



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

DIVISION OF  
MARKET REGULATION

November 24, 1993

Ian E. Celecia, Esq.  
Chubb Securities Corporation  
One Granite Place  
P.O. Box 2005  
Concord, New Hampshire 03302

Re: Chubb Securities Corporation

Dear Mr. Celecia:

In your letter of September 1, 1993, on behalf of Chubb Securities Corporation ("CSC"), as supplemented by telephone conversations with the staff, you request assurance that the staff would not recommend enforcement action to the Commission under Section 15(a)(1) of the Securities Exchange Act of 1934 ("Exchange Act") if CSC enters into networking arrangements with certain federal and state chartered banks, savings and loan associations, savings banks, and credit unions (collectively, "Financial Institutions") and, where required by law, their service corporation subsidiaries, to provide securities brokerage services on the premises of such Financial Institutions, as described in your letter, without the Financial Institutions, the required service corporations, or their unregistered employees registering as broker-dealers under Section 15(b) of the Exchange Act.

We understand the facts to be as follows:

CSC, a wholly-owned subsidiary of Chubb Life Insurance Company of America, is a registered broker-dealer and member of the National Association of Securities Dealers, Inc. ("NASD"). CSC proposes to enter into networking arrangements with Financial Institutions to provide securities brokerage services to customers of such Financial Institutions and the general public, on the premises of the Financial Institutions. Where required by the laws or regulations governing a Financial Institution, the Financial Institution will enter into the networking arrangement with CSC through a service corporation subsidiary of the Financial Institution.

CSC will provide brokerage services on the premises of each Financial Institution in an area that is physically separate from the Financial Institution's regular business activities, in such a way as to clearly segregate and distinguish CSC from the Financial Institution. The area in which CSC provides brokerage services will clearly display CSC's name and an indication that

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CSC is a member of the NASD, and will be registered with the NASD as a branch office of CSC. Under the networking arrangements, CSC will provide brokerage services only on the premises of the Financial Institutions themselves, and not in areas where a service corporation has a location independent of the Financial Institution.

The networking arrangement between CSC and each Financial Institution (including its required service corporation) will be governed by a Customer Access Agreement, which will set forth the responsibilities of the parties, the conditions of the arrangement, and the compensation to be received by the Financial Institution (including its required service corporation). As a registered broker-dealer, CSC will comply with all statutory and regulatory requirements applicable to broker-dealers, including applicable rules of self-regulatory organizations ("SROs"). CSC will exclusively control, supervise, and be responsible for all securities business conducted in its locations at the Financial Institutions. Under the networking arrangements, transactions in securities may be effected only by registered representatives of CSC, some of whom also may be employees of the Financial Institution, including its required service corporation ("Dual Employees"). CSC will control, properly supervise, and be responsible for all its registered representatives, including any Dual Employees acting in their capacity as CSC registered representatives.

Any materials used by CSC or the Financial Institutions (including required service corporations) to advertise or promote the availability of brokerage services under the networking arrangements will be approved by CSC for compliance with the federal securities laws prior to distribution. All such materials will be deemed to be CSC's materials, and will indicate clearly that the brokerage services are being provided by CSC and not the Financial Institution or its required service corporation; that neither the Financial Institution nor its required service corporation is a registered broker or dealer; that the customer will be dealing solely with CSC with respect to the brokerage services; and that CSC is not affiliated with the Financial Institution or its required service corporation. References to a Financial Institution in advertising or promotional materials will be for the purpose of identifying the location where brokerage services are available only, and will not appear prominently in such materials.

All confirmations, account statements, and other customer communications regarding securities transactions under the networking arrangements will be sent directly to the customer by CSC or by the issuer, transfer agent, or principal underwriter of the security. All documentation sent by CSC directly to a

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customer, including confirmations and account statements, will indicate clearly that the brokerage services are provided by CSC and not by the Financial Institution or its required service corporation. If any documentation regarding securities transactions is sent directly to a customer of CSC by an issuer, transfer agent, or principal underwriter, CSC will be responsible for ensuring that such materials comply with the federal securities laws; and the name of the Financial Institution or its required service corporation will not appear on such materials.

