

## Customer Account Protection Overview

### Protecting Client Accounts Is Our Priority

At Fidelity Institutional (FI), protecting client assets is one of our top priorities. This document provides you with an understanding of some of the brokerage industry rules and regulations to which we are subject, and the additional FI processes, procedures, and safeguards we employ to optimize client asset protection.

### The Strength and Reputation of Fidelity

Fidelity Investments is one of the world's largest providers of financial services. Fidelity's mission is to inspire better futures and deliver better outcomes for the customers and businesses we serve. With assets under administration of \$11.8 trillion, including discretionary assets of \$4.5 trillion, as of December 31, 2021, we help over 40 million people feel more confident in their most important financial goals, manage employee benefit programs for over 25,500 businesses, and support more than 13,500 financial advisory and brokerage firms with innovative investment and technology solutions to grow their businesses. Our diverse businesses and independence give us insight into the entire market and the stability needed to think and act for the long term as we deliver value to you. Privately held for 75 years, Fidelity employs more than 55,000 associates who are focused on the long-term success of our customers. For more information about Fidelity Investments, visit <https://www.fidelity.com/about-fidelity/our-company>.

As custodian of your Fidelity brokerage accounts, Fidelity Brokerage Services LLC (FBS) and/or National Financial Services LLC (NFS) may be responsible for:

- The execution, clearance, and settlement of securities transactions
- Preparing and sending periodic statements of your account and transaction confirmations
- The custody (or safekeeping), receipt, and delivery of funds and securities
- The extension of margin credit upon approval

In contrast to firms that have proprietary trading strategies, Fidelity has a more conservative strategy and only executes trades at the direction of retail and institutional brokerage clients. Additionally, Fidelity does not provide investment banking services such as using firm capital for investment opportunities, raising capital, or advising and managing mergers and acquisitions.

### Strong Net Capital Position

Like other registered broker-dealers, FBS and NFS are required to regularly file reports with the U.S. Securities and Exchange Commission (SEC) about their net capital positions. Although SEC rules requires broker-dealers to maintain a minimum net capital equal to two percent of aggregate debit items associated with customer transactions, as part of its commitment to protecting customers, Fidelity maintains significantly higher net capital levels than are required. For more information on Fidelity's financial strength, please see the NFS Consolidated Statement of Financial Condition available at [fidelity.com](https://www.fidelity.com).

### Our System of Internal Controls

We have several internal organizations, led by experienced industry professionals, whose primary mission is protecting Fidelity's businesses and client assets. These include:

- Risk Oversight—Reviews, develops and implements processes and procedures to help protect Fidelity and its clients.
- Fidelity Corporate Audit—Reviews and helps ensure the effectiveness and efficiency of our internal controls.
- Corporate Security—Provides site security, pre-employment screening and due diligence research for prospective business alliances.
- Corporate Compliance—Helps ensure that Fidelity's businesses are in compliance with industry regulatory requirements.



## SIPC Insurance Protection

Securities in accounts carried by NFS, a Fidelity Investments company, are protected in accordance with the Securities Investor Protection Corporation ("SIPC") up to \$500,000. The \$500,000 total amount of SIPC protection is inclusive of up to \$250,000 protection for claims for cash and is subject to periodic adjustments for inflation in accordance with terms of the SIPC statute and approval by SIPC's Board of Directors. NFS also has arranged for coverage above these limits. Neither coverage protects against a decline in the market value of securities, nor does either coverage extend to certain securities that are considered ineligible for coverage. For more details on SIPC or to request an SIPC brochure, visit [www.sipc.org](http://www.sipc.org) or call 202.371.8300.

## Additional Account Protection

In addition to SIPC protection, NFS provides for brokerage accounts additional "excess of SIPC" coverage. The excess of SIPC coverage will be used only when SIPC coverage is exhausted. Like SIPC protection, excess of SIPC protection does not cover investment losses in customer accounts due to market fluctuation. It also does not cover other claims for losses incurred while broker-dealers remain in business. Total aggregate excess of SIPC coverage available through NFS's excess of SIPC policy is \$1 billion. Within NFS's excess of SIPC coverage, there is no per-customer dollar limit on coverage of securities, but there is a per-customer limit of \$1.9 million on coverage of cash awaiting investment. This is the maximum excess of SIPC protection currently available in the brokerage industry.

## Broker-Dealer Industry Rules and Regulations That Help Protect Our Customers

As registered broker-dealers, FBS and NFS are subject to the rules and regulations of the SEC and the Financial Industry Regulatory Authority (FINRA).

Among the rules that help protect our customers are:

- SEC Rule 15c3-1 (net capital for broker-dealers) — In accordance with this rule, FBS' and NFS' excess net capital must meet mandated minimums to protect client assets; currently FBS' and NFS' net capital exceeds the minimum requirements.<sup>1</sup>
- SEC Rule 15c3-3: (customer protection, segregation of fully-paid-for and excess margin securities and cash) — In accordance with this rule, FBS and NFS protect client securities that are fully paid for<sup>2</sup> by segregating them and ensuring that they are not used for any other purpose, such as for loans to investors or institutions. This practice helps ensure that customers have access to these securities when needed. This rule also protects customers by requiring that a broker-dealer maintain a special reserve bank account, separate from all bank accounts of the broker-dealer, for the exclusive benefit of customers. Should a broker-dealer determine that deposits in the special reserve bank account are insufficient per the SEC rules the broker-dealer is required to increase deposits to the necessary level or immediately notify the SEC of the deficiency.
- SEC Rule 17a-11 (requires the broker-dealer to make certain notices when its financial condition or other specific circumstances raise concern) — In accordance with this rule, FBS and NFS would be required to promptly notify the SEC (within 24 hours) should their net capital fall below 120% of its required level.
- SEC Rule 17a-5 (periodic reports on financial / operational condition and auditors reports on financial condition and internal control) — In accordance with this rule, FBS and NFS file reports with the SEC on a monthly basis, detailing its current financial condition.
- SEC Rules 17a-3 and 17a-4 (books and records creation and maintenance) — In accordance with these rules, FBS' and NFS' policies help ensure that their books and records are properly created and maintained.

## Additional Information about Customer Account Protection

As stated in a FINRA Investor Alert updated on November 22, 2010<sup>3</sup>: "Multiple layers of protection safeguard investor assets. For example, registered brokerage firms must keep their customers' securities and cash segregated from their own so that, even if a firm fails, its customers' assets will be safe." Secondly, as a general matter, customers are not considered general creditors of a failed broker-dealer; customers receive distributions ahead of general creditors. General creditors of a failed broker-dealer do not receive any distribution unless all customers have been satisfied in full.



<sup>1</sup> A full description of the Uniform Net Capital Rule 15c3-1 and other SEC rules mentioned herein may be found at [www.sec.gov](http://www.sec.gov).

<sup>2</sup> SEC rules for margin accounts limit securities loans by broker-dealers to a maximum of 140% of a customer's outstanding margin loans.

<sup>3</sup> If a Brokerage Firm Closes Its Doors: <https://www.finra.org/investors/alerts/if-brokerage-firm-closes-its-doors>

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Neither the SIPC nor the NFS excess coverage protects against a decline in the market value of securities.

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