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Joint Release

Federal Reserve Board
Federal Deposit Insurance Corporation
Office of the Comptroller of the Currency

Sales Practices for Government Securities Proposed

The three bank regulatory agencies will propose for public comment sales practice rules for banks that act as government securities brokers or dealers. The rules implement provisions of 1993 amendments to the Government Securities Act. The notice of proposed rulemaking will appear in the Federal Register next week.

The agencies' proposals are based on proposed rules by the National Association of Securities Dealers (NASD) for nonbank brokers and dealers in government securities. The rules were published for comment by the Securities and Exchange Commission on October 24, 1995 and March 21, 1996.

The proposals, based upon the NASD rules, that the agencies are considering applying to banks would:

- require that a bank have reasonable grounds for believing that a recommendation concerning government securities is suitable for a customer based on the customer's financial situation and other securities holdings. The bank would also have to make reasonable efforts to obtain information on the financial and tax status and investment objectives of a non-institutional customer before executing a recommended transaction.
- set forth certain factors for determining compliance with the NASD Suitability Rule with respect to institutional customers. These factors include the responsibility of a government securities broker or dealer to take into account the customer's capability to evaluate investment risk independently and whether the customer will exercise independent judgement in evaluating investment recommendations by the broker or dealer.
- provide that high standards of commercial honor and just and equitable principles of trade be applied to the conduct of a bank's business as a government securities broker or dealer.

The agencies request comment on whether these sections of the NASD rules should apply to banks.

In addition, the agencies request comment on whether other NASD rules on government securities sales should apply to banks. For example, the agencies request comment on whether NASD rules governing supervision of the personnel who sell securities

should be applied to banks.

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