

INTERPRETIVE LETTER 89-10 (AUGUST 31, 1989)

State bank may offer discount brokerage services through affiliation with a registered broker.

This letter is in response to your question whether an Illinois state bank can offer its customers a discount brokerage service through affiliation with a NASD registered broker. It is the Agency's interpretation that the bank may.

Discount brokerage does not involve investment advice and in the context of a bank, the bank acts only as an intermediary introducing the customer to the broker/dealer services of a discount broker, executing transactions in accordance with the customer's direct instructions. The Agency's position on discount brokerage service is consistent with and parallels that of the Federal Deposit Insurance Corporation. For your reference I enclose a copy of the FDIC opinion on discount brokerage from May 17, 1983, which sets forth in some detail their restrictions and in particular the five principle characteristics which must be present for a state bank to provide discount brokerage services to its customers. These are:

- 1) The bank clearly acts solely at the customer's direction;
- 2) The transactions are for the account of the customer;
- 3) The transactions are without recourse;
- 4) The bank makes no warranty as to the performance or quality of any security; and
- 5) The bank does not advise a customer to make any particular investment decision.