

*Required fields are shown with yellow backgrounds and asterisks.*

Page 1 of * 12	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2012 - * 025 Amendment No. (req. for Amendments *) 1						
Proposed Rule Change by Financial Industry Regulatory Authority Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934								
Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
			Rule					
Pilot	Extension of Time Period for Commission Action *	Date Expires *	19b-4(f)(1)	19b-4(f)(2)	19b-4(f)(3)	19b-4(f)(4)	19b-4(f)(5)	19b-4(f)(6)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Exhibit 2 Sent As Paper Document			Exhibit 3 Sent As Paper Document					
<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>					
<b>Description</b>								
Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).								
<b>Contact Information</b>								
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 * Brant			Last Name * Brown					
Title *			Associate General Counsel					
E-mail *			brant.brown@finra.org					
Telephone * (202) 728-6927			Fax (202) 728-8264					
<b>Signature</b>								
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 08/30/2012								
By Stephanie Dumont			Senior Vice President and Director of Capital Markets Policy					
(Name *)			(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.			Stephanie Dumont,					

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information (required)**

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

**Exhibit 1 - Notice of Proposed Rule Change (required)**

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

On May 17, 2012, FINRA filed with the Securities and Exchange Commission (“SEC” or “Commission”) SR-FINRA-2012-025, a proposed rule change to adopt NASD Interpretive Material (“IM”) 2110-3 as FINRA Rule 5270 (Front Running of Block Transactions) with several changes. The Commission published the proposed rule change for comment in the Federal Register on June 6, 2012. The Commission received two comment letters in response to the proposed rule change, and FINRA submitted its response to comments on August 29, 2012.

FINRA is filing this Partial Amendment No. 1 to clarify two issues regarding the proposed rule change.

First, FINRA is proposing to clarify that FINRA Rule 5270 will not apply to orders or transactions involving government securities. FINRA Rule 0150(c) lists the rules applicable to transactions in, and business activity relating to, “exempted securities,” which include government securities. The proposed rule change did not add FINRA Rule 5270 to the list of rules included in FINRA Rule 0150(c). To clarify the application of FINRA Rule 5270, FINRA proposes adding the following two sentences to the end of the paragraph ending on pages 7 and 27 of the proposed rule change:

Because FINRA is not proposing to add Rule 5270 to the list of rules applicable to transactions in, and business activities relating to, “exempted securities,” Rule 5270 would not apply to orders or transactions involving “exempted securities.” FINRA notes, however, that actions for similar front running conduct occurring in the exempted securities markets, including the government securities market, continue to be covered by FINRA Rule 2010.

The first sentence would be accompanied by the following footnote:

See FINRA Rule 0150(c). The term “exempted securities” for purposes of Rule 0150 has the same meaning as that in Section 3(a)(12) of the Act. See FINRA Rule 0150(a). Section 3(a)(12) of the Act defines “exempted security” or “exempted securities” to include, among other things, government securities. See 15 U.S.C. 78c(a)(12), (a)(42).

The second sentence would be accompanied by the following footnote:

See NASD Notice to Members 96-66 (October 1996); FINRA Rules 0150(c), 2010.

Second, FINRA is proposing to clarify that the 10,000 share language in proposed Supplementary Material .03 to FINRA Rule 5270 refers to equity securities.

**EXHIBIT 4**

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

\* \* \* \* \*

**5270. Front Running of Block Transactions**

(a) No member or person associated with a member shall cause to be executed an order to buy or sell a security or a related financial instrument when such member or person associated with a member causing such order to be executed has material, non-public market information concerning an imminent block transaction in that security, a related financial instrument or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete.

(b) This Rule applies to orders caused to be executed for any account in which such member or person associated with the member has an interest, any account with respect to which such member or person associated with a member exercises investment discretion, or for accounts of customers or affiliates of the member when the customer or affiliate has been provided such material, non-public market information by the member or any person associated with the member.

