

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 66

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2011 - * 011

Amendment No. (req. for Amendments *)

Proposed Rule Change by Financial Industry Regulatory Authority
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934Initial * ☒ Amendment * ☐ Withdrawal ☐Section 19(b)(2) * ☒ Section 19(b)(3)(A) * ☐ Section 19(b)(3)(B) * ☐

Rule

Pilot ☐ Extension of Time Period
for Commission Action * ☐ Date Expires * ☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)Exhibit 2 Sent As Paper Document
☐Exhibit 3 Sent As Paper Document
☐**Description**

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Proposed Rule Change to Amend the By-Laws of FINRA Regulation, Inc. with Regard to District Committee Structure and Governance

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Stan Last Name * Macel
Title * Assistant General Counsel
E-mail * stan.macel@finra.org
Telephone * (202) 728-8056 Fax (202) 728-8264**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 02/25/2011

By Patrice M. Gliniecki
(Name *)

Senior Vice President and Deputy General Counsel

(Title *)

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
signature, and once signed, this form cannot be changed.

Patrice Gliniecki,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

[Add](#) [Remove](#) [View](#)

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

Exhibit 1 - Notice of Proposed Rule Change (required)

[Add](#) [Remove](#) [View](#)

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

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

[Add](#) [Remove](#) [View](#)

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

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend the By-Laws of FINRA’s regulatory subsidiary (“FINRA Regulation”) with regard to District Committee structure and governance to, among other things, adjust the size and composition of District Committees to align more closely with the industry representation on the FINRA Board and replace District Nominating Committees with a process of direct nomination and election based on firm size, as discussed in more detail below.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on December 8, 2010, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

The effective date of the proposed rule change will be the date of Commission approval.

¹ 15 U.S.C. 78s(b)(1).

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

(a) Purpose

Background

On July 30, 2007, NASD and the New York Stock Exchange consolidated their member firm regulation operations into a combined organization, FINRA. As part of the consolidation, the SEC approved amendments to the NASD By-Laws to implement governance and related changes.² The approved changes included a FINRA Board governance structure that balanced public and industry representation and designated seven governor seats to represent member firms based on the criteria of firm size.

FINRA Regulation (formerly known as NASD Regulation) is a subsidiary of FINRA that operates according to the Plan of Allocation and Delegation of Functions by NASD to Subsidiaries, as amended, which was first adopted at NASD Regulation’s formation in 1996.³

The proposed rule change would modify the FINRA Regulation By-Laws (or “By-Laws”) with regard to District Committees in several respects. It would:

- adjust the size and composition of District Committees over a three-year transition period to align more closely with the industry representation on the FINRA Board;

² See Securities Exchange Act Release No. 56145 (July 26, 2007), 72 FR 42169 (August 1, 2007), as amended by Securities Exchange Act Release No. 56145A (May 30, 2008), 73 FR 32377 (June 6, 2008) (Order Approving File No. SR-NASD-2007-023).

³ See Securities Exchange Act Release No. 37106 (April 11, 1996), 61 FR 16944 (April 18, 1996) (Order Approving File No. SR-NASD-96-02).

- replace District Nominating Committees with a process of direct nomination and election based on firm size;
- codify current practice that District Committees meet on a regional basis;
- eliminate the Advisory Council;
- amend the qualification requirements and prescribe further term limits for District Committee members;
- revise procedures for qualification and accounting of ballots to be administered solely by an Independent Agent; and
- make other procedural and administrative changes.

District Committees, District Nominating Committees, Districts and Regions

The By-Laws establish the procedures for setting the size and electing the members to FINRA District Committees and District Nominating Committees.⁴ These By-Law provisions have not changed significantly since becoming permanently effective in January 1998.⁵ They were adopted in part to respond to undertakings ordered by the SEC in 1996 (the “1996 SEC Settlement Order”) concurrent with the issuance of a report pursuant to Section 21(a) of the Exchange Act regarding NASD (the “1996 21(a) Report”).⁶

⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts) and Section 8.2 (Composition of District Committees).

⁵ See Securities Exchange Act Release No. 39326 (November 14, 1997), 62 FR 62385 (November 21, 1997) (Order Approving File No. SR-NASD-96-29).

⁶ See In the Matter of National Association of Securities Dealers, Inc., Securities Exchange Act Release No. 37538, 1996 SEC LEXIS 2146 (August 8, 1996).

The role of the District Committees was significantly narrowed as a result of undertakings in the 1996 SEC Settlement Order.⁷ Until January 1998, the role of District Committees was addressed in the NASD By-Laws, which provided in part that District Committees shall also serve as the District Business Conduct Committees (“DBCCs”) for their respective districts.⁸ The undertakings in the 1996 Settlement Order provided, among other things, that DBCCs not be involved in deciding whether or not to institute disciplinary proceedings, and that District Committees not be involved in the review or approval of membership applications.⁹ As a consequence, NASD amended its corporate governance documents to comply with these undertakings, including adopting NASD Regulation By-Laws that, among other things, did not provide a role for District Committees in the review or approval of membership applications and eliminated DBCCs.¹⁰

The By-Laws task the FINRA Regulation Board of Directors with determining the boundaries of the districts and the size of the District Committees.¹¹ The FINRA

⁷ Supra note 6, at Undertaking 4.

⁸ See NASD By-Laws, Article VIII, Section 2(c) (District Committees and District Business Conduct Committees), amended effective September 4, 1990, prior to the permanent adoption of the NASD Regulation By-Laws effective January 15, 1998 (“The District Committees shall also serve as the District Business Conduct Committees for their respective districts”).

⁹ Supra note 6, at Undertaking 4.

¹⁰ See Securities Exchange Act Release No. 39326 (November 14, 1997), 62 FR 62385 (November 21, 1997) (File No. SR-NASD-96-29).

¹¹ See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts) and Section 8.2 (Composition of District Committees).

Regulation Board has established eleven districts, overseen by FINRA District Offices, which are administratively grouped within five regions:

- West Region - Districts 1 (San Francisco), 2 (Los Angeles), and 3 (Denver and Seattle);
- Midwest Region - Districts 4 (Kansas City) and 8 (Chicago);
- South Region - Districts 5 (New Orleans), 6 (Dallas) and 7 (Atlanta and Boca Raton);
- North Region - Districts 9 (Philadelphia and Woodbridge) and 11 (Boston); and
- New York Region - District 10 (New York City and Long Island).¹²

Today, as provided in the By-Laws, FINRA District Committee members contribute to the regulatory process by, among other things, serving as panelists in disciplinary proceedings in accordance with FINRA Rules; considering and recommending policies and rule changes; and endeavoring to educate FINRA members and others as to the objects, purposes and work of FINRA and FINRA Regulation.¹³ The District Committees meet on average twice each year, jointly with the other District Committees in their respective regions. Currently, District Committees are composed of nine members, with the exception of the New York District Committee's twelve. Due to staggered three-year District Committee membership terms, one-third of each District Committee's positions are available for election each year. In some cases, a District

¹² See Schedule A to FINRA Regulation By-Laws.

¹³ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

Committee may have additional positions to fill if a vacancy has been created by death, resignation, removal or other cause.¹⁴ The District Nominating Committees are composed of five members each, a majority of whom have served on a District Committee, are current or former FINRA Regulation Directors, or current or former FINRA Governors.¹⁵

Current Nomination and Election Process

As part of the election process, the By-Laws require the Corporate Secretary to provide each District Nominating Committee and District Director annual notice, due on or before June 1 of each year, identifying the members of the District Committees and District Nominating Committees whose terms are expiring within the next calendar year.¹⁶ FINRA's Office of the Corporate Secretary issues an Election Notice announcing the vacancies in all eleven districts and soliciting any interested party to complete and submit a candidate profile form to the applicable FINRA District Director.¹⁷

Completed candidate profile forms received before the prescribed cutoff date are shared with the District Nominating Committees for review, a process that usually

¹⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.4 (Filling of Vacancies on District Committees).

¹⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.9 (Composition of District Nominating Committees).

¹⁶ See FINRA Regulation By-Laws, Article VIII, Section 8.15 (Notice to District Nominating Committee).

¹⁷ See FINRA Regulation By-Laws, Article VIII, Section 8.16 (Solicitation of Candidates and Secretary's Notice to FINRA Members).

involves candidate interviews.¹⁸ After its review, each District Nominating Committee nominates a slate of candidates for election, which may include an alternate candidate for each position.¹⁹ The District Directors, acting for the District Nominating Committees, notify FINRA's Corporate Secretary of each nominated candidate and the office to which the candidate is nominated (i.e., District Committee member or District Nominating Committee member).²⁰ Soon after receiving the District Nominating Committees' slates (and, as mandated by the By-Laws, on or before October 1 of each year), FINRA's Office of the Corporate Secretary issues another Election Notice announcing the nominees for upcoming vacancies on the District and the District Nominating Committees and informing members about the petition and election process.²¹ If the slate is not contested (i.e., there is one candidate for each position), it is deemed elected without a vote by the district's member firms.²²

The By-Laws also provide a process whereby a registered person meeting the vacancy requirements may be considered for nomination as an additional ("petition") candidate in a contested election. To be considered for nomination as a petition candidate, such individual must deliver a written notice to the District Director within 14

¹⁸ See FINRA Regulation By-Laws, Article VIII, Section 8.17 (District Nominating Committee Slate).

¹⁹ Supra note 18.

²⁰ See FINRA Regulation By-Laws, Article VIII, Section 8.18 (Notification of Nomination).

²¹ Supra note 20.

