Corporate & Financial Weekly Digest

Posted at 12:11 PM on May 20, 2011 by Daren R. Domina

SEC Approves Rule Governing Fidelity Bonds

Co-authored by Natalya S. Zelensky

The Securities and Exchange Commission has approved the Financial Industry Regulatory Authority's proposal to adopt a rule governing fidelity bonds. FINRA Rule 4360 is based on NASD Rule 3020 and takes into account certain requirements under New York Stock Exchange Rule 319 and its Interpretation. The rule requires each firm required to join the Securities Investor Protection Corporation (SIPC) to maintain blanket fidelity bond coverage with specified amounts of coverage based on the firm's net capital requirement, with certain exceptions. Such firms must maintain fidelity bond coverage that provides for per loss coverage without an aggregate limit of liability. Firms that do not qualify for a fidelity bond with per loss coverage and no aggregate limit of liability must maintain substantially similar bond coverage in compliance with all of the rule's other provisions, provided that the firms maintain written correspondence from two insurance providers stating that the firms do not qualify for such coverage. FINRA Rule 4360 also addresses minimum required coverage, deductible provision, annual review of coverage, and exemptions. FINRA Rule 4360 takes effect on January 1, 2012. Firms subject to the rule must have a fidelity bond in place as of January 1, 2012, that meets all of the rule's requirements.

Click here to read FINRA Regulatory Notice 11-21.

Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC