

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="40"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2013"/> - * <input type="text" value="046"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **BATS Exchange**  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposed rule changes to amend BATS Rules to recognize a new category of limited representative registration for proprietary traders and Proprietary Trader Principals and clarify BATS qualification and continuing education requirements.

**Contact Information**

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

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

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

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

(Title \*)

Date

By

(Name \*)

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.

Persona Not Validated - 1364234628553,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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

**Exhibit 1 - Notice of Proposed Rule Change \***

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> BATS Exchange, Inc. (the “Exchange” or “BATS”) is filing with the Securities and Exchange Commission (“Commission”) proposed rule changes to amend BATS Rule 2.5, entitled “Restrictions,” and BATS Rule 11.4, entitled “Authorized Traders,” to recognize a new category of limited representative registration for proprietary traders and Proprietary Trader Principals and clarify the qualification and continuing education requirements necessary or acceptable for different registration categories. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>3</sup> The Exchange requests that the Commission waive the 30-day operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.<sup>4</sup> If such waiver is granted by the Commission, the Exchange shall implement this rule proposal immediately.

(a) The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

(b) Not applicable.

(c) Not applicable.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>4</sup> Id.

2. Procedures of the Self-Regulatory Organization

The proposed rule filing was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on November 10, 2009. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of this proposal.

Questions regarding this rule filing may be directed to Eric Swanson, Senior Vice President and General Counsel of the Exchange at (913) 815-7000.

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

(a) Purpose

**Proprietary Trader Registration**

The Exchange proposes to amend Rules 2.5 and 11.4 to recognize a new category of limited representative registration for proprietary traders. The Exchange will also expand its registration requirements to include the Proprietary Traders Qualification Examination ("Series 56") among the applicable qualification examinations as determined by the Exchange. Further, the Exchange proposes to permit Authorized Traders<sup>5</sup> of Members who engage solely in proprietary trading to obtain the Series 56 license in order to effect transactions on the Exchange.

The Series 56 was developed by a number of self-regulatory organizations ("SROs") to test a candidate's knowledge of proprietary trading generally and the

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<sup>5</sup> An "Authorized Trader" is a person who may submit orders (or who supervises a routing engine that may automatically submit orders) to the Exchange's trading facilities on behalf of his or her Member or Sponsored Participant. BATS Rule 1.5(d).

industry rules applicable to the trading of equity securities and listed options contracts.<sup>6</sup> The Series 56 covers, among other things, recordkeeping and recording requirements, types and characteristics of securities and investments, trading practices, display, execution, and trading systems. While the Series 56 is primarily dedicated to topics related to proprietary trading, it also covers some general concepts relating to customers.

The qualification examination consists of 100 multiple choice questions, which candidates have 150 minutes to complete. The content outline describes the following topical sections comprising the examination: Personnel, Business Conduct, Recordkeeping and Reporting Requirements—9 questions; Markets, Market Participants, Exchanges, and Self-Regulatory Organizations—8 questions; Types and Characteristics of Securities and Investments—20 questions; Trading Practices and Prohibited Acts—50 questions; and Display, Execution, and Trading Systems, 13 questions. The examination is already available in the Central Registration Depository (Web CRD), and thus, the rule change can be implemented immediately upon filing the proposed rule changes.

The Exchange believes that acceptance of the Series 56 qualification examination will benefit both the Exchange and the applicable proprietary traders affected by the proposal because the examination would allow an individual who wishes to transact business on BATS in a limited capacity to qualify by passing an examination tailored to

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<sup>6</sup> See Securities Exchange Act Release No. 64699 (June 17, 2011), 76 FR 36945 (June 23, 2011) (SR-CBOE-2011-056) (explaining the development of the Series 56 examination and the examination's content). The Series 56 examination program was developed in conjunction with FINRA, and is shared by the Boston Options Exchange, C2 Options Exchange, Inc.; Chicago Board Options Exchange, Inc.; Chicago Stock Exchange, Inc.; International Securities Exchange, LLC; NASDAQ OMX BX, Inc.; NASDAQ OMX PHLX LLC; NASDAQ Stock Market LLC; National Stock Exchange, Inc.; New York Stock Exchange, LLC; NYSE Amex, Inc.; and NYSE Arca, Inc.

that limited capacity. The Series 56 specifically addresses industry topics that establish the appropriate regulatory and procedural knowledge base necessary for individuals required to register as a Proprietary Trader. As such, the Exchange proposes to modify Interpretation and Policy .01(c) of Rule 2.5 to include the Series 56 examination among the examinations accepted by the Exchange. The Exchange also proposes to replace existing Interpretation and Policy .01(f) of Rule 2.5 to set forth the registration requirements for a Proprietary Trader and modify Interpretation and Policy .01(g) to include a cross-reference to this new provision. Further, the Exchange proposes to modify Interpretation and Policy .02(a) of Rule 2.5 to clarify that persons registered as Proprietary Traders must comply with the continuing education requirements applicable to the Series 56 license, while other Registered Representatives must comply with the continuing education requirements applicable to their particular registration and license. These continuing education requirements are listed in proposed Interpretation and Policy .02(e) to Rule 2.5. Finally, the Exchange also proposes to amend Rule 11.4(e) to include Series 56 among the examinations necessary for an individual to be eligible for registration as an Authorized Trader.

Interpretation and Policy .01(f) of Rule 2.5 currently sets forth a date by which Members were to comply with previous changes to the Rule, which date has already long since passed. The Exchange proposes to eliminate this text and replace it with new text as described below. Under proposed Interpretation and Policy .01(f) of Rule 2.5, an Authorized Trader that is considered to be a proprietary trader can qualify for limited representative registration. An Authorized Trader will be considered to be a proprietary trader if: (1) the Authorized Trader's activities in the investment banking or securities

business are limited solely to proprietary trading; (2) the Authorized Trader passes the Series 56; and (3) the Authorized Trader is an associated person of a proprietary trading firm. Under paragraph (g) of this provision, a “proprietary trading firm” is a Member that trades its own capital, does not have customers, and is not a member of the Financial Industry Regulatory Authority (FINRA). In addition, to qualify for this definition, the funds used by a proprietary trading firm must be exclusively firm funds, all trading must be in the firm’s accounts, and traders must be owners of, employees of, or contractors to the firm.<sup>7</sup> Thus, the Proprietary Trader registration expressly excludes associated persons that deal with the public.<sup>8</sup>

### **Principal Registration**

The Exchange proposes to amend Interpretation and Policy .01(d) of Rule 2.5 to state that the Exchange will accept the New York Stock Exchange (“NYSE”) Series 14 Compliance Official Examination (“Series 14”) in lieu of the Series 24 General Securities Principal Examination (“Series 24”) to satisfy the registration requirement for Principals that have been designated Chief Compliance Officers on Schedule A of Form BD. This examination is designed to establish that the applicant has the knowledge and skill

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<sup>7</sup> BATS Rule 2.5, Interpretation and Policy .01(g).

