

SECURITIES INVESTOR PROTECTION CORPORATION



2012
ANNUAL REPORT



SiPC



SECURITIES INVESTOR PROTECTION CORPORATION
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April 30, 2013

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

Dear Chairman White:

On behalf of the Board of Directors I submit herewith the Forty-second 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,

Sharon Y. Bowen
Acting Chair

CONTENTS

“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.

Message from the Acting Chair	3
Overview of SIPC	4
Directors & Officers	5
Customer Protection Proceedings	6
Membership and the SIPC Fund	8
Litigation	11
Disciplinary and Criminal Actions	17
Financial Statements and Auditor’s Report	18
SIPC Fund Comparison	29
Appendix 1: Distributions for Accounts of Customers for the Forty-Two Years Ended December 31, 2012	30
Appendix 2: Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2012	31
Appendix 3: Customer Protection Proceedings	32
A: Customer Claims and Distributions Being Processed	32
B: Customer Claims Satisfied, Litigation Matters Pending	34
C: Proceedings Completed in 2012	36
D: Summary	38

MESSAGE FROM THE ACTING CHAIR

In 2012, SIPC continued to make meaningful progress on a number of significant customer protection proceedings and other issues.

Lehman Brothers Inc.

The liquidation of Lehman Brothers Inc. (LBI) commenced in September, 2008. To date the Trustee has administered more than \$117 billion, making LBI the largest stock broker liquidation in history.

In late 2012, the Trustee negotiated agreements in principle with the Lehman Holding Company entity, and its affiliates, to resolve more than \$70 billion of disputed claims between the estates. The Trustee also negotiated an agreement in principle with Lehman's major European affiliate to resolve approximately \$38 billion in claims between the two estates. These landmark agreements are subject to final documentation and approval by the United States Bankruptcy Court, and the Trustee's agreement with the European affiliate is also subject to an order of the English High Court. The Trustee also successfully negotiated agreements in principle with other overseas affiliates to resolve claims totaling more than \$7 billion.

Perhaps the best summary of progress to date in the Lehman matter comes from Bankruptcy Judge James M. Peck, who presides over the insolvency proceedings of the Lehman entities. He stated that "[t]his largest ever unplanned bankruptcy that started in chaos, accelerated the financial crisis and eroded confidence in the global financial system also has yielded the most overwhelming outpouring of creditor consensus in the history of insolvency law."

Bernard L. Madoff Investment Securities LLC

At the outset of the Madoff liquidation, the Trustee, in conjunction with SIPC, determined that the Securities Investor Protection Act ("SIPA") required that each customer's "net equity" be based upon the actual net investment made by that customer. This was consistent with SIPA and all relevant prior precedents. Thus, each customer's net equity was calculated based upon actual "money in

minus money out." The Trustee's methodology was challenged by claimants seeking to measure "net equity" based upon the last monthly statements Mr. Madoff generated, which were based on transactions that never occurred and at prices that were fictitious. The methodology used by the Trustee was upheld by the United States Court of Appeals for the Second Circuit, and, in 2012, the United States Supreme Court declined to review the matter.

Also in 2012 the Trustee made a Second Interim Distribution of "customer property," and distributed \$3.6 billion to Madoff customers. The Trustee still holds more than \$4 billion in reserve to account for litigation challenges to a number of issues. Coupled with an earlier distribution made in 2011, at the close of this year customers with allowed claims had received approximately 38% of their allowed claims, in addition to an advance from SIPC of up to \$500,000 per customer. We look forward to additional distributions, as the Trustee's collection efforts continue in 2013.

MF Global Inc.

During 2012 the Trustee for MF Global Inc. made continued progress in returning substantial assets to both securities customers and commodities customers. The Trustee has also reached an agreement with MF Global UK Ltd. which resolves all disputes between the two entities and will result in additional funds for distribution in the United States.

Stanford Group Company

The Securities and Exchange Commission ("SEC") initiated a receivership proceeding for Stanford Group Company ("SGC") in early 2009 in federal district court in Texas. On December 12, 2011 the SEC initiated an action in the United States District Court for the District of Columbia to compel SIPC to initiate a customer protection proceeding for SGC. Although sympathetic to the investors' significant losses, SIPC, after careful analysis, concluded that there was no basis under SIPA to do so. On July 3, 2012 the District Court issued a Memorandum Opinion and Order



Sharon Y. Bowen

holding that on the uncontested facts the SEC had failed to prove that SIPC had "refused to commit its funds or otherwise to act for the protection of customers of any member of SIPC." The SEC has filed an appeal.

New Case

SIPC initiated one new customer protection proceeding in 2012. The modest size of the firm made it possible for SIPC to serve as the Trustee for the liquidation of Hudson Valley Capital Management. Notice of the initiation of the case has been mailed to known customers and published in a number of newspapers. The claims process has begun.

SIPC Modernization Task Force Report

The Board continues to analyze, including through the application of empirical techniques and collection of data, several legislative proposals made by the SIPC Modernization Task Force. The results of this analysis will inform the Board as it develops a position on these recommendations.

A handwritten signature in black ink that reads "Sharon Y. Bowen". The signature is written in a cursive, flowing style.

Sharon Y. Bowen
Acting Chair

OVERVIEW OF SIPC

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.^Δ

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[†]. 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 39, 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.

