

44-1844(A)(8)



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ARIZONA CORPORATION COMMISSION

SECURITIES DIVISION
Office: (602) 542-4242
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November 24, 1993

John A. Granda, Esq.
Stinson, Mag & Fizzell
1201 Walnut Street
Kansas City, MO 64106-2150

RE: Corporate Network Brokerage Services, Inc.
S-0037389-NOAC

Dear Mr. Granda:

The Securities Division is in receipt of your letter of November 10, 1993 requesting a no-action position for the above captioned issuer. We are unable to concur with your conclusion that the transaction is exempt from registration under A.R.S. §44-1844(A)(8). The Division intends to maintain its policy that "savings institution" do not include credit unions, nor do they constitute "a person a principal part of whose business consists of buying securities." Therefore, it is the Division's position that such accounts constitute securities and require registration or an exemption from registration.

For the foregoing reasons, the Securities Division declines to take a no-action position with respect to the proposed activities of Corporate Network Brokerage Services, Inc. We have attached a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

DEE RIDDELL HARRIS
Director of Securities

enclosure

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November 10, 1993

FEDERAL EXPRESS

Ms. Leslie R. Block
Associate General Counsel
Securities Division
1300 West Washington St., Third Floor
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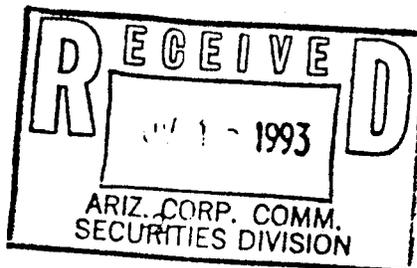
Re: Interpretive or No-Action Request

Dear Ms. Block:

On behalf of Corporate Network Brokerage Services, Inc. ("CNBS"), we hereby request interpretive advice that: (i) a federal or state chartered credit union is a "savings institution" or a "person or principal part of whose business consists of buying securities" within the meaning of the exemption from registration of securities dealers and salesmen in Arizona provided by Section 44-1844.A.8. of the Arizona Revised Statutes ("ARS"). This request is submitted pursuant to Section 44-1861.L. of the ARS and we hereby enclose our check for \$200 payable to the Arizona Securities Division in payment of the requisite fee therefor.

We note that in a letter dated September 15, 1982 to The Westcap Corporation, the Assistant Director of Securities concluded that a credit union would not be considered a "savings institution." However, one of the members of your staff suggested that this position might be reconsidered if so requested in a letter. For the reasons set forth below, we respectfully request such reconsideration and believe that the additional information set forth herein provides a sound basis for granting the interpretations being requested or a no-action letter to that effect.

Mr. Leslie R. Block
Associate General Counsel



November 10, 1993

Factual Background

CNBS is a wholly owned subsidiary of CNBS Holding Company, Inc. ("CNBS Holding"). Seventy percent of the stock of CNBS Holding is owned by U.S. Central Credit Union ("USC") and the remaining thirty percent is owned in equal amounts by two other national level credit union organizations. USC is a corporate credit union which operates, on a not-for-profit basis, on a national level primarily for the mutual benefit of its 42 corporate credit union members ("Corporate Members"). USC functions primarily as a central depository to meet the short-term and long-term liquidity needs of its Corporate Members and also provides various wholesale financial and payment services to the Corporate Members. The Corporate Members in turn provide similar services on a state or regional level to approximately 13,000 local credit unions throughout the United States and Puerto Rico ("Local Credit Union Members"; which members comprise approximately 97% of all local credit unions).

Purpose of CNBS

CNBS was created to provide a reliable broker-dealer who understands the business of credit unions as well as their financing and liquidity needs. CNBS provides credit unions access to the securities markets by offering a variety of investments, including primarily U.S. Government, federal agency and mortgage-related securities. CNBS will be investment advisor to, and may also serve as a distributor for, a series of institutional mutual funds being developed solely for investment by Local Credit Union Members. These mutual funds are intended to provide credit union members with investment alternatives that meet their regulatory requirements, offer additional diversification and capitalize on the expertise and economies of scale of the Credit Union Network (composed of USC and the Corporate Members). Finally, CNBS offers investment advisory services to Corporate Members and Local Credit Union Members which are designed to assist them in building safe, sound and profitable investment portfolios and in improving their asset and liability management procedures.

