

RAN-01-02
January 10, 2001

TO: All ETP Holders Equity ASAP Holders and ETP Firms

FROM: Department of Regulatory Policy

SUBJECT: Supervisory Procedures

On January 8, 2000 SEC approved an Exchange rule proposal relating to Supervisory Procedures. New Rule 6.17 requires ETP Holders, Equity ASAP Holders, and ETP Firms ("Firms") to establish and maintain a supervisory system. Firms must establish written procedures to implement the supervisory system. Firms will be held responsible for the improper acts of their associated persons.

Rule 6.17 has three distinct parts. First, Firms must supervise and will be held responsible for the acts of those persons associated with it. Second, Firms must maintain a system to supervise the activities of its employees and the operation of its business. Finally, Firms will establish, maintain, and enforce written procedures to supervise the business, in which they engage, and the activities of their associated persons.

Following is the text of Rule 6.17. Firms are encouraged to review and utilize RBE-01-02 to assist in fulfilling their obligations under Rule 6.17. Questions regarding this notice may be addressed to Hassan Abedi, Attorney, at (415) 393-5958.

EXHIBIT A

Text of Proposed Rule Change¹

¶7910Q Supervision

6.17(a). Adherence to Law

No ETP Holder, Equity ASAP Holder or ETP Firm may engage in conduct in violation of the federal securities laws, the Constitution or the Rules of the Corporation. Every ETP Holder, Equity ASAP Holder or ETP Firm must supervise persons associated with it as to assure compliance therewith.

(b). Supervisory System

Each ETP Holder, Equity ASAP Holder or ETP Firm for whom the Corporation is Designated Examining Authority (“DEA”) must establish and maintain a system to supervise the activities of its associated persons and the operation of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and PCXE Rules. Final responsibility for proper supervision will rest with the ETP Holder, Equity ASAP Holder or ETP Firm. The ETP Holder’s, Equity ASAP Holder’s or ETP Firm’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 ETP Holder, Equity ASAP Holder or ETP Firm.
- (3) The ETP Holder, Equity ASAP Holder or ETP Firm 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 ETP Holder, Equity ASAP Holder or ETP Firm must designate and specifically identify to the Corporation one or more persons who will be responsible for such supervision.

(c). Written Procedures

Each ETP Holder, Equity ASAP Holder or ETP Firm must establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise

¹ New Text is Underscored.

the activities of its associated persons that are reasonably designed to achieve compliance with applicable federal securities laws and regulations, and with the PCXE Rules.