²² See FINRA Regulation By-Laws, Article VIII, Section 8.19 (Uncontested Election).

calendar days of the issuance of the Election Notice of nominated candidates.²³ The Secretary of FINRA Regulation must provide to any such candidate a list, with applicable contact information, of FINRA members eligible to vote in the candidate's district.²⁴ Within 30 calendar days after the date of mailing of the list to the candidate, the candidate must submit a petition to the District Nominating Committee with signatures from at least ten percent of the FINRA members eligible to vote in his or her district.²⁵ If a candidate submits a petition with the requisite number of valid signatures by the designated date, he or she is nominated and a contested election is held.²⁶

In recent years, FINRA has witnessed a decline in eligible individuals willing to serve on the District or District Nominating Committees or undergo the nomination process. Potential candidates have expressed several reasons for their lack of interest, including: the reduced role of the District Committees following the 1996 21(a) Report; the perceived difficulties of undergoing the District Nominating Committee process (usually including rigorous interviews) as compared to the signature-collecting process of becoming a petition candidate; and the perception that slate candidates nominated by

²³ See FINRA Regulation By-Laws, Article VIII, Section 8.20 (Designation of Additional Candidates).

²⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.21 (List of FINRA Members Eligible to Vote).

²⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.22 (Requirement for Petition Supporting Additional Candidate).

²⁶ See FINRA Regulation By-Laws, Article VIII, Section 8.22 (Requirement for Petition Supporting Additional Candidate) and Section 8.23 (Notice of Contested Election).

District Nominating Committees represent the industry less effectively than more “independent” petition candidates.

Proposed Changes to the Nomination Process and Composition of District Committees

Based on the concerns described above, FINRA proposes to eliminate the current nomination and petition process, including eliminating District Nominating Committees in their entirety,²⁷ and to adopt a more streamlined self-nomination and election process that facilitates member candidacy and fosters representation from Small Firms, Mid-Size Firms and Large Firms (as further described below). As proposed, an individual meeting the qualification requirements of Section 8.2(a) of the By-Laws who is interested in running for election to a District Committee would simply deliver written notice of such intent to the Secretary of FINRA Regulation within 30 calendar days of the Secretary’s issuance of the Notice of election to FINRA members.²⁸ Any individual meeting the qualification requirements would be designated as a candidate without having to undergo

²⁷ See, e.g., proposed deletions of FINRA Regulation By-Laws, Article VIII, Section 8.9 (Composition of District Nominating Committees); Section 8.10 (Term of Office of District Nominating Committee Members); Section 8.11 (Filling of Vacancies for District Nominating Committees); Section 8.12 (Meetings of District Nominating Committees); Section 8.13 (Election of District Nominating Committee Officers); Section 8.14 (Expenses of District Nominating Committees); Section 8.15 (Notice to District Nominating Committee); Section 8.17 (District Nominating Committee Slate); Section 8.18 (Notification of Nomination); Section 8.19 (Uncontested Election); Section 8.20 (Designation of Additional Candidates); Section 8.22 (Requirement for Petition Supporting Additional Candidate); Section 8.23 (Notice of Contested Election). See also proposed deletion of the term “District Nominating Committee” in FINRA Regulation By-Laws, Article I (Definitions) and Article IV, Section 4.16 (Communication of Views Regarding Contested Election or Nomination).

²⁸ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

the current nominating or petition process.²⁹ FINRA believes that direct candidate nomination and election by the membership would create a more accessible, transparent and effective election process.

The current By-Laws task District Nominating Committees with endeavoring to secure appropriate and fair representation of the various sections of the district and classes and types of FINRA members within the district.³⁰ To further this goal, FINRA proposes to require that each District Committee member represent and be directly elected by the applicable classification of members (that are eligible to vote in the district) based on the size of the firm with which he or she is associated. Specifically, candidates would represent one of the following three classifications, as are currently defined in the By-Laws, depending on the size of the firm with which they are associated: Small Firm (up to 150 registered representatives),³¹ Mid-Size Firm (151 to 499 registered representatives),³² or Large Firm (500 or more registered representatives)³³ (the “firm size classifications”).³⁴ As proposed, the Board would determine the composition of

²⁹ Supra note 28.

³⁰ See FINRA Regulation By-Laws, Article VIII, Section 8.17 (District Nominating Committee Slate).

³¹ FINRA Regulation By-Laws, Article I, paragraph (kk).

³² FINRA Regulation By-Laws, Article I, paragraph (bb).

³³ FINRA Regulation By-Laws, Article I, paragraph (z).

³⁴ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

District Committees based on firm size classifications, taking into account the composition of the membership and the Board.³⁵

To reflect the District Committees' current composition, as well as the representation classifications employed by the FINRA Board of Governors (i.e., Large Firm, Mid-Size Firm and Small Firm Governors), the FINRA Regulation Board has determined that, if the proposed rule change is approved, three-sevenths of the District Committee members would be associated with Small Firms, one-seventh with Mid-Size Firms, and three-sevenths with Large Firms. Each classification of candidates would self-nominate and be subject to the vote of eligible firms in their size classification.³⁶ Such ratios are generally consistent with those established under the FINRA By-Laws for the election of industry Governors on the Board of Governors and under the FINRA Regulation By-Laws for the election of industry members of the National Adjudicatory Council.³⁷

The FINRA Regulation By-Laws currently require that a District Committee member be registered with a FINRA member eligible to vote in the applicable district and work primarily from such member's principal office or a branch office that is located

³⁵ Supra note 34.

³⁶ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees), Section 8.9 (FINRA Members Eligible to Vote) and Section 8.17 (Election Results).

³⁷ See FINRA By-Laws, Article I (Definitions) and Article VII, Section 4 (Composition and Qualifications of the Board); FINRA Regulation By-Laws, Article V, Section 5.2 (Number of Members and Qualifications). See also Securities Exchange Act Release No. 56145 (July 26, 2007), 72 FR 42169 (August 1, 2007), as amended by Securities Exchange Act Release No. 56145A (May 30, 2008), 73 FR 32377 (June 6, 2008) (Order Approving File No. SR-NASD-2007-023).

within the district where the member serves on a District Committee.³⁸ The proposal would clarify that each District Committee member be associated with a FINRA member eligible to vote in the district for District Committee elections and registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member.³⁹ This requirement is designed to ensure that District Committee members have requisite experience for purposes of participating in the District Committee meetings.

The FINRA Regulation By-Laws currently limit District Committee members to serving no more than two full three-year terms consecutively. The proposed rule change would limit this provision further, to prohibit consecutive full terms.⁴⁰ This requirement would provide for turnover of representation on the District Committees, with the goal of bringing different perspectives and views to them, while still allowing individuals interested in serving multiple terms to do so on a non-consecutive basis.

The proposed rule change would codify that District Committees would meet on a regional level, as has been their practice for several years;⁴¹ as proposed, Schedule A of the By-Laws sets out the five regions and the districts in them. The proposed rule change

³⁸ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

³⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

⁴⁰ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.3 (Term of Office of District Committee Members).

⁴¹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5 (Meetings of District Committees). See also proposed FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts and Regions) (authorizing the Board to organize the districts into regions to promote efficiency and sound administration).

would also eliminate the requirement for the election of district officers in current Section 8.6,⁴² to allow the flexibility to run a District Committee without officers if that is more efficient in particular districts, especially since the meetings are held on a regional basis and many administrative duties formerly performed by District Committee chairpersons (e.g., preparing meeting agendas and inviting speakers) are currently performed by FINRA staff.⁴³

Committee Size Recalibration

The FINRA Regulation By-Laws provide that a District Committee shall consist of between five and 20 members, unless otherwise provided by resolution of the Board, and that the authorized number of members shall be determined from time to time by the Board, with the caveat that any reduction in the authorized number of such members shall not shorten any existing member's term.⁴⁴ FINRA is proposing a recalibration of District Committee size consistent with this provision. Specifically, the Board has determined to reduce the size of each District Committee other than the New York District Committee by two, from nine to seven, and to increase the New York District Committee -- the only district comprising its entire region -- by two, from 12 to 14.

⁴² See FINRA Regulation By-Laws, Article VIII, Section 8.6 (Election of District Officers).

⁴³ The proposed rule change would make a conforming amendment to eliminate the reference to consultation with the Chair of the District Committee regarding the logistics of District Committee meetings. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5 (Meetings of District Committees).

⁴⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

The proposed reduction in the size of most District Committees would address the membership's generally reduced interest in serving on District Committees, as described above, and accommodate the larger number of participants in current regional combined District Committee meetings as compared with former individual District Committee meetings. Both current and former District Committee members and FINRA staff have stated that while the meetings should be held on a regional basis, the number of participants can inhibit productive discussion by all committee members. Under the current structure, the West and South Regions, each composed of three districts, have up to 27 District Committee members attend regional meetings. The Midwest and North Regions, each composed of two districts, have up to 18 District Committee members attend regional meetings. The proposed structure would reduce attendees to 21 in the West and South Regions and 14 in the Midwest and North Regions. This size recalibration would allow each District Committee to meet the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

In contrast, the proposed increased District Committee size for the New York District would assure a larger pool of District Committee members is available to serve on hearing panels in the district; recognize the fact that, unlike any other district, it comprises its own region entirely; and allow it to meet the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

The proposed decrease in the authorized number of members from nine to seven on each District Committee (except New York, which would increase from 12 to 14) would not shorten the term of office of any existing District Committee member. The change in District Committee size would be effected over three years, concurrent with the

expiration of current District Committee members' terms, so that all current District Committee members would serve out their full terms.⁴⁵

FINRA proposes that, if no individual seeks to be a candidate for a particular District Committee vacancy, the FINRA CEO, or his or her designee, will appoint an individual meeting the qualification requirements of Section 8.2(a), including representing the applicable firm size classification, to the full term of that vacancy.⁴⁶ If the FINRA CEO, or his or her designee, is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, he or she

