

MEMORANDUM

To: All Members, Member Organizations and Participants and Participant Organizations

From: Joseph Cusick
Vice President Examinations Department

Re: Broker-Dealer Financial Statement Requirements under Section 17 of the Exchange Act

Date: August 15, 2003

The Securities and Exchange Commission (“SEC”) has granted a temporary exemption until January 1, 2005 to the Public Company Accounting Oversight Board (“Board”) certified audit requirements for non-public Broker-Dealers.¹ The Sarbanes-Oxley Act of 2002 (“Act”) established the Board and amended Section 17(e) of the Securities Exchange Act of 1934 (“Exchange Act”) to replace the words “an independent public accountant” with “a registered public accounting firm.”²

Philadelphia Stock Exchange (“Exchange”) Members, Member Firms, Participants and Participant Organizations (collectively “Members”) that are required to have annually audited financial statements should be aware that audits conducted beginning in 2005 will have to be conducted by public accounting firms that are registered with the Board.

Members are encouraged to speak with their accountants to ensure that they are aware of the Board registration requirements. While there is currently no registration process for accounting firms that conduct audits of solely non-public entities, it is expected that such a registration process will be implemented during 2004.

To read the complete text of the order visit: <http://www.sec.gov/rules/other/34-48281.htm>

Members subject to the Exchange Act financial statement audit requirements should contact the Exchange’s Examinations Department for clarification or further assistance regarding this issue. General questions regarding annual audit requirements should be directed to Chris Thurston, Senior Examiner at (215) 496-5292 or me at (215) 496-1576.

¹ Under this order, that requirement is suspended until January 1, 2005, or such earlier date when the Board promulgates rules for the registration of independent public accountants that audit non-public broker-dealers.

² Section 205(c)(2) of the Act.