRA is proposing to revise the definition of "covered account" in proposed FINRA Rule 3110(d) (Transaction Review and Investigation) to align the definition with existing NYSE guidance. Under the revised definition, "covered account" would include any account introduced or carried by the member that is held by: (1) the spouse of a person associated with the member; (2) a child of the person associated with the member 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; (3) any other related individual over whose account the person associated with the member has control; or (4) any other individual over whose account the associated person of the member has control and to whose financial support such person materially contributes. FINRA also is proposing to revise

proposed FINRA Rule 3110(d) to include the phrase “reasonably designed” to acknowledge more clearly that firms with different business models may adopt different procedures and practices. As amended, the proposed rule requires each member to “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 FINRA rules prohibiting insider trading and manipulative and deceptive devices.”

11. Proposed FINRA Rule 3120 (Supervisory Control System) requires a member to test and verify the member’s supervisory procedures and prepare and submit to the member’s senior management a report at least annually summarizing the test results and any necessary amendments to those procedures. The proposed rule also requires a member that reported \$200 million or more in gross revenue on its FOCUS reports in the prior calendar year to include additional content in the report it submits to senior management. FINRA is proposing to revise proposed FINRA Rule 3120(b) to clarify that a member complying with the additional content requirement must include the additional content in its report only to the extent applicable to the member’s business.

EXHIBIT 4

Exhibit 4 shows the changes proposed in this Amendment No. 1, with the proposed changes in the original filing shown as if adopted. Proposed additions in this Amendment No. 1 appear underlined; proposed deletions appear in brackets.

* * * * *

**Text of Proposed New FINRA Rules
(Marked to Show Changes from NASD Rules 3010 and 3012; NASD Rule 3012 to be Deleted in its Entirety from the Transitional Rulebook)**

* * * * *

3000. SUPERVISION AND RESPONSIBILITIES RELATING TO ASSOCIATED PERSONS

3100. SUPERVISORY RESPONSIBILITIES

3110. Supervision

(a) Supervisory System

Each member 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 FINRA [and Municipal Securities Rulemaking Board (MSRB)] rules. Final responsibility for proper supervision shall rest with the member. A member's supervisory system shall provide, at a minimum, for the following:

(1) through (7) No Change.

(b) Written Procedures

(1) General Requirements

Each member 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 FINRA [and MSRB]rules.

(2) through (3) No Change.

(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 [with the public] and internal communications relating to the member's investment banking or securities business. The supervisory procedures must be appropriate for the member's business, size, structure, and customers.

The supervisory procedures must require the member's review of:

(A) incoming and outgoing written (including electronic) correspondence [with the public] 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 FINRA [and MSRB]rules and federal securities laws.

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

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

(5) No Change.

(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 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 FINRA [and MSRB] rules.

(B) No Change.

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

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

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

(D) procedures reasonably designed to prevent[ing] the supervisory system [the standards of supervision] required pursuant to paragraph (a) of this Rule from being [reduced]compromised [in any manner,] due to [any] 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'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. Each member shall promptly amend its written supervisory procedures to reflect changes in applicable securities laws or regulations, including FINRA [and MSRB] rules, and as changes occur in its supervisory system. Each member 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 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 in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable FINRA [and MSRB] rules. Each member 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 shall also retain a written record of the date upon which each review and inspection is conducted.

(A) through (C) No Change.

(2) An inspection and review by a member pursuant to paragraph (c)(1) must be reduced to a written report and kept on file by the member 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) through (C) No Change.

(D) If a member 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 must identify those activities in the member's written supervisory procedures or the location's written inspection report and document in the member'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 can engage in them.

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

(A) have procedures reasonably designed to prevent the effectiveness of the inspections [standards] required pursuant to paragraph (c)(1) of this Rule[,] from being [reduced]compromised [in any manner] due to [any]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) No Change.