<sup>8</sup> Authorized Traders that deal with the public should continue to register as General Securities Representatives after obtaining the Series 7 license. An Authorized Trader who is qualified as a General Securities Representative by passing the Series 7 may function as a proprietary trader; however, such person should register as a General Securities Representative rather than a Proprietary Trader.

necessary for compliance officials.<sup>9</sup> The Exchange notes that acceptance of this alternative examination is consistent with other SROs' registration requirements<sup>10</sup> and will provide an alternate, appropriate examination requirement for certain individuals associated with Exchange Members.

In addition, to accommodate the new Proprietary Trader registration category, the Exchange proposes to add language to Interpretation and Policy .01(d) of Rule 2.5 that will create a new category of limited representative Principal—the Proprietary Trader Principal—and clarify the prerequisites necessary for Proprietary Trader Principals as opposed to General Securities Principals. Registration as a Proprietary Trader Principal will be restricted to individuals whose supervisory responsibilities are limited to proprietary traders, as defined in amended Interpretation and Policy .01(f) of Rule 2.5. The Exchange will permit the Series 56 as a prerequisite to the General Securities Principal Examination (“Series 24”) or Compliance Official Examination (“Series 14”).<sup>11</sup>

The Exchange also proposes to add language to Interpretation and Policy .01(d) of Rule 2.5 to clarify the appropriate prerequisites for registration as a General Securities

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<sup>9</sup> For details about the Series 14, see Financial Industry Regulatory Authority, Compliance Official Qualification Examination (Test Series 14): Content Outline, (2012), available at <http://www.finra.org/web/groups/industry/@ip/@comp/@regis/documents/industry/p117564.pdf>.

<sup>10</sup> See, e.g., CBOE Rule 3.6A.08(b); NASD Notice to Members 01-51 (August 2001), available at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003809.pdf>; Chicago Stock Exchange, Inc. Member Regulation Department Information Memorandum (May 8, 2013), available at [http://www.chx.com/content/Participant\\_Information/Downloadable\\_Docs/MarketRegulation/1\\_InformationMemoranda/2013/MR-13-04\\_New\\_Registration\\_Categories\\_and\\_Related\\_Qualification\\_Exams.pdf](http://www.chx.com/content/Participant_Information/Downloadable_Docs/MarketRegulation/1_InformationMemoranda/2013/MR-13-04_New_Registration_Categories_and_Related_Qualification_Exams.pdf); NYSE Information Memo 07-43 (May 9, 2007), available at [http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo\\_id=07-43](http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo_id=07-43).

<sup>11</sup> As noted, the Exchange will only permit the Series 14 for those designated as Chief Compliance Officers on Schedule A of Form BD.

Principals.<sup>12</sup> The Exchange will continue to require General Securities Principals to successfully complete the General Securities Representative Registration (“Series 7”) or an equivalent foreign examination module (“Series 17” or “Series 37/38”).

The Exchange believes that the prerequisite examination requirement for registration as a Proprietary Trader Principal is appropriate because, as noted above, the Series 56 is specifically designed to address industry topics and establish the appropriate regulatory and procedural knowledge base relevant to proprietary trading. Moreover, the Exchange will continue to require successful completion of either the Series 24 or Series 14 for both Proprietary Trader Principals and General Securities Principals, thereby ensuring that all Principals have the necessary knowledge and skill to act in a supervisory capacity. Additionally, the Exchange notes that creating the registration category of Proprietary Trader Principal is consistent with registration requirements of other national securities exchanges.<sup>13</sup>

#### **Acceptable Qualification Examinations**

The Exchange proposes to add Interpretation and Policy .01(h) of Rule 2.5, which will include a chart that sets forth the relevant qualification requirements for each registration category described in the rule. This chart will not change the qualification requirements in any way. It will merely clarify the requirements described in the Rule, thereby avoiding any confusion regarding qualification examinations the Exchange deems acceptable for each registration category.

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<sup>12</sup> General Securities Principals are individuals that supervise the activities of General Securities Representatives.

<sup>13</sup> See, e.g., BOX Rule 2020(c)(2); CBOE Rule 3.6A.08; NASDAQ OMX BX Rule 1022(h); NASDAQ OMX PHLX Rule 612(e).

**Acceptable Continuing Education Programs**

The Exchange also proposes to add language to Interpretation and Policy .02(e) to Rule 2.5 that will clarify the different continuing education (“CE”) requirements for registered persons based upon their registration with the Exchange. Specifically, the Exchange proposes to introduce a chart that enumerates the Regulatory Element programs necessary for each registration category and introduce a new Regulatory Element program for those persons registered as Proprietary Traders.

Existing Interpretation and Policy .02(a) of Rule 2.5 requires all registered representatives to complete the Regulatory Element of the continuing education program at specified intervals and states that the content of the Regulatory Element shall be determined by the Exchange for each registration category of persons subject to the Rule. The Regulatory Element is a computer-based education program administered by the Financial Industry Regulatory Authority (“FINRA”) to help ensure that registered persons are kept up to date on regulatory, compliance and sales practice matters in the industry. Currently, there are there two Regulatory Element programs: the S201 Supervisor Program for registered principals and supervisors and the S101 General Program for Series 7 and all other registered persons. The Exchange is proposing to enumerate these existing programs in Interpretation and Policy .02(e) to Rule 2.5, as well as the new S501 Series 56 Proprietary Trader Continuing Education Program for those persons registered as Proprietary Traders.

The Exchange is also proposing to introduce a new CE program for persons registered with the Exchange solely as Proprietary Traders by passing the Series 56. Proposed Interpretation and Policy .01(f) to Rule 2.5 outlines the registration and

qualification requirements for those wishing to register with the Exchange as a Proprietary Trader, making clear that the Series 56 is a prerequisite for this registration category.

The Proprietary Trader Continuing Education Program (S501) is a computer-based education program developed by many of the self-regulatory organizations that worked to develop the Series 56 (“Participating SROs”)<sup>14</sup> and administered by FINRA to ensure that registered persons are kept current on regulatory, compliance, and trading practice matters in the industry. Unlike the other offered CE programs, the S501 is not part of the Uniform Continuing Education Program, which is developed and maintained by the Securities Industry Regulatory Council on Continuing Education.