⁴⁵ As noted above, all District Committees currently have nine members, with the exception of the New York District Committee, which has 12 members; one-third of each District Committee's positions are available for election each year. To effect the transition for all District Committees (except New York), and assuming the transition period were to start in 2011, the three current District Committee members whose terms expire in 2011 would be replaced with three newly elected District Committee members, each representing a different firm size classification (Small Firm, Mid-Size Firm and Large Firm); in 2012 and 2013, the three current District Committee members whose terms expire in each of those years would be replaced with two newly elected District Committee members (in each year, one representing a Small Firm and one representing a Large Firm). At the end of the three-year transition period, the District Committee would consist of seven District Committee members with the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation. The New York District Committee, which currently has four positions available for election each year, would elect five District Committee members in 2011 and 2012 (in each year, two representing Small Firms, one representing a Mid-Size Firm and two representing Large Firms) and four District Committee members in 2013 (two representing Small Firms and two representing Large Firms). The New York District Committee would then consist of 14 District Committee members, meeting the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

⁴⁶ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

may appoint for that vacancy a qualified individual from another firm size classification.⁴⁷

Proposed Elimination of the Advisory Council

The proposed rule change would eliminate the Advisory Council. The Advisory Council is composed of the chairs of each of the District Committees, and is charged to provide input to the Committees and the Board on policy issues, including evaluation of the hearing process and industry practices, and to work closely with the District Committees to develop policy recommendations.⁴⁸ The proposed streamlined District Committee structure and directly nominated and elected representation process, together with an initiative by FINRA to refocus District Committee meetings to better seek member views on their districts' needs and responses to FINRA proposals, obviate the need for the Advisory Council. Given the changes proposed, FINRA would be able to realize the goals of the District Committee system, i.e., to seek member views on policy issues and recommendations, directly from the membership without the time and resource expenditures now required of Advisory Council members and FINRA staff.

Other Proposed Changes

The proposed rule change would make several other procedural and administrative changes. It would replace references to "Executive Vice President,

⁴⁷ Supra note 46. See also proposed FINRA Regulation By-Laws, Article VIII, Section 8.4 (Filling of Vacancies on District Committees) (granting comparable authority to the District Committee members to fill vacancies arising prior to the expiration of a District Committee member's term of office, where the CEO or his or her designee determines, pursuant to Section 8.2(d), that such vacancy should be filled).

⁴⁸ See FINRA Regulation By-Laws, Article VIII, Section 8.7 (Advisory Council).

Regulatory Policy and Programs” and the “Executive Vice President, Member Regulation” with the “Chief Executive Officer or his or her designee” to recognize organizational changes and provide for flexibility for future organizational changes without the need to amend the By-Laws in the future.⁴⁹ It would also make several changes to the election process to make it more streamlined and efficient, including centralizing it within the Corporate Secretary’s office, and diminishing the need for FINRA District office effort. FINRA proposes to permit the Corporate Secretary to develop published procedures for administrative support provided to candidates, which would allow the Secretary’s administrative experience with other FINRA elections to inform these procedures.⁵⁰ The proposed rule change also would modify the ballot preparation to recognize this centralization within the Corporate Secretary’s office and the elimination of the District Nomination Committees.⁵¹ In addition, the proposed rule change would make the vote qualification lists in current Section 8.26 tailored to firm size classification and the applicable list available upon request to a candidate based on the size of the firm with which he or she is associated, since many more candidates are

⁴⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees), Section 8.4 (Filling of Vacancies on District Committees), Section 8.5 (Meeting of District Committees), and Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

⁵⁰ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.10 (Administrative Support).

⁵¹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.11 (Ballots).

foreseen under the new process, and FINRA anticipates that not all of them would likely need or seek these lists.⁵²

The proposed rule change would simplify the tabulation of ballots by the Independent Agent by centralizing it under the Corporate Secretary.⁵³ In addition, it would recognize that election results would be determined based on those firms in particular firm size classifications.⁵⁴ Finally, it would make certain other administrative changes, such as revising the By-Laws to reflect the current address of FINRA Regulation's registered office⁵⁵ and eliminating the obsolete reference to the Canal Zone in District No. 7.⁵⁶

As noted in Item 2 of this filing, the effective date of the proposed rule change will be the date of Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁵⁷ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public

⁵² See proposed FINRA Regulation By-Laws, Article VIII, Section 8.12 (Vote Qualification List).

⁵³ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.14 (General Procedures for Qualification and Accounting of Ballots).

⁵⁴ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.17 (Election Results).

⁵⁵ See proposed FINRA Regulation By-Laws, Article II, Section 2.1 (Location).

⁵⁶ See proposed Schedule A to the FINRA Regulation By-Laws.

⁵⁷ 15 U.S.C. 78o-3(b)(6).

interest. FINRA believes that the proposed rule change will result in a more accessible, transparent and effective District Committee election process and will align the representation of members on the District Committees to follow more closely the industry representation on the FINRA Board.

4. **Self-Regulatory Organization's Statement on Burden on Competition**

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were neither solicited nor received.

6. **Extension of Time Period for Commission Action**

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.⁵⁸

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

Not applicable.

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

Not applicable.

⁵⁸ 15 U.S.C. 78s(b)(2).

9. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2011-011)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change to Amend the By-Laws of FINRA Regulation, Inc. with Regard to District Committee Structure and Governance

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on ,
Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

FINRA is proposing to amend the By-Laws of FINRA’s regulatory subsidiary (“FINRA Regulation”) with regard to District Committee structure and governance to, among other things, adjust the size and composition of District Committees to align more closely with the industry representation on the FINRA Board and replace District Nominating Committees with a process of direct nomination and election based on firm size, as discussed in more detail below.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

The text of the proposed rule change is available on FINRA's Web site at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

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

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

Background

On July 30, 2007, NASD and the New York Stock Exchange consolidated their member firm regulation operations into a combined organization, FINRA. As part of the consolidation, the SEC approved amendments to the NASD By-Laws to implement governance and related changes.³ The approved changes included a FINRA Board governance structure that balanced public and industry representation and designated seven governor seats to represent member firms based on the criteria of firm size.

FINRA Regulation (formerly known as NASD Regulation) is a subsidiary of FINRA that operates according to the Plan of Allocation and Delegation of Functions by

³ See Securities Exchange Act Release No. 56145 (July 26, 2007), 72 FR 42169 (August 1, 2007), as amended by Securities Exchange Act Release No. 56145A (May 30, 2008), 73 FR 32377 (June 6, 2008) (Order Approving File No. SR-NASD-2007-023).

NASD to Subsidiaries, as amended, which was first adopted at NASD Regulation's formation in 1996.⁴

The proposed rule change would modify the FINRA Regulation By-Laws (or "By-Laws") with regard to District Committees in several respects. It would:

- adjust the size and composition of District Committees over a three-year transition period to align more closely with the industry representation on the FINRA Board;
- replace District Nominating Committees with a process of direct nomination and election based on firm size;
- codify current practice that District Committees meet on a regional basis;
- eliminate the Advisory Council;
- amend the qualification requirements and prescribe further term limits for District Committee members;
- revise procedures for qualification and accounting of ballots to be administered solely by an Independent Agent; and
- make other procedural and administrative changes.

District Committees, District Nominating Committees, Districts and Regions

The By-Laws establish the procedures for setting the size and electing the members to FINRA District Committees and District Nominating Committees.⁵ These By-Law provisions have not changed significantly since becoming permanently effective

⁴ See Securities Exchange Act Release No. 37106 (April 11, 1996), 61 FR 16944 (April 18, 1996) (Order Approving File No. SR-NASD-96-02).

⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts) and Section 8.2 (Composition of District Committees).

in January 1998.⁶ They were adopted in part to respond to undertakings ordered by the SEC in 1996 (the “1996 SEC Settlement Order”) concurrent with the issuance of a report pursuant to Section 21(a) of the Exchange Act regarding NASD (the “1996 21(a) Report”).⁷

The role of the District Committees was significantly narrowed as a result of undertakings in the 1996 SEC Settlement Order.⁸ Until January 1998, the role of District Committees was addressed in the NASD By-Laws, which provided in part that District Committees shall also serve as the District Business Conduct Committees (“DBCCs”) for their respective districts.⁹ The undertakings in the 1996 Settlement Order provided, among other things, that DBCCs not be involved in deciding whether or not to institute disciplinary proceedings, and that District Committees not be involved in the review or approval of membership applications.¹⁰ As a consequence, NASD amended its corporate governance documents to comply with these undertakings, including adopting NASD Regulation By-Laws that, among other things, did not provide a role for District

⁶ See Securities Exchange Act Release No. 39326 (November 14, 1997), 62 FR 62385 (November 21, 1997) (Order Approving File No. SR-NASD-96-29).

⁷ See In the Matter of National Association of Securities Dealers, Inc., Securities Exchange Act Release No. 37538, 1996 SEC LEXIS 2146 (August 8, 1996).

⁸ Supra note 7, at Undertaking 4.

⁹ See NASD By-Laws, Article VIII, Section 2(c) (District Committees and District Business Conduct Committees), amended effective September 4, 1990, prior to the permanent adoption of the NASD Regulation By-Laws effective January 15, 1998 (“The District Committees shall also serve as the District Business Conduct Committees for their respective districts”).

¹⁰ Supra note 7, at Undertaking 4.

Committees in the review or approval of membership applications and eliminated DBCCs.¹¹

The By-Laws task the FINRA Regulation Board of Directors with determining the boundaries of the districts and the size of the District Committees.¹² The FINRA Regulation Board has established eleven districts, overseen by FINRA District Offices, which are administratively grouped within five regions:

- West Region - Districts 1 (San Francisco), 2 (Los Angeles), and 3 (Denver and Seattle);
- Midwest Region - Districts 4 (Kansas City) and 8 (Chicago);
- South Region - Districts 5 (New Orleans), 6 (Dallas) and 7 (Atlanta and Boca Raton);
- North Region - Districts 9 (Philadelphia and Woodbridge) and 11 (Boston); and
- New York Region - District 10 (New York City and Long Island).¹³

Today, as provided in the By-Laws, FINRA District Committee members contribute to the regulatory process by, among other things, serving as panelists in disciplinary proceedings in accordance with FINRA Rules; considering and recommending policies and rule changes; and endeavoring to educate FINRA members

¹¹ See Securities Exchange Act Release No. 39326 (November 14, 1997), 62 FR 62385 (November 21, 1997) (File No. SR-NASD-96-29).