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

(d) Transaction Review and Investigation

(1) Each member shall[: (A)] include in its supervisory procedures a process for the review of securities transactions [that are effected for the account(s) of the member or the member's associated persons and any other covered account]reasonably designed to identify trades that may violate the provisions of the Exchange Act, the rules thereunder, or FINRA rules prohibiting

insider trading and manipulative and deceptive devices[; and] that are effected for the:

(A) accounts of the member;

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

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

(D) covered accounts.

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

(2)3) A member engaging in investment banking services must file with FINRA, written reports, signed by a senior officer of the member, 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)(1)(B)2), including the identity of the member, 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, or associated person of the member's family members holding a covered account, under review, and that includes a copy of the member's policies and procedures required by paragraph (d)(1)(A).

(B) within five business days of completion of an internal investigation pursuant to paragraph (d)(1)(B)2 in which it was determined that a violation of the provisions of the Exchange Act, the rules thereunder, or FINRA 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 FINRA, another self-regulatory organization, the SEC, or any other federal, state, or international regulatory authority.

(3)4 Definitions

For purposes of this Rule:

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

(i) [any account held by] the spouse of a person associated with the member[, domestic partner,];

(ii) a child of the person associated with the member 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;

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

(iv) any other individual over whose account the associated person of the member has control and to whose financial support such person materially contributes.[, parent, sibling, son-in-law, daughter-in-law, father-in-law, or mother-in-law of a person associated with the member where such account is introduced or carried by the member;]

[(ii) any account introduced or carried by the member in which a person associated with the member has a beneficial interest;]

[(iii) any account introduced or carried by the member over which a person associated with the member has the authority to make investment decisions; and]

[(iv) any account of a person associated with a member that is disclosed to the member pursuant to NASD Rule 3050 or NYSE Rule 407, as applicable.]

(B) No Change.

(e) No Change.

••• Supplementary Material: -----

.01 through .02 No Change.

[.03 One-Person OSJs. A location with only one registered person that either meets the definition of OSJ in Rule 3110(e) or that the member has selected as an additional OSJ

pursuant to .02 above, must be registered and designated as an OSJ. The registered person must be an appropriately registered principal and designated, pursuant to Rule 3110(a)(4), to carry out supervisory responsibilities assigned to that office (“on-site principal”). If the on-site principal is authorized to engage in business activities other than the supervision of associated persons or other offices as enumerated in Rule 3110(e)(1)(D) through (G), the principal cannot supervise his or her own activities. Such one-person OSJ location must be under the effective supervision and control of another appropriately registered principal (“senior principal”). The senior principal will be responsible for supervising the activities of the on-site principal at such office. The senior principal must conduct on-site supervision of such OSJ location on a regular periodic schedule to be determined by the member. In establishing such schedule, the member shall consider, among other factors, the nature and complexity of the securities activities for which the location is responsible, the nature and extent of contact with customers, and the disciplinary history of the on-site principal.]

.0[4]3 Supervision of Multiple OSJs by a Single Principal. Rule 3110(a)(4) requires a member 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[supervisor] pursuant to Rule 3110(a)(4) to supervise more than one OSJ. If a member determines it is necessary to designate and assign one appropriately registered principal to be the on-site

principal[supervisor] pursuant to Rule 3110(a)(4) to supervise two or more OSJs, the member 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) No Change.

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

[There is a further general presumption that a determination by a member to designate and assign one principal to supervise more than two OSJs is unreasonable. If a member determines to designate and assign one principal to supervise more than two OSJs, the member's determination will be subject to greater scrutiny, and the member will have a greater burden to evidence the reasonableness of such structure.]

.0[5]4 Annual Compliance Meeting. No Change.

.0[6]5 Risk-based Review of Member's Investment Banking and Securities

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

.0[7]6 Risk-based Review of Correspondence and Internal Communications. By employing risk-based principles, a member must decide the extent to which additional policies and procedures for the review of:

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

(1) through (3) No Change.