The S501 will logistically operate as the currently offered CE programs do. Specifically, registered persons will be required, through CRD, to complete the Regulatory Element of the CE on the second anniversary of the base date and then every three years thereafter. While creating the S501, the Participating SROs believe that the current procedures of the other CE programs work well. The Securities Industry Regulatory Council on Continuing Education has tailored the process of the other CE programs since its inception and made it successful. Thus, as proposed, the S501 will work in the same manner. In addition, consistency between the different programs will avoid creating confusion among registered persons and FINRA.

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<sup>14</sup> The Participating SROs that have assisted with the development of, and plan to administer, the Series 56 and S501 are the Exchange, Chicago Board Options Exchange, C2 Options Inc., the Chicago Stock Exchange, Inc., the New York Stock Exchange, LLC, NYSE Arca, Inc., NYSE Amex, LLC, the NASDAQ Stock Market LLC, the National Stock Exchange, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX, LLC, EDGA Exchange, Inc., EDGX Exchange, Inc., International Securities Exchange, LLC, and BOX Options Exchange, LLC.

The S501 is required for registrants who are registered as Proprietary Traders and do not maintain any other registration through CRD.<sup>15</sup> Individuals that are registered under any other registration are required to maintain the CE obligations associated with such registrations. For example, an individual that engages solely in proprietary trading activities yet continues to maintain a Series 7 registration will be required to continue taking the Series 7 Continuing Education Program (S101).<sup>16</sup> Although such an individual may be engaging in the same activities as an individual registered as a Proprietary Trader, the Series 7 Examination is more comprehensive and covers topics that the Series 56 does not. Thus, the Exchange believes that this individual should complete the CE associated with the Series 7 because this covers all aspects of the individual's registration.

The introduction of the S501 allows the Exchange to tailor its CE requirements more closely to the duties of individuals who have registered with the Exchange as Proprietary Traders after passing the Series 56. More specifically, the Exchange believes allowing individuals engaging in proprietary trading and registered under the Series 56 to complete a separate CE program than those maintaining a Series 7 registration is appropriate given that all individuals have the option of taking either test. In comparison to the more comprehensive Series 7, the Series 56 Examination is more closely tailored to the practice of proprietary trading. As such, the Exchange believes a Series 56 CE

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<sup>15</sup> Any registered person who receives a waiver of the Series 56 under Rule 2.5.01(b), and does not maintain any other registrations in CRD, will be required to complete the Proprietary Trader Continuing Education Program (S501).

<sup>16</sup> See id. If a registered person has received a Series 56 waiver under Rule 2.5.01(b) but continues to maintain a Series 7 registration (that predates the introduction of the Series 56 on the Exchange), that registered individual will only be required to take the Series 7 CE Program (S101). Through CRD, FINRA will recognize the Series 56 as waived while still requiring the Series 7 CE completion.

program should be tailored as well. At the same time, if an individual would like to retain a Series 7 license, the Exchange believes it is appropriate they continue to be required to complete the broader CE program, which covers all aspects of this registration.

(b) Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(c)(3)(B) of the Act in particular.<sup>18</sup> Under Section 6(c)(3)(B), it is the Exchange's responsibility to prescribe standards of training, experience, and competence for Exchange Members and their associated persons.<sup>19</sup> The Exchange proposes to recognize a new category of limited representative registration for proprietary traders and to permit Authorized Traders of Members who engage solely in proprietary trading to obtain the Series 56 license in lieu of the more general Series 7 license. The Exchange believes the Series 56 establishes that Authorized Traders of Members have attained specified levels of competence and knowledge generally applicable to proprietary trading.

Additionally, the Exchange is offering an alternative qualification examination, the Series 14, for Principals designated as Chief Compliance Officers. The Exchange believes this examination establishes the skill and knowledge base necessary for a compliance official. Moreover, acceptance of this alternative examination will provide an alternate, appropriate examination requirement for certain individuals associated with Exchange Members.

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78(c)(3)(B).

<sup>19</sup> Id.

To accommodate recognition of limited representative registration as proprietary Traders, the Exchange proposes to recognize a new category of limited representative principal registration for individuals whose supervisory responsibilities are restricted to proprietary traders. The Exchange will accept the Series 56 as a prerequisite to the successful completion of a permissible Principal Examination. The Exchange will continue to require successful completion of either the Series 24 or Series 14 examination for all Principals because the Exchange believes that these examinations establish the skill and knowledge base appropriate for individuals responsible for supervising the activities of a member's Authorized Traders.

Finally, the Exchange proposes to codify existing CE requirements for persons registered with the Exchange, while also introducing a new CE program that prescribes a standard for Series 56 registered persons. The Exchange believes the proposed changes are reasonable and set forth the appropriate CE requirements for an individual required to register under Rule 2.5.

The Exchange believes the proposed changes are also consistent with Section 6(b)(5) of the Act<sup>20</sup> because they would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, protect investors and the public interest. The Exchange believes the rule changes accomplish these objectives by enabling individuals to qualify for registration with the Exchange by passing a qualification examination that specifically addresses industry topics that establish the foundation for the regulatory and procedural knowledge necessary for such persons electing to register as Proprietary

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<sup>20</sup> 15 U.S.C. 78f(b)(5).

Traders and/or Proprietary Trader Principals. Furthermore, the Exchange is clarifying the continuing education requirements necessary for individuals that choose to register as Proprietary Traders, as well as the basic qualification requirements necessary for all categories of registration, thereby avoiding any unnecessary investor with regard to such requirements.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposed rule changes related to registration requirements will align Exchange Rules with those of many other national securities exchanges.<sup>21</sup> Unifying the qualification requirements for registration as a Proprietary Trader and Proprietary Trader Principal across exchanges promotes clarity for investors and promotes competition among exchanges for trading volume. Similarly, accepting an alternative examination for Principals designated as Chief Compliance Officers on Form BD will avoid duplicative examination requirements among exchanges, thereby

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<sup>21</sup> See, e.g., BOX Rule 2020(b)(2), (c)(2); CBOE Rule 3.6A.08; NASDAQ OMX BX Rules 1022(h), 1032(b); NASDAQ OMX PHLX Rules 612(e), 613(f); NYSE Arca Options Rule 2.23(b)(2); EDGX Rule 2.5.06; see also NASD Notice to Members 01-51 (August 2001), available at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003809.pdf>; Chicago Stock Exchange, Inc. Member Regulation Department Information Memorandum (May 8, 2013), available at [http://www.chx.com/content/Participant\\_Information/Downloadable\\_Docs/MarketRegulation/1\\_InformationMemoranda/2013/MR-13-04\\_New\\_Registration\\_Categories\\_and\\_Related\\_Qualification\\_Exams.pdf](http://www.chx.com/content/Participant_Information/Downloadable_Docs/MarketRegulation/1_InformationMemoranda/2013/MR-13-04_New_Registration_Categories_and_Related_Qualification_Exams.pdf); NYSE Information Memo 07-43 (May 9, 2007), available at [http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo\\_id=07-43](http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo_id=07-43).

furthering competition among these exchanges and reducing the burden on individuals that are well-qualified to act in a supervisory capacity.

