

# Regulatory Bulletin

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**RB-01-07**  
**October 23, 2001**

**TO: MEMBERS AND MEMBER ORGANIZATIONS**

**FROM: FINANCIAL & OPERATIONAL COMPLIANCE**

**RE: *EXAMINATION PROGRAM AND BOOKS & RECORDS  
REQUIREMENTS FOR FLOOR MEMBERS***

Consistent with its responsibilities for regulatory oversight of its members and member organizations, the Exchange would like to reiterate the requirements of its examination program for floor members and member organizations that engage in business solely with members, member organizations and non-member broker-dealers.

The examination program is generally conducted on a routine cycle, and includes a review of the books and records of each member or member organization with a view toward financial compliance, record keeping practices, and related floor activities. In addition, the examination program for member organizations has been expanded to include a review and test of procedures that address supervision of floor activities by all employees.

**It is of critical importance that members and member organizations make and maintain current and accurate books and records and retain those records in a readily accessible place.**

Securities Exchange Act Rule 17a-3 is the principal rule that sets forth the books and records required to be maintained by all broker-dealers. In addition, Rule 17a-4 establishes the time periods and the manner in which such books and records must be preserved and made accessible.

These rules and PCX rules relating to record maintenance apply to all members and member organizations regardless of the type of business activity in which they engage. Members and member organizations have a continuing responsibility to make and preserve records that are sufficient to satisfy the requirements of the above rules and to substantiate reports made to the Exchange.

The following is a list of some of the record keeping requirements applicable to all members and member organizations and the time periods during which they must be retained:

## **General Ledgers\***

- ✓ Blotters containing an itemized daily record of all purchases, sales, receipts and deliveries of securities and of all receipts and disbursements of cash (17a-3(a)(1))
- ✓ General ledger of all assets and liabilities, income and expense and capital accounts

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- maintained on an accrual basis (17a-3(a)(2))
- ✓ Ledger accounts (17a-3(a)(3))

## **Subsidiary Records of Particular Significance**

- ✓ Securities position book (17a-3(a)(5))\*
- ✓ Checkbooks, bank statements, cancelled checks and cash reconciliations (17a-4(b)(2)\*\*
- ✓ A memorandum of each brokerage and principal order and any other instruction for the purchase or sale of securities whether or not executed and whether or not originated on the Floor, including cancellations, modifications and execution reports (17a-3(a)(6) & (7)\*\*
- ✓ Originals of all communications received and copies of all communications sent (including inter-office memoranda, copies of communications with all regulatory authorities and copies of current SEC Form BD) (17a-4(b)(4)\*\*
- ✓ Monthly trial balances and, as applicable, computations of aggregate indebtedness and net capital and internal audit working papers (17a-4(b)(5)\*\*
- ✓ All bills receivable or payable (or copies thereof), paid or unpaid, relating to the business of the member or member organization (17a-4(b)(3)\*\*
- ✓ A questionnaire or application for employment executed by each partner, officer, director and employee, usually Form U-4, to be preserved for a period of not less than three years after termination of association by the individual (17a-3(a)(12))
- ✓ All written agreements (or copies thereof) entered into by members or member organizations relating to their business activities - including compensation arrangements, soft dollar and other agreements with respect to any account, and basic organizational documents (17a-4(b)(7); 17a-4(d)\*\*

## **Records Required Pursuant to Exchange Rules & Practices**

Exchange rules require the retention of documents necessary to substantiate and support expenses and receipts. Thus, for example, commissions paid and received must be supported by their underlying invoices and floor tickets.

PCX rules mandate retention of trade tickets and detailed records relating to error transactions, whether for the member's own account, for that of his or her member organization or that of another member or member organization.

Each of the records enumerated above and the records otherwise set forth in SEC, Exchange and other regulatory rules, necessarily need to be complete and accurate in each detail. These requirements apply to all members and member organizations, whether they conduct solely a Floor business or engage in Floor activity as part of a larger business mix.

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As noted above, the items in this Memorandum are intended to serve as a useful list of some of the basic record requirements. It is not an all-inclusive list. Questions should be directed to the Financial & Operational Compliance Department.

Frank D. Troutman  
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\* These records are to be retained for at least 6 years, the first two in an easily accessible place.

\*\* These records are to be maintained for a period of at least 3 years, the first two in an easily accessible place.

\*\*\* These agreements normally are to be retained for at least 3 years after their expiration, except that partnership and corporate articles, minute books and stock certificate books are to be preserved for the life of the enterprise.