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

.0[8]7 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 [with the public] that was reviewed, the date of review, and the actions

taken by the member as a result of any significant regulatory issues identified during the review. Merely opening a communication is not sufficient review.

.0[9]8 Delegation of Correspondence and Internal Communication Review

Functions. In the course of the supervision and review of correspondence [with the public] 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.

. [10]09 Retention of Correspondence and Internal Communications. No Change.

. [11]10 Supervision of Supervisory Personnel. A member'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 [only] in instances where:

(a) through (c) No Change.

. [12]11 Use of Electronic Media to Communicate Written Supervisory Procedures.

No Change.

. [13]12 Standards for Reasonable Review. In fulfilling its obligations under Rule 3110(c), each member 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 FINRA [and MSRB] rules. Each member 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 FINRA [and MSRB] rules. A member 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, members may need to impose reasonably designed supervisory procedures for certain locations or may need to provide for more frequent reviews of certain locations.

.[14]13 General Presumption of Three-Year Limit for Periodic Inspection

Schedules. No Change.

.[15]14 Exception to Persons Prohibited from Conducting Inspections. A member'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 [only] in instances where:

(a) though (b) No Change.

* * * * *

3120. Supervisory Control System

(a) Each member shall designate and specifically identify to FINRA 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's supervisory procedures are reasonably designed with respect to the activities of the member and its associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable FINRA [and Municipal Securities Rulemaking Board (MSRB)] rules; and

(2) No Change.

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

(1) through (2) No Change.

(c) No Change.

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Text of Proposed New FINRA Rules

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3150. Holding of Customer Mail

(a) through (b) No Change.

(c) A member 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 in any manner that would violate FINRA rules[, Municipal Securities Rulemaking Board rules,] or the federal securities laws.

* * * * *

3170. Tape Recording of Registered Persons by Certain Firms

(a) No Change.

(b) Supervisory Procedures Regarding the Tape Recording of Conversations

(1) through (2) No Change.

(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 FINRA [and MSRB] 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) through (5) No Change.

(c) through (d) No Change.

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EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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**Text of Proposed New FINRA Rules
(Marked to Show Changes from NASD Rules 3010 and 3012; NASD Rule 3012 to be Deleted in its Entirety from the Transitional Rulebook)**

* * * * *

3000. SUPERVISION AND RESPONSIBILITIES RELATING TO ASSOCIATED PERSONS

3100. SUPERVISORY RESPONSIBILITIES

3110[3010]. Supervision

(a) Supervisory System

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

(1) The establishment and maintenance of written procedures as required by [paragraphs (b) and (c) of] this Rule.

(2) The designation, where applicable, of an appropriately registered principal(s) with authority to carry out the supervisory responsibilities of the

member 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 ([g]e) of this Rule. [Each member shall also designate such other OSJs as it determines to be necessary in order to supervise its registered representatives, registered principals, and other associated persons in accordance with the standards set forth in this Rule, taking into consideration 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's registered persons are geographically dispersed; and]

[(E) whether the securities activities at such location are diverse and/or complex.]

(4) The designation of one or more appropriately registered principals in each OSJ[, including the main office,] 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.

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

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

(7) No Change.

(b) Written Procedures

(1) General Requirements

Each member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and [to supervise]the activities of its [registered representatives, registered principals, and other] associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with [the] applicable FINRA[R]rules[of NASD].

[(2) Tape recording of conversations]

Entire subparagraph deleted.

(2) Review of Member'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.

(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's investment banking or securities business. The supervisory procedures must be appropriate for the member's business, size, structure, and customers. The supervisory procedures must require the member'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 FINRA rules and federal securities laws.

(B) internal communications to properly identify those communications that are of a subject matter that require review under FINRA 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

[(3)] The [member's written] supervisory procedures required by this paragraph (b) shall set forth the supervisory system established by the member 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 FINRA [the R]rules[of this Association].

