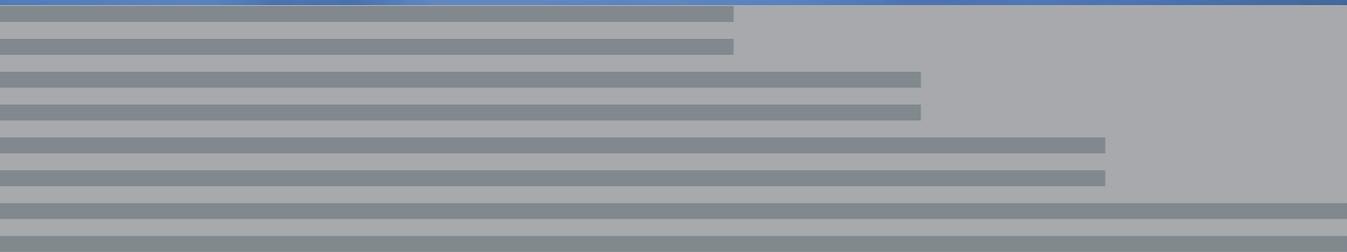




SECURITIES INVESTOR PROTECTION CORPORATION



# ANNUAL REPORT 2011







**SECURITIES INVESTOR PROTECTION CORPORATION**  
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April 30, 2012

The Honorable Mary L. Schapiro  
Chairman  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

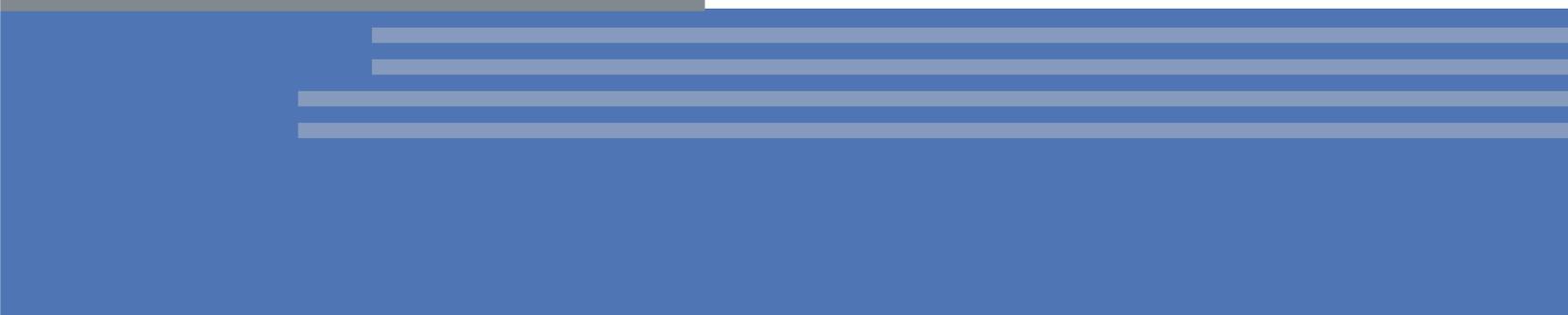
Dear Chairman Schapiro:

On behalf of the Board of Directors I submit herewith the Forty-first Annual Report of the Securities Investor Protection Corporation pursuant to the provisions of Section 11(c)(2) of the Securities Investor Protection Act of 1970.

Respectfully,

A handwritten signature in cursive script that reads "Sharon Y. Bowen".

Sharon Y. Bowen  
Acting Chair



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**“SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers\* . . . .”**

—Securities Investor Protection Act of 1970  
Sec. 3(a)(1)(A) & (2)(A)

\* Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934, and persons who are registered as brokers or dealers under section 15(b)(1)(A) of the Securities Exchange Act of 1934.

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# MESSAGE FROM THE ACTING CHAIR

SIPC had no customer protection proceedings for two years until 2011 when MF Global Inc. and WallStreet\*E Financial Services, Inc. were initiated.

## MF Global Inc.

The liquidation of MF Global Inc. and related entities in late October 2011 was the eighth largest bankruptcy, of any kind, in history. While the WallStreet\*E Financial Services case demonstrated SIPC's ability to react in an efficient way to a small case, the MF Global case demonstrated how quickly and effectively SIPC was able to respond to a massive failure.

SIPC was first notified of the need for a liquidation proceeding of MF Global Inc. at 5:20 a.m. on the morning of October 31. By that afternoon legal pleadings were drafted, counsel for SIPC initiated a customer protection proceeding, and the court placed the firm in liquidation under the Securities Investor Protection Act (SIPA) under the control of a court-appointed Trustee. Despite chaotic records, and more than \$1.6 billion missing and unavailable for distribution, a highly experienced SIPC staff and the Trustee made partial distributions to commodities claimants, within a week, and transferred securities positions to allow securities customers to begin to regain control of some or all of their portfolios shortly thereafter. The Trustee has since made additional partial distributions as the case proceeded.

Contrary to commentary that commodities customers would have fared better in a liquidation regime under the Bankruptcy Code rather than SIPA, the SIPA statutory scheme specifically contemplates the possibility of a SIPC member with commodities customers. As such, the provisions of the Bankruptcy Code dealing with commodities are indeed being followed by the Trustee.

## WallStreet\*E Financial Services, Inc.

WallStreet\*E Financial Services is a case with exceptionally small customer exposure. MF Global is a case with substantial cus-

tom exposure. SIPC began each as soon as it became apparent that the need existed. In May, SIPC started a direct payment proceeding to protect an individual whose assets were not returned to him from the defunct firm when it closed its doors. Because no court proceeding was needed, the satisfaction of the claim, and the review of other claims, proceeded with dispatch, and the entire matter should be closed for all purposes in 2012. The ability to use a streamlined process was beneficial to all concerned.

## Stanford Group Company

In the Stanford case, SIPC did not initiate a customer protection proceeding because doing so would be inconsistent with the statutory mandate of SIPC. There is no doubt that there are numerous victims of fraud in the Stanford matter, and all of us at SIPC recognize that the Stanford Ponzi scheme is a tragedy for investors that has caused a significant hardship. However, SIPA protects only the "custody" or "safekeeping" function performed by brokerage firms, and does not protect investors against the loss of value of any security, even if that loss was caused by fraud.

Notwithstanding the foregoing, SIPC was notified by the SEC that a SIPA case should be initiated for Stanford. After complete and detailed consideration of the unique factors presented by the Stanford matters, reluctantly, SIPC declined, finding no statutory basis to do so. The case proceeds in the United States District Court in Washington DC.

## SIPC Modernization Task Force Report under Former Chairman Orlan Johnson

At the conclusion of his term, Chairman Orlan Johnson withdrew from the SIPC Board. At his confirmation hearing, Chairman Johnson proposed the first full review of SIPC's operations since 1978. That proposal resulted in the SIPC Modernization Task Force, which has now completed its work. Chairman Johnson stepped down from the SIPC



Sharon Y. Bowen

Board shortly after the release of this final Report and the expiration of his term on the SIPC Board. Chairman Johnson noted that the SIPC Board will consider the Task Force's recommendations after reviewing all appropriate materials and commissioning any further empirical analysis it deems necessary.

Chairman Johnson took office at the height of the financial crisis. As a result of the Lehman Brothers and Madoff cases, SIPC's work is in the public eye as never before. SIPC was fortunate to have his leadership and guidance during this dramatic time. We thank him and the members of the Task Force for the critical roles they played in examining and proposing ways to modernize SIPC in the vein of its statutory mandate.

A handwritten signature in black ink that reads "Sharon Y. Bowen". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Sharon Y. Bowen  
Acting Chair

The Securities Investor Protection Corporation (SIPC) had its origins in the difficult years of 1968–70, when the paperwork crunch, brought on by unexpectedly high trading volume, was followed by a very severe decline in stock prices. Hundreds of broker-dealers were merged, acquired or simply went out of business. Some were unable to meet their obligations to customers and went bankrupt. Public confidence in our securities markets was in jeopardy.

Congress acted swiftly, passing the Securities Investor Protection Act of 1970, 15 U.S.C. § 78aaa *et seq.* (SIPA). Its purpose is to afford certain protections against loss to customers resulting from broker-dealer failure and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are \$500,000 per customer except that claims for cash are limited to \$250,000 per customer.<sup>Δ</sup>

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.\*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman and the Vice Chairman are designated by the President from the public directors.

The self-regulatory organizations—the exchanges and the Financial Industry Regulatory Authority (FINRA)—and the Securities and Exchange Commission (SEC or Commission) report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding<sup>†</sup>. This requires that SIPC apply to a Federal District Court for appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 34, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purposes. In cases where the court appoints SIPC as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking

control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. In addition, if the need arises, the SEC has the authority to lend SIPC up to \$2.5 billion, which it, in turn, would borrow from the United States Treasury.

<sup>Δ</sup> See the series 100 Rules Identifying Accounts of "separate customers" of SIPC members.

\* Section 3(a)(2)(A) of SIPA excludes:

- (i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions;
- (ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts; and
- (iii) persons who are registered as a broker or dealer pursuant to [15 U.S.C. § 78o(b)(11)(A)]

Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934 and brokers or dealers registered under Section 15(b)(1)(A) of the Securities Exchange Act of 1934.

**Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry and Financial Markets Association (SIFMA), c/o Howard Press, 450 West First St., Roselle, NJ 07203, phone number (908)620-2547, and from the FINRA Book Store, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for FINRA orders is [www.finra.org/Industry/order](http://www.finra.org/Industry/order) and the phone number is (240)386-4200.**

<sup>†</sup> Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) governs the orderly liquidation of financial companies whose failure and resolution under otherwise applicable Federal or state law would have serious adverse effects on U.S. financial stability. If the Dodd-Frank orderly liquidation authority is invoked with regard to a broker or dealer that is a SIPC member, the responsibility for the resolution of the broker or dealer will be shared between SIPC and the FDIC. For example, the FDIC will: (1) act as receiver of the broker-dealer; (2) appoint SIPC as trustee; and (3) jointly determine with SIPC the terms of the protective decree to be filed by SIPC with a federal district court of competent jurisdiction.

# DIRECTORS & OFFICERS

## DIRECTORS



**Orlan M. Johnson, Esq.**  
Saul Ewing LLP  
*Chairman*



**Sharon Y. Bowen, Esq.**  
Latham & Watkins LLP  
*Vice Chairman*



**William S. Jasien**  
Senior Vice President  
ING Financial  
Advisers LLC



**George W. Madison**  
General Counsel  
United States  
Department of the Treasury



**Mark S. Shelton**  
Managing Director  
and General Counsel  
Legal & Compliance, US  
UBS Financial Services, Inc.



**Matthew J. Eichner**  
Deputy Director, Division of  
Research and Statistics  
Board of Governors of the  
Federal Reserve System

## OFFICERS

**Stephen P. Harbeck**  
President & CEO

**Josephine Wang**  
General Counsel  
& Secretary

**Joseph S. Furr, Jr.**  
Vice President—  
Finance

**Karen L. Saperstein**  
Vice President—  
Operations

# CUSTOMER PROTECTION PROCEEDINGS

“An Act to Provide greater protection for customers of registered brokers and dealers and members of national securities exchanges.”