In addition, the proposed rule change clarifying the specific CE requirements for all registration categories will align Exchange Rules with those of the Chicago Board Option Exchange (“CBOE”).<sup>22</sup> The Exchange does not believe that these proposed rule changes will affect intermarket competition because the Exchange believes that all exchanges that impose the same CE requirements will file similar rule changes addressing these CE programs. Furthermore, the Exchange does not believe the proposed change will affect intramarket competition because all similarly situated registered persons (e.g. registered persons maintaining the same registrations) are required to complete the same CE requirements. For example, all individuals maintaining a Series 7 registration will be required to complete the Series 7 CE, while all individuals maintaining a Series 56 registration (and no other registrations) will be required to complete the new Series 56 CE.

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

Not applicable.

6. Extension of Time Period for Commission Action

Not applicable.

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<sup>22</sup> See Securities Exchange Act Release No. 70027 (July 23, 2013), 78 FR 45584 (July 29, 2013) (SR-CBOE-2013-076).

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

The Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>24</sup> The Exchange asserts that the proposed rule change: (1) will not significantly affect the protection of investors or the public interest, (2) will not impose any significant burden on competition, (3) and will not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing.<sup>25</sup> The Exchange notes that this proposal does not propose any policies or provisions that are unique or unproven, but would instead align the Exchange's rules regarding registration of proprietary traders and Principals with the rules of the Exchange's competitors.<sup>26</sup> Accordingly, the Exchange has designated this rule filing as non-controversial under Section 19(b)(3)(A) of the Act<sup>27</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>28</sup>

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4.

<sup>25</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>26</sup> See supra note 9 (citing other SROs rules relating to the Series 14); note 12 (citing other exchanges' rules relating to proprietary trader registration); Securities Exchange Act Release No. 70027 (July 23, 2013), 78 FR 45584 (July 29, 2013) (SR-CBOE-2013-076) (rule filing codifying the CE deemed appropriate for those registered as proprietary traders with CBOE).

<sup>27</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>28</sup> 17 CFR 240.19b-4.

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule changes may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act<sup>29</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>30</sup> The proposed rule changes will allow the Exchange to formally recognize a new category of limited representative registration for Proprietary Traders and Proprietary Trader Principals. The changes will also clarify which qualification examinations the Exchange will accept for different registration categories. The Exchange believes that Authorized Traders of Members who engage solely in proprietary trading, obtain the Series 56 license, and wish to register with BATS would be disadvantaged by having to wait for the proposed rule changes to become operative, as would those individuals in a supervisory role that might be required to fulfill duplicative examination requirements. Additionally, immediate implementation of those changes that clarify the Exchange's examination and CE requirements will benefit the public interest by avoiding unnecessary investor confusion. The Exchange notes that the introduction of the Proprietary Trader Continuing Education Program does not change registered individuals' obligation to complete the required CE as outlined in current Interpretation and Policy .02(a) to Rule 2.5. Because the Exchange believes that implementation of the standards proposed in this filing is important to the maintenance of a fair and orderly market and is non-controversial, the Exchange requests that the Commission waive the 30-day operative delay specified in Rule 19b-4(f)(6).<sup>31</sup>

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<sup>29</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>30</sup> 17 CFR 240.19b-4(f)(6).

<sup>31</sup> Id.

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

The Exchange's proposed rule change to recognize a category of limited representative registration for proprietary traders will align the Exchange's registration requirements for proprietary traders with those of other exchanges, including Boston Options Exchange ("BOX") (Rule 2020(b)), Chicago Board Options Exchange ("CBOE") (Interpretation and Policy .08 of Rule 3.6A), NASDAQ OMX BX (Rule 1032(b)), NYSE Arca Options (Rule 2.23(b)(2)), NYSE MKT (Rule 341), and EDGX (Interpretations and Policies .03 and .06 of Rule 2.5). The proposed rule change to recognize the Series 14 examination in lieu of the Series 24 for those designated as Chief Compliance Officers is likewise consistent with other self-regulatory organizations, including FINRA, CBOE, and NYSE.<sup>32</sup> The Exchange's proposed rule change to recognize limited Principal registration for individuals whose supervisory activities are limited to Proprietary Traders is consistent with BOX Rule 2020(c)(2), Interpretation and Policy .08 to CBOE Rule 3.6A, NASDAQ OMX BX Rule 1022(h), and NASDAQ OMX PHLX Rule 612(e). Finally, the proposed rule change clarifying the Exchange's CE requirements is based on CBOE Rule 9.3A.<sup>33</sup>

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

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<sup>32</sup> See supra note 9.

<sup>33</sup> Securities Exchange Act Release No. 70027 (July 23, 2013), 78 FR 45584 (July 29, 2013) (SR-CBOE-2013-076).

11. Exhibits

Exhibit 1: Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibit 2–4: Not applicable.

Exhibit 5: Text of Proposed Rule Change.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BATS-2013-046)

Self-Regulatory Organizations; BATS Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify BATS Registration and Continuing Education Requirements.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 15, 2013, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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

The Exchange filed a proposal to amend BATS Rule 2.5, entitled “Restrictions,” and BATS Rule 11.4, entitled “Authorized Traders,” to recognize a new category of limited representative registration for proprietary traders and Proprietary Trader Principals and clarify the qualification and continuing education requirements necessary or acceptable for different registration categories.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

The text of the proposed rule change is available at the Exchange's website at <http://www.batstrading.com>, at the principal office of the Exchange, 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, the Exchange 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. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

**Proprietary Trader Registration**

The Exchange proposes to amend Rules 2.5 and 11.4 to recognize a new category of limited representative registration for proprietary traders. The Exchange will also expand its registration requirements to include the Proprietary Traders Qualification Examination ("Series 56") among the applicable qualification examinations as determined by the Exchange. Further, the Exchange proposes to permit Authorized Traders<sup>5</sup> of Members who engage solely in proprietary trading to obtain the Series 56 license in order to effect transactions on the Exchange.

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<sup>5</sup> An "Authorized Trader" is a person who may submit orders (or who supervises a routing engine that may automatically submit orders) to the Exchange's trading facilities on behalf of his or her Member or Sponsored Participant. BATS Rule 1.5(d).