(B) [The member shall maintain on an internal] a record, preserved by the member 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. [Such record shall be preserved by the member for a period of not less than three years, the first two years in an easily accessible place.]

(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 determines, with respect to any of its supervisory personnel, that compliance with subparagraph (i) or (ii) above is not possible because of the

member's size or a supervisory personnel's position within the firm, the member must document:

1. the factors the member 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

[(4)] A copy of a member'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. Each member shall promptly amend its written supervisory procedures [as appropriate within a reasonable time after] to reflect changes [occur] in applicable securities laws or [and] regulations, including [the] FINRA [R]rules[of this Association], and as changes occur in its supervisory system[, and e]. Each member [shall be] is responsible for promptly communicating its written

supervisory procedures and amendments [through its organization] 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 shall conduct a review, at least annually (on a calendar-year basis), of the businesses in which it engages.[, which] The review shall be reasonably designed to assist the member in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable [NASD] FINRA rules. Each member 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 shall also retain a written record of the date upon which each review and inspection is conducted.

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

(B) Each member 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 [firm] member 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 establishes

a more frequent inspection cycle, the member must ensure that at least every three years, the inspection requirements enumerated in paragraph (c)(2) have been met. The member's written supervisory and inspection procedures shall set forth [T]the non-supervisory branch office examination cycle, an explanation of the factors the member used in determining the frequency of the examinations in the cycle, and the manner in which a member will comply with paragraph (c)(2) if using more frequent inspections than every three years [shall be set forth in the member's written supervisory and inspection procedures].

(C) Each member shall inspect on a regular periodic schedule every non-branch location. In establishing such schedule, the [firm] member 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's written supervisory and inspection procedures shall set forth [T]the schedule and an explanation regarding how the member determined the frequency of the examination [schedule shall be set forth in the member's written supervisory and inspection procedures].

[Each member shall retain a written record of the dates upon which each review and inspection is conducted.]

(2) An [office] inspection and review by a member pursuant to paragraph (c)(1) must be reduced to a written report and kept on file by the member 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
[The] written inspection report must [also] include, without limitation, the testing and verification of the member's policies and procedures, including supervisory policies and procedures in the following areas:

([A]i) [S]safeguarding of customer funds and securities;

([B]ii) [M]maintaining books and records;

([C]iii) [S]supervision of supervisory personnel [customer accounts serviced by branch office managers];

([D]iv) [Transmittal of funds between customers and registered representatives and between customers and third parties;] 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

([E]v) changes of customer account information, including address and investment objectives changes and [V]validation of [customer address] such changes.; and]

[(F) Validation of changes in customer account information.]

(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. Members 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 does not engage in all of the activities enumerated [above] in paragraphs (c)(2)(A)(i) through (c)(2)(A)(v) at the location being inspected, the member must identify those activities [in which it does not engage] in the member's written supervisory procedures or the location's written inspection report and document in the member'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 can engage in them.

(3) [An office inspection by] For each inspection conducted pursuant to paragraph (c), a member must: [pursuant to paragraph (c)(1)]

(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 determines that compliance with paragraph (c)(3)(B) is not possible either because of a member's size or its business model, the member must document in the inspection report both the factors the member used to make its determination and how the inspection otherwise complies with paragraph (c)(1). [may not be conducted by the branch office manager or any person within that office who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). However, if a member is so limited in size and resources that it cannot comply with this limitation (e.g., a member with only one office or a member has a business model where small or single-person offices report directly to an office of supervisory jurisdiction manager who is also considered the offices' branch office manager), the member may have a principal who has the requisite knowledge to conduct an office inspection perform the inspections. The member, however, must document in the office

inspection reports the factors it has relied upon in determining that it is so limited in size and resources that it has no other alternative than to comply in this manner.]

