



## **SIPC and Your Brokerage Firm Accounts**

SIPC (Securities Investor Protection Corporation) is the first line of defense in the event a brokerage firm fails while owing customer's cash and securities that go missing from customer accounts.

When a brokerage firm is closed due to bankruptcy or other financial difficulties and customer assets are missing, SIPC steps in as quickly as possible and, within certain limits, works to return customers' cash, stock and other securities. Without SIPC, investors at financially troubled brokerage firms might lose their securities or money forever...or wait for years while their assets are tied up in court. However, because not everyone, and not every loss, is protected by SIPC, you should take a moment to learn about the limits of protection.

### **WHAT SIPC COVERS AND WHAT IT DOES NOT**

**SIPC is not the FDIC.** The Securities Investor Protection Corporation does not offer to investors the same blanket protection that the Federal Deposit Insurance Corporation provides to bank depositors.

**How are SIPC and the FDIC different?** When a member bank fails, the FDIC insures all depositors at that institution against loss up to a certain dollar limit. The FDIC's no-questions-asked approach makes sense because the banking world is "risk averse." Most savers put their money in FDIC-insured bank accounts because they can't afford to lose their money.

That is precisely the opposite of how investors behave in the stock market, in which rewards are only possible with risk. Most market losses are a normal part of the ups and downs of the risk-oriented world of investing. That is why SIPC does not bail out investors when the value of their stocks, bonds and other investments falls for any reason. Instead, SIPC replaces **missing** stocks and other securities where it is possible to do so ... even when the investments have increased in value.

SIPC does not cover individuals who are sold worthless stocks and other securities. SIPC helps individuals whose money, stocks and other securities are stolen by a broker or put at risk when a brokerage fails for other reasons.

### **HOW SIPC HELPS: WHAT YOU NEED TO KNOW ABOUT SIPC**

Understanding the rules is the key to protecting yourself and your money.

- **When SIPC gets involved.** When a brokerage firm fails owing customer's cash and securities that are missing from customer accounts, SIPC usually asks a federal court to appoint a trustee to liquidate the firm and protect its customers. With smaller brokerage firm failures, SIPC sometimes deals directly with customers.

#### **IMPORTANT DISCLOSURES**

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- **Investors eligible for SIPC help.** SIPC aids most customers of failed brokerage firms when assets are missing from customer accounts. (A list of **ineligible** investors may be found in the fourth question in the next section).

**Investments protected by SIPC.** The cash and securities – such as stocks and bonds – held by a customer at a financially troubled brokerage firm are protected by SIPC. Among the investments that are **ineligible** for SIPC protection are commodity futures contracts and currency, as well investment contracts (such as limited partnerships) that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933. In the rare case when an investor's losses exceed SIPC's limits, the difference usually is covered by brokers' supplemental insurance -- often provided by Lloyds of London or a firm called CAPCO, the Customer Asset Protection Company.

- **How account transfers work.** In a failed brokerage firm with accurate records, the court-appointed trustee and SIPC may arrange to have some or all customer accounts transferred to another brokerage firm. Customers whose accounts are transferred are notified promptly and then have the option of staying at the new firm or moving to another brokerage of their choosing.
- **How claims are valued.** Typically, when SIPC asks a court to put a troubled brokerage firm in liquidation, the financial worth of a customer's account is calculated as of the "filing date." Wherever possible, the actual stocks and other securities owned by a customer are returned to him or her. To accomplish this, SIPC's reserve funds will be used, if necessary, to purchase replacement securities (such as stocks) in the open market. It is always possible that market changes or fraud at the failed brokerage firm (or elsewhere) will result in the returned securities having lost some – or even all – of their value. In other cases, the securities may have increased in value.

## QUESTIONS INVESTORS ASK MOST OFTEN

### 1. How can I be sure I am dealing with a SIPC member? Why is that important?

Look for this language:

#### ***MEMBER SECURITIES INVESTOR PROTECTION CORPORATION***

Those words – or "Member SIPC" – appear in all signs and ads of SIPC members. If you have a question as to whether or not a particular firm is a member of SIPC, you may call the SIPC Membership Department at 202-371-8300 or visit SIPC on the Web at [www.sipc.org](http://www.sipc.org).

Why is the issue of SIPC membership relevant to you? SIPC protects customers of broker-dealers as long as the broker-dealer is a SIPC member. However, if a SIPC member's registration with the U.S. Securities and Exchange Commission is terminated, the broker-dealer's SIPC membership is also automatically terminated.