The Series 56 was developed by a number of self-regulatory organizations (“SROs”) to test a candidate’s knowledge of proprietary trading generally and the industry rules applicable to the trading of equity securities and listed options contracts.<sup>6</sup> The Series 56 covers, among other things, recordkeeping and recording requirements, types and characteristics of securities and investments, trading practices, display, execution, and trading systems. While the Series 56 is primarily dedicated to topics related to proprietary trading, it also covers some general concepts relating to customers.

The qualification examination consists of 100 multiple choice questions, which candidates have 150 minutes to complete. The content outline describes the following topical sections comprising the examination: Personnel, Business Conduct, Recordkeeping and Reporting Requirements—9 questions; Markets, Market Participants, Exchanges, and Self-Regulatory Organizations—8 questions; Types and Characteristics of Securities and Investments—20 questions; Trading Practices and Prohibited Acts—50 questions; and Display, Execution, and Trading Systems, 13 questions. The examination is already available in the Central Registration Depository (Web CRD), and thus, the rule change can be implemented immediately upon filing the proposed rule changes.

The Exchange believes that acceptance of the Series 56 qualification examination will benefit both the Exchange and the applicable proprietary traders affected by the

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<sup>6</sup> See Securities Exchange Act Release No. 64699 (June 17, 2011), 76 FR 36945 (June 23, 2011) (SR-CBOE-2011-056) (explaining the development of the Series 56 examination and the examination’s content). The Series 56 examination program was developed in conjunction with FINRA, and is shared by the Boston Options Exchange, C2 Options Exchange, Inc.; Chicago Board Options Exchange, Inc.; Chicago Stock Exchange, Inc.; International Securities Exchange, LLC; NASDAQ OMX BX, Inc.; NASDAQ OMX PHLX LLC; NASDAQ Stock Market LLC; National Stock Exchange, Inc.; New York Stock Exchange, LLC; NYSE Amex, Inc.; and NYSE Arca, Inc.

proposal because the examination would allow an individual who wishes to transact business on BATS in a limited capacity to qualify by passing an examination tailored to that limited capacity. The Series 56 specifically addresses industry topics that establish the appropriate regulatory and procedural knowledge base necessary for individuals required to register as a Proprietary Trader. As such, the Exchange proposes to modify Interpretation and Policy .01(c) of Rule 2.5 to include the Series 56 examination among the examinations accepted by the Exchange. The Exchange also proposes to replace existing Interpretation and Policy .01(f) of Rule 2.5 to set forth the registration requirements for a Proprietary Trader and modify Interpretation and Policy .01(g) to include a cross-reference to this new provision. Further, the Exchange proposes to modify Interpretation and Policy .02(a) of Rule 2.5 to clarify that persons registered as Proprietary Traders must comply with the continuing education requirements applicable to the Series 56 license, while other Registered Representatives must comply with the continuing education requirements applicable to their particular registration and license. These continuing education requirements are listed in proposed Interpretation and Policy .02(e) to Rule 2.5. Finally, the Exchange also proposes to amend Rule 11.4(e) to include Series 56 among the examinations necessary for an individual to be eligible for registration as an Authorized Trader.

Interpretation and Policy .01(f) of Rule 2.5 currently sets forth a date by which Members were to comply with previous changes to the Rule, which date has already long since passed. The Exchange proposes to eliminate this text and replace it with new text as described below. Under proposed Interpretation and Policy .01(f) of Rule 2.5, an Authorized Trader that is considered to be a proprietary trader can qualify for limited

representative registration. An Authorized Trader will be considered to be a proprietary trader if: (1) the Authorized Trader's activities in the investment banking or securities business are limited solely to proprietary trading; (2) the Authorized Trader passes the Series 56; and (3) the Authorized Trader is an associated person of a proprietary trading firm. Under paragraph (g) of this provision, a "proprietary trading firm" is a Member that trades its own capital, does not have customers, and is not a member of the Financial Industry Regulatory Authority (FINRA). In addition, to qualify for this definition, the funds used by a proprietary trading firm must be exclusively firm funds, all trading must be in the firm's accounts, and traders must be owners of, employees of, or contractors to the firm.<sup>7</sup> Thus, the Proprietary Trader registration expressly excludes associated persons that deal with the public.<sup>8</sup>

### **Principal Registration**

The Exchange proposes to amend Interpretation and Policy .01(d) of Rule 2.5 to state that the Exchange will accept the New York Stock Exchange ("NYSE") Series 14 Compliance Official Examination ("Series 14") in lieu of the Series 24 General Securities Principal Examination ("Series 24") to satisfy the registration requirement for Principals that have been designated Chief Compliance Officers on Schedule A of Form BD. This examination is designed to establish that the applicant has the knowledge and skill

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<sup>7</sup> BATS Rule 2.5, Interpretation and Policy .01(g).

<sup>8</sup> Authorized Traders that deal with the public should continue to register as General Securities Representatives after obtaining the Series 7 license. An Authorized Trader who is qualified as a General Securities Representative by passing the Series 7 may function as a proprietary trader; however, such person should register as a General Securities Representative rather than a Proprietary Trader.

necessary for compliance officials.<sup>9</sup> The Exchange notes that acceptance of this alternative examination is consistent with other SROs' registration requirements<sup>10</sup> and will provide an alternate, appropriate examination requirement for certain individuals associated with Exchange Members.

In addition, to accommodate the new Proprietary Trader registration category, the Exchange proposes to add language to Interpretation and Policy .01(d) of Rule 2.5 that will create a new category of limited representative Principal—the Proprietary Trader Principal—and clarify the prerequisites necessary for Proprietary Trader Principals as opposed to General Securities Principals. Registration as a Proprietary Trader Principal will be restricted to individuals whose supervisory responsibilities are limited to proprietary traders, as defined in amended Interpretation and Policy .01(f) of Rule 2.5. The Exchange will permit the Series 56 as a prerequisite to the General Securities Principal Examination (“Series 24”) or Compliance Official Examination (“Series 14”).<sup>11</sup>

The Exchange also proposes to add language to Interpretation and Policy .01(d) of Rule 2.5 to clarify the appropriate prerequisites for registration as a General Securities

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<sup>9</sup> For details about the Series 14, see Financial Industry Regulatory Authority, Compliance Official Qualification Examination (Test Series 14): Content Outline, (2012), available at <http://www.finra.org/web/groups/industry/@ip/@comp/@regis/documents/industry/p117564.pdf>.

<sup>10</sup> See, e.g., CBOE Rule 3.6A.08(b); NASD Notice to Members 01-51 (August 2001), available at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003809.pdf>; Chicago Stock Exchange, Inc. Member Regulation Department Information Memorandum (May 8, 2013), available at [http://www.chx.com/content/Participant\\_Information/Downloadable\\_Docs/MarketRegulation/1\\_InformationMemoranda/2013/MR-13-04\\_New\\_Registration\\_Categories\\_and\\_Related\\_Qualification\\_Exams.pdf](http://www.chx.com/content/Participant_Information/Downloadable_Docs/MarketRegulation/1_InformationMemoranda/2013/MR-13-04_New_Registration_Categories_and_Related_Qualification_Exams.pdf); NYSE Information Memo 07-43 (May 9, 2007), available at [http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo\\_id=07-43](http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo_id=07-43).