¹² See FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts) and Section 8.2 (Composition of District Committees).

¹³ See Schedule A to FINRA Regulation By-Laws.

and others as to the objects, purposes and work of FINRA and FINRA Regulation.¹⁴ The District Committees meet on average twice each year, jointly with the other District Committees in their respective regions. Currently, District Committees are composed of nine members, with the exception of the New York District Committee's twelve. Due to staggered three-year District Committee membership terms, one-third of each District Committee's positions are available for election each year. In some cases, a District Committee may have additional positions to fill if a vacancy has been created by death, resignation, removal or other cause.¹⁵ The District Nominating Committees are composed of five members each, a majority of whom have served on a District Committee, are current or former FINRA Regulation Directors, or current or former FINRA Governors.¹⁶

Current Nomination and Election Process

As part of the election process, the By-Laws require the Corporate Secretary to provide each District Nominating Committee and District Director annual notice, due on or before June 1 of each year, identifying the members of the District Committees and District Nominating Committees whose terms are expiring within the next calendar year.¹⁷ FINRA's Office of the Corporate Secretary issues an Election Notice announcing

¹⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

¹⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.4 (Filling of Vacancies on District Committees).

¹⁶ See FINRA Regulation By-Laws, Article VIII, Section 8.9 (Composition of District Nominating Committees).

¹⁷ See FINRA Regulation By-Laws, Article VIII, Section 8.15 (Notice to District Nominating Committee).

the vacancies in all eleven districts and soliciting any interested party to complete and submit a candidate profile form to the applicable FINRA District Director.¹⁸

Completed candidate profile forms received before the prescribed cutoff date are shared with the District Nominating Committees for review, a process that usually involves candidate interviews.¹⁹ After its review, each District Nominating Committee nominates a slate of candidates for election, which may include an alternate candidate for each position.²⁰ The District Directors, acting for the District Nominating Committees, notify FINRA's Corporate Secretary of each nominated candidate and the office to which the candidate is nominated (i.e., District Committee member or District Nominating Committee member).²¹ Soon after receiving the District Nominating Committees' slates (and, as mandated by the By-Laws, on or before October 1 of each year), FINRA's Office of the Corporate Secretary issues another Election Notice announcing the nominees for upcoming vacancies on the District and the District Nominating Committees and informing members about the petition and election process.²² If the slate is not contested

¹⁸ See FINRA Regulation By-Laws, Article VIII, Section 8.16 (Solicitation of Candidates and Secretary's Notice to FINRA Members).

¹⁹ See FINRA Regulation By-Laws, Article VIII, Section 8.17 (District Nominating Committee Slate).

²⁰ Supra note 19.

²¹ See FINRA Regulation By-Laws, Article VIII, Section 8.18 (Notification of Nomination).

²² Supra note 21.

(i.e., there is one candidate for each position), it is deemed elected without a vote by the district's member firms.²³

The By-Laws also provide a process whereby a registered person meeting the vacancy requirements may be considered for nomination as an additional ("petition") candidate in a contested election. To be considered for nomination as a petition candidate, such individual must deliver a written notice to the District Director within 14 calendar days of the issuance of the Election Notice of nominated candidates.²⁴ The Secretary of FINRA Regulation must provide to any such candidate a list, with applicable contact information, of FINRA members eligible to vote in the candidate's district.²⁵ Within 30 calendar days after the date of mailing of the list to the candidate, the candidate must submit a petition to the District Nominating Committee with signatures from at least ten percent of the FINRA members eligible to vote in his or her district.²⁶ If a candidate submits a petition with the requisite number of valid signatures by the designated date, he or she is nominated and a contested election is held.²⁷

²³ See FINRA Regulation By-Laws, Article VIII, Section 8.19 (Uncontested Election).

²⁴ See FINRA Regulation By-Laws, Article VIII, Section 8.20 (Designation of Additional Candidates).

²⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.21 (List of FINRA Members Eligible to Vote).

²⁶ See FINRA Regulation By-Laws, Article VIII, Section 8.22 (Requirement for Petition Supporting Additional Candidate).

²⁷ See FINRA Regulation By-Laws, Article VIII, Section 8.22 (Requirement for Petition Supporting Additional Candidate) and Section 8.23 (Notice of Contested Election).

In recent years, FINRA has witnessed a decline in eligible individuals willing to serve on the District or District Nominating Committees or undergo the nomination process. Potential candidates have expressed several reasons for their lack of interest, including: the reduced role of the District Committees following the 1996 21(a) Report; the perceived difficulties of undergoing the District Nominating Committee process (usually including rigorous interviews) as compared to the signature-collecting process of becoming a petition candidate; and the perception that slate candidates nominated by District Nominating Committees represent the industry less effectively than more “independent” petition candidates.

Proposed Changes to the Nomination Process and Composition of District Committees

Based on the concerns described above, FINRA proposes to eliminate the current nomination and petition process, including eliminating District Nominating Committees in their entirety,²⁸ and to adopt a more streamlined self-nomination and election process that facilitates member candidacy and fosters representation from Small Firms, Mid-Size Firms and Large Firms (as further described below). As proposed, an individual meeting the qualification requirements of Section 8.2(a) of the By-Laws who is interested in

²⁸ See, e.g., proposed deletions of FINRA Regulation By-Laws, Article VIII, Section 8.9 (Composition of District Nominating Committees); Section 8.10 (Term of Office of District Nominating Committee Members); Section 8.11 (Filling of Vacancies for District Nominating Committees); Section 8.12 (Meetings of District Nominating Committees); Section 8.13 (Election of District Nominating Committee Officers); Section 8.14 (Expenses of District Nominating Committees); Section 8.15 (Notice to District Nominating Committee); Section 8.17 (District Nominating Committee Slate); Section 8.18 (Notification of Nomination); Section 8.19 (Uncontested Election); Section 8.20 (Designation of Additional Candidates); Section 8.22 (Requirement for Petition Supporting Additional Candidate); Section 8.23 (Notice of Contested Election). See also proposed deletion of the term “District Nominating Committee” in FINRA Regulation By-Laws, Article I (Definitions) and Article IV, Section 4.16 (Communication of Views Regarding Contested Election or Nomination).

running for election to a District Committee would simply deliver written notice of such intent to the Secretary of FINRA Regulation within 30 calendar days of the Secretary's issuance of the Notice of election to FINRA members.²⁹ Any individual meeting the qualification requirements would be designated as a candidate without having to undergo the current nominating or petition process.³⁰ FINRA believes that direct candidate nomination and election by the membership would create a more accessible, transparent and effective election process.

The current By-Laws task District Nominating Committees with endeavoring to secure appropriate and fair representation of the various sections of the district and classes and types of FINRA members within the district.³¹ To further this goal, FINRA proposes to require that each District Committee member represent and be directly elected by the applicable classification of members (that are eligible to vote in the district) based on the size of the firm with which he or she is associated. Specifically, candidates would represent one of the following three classifications, as are currently defined in the By-Laws, depending on the size of the firm with which they are associated: Small Firm (up to 150 registered representatives),³² Mid-Size Firm (151 to 499 registered

²⁹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

³⁰ Supra note 29.

³¹ See FINRA Regulation By-Laws, Article VIII, Section 8.17 (District Nominating Committee Slate).

³² FINRA Regulation By-Laws, Article I, paragraph (kk).

representatives),³³ or Large Firm (500 or more registered representatives)³⁴ (the “firm size classifications”).³⁵ As proposed, the Board would determine the composition of District Committees based on firm size classifications, taking into account the composition of the membership and the Board.³⁶

To reflect the District Committees’ current composition, as well as the representation classifications employed by the FINRA Board of Governors (i.e., Large Firm, Mid-Size Firm and Small Firm Governors), the FINRA Regulation Board has determined that, if the proposed rule change is approved, three-sevenths of the District Committee members would be associated with Small Firms, one-seventh with Mid-Size Firms, and three-sevenths with Large Firms. Each classification of candidates would self-nominate and be subject to the vote of eligible firms in their size classification.³⁷ Such ratios are generally consistent with those established under the FINRA By-Laws for the election of industry Governors on the Board of Governors and under the FINRA

³³ FINRA Regulation By-Laws, Article I, paragraph (bb).

³⁴ FINRA Regulation By-Laws, Article I, paragraph (z).

³⁵ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

³⁶ Supra note 35.

³⁷ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees), Section 8.9 (FINRA Members Eligible to Vote) and Section 8.17 (Election Results).

Regulation By-Laws for the election of industry members of the National Adjudicatory Council.³⁸

The FINRA Regulation By-Laws currently require that a District Committee member be registered with a FINRA member eligible to vote in the applicable district and work primarily from such member's principal office or a branch office that is located within the district where the member serves on a District Committee.³⁹ The proposal would clarify that each District Committee member be associated with a FINRA member eligible to vote in the district for District Committee elections and registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member.⁴⁰ This requirement is designed to ensure that District Committee members have requisite experience for purposes of participating in the District Committee meetings.