—Preamble to SIPA

Customer protection proceedings were initiated for two SIPC members in 2011, bringing the total since SIPC’s inception to 324 proceedings commenced under SIPA. The 324 members represent less than one percent of the approximately 39,200 broker-dealers that have been SIPC members during the last forty-one years. Currently, SIPC has 4,541 members.

The two new cases compares with no cases commenced in 2009 and 2010. Over the last ten-year period, the annual average of new cases was three.

A trustee other than SIPC was appointed in one of the cases and a direct payment proceeding was initiated in the other. (See Chairman’s letter on page 3). Customer protection proceedings were initiated for the following SIPC members:

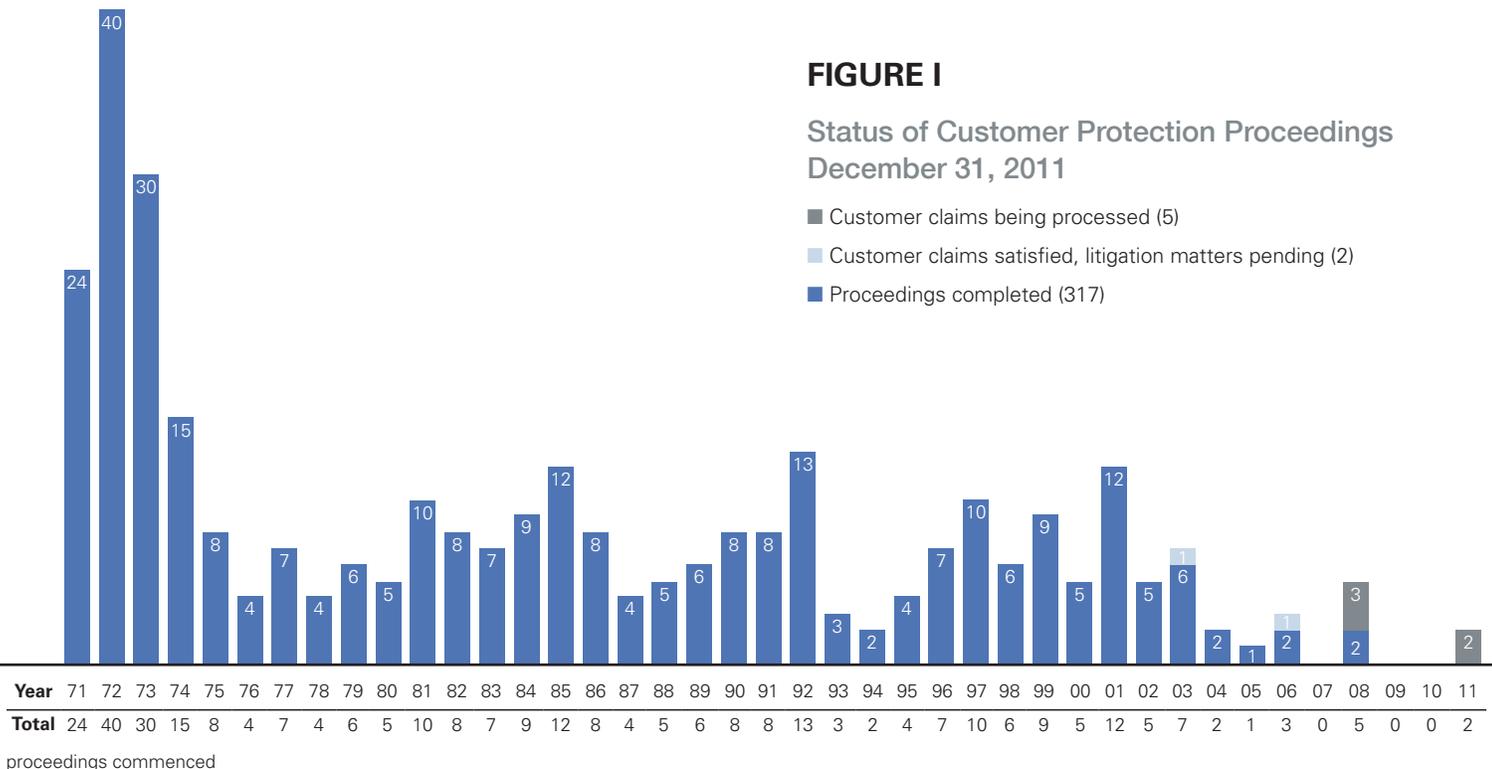
Member	Date Trustee Appointed
WallStreet*E Financial Services, Inc. Coral Gables, FL (Direct Payment)	05/23/11
MF Global Inc. New York, NY (James W. Giddens, Esq.)	10/31/11

During SIPC’s 41 year history, cash and securities distributed for accounts of customers totaled approximately \$117.5 billion. Of that amount, approximately \$116.4 billion came from debtors’ estates and \$1.1 billion came from the SIPC fund (See Appendix 1).

**FIGURE I**

**Status of Customer Protection Proceedings  
December 31, 2011**

- Customer claims being processed (5)
- Customer claims satisfied, litigation matters pending (2)
- Proceedings completed (317)



## Claims over the Limits

Of the more than 625,200 claims satisfied in completed or substantially completed cases as of December 31, 2011, a total of 351 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 351 claims, unchanged during 2011, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$47.2 million, is unchanged in 2011. These remaining claims approximate three-tenths of one percent of the total value of securities and cash distributed for accounts of customers in those cases.

## SIPC Fund Advances

Table 1 shows that the 91 debtors, for which net advances of more than \$1 million have been made from the SIPC Fund, accounted for 98 percent of the total advanced in all 324 customer protection proceedings. The largest net advance in a single liquidation is \$1.28 billion in Bernard L. Madoff Investment Securities LLC. This exceeds the net advances in all of the other proceedings combined.

In 31 proceedings SIPC advanced \$1.65 billion, or 90 percent of net advances from the SIPC Fund for all proceedings.



**TABLE I**

**Net Advances from the SIPC Fund  
December 31, 2011  
324 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$40,000,001	up	1	\$1,277,768,551
10,000,001	\$40,000,000	12	242,941,241
5,000,001	10,000,000	18	132,739,233
1,000,001	5,000,000	60	133,539,184
500,001	1,000,000	38	28,177,707
250,001	500,000	42	14,554,762
100,001	250,000	60	9,695,087
50,001	100,000	42	2,995,426
25,001	50,000	24	879,779
10,001	25,000	11	168,668
0	10,000	9	26,087
Net Recovery		7	(13,991,621)*
			<u>\$1,829,494,104†</u>

\* Recovery of assets and appreciation of debtors' investments after the filing date enabled the trustee to repay SIPC its advances plus interest.

† Consists of advances for accounts of customers (\$1,115,462,179) and for administration expenses (\$714,031,925).

# MEMBERSHIP AND THE SIPC FUND

“SIPC shall . . . impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary . . . .”

—SIPA, Sec. 4(c)2

The net decrease of 232 members during the year brought the total membership to 4,541 at December 31, 2011. Table 2 shows the members’ affiliation for purposes of assessment collection, as well as the year’s changes therein.

## Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).<sup>1</sup> As of December 31, 2011, there were 34 members who were subjects of uncured notices, 16 of which were mailed during 2011, 13 during 2010, three during 2009 and 2008 and two in 2003. Subsequent filings and payments by five members left 29 notices uncured. SIPC has been advised by the SEC staff that: (a) 9 are no longer engaged in the securities business and are under review by the Commission for possible revocation and (b) 20 have been referred to the Regional Offices for possible cancellation.

## SIPC Fund

The SIPC Fund, Table 5, on page 27, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to \$1.43 billion at year end, an increase of \$253 million during 2011.

Tables 3 and 4, on pages 9 and 10, present principal revenues and expenses for the years 1971 through 2011. The 2011 member assessments were \$382.8 million and interest from investments was \$39.8 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2011, member assessments were based on a percentage of each member’s gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2011) from the securities business.

Appendix 2, on page 29, is an analysis of revenues and expenses for the five years ended December 31, 2011.

<sup>1</sup> 14(a) Failure to Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing of such report or information or by the making of such payment, together with interest and penalty thereon, within five days after receipt by such member of written notice of such failure given by or on behalf of SIPC, it shall be unlawful for such member, unless specifically authorized by the Commission, to engage in business as a broker or dealer. If such member denies that it owes all or any part of the full amount so specified in such notice, it may after payment of the full amount so specified commence an action against SIPC in the appropriate United States district court to recover the amount it denies owing.

**TABLE 2**

**SIPC Membership  
Year Ended December 31, 2011**

Agents for Collection of SIPC Assessments	Total	Added <sup>(a)</sup>	Terminated <sup>(a)</sup>
FINRA <sup>(b)</sup>	4,270	162	294
SIPC <sup>(c)</sup>	29	—	42 <sup>(d)</sup>
Chicago Board Options Exchange Incorporated	155	6	45
American Stock Exchange LLC	24	1	8
NYSE Arca, Inc. <sup>(e)</sup>	17	—	4
NASDAQ OMX PHLX <sup>(f)</sup>	19	4	12
Chicago Stock Exchange, Incorporated	27	2	2
	4,541	175	407

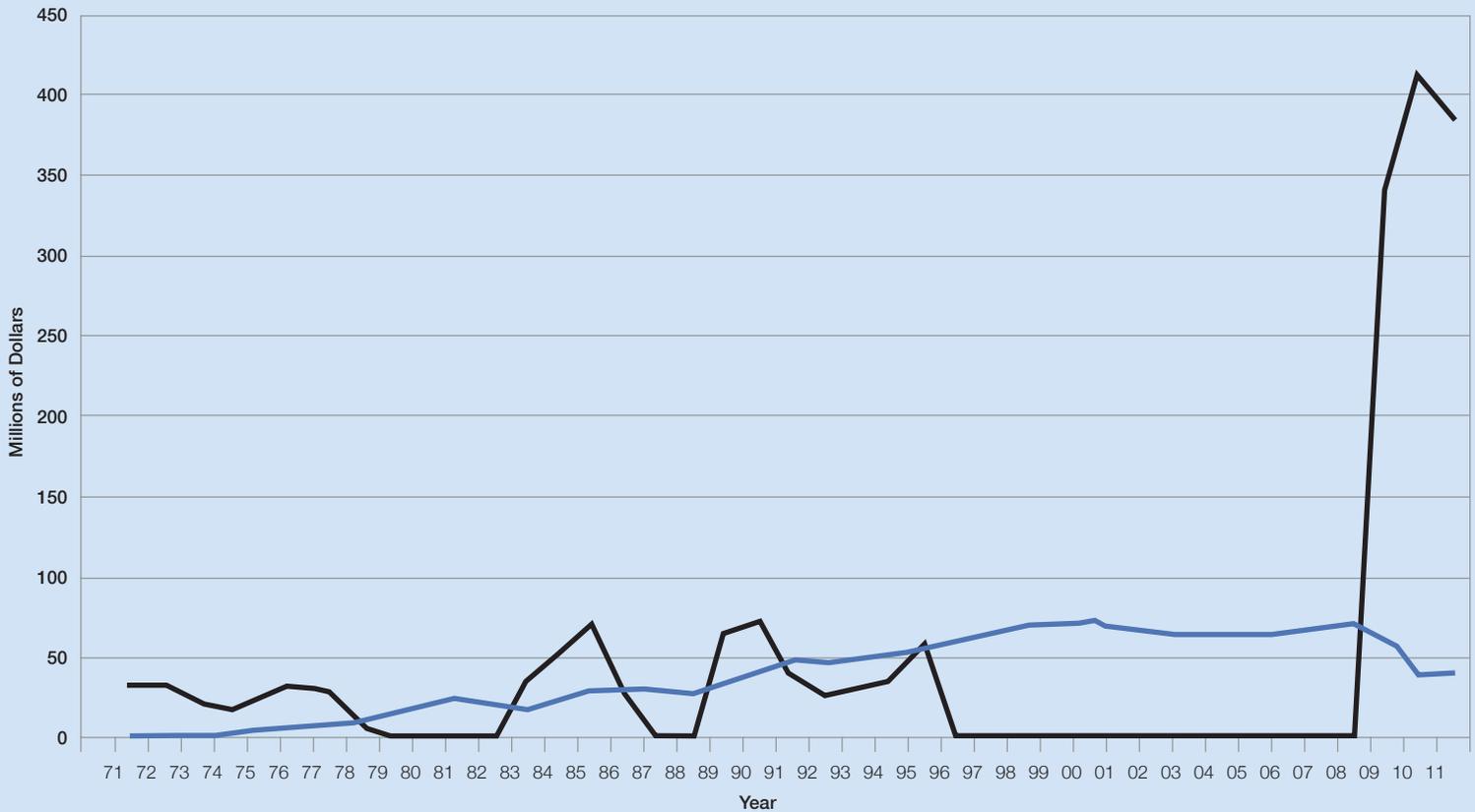
Notes:

