

SECURITIES INVESTOR  
PROTECTION CORPORATION

# How SIPC Protects *You*

*Understanding the*

*Securities Investor*

*Protection Corporation*



## **THE ROLE OF SIPC**

SIPC is your first line of defense in the event of a brokerage firm failure. No fewer than 99 percent of eligible investors get their investments back from SIPC. From its creation by Congress in 1970 through December 2000, SIPC advanced \$391 million in order to make possible the recovery of \$3.8 billion in assets for an estimated 443,000 investors.

When a brokerage is closed due to bankruptcy or other financial difficulties, the Securities Investor Protection Corporation steps in as quickly as possible and, within certain limits, works to return to you cash, stock and other securities you had at the firm. 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.

## 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 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 WE HELP

*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, 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.
- **Investors eligible for SIPC help.** SIPC aids most customers of failed brokerage firms. (A list of ineligible investors may be found in the fourth question in the next section of this brochure.)

- **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 protections are commodity futures contracts, fixed annuity contracts, and currency, as well as investment contracts (such as limited partnerships) that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933.
- **Terms of SIPC help.** Customers of a failed brokerage firm get back all securities (such as stocks and bonds) that already are registered in their name or are in the process of being registered. After this first step, the firm’s remaining customer assets are then divided on a pro rata basis with funds shared in proportion to the size of claims. If sufficient funds are not available in the firm’s customer accounts to satisfy claims within these limits, the reserve funds of SIPC are used to supplement the distribution, up to a ceiling of \$500,000 per customer, **including** a maximum of \$100,000 for cash claims. Additional funds may be available to satisfy the remainder of customer claims after the cost of liquidating the brokerage firm is taken into account.
- **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.



# SEVEN 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 us on the Web at **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. 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.



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

Most customers 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.

#### *5. Where do I submit my claim form?*

If your brokerage firm is put into liquidation, the court-appointed trustee will notify you and send a claim form and instructions. You must return the completed claim form to the trustee within the time limits set forth in the notice and as described in the instructions. Failure to do so may result in the loss of all or a portion of your claim. If you are notified that your brokerage account has been transferred to another brokerage firm, you should still file a claim form in order to preserve the right to correct any errors that may crop up during the transfer of accounts. For a step-by-step guide to this process, see the SIPC Web site at **[www.sipc.org](http://www.sipc.org)**

#### *6. Is there a time limit for filing claims?*

*Yes.* There are **two** deadlines for the filing of customer claims:

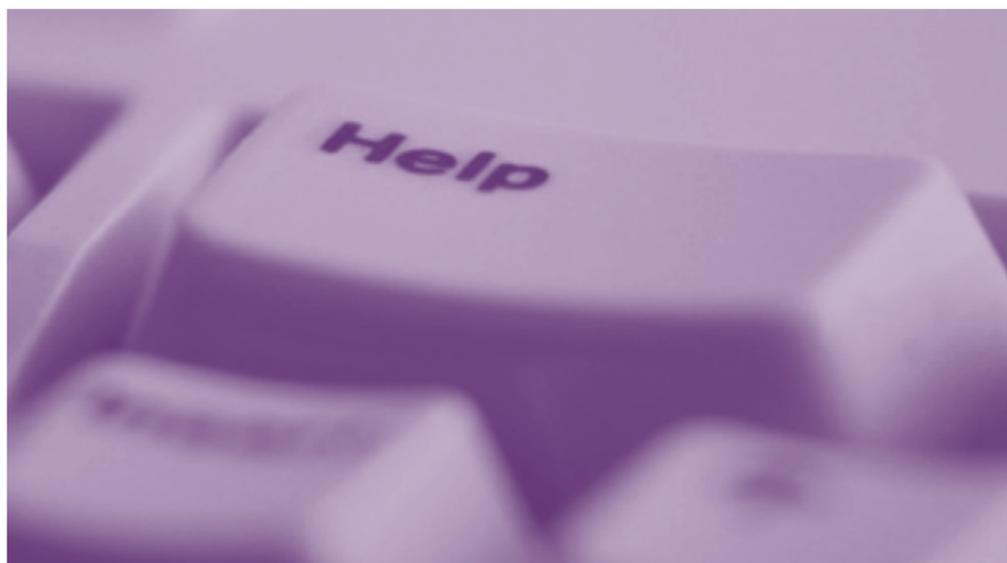
**Court deadline.** The time set by the bankruptcy court for filing of customer claims is usually 60 days after the date the notice of the proceeding is published, but could be as little as 30 days after the publication date. The deadline appears in the published notice and a copy of the notice is mailed to customers along with claim forms and instructions that also prominently display the date. Pay close attention to the deadline set forth in the notice and be certain the trustee receives your claim in a timely manner.

**Federal law deadline.** If your completed claim form is received by the trustee after the date set by the bankruptcy court but no later than six months after public notice is published, the claim is subject to delayed processing and, possibly, limited payment. The six-month deadline is set out in the federal law governing SIPC. The federal deadline absolutely bars any claim that is received more than six months after the publication date. Except for some very narrow exceptions, there are no grounds for time extensions beyond the deadline.

*7. Do I have to prove what the broker owes me?*

*How does that work?*

Yes, but that's usually easy. SIPC and court-appointed trustees assume that the brokerage firm's records are accurate. Frequently, your entire account can be transferred to another brokerage firm for your benefit before you have even filed a claim. However, there are sometimes instances of mistakes in brokerage firm records. In rare cases, these mistakes show transactions made without your authority. You should keep copies of trade confirmations. You should keep copies of your latest monthly or quarterly statement of account from your brokerage firm. A trustee may ask you to supply copies of these documents. If you ever discover an error in a confirmation or statement, you should immediately bring the error to the attention of the brokerage firm **in writing**. Keep a copy of any such writing you send to the brokerage firm. Remember, if there is something wrong with the brokerage firm's records of your account, you will have to prove that, or SIPC and the trustee will assume that the firm's records are accurate.



# 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](http://www.sec.gov)

**NASD Regulation, Inc.**

[www.nasdr.com](http://www.nasdr.com)

**National Fraud Information Center**

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

**Investor Protection Trust**

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

**Alliance for Investor Education**

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

**Your state securities agency**

*See the “Find a Regulator” page at [www.nasaa.org](http://www.nasaa.org)*

**Securities Industry Association**

[www.sia.com](http://www.sia.com)

**Canadian Investor Protection Fund**

[www.cipf.ca](http://www.cipf.ca)

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 brochure provides a basic explanation of the Securities Investor Protection Corporation. However, it does not explain the SIPA statute with respect to any particular fact pattern. Answers to questions involving particular facts depend upon interpretations, administrative decisions, and court actions.

*The U.S. Securities and Exchange Commission's Office of Investor Education and Assistance has reviewed this publication. The SEC does not endorse the commercial activities, products, or members of this or any other private organization.*