

STATE OF INDIANA
OFFICE OF THE SECRETARY OF STATE
SECURITIES DIVISION

IN THE MATTER OF:

RULE AMENDING) Cause No. 05-0105 AO
710 IAC 1-14-6 REGARDING)
SUPERVISION OF BROKER)
DEALER BRANCH OFFICES)
)

FILED
SEP 08 2005

ORDER ADOPTING RULE AMENDING 710 IAC 1-14-6

Comes now O. Wayne Davis, Securities Commissioner, and pursuant to the authority granted under IC 23-2-1-15, finds as follows:

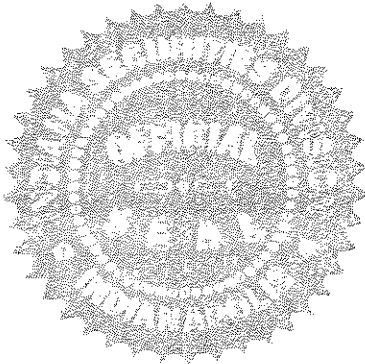
1. The Office of the Indiana Secretary of State, Securities Division, caused to be published in the April 1, 2005, edition of the *Indiana Register* (28 IR 2158 [2005]), a Notice of Intent to Adopt a Rule amending 701 IAC 1-14-6 regarding supervision requirements for broker-dealer branch offices.
2. The Office of the Indiana Secretary of State, Securities Division, caused to be published in the July 1, 2005, edition of the *Indiana Register* (28 IR 3009 [2005]), a Proposed Rule amending 710 IAC 1-14-6 regarding supervision requirements for broker-dealer branch offices.
3. The Office of the Indiana Secretary of State, Securities Division, caused to be published on July 13, 2005, a Notice of Public Hearing in a newspaper of general circulation, to wit: *The Indianapolis Star*, describing the proposed rule and disclosing the date, time, and location of a public hearing regarding the rule.
4. The Office of the Indiana Secretary of State, Securities Division, caused to be published in the August 1, 2005, edition of the *Indiana Register* (28 IR 3322 [2005]), a Change in Notice of Public Hearing amending 710 IAC 1-14-6 regarding supervision requirements for broker-dealer branch offices.
5. A public hearing in regard to the proposed rule was held on August 25, 2005, at 2:00 p.m. in Room E-111, Indiana Government Center South, 302 West Washington Street, Indianapolis, Indiana.
6. After considering the comments received in writing and at the public hearing, the Securities Commissioner hereby finds that the rule, 710 IAC 1-14-6, should be amended in the form attached hereto as Exhibit A.

IT IS THEREFORE ORDERED that the rule amending 710 IAC 1-14-6 regarding supervision requirements for broker-dealer branch offices in the form attached hereto as Exhibit A should be, and it hereby is, ADOPTED.

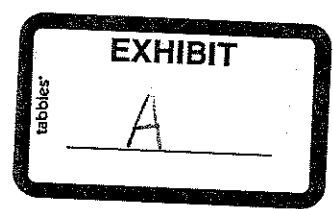
IT IS FURTHER ORDERED AND DIRECTED that the rule amending 710 IAC 1-14-6 regarding supervision requirements for broker-dealer branch offices attached hereto as Exhibit A be submitted to the Attorney General and the Governor of Indiana for their approval as required under IC 4-22-2.

ORDERED at Indianapolis, Indiana, this 14 day of September, 2005.

TODD ROKITA
SECRETARY OF STATE




O. WAYNE DAVIS
SECURITIES COMMISSIONER



TITLE 710 SECURITIES DIVISION

Proposed Rule LSA Document #05-46

DIGEST

Amends 710 IAC 1-14-6 to remove the requirement that a branch office must be located no more than 40 miles from an office of supervisory jurisdiction and to establish new procedures for regulating these branch offices. Effective 30 days after filing with the secretary of state.

710 IAC 1-14-6

SECTION 1. 710 IAC 1-14-6 IS AMENDED TO READ AS FOLLOWS:

710 IAC 1-14-6 Branch offices

Authority: IC 23-2-1-15

Affected: IC 23-2-1

Sec. 6. (a) Any broker-dealer ~~maintaining its principal that maintains an office or one (1) or more branch offices in Indiana shall~~ **must designate one (1) or more of such offices another office to act as offices the office of supervisory jurisdiction for that office.** Each branch office in Indiana shall be supervised by a person maintaining his principal place of business at ~~an the office of supervisory jurisdiction in Indiana.~~ **for that office.**

(b) The manager of an office of supervisory jurisdiction shall be:

- (1) responsible for supervision of the branch offices designated by the broker-dealer; ~~The manager of an office of supervisory jurisdiction shall be and~~
- (2) qualified by examination as a broker-dealer under ~~710 IAC 1-14-2;~~ **section 2 of this rule.**

(c) The broker-dealer shall notify the division in writing ~~prior to before~~ the opening, relocation, or closing of a branch office. ~~Such~~ **Notice via the central registration depository is sufficient to meet this requirement.** The notification shall include the following information:

- (1) The address of the branch office.
- (2) The anticipated date of opening, relocation, or closing.
- (3) The address of the office of supervisory jurisdiction designated for that branch office, ~~and~~
- (4) The name of the manager of the office of supervisory jurisdiction.