- (a) The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2010.
- (b) Effective July 30, 2007 the National Association of Securities Dealers, Inc. (NASD) and the regulatory functions of the New York Stock Exchange, Inc. (NYSE) merged to form the Financial Industry Regulatory Authority, Inc. (FINRA).
- (c) SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization.
- (d) The “SIPC” designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.
- (e) This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.
- (f) Formerly the Philadelphia Stock Exchange, Inc.

**TABLE 3**

**SIPC Revenues for the Forty-One Years Ended December 31, 2011**

- Member assessments and contributions: \$1,875,207,646
- Interest on U.S. Government securities: \$1,612,666,418



**History of Member Assessments\***

1971: ½ of 1% plus an initial assessment of 1/8 of 1% of 1969 revenues (\$150 minimum).

1972–1977: ½ of 1%.

January 1–June 30, 1978: ¼ of 1%.

July 1–December 31, 1978: None.

1979–1982: \$25 annual assessment.

1983–March 31, 1986: ¼ of 1% effective May 1, 1983 (\$25 minimum).

1986–1988: \$100 annual assessment.

1989–1990: 3/16 of 1% (\$150 minimum).

1991: .065% of members’ net operating revenues (\$150 minimum).

1992: .057% of members’ net operating revenues (\$150 minimum).

1993: .054% of members’ net operating revenues (\$150 minimum).

1994: .073% of members’ net operating revenues (\$150 minimum).

1995: .095% of members’ net operating revenues (\$150 minimum).

1996–March 31, 2009: \$150 annual assessment.

April 1, 2009–December 31, 2011: .25% of members’ net operating revenues.

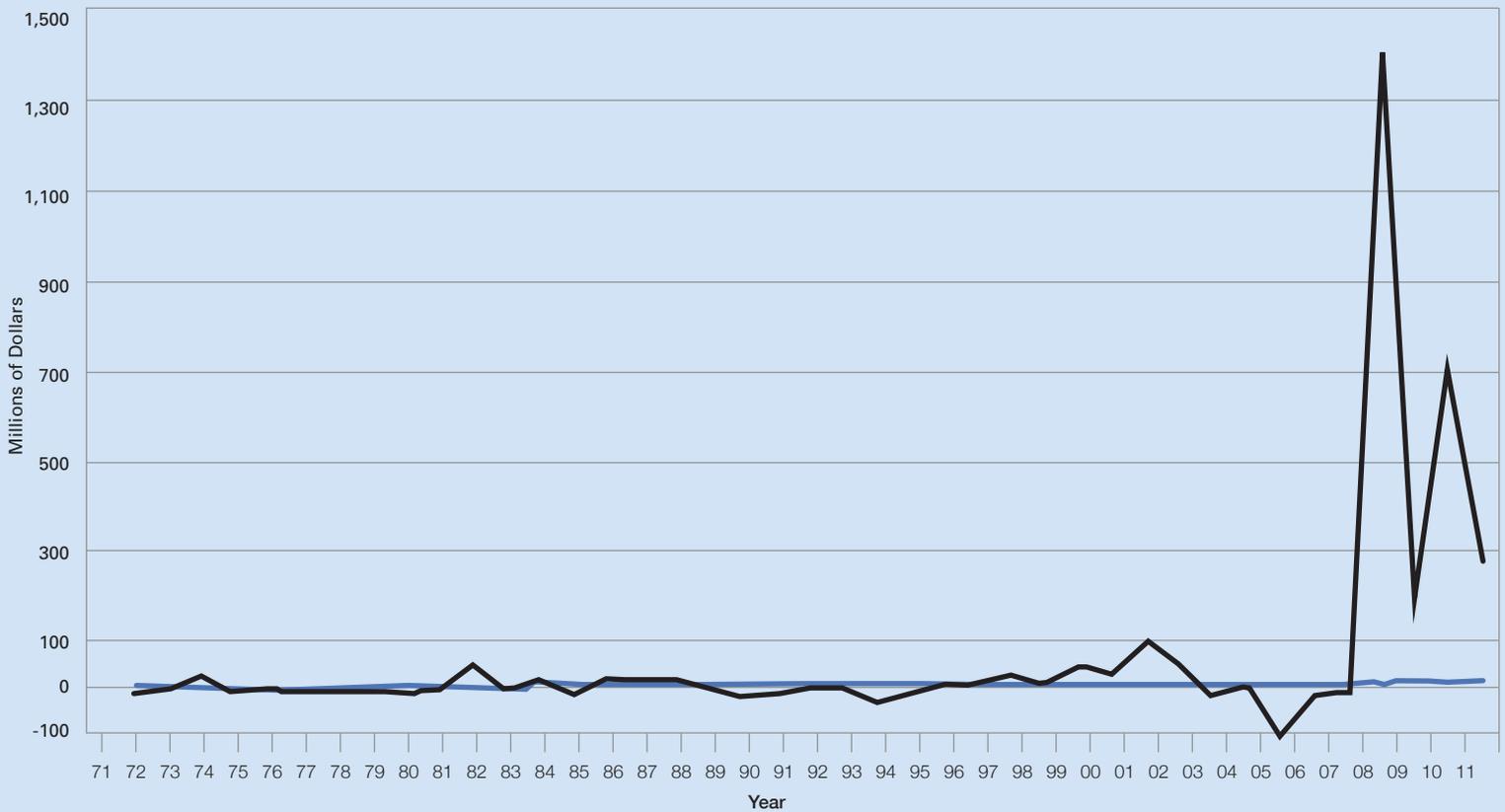
\* Rates based on each member’s gross revenues (net operating revenues for 1991–1995 and April 1, 2009 to present) from the securities business.

**TABLE 4**

**SIPC Expenses for the Forty-One Years  
Ended December 31, 2011**

■ Customer protection proceedings: \$3,135,594,104 (Includes net advances of \$1,829,494,104 and \$1,307,800,000 of estimated costs to complete proceedings less estimated future recoveries of \$1,700,000.)

■ Other expenses: \$235,281,090



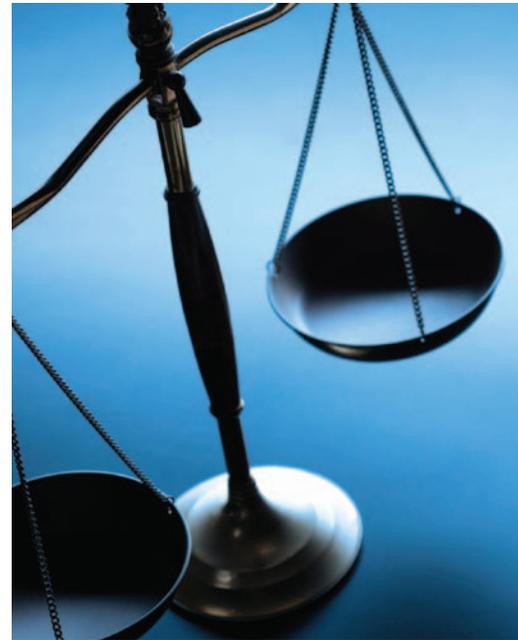
During 2011, SIPC and SIPA trustees were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

The liquidation of Bernard L. Madoff Investment Securities LLC (“BLMIS”), and matters related to it, resulted in several significant decisions discussed below.

In *Picard v. Cobmad Securities Corporation (In re Bernard L. Madoff Investment Securities)*, 443 B.R. 291 (Bankr. S.D.N.Y. 2011), the trustee reached a settlement with the family of Carl J. Shapiro. The family members included Robert Jaffe, Mr. Shapiro’s son-in-law. Under the terms of the settlement, the Shapiro family agreed to pay \$550 million to the trustee in full and final settlement of all claims that could have been asserted by the Trustee against the Shapiro family. The settlement agreement was approved by the Bankruptcy Court, and a stipulation of dismissal with prejudice was filed as to Mr. Jaffe and a co-defendant (“the Jaffe Defendants”). Approximately a week later, the Jaffe Defendants filed a motion in the proceeding to enjoin certain claims that had been brought against them by third parties. The Jaffe Defendants relied upon a provision in the settlement agreement that stated that the trustee released the Jaffe Defendants from all claims that had been or could be asserted by the trustee. The trustee opposed the motion, arguing that because they were no longer parties to the trustee’s suit, the Jaffe Defendants lacked standing to invoke the jurisdiction of the Bankruptcy Court. The motion was denied. The Bankruptcy Court found that because the settlement agreement failed specifically to reserve the Court’s jurisdiction, the Court lacked jurisdiction to decide the motion. The Bankruptcy Court also found, however, that even if it could have addressed the merits of the motion, an injunction would be inappropriate as the trustee had made a full recovery from the Jaffe Defendants which left nothing for the Court to administer.

The Bankruptcy Court in *Picard v. Stahl (In re Bernard L. Madoff Investment Securities)*, 443 B.R. 295 (Bankr. S.D.N.Y. 2011), granted a motion by the trustee to enforce the automatic stay and enjoined certain third party plaintiffs from continuing their separate suits until the completion of certain actions by the trustee. The third party plaintiffs, in various jurisdictions, had sued Madoff family members for alleged injuries related to the family members’ involvement in the Madoff Ponzi scheme. The Court held that since the claims asserted by the third party plaintiffs violated the automatic stay by usurping causes of action which the trustee had exclusive standing to bring, their actions were void *ab initio*. The Court also exercised its power to enter “necessary or appropriate” orders to enjoin the third party actions because of their damaging effects on the estate and their interference with the efficient administration of the estate. The District Court affirmed. The decision is on appeal.