^Δ 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 and the phone number is (240)386-4200.

[†] 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



Sharon Y. Bowen, Esq.
Latham & Watkins LLP
Acting Chair



William S. Jasien
President & CEO
Stonehedge Global Partners



Cyrus Amir-Mokri
Assistant Secretary for
Financial Institutions
United States Department
of the Treasury



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



Gregory S. Karawan
Genworth Financial Senior Vice
President & General Counsel,
Insurance & Wealth Mgmt; and
Global Chief Litigation Counsel



Anthony D'Agostino
Bank of America
Basel (Regulatory Capital)
Readiness Executive

OFFICERS

Stephen P. Harbeck
President & CEO

Joseph S. Furr, Jr.
Vice President—
Finance

Josephine Wang
General Counsel
& Secretary

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 one SIPC member in 2012, bringing the total since SIPC’s inception to 325 proceedings commenced under SIPA. The 325 members represent less than one percent of the approximately 39,300 broker-dealers that have been SIPC members during the last forty-two years. Currently, SIPC has 4,364 members.

The one new case compares with two cases commenced in 2011. Over the last ten-year period, the annual average number of new cases was two.

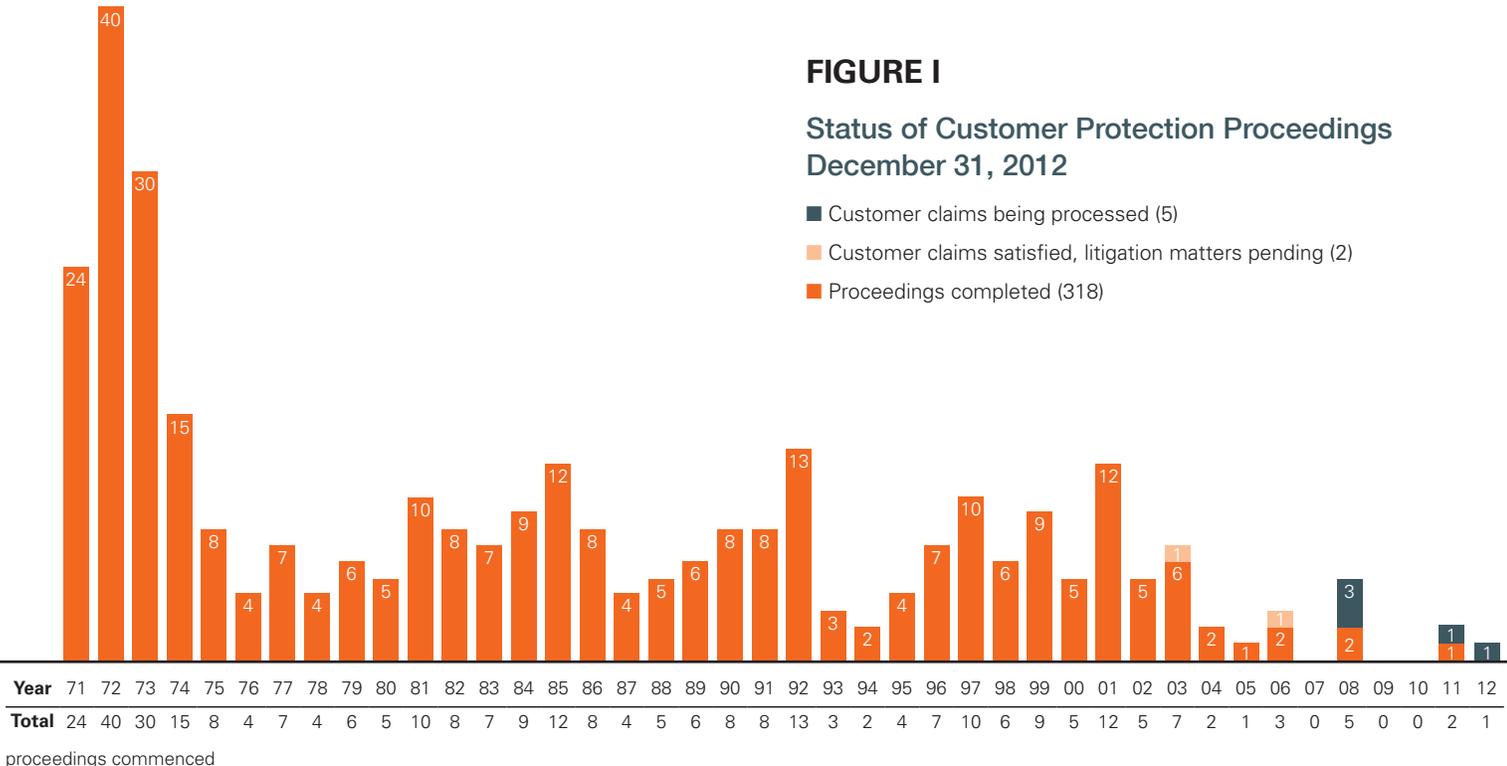
SIPC was appointed as trustee in the one case commenced during the year. (See Acting Chair’s letter on page 3). The customer protection proceeding was initiated for:

Member	Date Trustee Appointed
Hudson Valley Capital Management Croton-on-Hudson, NY (SIPC as Trustee)	12/17/12

During SIPC’s 42 year history, cash and securities distributed for accounts of customers totaled approximately \$120.7 billion. Of that amount, approximately \$119.6 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, 2012

- Customer claims being processed (5)
- Customer claims satisfied, litigation matters pending (2)
- Proceedings completed (318)



Claims over the Limits

Of the more than 625,200 claims satisfied in completed or substantially completed cases as of December 31, 2012, 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 2012, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$47.2 million, is unchanged in 2012. 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 325 customer protection proceedings. The largest net advance in a single liquidation is \$1.51 billion in Bernard L. Madoff Investment Securities LLC. This exceeds the net advances in all of the other proceedings combined.