The FINRA Regulation By-Laws currently limit District Committee members to serving no more than two full three-year terms consecutively. The proposed rule change would limit this provision further, to prohibit consecutive full terms.⁴¹ This requirement would provide for turnover of representation on the District Committees, with the goal of

³⁸ See FINRA By-Laws, Article I (Definitions) and Article VII, Section 4 (Composition and Qualifications of the Board); FINRA Regulation By-Laws, Article V, Section 5.2 (Number of Members and Qualifications). See also Securities Exchange Act Release No. 56145 (July 26, 2007), 72 FR 42169 (August 1, 2007), as amended by Securities Exchange Act Release No. 56145A (May 30, 2008), 73 FR 32377 (June 6, 2008) (Order Approving File No. SR-NASD-2007-023).

³⁹ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

⁴⁰ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

⁴¹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.3 (Term of Office of District Committee Members).

bringing different perspectives and views to them, while still allowing individuals interested in serving multiple terms to do so on a non-consecutive basis.

The proposed rule change would codify that District Committees would meet on a regional level, as has been their practice for several years;⁴² as proposed, Schedule A of the By-Laws sets out the five regions and the districts in them. The proposed rule change would also eliminate the requirement for the election of district officers in current Section 8.6,⁴³ to allow the flexibility to run a District Committee without officers if that is more efficient in particular districts, especially since the meetings are held on a regional basis and many administrative duties formerly performed by District Committee chairpersons (e.g., preparing meeting agendas and inviting speakers) are currently performed by FINRA staff.⁴⁴

Committee Size Recalibration

The FINRA Regulation By-Laws provide that a District Committee shall consist of between five and 20 members, unless otherwise provided by resolution of the Board, and that the authorized number of members shall be determined from time to time by the Board, with the caveat that any reduction in the authorized number of such members shall

⁴² See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5 (Meetings of District Committees). See also proposed FINRA Regulation By-Laws, Article VIII, Section 8.1 (Establishment of Districts and Regions) (authorizing the Board to organize the districts into regions to promote efficiency and sound administration).

⁴³ See FINRA Regulation By-Laws, Article VIII, Section 8.6 (Election of District Officers).

⁴⁴ The proposed rule change would make a conforming amendment to eliminate the reference to consultation with the Chair of the District Committee regarding the logistics of District Committee meetings. See proposed FINRA Regulation By-Laws, Article VIII, Section 8.5 (Meetings of District Committees).

not shorten any existing member's term.⁴⁵ FINRA is proposing a recalibration of District Committee size consistent with this provision. Specifically, the Board has determined to reduce the size of each District Committee other than the New York District Committee by two, from nine to seven, and to increase the New York District Committee -- the only district comprising its entire region -- by two, from 12 to 14.

The proposed reduction in the size of most District Committees would address the membership's generally reduced interest in serving on District Committees, as described above, and accommodate the larger number of participants in current regional combined District Committee meetings as compared with former individual District Committee meetings. Both current and former District Committee members and FINRA staff have stated that while the meetings should be held on a regional basis, the number of participants can inhibit productive discussion by all committee members. Under the current structure, the West and South Regions, each composed of three districts, have up to 27 District Committee members attend regional meetings. The Midwest and North Regions, each composed of two districts, have up to 18 District Committee members attend regional meetings. The proposed structure would reduce attendees to 21 in the West and South Regions and 14 in the Midwest and North Regions. This size recalibration would allow each District Committee to meet the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

In contrast, the proposed increased District Committee size for the New York District would assure a larger pool of District Committee members is available to serve on hearing panels in the district; recognize the fact that, unlike any other district, it

⁴⁵ See FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees).

comprises its own region entirely; and allow it to meet the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

The proposed decrease in the authorized number of members from nine to seven on each District Committee (except New York, which would increase from 12 to 14) would not shorten the term of office of any existing District Committee member. The change in District Committee size would be effected over three years, concurrent with the expiration of current District Committee members' terms, so that all current District Committee members would serve out their full terms.⁴⁶

FINRA proposes that, if no individual seeks to be a candidate for a particular District Committee vacancy, the FINRA CEO, or his or her designee, will appoint an individual meeting the qualification requirements of Section 8.2(a), including

⁴⁶ As noted above, all District Committees currently have nine members, with the exception of the New York District Committee, which has 12 members; one-third of each District Committee's positions are available for election each year. To effect the transition for all District Committees (except New York), and assuming the transition period were to start in 2011, the three current District Committee members whose terms expire in 2011 would be replaced with three newly elected District Committee members, each representing a different firm size classification (Small Firm, Mid-Size Firm and Large Firm); in 2012 and 2013, the three current District Committee members whose terms expire in each of those years would be replaced with two newly elected District Committee members (in each year, one representing a Small Firm and one representing a Large Firm). At the end of the three-year transition period, the District Committee would consist of seven District Committee members with the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation. The New York District Committee, which currently has four positions available for election each year, would elect five District Committee members in 2011 and 2012 (in each year, two representing Small Firms, one representing a Mid-Size Firm and two representing Large Firms) and four District Committee members in 2013 (two representing Small Firms and two representing Large Firms). The New York District Committee would then consist of 14 District Committee members, meeting the proposed 3-1-3 ratio of Small Firm, Mid-Size Firm and Large Firm representation.

representing the applicable firm size classification, to the full term of that vacancy.⁴⁷ If the FINRA CEO, or his or her designee, is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, he or she may appoint for that vacancy a qualified individual from another firm size classification.⁴⁸

Proposed Elimination of the Advisory Council

The proposed rule change would eliminate the Advisory Council. The Advisory Council is composed of the chairs of each of the District Committees, and is charged to provide input to the Committees and the Board on policy issues, including evaluation of the hearing process and industry practices, and to work closely with the District Committees to develop policy recommendations.⁴⁹ The proposed streamlined District Committee structure and directly nominated and elected representation process, together with an initiative by FINRA to refocus District Committee meetings to better seek member views on their districts' needs and responses to FINRA proposals, obviate the need for the Advisory Council. Given the changes proposed, FINRA would be able to realize the goals of the District Committee system, i.e., to seek member views on policy

⁴⁷ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

⁴⁸ Supra note 47. See also proposed FINRA Regulation By-Laws, Article VIII, Section 8.4 (Filling of Vacancies on District Committees) (granting comparable authority to the District Committee members to fill vacancies arising prior to the expiration of a District Committee member's term of office, where the CEO or his or her designee determines, pursuant to Section 8.2(d), that such vacancy should be filled).

⁴⁹ See FINRA Regulation By-Laws, Article VIII, Section 8.7 (Advisory Council).

issues and recommendations, directly from the membership without the time and resource expenditures now required of Advisory Council members and FINRA staff.

Other Proposed Changes

The proposed rule change would make several other procedural and administrative changes. It would replace references to “Executive Vice President, Regulatory Policy and Programs” and the “Executive Vice President, Member Regulation” with the “Chief Executive Officer or his or her designee” to recognize organizational changes and provide for flexibility for future organizational changes without the need to amend the By-Laws in the future.⁵⁰ It would also make several changes to the election process to make it more streamlined and efficient, including centralizing it within the Corporate Secretary’s office, and diminishing the need for FINRA District office effort. FINRA proposes to permit the Corporate Secretary to develop published procedures for administrative support provided to candidates, which would allow the Secretary’s administrative experience with other FINRA elections to inform these procedures.⁵¹ The proposed rule change also would modify the ballot preparation to recognize this centralization within the Corporate Secretary’s office and the elimination of the District Nomination Committees.⁵² In addition, the proposed rule change would make the vote qualification lists in current Section 8.26 tailored to firm

⁵⁰ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.2 (Composition of District Committees), Section 8.4 (Filling of Vacancies on District Committees), Section 8.5 (Meeting of District Committees), and Section 8.8 (Self-Nomination of Candidates and Vacancy Appointments).

⁵¹ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.10 (Administrative Support).

⁵² See proposed FINRA Regulation By-Laws, Article VIII, Section 8.11 (Ballots).

size classification and the applicable list available upon request to a candidate based on the size of the firm with which he or she is associated, since many more candidates are foreseen under the new process, and FINRA anticipates that not all of them would likely need or seek these lists.⁵³

The proposed rule change would simplify the tabulation of ballots by the Independent Agent by centralizing it under the Corporate Secretary.⁵⁴ In addition, it would recognize that election results would be determined based on those firms in particular firm size classifications.⁵⁵ Finally, it would make certain other administrative changes, such as revising the By-Laws to reflect the current address of FINRA Regulation's registered office⁵⁶ and eliminating the obsolete reference to the Canal Zone in District No. 7.⁵⁷

As noted in Item 2 of this filing, the effective date of the proposed rule change will be the date of Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁵⁸ which requires, among other things, that FINRA rules

⁵³ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.12 (Vote Qualification List).

⁵⁴ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.14 (General Procedures for Qualification and Accounting of Ballots).

⁵⁵ See proposed FINRA Regulation By-Laws, Article VIII, Section 8.17 (Election Results).

⁵⁶ See proposed FINRA Regulation By-Laws, Article II, Section 2.1 (Location).

⁵⁷ See proposed Schedule A to the FINRA Regulation By-Laws.

⁵⁸ 15 U.S.C. 78o-3(b)(6).

must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will result in a more accessible, transparent and effective District Committee election process and will align the representation of members on the District Committees to follow more closely the industry representation on the FINRA Board.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Written comments were neither solicited nor received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2011-011 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FINRA-2011-011. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F

Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2011-011 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵⁹

Elizabeth M. Murphy
Secretary

⁵⁹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

* * * * *

BY-LAWS OF FINRA REGULATION, INC.

ARTICLE I

DEFINITIONS

When used in these By-Laws, unless the context otherwise requires, the term:

(a) through (m) No Change.

[(n) “District Nominating Committee” means a District Nominating Committee elected pursuant to Article VIII of these By-Laws;]

(o) through (ll) are redesignated (n) through (kk)

ARTICLE II

OFFICES

Location

Sec. 2.1 The address of the registered office of FINRA Regulation in the State of Delaware and the name of the registered agent at such address shall be: Corporate Creations Network Inc., 3411 Silverside Road, Rodney Building #104[1308 Delaware Avenue], Wilmington, Delaware 19810 [19806]. FINRA Regulation also may have offices at such other places both within and without the State of Delaware as the Board may from time to time designate or the business of FINRA Regulation may require.