Each Financial Institution (including required service corporations) will allow supervisory personnel of CSC and representatives of the Commission, the NASD and other SROs of which CSC is a member, as well as other applicable federal and state governmental authorities, to inspect the Financial Institution's premises where CSC conducts brokerage activities and any books and records maintained by CSC with respect to brokerage activities. Each Financial Institution (including required service corporations) will be deemed to be an associated person of CSC within the meaning of Section 3(a)(18) of the Exchange Act.

Employees of the Financial Institutions (including required service corporations) who are not registered representatives of CSC will not engage in any securities or investment-related activities on behalf of CSC. Unregistered employees will be prohibited from recommending any security or giving any other form of investment advice, describing investment vehicles such as mutual funds, discussing the merits of any security or type of security with a customer, or handling any question that might require familiarity with the securities industry or the exercise of judgment regarding securities and investment alternatives. Unregistered employees will refer all securities-related questions to registered representatives of CSC. All telephone inquiries related to CSC will be answered solely by registered representatives of CSC. Unregistered employees will be prohibited from accepting or transmitting orders, handling customer funds or securities (except that unregistered employees may effect electronic funds transfers to CSC from an account at the Financial Institution or required service corporation at a customer's request) or having any involvement in securities transactions other than providing clerical and ministerial assistance.

Unregistered employees of the Financial Institutions (including required service corporations) will not receive any compensation based on transactions in securities or the provision of securities advice. Unregistered employees may, however, be paid a nominal fee for referring Financial Institution customers to CSC. The amount of any such fees, which will be unrelated to

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the volume of securities traded by the customer, will be determined and paid by the Financial Institution (or required service corporation). Unregistered employees will be paid no more than one fee per customer referred. Other than this one-time, nominal fee, unregistered employees will not receive any other compensation, such as trips, free meals, or monetary awards, as the result of a referral or the number of referrals made. Supervisory employees will not receive any fees for referrals made by their subordinates.

CSC will provide conduct manuals to unregistered employees of the Financial Institutions (and required service corporations) that specify the limits on their permissible activities, as set forth above. Each Financial Institution (including required service corporations) will monitor the activities of its unregistered employees, and ensure their compliance with the limits on their permissible activities as set forth in the conduct manual. Furthermore, CSC will conduct periodic reviews to assure that the Financial Institutions (including required service corporations) and their unregistered employees comply with the limits on their activities set forth in the conduct manual. CSC also will provide each of its registered representatives with a copy of CSC's compliance manual. Registered representatives will adhere to the policies and procedures contained in CSC's compliance manual. CSC will monitor its registered representatives' compliance in this regard.

All brokerage services provided at the Financial Institutions (including required service corporations) will be provided by registered representatives of CSC, either Dual Employees or otherwise, all of whom will be registered and qualified as necessary with the Commission, the NASD, and any appropriate state regulatory authorities, and all of whom will be associated persons of CSC within the meaning of Section 3(a)(18) of the Exchange Act. Each Financial Institution (including required service corporations) will agree that any Dual Employee whom the Commission, the NASD, or CSC bars or suspends from association with CSC or any other broker-dealer will be terminated or suspended, accordingly, from all securities activities by the Financial Institution (and its required service corporation). The securities activities of each Dual Employee will be supervised by the supervisory personnel of CSC, who are registered securities principals. The amount of any transaction-related compensation paid to CSC's registered representatives, including Dual Employees, under the networking arrangement, will be determined solely by CSC. For convenience with respect to tax and social security withholding, health, retirement, and other benefits, transaction-related compensation may be paid to Dual Employees by the employer Financial Institution (including

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required service corporations), provided that it is clear that such payments are made on behalf of CSC from funds allocated by CSC for payment of Dual Employees.