[A member must have in place procedures that are reasonably designed to provide heightened office inspections if the person conducting the inspection reports to the branch office manager's supervisor or works in an office supervised by the branch manager's supervisor and the branch office manager generates 20% or more of the revenue of the business units supervised by the branch office manager's supervisor. For the purposes of this subsection only, the term "heightened inspection" shall mean those inspection procedures that are designed to avoid conflicts of interest that serve to undermine complete and effective inspection because of the economic, commercial, or financial interests that the branch manager's supervisor holds in the associated persons and businesses being inspected. In addition, for the purpose of this section only, when calculating the 20% threshold, all of the revenue generated by or credited to the branch office or branch office manager shall be attributed as revenue generated by the business units supervised by the branch office manager's supervisor irrespective of a member's internal allocation of such revenue. A member must calculate the 20% threshold on a rolling, twelve-month basis.]

[(d) Review of Transactions and Correspondence]

Entire subparagraph deleted.

[(e) Qualifications Investigated]

Entire subparagraph deleted.

[(f) Applicant's Responsibility]

Entire subparagraph deleted.

(d) Transaction Review and Investigation

(1) Each member 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 FINRA rules prohibiting insider trading and manipulative and deceptive devices that are effected for the:

(A) accounts of the member;

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

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

(D) covered accounts.

(2) Each member 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 engaging in investment banking services must file with FINRA, written reports, signed by a senior officer of the member, 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, 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, or associated person of the member's family members holding a covered account, under review, and that includes a copy of the member'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 FINRA 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 FINRA, 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 that is held by:

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

(ii) a child of the person associated with the member 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;

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

(iv) any other individual over whose account the associated person of the member 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.

[(g)](e) Definitions

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

(A) order execution [and/]or market making;

(B) No Change.

(C) maintaining custody of customers' funds [and/]or securities;

(D) No Change.

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

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

(G) No Change.

(2) (A) A "branch office" is any location where one or more associated persons of a member 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 [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;

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

a. through d. No Change.

e. The associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule [3010];

f. through i. No Change.

(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 complies with the provisions of subparagraphs [(A)](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) through (vii) No Change.

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

(C) The term “business day” as used in paragraph [Rule 3010]([g]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’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 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 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'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 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 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 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 must establish, maintain, and enforce written supervisory procedures regarding the supervision of all OSJs. In all cases where a member designates and assigns one on-site principal to supervise more than one OSJ, the member must document in the member's written supervisory and inspection procedures the factors used to determine why the member considers such supervisory structure to be reasonable and the determination by the member will be subject to scrutiny.

.04 Annual Compliance Meeting. A member 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 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's intranet site).

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

A member 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. A member is not required to conduct detailed reviews of each transaction if a member is using a reasonably designed risk-based review system that provides a member with sufficient information that permits the member 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 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'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 FINRA 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 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 shall retain the internal communications and correspondence of associated persons relating to the member'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 FINRA, upon request.

.10 Supervision of Supervisory Personnel. A member'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 is a sole proprietor in a single-person firm;

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

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

.11 Use of Electronic Media to Communicate Written Supervisory Procedures. A member 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's intranet system; (2) all amendments to the written supervisory procedures are promptly posted to the member'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 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 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 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 FINRA rules. Each member 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 FINRA rules. A member 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, members 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 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 establishes a longer periodic inspection schedule, the member 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’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 has only one office; or

(b) the member 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.

* 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 [the NYSE,] other self-regulatory organizations, and securities and banking regulators may be

displayed and shall not be deemed “holding out” for purposes of this section.

* * * * *

3120[3012]. Supervisory Control System

(a) [General Requirements]

[(1)] Each member shall designate and specifically identify to [NASD] FINRA one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures that:

[(A)](1) test and verify that the member’s supervisory procedures are reasonably designed with respect to the activities of the member and its [registered representatives and] associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable [NASD] FINRA rules; and

[(B)](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’s senior management no less than annually, a report^[1] detailing each member’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 reported \$200 million or more in gross revenue must include, to the extent applicable to the member’s business:

(1) a tabulation of the reports pertaining to customer complaints and internal investigations made to FINRA 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).

