



Bureau of Residential Finance
Thrift Division
J. Roger Copley - Director

**[Securities Activities, Savings Banks and Associations
Third Party Brokerage Arrangements
Securities Regulations]**

August 2003

Dear :

Our records indicate that your institution has established a service corporation for the purpose of selling nondeposit investment products. As you may be aware, federal financial modernization legislation made changes to federal securities laws that may affect the conduct of this activity.

Specifically, the Gramm-Leach-Bliley Act established a system of “functional regulation” of financial services, including the securities (nondeposit investment products) activities of depository institutions. Generally under this system, the U.S. Securities and Exchange Commission (SEC) regulates the securities activities of depository institutions pursuant to federal securities laws. However, an exception exists for third party brokerage arrangements of depository institutions subject to certain conditions (see, attached, Securities Provisions). A third party brokerage arrangement is an agreement between a depository institution and a registered broker-dealer under which the broker-dealer offers brokerage services on or off the premises of the institution.

This exception covers the depository institution itself, but does not apply to its subsidiary unless applicable depository institution regulatory law requires third party brokerage activities to be conducted in a subsidiary.

In this connection, I am writing to inform you that the Illinois Savings and Loan Act and Savings Bank Act do not require associations and savings banks, respectively, to conduct third party brokerage activities through a subsidiary. Therefore, it appears that associations and savings banks that have subsidiaries with third party brokerage arrangements must either modify the arrangement to come within the exception described above or otherwise comply with applicable securities law.

Enclosed please find an SEC No-Action letter (April 9, 2002), an Office of Thrift Supervision CEO Memorandum (July 11, 2003), and a list of relevant provisions of securities law. This information is provided only for your convenience and is not intended to be exhaustive. Institutions should review the matter of the regulation of third party brokerage arrangements independently.

If your institution sells nondeposit investment products, please take the steps necessary to assure that it conducts this activity in compliance with applicable securities laws.

If you have questions on this matter, please contact Robert Stearn, Senior Counsel, at (312) 793-1454 or rstearn@bre.state.il.us.

Sincerely,

Beverly Bangert
Managing Examiner

Attachments

See, FDIC FIL 92-2007 (October 25, 2007) regarding SEC Regulation R.
[Revised January 12, 2016]