

BEFORE THE ARIZONA CORPORATION COMMISSION

THE MATTER OF:
POSED RULEMAKING TO AMEND
C. R.-14-4-121.

DOCKET NO.
RS-000000A-00-0477

Arizona Corporation Commission
DOCKETED
JUN 21 2001



DOCKETED BY

11 At: Phoenix, Arizona
12
13 Date: June 7, 2001
14 Filed: JUN 21 2001
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REPORTER'S TRANSCRIPT OF PROCEEDINGS

RECEIVED

JUN 21 2001

ARIZONA REPORTING SERVICE, INC.
Court Reporting
Suite Three
2627 North Third Street
Phoenix, Arizona 85004-1103

Prepared for: BY: DAWNNA J. BOSWELL, RPR
CCR No. 50326

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ARIZONA REPORTING SERVICE, INC. (602) 274-9944
Realtime Specialists Phoenix, AZ

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1 ALJ STERN: This hearing is now open in the
2 Matter of Proposed Rulemaking to Amend Arizona
3 Administrative Code R14-4-121, in Docket Number
4 RS-00000A-00-0477.

5 My name is Marc Stern, and I'll preside
6 over this proceeding today and render a recommended
7 opinion and order for the Commission's final
8 disposition with respect to the Division's
9 recommendation.

10 At this time, we will now take appearances,
11 and for the Division.

12 MS. FARSON: Cheryl Farson, general
13 counsel.

14 ALJ STERN: Okay. And we'll note for the
15 record that no members of the public -- excuse me,
16 Mr. Neubert, are you here to make public comment?

17 MR. NEUBERT: No.

18 ALJ STERN: Mr. Neubert is not here to make
19 public comment.

20 Okay. There are no other members of the
21 public present. We will proceed with the
22 Division's presentation today.

23 MS. FARSON: The Notice of Rulemaking
24 Docket Opening in connection with Rule 121 was
25 published in the Arizona Administrative Register on

1 August 4th, 2000, at Volume 6, Issue Number 32,
2 page 2858. The Notice of Proposed Rulemaking was
3 published on May 4th, 2001, at Volume 7, Issue 18,
4 page 1808.

5 Rule 121 prohibits registered salesmen from
6 selling securities for any more than three
7 registered dealers during any six-month period and
8 more than one dealer at a time. The Division
9 believes an amendment is appropriate because of the
10 changes in the industry, the changes in the
11 registration methodology, and the interests of the
12 investors. The proposed amendment allows a
13 registered salesman to sell securities for more
14 than one dealer in Arizona during the same time
15 period if the dealers are affiliated, or if
16 unaffiliated dealers file with the Commission a
17 copy of a written agreement that the salesman may
18 sell for each of the dealers.

19 The amendment to the rule reflects current
20 industry practices. The industry has changed since
21 the adoption of Rule 121 in that now many different
22 types of securities and financial services are
23 offered by various companies. These companies
24 frequently are affiliated with one another. The
25 Gramm, Leach, Bliley Act passed in 1999 reflects

1 that trend. The Act was designed to facilitate
2 affiliations among banks, securities firms, and
3 insurance companies to provide a wide variety of
4 financial services through such affiliations. A
5 single salesman may need to sell for more than one
6 of the affiliates in order to facilitate a client's
7 financial needs.

8 The amendment to the rule facilitates an
9 expeditious and efficient registration process.
10 Registration of salesmen occurs through the Central
11 Registration Depository System of the National
12 Association of Securities Dealers. Because of the
13 many dealer affiliations, salesman registrations
14 through the CRD are sometimes delayed as a result
15 of limits on multiple dealer employment. The
16 amendment to Rule 121 facilitates automatic
17 registration for salesmen who do not have
18 disciplinary histories and who sell on behalf of
19 affiliated dealers. Such automatic registration
20 benefits the industry and allows staff resources to
21 be redirected to more critical activities.

22 The amendment to Rule 121 does not reduce
23 investor protection. The Division has talked to
24 securities regulators of the states of Washington
25 and Texas which have no prohibition on dual

1 registration. Those states have experienced no
2 issues resulting from dual registration that may be
3 detrimental to investors. The Arizona Investment
4 Management Act contains no similar prohibition
5 against an investment advisor representative doing
6 business for more than one investment advisor, and
7 the Division is not aware of any detriment to
8 investors as a result.

9 The prohibition against selling for more
10 than one dealer does not enhance investor
11 protection. Dealers are responsible for the
12 activities of their salesmen under the Arizona
13 Securities Act and Rule 3010 of the National
14 Association of Securities Dealers even if the
15 salesmen engage in securities activities on behalf
16 of other dealers.

17 The amendment of Rule 121 assists investors
18 using a single salesman for access to unaffiliated
19 dealers. Typically unaffiliated dealers who employ
20 the same salesmen enter into written agreements
21 regarding dual representation. A requirement that
22 those agreements be filed with the Commission will
23 accomplish two things. First, the existence of
24 such an agreement will document that each dealer is
25 aware of the salesman's activities on behalf of

1 other dealers. Second, the agreement will be a
2 public record to which investors will have access.

3 Based on its analysis, the Division
4 believes it is in the interests of the state, the
5 industry, and the investors to amend Rule 121 as
6 proposed to allow salesmen to sell securities for
7 more than one dealer. The proposed change reflects
8 the current industry, allows the Division to use
9 the CRD and its staff effectively and efficiently,
10 and allows investors to access multiple securities
11 products and financial services through one
12 salesman.

13 The Division has solicited the informal
14 advice and comments of the Office of the Attorney
15 General, the Securities Section of the Arizona
16 State Bar, and the Division's staff regarding the
17 drafting of the proposed amendment. The Division
18 has received no public comments in response to the
19 proposed amendment as published in the Notice for
20 Proposed Rulemaking.

21 ALJ STERN: Okay. You had no public
22 comments?

23 MS. FARSON: Correct.

24 ALJ STERN: So the proposed rule that was
25 noticed is then the form of this rule that you have

1 here today?

2 MS. FARSON: Correct. There have been no
3 changes.

4 ALJ STERN: Okay. And will this require,
5 usually we have Exhibit A of the rule be the
6 concise explanatory statement. Do we need an
7 Exhibit C? I think in a case I was doing the other
8 day we had Exhibit C.

9 MS. FARSON: We do not in this case.

10 ALJ STERN: Don't need it in this one.

11 All right. With that, we will conclude
12 this proceeding and issue our recommended opinion
13 and order shortly.

14 Thank you.

15 MS. FARSON: Thank you.

16 (The hearing concluded at 9:41 a.m.)

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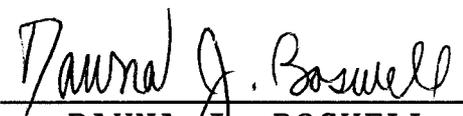
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1 STATE OF ARIZONA)
 2) ss.
 3 COUNTY OF MARICOPA)
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7 I, DAWNA J. BOSWELL, Certified Court
 8 Reporter No. 50326 for the State of Arizona, do
 9 hereby certify that the foregoing printed pages
 10 constitute a full, true and accurate transcript of
 11 the proceedings had in the foregoing matter, all
 12 done to the best of my skill and ability.

13
 14 WITNESS my hand this 21st day of June,
 15 2001.

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 18 _____
 19 DAWNA J. BOSWELL
 20 CCR No. 50326

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