

## Regulatory Circular 97-79

To: Members and Member Organizations

From: Regulatory Services Division

Date: June 18, 1997

Re: **Memorandum of Understanding - Update**

In November 1995, the Securities Exchange Commission along with the American Stock Exchange, Chicago Board Options Exchange, National Association of Securities Dealers, New York Stock Exchange and the North American Securities Administrators Association, entered into an agreement, known as a Memorandum of Understanding ("MOU"), to consult on and coordinate broker-dealer examinations. This agreement is based on an effort to promote more effective and efficient regulatory oversight and coordination and cooperation among Self Regulatory Organizations ("SROs"). This effort is also a significant step in addressing industry concerns about burdensome duplication in the examination process. Pursuant to this agreement, broker-dealers that are subject to examination by more than one SRO can request that coordinated on-site examinations be performed. This provides firms with the ability to indicate their preference for a coordinated on-site examination, or separate on-site examinations. In an effort to avoid unnecessary duplication of work, examiners from each SRO meet at the beginning of each coordinated examination to discuss and document which areas will be reviewed.

The SEC tracks SRO progress in performing coordinated examinations and, at its third National Summit Conference held in late 1996, the SROs provided the SEC with results of the coordinated examination program. The results are quite favorable and show an overall success rate of 88%. CBOE's own rate of coordinated examinations was 95% for 1996. We are very proud of these successful accomplishments in the coordination of the examination process based on the MOU. At the summit, the SROs agreed to continue their efforts to meet the coordinated examination objectives and to conduct more frequent meetings to plan and discuss coordinated examinations.

Additionally, the CBOE's Regulatory Services Division recently contacted each member firm for which it is the Designated Examining Authority ("DEA") to ascertain whether the firm was desirous of a coordinated examination. We believe that this program has worked well for the industry, and intend to continue to work together with other SROs

and member firms to promote effective and efficient regulatory oversight. With this in mind should your firm's wishes respecting a coordinated examination change, please contact the CBOE or your DEA and we will make every effort to accommodate your wishes.

If you have any questions concerning the MOU or the Exchange's Financial examination program contact Richard Lewandowski at (312) 786-7183 or the Exchange's Sales Practice examination program contact Lawrence J. Bresnahan at (3312) 786-7713.