Registered representatives are required to inform all securities customers, and obtain a written acknowledgment from such customers, that the brokerage services are being provided by CSC and not by the Financial Institution (or its required service corporation), and that the offered securities are not guaranteed by the Financial Institution (or its required service corporation) or insured by the Federal Deposit Insurance Corporation ("FDIC") or any other federal or state deposit guarantee fund relating to financial institutions.

CSC will not solicit customers of a Financial Institution in connection with the purchase or sale of the securities of that institution or any of its affiliates (including required service corporations). CSC may execute unsolicited transactions in the equity securities of the Financial Institution or its affiliates (including required service corporations) on behalf of a Financial Institution customer, provided that the customer signs an affidavit affirming that the transaction was effected on an unsolicited basis and that the customer has been informed that the securities are not insured by the Financial Institution or any of its affiliates (including required service corporations), the FDIC, or any other state or federal deposit guarantee fund relating to financial institutions. No debt securities of the Financial Institution or its affiliates (including its required service corporations) will be sold, on an unsolicited basis or otherwise, on any part of the premises of the Financial Institution that is generally accessible to the public.

CSC will pay a fee to the each Financial Institution (including required service corporations) based on all securities transactions that occur at or are attributable to activities conducted on that Financial Institution's premises. CSC will provide a copy of this letter to each Financial Institution (including required service corporations) and will ensure that each Financial Institution (including required service corporations) understands its obligations under the networking arrangement.

Response:

On the basis of your representations and the facts presented, and strict adherence thereto by CSC, the Financial Institutions (including required service corporations) and their unregistered employees, and particularly in view of the fact that CSC is a registered broker-dealer and all personnel engaged in securities activities under the networking arrangements will be

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fully subject to the regulatory requirements of the federal securities laws and the applicable rules of SROs, the staff would not recommend enforcement action to the Commission under Section 15(a)(1) of the Exchange Act if CSC offers brokerage services under the networking arrangements described above without the Financial Institutions (including required service corporations) and their unregistered employees registering as broker-dealers under Section 15(b) of the Exchange Act. This staff position is based in part on CSC's representation that it will control, properly supervise, and be responsible for all registered representatives participating in the networking arrangements. Consequently, any designation of such registered representatives as "independent contractors" will have no effect on CSC's responsibilities under the federal securities laws, including without limitation Sections 15(b) and 20(a) of the Exchange Act.<sup>1</sup>

This position concerns enforcement action only and does not represent a legal conclusion regarding the applicability of the statutory or regulatory provisions of the federal securities laws. Moreover, this position is based solely on the representations that you have made; any different facts or conditions may require a different response.

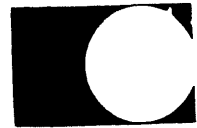
Sincerely,



Catherine McGuire  
Chief Counsel

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<sup>1</sup>See *Hollinger v. Titan Capital Corp.*, 914 F.2d 1564, 1572-78 (9th Cir. 1990), cert. denied, 111 S. Ct. 1621 (1991).



**Chubb Securities Corporation**

One Greenway Place PO Box 2005 Concord NH 03302  
(603) 224-4141

**1934 Act/15(b)**

September 1, 1993

Office of Chief Counsel  
Division of Marketing Regulation  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

OFFICE OF CHIEF COUNSEL

SEP 13 1993

RE: Chubb Securities Corporation

DIVISION OF MARKET REGULATION

Dear Sir/Ms.:

I serve as in-house counsel for Chubb Securities Corporation ("CSC") a wholly owned subsidiary of Chubb Life Insurance Company of America ("ChubbLife"). CSC is a broker-dealer registered under Section 15 of the Securities and Exchange Act of 1934 (the "Exchange Act") and a member of the National Association of Securities Dealers, Inc. ("NASD"). The purpose of this letter is to request a no-action letter from the Staff of the Securities and Exchange Commission (the "Staff").

**No Action Request**

We respectfully request the assurance of the Staff that it would not recommend enforcement action to the Securities and Exchange Commission (the "Commission") if, as described in detail below, CSC enters into networking arrangements with federal and state "Financial Institutions" (defined below), involving the offer and sale by CSC to customers of such Financial Institutions and others, on the premises of the Financial Institutions, of securities (i.e. mutual funds, unit investment trusts, variable annuities, variable life insurance, limited partnership interests, and similar securities) without the Financial Institutions or their non-registered employees registering with the Securities and Exchange Commission as broker-dealers pursuant to Section 15(b) of the Exchange Act.