In the 31 largest proceedings, measured by net funds advanced, SIPC advanced \$1.88 billion, or 91 percent of net advances from the SIPC Fund for all proceedings.



TABLE I

Net Advances from the SIPC Fund December 31, 2012 325 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$40,000,001	up	1	\$1,505,717,477
10,000,001	\$40,000,000	12	243,865,587
5,000,001	10,000,000	18	131,237,905
1,000,001	5,000,000	60	133,531,711
500,001	1,000,000	38	28,173,672
250,001	500,000	42	14,541,020
100,001	250,000	60	9,692,672
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	10	26,087
Net Recovery		7	(13,991,621)*
			<u>\$2,056,838,383†</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 (\$1,133,026,649) and for administration expenses (\$923,811,734).

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 177 members during the year brought the total membership to 4,364 at December 31, 2012. 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).¹ As of December 31, 2012, there were 28 members who were subjects of uncured notices, 16 of which were mailed during 2012, two during 2011, five during 2010, three in 2009 and 2008 and two in 2003. Subsequent filings and payments by four members left 24 notices uncured. SIPC has been advised by the SEC staff that: (a) 10 are no longer engaged in the securities business and are under review by the Commission for possible revocation and (b) 14 have been referred to the Regional Offices for possible cancellation.

SIPC Fund

The SIPC Fund, Table 5, on page 29, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to \$1.60 billion at year end, an increase of \$168 million during 2012.

Tables 3 and 4, on pages 9 and 10, present principal revenues and expenses for the years 1971 through 2012. The 2012 member assessments were \$412.3 million and interest from investments was \$40.1 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 2012) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2012.

¹ 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, 2012

Agents for Collection of SIPC Assessments	Total	Added ^(a)	Terminated ^(a)
FINRA ^(b)	4,111	100	202
SIPC ^(c)	44	—	42 ^(d)
Chicago Board Options Exchange Incorporated	134	7	28
NYSE MKT LLC ^(g)	23	—	1
NYSE Arca, Inc. ^(e)	13	—	4
NASDAQ OMX PHLX ^(f)	17	1	3
Chicago Stock Exchange, Incorporated	22	1	6
	4,364	109	286

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.

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.

(d) 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.

(e) Formerly the Pacific Stock Exchange, Inc.

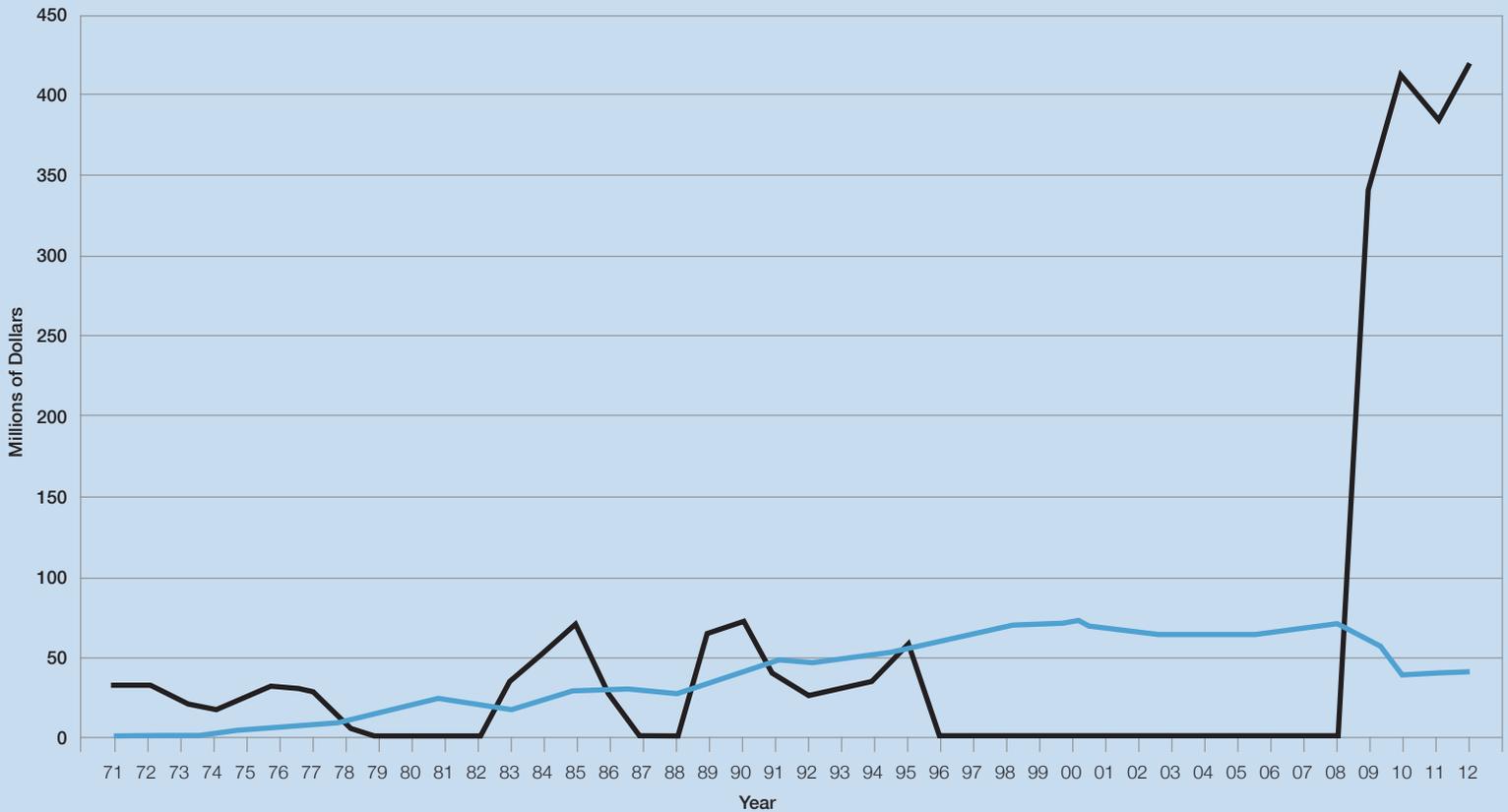
(f) Formerly the Philadelphia Stock Exchange, Inc.