In *Picard v. Estate of Stanley Chais (In re Bernard L. Madoff Investment Securities LLC)*, 445 B.R. 206 (Bankr. S.D.N.Y. 2011), the Court denied the defendants’ motion to dismiss actual and constructive fraud claims filed by the trustee. The defendants, all of whom held Madoff accounts allegedly directed and controlled by Stanley Chais, withdrew more than \$1 billion from the debtor prior to the filing date. The trustee sued to avoid and recover from the defendants preferential and fraudulent transfers totaling \$377 million. Although the trustee could not seek an immediate turnover of the transferred funds, the Court held that the trustee sufficiently pled his actual and constructive fraud claims. The Court also held that the trustee could disallow claims asserted under the Securities Investor Protection Act (“SIPA”) by the defendants.



In *Picard v. HSBC Bank PLC (In re Bernard L. Madoff Investment Securities LLC)*, 450 B.R. 406 (S.D.N.Y. 2011), the District Court withdrew the reference of the adversary proceeding to the Bankruptcy Court. The trustee had sued various feeder funds and service providers to the funds, asserting both bankruptcy law claims for recovery of service fees and common law claims for damages. The court concluded that two threshold issues—whether the trustee had standing to bring the common law claims and whether the trustee’s suit was a class action preempted by the Securities Litigation Uniform Standards Act—required interpretation of non-bankruptcy federal law and therefore, adjudication by an Article III judge.

After granting the motion to withdraw the reference, in *Picard v. HSBC Bank PLC*, 454 B.R. 25 (S.D.N.Y. 2011), the District Court granted a motion by certain of the defendants to dismiss the common law claims against them. The Court concluded that by standing in the shoes of the debtor and not creditors, the trustee lacked standing to bring the claims and was subject to the doctrine of *in pari delicto*. The Court

rejected the trustee's theories that he had standing as the bailee of BLMIS customers' property, as the enforcer of SIPA's subrogation rights, and as the assignee of customer claims. The matter is on appeal.

A similar result was reached with respect to withdrawal in *Picard v. JPMorgan Chase & Co. (In re Bernard L. Madoff Investment Securities LLC)*, 454 B.R. 307 (S.D.N.Y. 2011), and dismissal of the suit. *Picard v. JPMorgan Chase & Co.*, 460 B.R. 84 (S.D.N.Y. 2011). The matter is on appeal.

In *In re Bernard L. Madoff Investment Securities LLC*, 454 B.R. 285 (Bankr. S.D.N.Y. 2011), the Bankruptcy Court granted the trustee's motion to affirm his denial of the claims of certain "indirect" claimants who did not have BLMIS accounts but who invested in "Feeder Funds" that did have accounts at the broker-dealer. The Court held that the objecting claimants did not qualify as customers under the plain language of SIPA because they had purchased ownership rights in the Feeder Funds themselves and as a result invested in, not through, the Feeder Funds. It was the Feeder Funds, not the objecting claimants, who entrusted assets with BLMIS for trading or purchasing securities. The Court found that the Feeder Funds were not acting as agents of BLMIS and that they were investing with BLMIS for themselves and not on behalf of any claimant. Finally, the Court rejected the argument that the claimants were customers under principles of equity because not every victim of Madoff's fraud is eligible for SIPA protection. The decision was affirmed by the District Court and is on appeal to the Second Circuit.

In *In re Bernard L. Madoff Investment Securities LLC*, 654 F.3d 229 (2d Cir. 2011), the Court of Appeals affirmed the Bankruptcy Court's order upholding the trustee's calculation of net equity as the difference between the total amount deposited by the customer with the brokerage and

the total amount withdrawn. "Customer" claimants appealed the Bankruptcy Court order contending that they were owed the fictitious amounts shown on the last fictitious statement issued to them by the brokerage. The Court held that while customer statements established that the BLMIS claimants were customers with claims for securities, the statements were not useful for determining a customer's net equity because they were "after-the-fact constructs" which were "arbitrarily and unequally distributed among customers," namely, the "trades" shown on the fictitious statements were fictitious, at prices arbitrarily chosen by Madoff to yield fictitious profit in amounts pre-determined by Madoff. The Court held that the language of SIPA does not establish a single method for calculating net equity and that while the last statement method is not inherently impermissible, in this case, it would undermine the trustee's goal of achieving a fair allocation, which is the main purpose of determining customers' net equity. Petitions for rehearing *en banc* were denied. Petitions for issuance of a writ of certiorari have been filed.

The District Court in *Picard v. Merkin (In re Bernard L. Madoff Investment Securities LLC)*, No. 11 MC 0012 (KMW) (S.D.N.Y. Aug. 31, 2011), denied a motion for leave to appeal the Bankruptcy Court's denial of a motion to dismiss filed by the receiver of two funds, which had withdrawn more than \$500 million from BLMIS. The Bankruptcy Court held that the trustee sufficiently had pled his claims to avoid and recover both actual and constructive fraudulent transfers from the two funds. In denying the request for interlocutory appeal, the Court concluded that the receiver did not demonstrate that there was "substantial ground for difference of opinion" as to the controlling question of law and that an immediate appeal would not advance the "ultimate termination of the litigation."

The Bankruptcy Court denied the defendants' motion to dismiss the trustee's complaint in *Picard v. Cohmad Securities Corp. (In re Bernard L. Madoff Investment Securities LLC)*, 454 B.R. 317 (Bankr. S.D.N.Y. 2011). The trustee's action seeks to avoid and recover over \$245 million in fraudulent transfers, which represent commissions and fees paid by BLMIS to Cohmad Securities Corporation for referral of investors in the BLMIS Ponzi scheme and fictitious profits withdrawn from BLMIS accounts by the defendants. The Bankruptcy Court held that the trustee sufficiently pled his claims to avoid and recover actual fraudulent transfers and transfers that were constructively fraudulent under the Bankruptcy Code and New York Debtor and Creditor Law. The Court also held that the trustee could seek to recover subsequent transfers from the defendants and could disallow the defendants' claims under SIPA.

In *Picard v. Peter B. Madoff, Mark D. Madoff, Andrew H. Madoff, and Shana D. Madoff*, 458 B.R. 87 (Bankr. S.D.N.Y. 2011), the Bankruptcy Court denied in part and granted in part the defendants' motion to dismiss actual and constructive fraud claims by the trustee. The trustee sued seeking to avoid and recover over \$198 million from the defendants, who were all relatives of Bernard Madoff and held senior management positions at BLMIS. The Bankruptcy Court found that while the trustee sufficiently alleged fraudulent intent with respect to his fraudulent transfer claims, he had not adequately identified the actual fraudulent transfers. The Court further found that the trustee sufficiently had pled his claims to avoid and recover constructively fraudulent transfers, rejecting the argument that the safe harbor under Bankruptcy Code §546(e) established a basis for dismissing the constructive fraudulent transfer claims. The Court concluded that the trustee could disallow claims asserted under SIPA by the defendants. Because the defendants were fiduciaries and insiders of BLMIS, the

Wagoner rule did not apply, and the trustee had standing on behalf of BLMIS to bring his common law claims.

Two of the defendants then sought, and were denied, leave to appeal the Bankruptcy Court's decision in *Picard v. the Estate of Mark D. Madoff and Andrew H. Madoff*, No. 11 Misc. 0379 (WHP) (S.D.N.Y. Dec. 22, 2011). The District Court held that allowing an immediate appeal would not materially advance the litigation and that the Bankruptcy Court retained jurisdiction to determine the common law claims related to the allowance or disallowance of the defendants' claims.

Granting, in part, a motion by the defendants, the District Court in *Picard v. Katz*, 462 B.R. 447 (S.D.N.Y. 2011), dismissed the trustee's preference and constructive fraud claims, and his claims under New York state law. In dismissing the claims, the Court held that the safe harbor provision of section 546(e) of the Bankruptcy Code prevented the trustee from suing to recover money paid by BLMIS to customers except in the case of actual fraud. With respect to actual fraud claims, the Court narrowed the standard for recovery, finding that all transfers made during the two years before the filing of the liquidation were fraudulent and that transfers from BLMIS in excess of customers' principal could be recovered regardless of customers' good faith. However, recovery of defendants' principal could only occur upon a showing of lack of good faith, based on the defendants' willful blindness. The Court also held that while the trustee could not disallow claims asserted by the defendants under SIPA, he could potentially subordinate them by showing that the defendants had invested with either knowledge or in reckless disregard of the fraud.

Thereafter, in *Picard v. Katz*, No. 11 Civ. 3605 (JSR) (S.D.N.Y. Nov. 23, 2011), the

District Court granted the trustee's request for a jury trial of his fraudulent transfer claims, finding that the trustee has a Seventh Amendment right to a jury trial and had not waived this right.

The Bankruptcy Court in *Picard v. Maxam Absolute Return Fund*, 460 B.R. 106 (Bankr. S.D.N.Y. 2011), granted the trustee's motion to enforce the automatic stay in the case and enjoined Maxam Absolute Return Fund ("Maxam") from continuing an action against the trustee in the Grand Court of the Cayman Islands. Maxam had filed the action seeking a declaration that it was not liable for the payment of funds the trustee sought to recover in an avoidance suit against it and others. The Bankruptcy Court held that the Cayman action was void *ab initio* because it interfered with the trustee's chosen forum for litigation and was in violation of not only the automatic stay under the Bankruptcy Code, but also a District Court stay order and SIPA which gave the Bankruptcy Court exclusive jurisdiction of the debtor and of suits against the trustee.

In *Picard v. Flinn Investments, LLC*, 463 B.R. 280 (S.D.N.Y. 2011), the District Court granted in part and denied in part the defendants' motions to withdraw the reference. The Court declined to withdraw the reference to the Bankruptcy Court, thereby allowing the Bankruptcy Court to decide whether the trustee can bring avoidance actions for amounts above allowed claims, whether the trustee can disregard the amounts on fictitious brokerage statements, and whether the trustee's fee arrangement creates a conflict. However, the Court withdrew the reference in order to determine whether the trustee may avoid transfers made to satisfy antecedent debt, whether section 546(e) of the Bankruptcy Code limits the trustee's ability to avoid transfers, whether the Internal Revenue Code prevents the trustee from avoiding IRA distributions, and whether the Bank-



ruptcy Court has authority to resolve the fraudulent transfer claims.

In *In re Lehman Brothers Holdings Inc.*, ("LBHI"), 445 B.R. 143 (Bankr. S.D.N.Y. 2011), the Chapter 11 Debtor LBHI, and the Unsecured Creditors Committee, moved for relief from the order approving the sale of Lehman assets to Barclays Capital Inc. ("Barclays"), and the SIPA trustee for Lehman Brothers Inc. ("LBI") moved to enforce the sale order.

Barclays filed cross-motions to enforce the sale order and to recover and compel delivering of certain assets from LBI. After a lengthy trial, the Bankruptcy Court denied the motions filed by LBHI and the Creditors Committee, and granted in part the LBI trustee's motion, and Barclays's cross-motion against LBI. The Court held that the LBI trustee was entitled to approximately \$769 million in assets in LBI's Rule 15c3-3 customer reserve accounts, and approximately \$2.3 billion in margin assets used to support LBI's derivatives trading. The Court also found that Barclays was entitled to \$1.1 billion in assets in LBI's clearance boxes at DTCC. Cross-appeals to the U.S. District Court are pending.