* * * * *

ARTICLE IV

BOARD OF DIRECTORS

* * * * *

Communication of Views Regarding Contested Election or Nomination

Sec. 4.16 (a) FINRA Regulation, the Board, any committee, the National Adjudicatory Council, and FINRA Regulation staff shall not take any position publicly or with a FINRA member or person associated with or employed by a member with respect to any candidate in a contested election or nomination held pursuant to these By-Laws or the FINRA By-Laws. A Director, committee member (other than the Nominating Committee[or District Nominating Committee]) or National Adjudicatory Council member may communicate his or her views with respect to a candidate if such Director or committee or National Adjudicatory Council member acts solely in his or her individual capacity and disclaims any intention to communicate in any official capacity on behalf of FINRA Regulation, the Board, the National Adjudicatory Council, or any committee (other than the Nominating Committee[or District Nominating Committee]). Except as provided herein, any candidate and his or her representatives may communicate support for the candidate to a member or person associated with or employed by a member.

(b) In a contested election, the Nominating Committee[or District Nominating Committee] may support its nominee by sending to members eligible to vote up to two mailings of materials in support of its nominees in lieu of mailings sent by its candidates pursuant to these By-Laws. In addition to such mailings, in the event of mailings or other communications to members by or on behalf of a candidate by petition in a contested election, the Nominating Committee[or District Nominating Committee] may respond in-kind, but shall not take a position unresponsive to the contesting candidate's communications.

* * * * *

ARTICLE VIII

DISTRICT COMMITTEES [AND DISTRICT NOMINATING COMMITTEES]

Establishment of Districts and Regions

Sec. 8.1 The Board shall establish boundaries for districts within the United States to assist FINRA Regulation in administering its affairs in a manner that is consistent with applicable law, the Restated Certificate of Incorporation, these By-Laws, the Delegation Plan, and the Rules of the Corporation. The Board may organize the districts into regions to promote efficiency and sound administration. It may make changes from time to time in the number or boundaries of the districts or regions as it deems necessary or appropriate. The Board shall prescribe such policies and procedures as are necessary or appropriate to address the implementation of a new district or region configuration in the event of a change in the number or boundaries of the districts or regions. Schedule A to these By-Laws identifies the districts, their territorial boundaries and respective regions as currently established by the Board.

Composition of District Committees

Sec. 8.2 (a) A district created under Section 8.1 shall elect a District Committee pursuant to this Article. A District Committee shall consist of no fewer than five and no more than 20 members, unless otherwise provided by resolution of the Board. Subject to the limitation set forth in the immediately preceding sentence, the authorized number of members of a District Committee shall be determined from time to time by the Board; provided, however, that no decrease in the authorized number of members of a District Committee shall shorten the term of office of any member thereof. Each District Committee member shall: (1) be [registered]associated with a FINRA member eligible to vote in the district for District Committee elections and registered in the capacity of a branch manager or principal or denoted as a corporate officer of the FINRA member[, and]; (2) work primarily from such FINRA

member's principal office or a branch office that is located within the district where the member serves on a District Committee; and (3) represent and be directly elected by the applicable classification of FINRA members based on the size of the firm with which he or she is associated: Small Firm, Mid-Size Firm, or Large Firm as defined in these By-Laws. The Board shall determine the composition of District Committees based on firm size classifications (Small Firm, Mid-Size Firm, or Large Firm), taking into account the composition of the membership and the Board. Members of the District Committees shall serve as panelists in disciplinary proceedings in accordance with the Rules of the Corporation. The District Committees shall consider and recommend policies and rule changes to the Board. The District Committees shall endeavor to educate FINRA members and other brokers and dealers in their respective districts as to the objects, purposes, and work of FINRA and FINRA Regulation in order to foster FINRA members' interest and cooperation.

(b) A member of a District Committee may resign at any time upon giving Notice to the District Director. Any such resignation shall take effect upon receipt of such Notice or at any later time specified therein, provided that notice of resignation at a later date may be made immediately effective at the discretion of the Chief Executive Officer or his or her designee[Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s)]. The acceptance of such resignation shall not be necessary to make such resignation effective.

(c) In the event of the refusal, failure, neglect, or inability of a member of a District Committee to discharge his or her duties, or for any cause affecting the best interests of FINRA Regulation, the sufficiency of which shall be decided by the District Committee, the District Committee may remove the member by the affirmative vote of two-thirds of the members of the

District Committee then in office and declare the District Committee member's position vacant. The District Committee shall notify the District Committee member of his or her removal within seven days after the vote. A District Committee member who is removed may submit a written appeal of the removal to the Board within 30 days after the date he or she is notified of the removal. The Board may affirm, reverse, or modify the determination of the District Committee. A vote of a majority of the Directors then in office shall be required to reverse or modify the action of the District Committee.

(d) In the event of a vacancy in a District Committee resulting from death, resignation, removal, or other cause, the Chief Executive Officer or his or her designee [Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s)] shall determine whether such vacancy shall be filled prior to the next regularly scheduled election of District Committee members. In the event the Chief Executive Officer or his or her designee[Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s)] determines that a vacancy on a District Committee should be filled, the vacancy shall be filled pursuant to Section 8.4.

Term of Office of District Committee Members

Sec. 8.3 Each regularly elected member of a District Committee shall hold office for a "full term" which is the later of three years or until a successor is elected and qualified. Notwithstanding the term of office for a regularly elected District Committee member, such member's term shall terminate sooner upon the member's death, resignation, or removal. There is no limit on the number of terms that may be served by a member of a District Committee, [provided,] except that a District Committee member may not serve two full terms

consecutively[no more than two terms may be served consecutively. The word “term” as used for the purpose of this Section shall mean either a full term for a regularly elected member or a “partial term” which is a term served by a member appointed to fill a vacancy on the District Committee created by the termination of a regularly elected member’s office prior to the expiration of the full term].

Filling of Vacancies on District Committees

Sec. 8.4 In the event of a vacancy on a District Committee prior to the expiration of the District Committee member’s term of office, and where the Chief Executive Officer or his or her designee [Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s)] determines, pursuant to Section 8.2(d), that such vacancy should be filled, or in the event of a newly created membership on a District Committee by virtue of an increase in the authorized number of members thereof, the District Committee shall appoint by majority vote [a representative of a FINRA member eligible pursuant to]an individual who meets the qualification requirements of Section 8.2(a), including meeting the requirement of representing the applicable firm size classification (Small Firm, Mid-Size Firm, or Large Firm) to fill the vacancy or newly created membership. If the District Committee is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, it may appoint for that vacancy an individual who otherwise meets the qualification requirements of Section 8.2(a) associated with a firm having another firm size classification. The appointment by the District Committee shall be effective until the next regularly scheduled election, and until such District Committee member’s successor is elected and qualified. Following the next regularly scheduled election, in the event of a vacancy, the newly elected District Committee member shall serve only the duration of the

departed District Committee member's term, and in the event of a newly created membership, the newly elected District Committee member shall serve only the duration of the term for such class of membership.

Meetings of District Committees

Sec. 8.5 Meetings of a District Committee shall be held jointly with the other District Committees in its region, as identified in Schedule A to these By-Laws, at such times and places, upon such notice, and in accordance with such procedures as the Chief Executive Officer or his or her designee [Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s)] in his or her discretion may determine [in consultation with the Chair of the District Committee]. A quorum of a District Committee shall consist of a majority of its members, and any action taken by a majority present at any meeting at which a quorum is present, except as otherwise provided in these By-Laws, shall constitute the action of the Committee. Any or all members of a District Committee may participate in any such meeting by means of conference telephone or other communications equipment by means of which all participants can communicate with each other, and such participation shall constitute presence in person at the meeting. Action by a District Committee may be taken by consent in writing or by electronic transmission in lieu of a meeting, in which case any action taken by a majority of the Committee shall constitute the action of the Committee.

[Election of District Officers]

[Sec. 8.6 At or following its last regularly scheduled meeting of the calendar year, each District Committee shall elect from its members a Chair and such other officers as it deems necessary for the proper performance of its duties under these By-Laws.]

[Advisory Council]

[Sec. 8.7 The Chairs of the District Committees, elected pursuant to Section 8.6, together with the Chair of the Market Regulation Committee shall constitute an Advisory Council to the Board.]

Expenses of District Committees

Sec. 8.[8]6 Funds to meet the regular expenses of each District Committee shall be provided by the Board, and all such expenses shall be subject to the approval of the Board.

[Composition of District Nominating Committees]

[Sec. 8.9 (a) Each district created under Section 8.1 shall elect a District Nominating Committee pursuant to this Article. A District Nominating Committee shall consist of five members, unless the Board by resolution increases a District Nominating Committee to a larger number. Each District Nominating Committee member shall: (1) be registered with a FINRA member eligible to vote in the district for District Committee elections, and (2) work primarily from such FINRA member's principal office or a branch office that is located within the district where the member serves on a District Nominating Committee, but shall not be a member of the District Committee. A majority of the members of the District Nominating Committee shall include persons who previously have served on a District Committee or who are current or former Directors or current or former Governors of the FINRA Board, or its predecessors.]

[(b) A member of a District Nominating Committee may resign at any time upon giving Notice to the District Director. Any such resignation shall take effect upon receipt of such Notice or at any later time specified therein, provided that notice of resignation at a later date may be made immediately effective at the discretion of the Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective

designee(s). The acceptance of such resignation shall not be necessary to make such resignation effective.]

