Compliance With Regulation S-P Is Mandatory By July 1, 2001
Is Your Privacy Policy Notice Ready?

Regulation S-P was enacted by the Securities and Exchange Commission (“SEC”) in response to the privacy provisions of the Gramm-Leach-Bliley Act. Such provisions required the SEC and certain other federal agencies to adopt privacy rules which impose requirements and restrictions on a financial institution’s ability to disclose nonpublic personal information about its customers to non-affiliated third parties. The Commodity Futures Trading Commission (“CFTC”) has proposed privacy rules substantially similar to Regulation S-P. Regulation S-P and the CFTC’s proposed privacy rules collectively are referred to herein as the “Privacy Rules.” Compliance with Regulation S-P is mandatory by July 1, 2001, while the CFTC’s rules are scheduled to become mandatory by December 31, 2001.

What are the General Requirements of the Privacy Rules?

• Financial institutions must provide their “customers” (as defined below) with an initial and annual notice of their privacy policies and practices;

• Financial institutions must not disclose nonpublic personal information about their “consumers” (as defined below) to non-affiliated third parties unless the financial institution has provided such consumers with notice of their privacy policies and practices; and

• Financial institutions must provide a method for customers/consumers to prevent the financial institution from disclosing their nonpublic personal information (i.e., the ability to “opt out” of disclosure).

Which Financial Institutions are Subject to the Privacy Rules?

• Broker- Dealers: Subject to Regulation S-P.

• Investment Companies: Regulation S-P applies to investment companies whether or not such investment companies are registered with the SEC.

• Registered Investment Advisers: Regulation S-P applies to SEC registered investment advisers.

• Entities that Trade Futures: Under the CFTC’s proposed rules, both CFTC registrants and certain persons and entities exempt from CFTC registration (e.g., a commodity pool operator exempt from registration pursuant to CFTC regulation 4.13 or a commodity trading adviser exempt from registration pursuant to CFTC regulation 4.14) will be subject to the CFTC’s privacy rules. The CFTC’s proposed rules are scheduled to become effective on June 21, 2001, and compliance will be mandatory by December 31, 2001.
Who are “Consumers” and “Customers” Protected by the Privacy Rules?

Generally, the Privacy Rules protect *individuals* who obtain financial products or services from a financial institution primarily for personal, family or household purposes. The Privacy Rules are not designed to protect institutions or individuals who obtain financial products or services primarily for business or commercial purposes.

**Consumers:** Individuals who obtain financial products or services but do not have a continuing relationship with such financial institution. **Example:** A consumer is an individual who provides a financial institution with personal information when seeking to establish a brokerage account or an advisory relationship (*e.g.*, when completing an application), even if such application or request is denied or withdrawn.

A financial institution must give a “consumer” notice of its privacy policies and practices only if the financial institution intends to disclose nonpublic personal information about such consumer to a non-affiliated third party.

**Customers:** An individual becomes a customer when he or she enters into a continuing relationship with a financial institution. **Example:** When an individual enters into a written or oral investment advisory contract, opens a brokerage account or buys shares of an investment company, he or she is a “customer.”

A financial institution must give all of its “customers,” both at the time of establishing a customer relationship and annually thereafter during the relationship’s continuation, a notice of its privacy policies and practices. Therefore, even if a financial institution does not intend to disclose nonpublic personal information to non-affiliated third parties, such institution still must prepare a notice of their privacy policies and procedures, and provide such notice to their customers upon establishment of the relationship and annually thereafter.

What is Nonpublic Personal Information?

- Information provided by an individual to a financial institution to obtain a financial product or service from such institution (*e.g.*, information provided on an application);
- Information about an individual resulting from any transaction with the financial institution (*e.g.*, transaction history);
- Information obtained about an individual in connection with providing a financial product or service to such individual (*e.g.*, information from a credit report);
- A list, description or other grouping of individuals (and publicly available information pertaining to them) that is derived from nonpublic personal information (*e.g.*, a list of individuals’ names and street addresses derived using such individuals’ account numbers);
- The fact that an individual is or has been a customer of a financial institution; and
- Any information collected through an internet “cookie.”

