

**MEMO# 7326**

October 6, 1995

## **NASD APPROVAL OF RULES CONCERNING BANK BROKER-DEALER ACTIVITIES**

October 6, 1995 TO: BANK INVESTMENT MANAGEMENT MEMBERS No. 20-95 SEC RULES COMMITTEE No. 108-95 SUBCOMMITTEE ON ADVERTISING No. 18-95 RE: NASD APPROVAL OF RULES CONCERNING BANK BROKER-DEALER ACTIVITIES

As we previously informed you, the National Association of Securities Dealers, Inc. issued for public comment rules governing member sales activities on bank premises.<sup>1</sup> The NASD recently issued the attached press release, announcing that the NASD's Board of Governors has adopted the rules in modified form. The revised rules (which are not publicly available) will be filed with the Securities and Exchange Commission for approval. According to the press release, the rules would apply both to bank affiliated broker-dealers and broker-dealers engaged in bank networking arrangements. The rules would require that a member operating on bank premises enter into a written agreement with the bank, which must stipulate that: • 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; • 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. 1 See Memorandum to Bank Investment Management Members No. 39-94, SEC Rules Committee No. 133-94, and Subcommittee on Advertising No. 25-94, dated December 19, 1994. Under the rules, a member also would have to provide risk disclosures identical to those required by the federal bank agencies' Interagency Statement on Retail Sales of Nondeposit Investment Products. Whenever possible, the member's services would have to be conducted in a physical location distinct from the bank's deposit-taking area. The member could use confidential financial information provided by a bank to solicit customers for its broker-dealer services with the customer's prior written consent. The rules would permit the use of joint account statements of the member and bank, but the member would have to distinguish its uninsured securities from the bank's FDIC-insured products. Thomas M. Selman Associate Counsel Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Information Resource Center at (202)326-8305 or (202)326-5903, and ask for this memo's attachment number: 7326.

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