[(c) In the event of the refusal, failure, neglect, or inability of a member of a District Nominating Committee to discharge his or her duties, or for any cause affecting the best interests of FINRA Regulation, the sufficiency of which shall be decided by the District Nominating Committee, the District Nominating Committee may remove the member by the affirmative vote of two-thirds of the members of the District Nominating Committee then in office and declare the member's position vacant. The District Nominating Committee shall notify the District Nominating Committee member of his or her removal within seven days after the vote. A member who is removed may submit a written appeal of the removal to the Board within 30 days after the date he or she is notified in writing of the removal. The Board may affirm, reverse, or modify the determination of the District Nominating Committee. A vote of a majority of the Directors then in office shall be required to reverse or modify the action of the District Nominating Committee.]

[(d) In the event of a vacancy in a District Nominating Committee resulting from death, resignation, removal, or other cause, the Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s) shall determine whether such vacancy shall be filled prior to the next regularly scheduled election of District Nominating Committee members. In the event the Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s) determines that a vacancy on a District Nominating Committee should be filled, the vacancy shall be filled pursuant to Section 8.11.]

[Term of Office of District Nominating Committee Members]

[Sec. 8.10 Each regularly elected member of a District Nominating Committee shall hold office for a “full term” which is the later of one year or until a successor is elected and qualified. Notwithstanding the term of office for a regularly elected member, such member’s term shall terminate sooner upon the member’s death, resignation, or removal. There is no limit on the number of terms that may be served by a member of a District Nominating Committee, provided, that no more than two terms may be served consecutively. The word “term” as used for the purpose of this Section shall mean either a full term for a regularly elected member or a “partial term” which is a term served by a member appointed to fill a vacancy on the District Nominating Committee created by the termination of a regularly elected member’s office prior to the expiration of the full term.]

[Filling of Vacancies for District Nominating Committees]

[Sec. 8.11 In the event of a vacancy on a District Nominating Committee prior to the expiration of the member’s term of office, and where the Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s) determines, pursuant to Section 8.9(d), that such vacancy should be filled, or in the event of a newly created membership on a District Nominating Committee by virtue of an increase in the authorized number of members thereof, the District Nominating Committee shall appoint by majority vote a representative of a FINRA member eligible pursuant to Section 8.9(a) to fill the vacancy or newly created membership. The appointment shall be effective until the next regularly scheduled election pursuant to this Article, and until such member’s successor is elected and qualified.]

[Meetings of District Nominating Committees]

[Sec. 8.12 Meetings of a District Nominating Committee shall be held at such times and places, upon such notice, and in accordance with such procedures as the Executive Vice President, Regulatory Policy and Programs or the Executive Vice President, Member Regulation or their respective designee(s) in his or her discretion may determine in consultation with the Chair of the District Nominating Committee. A quorum of a District Nominating Committee shall consist of a majority of its members, and any action taken by a majority present at any meeting at which a quorum is present, except as otherwise provided in these By-Laws, shall constitute the action of the District Nominating Committee. Any or all members of a District Nominating Committee may participate in any such meeting by means of conference telephone or other communications equipment by means of which all participants can communicate with each other, and such participation shall constitute presence in person at the meeting. Action by a District Nominating Committee may be taken by consent in writing or by electronic transmission in lieu of a meeting, in which case any action taken by a majority of the District Nominating Committee shall constitute the action of the District Nominating Committee.]

[Election of District Nominating Committee Officers]

[Sec. 8.13 Following the annual election of members of the District Nominating Committees pursuant to this Article, each District Nominating Committee shall elect from its members a Chair and such other officers as it deems necessary for the proper performance of its duties under these By-Laws.]

[Expenses of District Nominating Committees]

[Sec. 8.14 Funds to meet the regular expenses of each District Nominating Committee shall be provided by the Board, and all such expenses shall be subject to the approval of the Board.]

[Notice to District Nominating Committee]

[Sec. 8.15 On or before June 1 of each year, the Secretary of FINRA Regulation shall give a Notice to each District Nominating Committee member and each District Director identifying the members of the District Nominating Committee and the District Committee whose terms of office shall expire in the next calendar year. The Notice shall describe election procedures for filling the offices.]

Solicitation of Candidates and Secretary's Notice to FINRA Members

Sec. 8.[16]Z The Secretary of FINRA Regulation shall give a Notice of the upcoming election to FINRA members and the Executive Representatives of FINRA members describing the election procedures and stating that FINRA members may submit names of District Committee member candidates for consideration to the [District Director. FINRA Regulation staff shall provide the District Nominating Committee with a description of the FINRA membership in the district. The District Nominating Committee shall identify and solicit candidates to nominate for election to the District Committee and the District Nominating Committee]Secretary of FINRA Regulation.

[District Nominating Committee Slate]

[Sec. 8.17 (a) The District Nominating Committee shall review the background of proposed candidates and the description of the FINRA membership provided by FINRA Regulation staff and shall nominate a slate of candidates for the election. The slate shall include one candidate for each open position on the District Committee and the District Nominating Committee subject to election at the next annual election. The District Nominating Committee may also nominate one alternate candidate for the District Committee and one alternate candidate for the District Nominating Committee. In the event of an uncontested election

pursuant to Section 8.19, the alternate candidate would replace any member of the nominated slate of candidates who withdrew or was determined to be ineligible. In nominating candidates for the office of member of the District Committee and the office of member of the District Nominating Committee, the District Nominating Committee shall endeavor to secure appropriate and fair representation on the District Committee and on the District Nominating Committee of the various sections of the district and various classes and types of FINRA members engaged in the investment banking or securities business within the district. In nominating candidates for the office of member of the District Nominating Committee, a District Nominating Committee shall assure that the composition of the District Nominating Committee meets the standards in Section 8.9(a).]

[(b) A District Nominating Committee shall not nominate an incumbent member of the District Committee to succeed himself or herself on the District Committee unless the incumbent member of the District Committee is serving pursuant to the provisions of Section 8.4 or is serving a term pursuant to the provisions of Section 8.2 and reelection would not cause the incumbent member to violate the provisions of Section 8.3. A District Nominating Committee may not nominate more than two incumbent members of the District Nominating Committee to succeed themselves.]

Self-Nomination of Candidates and Vacancy Appointments

Sec. 8.8 (a) An individual who meets the qualification requirements of Section 8.2(a) wishing to be considered for election to the District Committee shall deliver a written Notice to the Secretary of FINRA Regulation within 30 calendar days after the Secretary of FINRA Regulation gives the Notice of the upcoming elections pursuant to Section 8.7. The Secretary of

FINRA Regulation shall make a written record of the time and date of the receipt of each Notice from a qualified individual, and designate that individual as a candidate.

(b) In the event that no candidate is designated for a particular District Committee vacancy, the Chief Executive Officer or his or her designee shall appoint an individual who meets the qualification requirements of Section 8.2(a), including representing the applicable firm size classification (Small Firm, Mid-Size Firm or Large Firm), to fill that vacancy for a full term. If the Chief Executive Office or his or her designee is unable to identify or appoint an individual meeting the requirement of representing the applicable firm size classification, he or she may appoint for that vacancy an individual who otherwise meets the qualification requirements of Section 8.2(a) associated with a firm having another firm size classification.

[Notification of Nomination]

[Sec. 8.18] The District Director, acting on behalf of the District Nominating Committee, shall give a Notice to the Secretary of FINRA Regulation of each candidate nominated by the District Nominating Committee and the office to which the candidate is nominated. If the District Nominating Committee chooses, in its discretion, to nominate an alternate candidate for either the District Committee or the District Nominating Committee, or an alternate candidate for each such Committee, the District Director shall give Notice to the Secretary of FINRA Regulation of each alternate candidate nominated by the District Nominating Committee and the office to which each alternate candidate is nominated. On or before October 1 of each year, the Secretary of FINRA Regulation shall give a Notice of the nominated candidates and any alternate candidate(s) to the Executive Representatives of FINRA members and the District Committee.]

[Uncontested Election]

[Sec. 8.19 If the District Nominating Committee nominates one candidate for each position on the District Committee and the District Nominating Committee subject to election at the next annual election and no additional candidate is nominated pursuant to Section 8.22, the candidates nominated by the District Nominating Committee shall be considered duly elected.]

[Designation of Additional Candidates]

[Sec. 8.20 If an officer or director of, or individual who is registered with, a FINRA member who meets the qualifications of Section 8.2 or 8.9, as applicable, is not nominated by the District Nominating Committee as a candidate or an alternate and wants to be considered for election to the District Committee or the District Nominating Committee, he or she shall deliver a written notice to the District Director within 14 calendar days after the Secretary of FINRA Regulation gives the Notice of nominated candidates pursuant to Section 8.18. The District Director shall make a written record of the time and date of the receipt of the officer's, director's, or registered person's notice. The officer, director, or registered person shall be designated as an "additional candidate."]

[List of] FINRA Members Eligible to Vote

Sec. [8.21 (a) The Secretary of FINRA Regulation shall provide a list of all FINRA members eligible to vote in the district, their mailing addresses, and their Executive Representatives to the additional candidate promptly following receipt of the additional candidate's timely notice by the District Director.]

[(b)**8.9** A FINRA member that has its principal office [and/]or one or more registered branch offices in the district shall be eligible to cast one vote through the FINRA member's Executive Representative for each position representing its firm size classification (Small Firm,

Mid-Size Firm, or Large Firm) on the District Committee [and the District Nominating Committee] to be filled in the election.

[Requirement for Petition Supporting Additional Candidate]

[Sec. 8.22 An additional candidate shall be nominated if a petition signed by at least ten percent of the FINRA members eligible to vote in the district is filed with the District Nominating Committee within 30 calendar days after the date of mailing of the list to the additional candidate pursuant to Section 8.21. Only an Executive Representative may sign a petition on behalf of a FINRA member.]

