

**MEMO# 7719**

March 19, 1996

# **INSTITUTE'S PROPOSAL TO AMEND RULE 17G-1**

March 19, 1996 TO: COMPLIANCE COMMITTEE No. 4-96 SEC RULES COMMITTEE No. 19-96  
RULE 17g-1 TASK FORCE RE: INSTITUTE'S PROPOSAL TO AMEND RULE 17g-1

Attached is the Institutes proposal to amend the fidelity bonding rule, Rule 17g-1, which has been submitted to the Securities and Exchange Commission staff for their consideration. The proposal, among other things, would update Rule 17g-1 to establish minimum coverage requirements for a fund complex (rather than for individual funds, as is currently required) and place a cap of \$100 million on the amount of required fidelity bond coverage for a joint insured bond that names as insureds members of the same fund complex. In addition, the schedule of bonding requirements: (1) would smoothe the breakpoints in the current schedule by incorporating a percentage based breakpoint schedule; (2) would eliminate the marginal rate jump at the \$1 billion point of the schedule (and, instead, maintain a declining rate of coverage as assets increase), and (3) would make clear the coverage required at specific dollar points on the schedule. The proposal would amend Rule 17g-1 in several other respects, including (1) requiring fidelity bonds to be issued on an each and every occurrence basis, (2) permitting all entities within an investment company complex that are primarily engaged in the business of providing investment management or investment advice (including ancillary services such as research support services) to be named on the same joint bond, (3) eliminating the requirement that independent directors approve the portion of the premium to be paid by a fund prior to paying any premium under a joint bond, and, instead, requiring the independent directors to consider the premium to be paid along with several other factors in their annual review of the bond, and (4) simplifying and modernizing the rules filing and notification procedures. Dorothy M. Donohue Assistant Counsel Attachment (in .pdf format)