



Location: [NASD](#) > [Manual](#) > [Rules of the Association](#) > [Conduct Rules \(2000–3000\)](#) > [3000. Responsibilities Relating to Associated Persons, Employees, and Others' Employees](#) > [3020. Fidelity Bonds](#)

[Previous](#)

[Next](#)

## 3020. Fidelity Bonds

### (a) Coverage Required

**NASD Notices to Members**  
(1 link)

▼

Each member required to join the Securities Investor Protection Corporation who has employees and who is not a member in good standing of the American Stock Exchange, Inc.; the Boston Stock Exchange; the Midwest Stock Exchange, Inc.; the New York Stock Exchange, Inc.; the Pacific Stock Exchange, Inc.; the Philadelphia Stock Exchange, Inc.; or the Chicago Board Options Exchange shall:

(1) Maintain a blanket fidelity bond, in a form substantially similar to the standard form of Brokers Blanket Bond promulgated by the Surety Association of America, covering officers and employees which provides against loss and has agreements covering at least the following:

- (A) Fidelity
- (B) On Premises
- (C) In Transit
- (D) Misplacement
- (E) Forgery and Alteration (including check forgery)
- (F) Securities Loss (including securities forgery)
- (G) Fraudulent Trading

(H) Cancellation Rider providing that the insurance carrier will use its best efforts to promptly notify the National Association of Securities Dealers, Inc. in the event the bond is cancelled, terminated or substantially modified.

(2) Maintain minimum coverage for all insuring agreements required in this paragraph (a) of not less than \$25,000;

(3) Maintain required minimum coverage for Fidelity, On Premises, In Transit, Misplacement and Forgery and Alteration insuring agreements of not less than 120% of its required net capital under SEC Rule 15c3-1 up to \$600,000. Minimum coverage for required net capital in excess of \$600,000 shall be determined by reference to the following table:

Net Capital Requirement under SEC Rule 15c3-1	Minimum Coverage
\$600,000 – 1,000,000	750,000
1,000,001 – 2,000,000	1,000,000
2,000,001 – 3,000,000	1,500,000
3,000,001 – 4,000,000	2,000,000
4,000,001 – 6,000,000	3,000,000
6,000,001 – 12,000,000	4,000,000
12,000,001 – and above	5,000,000

(4) Maintain Fraudulent Trading coverage of not less than \$25,000 or 50% of the coverage required in paragraph (a)(3), whichever is greater, up to \$500,000;

(5) Maintain Securities Forgery coverage of not less than \$25,000 or 25% of the coverage required in paragraph (a)(3), whichever is greater, up to \$250,000.

### (b) Deductible Provision

(1) A deductible provision may be included in the bond of up to \$5,000 or 10% of the minimum insurance requirement established hereby, whichever is greater.

(2) If a member desires to maintain coverage in excess of the minimum insurance requirement then a deductible provision may be included in the bond of up to \$5,000 or 10% of the amount of blanket coverage provided in the bond purchased, whichever is greater. The excess of any such deductible amount over the maximum permissible deductible amount described in subparagraph (1) above must

be deducted from the member's net worth in the calculation of the member's net capital for purposes of SEC Rule 15c3-1. Where the member is a subsidiary of another Association member the excess may be deducted from the parent's rather than the subsidiary's net worth, but only if the parent guarantees the subsidiary's net capital in writing.

### (c) Annual Review of Coverage

(1) Each member, other than members covered by subparagraph (2), shall annually review, as of the anniversary date of the issuance of the bond, the adequacy thereof by reference to the highest required net capital during the immediately preceding twelve-month period, which amount shall be used to determine minimum required coverage for the succeeding twelve-month period pursuant to subparagraphs (a)(2), (3), (4) and (5).

(2) Each member which has been in business for one year shall, as of the first anniversary date of the issuance of its original bond, review the adequacy thereof by reference to an amount calculated by dividing the highest aggregate indebtedness it experienced during its first year by 15. Such amount shall be used in lieu of required net capital under SEC Rule 15c3-1 in determining the minimum required coverage to be carried in the member's second year pursuant to subparagraphs (a)(2), (3), (4) and (5). Notwithstanding the above, no such member shall carry less minimum bonding coverage in its second year than it carried in its first year.

(3) Each member shall make required adjustments not more than sixty days after the anniversary date of the issuance of such bond.

(4) Any member subject to the requirements of this paragraph (c) may apply for an exemption from the requirements of this paragraph (c). The application shall be made pursuant to [Rule 9610](#) of the Code of Procedure. The exemption may be granted upon a showing of good cause, including a substantial change in the circumstances or nature of the member's business that results in a lower net capital requirement. The NASD may issue an exemption subject to any condition or limitation upon a member's bonding coverage that is deemed necessary to protect the public and serve the purposes of this Rule.

### (d) Notification of Change

Each member shall report the cancellation, termination or substantial modification of the bond to the Association within ten business days of such occurrence.

### (e) Definitions

For purposes of fidelity bonding the term "employee" or "employees" shall include any person or persons associated with a member firm (as defined in Article I, paragraph (q) of the By-Laws) except:

(1) Sole Proprietors

(2) Sole Stockholders

(3) Directors or Trustees of member firms who are not performing acts coming within the scope of the usual duties of an officer or employee.

Amended by SR-NASD-98-33 eff. Sept. 15, 1998.  
Deleted and replaced with former Appendix C by SR-NASD-93-48 eff. Mar. 8, 1994.  
Amended by SR-NASD-82-14 eff. Nov. 19, 1982.  
Amended eff. July 11, 1979.  
Added eff. Mar. 15, 1974.

**Selected Notice to Members:** 73-02, 73-75, 74-15, 75-26, 76-19, 78-02, 78-15, 79-25, 79-26, 82-40, 82-58, 83-56.