CNBS is registered with the Securities and Exchange Commission as a broker-dealer and investment adviser. CNBS is also a member of the National Association of Securities Dealers, the Municipal Securities Rulemaking Board and the Securities Investor Protection Corporation.

CNBS does not have an office in any state but Kansas in which it is headquartered.

Mr. Leslie R. Block
Associate General Counsel



November 10, 1993

Business Activities of Credit Unions

Local credit unions provide a full range of financial services to their members. These services include a variety of accounts, including savings, checking, money market, certificate of deposit, IRA and other accounts. They offer the traditional personal loans such as automobile, first and second mortgage, home equity, credit card and other secured and unsecured loans. Local credit unions also provide their members with other services such as cashier's checks, traveler's checks, check collections, electronic payments and various types of financial information.

Corporate credit unions provide services to their Local Credit Union Members that are similar to those provided by USC to its Corporate Members. In addition, the Corporate Members provide other services to Local Credit Union Members, including investment alternatives, other liquidity services, coin and currency delivery, check clearing and share draft processing. Liquidity is provided by making various types of loans to Local Credit Union Members. Investment alternatives offered by corporate credit unions to their Local Credit Union Members consist primarily of various types of share accounts, which are similar to deposit accounts, but represents an ownership position by such members with the right to one vote (regardless of the account balance) on all matters on which members are entitled to vote.

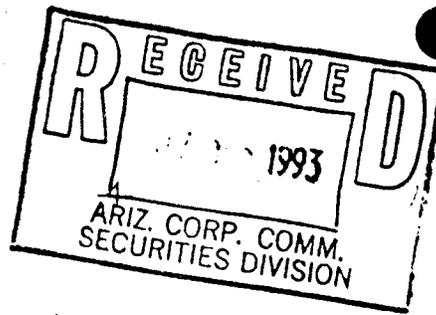
Regulatory Structure

Credit unions may be organized under Federal or state law. Federal chartered credit unions are supervised by the National Credit Union Administration ("NCUA"). State chartered credit unions are supervised by state regulatory agencies. State chartered credit unions that are federally insured are also regulated by the NCUA.

The accounts at federally chartered credit unions are insured up to \$100,000 by the National Credit Union Share Insurance Fund ("NCUSIF") which is a federal insurance program administered by the NCUA. The accounts at state chartered credit unions may be insured by either the NCUSIF (to the same extent as federal chartered credit unions) or private insurance companies. Many states now require that state chartered credit unions be federally insured. As of December 31, 1992, approximately 12,800 credit unions and approximately 98% of all local credit union shares were insured by the NCUSIF.

Statutes and regulations of the NCUA and most states create extensive regulation and supervision over credit unions which is comparable to that of other financial institutions, including limits on the type of business that may be conducted, the types of investments that can be made, and require regular reporting, examination and supervision.

Mr. Leslie R. Block
Associate General Counsel



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Investment limitations imposed upon local credit unions by Federal and state statutes and regulations result in a relatively conservative investment portfolio, and local credit unions thus hold a major portion of their investments and liquid assets in short-term savings accounts at other depository institutions and share deposits in corporate credit unions. As of December 31, 1992, 30% of all local credit union investments and cash were in the corporate credit unions. Federal agency securities and United States government securities accounted for 37% of the total investments of all local credit unions as of December 31, 1992.