(g) Formerly the American Stock Exchange LLC (NYSE Amex LLC)

TABLE 3

SIPC Revenues for the Forty-Two Years Ended December 31, 2012

■ Member assessments and contributions: \$2,287,513,175
 ■ Interest on U.S. Government securities: \$1,652,811,900



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, 2012: .25% of members’ net operating revenues.

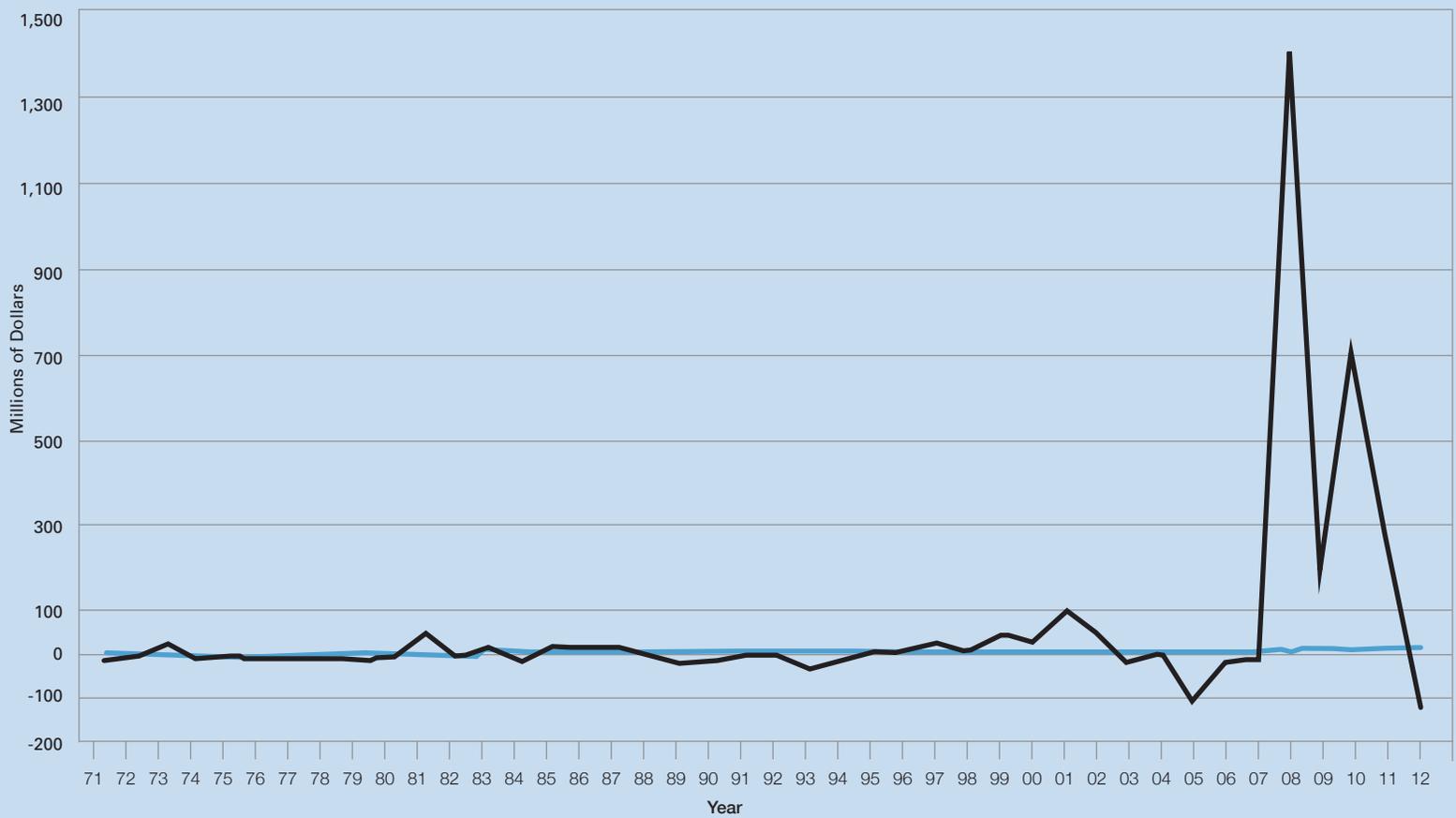
* Rates based on each member’s gross revenues (net operating revenues for 1991–1995 and April 1, 2009 to present) from the securities business.