[Notice of Contested Election]

[Sec. 8.23 If an additional candidate is nominated pursuant to Section 8.22, the election shall be considered a contested election. The Secretary of FINRA Regulation shall give a Notice to the Executive Representatives of the FINRA members eligible to vote in the district announcing the names of the candidates and the office to which each candidate is nominated and describing contested election procedures.]

Administrative Support

Sec. 8.[24]10 The [District Office] Secretary of FINRA Regulation shall provide administrative support to all candidates, according to procedures published by the Secretary[by sending, by electronic transmission, to FINRA members eligible to vote in the district up to two distributions of materials prepared by the candidates. If a candidate wants such distributions sent, the candidate shall prepare such material on the candidate's personal stationery and make the material available to FINRA Regulation in electronic format. The material shall state that it represents the opinion of the candidate. Candidates nominated by the District Nominating Committee may identify themselves as such in their materials]. Any candidate may also send

[mailings] communications to FINRA members eligible to vote in the district based on the firm size classification (Small Firm, Mid-Size Firm, or Large Firm) at the candidate's own expense, provided that such communications clearly state that they represent the opinions of the candidate. Except as provided in this Article, FINRA Regulation, the Board, any committee, and FINRA Regulation staff shall not provide any other administrative support to a candidate in the election.

Ballots

Sec. [8.25 With the assistance of the Secretary of FINRA Regulation and an Independent Agent, the District Nominating Committee shall prepare a ballot with the names of the District Nominating Committee's candidates and any additional candidate nominated pursuant to Section 8.22 and the office to which each candidate is nominated. The ballot shall list separately, in alphabetical order, the candidates nominated by the District Nominating Committee and the additional candidates nominated pursuant to Section 8.22.]**8.11** The Secretary of FINRA Regulation shall send a ballot to the Executive Representative of each FINRA member eligible to vote in the district. The ballot shall list the candidates for each position subject to election in alphabetical order. Instructions on the ballot shall direct the Executive Representative to return the ballot to the Independent Agent and state that the ballot [envelope] must be postmarked or otherwise delivered on or before the return date specified on the ballot. The return date specified on the ballot shall be no fewer than 20 and no more than 30 days after the date of mailing or other delivery of the ballot.

Vote Qualification List

Sec. 8.[26]12 Eligibility to vote in a district election shall be based on FINRA's membership records as of a date selected by the Secretary of FINRA Regulation that is not more than 30 days before the date of mailing or other delivery of the ballot. The Secretary of FINRA

Regulation shall prepare a list of FINRA members in each firm size classification (Small Firm, Mid-Size Firm, or Large Firm) eligible to vote in the district, their mailing addresses, and their Executive Representatives, which shall be used for vote qualification purposes, and shall provide the applicable list to [the] candidates upon request.

Ballots Returned As Undelivered

Sec. 8.[27]13 The Independent Agent shall investigate [open] any ballot [envelope] returned undelivered and shall determine whether it was sent to the FINRA member's address of record. If incorrectly addressed, the Independent Agent shall send a new ballot to the address of record.

General Procedures for Qualification and Accounting of Ballots

Sec. 8.[28]14 After the close of the voting period, the Independent Agent shall tabulate the ballots and notify the Secretary of FINRA Regulation of the voting results for each District Committee position subject to election within [on a date or dates designated by the Secretary of FINRA Regulation, the qualification and accounting of ballots shall take place. The date or dates designated shall be not later than] 14 calendar days after the return date specified on the ballot pursuant to [Section 8.25]Section 8.11. [Candidates and their representatives shall be allowed to observe the qualification and accounting of ballots. Representation for each candidate shall be limited to two individuals. The Independent Agent shall bring to a location within the district agreed to between the Independent Agent and the Secretary of FINRA Regulation all ballots timely received. Under the direction of the Secretary of FINRA Regulation or the Secretary's designee, the Independent Agent shall open and count the ballots. For ballot qualification purposes, the Independent Agent shall identify to the candidates the FINRA members that timely returned ballots and inform the candidates of the Independent Agent's

determination of whether or not a ballot is qualified for voting purposes. The determination shall be based on a comparison of ballots received against the list of FINRA members eligible to vote in the district and their Executive Representatives as prepared by the Secretary of FINRA Regulation pursuant to Section 8.26. The Secretary of FINRA Regulation or the Secretary's designee shall make the final determination of the qualification of a ballot. Upon the qualification of a ballot, the Independent Agent shall record the vote indicated on the ballot. The candidates and their representatives shall not be allowed to see the vote of a FINRA member.]

Ballots Set Aside

Sec. 8.[29]15 The Independent Agent shall set aside a ballot if: (a) the ballot is received from a FINRA member eligible to vote in the district and the ballot is signed by a person who is not the Executive Representative listed on the vote qualification list prepared under [Section 8.26] Section 8.12, and the Secretary of FINRA has not received proper notice of a change in Executive Representative pursuant to the FINRA By-Laws; or (b) if two or more properly executed ballots are received from a FINRA member eligible to vote in the district. If the Independent Agent determines that the ballots set aside are material to the outcome of the election, the Secretary of FINRA Regulation and the Independent Agent shall make reasonable efforts to resolve each ballot set aside. With respect to a ballot not signed by an Executive Representative of record, the Secretary of FINRA Regulation shall contact the FINRA member to request that the FINRA member send written notice of any change in Executive Representative to a FINRA designated system or by facsimile so that the ballot may be counted. With respect to multiple ballots from a FINRA member, the Independent Agent shall contact the Executive Representative of the FINRA member to obtain the FINRA member's vote. The Secretary of FINRA Regulation shall keep a list of FINRA members that reported their ballot

was lost or not received and that were provided with a duplicate ballot. The Secretary of FINRA Regulation shall provide the list to the Independent Agent and, upon request, to the candidates.

Invalid Ballots

Sec. 8.[30]16 The Independent Agent shall declare a ballot invalid if one or more of the following conditions exist:

- (a) the ballot is not signed by the Executive Representative (unless [Section 8.29] Section 8.15 applies);
- (b) a vote is not indicated on the ballot; or
- (c) the ballot indicates votes for more than one candidate[s than there are positions on the District Committee or District Nominating Committee] per position subject to election[in the election].

Election Results

Sec. 8.[31]17 [Under the direction of the Secretary of FINRA Regulation or the Secretary's designee,]T[t]he Independent Agent shall count the votes received for each candidate in a district. The candidates for the office of member of the District Committee [or District Nominating Committee] receiving the largest number of votes cast by FINRA members eligible to vote in the district for the office shall be declared elected such that the number and firm size classification (Small Firm, Mid-Size Firm, or Large Firm) of candidates declared elected [equals]corresponds to the number and firm size classification of positions on the District Committee [or District Nominating Committee] subject to election [in the election]. In the event of a tie, there shall be a run-off election. The Secretary of FINRA Regulation shall notify the Board of the election results. The notification shall state the number of votes received by each candidate in each firm size classification and the number of ballots set aside.

Extensions of Time and Additional Procedures

Sec. 8.[32]18 The Secretary of FINRA Regulation may extend a time period under this Article for good cause shown. In extraordinary circumstances, the Secretary of FINRA Regulation, with the approval of the Executive Committee or the Board, may adopt additional procedures for elections under this Article.

Definitions

Sec. 8.[33]19 (a) When used in Article VIII of these By-Laws, the term “Notice” means a notice in writing or by electronic transmission and the term “electronic transmission” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

(b) For purposes of this Article VIII, any [n]Notice by FINRA Regulation, the Secretary of FINRA Regulation, or the District Director given by electronic transmission shall be deemed given: (1) if by facsimile telecommunication, when directed to a number at which the person entitled to notice has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the person entitled to notice has consented to receive notice; (3) if by a posting on an electronic network when the person entitled to notice has consented to receive notice in this manner, together with separate notice to the person entitled to notice of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission when the person entitled to notice has consented to receive notice in this manner, when directed to the person entitled to notice. For purposes of this Article VIII, if mailed, any such [n]Notice by FINRA Regulation, the Secretary of FINRA Regulation, or the District Director shall be deemed given when deposited

in the United States mail, postage prepaid, directed to the person entitled to notice at such person's address as it appears on the records of FINRA Regulation.

* * * * *

Schedule A to the FINRA Regulation By-Laws

The number and territorial boundaries of the several districts and their respective regions, established as provided in Article VIII, Section 8.1, are as follows:

Districts

District No. 1 State of Hawaii; in the State of California, the Counties of Monterey, San Benito, Fresno and Inyo, and the remainder of the State North or West of such Counties; and in the State of Nevada, the Counties of Esmeralda and Nye, and the remainder of the State North or West of such Counties.

District No. 2 In the State of California, that part of the State South or East of the Counties of Monterey, San Benito, Fresno and Inyo; and, in the State of Nevada, that part of the State South or East of the Counties of Esmeralda and Nye, and all Pacific possessions and territories of the United States.

District No. 3 States of Alaska, Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington and Wyoming.

District No. 4 States of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

District No. 5 States of Alabama, Arkansas, Louisiana, Mississippi, Oklahoma and Tennessee.

District No. 6 State of Texas.

District No. 7 States of Florida, Georgia, North Carolina, and South Carolina, Puerto Rico[, Canal Zone] and the Virgin Islands.

District No. 8 States of Illinois, Indiana, Kentucky, Michigan, Ohio and Wisconsin.

District No. 9 The District of Columbia, and the States of Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia, and New York (except for the five Boroughs of New York City and the Counties of Nassau and Suffolk).

District No. 10 In the State of New York, the five Boroughs of New York City and the Counties of Nassau and Suffolk.

District No. 11 States of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

Regions

Midwest Region: Districts 4 and 8

New York Region: District 10

North Region: Districts 9 and 11

South Region: Districts 5, 6 and 7

West Region: Districts 1, 2 and 3