

Statement of Julie L. Williams
Chief Counsel
Office of the Comptroller of the Currency
before the
Subcommittee on Oversight and Investigations
of the
Committee on Commerce
of the
U.S. House of Representatives
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Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss the OCC's role and supervisory approach with respect to subsidiaries of national banks that are registered broker-dealers, and to review the NationsSecurities matter.

As I begin, however, I want to express my sympathy for the victims in the NationsSecurities matter. The sales abuses that occurred would be intolerable under any circumstances, and it is deplorable that they occurred in connection with an entity affiliated with a national bank.

Let me now briefly discuss each regulator's role in the supervisory process when a broker is a subsidiary of a national bank. As you know, the SEC and the NASDR are the primary supervisors of registered broker-dealers, including those that are subsidiaries or affiliates of national banks. The OCC recognizes that these securities regulators have primary responsibility for overseeing the compliance by brokerage subsidiaries of banks with comprehensive securities law requirements.

However, because we are responsible for supervising the affiliated bank, the OCC also has an interest in -- and responsibilities that pertain to -- the activities of bank subsidiaries. Our approach begins with identifying risks these activities pose and determining if those risks are being managed appropriately. We emphasize the risk identification and risk management systems applicable to a subsidiary's operations.

Risk may be present, for example, if the bank and the subsidiary do not have in place procedures to assure that bank customers receive full and accurate disclosures about the uninsured status and risks of investment products they buy through the bank's subsidiary. Failure to do so may injure the bank's customers, damage their relationship with the bank, mar the bank's reputation, and expose the bank to liability. Thus, we fully share the goals of the SEC and NASDR to assure fair treatment of customers.

In the case of a brokerage affiliate or subsidiary that operates on bank premises or effects sales through banks, a review of the bank's management and control systems for that activity will inevitably touch on aspects of the operations of the broker as well. However, we do not seek to duplicate or intrude into the responsibilities or activities of the securities regulators. If, as a result of our oversight of a bank's compliance and risk

management systems, the OCC becomes aware of conduct or activities that raise concerns about securities law compliance by a brokerage affiliate or subsidiary of a national bank, we would promptly consult with the primary regulator to determine appropriate examination efforts and supervisory responses by each regulator to the situation.

My written statement describes a recent situation involving this type of coordination and summarizes the various areas where we coordinate productively with the SEC and the NASDR.

OCC policies on functional oversight of broker-dealers that are affiliated with national banks are reflected in revisions to the OCC's bank examination handbook that have been underway for some time and will be published shortly in a new examination handbook.

My written statement also describes in some detail the sequence of events that occurred in the NationsSecurities matter. I will add this. Those lapses were deplorable. They were corrected by the bank and NationsSecurities, however, in 1995, in response to OCC exams that contained significant criticisms of the customer safeguards applied in connection with investment product sales by NationsSecurities through the bank. The OCC, SEC and NASDR coordinated effectively, and ultimately brought coordinated enforcement actions, imposing various sanctions, in 1998.

I would be pleased to respond to any questions you may have.