(c) For purposes of this Rule, the term “related financial instrument” shall mean any option, derivative, security-based swap, or other financial instrument overlying a security, the value of which is materially related to, or otherwise acts as a substitute for, such security, as well as any contract that is the functional economic equivalent of a position in such security.

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

**.01 Knowledge of Block Transactions.** The violative practices in Rule 5270 may include transactions that are executed based upon knowledge of less than all of the terms of the block transaction, so long as there is knowledge that all of the material terms of the transaction have been or will be agreed upon imminently.

**.02 Publicly Available Information.** Information as to a block transaction shall be considered to be publicly available when it has been disseminated via a last sale reporting system or high speed communications line of one of those systems, a similar system of a national securities exchange under Section 6 of the Exchange Act, an alternative trading system under SEC Regulation ATS, or by a third-party news wire service. The requirement that information concerning the block transaction be made publicly available will not be satisfied until the entire block transaction has been completed and publicly reported.

**.03 [Definition] Examples of Block Transactions.** [A] In the context of equity securities, a transaction involving 10,000 shares or more of a security, an underlying security, or a related financial instrument overlying such number of shares, is generally deemed to be a block transaction, although a transaction of fewer than 10,000 shares could be considered a block transaction. A block transaction that has been agreed upon does not lose its identity as such by arranging for partial executions of the full transaction in portions which themselves are not of block size if the execution of the full transaction may have a material impact on the market.

**.04 Permitted Transactions.**

(a) Rule 5270 does not preclude transactions that the member can demonstrate are unrelated to the material, non-public market information received in connection with the customer order. These types of transactions may include:

(1) transactions where the member has information barriers established to prevent internal disclosure of such information;

(2) transactions in the same security related to a prior customer order in that security;

(3) transactions to correct bona fide errors; or

(4) transactions to offset odd-lot orders.

(b) Rule 5270 does not preclude transactions undertaken for the purpose of fulfilling, or facilitating the execution of, the customer block order. However, when engaging in trading activity that could affect the market for the security that is the subject of the customer block order, the member must minimize any potential disadvantage or harm in the execution of the customer's order, must not place the member's financial interests ahead of those of its customer, and must obtain the customer's consent to such trading activity. A member may obtain its customers' consent through affirmative written consent or through the use of a negative consent letter. The negative consent letter must clearly disclose to the customer the terms and conditions for handling the customer's orders; if the customer does not object, then the member may reasonably conclude that the customer has consented and the member may rely on such letter for all or a portion of the customer's orders. In addition, a member may provide clear and comprehensive oral disclosure to and obtain consent from the customer on an order-by-order basis, provided that the member documents who provided

such consent and such consent evidences the customer's understanding of the terms and conditions for handling the customer's order.

(c) The prohibitions in Rule 5270 shall not apply if the member's trading activity is undertaken in compliance with the marketplace rules of a national securities exchange and at least one leg of the trading activity is executed on that exchange.

**.05 Front Running of Non-Block Transactions.** Although the prohibitions in Rule 5270 are limited to imminent block transactions, the front running of other types of orders that place the financial interests of the member or persons associated with a member ahead of those of its customer or the misuse of knowledge of an imminent customer order may violate other FINRA rules, including Rule 2010 and Rule 5320, or provisions of the federal securities laws.

**EXHIBIT 5**

Exhibit 5 shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

\* \* \* \* \*

**Text of Proposed New FINRA Rule  
(Marked to Show Changes from NASD IM-2110-3;  
NASD IM-2110-3 to be Deleted in its Entirety from the Transitional Rulebook)**

\* \* \* \* \*

**[IM-2110-3]5270. Front Running of Block Transactions [Policy]**

(a) [It shall be considered conduct inconsistent with just and equitable principles of trade for a] No member or person associated with a member shall cause to be executed[, for an account in which such member or person associated with a member has an interest, for an account with respect to which such member or person associated with a member exercises investment discretion, or for certain customer accounts, to cause to be executed:]

[(a)] an order to buy or sell a security or a related financial instrument [an option or a security future] when such member or person associated with a member causing such order to be executed has material, non-public market information concerning an imminent block transaction in [the underlying] that security, a related financial instrument or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete. [or when a customer has been provided such material, non-public market information by the member or any person associated with a member; or]

[(b)] an order to buy or sell an underlying security when such member or person associated with a member causing such order to be executed has material, non-



public market information concerning an imminent block transaction in an option or a security future overlying that security, or when a customer has been provided such material, non-public market information by the member or any person associated with a member; prior to the time information concerning the block transaction has been made publicly available.]

