

MEMO# 6597

January 25, 1995

DRAFT INSTITUTE COMMENT LETTER ON NASD'S PROPOSED BANK BROKER-DEALER RULES

1 See Memorandum to Bank Investment Management Members No. 39-94, SEC Rules Committee No. 133-94, Subcommittee on Advertising No. 25-94, dated December 19, 1994. January 25, 1995 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 4-95 SEC RULES COMMITTEE No. 11-95 SUBCOMMITTEE ON ADVERTISING No. 1-95 RE: DRAFT INSTITUTE COMMENT LETTER ON NASD'S PROPOSED BANK BROKER-DEALER RULES

As we previously informed you, the National Association of Securities Dealers, Inc. recently published a Notice to Members proposing rules concerning broker-dealer sales activities on bank premises.¹ The Institute has prepared the attached draft comment letter on the proposal. The Institute's comment letter states that the NASD's proposal contains various provisions that would benefit investors and that the Institute generally supports NASD rulemaking in this area. Nevertheless, the letter states that the Institute has serious concerns with several provisions of the NASD's proposal. In particular, the Institute urges the NASD to withdraw the proposed prohibitions on the payment of referral fees and the use of confidential customer information, each of which is already well-regulated under NASD rules and the federal banking laws. The Institute also recommends clarification of the scope of the proposal, to include only broker-dealer sales activities occurring on bank premises. Finally, the Institute urges modification of various provisions dealing with the supervision of bank activities, physical separation of deposit and brokerage activities, joint advertising and account statements, registration of branch offices, and disclosure. These modifications are necessary in order to better define the scope of the requirements in a manner consistent with the existing and legitimate practices of banks and NASD members. The comment period on the proposal ends on February 15, 1995. Please provide your comments on the draft letter to the undersigned (202/326-5819) by Wednesday, February 8, 1995. Thomas M. Selman Associate Counsel Attachment