TABLE 4

**SIPC Expenses for the Forty-Two Years
Ended December 31, 2012**

■ Customer protection proceedings: \$3,059,338,383 (Includes net advances of \$2,056,838,383 and \$1,115,500,000 of estimated costs to complete proceedings less estimated future recoveries of \$113,000,000.)

■ Other expenses: \$251,727,445



LITIGATION

During 2012, SIPC and trustees under the Securities Investor Protection Act (“SIPA”) were actively involved in litigation at both the trial and appellate levels. The more noteworthy matters are summarized below:

The Securities and Exchange Commission (“SEC”) sued SIPC, seeking to compel it to file an application for a customer protective decree under SIPA as to Stanford Group Company (“SGC”), a SIPC member. The SEC had concluded that purchasers of Certificates of Deposit issued by Stanford International Bank, Ltd. (“SIBL”), an offshore, Antigua bank, that was an affiliate of SGC, might be eligible for SIPA protection. Although, in some instances, their business had been solicited by SGC, the CD purchasers had voluntarily sent their funds directly to SIBL, and they or their designees had custody of their CDs. Because SGC held no cash or securities in custody for the CD purchasers, a *sine qua non* for “customer” status, SIPC declined to file an application to commence a liquidation as to SGC. While agreeing with the SEC that the SEC’s lawsuit was summary in nature, the District Court in *S.E.C. v. Securities Investor Protection Corp.*, 842 F. Supp. 2d 321 (D.D.C. 2012), nevertheless held that it could apply to the proceeding such of the Federal Rules of Civil Procedure as the circumstances and justice warranted. Furthermore, while holding that it would defer ruling on the specific procedures to follow pending briefing, the Court identified one procedural aspect that was ripe for immediate decision: whether the SEC’s preliminary determination that a liquidation should be started was subject to judicial review. The Court rejected as “untenable” the SEC’s contention that the SEC determination was unreviewable, noting that in light of the language of SIPA giving SIPC the authority to determine whether a liquidation proceeding was in order, it made no sense for the Court to give more deference to the SEC than Congress, in SIPA, had given to SIPC.

Subsequently, in *S.E.C. v. Securities Investor Protection Corp.*, 872 F. Supp. 2d 1 (D.D.C. 2012), the District Court held that the SEC failed to meet its burden of proving by a preponderance of the evidence that in declining to initiate a liquidation of SGC, SIPC had refused to act for the protection of customers. The Court noted that judicial interpretations supported a narrow construction of the term “customer” and that the critical aspect of “customer” status was the entrustment of customer securities or securities-related cash to the broker. Based on the parties’ stipulations that the CD purchasers sent their funds directly to SIBL and that the SEC was not asserting that SGC ever held the investors’ securities, the Court found that the SEC had failed to establish the critical element of entrustment. Moreover, in the Court’s view, the SEC’s position that the CD purchasers were “customers” of SGC could not be accorded *Chevron* deference because it conflicted with the long-held position of the SEC that investors whose accounts were introduced, fully-disclosed, to a clearing firm, as in the case of SGC, were presumed to be customers of the clearing firm and not the introducing broker. The Court concluded that the SEC’s position was “extraordinarily broad,” and that it would “unreasonably contort” the statute. Finally, the Court rejected the SEC’s argument that a probable cause burden was appropriate, noting that the SEC would have failed to meet even this lesser probable cause standard given that the issue turned on uncontested facts and an interpretation of law. The matter is now on appeal.

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



The District Court in *Aozora Bank Ltd. v. SIPC and Picard* 480 B.R. 117 (S.D.N.Y. 2012), affirmed the Bankruptcy Court’s decision granting the Trustee’s motion to uphold his denial of appellants’ “customer” claims. The appellants, who invested in (not through) “feeder funds,” argued that they were customers eligible for separate advances from SIPC. The District Court held that the appellants were not “customers” of BLMIS under the plain language of SIPA because the feeder funds, not the appellants, had customer accounts at BLMIS. The Court found that SIPA only extended separate protection to customers with accounts at banks, brokers, or dealers acting as intermediaries. The feeder funds were not banks, brokers, or dealers, and in any event, the appellants did not have accounts at the feeder funds, instead, holding ownership interests in the feeder funds. The Court

rejected the assertion that the appellants were customers because they allegedly intended any cash that they gave to the feeder funds to be deposited with BLMIS. In the Court's view, the argument ignored the legal reality of the investment, namely, that the appellants' intent was not to invest through the feeder funds, but to invest in the feeder funds. The District Court decision was appealed.