The Bankruptcy Court in *In re Lehman Brothers Inc.*, 458 B.R. 134 (Bankr. S.D.N.Y. 2011), granted the trustee's motion to enforce the automatic stay and to compel the return of excess collateral by UBS AG. UBS argued that its agreement with LBI to set off amounts owed to affiliates—a "triangular setoff"—was enforceable in the SIPA liquidation. The Court held that while parties may contract for triangular setoff rights, the contractual provisions at issue lacked mutuality and were not authorized under the Bankruptcy Code. Since UBS failed to seek stay relief while holding the \$23 million of excess collateral, the Court found UBS in violation of the automatic stay and directed it to return the funds to the SIPA trustee, minus \$1.7 million traceable to a misdirected wire transfer which was unrelated to the triangular setoff issue and still in dispute.

A motion for an order upholding the trustee's determination that certain claims based on to-be-announced ("TBA") contracts are not customer claims was granted by the Bankruptcy Court in *In re Lehman Brothers Inc.*, 462 B.R. 53 (Bankr. S.D.N.Y. 2011). Claimants challenged the trustee's determination, contending that TBA contracts—bilateral agreements to buy or

sell "to be announced" Agency Mortgage Backed Securities at a future date—were securities under SIPA. In affirming the trustee's determination, the Court held that claimants did not entrust any property with LBI as a broker-dealer and that since the claims were for contract damages, not the recovery of customer property, they were not customer claims. In addition, the Court found that TBA contracts are not securities under SIPA.

In *In re MF Global Inc.*, 462 B.R. 36 (Bankr. S.D.N.Y. 2011), the Bankruptcy Court denied a motion of commodity broker customers seeking the appointment of an official committee of commodity broker customers and compensation for the committee from the commodity customer property estate. The Bankruptcy Court held that no statutory authority existed for the appointment of such a committee in a SIPA liquidation and, that given the responsibility of the trustee, with oversight by SIPC and the CFTC, there was no role for such a committee. Furthermore, the Court held that, due to the experience of the SIPA trustee and his counsel in the case, even if the Court could authorize formation of such a committee, it would not.

Two customers of the debtor challenged the disinterestedness of the trustee and his counsel in *In re MF Global Inc.* No. 11-2790 (MG) SIPA (Bankr. S.D.N.Y. Dec. 27, 2011). After requiring several disclosures detailing the relationship between trustee's counsel and a principal bank of MF Global and MF Global's outside auditor, the Bankruptcy Court held the trustee and his counsel to be disinterested.

In an appeal from the denial of a customer claim alleging an unauthorized purchase and then an unauthorized sale of stock, the District Court in *Pitbeckoff v. SIPC (In re Great Eastern Securities, Inc.)*, No. 10 Civ. 8647 (CM) (S.D.N.Y. April 5, 2011), affirmed the Bankruptcy Court's decision upholding the trustee's determination. The District Court held that by

failing to object to the allegedly unauthorized purchase of stock, the claimant had ratified the purchase. Further, the claimant did not have a customer claim based on the alleged unauthorized sale of the shares inasmuch as a reversal of the sale would result in the claimant owing the debtor money; thus, he still would have no net equity in his account.

In *SIPC v. Andy Guevarra*, Claim No. FA1102001371560 (National Arbitration Forum March 22, 2011), SIPC filed a complaint with the National Arbitration Forum seeking to obtain the transfer of the domain name <srpla.org> based on it being confusingly similar to SIPC's service mark. The arbitrator found that the registrant had no legitimate interest in the <srpla.org> domain name and had used the domain for commercial profit and in bad faith, primarily in a "phishing" scam to acquire financial information from internet users victimized by broker misconduct. The arbitrator ordered that the domain name be transferred to SIPC.

After SIPC declined to initiate a liquidation proceeding for Stanford Group Company ("SGC"), a SIPC member broker-dealer based in Texas, the SEC filed an application in federal District Court, captioned *SEC v. SIPC*, No. 1:11-mc-00678 (D.D.C. filed Dec. 12, 2011), seeking to compel SIPC to file an application for a customer protective decree under SIPA as to SGC. The SEC contends that investors, who had purchased and received physical certificates of deposit issued by Stanford International Bank, Ltd., a foreign bank chartered in Antigua, were "customers" under SIPA even though the certificates were never custodied at SGC. The SEC contemporaneously filed an *ex parte* motion for an order directing SIPC to show cause why SIPC should not be required to initiate a proceeding, arguing that the court should treat the matter as a summary proceeding. SIPC moved to strike, and also opposed, the *ex parte* motion. The application is pending before the District Court.

# DISCIPLINARY AND CRIMINAL ACTIONS

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

## Criminal and Administrative Actions

Criminal actions have been initiated in 130 of the 324 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 312 indictments have been returned in federal or state courts, resulting in 271 convictions to date.

Administrative and/or criminal actions in 283 of the 324 SIPC customer protection proceedings initiated through December 31, 2011, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	60
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	52
Criminal and Administrative Actions	103
Criminal Actions Only	27
<b>Total</b>	<b>283</b>

In the 256 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension <sup>1</sup>	117	113
Bar from Association	353	231
Fines	Not Applicable	\$11,733,781

Suspensions by self-regulatory authorities ranged from five days to a maximum of ten years. Those imposed by the SEC ranged from five days to a maximum of one year.

Bars against associated persons included exclusion from the securities business as well as bars from association in a principal or supervisory capacity.

The \$11,733,781 in fines assessed by self-regulatory authorities were levied against 130 associated persons and ranged from \$250 to \$1,600,000.

## Members In or Approaching Financial Difficulty

Section 5(a)(1) of SIPA requires the SEC or the self-regulatory organizations to immediately notify SIPC upon discovery of facts which indicate that a broker or dealer subject to their regulation is in or is approaching financial difficulty. The Commission, the securities exchanges and the FINRA fulfill this requirement through regulatory procedures which integrate examination and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of those programs is the early identification of members which are in or are approaching financial or operational difficulty and the initiation of remedial action by the regulators necessary to protect the investing public.

## Members on Active Referral

During the calendar year 2011 SIPC received two new referrals under Section 5(a). One, WallStreet\*E Financial Services, Inc. became a SIPC proceeding and the other is still active.

In addition to formal referrals of members under Section 5(a), SIPC received periodic reports from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, had failed to meet certain pre-established financial or operational criteria and were under closer-than-normal surveillance.

<sup>1</sup> Notices of suspension include those issued in conjunction with subsequent bars from association.





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## Report of Independent Certified Public Accountants

To the Board of Directors of  
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (SIPC) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SIPC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SIPC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

McLean, Virginia  
April 11, 2012

# SECURITIES INVESTOR PROTECTION CORPORATION

## Statement of Financial Position as of December 31, 2011

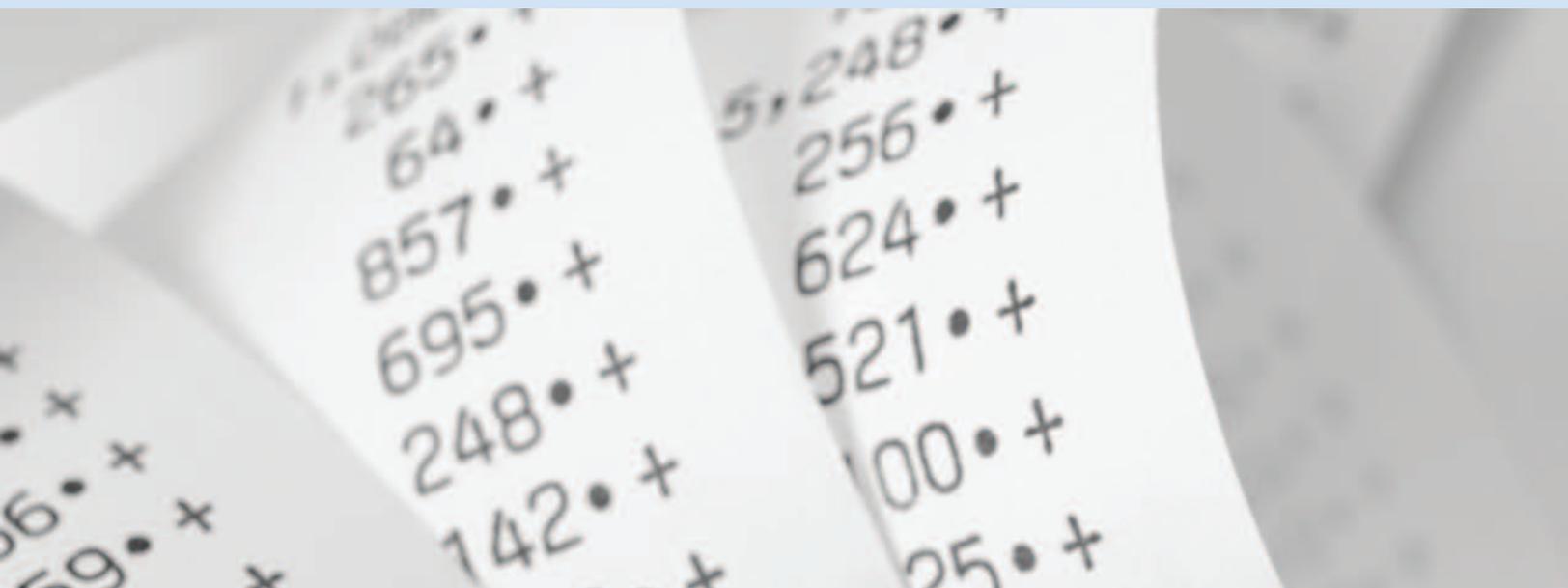
### ASSETS

Cash	\$ 993,688
U.S. Government securities, at fair value and accrued interest receivable of (\$11,502,604); (amortized cost \$1,300,179,458) (Note 6)	1,430,852,084
Estimated member assessments receivable (Note 3)	169,882,378
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$1,322,548,795) (Note 4)	1,700,000
Assets held for deferred compensation plan (Note 8)	485,786
Other (Note 5, and Note 9)	2,205,986
	<hr/>
	\$1,606,119,922

### LIABILITIES AND NET ASSETS

Accrued benefit costs (Note 8)	8,295,675
Amount due on deferred compensation plan (Note 8)	485,786
Accounts payable and other accrued expenses	1,494,141
Deferred rent	312,375
Estimated costs to complete customer protection proceedings in progress (Note 4)	1,307,800,000
Member assessments received in advance (Note 3)	1,840,000
	<hr/>
	1,320,227,977
Net assets	285,891,945
	<hr/>
	\$1,606,119,922

The accompanying notes are an integral part of these statements.



