

MEMO# 7506

December 21, 1995

INSTITUTE'S DRAFT PROPOSAL TO AMEND RULE 17G-1

December 21, 1995 TO: SEC RULES COMMITTEE No. 131-95 RE: INSTITUTE'S DRAFT PROPOSAL TO AMEND RULE 17g-1

Attached is a draft proposal to amend the fidelity bonding rule, Rule 17g-1. The draft 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 draft schedule of bonding requirements: (1) smooths the breakpoints in the current schedule by incorporating a percentage based breakpoint schedule; (2) eliminates the marginal rate jump at the \$1 billion point of the schedule (and, instead, maintains a declining rate of coverage as assets increase), and (3) makes clear the coverage required at specific dollar points on the schedule. Attached is an analysis of the revised schedule, prepared by Institute counsel, that more completely explains these changes. The draft 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 ruleGs filing and notification procedures. Attached is a more complete explanation of the proposed amendments and a chart that compares Rule 17g-1Gs current filing requirements to the InstituteGs proposed filing requirements. Please contact me with any comments on the draft proposal by January 15, 1996 by phone at (202) 326-5821 or by fax at (202) 326-5827. I am particularly interested in hearing your views on whether the proposal that is submitted to the Commission should: (1) require fund boards to consider the extent to which the share of the premium allocated to a fund under a joint bond is less than the premium the fund would have to pay if it had a single bond (like the current schedule, the proposed schedule would provide a cap of \$2.5 million on a single bond and, so, a large fund potentially could pay a higher premium under a joint bond than under a single bond); and (2) require funds to allocate any recovery under a joint bond based on all relevant factors including, but not limited to, the manner in which premiums are allocated (rather than all relevant factors including, but not limited to, the value of each fundGs assets).

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