(d) ~~Every branch office shall be designated as an office of supervisory jurisdiction unless:~~

- (1) ~~no more than two (2) agents are employed at the branch office; and no customer recordkeeping or clearing functions are performed there; or~~
- (2) ~~the branch office is located no more than forty (40) miles from an office of supervisory jurisdiction.~~

(d) The broker-dealer must implement the following:

- (1) The firm must establish and implement procedures and systems for supervision over the activities of agents, employees, and Indiana office operations that are reasonably designed to achieve compliance with applicable state and federal securities laws and regulations.
- (2) The firm must provide appropriate initial and periodic refresher training to supervisors, employees, and representatives regarding the firm's procedures and systems.
- (3) The firm must provide additional specialized training to supervisors in the procedures and systems referred to in subdivision (1).
- (4) The firm must take action to correct misconduct. Misconduct may be indicated by, but is not limited to, the following:
 - (A) Activities of unauthorized personnel.
 - (B) Churning.
 - (C) Unauthorized trading.
 - (D) Garnishment of wages.

- (E) Regulatory actions.
- (F) Prior disciplinary history of one (1) or more customer complaints.
- (G) Recent customer complaints.
- (5) The firm must have an adequate system to track and monitor the status of customer complaints as required by NASD rules. Compliance with these rules includes, but is not limited to, the following:
 - (A) Compliance audits with documentation and corrective action.
 - (B) Prompt review, investigation, and disclosure of customer complaints.
- (6) The firm must establish a policy for disciplinary action.
- (7) The firm must designate a properly qualified supervisor for each employee at an office.
- (8) The designated supervisor must effectively execute any supervisory duties. To that end, the firm must limit the number of employees that a designated supervisor is responsible for at any time in order to ensure that the supervisor can effectively execute the supervisory duties.
- (9) The firm must conduct annual compliance examinations, announced and unannounced, of offices with documentation and corrective action.
- (10) The firm must establish and implement procedures and systems for reasonable oversight of supervisors.

(e) When a firm designates an office of supervisory jurisdiction, the office of supervisory jurisdiction shall be responsible for the day to day implementation of subsection (d)(1) through (d)(10).

(e) (f) Every branch office located in Indiana shall be open for inspection and examination by the division. (*Securities Division: 10 IAC 1-14-6; filed Mar 24, 1986, 3:27 p.m.; 9 IR 2045, eff Jun 1, 1986; filed May 14, 1987, 2:10 p.m.; 10 IR 2297; readopted filed Aug 17, 2001, 2:20 p.m.; 25 IR 204*)

Notice of Public Hearing

Under IC 4-22-2-24, notice is hereby given that on July 26, 2005 at 1:00 p.m., at the Indiana Government Center-South, 302 West Washington Street, Room E111, Indianapolis, Indiana the Securities Division will hold a public hearing on a proposed amendment of 10 IAC 1-14-6 to remove the requirement that the branch office of a broker-dealer be located within 40 miles of a supervisory office and to establish new procedures for regulating branch offices.

Although this rule imposes new requirements on the broker-dealer to regulate branches and employees, the net effect of the rule will be a significant reduction in costs to the broker-dealer because of no longer having to maintain a supervisory office within 40 miles of every branch office.

Copies of these rules are now on file at the Indiana Government Center-South, 302 West Washington Street, Room E111 and Legislative Services Agency, One North Capitol, Suite 325, Indianapolis, Indiana and are open for public inspection.

James Joven, Commissioner
Securities Division
Secretary of State

TITLE 710 SECURITIES DIVISION

Final Rule

LSA Document # 05-46 (F)

DIGEST

Amends 710 IAC 1-14-6 to remove the requirement that a branch office must be located no more than forty (40) miles from an office of supervisory jurisdiction and to establish new procedures for regulating these branch offices. Effective thirty (30) days after filing with the secretary of state.

710 IAC 1-14-6

SECTION 1. 710 IAC 1-14-6 IS AMMENDED TO READ AS FOLLOWS:

710 IAC 1-14-6 Branch offices

Authority: IC 23-2-1-15

Affected: IC 23-2-1

Sec. 6. (a) Any broker-dealer ~~that maintainings its principal an office or one (1) or more branch offices in Indiana shall~~ **must designate one (1) or more of such another offices to act as the** as offices of supervisory jurisdiction **for that office**. Each branch office in Indiana shall be supervised by a person ~~maintaining his principal place of business at an the~~ office of supervisory jurisdiction ~~in Indiana for that office~~.