[(2) The establishment, maintenance, and enforcement of written supervisory control policies and procedures pursuant to paragraph (a) shall include:]

[(A) procedures that are reasonably designed to review and supervise the customer account activity conducted by the member's branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function.]

[(i) General Supervisory Requirement. A person who is either senior to, or otherwise independent of, the producing manager must perform such supervisory reviews. 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 (including not being directly compensated based in whole or in part on the revenues accruing for those activities); and must alternate such review responsibility with another qualified person every two years or less.]

[(ii) “Limited Size and Resources” Exception. If a member 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 (i) above (e.g., a member 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 principal who is sufficiently knowledgeable of the member’s supervisory control procedures, provided that the reviews are in compliance with (i) to the extent practicable.]

[(iii) Notification Requirement. If a member determines that it must rely on the “limited size and resources” exception set forth in (ii) above to conduct any of its producing managers’ supervisory reviews, the member must notify NASD through an electronic process (or any other process prescribed by NASD) within 30 days of the date on which the member first relies on the exception,² and annually thereafter.³ If a member subsequently determines that it no longer needs to rely on the exception to conduct any of its producing managers’ supervisory reviews, the member must, within 30 days of ceasing to rely on the exception, notify NASD by using the electronic process or any other process prescribed by NASD.]

[(iv) Documentation Requirement. A member relying on (ii) above must document in its supervisory control procedures the factors used to determine that complete compliance with all of the provisions of (i) is not possible and that the required supervisory systems and procedures in place with respect to any producing manager comply with the provisions of (i) above to the extent practicable.]

[(B) procedures that are reasonably designed to review and monitor the following activities:]

[(i) all transmittals of funds (e.g., wires or checks, etc.) or securities from customers to third party accounts (i.e., a transmittal

that would result in a change of beneficial ownership); 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;]

[(ii) customer changes of address and the validation of such changes of address; and]

[(iii) customer changes of investment objectives and the validation of such changes of investment objectives.]

[The policies and procedures established pursuant to paragraph (a)(2)(B) must include a means or method of customer confirmation, notification, or follow-up that can be documented. If a member does not engage in all of the activities enumerated above, the member must identify those activities in which it does not engage in its written supervisory control policies and procedures and document in those policies and procedures that additional supervisory policies and procedures for such activities must be in place before the member can engage in them; and]

[(C) procedures that are reasonably designed to provide heightened supervision over the activities of each producing manager who is responsible for generating 20% or more of the revenue of the business units supervised by the producing manager's supervisor. For the purposes of this subsection only, the term "heightened supervision" shall mean

those supervisory procedures that evidence supervisory activities that are designed to avoid conflicts of interest that serve to undermine complete and effective supervision because of the economic, commercial, or financial interests that the supervisor holds in the associated persons and businesses being supervised. In addition, for the purpose of this section only, when calculating the 20% threshold, all of the revenue generated by or credited to the producing manager or the producing manager's office shall be attributed as revenue generated by the business units supervised by the producing manager's supervisor irrespective of a member's internal allocation of such revenue. A member must calculate the 20% threshold on a rolling, twelve-month basis.]

[(b) Dual Member]

[Any member in compliance with substantially similar requirements of the New York Stock Exchange, Inc. shall be deemed to be in compliance with the provisions of this Rule.]

[¹ Rule 3012 became effective on January 31, 2005, which would require a member's first Rule 3012 report to be submitted by no later than January 31, 2006 and at least annually thereafter; however, a member may elect to submit its first Rule 3012 report by no later than April 1, 2006. Importantly, a member's first Rule 3012 report must encompass the period from January 31, 2005 (the effective date of Rule 3012) up to the submission date (or a reasonable period of time immediately preceding the

submission date). Each ensuing Rule 3012 report may not be for a period greater than 12 months from the date of the preceding Rule 3012 report (but may be for a shorter time period if a member elects to prepare a report more frequently than annually).]