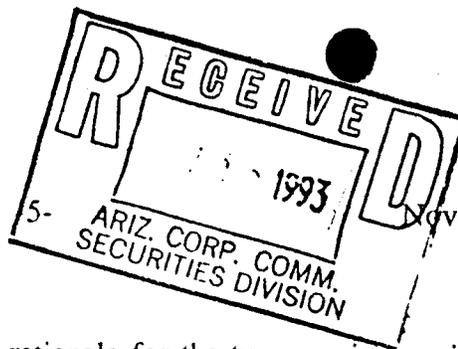
DISCUSSION

Section 44-1844.A.8. of the ARS provides an exemption from registration of securities for sales to, among others, a "savings institution" or "a person a principal part of whose business consists of buying securities." In facing a similar interpretive issue under Section 3(a)(5) of the Securities Act of 1933 ("1933 Act"), the Securities and Exchange Commission has issued several no-action letters which make that exemption from securities registration available to credit unions by viewing a credit union as a financial institution which is similar to a "savings and loan association." U.S. Central Credit Union (avail. Jan. 21, 1993); Automatic Employees Federal Credit Union (avail. Feb. 12, 1979); Oregon Telco Credit Union (avail. April 3, 1978); and Idaho Central Credit Union (avail. Feb. 14, 1977). These letters recognize the substantial equivalence of credit unions to a savings institution similar to a savings and loan association as described above under "Factual Background."

Professor Long, a leading authority on state securities laws, in commenting on the scope of the term "financial institution", for purposes of the institutional investor exemption from securities registration in Section 402(a)(8) of the Uniform Securities Act (the "Uniform Act"), recognizes that the "concept of financial institutions would seem to encompass savings and loan associations, savings banks . . . and credit unions, at a minimum" (emphasis added). J. Long, Blue Sky Law (1993) at 5-42 (hereinafter cited as "Long"). Professor Long therefore sees identity between these various types of savings institution. Professor Long also recognizes that the language in Section 401(c) of the Uniform Act (excluding financial institutions from the definition of the term "broker-dealer" generally follows that in Section 402(b)(8) of the Uniform Act (including financial institutions in the list of investors to whom sales of securities may be made without registration) and that the "scope of the included investors should be interpreted in the same way in both instances." Long at 6-50.

* Section 3(a)(5) exempts from the securities registration requirements of the 1933 Act, "any security issued (A) by a savings and loan association . . . or similar institution, which is supervised and examined by State or Federal authority having supervision over any such institution"

Mr. Leslie R. Block
Associate General Counsel



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Long's position is based on the identity of rationale for the two provisions since in his view "financial institutions and institutional investors are capable of fending for themselves and do not need the protection of the Securities Acts, either in terms of registration of the securities they buy, or registration and supervision of broker-dealers with whom they deal." *Id.* Similarly, the Draftman's Commentary to Section 402(b)(8) of the Uniform Securities Act ("Uniform Act") states that the justification for this type of exemption is that institutional investors are sophisticated buyers who do not need the protection of registration."

Corporate Members and Local Credit Union Members are regularly engaged in purchasing securities which they are permitted by regulation to make with their excess funds. As a result, a principal part of their business consists of buying securities and they have gained the necessary investment sophistication to generate competitive rates of return as compared to banks and savings and loan associations. Regulation of the type of investments which can be made and supervision by the NCUA and state credit union authorities assure that such sophistication is adequate and provides a substitute for the protections afforded by registration of securities, dealers and salesmen.

CONCLUSION

Based on the foregoing, we respectfully request that you confirm the interpretations set forth on the first page of this letter or, in the alternative, that you issue a letter stating that no enforcement will be taken by your office if CNBS proceeds in reliance upon the interpretations set forth herein.

If for any reason clarification or additional information is needed with respect to the matters described above, please contact the undersigned. In addition, if your staff does not concur with the views expressed in this letter, we respectfully request that you telephone the undersigned prior to issuing any written response to this letter.

CNBS is currently registered as a broker-dealer under the Act because its compliance personnel were not aware that it might be possible to be excluded from such registration on the basis described above. Accordingly, if the interpretive request set forth herein is granted, CNBS proposes to withdraw its registration as a broker-dealer under the Act by filing a Form BDW. Please notify the undersigned if there are any other requirements imposed by the Act, rules thereunder or policy statements to effect that deregistration.

Very truly yours,


John A. Granda

JAG/lkf