

Regulatory Bulletin

RB-00-07

September 6, 2000

TO: All PCX Members and Member Organizations
FROM: Financial & Operational Compliance Department
RE: Joint Back Office Arrangements

This bulletin is intended to remind all broker-dealers of the implementation of PCX Rule 2.16(c)(6)(B) on Joint Back Office Arrangements, which became **effective September 6, 2000**. PCX members were advised in Rule Adoption Notice **RAN-00-06**, dated March 6, 2000, that the Securities and Exchange Commission ("SEC") approved PCX Rule 2.16(c)(6)(B) on February 24, 2000. Significant requirements of the new rule are summarized below. The SEC approval allowed PCX members a six-month phase-in period to implement and monitor their compliance with the new rule. Please note that this phase-in period ended September 6, 2000.

PCX Rule 2.16(c)(6)(B) establishes certain regulatory requirements for initiating and maintaining a Joint Back Office Arrangement ("JBO Arrangement") between two or more registered broker-dealers pursuant to the Federal Reserve Board's Regulation T, for the purposes of receiving favorable margin treatment as compared to *customers*.

Carrying/Clearing Broker-Dealers of a JBO Arrangement are required to:

- (a) maintain a minimum Tentative Net Capital of \$25 million as computed pursuant to SEC Rule 15c3-1, except that a member organization, whose primary business consists of the clearance of options market-maker accounts, may carry JBO accounts provided that it does not allow its Net Capital, as computed pursuant to SEC Rule 15c3-1, to fall below \$7 million for a period in excess of **3 consecutive business days**. In addition, the member organization must include in its ratio of gross options market maker deductions to Net Capital required by the provisions of SEC Rule 15c3-1, gross deductions for JBO participant accounts. Clearance of options market maker accounts shall be deemed to be a broker-dealer's primary business if a minimum of 60% of the aggregate deductions in the above ratio are options market maker deductions;
- (b) maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker-dealers, which shall be made available to the PCX upon request; and
- (c) deduct from Net Capital haircut requirements pursuant to SEC Rule 15c3-1 in excess of the equity maintained in the accounts of participating broker-dealers.

Participating Broker-Dealers in a JBO Arrangement are required to:

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- (a) maintain a minimum of \$100,000 in Net Capital pursuant to SEC Rule 15c3-1;
- (b) maintain an ownership interest in the carrying/clearing member organization pursuant to Regulation T, Section 220.11; and
- (c) maintain a minimum liquidating equity of \$1 million in the JBO Arrangement exclusive of the ownership interest established in (b) above. When its minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within **5 business days**. If funds or securities sufficient to eliminate the deficiency are not received within **5 business days**, the carrying organization must margin the account in accordance with the requirements prescribed for a *customer* in Regulation T.

PCX members and member organizations must notify the Financial & Operational Compliance Department in writing **prior to** establishing a JBO Arrangement. All PCX members participating in a JBO Arrangement must also file Quarterly FOCUS Reports with the Financial & Operational Compliance Department.

Questions regarding this bulletin should be directed to Eve R. Safran at 415-393-4130 or Donna Lee at 415-835-5202.