[² The “limited size and resources” exception became effective on January 31, 2005, prior to the effective date of the notification requirement set forth in this subparagraph (iii). In the event a member is already relying on the “limited size and resources” exception (or determines to rely on the exception prior to the effective date of the notification requirement), the member must notify NASD of such reliance within 30 days of the effective date of the notification requirement.]

[³ Members must ensure that each ensuing annual notification is effected no later than on the anniversary date of the previous year’s notification.]

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Text of Proposed New FINRA Rules

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3150. Holding of Customer Mail

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

(1) the member receives written instructions from the customer that include the time period during which the member 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:

(A) informs the customer in writing of any alternate methods, such as email or access through the member'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 verifies at reasonable intervals that the customer's instructions still apply.

(b) During the time that a member is holding mail for a customer, the member 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 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 in any manner that would violate FINRA rules or the federal securities laws.

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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 FINRA as a representative, principal, or assistant representative pursuant to the NASD Rule 1000 Series, the FINRA Rule 1200 Series, or Municipal Securities Rulemaking Board (MSRB) Rule G-3.

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

(A) a member 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) (only if the finding of a violation of NASD Rule 2110 or FINRA Rule 2010 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), NASD Rule 2310 (Recommendations to Customers (Suitability)) or FINRA Rule 2111 (Suitability), 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), NASD Rule 2440 (Fair Prices and Commissions), NASD Rule 3010 (Supervision) or FINRA Rule 3110 (Supervision) (failure to supervise only for both NASD Rule 3010 and FINRA Rule 3110), 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 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 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 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), members 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 that either is notified by FINRA 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 FINRA 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 FINRA 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 FINRA a report on the taping firm's supervision of the telemarketing activities of its registered persons.

(c) A member 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 FINRA pursuant to the provisions of paragraph (b)(1) or obtaining actual knowledge that it is a taping firm, provided the member promptly notifies FINRA's Department of Member Regulation in writing of its becoming subject to the Rule. Once the member 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 must provide FINRA's Department of Member Regulation with written notice identifying the terminated person(s).

(d) Pursuant to the Rule 9600 Series, FINRA 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 FINRA or obtaining actual knowledge that it is a taping firm. A member 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.

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**Text of NASD Rules and Incorporated NYSE Rules
to Remain in the Transitional Rulebook**

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NASD Rules

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3010. Supervision

(a) **Reserved.**

(b) **Reserved.**

(c) **Reserved.**

(d) **Reserved.**

(e) No Change.

(f) No Change.

(g) **Reserved.**

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Incorporated NYSE Rules

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Rule 351. Reporting Requirements

(a) through (d) No Change.

(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.

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**Text of NASD Rules, Incorporated NYSE Rules and NYSE Rule Interpretations
to be Deleted in their Entirety from the Transitional Rulebook**

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NASD Rule and Interpretive Materials

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[IM-1000-4. Branch Offices and Offices of Supervisory Jurisdiction]

Entire text deleted.

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[IM-3010-1. Standards for Reasonable Review]

Entire text deleted.

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[3110. Books and Records]

Entire text deleted.

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Incorporated NYSE Rules

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

Entire text deleted.

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[Rule 343. Offices—Sole Tenancy, and Hours]

Entire text deleted.

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[Rule 354. Reports to Control Persons]

Entire text deleted.

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[Rule 401. Business Conduct]

Entire text deleted.

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[Rule 401A. Customer Complaints]

Entire text deleted.

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NYSE Rule Interpretations

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[Rule 342 Offices — Approval, Supervision and Control]

Entire text deleted.

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[Rule 343 Offices — Sole Tenancy, Hours, Display of Membership Certificates]

Entire text deleted.

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[Rule 351 Reporting Requirements]

Entire text deleted.

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