

**MEMO# 6485**

December 20, 1994

## **PROPOSED NASD RULES CONCERNING BANK BROKER-DEALER ACTIVITIES**

December 20, 1994 TO: BANK BROKER/DEALER ADVISORY COMMITTEE No. 30-94  
OPERATIONS COMMITTEE No. 36-94 RE: PROPOSED NASD RULES CONCERNING BANK  
BROKER-DEALER ACTIVITIES

The National Association of Securities Dealers, Inc., recently published a Notice to Members proposing rules concerning broker-dealer sales activities on bank premises. A copy of the NASD's Notice to Members requesting comment on the proposal is attached. The comment period on the proposal ends on February 15, 1995. Please provide your comments on the proposal to Tom Selman (202/326-5819) by Friday, January 6, 1995. The proposed rules, which are modeled on a no-action letter that the Securities and Exchange Commission staff issued to the Chubb Securities Corporation, apply to NASD members that are conducting "broker/dealer services" on bank premises (either through a networking arrangement or as a bank broker-dealer affiliate). The NASD's Notice states that the rules would be "applicable to all customers of such members." "Broker-dealer services" include recommending or describing securities, accepting or transmitting customer orders, and handling customer funds or securities. The rules would require that the broker-dealer enter into a written agreement with the bank, stipulating (among other matters) that the bank will allow supervisory personnel of the broker-dealer and representatives of the SEC and the NASD to inspect the financial institution's premises and books and records maintained by the member with respect to broker-dealer services. In addition to these and other provisions, the rules would: - require the member to develop procedures to supervise the broker-dealer services at the bank location; - require that all nonclerical, broker-dealer services be provided only by persons associated with the member; - prohibit unregistered bank employees from receiving any referral fee from the member; - prohibit the member from using confidential financial information maintained by the bank to solicit customers for its broker-dealer services; - 2 - - prohibit signs regarding the broker-dealer services in the bank's "deposit-taking area;" and - require that the member obtain, at the time an account is opened, a written customer acknowledgment stipulating that the securities are not FDIC-insured and are not SIPC-insured "as to the loss of principal amounts invested" (in addition to other matters). We will keep you advised of further developments concerning the NASD's proposal. Paul Schott Stevens General Counsel Attachment