**Statement of Activities  
for the year ended December 31, 2011**

Revenues:	
Member assessments (Note 3)	\$382,800,000
Interest on U.S. Government securities	39,832,448
	422,632,448
Expenses:	
Salaries and employee benefits (Note 8)	9,171,655
Legal and accounting fees (Note 4)	1,108,683
Rent (Note 5)	751,955
Other	4,394,855
	15,427,148
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	275,555,748
	290,982,896
Total net expenses	131,649,552
Realized and unrealized gain on U.S. Government securities (Note 6)	57,481,554
Pension and postretirement benefit changes other than net periodic costs	(7,777,611)
Increase in net assets	181,353,495
Net assets, beginning of year	104,538,450
Net assets, end of year	\$285,891,945

**Statement of Cash Flows  
for the year ended December 31, 2011**

Operating activities:	
Interest received from U.S. Government securities	\$ 39,430,713
Member assessments received	411,150,622
Advances paid to trustees	(240,759,350)
Recoveries of advances	200,189
Salaries and other operating activities expenses paid	(17,467,439)
Net cash provided by operating activities	192,554,735
Investing activities:	
Proceeds from sales of U.S. Government securities	117,346,138
Purchases of U.S. Government securities	(312,446,531)
Purchases of furniture and equipment	(444,133)
Net cash used in investing activities	(195,544,526)
Decrease in cash	(2,989,791)
Cash, beginning of year	3,983,479
Cash, end of year	\$ 993,688

The accompanying notes are an integral part of these statements.



## Notes to Financial Statements

### 1. Organization and general

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 except for those persons excluded under SIPA.

SIPC is exempt from income taxes under 15 U.S.C. § 78kkk(e) of SIPA and under § 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### 2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$1,431,845,772.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed \$2.5 billion.

### 3. Member Assessments

Section 78ddd(c) and (d) of SIPA states that SIPC shall, by bylaw, impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may deem necessary and appropriate to establish and maintain the fund and to repay any borrowings by SIPC. If the balance of the fund aggregates less than \$100,000,000, SIPC shall impose upon each of its members an assessment at a rate of not less than one-half of 1 per centum per annum. An assessment may be made at a rate in excess of one-half of one per centum if SIPC determines, in accordance with a bylaw, that such rate of assessment will not have a material adverse effect on the financial condition of its members or their customers, except that no assessments shall exceed one per centum of such member's gross revenues from the securities business.

Effective April 1, 2009, each member's assessment was established by bylaw at the rate of  $\frac{1}{4}$  of 1% of net operating revenues from the securities business or \$150, whichever was greater. Effective July 22, 2010, the \$150 minimum assessment was eliminated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members. Estimated member assessments receivable represents assessments on members' revenue for calendar 2011 but not received until 2012.

#### 4. Customer protection proceedings

The trustee commenced a SIPA liquidation of Lehman Brothers Inc. (LBI) on September 19, 2008. As of December 31, 2011, through the account transfer and claims process, the estate had received 124,245 customer claims and had resolved through the transfer of these accounts to solvent broker-dealers more than 110,000 of these claims. The remaining customer claims fall into four categories: claims on behalf of prime brokerage arrangements, claims by Lehman Brothers Holding, Inc. (LBHI) and certain of its affiliates, claims filed by Lehman Brothers International (LBIE), and claims by other Lehman affiliates. To date, in connection with the satisfaction of determined claims, the Trustee has requested and SIPC has advanced approximately \$15.3 million to cover investor losses.

Of the approximately \$180 billion customer claims submitted, \$92.3 billion of these claims, including nearly all of LBI's former "retail" customers, have been resolved through letters of determination that have become final. Of the approximately \$88 billion in asserted claims being dealt with through the SIPA claims process, \$47.6 billion have been resolved and the SIPA trustee is in negotiations with LBHI, LBIE, and certain other Lehman affiliates to verify the remaining \$40.4 billion of pending claims to the records of LBI.

At present, the foregoing and certain other contingencies are indeterminate and may take several years of litigation to resolve. Based on current information, including the amounts in issue and the sophistication of the parties, it is reasonably possible that enough of these contingencies could be resolved by the courts in a manner that might require the trustee in future years to request additional funds from SIPC in order to satisfy any shortfalls in customer property that arise as a result of the resolution of these contingencies. The amount of such requests for additional advances, if any, could range from nominal amounts to in excess of \$600 million.

In the Bernard L. Madoff Investment Securities LLC proceeding, the trustee, utilizing the customer records available from the computer files of the firm identified those accounts believed to be valid customers. In accordance with section 78III (2) of SIPA, the definition of a "customer" includes a "person who has deposited cash with the debtor for the purpose of purchasing securities." The customer can be an individual, a corporation, a partnership, a pension plan or a "feeder fund." The trustee then calculated the "net cash" positions (cash deposited less cash withdrawn) for each customers' account and where available, this information was compared to other source documentation including banking records and customer portfolio files. Based on that valuation, the trustee determined the customer's net equity and maximum claim allowed under SIPA. Including administrative costs, management estimates that the total charges to SIPC for this case to be approximately \$2.5 billion (\$1.4 billion recognized in 2008, \$200 million recognized in 2009, \$700 million recognized in 2010, and \$200 million recognized in 2011). As actual claims are processed, the trustee will determine the ultimate amount of payment for each claim. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims to differ from the current estimate. Any changes in the estimate will be accounted for prospectively.

The trustee has entered into various lawsuits to recover funds for claimants in this proceeding. On December 17, 2010, a representative of the Picower estate deposited \$7.2 billion in escrow accounts in settlement of a lawsuit. These funds will remain in escrow pending final and non-appealable court approval.

The trustee commenced a SIPA liquidation of MF Global Inc. on October 31, 2011. The deadline for filing claims for maximum protection for securities customers under SIPA was January 31, 2012 and the final deadline for asserting claims for securities customers under SIPA is June 2, 2012. As of December 31, 2011 the estate received 277 customer claims under SIPA, asserting claims in excess of \$250 million. MF Global Inc. also operated as a Futures Commission Merchant (FCM). Claimants of the FCM are separate from the above referenced securities claims.

SIPC and Trustees appointed under SIPA are subject to legal claims arising out of the proceedings and there are certain legal claims pending seeking coverage under SIPA. These claims are considered in determining estimated costs to complete proceedings and management believes that any liabilities or settlements arising from these claims will not have a material effect on SIPC's net assets.

SIPC has advanced a net of \$1.32 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses which is not expected to be recovered.

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

The following table summarizes transactions during the year ended December 31, 2011 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$ —	\$1,271,000,000
Add:		
Provision for current year recoveries	200,000	
Provision for estimated future recoveries	1,700,000	
Provision for estimated costs to complete proceedings	—	277,400,000
Less:		
Recoveries	200,000	—
Advances to trustees	—	240,600,000
Balance, end of year	\$ 1,700,000	\$1,307,800,000

## 5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2012 - \$581,485; 2013 - \$595,988; 2014 - \$610,905; 2015 - \$417,490; for a total of \$2,205,868, as of December 31, 2011. Additional rental based on increases in operating expenses, real estate taxes, and the Consumer Price Index is required by the lease. The rent holiday of \$41,567 and the leasehold improvement incentive of \$345,300 are being amortized over the life of the lease, see Note 9.

On August 31, 2007, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new five-year lease commenced August 1, 2008. Future minimum rentals for the space, expiring on July 31, 2013, are as follows: 2012 - \$116,171; 2013 - \$68,937; for a total of \$185,108 as of December 31, 2011. Additional rental is based on increases in operating expenses including real estate taxes as required by the lease.

## 6. Fair value of securities

SIPC adopted guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 – Securities that have little to no pricing observability as of the report date. These securities are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the entity.

SIPC considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity’s perceived risk of that instrument.

The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2011. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under the guidance. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn’t sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. As of December 31, 2011 all securities held within the portfolio are priced using level 2 input.

U.S. Government securities as of December 31, 2011, included cumulative gross unrealized gains of \$130,672,626 and no cumulative gross unrealized losses.

**7. Reconciliation of increase in net assets to net cash provided by operating activities:**

Increase in net assets	\$181,353,495
Realized and unrealized gain on U.S. Government securities	(57,481,554)
Net increase in estimated cost to complete customer protection proceedings	36,800,000
Decrease in estimated assessment receivable	27,750,622
Increase in payables and accrued expenses	4,499,215
Net increase in estimated recoveries of advances to trustees	(1,700,000)
Increase in accrued interest receivable on U.S. Government securities	(1,175,316)
Net amortized discount on U.S. Government securities	773,583
Depreciation and amortization	608,873
Increase in member assessments received in advance	600,000
Decrease in prepaid expenses	566,988
Decrease in deferred rent	(49,807)
Loss on disposal of assets	8,636
Net cash provided by operating activities	<u>\$192,554,735</u>

## 8. Pensions and Other Postretirement Benefits

SIPC has a noncontributory defined benefit plan and a contributory defined contribution plan which cover all employees. SIPC also has a supplemental non-qualified retirement plan for certain employees. The \$485,786 year end market value of the supplemental plan is reflected as deferred compensation assets and as a deferred compensation liability in the Statement of Financial Position. In addition, SIPC has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually to reflect changes in gross premiums; the life insurance plan is noncontributory.

SIPC is required to recognize the overfunded or underfunded status of the defined benefit plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs.

	Pension Benefits	Other Postretirement Benefits
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$29,851,036	\$ 4,340,759
Service cost	774,641	160,625
Interest cost	1,610,106	244,251
Plan participants' contributions	—	22,995
Amendments	—	108,780
Actuarial loss	5,219,396	484,027
Benefits paid	(930,252)	(102,668)
Benefit obligation at end of year	\$36,524,927	\$ 5,258,769
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$30,466,764	\$ —
Actual return on plan assets	(48,491)	—
Employer contributions prior to measurement date	4,000,000	—
Employer contributions	—	79,673
Plan participants' contributions	—	22,995
Benefits paid	(930,252)	(102,668)
Fair value of plan assets at end of year	\$33,488,021	\$ —
Funded status	\$ (3,036,906)	\$(5,258,769)
Employer contributions between measurement and statement date	—	—
Funded status at year end	\$ (3,036,906)	\$(5,258,769)
<b>Amounts Recognized in the Statement of Financial Position and Net Assets consist of:</b>		
Noncurrent assets	\$ —	\$ —
Current liabilities	—	(132,946)
Noncurrent liabilities	(3,036,906)	(5,125,823)
Net amount recognized in the Statement of Financial Position	\$ (3,036,906)	\$(5,258,769)