In *SIPC v. Jacqueline Green Rollover Account*, 2012 WL 3042986 (S.D.N.Y. July 25, 2012), the District Court granted the Trustee's motion for an order affirming his determination denying claims by participants in, and plans under, the Employee Retirement Income Security Act of 1974 ("ERISA"). Two distinct groups of claimants, individual claimants who participated in ERISA-regulated retirement plans that had accounts at BLMIS and ERISA-regulated plans claimants that invested in feeder funds which were the BLMIS account-holders, argued that ERISA conferred SIPA "customer" status upon them. The District Court rejected this argument, holding that neither the individual nor the plan claimants were customers of BLMIS, and concluding instead that they were investors who invested in, and not through, a BLMIS account-holder. Neither group of claimants had deposited cash with BLMIS for the purpose of purchasing securities: the individual plan claimants did not own any cash at BLMIS because assets of an ERISA-regulated plan are held and owned by the plan's trustees; and the plan claimants did not deposit cash with BLMIS, but had invested in, instead of through, feeder funds. No appeal was filed.

The District Court in *Picard v. Katz* 466 B.R. 208 (S.D.N.Y. 2012), denied the Trustee's motion seeking to have the Court certify three rulings for interlocutory appeal, or, alternatively, to have the Court enter final judgment as to certain claims that had been dismissed. The Trustee sought immediate appeals of the Court's rulings that (1) the safe harbor

provisions of Bankruptcy Code §546(e) barred the Trustee from recovering under Bankruptcy Code §§544(B), 547(b), and 548(a)(1)(B), (2) the Trustee could not recover on a theory of negligence, and (3) the Trustee could not disallow the defendants' claims against the BLMIS estate. The Court held that the circumstances were not sufficiently extraordinary to warrant granting motions for interlocutory appeal or entering final judgment on the dismissed claims.

Later, ahead of the scheduled trial, the District Court in *Picard v. Katz*, 2012 WL 691551 (S.D.N.Y. Mar. 5, 2012), granted the Trustee's motion for partial summary judgment seeking the return of profits the defendants received in the two years before the filing date. The Court found that defendants failed to show that they received the transfers of funds in return for value. The Court also denied the defendants' motion for summary judgment. The case settled before the start of the trial with, among other terms, the defendants agreeing to pay \$162 million to the BLMIS Customer Fund, an amount equal to one hundred percent of the two year fictitious profits withdrawn.

In *Pebkin v. Levy-Church*, 2012 U. S. Dist. LEXIS 21740 (S.D.N.Y. Feb. 16, 2012), the District Court affirmed the Bankruptcy Court's order denying a motion to set aside an order approving a settlement agreement between the Trustee and the heirs of Norman F. Levy. After the Trustee sued Norman Levy for the receipt of fraudulent transfers, the Levy heirs settled with the Trustee and agreed to pay \$220,000,000, the entire amount recoverable from them, in exchange for a full release. Certain customers moved to vacate the Bankruptcy Court's order approving the settlement, which motion was denied by the Bankruptcy Court. In affirming the order, the District Court rejected the appellants' argument that the Bankruptcy Court had abused its discretion in denying their motion. The Court

of Appeals affirmed. 489 F. App'x 519 (2d Cir. 2012).

