

MEMO# 7579

January 24, 1996

NASD FILES REVISED RULES ON BANK BROKER-DEALER ACTIVITIES

1 As we previously reported, the NASD's Board of Governors has approved the revised rules for filing with the Commission. See Memorandum to Bank Investment Management Members No. 20-95, SEC Rules Committee No. 108-95, and Subcommittee on Advertising No. 18-95, dated October 6, 1995. 2 NASD Notice to Members 96-3 (January 1996). January 24, 1996 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 2-96 SEC RULES COMMITTEE No. 6-96 SUBCOMMITTEE ON ADVERTISING No. 2-96 RE: NASD FILES REVISED RULES ON BANK BROKER-DEALER ACTIVITIES

The NASD recently filed with the Securities and Exchange Commission revised rules governing member sales activities on bank premises.¹ The Commission will publish the rules in the Federal Register and request public comment. The rules will not become final until they receive Commission approval. Attached is a copy of the NASD's Notice to Members, describing the rules.² The rules, which reflect many of the Institute's comments to an earlier NASD proposal, would include the following requirements: C Sales material of the NASD member relating exclusively to its broker-dealer services must identify the member, may refer to the bank only in a nonprominent manner for the purpose of identifying the location where the services are available, and, where appropriate, to disclose the material relationship between the member and the bank, such as the role of an investment adviser to a mutual fund. C In joint account statements and sales material, the member must distinguish its uninsured securities from the bank's FDIC-insured products. C The member may not provide compensation to unregistered bank employees for locating, introducing or referring bank customers to the member. C The member must obtain a customer's prior written consent before using confidential financial information provided by a bank to solicit the customer for the member's broker-dealer services. C A member must provide specific risk disclosures, which are substantively identical to those required by the federal bank agencies. C Whenever possible, the member's services must be conducted in a physical location distinct from the bank's deposit-taking area. C The member must enter into a written agreement with the bank, which must stipulate that: C supervisory personnel of the member and representatives of the SEC and NASD may inspect the books and records and other relevant information maintained by the member on the bank's premises; C unregistered bank employees will not receive any compensation conditioned upon whether a referral results in a transaction; and the member will notify the bank if any associated person of the member who is also employed by the bank is terminated for cause by the member. Thomas M. Selman Associate Counsel Attachment

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