# SECURITIES INVESTOR PROTECTION CORPORATION *continued*

	Pension Benefits	Other Postretirement Benefits
<b>Other Amounts Recognized within the Statement of Activities consist of:</b>		
Net actuarial loss	\$ 6,948,746	\$ 371,681
Prior service (credit) cost	(58,098)	515,282
Pension and postretirement benefit changes other than net periodic benefit costs	\$ 6,890,648	\$ 886,963
Accumulated Benefit Obligation end of year	\$33,744,876	\$ 5,258,769
<b>Weighted-average Assumptions for Disclosure as of December 31, 2011</b>		
Discount rate	4.60%	4.70%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	8.50%
Health Care Cost Trend: Ultimate	N/A	4.50%
Year Ultimate Reached	N/A	2020
<b>Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities</b>		
<b>Net periodic benefit cost</b>		
Service cost	\$ 774,641	\$ 160,625
Interest cost	1,610,106	244,251
Expected return on plan assets	(2,391,501)	—
Recognized prior service cost (credit)	58,098	(406,502)
Recognized actuarial loss	710,642	112,346
Net periodic benefit cost	761,986	110,720
<b>Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities</b>		
Net actuarial loss	7,659,388	484,027
Recognized actuarial loss	(710,642)	(112,346)
Prior service cost	—	108,780
Recognized prior service (cost) credit	(58,098)	406,502
Total recognized within the Statement of Activities	6,890,648	886,963
Total recognized in net benefit cost and within the Statement of Activities	\$ 7,652,634	\$ 997,683
<b>Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year</b>		
Loss recognition	\$ 1,370,853	\$ 131,816
Prior service cost (credit) recognition	58,098	(394,691)
Total	\$ 1,428,951	\$ (262,875)
<b>Effect of a 1% Increase in Trend on:</b>		
Benefit Obligation	N/A	\$ 809,442
Total Service Interest Cost	N/A	\$ 82,830
<b>Effect of a 1% Decrease in Trend on:</b>		
Benefit Obligation	N/A	\$ (659,044)
Total Service Interest Cost	N/A	\$ (65,138)

	Pension Benefits	Other Postretirement Benefits
<b>Weighted-average Assumptions for Net Periodic Cost as of December 31, 2011</b>		
Discount rate	5.50%	5.70%
Expected asset return	8.00%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	8.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2017

For the pension plan, the change in unrecognized net gain/loss is one measure of the degree to which important assumptions have coincided with actual experience. During 2011, the unrecognized net loss increased by 23.28% of the 12/31/2010 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2011 by (\$430,000)/\$444,000 and (decreased)/increased the year-end projected benefit obligation by (\$3.8)/\$4.4 million.

<b>Pension Plan Asset Summary</b>	
Asset Category	Quoted Prices in Active Markets for Identical Assets (Level1)
<b>Equity securities:</b>	
U.S. large and multi-cap mutual funds	\$17,335,626
Non-U.S. large and multi-cap mutual funds	4,361,886
Total Equity	21,697,512
<b>Fixed Income securities:</b>	
U.S. Treasuries/Government & corporate bond mutual funds	11,790,509
Total Fixed Income	11,790,509
Total	\$33,488,021

**Expected Return on Assets**

The expected return on the pension plan assets was determined based on historical and expected future returns of the various asset classes using the target allocations described on page 26. A 1% increase/(decrease) in the expected return assumption would have (decreased)/increased the net periodic benefit cost for 2011 by \$299,000.

**Investment Policy**

The plan's investment policy includes a mandate to diversify assets and in a variety of asset classes to achieve that goal. The plan's assets are currently invested in a variety of funds representing most standard equity and debt security classes.

Pension Plan Asset Category	Expected Long-Term Return	Target Allocation	Actual Allocation 12/31/2011
Equity securities	10.25%	60–70%	65%
Debt securities	4.50%	40–30%	35%
Total	8.00–8.50%	100%	100%

#### Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2012	\$ 1,549,310	\$ 137,100
2013	\$ 1,654,918	\$ 156,200
2014	\$ 1,735,679	\$ 181,500
2015	\$ 1,878,035	\$ 191,200
2016	\$ 2,021,847	\$ 216,600
2017–2021	\$11,420,170	\$ 1,410,600

#### Contributions

The company expects to make no contributions to the pension plan in 2012 for the 2011 plan year and \$137,000 to the postretirement benefit plan during 2012.

#### Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	\$ 185,423
--	------------

### 9. Fixed Assets

SIPC's policy is to capitalize fixed assets costing \$500 or more, and to depreciate those assets using a straight line depreciation method of five years for equipment and ten years for furniture. Leasehold improvements are amortized over the shorter of their economic life or the term of the lease. Equipment and furniture, and leaseholds are included in "Other" assets within the Statement of Financial Position. Their net remaining balances December 31, 2011 are \$1,937,056 (net of \$1,638,042 accumulated depreciation) and \$237,492 (net of \$334,275 accumulated amortization), respectively.

### 10. Contingencies

In 2011, the SEC sued SIPC in federal District Court for the District of Columbia seeking to compel SIPC to file an application for a customer protective decree under SIPA with respect to the Stanford Group Company, a SIPC member broker-dealer. By the suit, the SEC sought SIPA protection for persons who had purchased certificates of deposit issued by a bank in Antigua that was related to the SIPC member broker-dealer. Neither the certificates of deposit nor related cash were custodied with the broker-dealer. The matter is pending before the District Court. At this time, SIPC cannot determine the impact, if any, of the final outcome of the suit on the corporation.

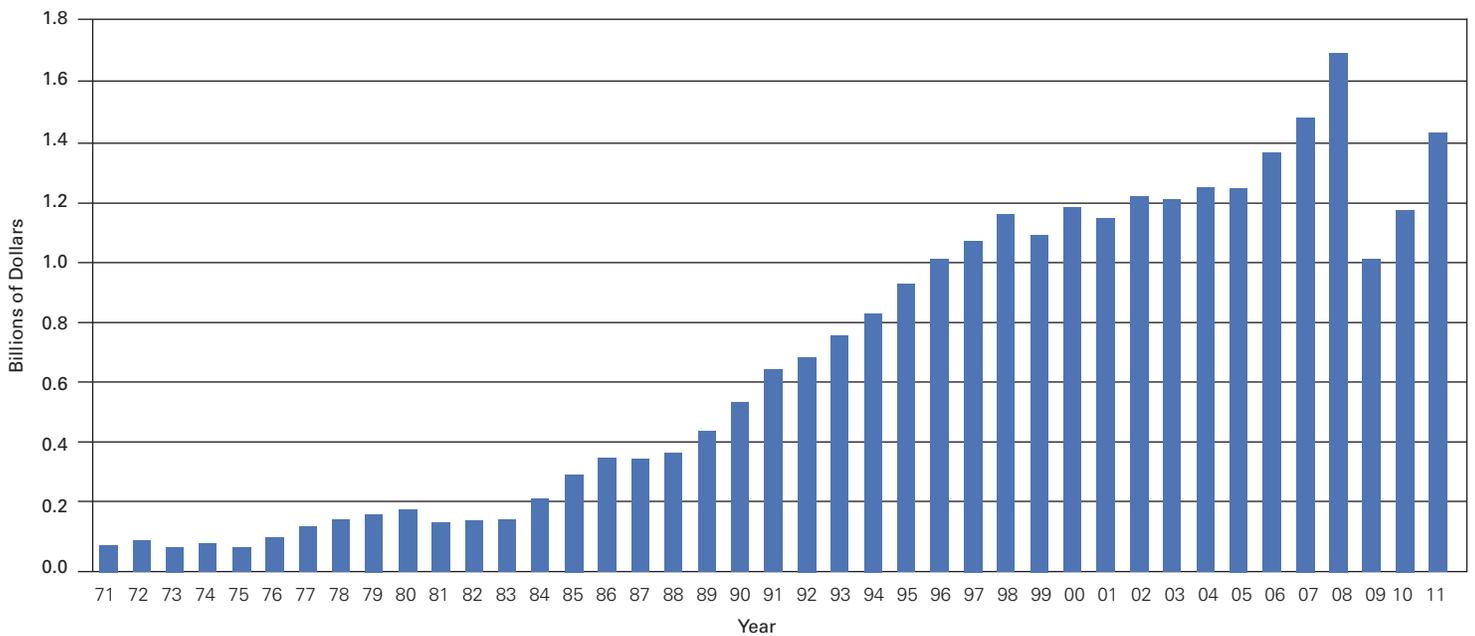
### 11. Subsequent Events

SIPC evaluated its December 31, 2011 financial statements for subsequent events through April 11, 2012, the date the financial statements were available to be issued. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

# SIPC FUND COMPARISON

**TABLE 5**

SIPC Fund Comparison  
Inception to December 31, 2011



# APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Forty-One Years Ended December 31, 2011 (In Thousands of Dollars)

	From Debtor's Estates		From SIPC		Total
	As Reported by Trustees	Advances*	Recoveries*	Net	
1971	\$ 271	\$ 401		\$ 401	\$ 672
1972	9,300	7,347	\$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882) <sup>†</sup>	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242) <sup>△</sup>	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662) <sup>△</sup>	(37,700)	(49,362)	159,663
2005	(24,245) <sup>#</sup>	1,175	(4,342)	(3,167)	(27,412)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
2007	1,167	7,054	(6,624)	430	1,597
2008	144,265,058	1,982	(709)	1,273	144,266,331
2009	(52,025,582) <sup>®</sup>	543,280	(213)	543,067	(51,482,515)
2010	579,035	217,842	(1,824)	216,018	795,053
2011	8,169,689	32,678	(94)	32,584	8,202,273
	\$116,396,836	\$1,466,576	\$(351,114)	\$1,115,462	\$117,512,298

\* Advances and recoveries not limited to cases initiated this year.

<sup>†</sup> Reflects adjustments to customer distributions in the John Muir & Co. customer protection proceeding based upon Trustee's final report.

<sup>△</sup> Reflects adjustments to customer distributions in the MJK Clearing, Inc. customer protection proceeding based upon Trustee's revised allocation.

<sup>#</sup> Reflects adjustment to distribution of customers assets subsequently determined not held by Donahue Securities, Inc.

<sup>®</sup> Reflects adjustment to customer distributions in the Lehman Brothers Inc. customer protection proceeding based upon Trustee's revised allocation.