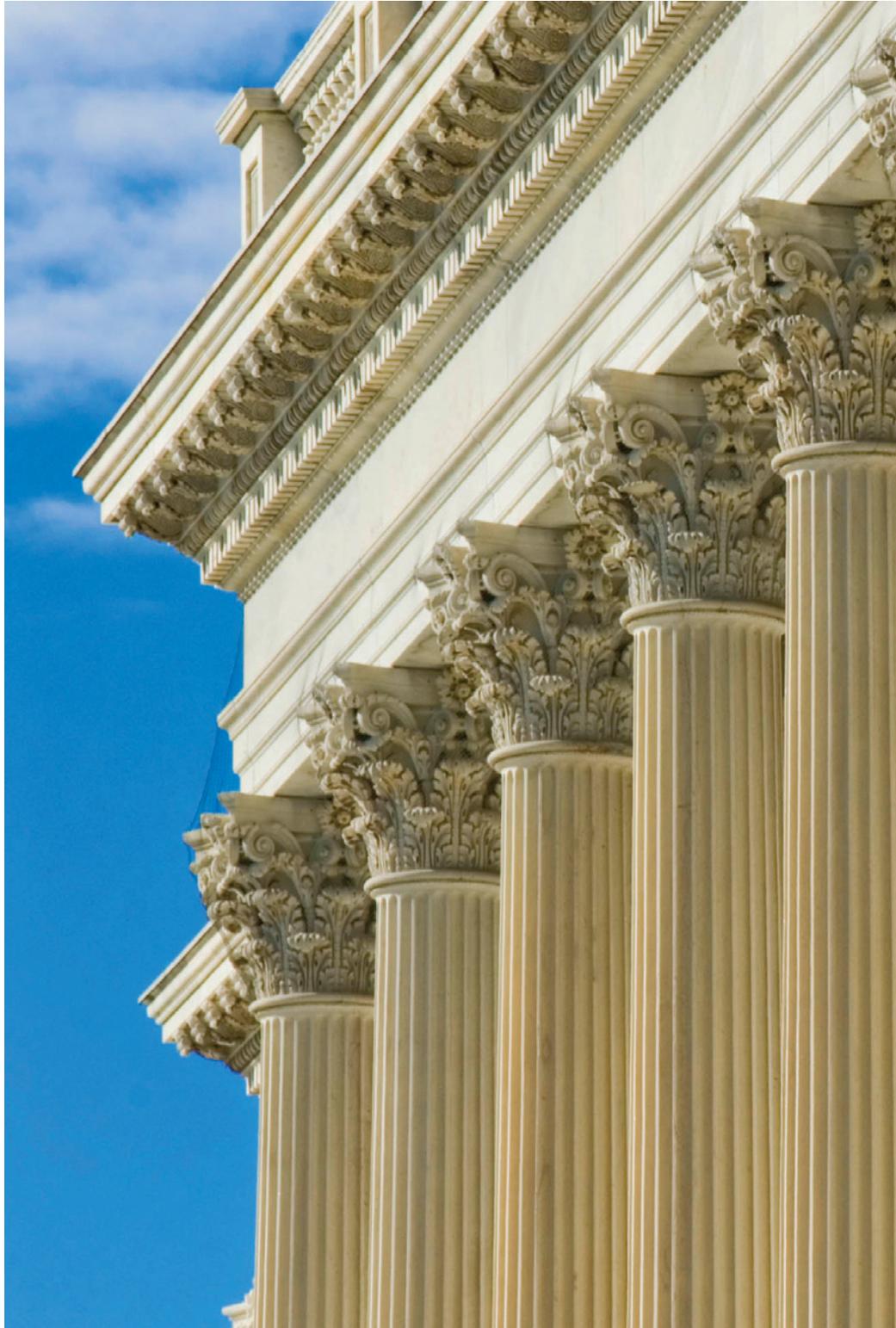
The District Court in *Picard v. Sonja Kohn*, 2012 WL 566298 (S.D.N.Y. Feb. 22, 2012), granted a motion to dismiss certain counts in an avoidance action by four defendants in the case. The Court held that the Trustee lacked standing to bring common law claims on behalf of customers directly or as bailee of customer property. The Court also dismissed counts related to Racketeer Influenced and Corrupt Organizations Act ("RICO") claims, finding that the Trustee failed to allege proximate cause and that the claims also fell within the prohibition of the Private Securities Litigation Reform Act barring RICO actions. The Trustee appealed (2d Cir., No. 12-1106). The appeal was stayed pursuant to a stipulation among all parties.

In *Picard v. Avellino*, 469 B.R. 408 (S.D.N.Y. 2012), the District Court granted in part and denied in part motions in various adversary proceedings seeking mandatory withdrawal of the reference to the Bankruptcy Court. The District Court declined to withdraw the reference to consider whether the Trustee could bring avoidance actions for amounts above allowed claims and whether the Trustee had standing to bring fraudulent transfer claims. The Court withdrew the reference for the limited purposes of deciding whether in a SIPA proceeding, securities laws affect the standard to establish a lack of "good faith" by the defendants; whether section 546(e) of the Bankruptcy Code limits the Trustee's ability to avoid transfers; whether the Trustee may avoid transfers made to satisfy antecedent debts; and whether the Bankruptcy Court has the authority either finally to resolve fraudulent transfer claims or to issue findings of fact and conclusions of law.

The District Court affirmed the Bankruptcy Court's Automatic Stay Order and its order approving the settlement

between the Trustee and the estate of Jeffrey Picower and related defendants in *Adele Fox and Susanne Stone Marshall v. Picard*, 848 F. Supp. 2d 469 (S.D.N.Y. 2012). The appellants, customers of BLMIS, appealed both the Bankruptcy Court's decision that their class action lawsuits filed in Florida against the Picower Defendants were void *ab initio* and subject to a permanent injunction, and the Bankruptcy Court's approval of the settlement, which returned \$5 billion to the BLMIS estate for distribution to customers and \$2.2 billion to the Government. The District Court held that the appellants' purported claims were all based on the Picower defendants' involvement in the Madoff Ponzi scheme, were claims common to all BLMIS investors, and thus were duplicative of the Trustee's suit against the Picower defendants. Consequently, the Court found that these claims were property of the BLMIS estate. The District Court also held that the settlement agreement was fair and reasonable, and that the Bankruptcy Court's permanent injunction against any duplicative action against the Picower defendants was a proper use of the Bankruptcy Court's power to protect the BLMIS estate and its jurisdiction over the case. The decision was appealed. The appeal was dismissed (2d Cir., No. 12-1674) (May 25, 2012).

Subsequently, the Bankruptcy Court in *SIPC v. Bernard L. Madoff Investment Securities LLC*, 477 B.R. 351 (Bankr. S.D.N.Y. 2012), denied the motion of class action plaintiffs seeking a determination that commencing a class action lawsuit against the Picower estate was not prohibited by either the Court's Injunction or the Automatic Stay provisions of the Bankruptcy Code. The Court held that these plaintiffs did not have any independent claims, that their claims were nearly identical and derivative of the Trustee's claims, and that the class action suit appeared to be another





attempt to re-litigate the Court's Net Equity Decision.

