

Interpretation Memo

NYSE

New York
Stock Exchange, Inc.

20 Broad Street
New York, NY 10005

Member Firm Regulation

Number 98-8
July 16, 1998

**PLEASE ROUTE TO FINANCIAL AND OPERATIONS OFFICER/PARTNER
AND COMPLIANCE DEPARTMENT**

**TO: MEMBERS, MEMBER ORGANIZATIONS AND HANDBOOK
SUBSCRIBERS**

**SUBJECT: INTERPRETATION TO RULE 17a-3 - ELECTRONIC RECORD OF
OPTIONS AND OPTIONS RELATED POSITIONS SUBJECT TO
THEORETICAL PRICING METHODOLOGY**

SEA Rule 15c3-1 Appendix A has been amended to allow broker-dealers to use theoretical pricing methodology to compute risk-based option haircut charges. This methodology requires broker-dealers to create an electronic record of their options and options related positions to compute these charges. An interpretation has been added to SEA Rule 17a-3(a)(11) (Records to be Made) that requires broker-dealers to maintain this electronic record for all net capital computations. This record is necessary to allow Self-Regulatory Organizations and the Securities and Exchange Commission to test that the haircut charges are computed accurately during an examination. The electronic record should be maintained in the format used by any approved model with all appropriate identifiers (including those for baskets).

The Options Clearing Corporation (OCC) theoretical option pricing model is currently the only approved model and all position records are required to be stored in OCC's format. We have attached the applicable pages from the OCC Theoretically Based Capital Charges User Guide detailing this format for the Header Record, Detail Record and the Trailer Record for the position file to this interpretation memo. Members or member organizations can contact the OCC Help Desk at (800) 544-6091 if you have any questions concerning this format.

The electronic record should be preserved for a period of not less than three years, the first two years in an accessible place pursuant to SEA Rule 17a-4.

The following interpretation was added to SEA Rule 17a-3 (Records to be Made)

The accompanying updated and reformatted handbook pages are being distributed as a replacement for the existing pages.

	<u>Remove Pages</u>	<u>Add Pages</u>
SEA Rule 17a-3	805-808	805-809

Questions concerning this memo should be directed to your Finance Coordinator.

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REFERENCE**