

**RAN-01-01**  
**January 10, 2001**

**TO: All PCX Member and Member Organizations**

**FROM: Department of Regulatory Policy**

**SUBJECT: Rule Changes Relating to Supervisory Procedures**  
**(File No. SR-PCX-00-42)**

On January 8, 2001 SEC approved an Exchange rule proposal relating to member Supervisory Procedures. New Rule 4.25 requires member organizations to establish and maintain a supervisory system. Member organizations must establish written procedures to implement the supervisory system. Members will be held responsible for the improper acts of their associated persons.

Rule 4.25 has three distinct parts. First, member organizations must supervise and will be held responsible for the acts of those persons associated with it. Second, member organizations must maintain a system to supervise the activities of its employees and the operation of its business. Finally, member organizations will establish, maintain, and enforce written procedures to supervise the business, in which they engage, and supervise the activities of their associated persons.

Following is the text of Rule 4.25. Member organizations are encouraged to review and utilize RBO-01-02 to assist in fulfilling their obligations under Rule 4.25. Questions regarding this notice may be addressed to Hassan Abedi, Attorney, at (415) 393-5958.

## EXHIBIT A

### Text of Proposed Rule Change<sup>1</sup>

¶3834 Supervision

#### Rule 4.25(a). Adherence to Law

No member or member organization may engage in conduct in violation of the federal securities laws, the Constitution or the Rules of the Exchange. Every member or member organization must supervise persons associated with the member or member organization as to assure compliance therewith.

#### (b) Supervisory System

Each member or member organization for whom the Exchange is Designated Examining Authority (“DEA”) must establish and maintain a system to supervise the activities of its associated persons and the operations of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and PCX Rules. Final responsibility for proper supervision will rest with the member or member organization. The member’s or member organization’s supervisory system must provide, at a minimum, for the following:

- (1) The establishment and maintenance of written procedures as required by paragraph (c) of this Rule.
- (2) The designation of a person with authority to reasonably discharge his/her duties and obligation in connection with supervision and control of the activities of the associated persons of the member or member organization.
- (3) The member or member organization must undertake reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities.
- (4) Each member or member organization must designate and specifically identify to the Exchange one or more persons who will be responsible for such supervision.

#### (c) Written Procedures

Each member or member organization must establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of its associated persons that are reasonably designed to ensure

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<sup>1</sup> New Text is Underscored.

compliance with applicable federal securities laws and regulations, and with the PCX Rules.