## **The Parties**

### **CSC**

CSC is a New Hampshire Corporation and wholly owned subsidiary of ChubbLife, a national insurance company also incorporated in New Hampshire. CSC is a broker-dealer registered with the Commission and with those states where it conducts brokerage activities, and is a properly licensed member of the NASD.

CSC's registered representatives are generally independent contractors (as opposed to being employees of CSC) and registered or licensed as broker-dealer agents of CSC in those states where they conduct business and with the NASD.

CSC operates as a fully-disclosed introducing broker-dealer and generally executes and clears securities transactions for its customer accounts through a clearing broker that has entered into a contract with CSC. Certain CSC accounts are handled on a subscription basis directly with certain mutual fund companies. Customer accounts are maintained by the clearing broker-dealer or the mutual funds when appropriate.

CSC offers a variety of investment products, including equities, debt securities, open-end mutual funds, unit investment trusts, variable annuities, variable life insurance, limited partnership interests, and other similar investment products. Options, commodities and futures are not offered by CSC. It is anticipated that most of CSC's securities activities on the Financial Institution premises will involve mutual funds, unit investment trusts and variable annuities.

### **The Financial Institutions**

Institutions that may participate in the networking arrangement include federal and state chartered banks, savings and loan associations, savings banks, and credit unions ("Financial Institutions") that are permitted to engage in activities related to the networking arrangement described herein, pursuant to federal and state laws, rules and regulations governing the activities of such Financial Institutions. Where required by applicable law or by federal or state authorities with jurisdiction over the activities of the Financial Institution, a Financial Institution shall enter into the networking arrangement through its "Service Corporation" subsidiary, (the term "Financial Institution" shall include any required Service Corporation subsidiary that a Financial Institution may use to participate in the networking arrangement).



## **The Networking Arrangement**

### **The Structure of the Arrangement**

The arrangement between CSC and the Financial Institutions provides that CSC will provide brokerage services to customers of the Financial Institutions and the general public on the premises of such Financial Institutions without the Financial Institutions or their required Service Corporations or their respective non-registered employees registering as broker-dealers.

The arrangement between CSC and the Financial Institution will be governed by a Customer Access Agreement, which sets forth the responsibilities of the parties, the requisite conditions of the arrangement, and the compensation to be received by the Financial Institution.

### **General Conditions of the Arrangement**

#### **CSC's Role**

CSC is a registered broker-dealer and will comply with all statutory and regulatory requirements applicable to broker-dealers. All personnel engaged in securities activities will be subject to the federal and state securities laws and rules of any applicable self-regulatory organizations.

The arrangement provides that securities will be offered and sold, and all transactions in such securities may be transacted only by registered representatives, who either are registered representatives of CSC, or when applicable, registered representatives of CSC who are also employees of the Financial Institution.

CSC shall control and supervise all securities business conducted in its locations at the Financial Institutions.

CSC will control, properly supervise, and be responsible for all registered representatives registered through CSC, including any Financial Institution employees acting in their capacity as CSC registered representatives.

#### **Financial Institution's Securities**

No securities of the Financial Institution or its affiliates will be sold on any part of the premises of the Financial Institution, and no Financial Institution customer will be solicited by a registered representative to purchase securities of the Financial Institution or its affiliates. Unsolicited sales of these securities are permitted, provided that both the client and CSC's representative are not on the premises of the Financial Institution in question.

## Insurance Products and Services

If permitted by state insurance laws or any other applicable laws, certain registered representatives of CSC may also be licensed insurance agents of ChubbLife or any other insurance company, and may offer certain variable and non-variable insurance products for sale from the CSC offices located at the Financial Institution.