<sup>11</sup> As noted, the Exchange will only permit the Series 14 for those designated as Chief Compliance Officers on Schedule A of Form BD.

Principals.<sup>12</sup> The Exchange will continue to require General Securities Principals to successfully complete the General Securities Representative Registration (“Series 7”) or an equivalent foreign examination module (“Series 17” or “Series 37/38”).

The Exchange believes that the prerequisite examination requirement for registration as a Proprietary Trader Principal is appropriate because, as noted above, the Series 56 is specifically designed to address industry topics and establish the appropriate regulatory and procedural knowledge base relevant to proprietary trading. Moreover, the Exchange will continue to require successful completion of either the Series 24 or Series 14 for both Proprietary Trader Principals and General Securities Principals, thereby ensuring that all Principals have the necessary knowledge and skill to act in a supervisory capacity. Additionally, the Exchange notes that creating the registration category of Proprietary Trader Principal is consistent with registration requirements of other national securities exchanges.<sup>13</sup>

#### **Acceptable Qualification Examinations**

The Exchange proposes to add Interpretation and Policy .01(h) of Rule 2.5, which will include a chart that sets forth the relevant qualification requirements for each registration category described in the rule. This chart will not change the qualification requirements in any way. It will merely clarify the requirements described in the Rule, thereby avoiding any confusion regarding qualification examinations the Exchange deems acceptable for each registration category.

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<sup>12</sup> General Securities Principals are individuals that supervise the activities of General Securities Representatives.

<sup>13</sup> See, e.g., BOX Rule 2020(c)(2); CBOE Rule 3.6A.08; NASDAQ OMX BX Rule 1022(h); NASDAQ OMX PHLX Rule 612(e).

**Acceptable Continuing Education Programs**

The Exchange also proposes to add language to Interpretation and Policy .02(e) to Rule 2.5 that will clarify the different continuing education (“CE”) requirements for registered persons based upon their registration with the Exchange. Specifically, the Exchange proposes to introduce a chart that enumerates the Regulatory Element programs necessary for each registration category and introduce a new Regulatory Element program for those persons registered as Proprietary Traders.

Existing Interpretation and Policy .02(a) of Rule 2.5 requires all registered representatives to complete the Regulatory Element of the continuing education program at specified intervals and states that the content of the Regulatory Element shall be determined by the Exchange for each registration category of persons subject to the Rule. The Regulatory Element is a computer-based education program administered by the Financial Industry Regulatory Authority (“FINRA”) to help ensure that registered persons are kept up to date on regulatory, compliance and sales practice matters in the industry. Currently, there are there two Regulatory Element programs: the S201 Supervisor Program for registered principals and supervisors and the S101 General Program for Series 7 and all other registered persons. The Exchange is proposing to enumerate these existing programs in Interpretation and Policy .02(e) to Rule 2.5, as well as the new S501 Series 56 Proprietary Trader Continuing Education Program for those persons registered as Proprietary Traders.

The Exchange is also proposing to introduce a new CE program for persons registered with the Exchange solely as Proprietary Traders by passing the Series 56. Proposed Interpretation and Policy .01(f) to Rule 2.5 outlines the registration and

qualification requirements for those wishing to register with the Exchange as a Proprietary Trader, making clear that the Series 56 is a prerequisite for this registration category.

The Proprietary Trader Continuing Education Program (S501) is a computer-based education program developed by many of the self-regulatory organizations that worked to develop the Series 56 (“Participating SROs”)<sup>14</sup> and administered by FINRA to ensure that registered persons are kept current on regulatory, compliance, and trading practice matters in the industry. Unlike the other offered CE programs, the S501 is not part of the Uniform Continuing Education Program, which is developed and maintained by the Securities Industry Regulatory Council on Continuing Education.

The S501 will logistically operate as the currently offered CE programs do. Specifically, registered persons will be required, through CRD, to complete the Regulatory Element of the CE on the second anniversary of the base date and then every three years thereafter. While creating the S501, the Participating SROs believe that the current procedures of the other CE programs work well. The Securities Industry Regulatory Council on Continuing Education has tailored the process of the other CE programs since its inception and made it successful. Thus, as proposed, the S501 will work in the same manner. In addition, consistency between the different programs will avoid creating confusion among registered persons and FINRA.

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<sup>14</sup> The Participating SROs that have assisted with the development of, and plan to administer, the Series 56 and S501 are the Exchange, Chicago Board Options Exchange, C2 Options Inc., the Chicago Stock Exchange, Inc., the New York Stock Exchange, LLC, NYSE Arca, Inc., NYSE Amex, LLC, the NASDAQ Stock Market LLC, the National Stock Exchange, Inc., NASDAQ OMX BX, Inc., NASDAQ OMX PHLX, LLC, EDGA Exchange, Inc., EDGX Exchange, Inc., International Securities Exchange, LLC, and BOX Options Exchange, LLC.

The S501 is required for registrants who are registered as Proprietary Traders and do not maintain any other registration through CRD.<sup>15</sup> Individuals that are registered under any other registration are required to maintain the CE obligations associated with such registrations. For example, an individual that engages solely in proprietary trading activities yet continues to maintain a Series 7 registration will be required to continue taking the Series 7 Continuing Education Program (S101).<sup>16</sup> Although such an individual may be engaging in the same activities as an individual registered as a Proprietary Trader, the Series 7 Examination is more comprehensive and covers topics that the Series 56 does not. Thus, the Exchange believes that this individual should complete the CE associated with the Series 7 because this covers all aspects of the individual's registration.

The introduction of the S501 allows the Exchange to tailor its CE requirements more closely to the duties of individuals who have registered with the Exchange as Proprietary Traders after passing the Series 56. More specifically, the Exchange believes allowing individuals engaging in proprietary trading and registered under the Series 56 to complete a separate CE program than those maintaining a Series 7 registration is appropriate given that all individuals have the option of taking either test. In comparison to the more comprehensive Series 7, the Series 56 Examination is more closely tailored to the practice of proprietary trading. As such, the Exchange believes a Series 56 CE

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<sup>15</sup> Any registered person who receives a waiver of the Series 56 under Rule 2.5.01(b), and does not maintain any other registrations in CRD, will be required to complete the Proprietary Trader Continuing Education Program (S501).