(b) The manager of an office of supervisory jurisdiction shall be responsible for supervision of the ~~branch~~ offices designated by the broker-dealer. The manager of an office of supervisory jurisdiction shall be qualified by examination as a broker-dealer under 710 IAC 1-14-2.

(c) The broker-dealer shall notify the division in writing prior to the opening, relocation, or closing of a branch office. **Notice via the Central Registration Depository is sufficient to meet this requirement.** Such notification shall include the following information:

- (1) the address of the branch office;
- (2) the anticipated date of opening, relocation or closing;
- (3) the address of the office of supervisory jurisdiction designated for that branch office; and
- (4) the name of the manager of the office of supervisory jurisdiction.

~~(d) Every branch office shall be designated as an office of supervisory jurisdiction unless~~ **The broker-dealer must implement the following:**

- ~~(1) no more than two (2) agents are employed at the branch office, and no customer recordkeeping or clearing functions are performed there; or~~
- ~~(2) the branch office is located no more than forty (40) miles from an office of supervisory jurisdiction.~~

(1) The firm must establish and implement procedures and systems for supervision over the activities of agents, employees and Indiana office operations that are reasonably designed to achieve compliance with applicable state and federal

securities laws and regulations.

(2) The firm must provide appropriate initial and periodic refresher training to supervisors, employees and representatives regarding the firm's procedures and systems.

(3) The firm must provide additional specialized training to supervisors in the procedures and systems referred to in subsection (1) above.

(4) The firm must take action to correct misconduct. Such misconduct may be indicated by but is not limited to, activities of unauthorized personnel, churning, unauthorized trading, low level of production by high expenses, garnishment of wages, regulatory actions, prior disciplinary history of one or more customer complaints and recent customer complaints.

(5) The firm must have an adequate system to track and monitor the status of customer complaints as required by NASD rules. Compliance with these rules includes but is not limited to, compliance audits with documentation and corrective action, and prompt review, investigation, and disclosure of customer complaints.

(6) The firm must establish a policy for disciplinary action.

(7) The firm must designate a properly qualified supervisor for each employee at an office.

(8) The designated supervisor must effectively execute any supervisory duties. To that end, the firm must limit the number of employees that a designated supervisor is responsible for at any time in order to ensure that the supervisor can effectively execute the supervisory duties.

(9) The firm must conduct annual compliance examinations, announced and unannounced, of offices with documentation and corrective action.

(10) The firm must establish and implement procedures and systems for reasonable oversight of supervisors.

(e) When a firm designates an office of supervisory jurisdiction, the office of supervisory jurisdiction shall be responsible for the day to day implementation of subsection (d)(1) through (d)(10).

(ef) Every branch office located in Indiana shall be open for inspection and examination by the division. (*Securities Division; 710 IAC 1-14-6; filed June 10, 2005, filed Mar 24, 1986, 3:27 pm: 9 IR 2045, eff Jun 1, 1986; filed May 14, 1987, 2:10 pm: 10 IR 2297; readopted filed Aug 17, 2001, 2:20 p.m.: 25 IR 204*)

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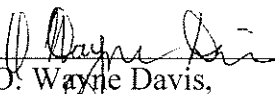
LSA DOCUMENT #05-46(F)

The office of Indiana Secretary of State, Securities Division submits one (1) original and two (2) copies of rules relating to branch office locations and regulations of branch offices of Broker-Dealers.

The Notice of Intent to adopt this rule was published on April 1, 2005 at 28 IR 2158. The Notice of Hearing was published on July 1, 2005 at 28 IR 3009. The notice of Proposed Rule was published on August 1, 2005 at 28 IR 3322. The Notice of Hearing was published in the *Indianapolis Star* on July 13, 2005 in Indianapolis, Indiana.

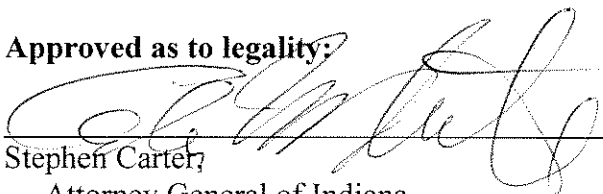
Written comments were received and oral testimony was given at the hearing. The Commissioner on September 8, 2005 adopted the rules, with changes, at a regularly scheduled meeting.

Indiana Secretary of State, Securities Division

By: 
O. Wayne Davis,
Securities Commissioner

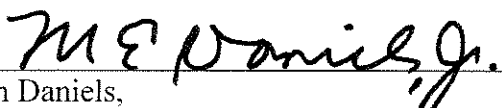
Date: 11/30/05

Approved as to legality:


Stephen Carter,
Attorney General of Indiana (For)

Date: 11/3/06

Approved:


Mitch Daniels,
Governor of Indiana

Date: 1/18/2006

Filed:


Todd Rokita,
Secretary of State

Date: Jan 19, 2006, 11:00 AM