## CSC Offices

CSC's offices though located on the premises of the Financial Institution will be physically separate from the Financial Institution's regular activities, in such a way as to clearly segregate and distinguish CSC from the Financial Institution. The securities area will be identified specifically and registered with the NASD and any applicable state as a branch office of CSC. CSC's name will be clearly displayed, as well as an indication that CSC is an NASD member.

## Compensation to the Financial Institution

CSC may pay a fee to the Financial Institution or its required Service Corporation based on all securities transactions which occur at, or are attributable to, activities conducted on that particular Financial Institution's premises.

## Referral Fees

Non-registered employees of the Financial Institution will not receive transaction-related compensation and, accordingly, any referral fee will be a one-time fee of nominal, fixed-dollar amount, wholly unrelated to the execution of securities transactions or the volume of securities traded by the customer, and paid by the Financial Institution.

## Notice-Acknowledgement

Registered representatives are required to inform all securities customers, and all securities customers are required to acknowledge in writing, that the brokerage services are being provided by CSC and not by the Financial Institution or its required service corporation, and that the offered securities acquired by customers are not guaranteed by the Financial Institution nor insured by any agency of the U.S. government.

## No-Action Letter

CSC will provide a copy of your no-action letter to each Financial Institution and will ensure that the Financial Institutions are informed of their obligations under the arrangement.

### Confirmation Slips - Account Statements

Upon the completion of any brokerage transaction, CSC or the issuer will send all confirmation slips, account statements and other documentation regarding the securities transaction directly to the customer. All documentation sent by CSC directly to a customer, including confirmation slips and account statements, will indicate clearly that the services are provided by CSC and not by the Financial Institution.

### Training

CSC will provide each registered representative with a copy of the CSC's compliance manual, and monitor compliance thereof.

Registered representatives will be bound to adhere strictly to the policies and procedures contained in CSC's compliance manual.

CSC will provide non-registered Financial Institution employees with conduct manuals that specify the limits of these employees' activities.

### Financial Institution Non-registered Employees

The Financial Institution's employees who are not registered representatives of CSC may not engage in any securities-related or investment-related activities on behalf of CSC. Non-registered employees are prohibited from recommending any security, giving any form of advice, describing investment vehicles such as mutual funds, discussing the merits of any security with a customer, or handling any questions that might require familiarity with the securities industry or require the exercise of judgement regarding securities. All securities related questions will be directed to registered representatives. Non-registered employees are prohibited from accepting or transmitting orders and handling customer funds and securities. Non-registered employees of the Financial Institution, if involved at all in the networking arrangement, are limited to purely clerical and ministerial activities.

The networking arrangement herein described will not prohibit a trust department of a Financial Institution from engaging in any securities activities permitted by law.

The Financial Institution shall monitor the activities of, and ensure the compliance by, non-registered Financial Institution employees with CSC's standards of conduct as set forth in the conduct manual.

### Financial Institution Non-Securities Activities

The Financial Institution or its required Service Corporation are obligated to conduct their business activities completely separate from the securities brokerage activities conducted by CSC and its registered representatives.

### Financial Institution's Status

The Financial Institution will be deemed to be an associated person of CSC within the meaning of Section 3(a)(18) of the Exchange Act.

### Service Corporations

Service Corporations will be used only when the regulations governing a particular Financial Institution explicitly require that the activities called for in the networking arrangement be conducted through a Service Corporation rather than through the Financial Institution itself. Brokerage services will be provided on the premises of the Financial Institution, and not in areas where the Service Corporation has a location independent of the Financial Institution.

### Access

Supervisory personnel of CSC and representatives of state and federal regulatory authorities and of any other entity having jurisdiction over the operation of its brokerage services will have unimpeded access during normal business hours to inspect the premises, and any books and records maintained in connection with the operation of the brokerage services.

### Advertising and Promotional Materials

The Financial Institution or its required service corporation may advertise the availability of the securities brokerage services to their customers subject to the prior approval of CSC.

All advertising and sales literature concerning the networking arrangement will refer to the Financial Institution only so as to identify the location where the brokerage services will be available, and such references to the Financial Institution will not appear prominently in the advertising.