<sup>16</sup> See id. If a registered person has received a Series 56 waiver under Rule 2.5.01(b) but continues to maintain a Series 7 registration (that predates the introduction of the Series 56 on the Exchange), that registered individual will only be required to take the Series 7 CE Program (S101). Through CRD, FINRA will recognize the Series 56 as waived while still requiring the Series 7 CE completion.

program should be tailored as well. At the same time, if an individual would like to retain a Series 7 license, the Exchange believes it is appropriate they continue to be required to complete the broader CE program, which covers all aspects of this registration.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>17</sup> in general, and furthers the objectives of Section 6(c)(3)(B) of the Act in particular.<sup>18</sup> Under Section 6(c)(3)(B), it is the Exchange's responsibility to prescribe standards of training, experience, and competence for Exchange Members and their associated persons.<sup>19</sup> The Exchange proposes to recognize a new category of limited representative registration for proprietary traders and to permit Authorized Traders of Members who engage solely in proprietary trading to obtain the Series 56 license in lieu of the more general Series 7 license. The Exchange believes the Series 56 establishes that Authorized Traders of Members have attained specified levels of competence and knowledge generally applicable to proprietary trading.

Additionally, the Exchange is offering an alternative qualification examination, the Series 14, for Principals designated as Chief Compliance Officers. The Exchange believes this examination establishes the skill and knowledge base necessary for a compliance official. Moreover, acceptance of this alternative examination will provide an alternate, appropriate examination requirement for certain individuals associated with Exchange Members.

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78(c)(3)(B).

<sup>19</sup> Id.

To accommodate recognition of limited representative registration as proprietary Traders, the Exchange proposes to recognize a new category of limited representative principal registration for individuals whose supervisory responsibilities are restricted to proprietary traders. The Exchange will accept the Series 56 as a prerequisite to the successful completion of a permissible Principal Examination. The Exchange will continue to require successful completion of either the Series 24 or Series 14 examination for all Principals because the Exchange believes that these examinations establish the skill and knowledge base appropriate for individuals responsible for supervising the activities of a member's Authorized Traders.

Finally, the Exchange proposes to codify existing CE requirements for persons registered with the Exchange, while also introducing a new CE program that prescribes a standard for Series 56 registered persons. The Exchange believes the proposed changes are reasonable and set forth the appropriate CE requirements for an individual required to register under Rule 2.5.

The Exchange believes the proposed changes are also consistent with Section 6(b)(5) of the Act<sup>20</sup> because they would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, protect investors and the public interest. The Exchange believes the rule changes accomplish these objectives by enabling individuals to qualify for registration with the Exchange by passing a qualification examination that specifically addresses industry topics that establish the foundation for the regulatory and procedural knowledge necessary for such persons electing to register as Proprietary

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<sup>20</sup> 15 U.S.C. 78f(b)(5).

Traders and/or Proprietary Trader Principals. Furthermore, the Exchange is clarifying the continuing education requirements necessary for individuals that choose to register as Proprietary Traders, as well as the basic qualification requirements necessary for all categories of registration, thereby avoiding any unnecessary investor with regard to such requirements.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule changes will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposed rule changes related to registration requirements will align Exchange Rules with those of many other national securities exchanges.<sup>21</sup> Unifying the qualification requirements for registration as a Proprietary Trader and Proprietary Trader Principal across exchanges promotes clarity for investors and promotes competition among exchanges for trading volume. Similarly, accepting an alternative examination for Principals designated as Chief Compliance Officers on Form BD will avoid duplicative examination requirements among exchanges, thereby

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<sup>21</sup> See, e.g., BOX Rule 2020(b)(2), (c)(2); CBOE Rule 3.6A.08; NASDAQ OMX BX Rules 1022(h), 1032(b); NASDAQ OMX PHLX Rules 612(e), 613(f); NYSE Arca Options Rule 2.23(b)(2); EDGX Rule 2.5.06; see also NASD Notice to Members 01-51 (August 2001), available at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003809.pdf>; Chicago Stock Exchange, Inc. Member Regulation Department Information Memorandum (May 8, 2013), available at [http://www.chx.com/content/Participant\\_Information/Downloadable\\_Docs/MarketRegulation/1\\_InformationMemoranda/2013/MR-13-04\\_New\\_Registration\\_Categories\\_and\\_Related\\_Qualification\\_Exams.pdf](http://www.chx.com/content/Participant_Information/Downloadable_Docs/MarketRegulation/1_InformationMemoranda/2013/MR-13-04_New_Registration_Categories_and_Related_Qualification_Exams.pdf); NYSE Information Memo 07-43 (May 9, 2007), available at [http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo\\_id=07-43](http://www.nyse.com/nysenotices/nyse/information-memos/pdf?memo_id=07-43).

furthering competition among these exchanges and reducing the burden on individuals that are well-qualified to act in a supervisory capacity.

In addition, the proposed rule change clarifying the specific CE requirements for all registration categories will align Exchange Rules with those of the Chicago Board Option Exchange (“CBOE”).<sup>22</sup> The Exchange does not believe that these proposed rule changes will affect intermarket competition because the Exchange believes that all exchanges that impose the same CE requirements will file similar rule changes addressing these CE programs. Furthermore, the Exchange does not believe the proposed change will affect intramarket competition because all similarly situated registered persons (e.g. registered persons maintaining the same registrations) are required to complete the same CE requirements. For example, all individuals maintaining a Series 7 registration will be required to complete the Series 7 CE, while all individuals maintaining a Series 56 registration (and no other registrations) will be required to complete the new Series 56 CE.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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<sup>22</sup> See Securities Exchange Act Release No. 70027 (July 23, 2013), 78 FR 45584 (July 29, 2013) (SR-CBOE-2013-076).

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>24</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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](mailto:rule-comments@sec.gov). Please include File No. SR-BATS-2013-046 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 No. SR-BATS-2013-046. 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

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<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f).

will post all comments on the Commission's Internet website (<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 changes 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 website 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 10:00 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. 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 No. SR-BATS-2013-046 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets].

**Rules of BATS Exchange, Inc.**

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CHAPTER II. MEMBERS OF THE EXCHANGE

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Rule 2.5. Restrictions

(a)–(e) (No changes.)

*Interpretations and Policies*

.01 Proficiency Examinations:

(a)–(b) (No changes.)

(c) The Exchange requires the General Securities Representative Examination (“Series 7”) or an equivalent foreign examination module approved by the Exchange[] in qualifying persons seeking registration as general securities representatives, including as Authorized Traders on behalf of Members. For those persons seeking limited registration as Proprietary Traders as described in paragraph (f) below, the Exchange requires the Proprietary Traders Qualification Examination (“Series 56”). The Exchange uses the Uniform Application for Securities Industry Registration or Transfer (“Form U4”) as part of its procedure for registration and oversight of Member personnel.