# APPENDIX 2 ANALYSIS OF SIPC REVENUES AND EXPENSES

## for the Five Years Ended December 31, 2011

	2011	2010	2009	2008	2007
<b>Revenues:</b>					
Member assessments and contributions	\$382,800,000	\$ 409,200,016	\$346,299,978	\$ 816,322	\$ 852,025
Interest on U.S. Government securities	39,412,362	38,160,886	56,636,031	67,597,794	67,670,369
Interest on assessments	420,086	170,336	304,378	3,337	3,531
	422,632,448	447,531,238	403,240,387	68,417,453	68,525,925
<b>Expenses:</b>					
Salaries and employee benefits	9,171,655	8,254,272	8,259,757	6,461,396	5,818,841
Legal fees	813,634	346,375	56,255	88,987	51,033
Accounting fees	295,049	331,901	521,581	84,817	75,962
Credit agreement commitment fee		83,330	907,501	1,686,889	1,698,657
Professional fees—other	842,302	309,931	212,141	179,957	342,549
<b>Other:</b>					
Assessment collection cost	17,735	29,679	20,848	9,127	15,416
Depreciation and amortization	608,873	273,758	112,345	148,640	160,201
Directors' fees and expenses	39,275	42,470	70,379	101,207	71,107
Insurance	38,305	35,529	31,245	32,544	32,184
Investor education	200,303	342,766	247,317	1,907,599	369,927
Imaging expenses	633,390	771,556	348,856	104,760	115,200
Office supplies and expense	184,497	164,894	91,027	143,778	70,629
EDP and internet expenses	1,303,810	743,819	274,081	366,148	435,441
Postage	10,154	13,164	12,557	16,814	9,619
Printing & mailing annual report	38,153	38,443	39,625	31,493	30,965
Publications and reference services	165,018	156,760	175,277	160,067	173,713
Rent—office space	751,955	747,231	720,442	707,604	663,850
Telephone	108,704	104,201	71,229	73,258	66,890
Travel and subsistence	164,691	223,391	271,242	283,452	92,668
Personnel recruitment		46,000	10,000	10,625	
Miscellaneous	39,645	74,236	23,924	72,819	21,111
	4,304,508	3,807,897	2,520,394	4,169,935	2,328,921
	15,427,148	13,133,706	12,477,629	12,671,981	10,315,963
<b>Customer protection proceedings:</b>					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	30,396,107	212,738,676	547,280,342	296,456	(2,435,817)
Cash	2,289,553	213,380	(5,100,190)	(2,610,108)	(816,131)
	32,685,660	212,952,056	542,180,152	(2,313,652)	(3,251,948)
Administration expenses	207,826,006	177,227,833	135,564,649	9,884,474	2,098,243
	240,511,666	390,179,889	677,744,801	7,570,822	(1,153,705)
Net change in estimated future recoveries	(1,700,000)	1,900,000	(100,000)	(1,400,000)	6,000,000
	238,811,666	392,079,889	677,644,801	6,170,822	4,846,295
SIPC as Trustee:					
Securities	(205,638)	(1,689)	1,468,579	3,862,296	2,237,551
Cash	91,407	(24,211)	(580,770)	(276,003)	1,391,181
	(114,231)	(25,900)	887,809	3,586,293	3,628,732
Administration expenses	24,427	(8,586)	172,689	1,194,506	(97,104)
	(89,804)	(34,486)	1,060,498	4,780,799	3,531,628
Direct payments:					
Securities					52,561
Cash	12,584				
	12,584				52,561
Administration expenses	21,301			639	4,828
	33,885			639	57,389
Net change in estimated cost to complete proceedings	36,800,000	314,100,000	(468,700,000)	1,413,000,000	(8,700,000)
	275,555,747	706,145,403	210,005,299	1,423,952,260	(264,688)
	290,982,895	719,279,109	222,482,928	1,436,624,241	10,051,275
Total net revenues (expenses)	131,649,553	(271,747,871)	180,757,459	(1,368,206,788)	58,474,650
Realized and unrealized gain (loss)					
on U.S. Government securities	57,481,554	32,321,095	(102,463,159)	132,368,130	63,088,803
Pension and postretirement benefit changes					
other than net periodic benefit costs	(7,777,611)	(280,274)	2,538,599	(5,752,428)	(1,007,696)
Increase (decrease) in net assets	\$181,353,496	\$(239,707,050)	\$ 80,832,899	\$(1,241,591,086)	\$120,555,757

# APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

## PART A: Customer Claims and Distributions Being Processed<sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
North American Clearing Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,699	1,132
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	905,000	124,245	110,540
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	01/19/60	12/11/08	12/15/08	8,110	16,519*	2,673
WallStreet*E Financial Services, Inc. Coral Gables, FL (Direct Payment)	01/14/98		05/23/11 <sup>†</sup>	3,679	63	1
MF Global Inc. New York, NY (James W. Giddens, Esq.)	07/31/74	10/31/11	10/31/11	70,381	9,069	27,615
<b>TOTAL 5 MEMBERS: PART A</b>				<b>1,030,553</b>	<b>151,595</b>	<b>141,961</b>

\* Includes duplicate claims filed for 3,385 Active Accounts.

# Includes customer distributions made by the court appointed receiver prior to SIPC's involvement in the proceeding.

<sup>†</sup> Date Notice Published

<sup>Δ</sup> MF Global Inc. operated as a Futures Commission Merchant and a broke-dealer. The distribution amount includes assets distributed to commodities customers.

December 31, 2011

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 283,540,165	\$ 281,307,200 <sup>#</sup>	\$ 2,232,965	\$ 11,235,000	\$ 9,635,000			\$1,600,000
96,712,891,411	96,022,455,858	690,435,553	15,252,217			\$ 11,740,503	3,511,714
327,041,036	322,886,083	4,154,953	1,277,768,551	496,573,954		781,194,597	
			33,886	21,302			12,584
4,137,997,301	4,133,748,714 <sup>A</sup>	4,248,587	10,000,000	10,000,000			
<b>\$101,461,469,913</b>	<b>\$100,760,397,855</b>	<b>\$701,072,058</b>	<b>\$1,314,289,654</b>	<b>\$516,230,256</b>		<b>\$792,935,100</b>	<b>\$5,124,298</b>

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

### PART B: Customer Claims Satisfied, Litigation Matters Pending<sup>(a)</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	08/25/03	09/29/03	19,636	325	81
Financial World Corporation Overland Park, KS (SIPC)	09/13/96	01/12/06	01/18/06	1,383	112	26
<b>TOTAL 2 MEMBERS: PART B</b>				<b>21,019</b>	<b>437</b>	<b>107</b>

December 31, 2011

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$2,370,894	\$1,996,273	\$374,621	\$9,115,229	\$7,366,224		\$100,000	\$1,649,005
			877,798	61,639		770,140	46,019
<b>\$2,370,894</b>	<b>\$1,996,273</b>	<b>\$374,621</b>	<b>\$9,993,027</b>	<b>\$7,427,863</b>		<b>\$870,140</b>	<b>\$1,695,024</b>

# APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

## PART C: Proceedings Completed in 2011

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Hanover Investment Securities, Inc. Madisonville, LA (SIPC)	08/30/82	02/28/08	02/28/08	826	92	43
Great Eastern Securities, Inc. New York, NY (SIPC)	03/01/72	08/26/08	09/03/08	16,102	358	7
<b>TOTAL 2 MEMBERS 2011</b>				<b>16,928</b>	<b>450</b>	<b>50</b>
<b>TOTAL 315 MEMBERS 1973–2010<sup>(d)</sup></b>				<b>2,138,443</b>	<b>446,269</b>	<b>625,098</b>
<b>TOTAL 317 MEMBERS 1973–2011</b>				<b>2,155,371</b>	<b>446,719</b>	<b>625,148</b>

December 31, 2011

Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 42,672		\$ 42,672	\$ 4,072,959	\$ 81,689		\$ 3,762,573	\$ 228,697
			478,581	69,455		409,126	
<b>42,672</b>		<b>42,672</b>	<b>4,551,540</b>	<b>151,144</b>		<b>4,171,699</b>	<b>228,697</b>
<b>15,957,926,442</b>	<b>\$15,634,442,156</b>	<b>323,484,286</b>	<b>500,659,883</b>	<b>190,222,662</b>	<b>\$1,388,427</b>	<b>178,189,017</b>	<b>130,859,777</b>
<b>\$15,957,969,114</b>	<b>\$15,634,442,156</b>	<b>\$323,526,958</b>	<b>\$505,211,423</b>	<b>\$190,373,806</b>	<b>\$1,388,427</b>	<b>\$182,360,716</b>	<b>\$131,088,474</b>

# APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

## PART D: Summary

	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Part A: 5 Members — Customer Claims and Distributions Being Processed	1,030,553	151,595	141,961
Part B: 2 Members — Customer Claims Satisfied, Litigation Matters Pending	21,019	437	107
Sub-Total	1,051,572	152,032	142,068
Part C: 317 Members — Proceedings Completed	2,155,371	446,719	625,148
<b>Total</b>	<b>3,206,943</b>	<b>598,751</b>	<b>767,216</b>

### Notes:

(a) Based upon information available at year-end and subject to adjustments until the case is closed.

(b) SIPA requires notice to be mailed to each person who appears to have been a customer of the debtor with an open account within the past twelve months. In order to be sure that all potential claimants have been advised of the liquidation proceeding, trustees commonly mail notice and claim forms to all persons listed on the debtor's records, even if it appears that their accounts have been closed. As a result, many more claim forms are mailed than are received.

Responses Received usually exceeds Customers Receiving Distributions because responses are commonly received from customers whose accounts were previously delivered to another broker or to the customer. Responses are also received from persons who make no claim against the estate, or whose accounts net to a deficit, or who file late, incorrect, or invalid claims. The number of Customers Receiving Distributions can exceed Responses Received when the trustee transfers accounts in bulk to other brokers before claims are filed.

(c) Includes assets marshalled by Trustee after filing date and does not include payments to general creditors.

(d) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

December 31, 2011

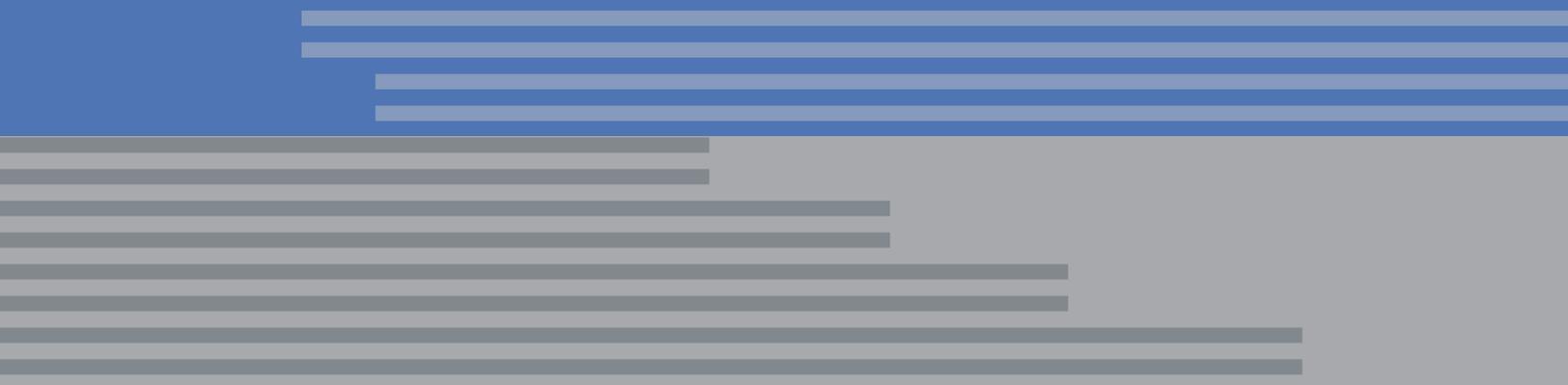
Distribution of Assets Held by Debtor <sup>(c)</sup>			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$101,461,469,913	\$100,760,397,855	\$ 701,072,058	\$1,314,289,654	\$516,230,256		\$792,935,100	\$ 5,124,298
2,370,894	1,996,273	374,621	9,993,027	7,427,863		870,140	1,695,024
101,463,840,807	100,762,394,128	701,446,679	1,324,282,681	523,658,119		793,805,240	6,819,322
15,957,969,114	15,634,442,156	323,526,958	505,211,423	190,373,806	\$1,388,427	182,360,716	131,088,474
<b>\$117,421,809,921</b>	<b>\$116,396,836,284</b>	<b>\$1,024,973,637</b>	<b>\$1,829,494,104</b>	<b>\$714,031,925</b>	<b>\$1,388,427</b>	<b>\$976,165,956</b>	<b>\$137,907,796</b>











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