Nonpublic personal information does not include:

- A list of names and addresses of customers of an entity that is not a financial institution;
- Information that does not identify the individual (*e.g.*, aggregate information or blind data); or
- Publicly available information, unless the information is part of a customer list that is derived using nonpublic personal information.
Who is Considered a Non-Affiliated Third Party?

A non-affiliated third party is any person or entity other than (i) an affiliate of the financial institution and (ii) a joint employee of the financial institution and a third party. An affiliate of a financial institution is defined as any company that “controls,” is controlled by or is under common control with the financial institution. Control means the power to exercise a controlling influence over the management or policies of a company whether through ownership, contract or otherwise. Any person or entity that owns more than 25% of a company's voting securities is presumed to control the company.

What Must a Financial Institution's Privacy Policy Notice Contain?

• The categories of nonpublic personal information that the financial institution collects;
• The categories of nonpublic personal information that the financial institution may disclose;
• The categories of affiliates and non-affiliated third parties to whom the financial institution discloses nonpublic personal information;
• The financial institution's policies with respect to sharing nonpublic personal information about former customers;
• If nonpublic personal information is disclosed to non-affiliated third parties who provide the financial institution services under contract, the financial institution must provide a separate disclosure regarding the categories of information disclosed and the categories of third parties with whom the financial institution has contracted;
• An explanation of the individual's right to “opt out” of the financial institutions disclosure of nonpublic personal information, including the method(s) by which the individual may exercise such right; and
• The financial institution's policies with respect to protecting the confidentiality, security and integrity of nonpublic personal information collected.

What are the Privacy Policy Notice Delivery Requirements?

• Notices may be delivered in any method where the individual can be reasonably expected to receive actual notice;
• Notices may be provided electronically, if such individual agrees to electronic delivery; and
• Oral notice is not sufficient.

Are There Other Privacy Rules Applicable to Financial Institutions?

In addition to Regulation S-P and the CFTC's proposed privacy rules, the Federal Trade Commission (“FTC”) also has enacted privacy rules which are substantially similar to Regulation S-P and the CFTC's proposed rules. The FTC's privacy rules are applicable to financial institutions that are not otherwise regulated by the privacy rules enacted by another federal agency. Therefore, financial institutions that are not regulated by either Regulation S-P or the CFTC's proposed privacy rules, may be required to comply with the FTC's privacy rules. Compliance with the FTC's privacy rules is mandatory by July 1, 2001.
How to Get Additional Information

Katten Muchin Zavis Rosenman is prepared to assist financial institutions in complying with these new Privacy Rules, including the preparation of a financial institution’s privacy policy notice. If you have any questions regarding the Privacy Rules please contact one of the attorneys listed below.

Financial Services Selected Contacts

Milton K. Buckingham  
312 902 5587  
milton.buckingham@kmzr.com

Catherine L. Fletcher  
312 902 5561  
catherine.fletcher@kmzr.com

Arthur W. Hahn  
312 902 5241  
arthur.hahn@kmzr.com

Marla J. Kreindler  
312 902 5621  
marla.kreindler@kmzr.com

Sharron C. Lamoreaux  
312 902 5403  
sharron.lamoreaux@kmzr.com

Eric J. Nield  
312 902 5482  
eric.nield@kmzr.com

Wesley G. Nissen  
312 902 5365  
wesley.nissen@kmzr.com

Michael M. Philipp  
312 902 5367  
michael.philipp@kmzr.com

James D. Van De Graaff  
312 902 5227  
james.vandegraaff@kmzr.com

Published for clients as a source of information about current developments in the law. The material contained herein is not to be construed as legal advice or opinion. © 2002 Katten Muchin Zavis Rosenman. All rights reserved. Katten Muchin Zavis Rosenman is a law partnership including professional corporations.