(d) The Exchange requires each Member other than a sole proprietorship or a proprietary trading firm with 25 or fewer Authorized Traders (“Limited Size Proprietary Firm”) to register at least two Principals with the Exchange. A Limited Size Proprietary Firm is required to register at least one Principal with the Exchange. In addition, the Exchange may waive the two Principal requirement in situations that indicate conclusively that only one Principal associated with the Member should be required. For purposes of this paragraph (d), a “Principal” shall be any individual responsible for supervising the activities of a Member’s Authorized Traders and each person designated as a Chief Compliance Officer on Schedule A of Form BD. This paragraph (d) shall not apply to a Member that solely conducts business on the Exchange as an Options Member, however, Options Members must comply with the registration requirements set forth in Rule 17.2(g). Each Principal is required to successfully complete the General Securities Principal Examination (“Series 24”). The Exchange uses Form U4 as part of its procedure for registration and oversight of Member personnel.

The Exchange will accept the New York Stock Exchange Series 14 Compliance Official Examination in lieu of the Series 24 to satisfy the above requirement for any person designated as a Chief Compliance Officer. Individuals that supervise the activities

of General Securities Representatives must successfully complete the Series 7 or an equivalent foreign examination module as a prerequisite to the Series 24 or Series 14 and shall be referred to as General Securities Principals. The Exchange will permit the Series 56 as a prerequisite to the Series 24 or Series 14 for those Principals whose supervisory responsibilities are limited to overseeing the activities of proprietary traders, as defined in paragraph (f) below. These limited representative Principals shall be referred to as Proprietary Trader Principals.

(e) (No changes.)

(f) [All Members shall be in compliance with paragraphs (d) and (e) of this Interpretation and Policy .01 Rule by September 30, 2010.]The Exchange permits the Series 56 examination for proprietary traders that engage solely in proprietary trading on the Exchange, subject to the following conditions. For the purposes of this Rule, an Authorized Trader of a Member shall be considered a proprietary trader if:

(1) the Authorized Trader’s activities in the investment banking or securities business are limited solely to proprietary trading;

(2) the Authorized Trader passes the Series 56; and

(3) the Authorized Trader is an associated person of a proprietary trading firm as defined in paragraph (g) below.

(g) For purposes of paragraphs (d) and (f) above, a “proprietary trading firm” shall mean a Member that trades its own capital, that does not have customers, and that is not a member of the Financial Industry Regulatory Authority. In addition, to qualify for this definition, the funds used by a proprietary trading firm must be exclusively firm funds, all trading must be in the firm’s accounts, and traders must be owners of, employees of, or contractors to the firm.

(h) Principals responsible for supervising the activities of General Securities Representatives must successfully complete the Series 7 or an equivalent foreign examination module in addition to the Series 24.

(i) The following sets forth the qualification requirements for each of the registration categories described above:

<u>CATEGORY OF REGISTRATION</u>	<u>QUALIFICATION EXAMINATION</u>	<u>ALTERNATIVE ACCEPTABLE QUALIFICATIONS</u>
<u>General Securities Representative</u>	<u>Series 7</u>	<u>Equivalent foreign examination module (Series 17 or Series 37/38)</u>
<u>Proprietary Trader<sup>1</sup></u>	<u>Series 56</u>	<u>N/A</u>

<u>General Securities Principal</u>	<u>Series 24</u>	<u>Compliance Official Examination (Series 14)</u> <sup>2</sup>
<u>Proprietary Trader Principal</u>	<u>Series 24</u>	<u>Compliance Official Examination (Series 14)</u> <sup>2</sup>
<u>Financial/Operations Principal</u>	<u>Series 27</u>	<u>Other examination acceptable to designated examining authority</u> <sup>3</sup>
<u>Options Principal</u> <sup>4</sup>	<u>Series 4</u>	<u>General Securities Principal Examination (Series 24)</u>

<sup>1</sup>Proprietary traders that have completed the Series 7 should register as General Securities Representatives.

<sup>2</sup>The Exchange will only permit the Series 14 for those designated as Chief Compliance Officers on Schedule A of Form BD.

<sup>3</sup>An examination acceptable to the Member's designated examining authority is only acceptable to the Exchange if the Exchange waives the requirements of paragraph (e).

<sup>4</sup>Please refer to Rule 17.2(g) for a more detailed description of the requirements for registration as an Options Principal.

#### .02 Continuing Education Requirements:

(a) No Member shall permit any Authorized Trader, Principal, Financial/Operations Principal or Options Principal (each a "Registered Representative") to continue to, and no Registered Representative shall continue to, perform duties as a Registered Representative on behalf of such Member, unless such person has complied with the continuing education requirements in this Rule[of this paragraph (a)]. Each Registered Representative shall complete the Regulatory Element of the continuing education program on the occurrence of their second registration anniversary date and every three years thereafter or as otherwise prescribed by the Exchange. On each occasion, the Regulatory Element must be completed within 120 days after the person's registration anniversary date. A person's initial registration date, also known as the "base date," shall establish the cycle of anniversary dates for purposes of this Rule. The content of the Regulatory Element of the program shall be determined by the Exchange for each registration category of persons subject to the Rule. A person qualified solely as a Proprietary Trader shall comply with the continuing education requirements appropriate for the Series 56. All other Registered Representatives shall comply with the continuing education requirements applicable to their particular registration.

(b)–(d) (No changes.)

(e) The following sets forth the Regulatory Elements appropriate for each registration category:

<u>CATEGORY OF REGISTRATION</u>	<u>REGULATORY ELEMENT</u>
<u>General Securities Representative</u>	<u>S101 General Program</u>
<u>Proprietary Trader</u>	<u>S501 Series 56 Proprietary Trader</u> <u>Continuing Education Program</u>
<u>General Securities Representative</u> <u>Principal</u>	<u>S201 Supervisor Program</u>
<u>Proprietary Trader Principal</u>	<u>S201 Supervisor Program</u>
<u>Financial/Operations Principal</u>	<u>S201 Supervisor Program</u>
<u>Options Principal</u>	<u>S201 Supervisor Program</u>

.03-.04 (No changes.)

\* \* \* \* \*

CHAPTER XI. TRADING RULES

\* \* \* \* \*

Rule 11.4. Authorized Traders

(a)–(d) No changes.

(e) To be eligible for registration as an AT of a Member a person must successfully complete the General Securities Representative Examination (Series 7 or equivalent foreign examination module approved by the Exchange) or the Proprietary Traders Qualification Examination (Series 56), as appropriate, and any other training and/or certification programs as may be required by the Exchange.

\* \* \* \* \*