(b) This Rule applies to orders caused to be executed for any account in which such member or person associated with the member has an interest, any account with respect to which such member or person associated with a member exercises investment discretion, or for accounts of customers or affiliates of the member when the customer or affiliate has been provided such material, non-public market information by the member or any person associated with the member.

(c) For purposes of this Rule, the term “related financial instrument” shall mean any option, derivative, security-based swap, or other financial instrument overlying a security, the value of which is materially related to, or otherwise acts as a substitute for, such security, as well as any contract that is the functional economic equivalent of a position in such security.

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

**.01 Knowledge of Block Transactions.** The violative practices in Rule 5270 [noted above] may include transactions [which] that are executed based upon knowledge of less than all of the terms of the block transaction, so long as there is knowledge that all of the material terms of the transaction have been or will be agreed upon imminently.

[The general prohibitions stated above shall not apply to transactions executed by member participants in automatic execution systems in those instances where participants must accept automatic executions.]

[These prohibitions also do not include situations in which a member or person associated with a member receives a customer's order of block size relating to both an option and the underlying security or both a security future and the underlying security. In such cases, the member and person associated with a member may position the other side of one or both components of the order. However, in these instances, the member and person associated with a member would not be able to cover any resulting proprietary position(s) by entering an offsetting order until information concerning the block transaction involved has been made publicly available.]

[The application of this front running policy is limited to transactions that are required to be reported on the last sale reporting systems administered by Nasdaq, Consolidated Tape Association (CTA), or Option Price Reporting Authority (OPRA). The front running policy also applies to security futures transactions regardless of whether such products are reported pursuant to such systems.]

**.02 Publicly Available Information.** Information as to a block transaction shall be considered to be publicly available when it has been disseminated via a last sale reporting system [the tape] or high speed communications line of one of those systems, a similar system of a national securities exchange under Section 6 of the Exchange Act, an alternative trading system under SEC Regulation ATS, or by a third-party news wire service. The requirement that information concerning the block transaction be made publicly available will not be satisfied until the entire block transaction has been completed and publicly reported.

**.03 Examples of Block Transactions.** [A] In the context of equity securities, a transaction involving 10,000 shares or more of a security, an underlying security, or [options or security

futures covering] a related financial instrument overlying such number of shares, is generally deemed to be a block transaction, although a transaction of [less] fewer than 10,000 shares could be considered a block transaction [in appropriate cases]. A block transaction that has been agreed upon does not lose its identity as such by arranging for partial executions of the full transaction in portions which themselves are not of block size if the execution of the full transaction may have a material impact on the market. [In this situation, the requirement that information concerning the block transaction be made publicly available will not be satisfied until the entire block transaction has been completed and publicly reported.]

**.04 Permitted Transactions.**

(a) Rule 5270 does not preclude transactions that the member can demonstrate are unrelated to the material, non-public market information received in connection with the customer order. These types of transactions may include:

(1) transactions where the member has information barriers established to prevent internal disclosure of such information;

(2) transactions in the same security related to a prior customer order in that security;

(3) transactions to correct bona fide errors; or

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(b) Rule 5270 does not preclude transactions undertaken for the purpose of fulfilling, or facilitating the execution of, the customer block order. However, when engaging in trading activity that could affect the market for the security that is the subject of the customer block order, the member must minimize any potential disadvantage or harm in the execution of the customer's order, must not place the member's financial interests ahead

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(c) The prohibitions in Rule 5270 shall not apply if the member's trading activity is undertaken in compliance with the marketplace rules of a national securities exchange and at least one leg of the trading activity is executed on that exchange.

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