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SIPC loses its power to protect customers of former SIPC members 180 days after the broker-dealer ceases to be a member of SIPC. Normally, the SEC will attempt to prevent the termination of the registration and SIPC membership of a broker-dealer if the firm owes securities or cash to customers. However, a SIPC membership may be terminated if the Commission is unaware the firm owes securities or cash to customers.

## 2. What should I be vigilant about before a problem strikes?

Some SIPC members have affiliated or related companies or persons that conduct financial or investment businesses but are not members of SIPC. Some of these affiliates have names which are similar to the name of the SIPC member, or which operate from the same offices or with the same employees. Be sure you receive written confirmation of each securities transaction in your securities account with the SIPC member, and that each confirmation statement and each statement of account is issued by the SIPC member and not by a non-SIPC affiliate. Deposits for credit to your securities account, by check or otherwise, **should not** be made payable to your account executive, registered representative, or to any other individual, but generally only to your SIPC member broker-dealer or, if your account is carried at another SIPC member who provides clearing services for your SIPC member broker-dealer, then to that other SIPC member. If your check or deposit is payable to other than a SIPC member broker-dealer (such as to the issuer of the securities you are purchasing or to a bank escrow agent), you should take steps to insure that your funds are properly applied.

You should be vigilant to assure that you receive your periodic statements on a timely basis. The failure to provide statements may indicate the broker-dealer has gone out of business. If you do not receive your statement when due and cannot get a satisfactory explanation, or if for any other reason you believe your broker-dealer may have ceased doing business, you should promptly contact the nearest office of the Commission. If your broker-dealer ceases to be a SIPC member while still owing cash and securities to you, you should notify the Commission well within the 180-day period.

## 3. How quickly will I get my investments back?

Most customers can expect to receive their property in one to three months. When the records of the brokerage firm are accurate, deliveries of some securities and cash to customers may begin shortly after the trustee receives the completed claim forms from customers, or even earlier if the trustee can transfer customer accounts to another broker-dealer. Delays of several months usually arise when the failed brokerage firm's records are not accurate. It also is not uncommon for delays to take place when the troubled brokerage firm or its principals were involved in fraud.

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#### 4. Who is not eligible for SIPC protections?

Most customers with cash and securities missing from customer accounts are eligible for SIPC assistance. However, SIPC's funds may not be used to pay claims of any failed brokerage firm customer who also is:

- A general partner, officer, or director of the firm.
- The beneficial owner of five percent or more of any class of equity security of the firm (other than certain nonconvertible preferred stocks).
- A limited partner with a participation of five percent or more in the net assets or net profits of the firm.
- Someone with the power to exercise a controlling influence over the management or policies of the firm.
- A broker or dealer or bank acting for itself rather than for its own customer or customers.

### AVOIDING INVESTMENT FRAUD

Learn about investment fraud ... and where to turn for help.

SIPC urges all investors to understand the dangers of investment fraud and where to turn for help if swindled. That is why SIPC works with regulatory and self-regulatory agencies, consumer groups, and other concerned parties to increase investor awareness about scams. Check out the investment fraud warnings on the following Web sites:

U.S. Securities and Exchange Commission

[www.sec.gov/investor/pubs\\_subject.shtml/#fraud](http://www.sec.gov/investor/pubs_subject.shtml/#fraud)

FINRA (Financial Industry Regulatory Authority)

[www.finra.org](http://www.finra.org)

National Fraud Information Center

[www.fraud.org](http://www.fraud.org)

Investor Protection Trust

[http://www.investorprotection.org/downloads/pdf/learn/basics/basics\\_unit4.pdf](http://www.investorprotection.org/downloads/pdf/learn/basics/basics_unit4.pdf)

Alliance for Investor Education

[www.investoreducation.org](http://www.investoreducation.org)

Your state securities agency

<http://www.nasaa.org/QuickLinks/ContactYourRegulator.cfm>

Securities Industry and Financial Markets Association

[www.sifma.org](http://www.sifma.org)

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You can find a list of the best investment fraud education resources on the Web by visiting SIPC on the Web at [www.sipc.org](http://www.sipc.org).

**IMPORTANT NOTICE:** The Securities Investor Protection Act of 1970 (SIPA) is a complex and technical statute. This guideline provides a basic explanation of the Securities Investor Protection Corporation and SIPA. However, it does not explain the SIPA statute with respect to any particular fact pattern. Answers to questions involving particular facts depend upon interpretations, trustees' decisions, and court actions.

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