



## ***DCU BULLETIN***

*Division of Credit Unions*

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September 19, 2000

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### **DFI's Securities Division Adopts Final Rule on Broker-Dealer Operations at Financial Institutions**

The Securities Division has adopted a rule regulating broker-dealer operations on the premises of financial institutions (including state and federal credit unions). A copy of the final rule is included.

The rule addresses standards for broker-dealers, communications with the public concerning broker-dealer services, and notification of termination of a broker-dealer's agent.

Please contact Parker Cann at the Division, at (360) 902-8778, if you would like to discuss the rule.

**WSR 00-05-055**  
**PERMANENT RULES**  
**DEPARTMENT OF**  
**FINANCIAL INSTITUTIONS**

[ Filed February 14, 2000, 3:51 p.m. ]

Date of Adoption: February 9, 2000.

Purpose: The purpose of the rule is to add a new WAC to clarify and make uniform the rules relating to broker-dealers operating on the premises of financial institutions.

Statutory Authority for Adoption: [RCW 21.20.100](#), 21.20.450.

Adopted under notice filed as WSR 00-02-068 on January 4, 2000.

Number of Sections Adopted in Order to Comply with Federal Statute: New 0, Amended 0, Repealed 0; Federal Rules or Standards: New 0, Amended 0, Repealed 0; or Recently Enacted State Statutes: New 0, Amended 0, Repealed 0.

Number of Sections Adopted at Request of a Nongovernmental Entity: New 0, Amended 0, Repealed 0.

Number of Sections Adopted on the Agency's Own Initiative: New 1, Amended 0, Repealed 0.

Number of Sections Adopted in Order to Clarify, Streamline, or Reform Agency Procedures: New 0, Amended 0, Repealed 0.

Number of Sections Adopted Using Negotiated Rule Making: New 0, Amended 0, Repealed 0; Pilot Rule Making: New 0, Amended 0, Repealed 0; or Other Alternative Rule Making: New 1, Amended 0, Repealed 0. Effective Date of Rule: Thirty-one days after filing.

February 14, 2000

John L. Bley

Director

**OTS-3585.1**

**Chapter 460-21C WAC**  
**BROKER-DEALER SERVICES AT FINANCIAL INSTITUTIONS**

NEW SECTION

**WAC 460-21C-005**

**Application.**

(1) The rules in this chapter apply exclusively to broker-dealer services conducted by broker-dealers on the premises of a financial institution where retail deposits are taken.

(2) These rules do not alter or abrogate a broker-dealer's obligations to comply with other applicable laws, rules, or regulations that may govern the operations of broker-dealers and their agents, including, but not limited to, supervisory obligations.

(3) These rules do not apply to broker-dealer services provided to nonretail customers.

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#### NEW SECTION

#### **WAC 460-21C-010**

#### **Definitions.**

For purposes of this chapter, the following terms have the meanings indicated:

(1) "Financial institution" means federal and state-chartered banks, savings and loan associations, savings banks, credit unions, and the service corporations of such institutions located in this state.

(2) "Networking arrangement" means a contractual or other arrangement between a broker-dealer and a financial institution pursuant to which the broker-dealer conducts broker-dealer services on the premises of such financial institution where retail deposits are taken.

(3) "Broker-dealer services" means the investment banking or securities business as defined in paragraph (p) of Article I of the By-Laws of the National Association of Securities Dealers, Inc.

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#### NEW SECTION

#### **WAC 460-21C-020**

#### **Standards for broker-dealer conduct.**

No broker-dealer shall conduct broker-dealer services on the premises of a financial institution where retail deposits are taken unless the broker-dealer complies initially and continuously with the following requirements:

(1) Setting. Wherever practical, broker-dealer services shall be conducted in a physical location distinct from the area in which the financial institution's retail deposits are taken. In those situations where there is insufficient space to allow separate areas, the broker-dealer has a heightened responsibility to distinguish its services from those of the financial institution. In all situations, the broker-dealer shall identify its services in a manner that clearly distinguishes those services from the financial institution's retail deposit-taking activities. The broker-dealer's name shall be clearly displayed in the area in which the broker-dealer conducts its services.

(2) Networking arrangements and program management. Networking arrangements shall be governed by a written agreement that sets forth the responsibilities of the parties and the compensation arrangements. Networking arrangements must provide that supervisory personnel of the broker-dealer and representatives of state securities authorities, where authorized by state law, will be permitted access to the financial institution's premises where the broker-dealer

conducts broker-dealer services in order to inspect the books and records and other relevant information maintained by the broker-dealer with respect to its broker-dealer services. Management of the broker-dealer shall be responsible for ensuring that the networking arrangement clearly outlines the duties and responsibilities of all parties, including those of financial institution personnel.

(3) Customer disclosure and written acknowledgment.

(a) At or prior to the time that a customer's securities brokerage account is opened by a broker-dealer on the premises of a financial institution where retail deposits are taken, the broker-dealer shall:

(i) Disclose, orally and in writing, that the securities products purchased or sold in a transaction with the broker-dealer:

(A) Are not insured by the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA"), as applicable.

(B) Are not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and

(C) Are subject to investment risks, including possible loss of the principal invested.

(ii) Make reasonable efforts to obtain from each customer during the account opening process a written acknowledgment of the disclosures required by (a)(i) of this subsection.

(b) If broker-dealer services include any written or oral representations concerning insurance coverage, other than FDIC insurance coverage, then clear and accurate written or oral explanations of the coverage must also be provided to the customers when such representations are first made.

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NEW SECTION

**WAC 460-21C-030**

**Communications with the public.**

(1)(a) All of the broker-dealer's confirmations and account statements must indicate clearly that the broker-dealer services are provided by the broker-dealer.

(b) Advertisements and sales literature that announce the location of a financial institution where broker-dealer services are provided by the broker-dealer, or that are distributed by the broker-dealer on the premises of a financial institution, must disclose that securities products: Are not insured by the FDIC or NCUA; are not deposits or other obligations of the financial institution and are not guaranteed by the financial institution; and are subject to investment risks, including possible loss of the principal invested. The shorter, logo format described in subsection (2)(a) of this section may be used to provide these disclosures.

(c) Recommendations by a broker-dealer concerning nondeposit investment products with a name similar to that of a financial institution must only occur pursuant to policies and procedures reasonably designed to minimize risk of customer confusion.

(2)(a) The following shorter, logo format disclosures may be used by a broker-dealer in advertisements and sales literature, including material published, or designed for use, in radio or television broadcasts, automated teller machine ("ATM") screens, billboards, signs, posters and brochures, to comply with the requirements of subsection (1)(b) of this section, provided that such disclosures are displayed in a conspicuous manner:

- (i) Not FDIC insured;
- (ii) Not NCUA insured;
- (iii) No bank guarantee;
- (iv) May lose value.

(b) As long as the omission of the disclosures required by subsection (1)(b) of this section would not cause the advertisement or sales literature to be misleading in light of the context in which the material is presented, such disclosures are not required with respect to messages contained in:

- (i) Radio broadcasts of thirty seconds or less;
- (ii) Electronic signs, including billboard-type signs that are electronic, time, and temperature signs and ticker tape signs, but excluding messages contained in such media as television, on-line computer services, or ATMs; and
- (iii) Signs, such as banners and posters, when used only as location indicators.

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NEW SECTION

**WAC 460-21C-040**

**Notification of termination.**

The broker-dealer must promptly notify the financial institution if any agent of the broker-dealer who is employed by the financial institution is terminated for cause by the broker-dealer.

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