

Date: March 29, 1995
To: Members and Member Organizations
From: Regulatory Services Division
Re: Maintenance of Customer Records

The Securities and Exchange Commission has approved proposals by each of the five registered national options exchanges and the National Association of Securities Dealers, Inc. (the SROs) that provide member firms with more flexibility in the manner in which they store account statements and other information for options customers (options account information) for supervisory purposes. This circular describing the rule change has been prepared by the SROs acting jointly as members of the Options Self Regulatory Council (OSRC).¹

SRO rules uniformly require that both the branch office servicing an options customer's account and the principal supervisory office having jurisdiction over that branch office retain account statements and other financial and background information for the account for supervisory purposes. With the advances in data storage and retrieval obtainable through such means as optical disks, fax machines, computers, and microfiche, among others, coupled with the increased expenses of storing records on-site in major financial centers such as New York City, however, member firms increasingly have been storing their records away from their principal supervisory offices. Because of the record retention requirements for options accounts, these arrangements have necessitated actions by the OSRC. Specifically, on a case-by-case basis, member firms have obtained no-action positions from the OSRC providing that such off-site storage arrangements are consistent with the record retention rules so long as the documents are readily accessible and promptly retrievable.

In order to ensure that all member firms are aware of the OSRC's position with respect to the storage of options account information off-site, the SROs proposed to incorporate

¹ The OSRC is a committee comprised of representatives of each of the options exchanges and the National Association of Securities Dealers, Inc. (NASD) that was created pursuant to the plan submitted by the options exchanges and the NASD under Rule 17d-2 of the Securities Exchange Act of 1934 ("17d-2 Plan"). The 17d-2 plan was adopted to reduce regulatory duplication relative to options-sales practice matters for a large number of firms which are currently members of two or more SROs. The purpose of the OSRC is: (1) to administer the 17d-2 Plan; and (2) to address options-related sales practice matters in a common forum. See also NYSE Information Memo 95-7 (February 16, 1995).

the OSRC's no action position into their respective rules. Specifically, with the rule change, member firms are permitted to satisfy their record retention requirements for options accounts by storing required options account information in locations other than the respective principal supervisory office for options accounts, provided such information is readily accessible and promptly retrievable.²

Even though the rule change affords member firms the opportunity to store options account information in a more cost-effective manner in off-site locations, member firms are reminded that they are still obligated to discharge their supervisory responsibilities with respect to options accounts. In this connection, in order to ensure that off-site document storage arrangements will not jeopardize or constrain members' supervisory activities, members must have procedures and mechanisms in place to assure that options account information is readily accessible and promptly retrievable. For purposes of this rule, a document is deemed to be readily available and promptly retrievable if it is retrievable by noon the next business day. In addition, member firms are reminded that this rule change does not modify the record retention requirement with respect to branch offices - copies of account information must still be retained at branch offices.

Questions regarding the rule change may be directed to the following representatives at each of the SROs:

AMEX: Roland Wyatt
(212) 306-1506

CBOE: Larry Bresnahan
(312) 786-7713

NASD: Tom Gira
(202) 728-8957

NYSE: Patricia Dorilio
(212) 656-2744

PHLX: Dianne Anderson
(215) 496-5184

PSE: Dave Semak
(415) 393-7948

² See American Stock Exchange Rule 9.22; Chicago Board Options Exchange Rule 9.8; Section 33(b)(20) of the NASD Rules of Fair Practice; New York Stock Exchange Rule 722; Pacific Stock Exchange Rule 9.18; and Philadelphia Stock Exchange Rule 1025.

This circular is not intended to be a comprehensive description of the requirements of CBOE Rule 9.8 - Supervision of Accounts. Members are advised to read the full text of Rule 9.8, a copy which may be obtained by calling the Compliance Department.