Any such advertising from CSC or the Financial Institution will be deemed to be CSC's materials, and will indicate clearly that:

- (1) the brokerage services are being provided by CSC and not by the Financial Institution;
- (2) the Financial Institution is not a registered broker-dealer;

- (3) the customer will be dealing solely with CSC with respect to the brokerage services;
- (4) the broker-dealer is not affiliated with the Financial Institution, and
- (5) the offered securities are not insured by any agency of the U.S. government.

#### Financial Institution Registered Representatives

Though not part of the original networking arrangement, CSC anticipates that there may be other networking arrangements where employees of a Financial Institution will also serve as registered representatives of CSC, in which case the following conditions will apply:

(1) The Financial Institution will agree that any one of its employees who is also a registered representative of CSC and which the Commission, the NASD or CSC bars or suspends from association with CSC or any other broker-dealer, shall be terminated or suspended from all securities activities by the Financial Institution.

(2) Each Financial Institution employee acting as a registered representative of CSC must be registered and qualified as necessary with the Commission, the NASD and any appropriate state regulatory authorities.

(3) The securities activities of all Financial Institution employees who are also registered representatives of CSC are to be supervised by the supervisory personnel of CSC, who are registered securities principals.

(4) Financial Institution employees who are registered representatives of CSC may conduct business on behalf of the Financial Institution when not acting as registered representatives of CSC.

(5) For convenience with respect to tax and social security withholding, health, retirement and other benefits, all transaction-related compensation to be paid by CSC to Financial Institution employees who are registered representatives of CSC, may be paid instead to the Financial Institution on behalf of CSC.

(6) Although Financial Institution employees who are registered representatives of CSC may receive their compensation from the Financial Institution, the amount of any transaction-based compensation will be determined by CSC and paid on behalf of CSC.

(7) Financial Institution employees who are registered representatives of CSC will be deemed associated persons of CSC under Section 3(a)(18) of the Exchange Act.

#### Analysis

Section 15(a) of the Exchange Act provides that "it shall be unlawful for any broker or dealer to effect any transactions in, or induce or attempt to induce ... the purchase or sale of, any security ... unless such broker or dealer is registered in accordance with Section 15(b) of the Act." The Staff has granted numerous no-action requests concerning networking arrangements between registered broker-

dealers and Financial Institutions similar to the one described above, [see, e.g., Mid-Hudson Savings Bank FSB (Publicly Available May 28, 1993); Bankers Financial Partners, Incorporated (Publicly Available May 14, 1993); D.A. Davidson & Co. (Publicly Available March 1, 1993); Interactive Financial Solutions, Inc. (Publicly Available December 15, 1992); Liberty Securities Corporation (Publicly Available October 21, 1992); Anchor National Financial Services, Incorporated (Publicly Available January 22, 1992); etc.]. The Staff's response in these previous no-action letters focussed, among other factors, on the fact that all securities activities were engaged in by a registered broker-dealer, all personnel engaged in such securities activities would be fully subject to the securities laws and applicable rules of self-regulatory organizations, and the registered broker-dealer would control, properly supervise, and be responsible for all registered representatives participating in the brokerage services networking arrangement.

Accordingly, pursuant to such prior no-action letters issued by the Staff, and based on strict adherence to the foregoing representations concerning the networking arrangement by all parties involved, it is our view that neither the Financial Institution nor any of its employees (other than those Financial Institution employees acting as registered representatives of CSC) are required to register with the Commission as broker-dealers pursuant to Section 15(b) of the Exchange Act.

Please stamp and return the enclosed copy of this letter in the postage paid envelope provided to confirm your receipt of this request.

If you should require additional information or clarification do not hesitate to call the undersigned at 1-800-258-3848 extension 5346.

Thank you for your prompt consideration to this no-action request.

Very truly,

  
Ian E. Celecia  
Attorney

encl.

cc: Bruce Stefany, President, CSC  
Mary Toumpas, Compliance Officer, CSC  
Shari Lease, Assistant Counsel