In *Picard v. Madoff*, 468 B.R. 620 (Bankr. S.D.N.Y. 2012), the Bankruptcy Court denied in part and granted in part the Trustee's motion for leave to file a second amended complaint in an adversary proceeding against various Madoff family members. The Trustee sought to add as defendants the current and ex-spouses of Bernard Madoff's two sons in order to assert avoidance claims, subsequent transfer, and common law claims against them. The Court granted the Trustee leave to add the spouse defendants with regard to subsequent transfer and common law claims, finding that these claims were not time-barred. However, the Court denied the Trustee's motion with respect to the avoidance claims because they did not relate back to the original complaint and thus were untimely.

In consolidated briefing involving 40 cases, the District Court in *Picard v. Greiff*, 476 B.R. 715 (S.D.N.Y. 2012), granted, in part, and denied, in part, a motion to dismiss the Trustee's claims to avoid transfers

made by BLMIS to the defendants who were BLMIS account holders who had withdrawn more from their accounts than they deposited. Finding that BLMIS was a stockbroker and that the transfers at issue were made in connection with a securities contract, the Court held that §546(e) of the Bankruptcy Code, which provides a "safe-harbor" for certain transfers involving the purchase or sale of securities, protected the defendants' withdrawals from avoidance as constructive fraudulent transfers. The Court dismissed the Trustee's claims under Bankruptcy Code §§ 544 and 548(a)(1)(B). However, the Court denied the defendants' motion with respect to the Trustee's claims brought under §§ 548(a)(1)(A) and 550(a). As to those claims, the Court held that transfers from BLMIS which exceeded the return of principal were not "for value." Accordingly, the Trustee could seek to recover net profits transferred within two years before the filing date. The Trustee and SIPC appealed (2d Cir., No. 12-2557). The appeal has been stayed pending a decision by the District Court in a related matter.

In *Picard v. Maxam Absolute Return Fund, L.P.*, 474 B.R. 76 (S.D.N.Y. 2012), the District Court affirmed the Bankruptcy Court's decision enforcing the automatic stay and enjoining a foreign declaratory judgment suit filed by a subsequent transferee defendant in a \$25 million fraudulent transfer case. The Bankruptcy Court had found the defendant's suit in the Cayman Islands to be void *ab initio* and enjoined the defendants from participating in any further proceedings in any other jurisdiction. The District Court affirmed, holding that the automatic stay has extraterritorial application, thus voiding the Cayman Action, and that the Bankruptcy Court's injunctive power has extraterritorial effect. An appeal was filed (2d Cir., No. 12-2194).

The Bankruptcy Court in *Picard v. Bureau of Labor Insurance*, 480 B.R. 501 (Bankr. S.D.N.Y. 2012), denied a motion to dismiss by defendant Taiwanese Bureau of Labor Insurance ("BLI"). The Trustee had sued to recover over \$42 million that BLI had received as a subsequent transferee from Fairfield Sentry, the largest BLMIS feeder fund. BLI asserted sovereign immunity under the Foreign Sovereign Immunities Act ("FSIA"). The Court found that although BLI qualified as a foreign state under the FSIA, the commercial activity exception applied. This denies immunity to a foreign state when a suit is based upon a commercial activity which has a direct effect in the United States. The Court also found that it had personal jurisdiction over BLI because BLI invested in the feeder fund for the purpose of investing with BLMIS in New York. The Court held that the Trustee could pursue recovery from BLI as a subsequent transferee because the initial transfers were avoidable, and the Trustee was not required first to obtain a judgment against the initial transferee, the feeder fund. The Court also rejected BLI's argument that the Trustee's claims were barred by the presumption against extraterritoriality.

The District Court in *Picard v. Cobmad Securities Corp.*, 2012 WL 5511952 (S.D.N.Y. Nov. 14, 2012), denied three motions for leave to appeal an order of the Bankruptcy Court which denied a motion to dismiss. The movants argued that the Bankruptcy Court erred by not applying Rule 9(b) of the Federal Rules of Civil Procedure, which requires a heightened pleading standard for fraud actions, to the Trustee's constructive fraudulent conveyance claims. The District Court concluded that leave was unnecessary, finding that defendants had not demonstrated substantial grounds for a difference of opinion because courts consistently apply the lower pleading standards of Rule 8(a) to such actions. The District Court held that allowing the appeal would not materially advance the litigation as the actual fraudulent conveyance claims would proceed regardless of the ruling on the appealed issue.

In *In re Madoff Securities*, No. 12 MC 115 (S.D.N.Y. Dec. 12, 2012), the District Court denied defendants' motions to dismiss in a group of cases involving subsequent transferees. The Court found that a final, fully-litigated judgment against initial transferees was not a precondition for pursuing recovery against subsequent transferees under Bankruptcy Code section 550(a). The Court also stated that the statute of limitations did not bar the Trustee's recovery against a subsequent transferee where the Trustee had not first obtained a judgment or asserted a claim against the subsequent transferee to avoid the initial transfer within the period prescribed by Bankruptcy Code § 546(a). Thus, the Trustee was not required to bring avoidance against each and every subsequent transferee within the two-year period prescribed by section 546(a) before seeking to recover those subsequent transfers, provided that the Trustee had brought an action to avoid the initial transfer within the two-year period.

Litigation in the liquidation of Lehman Brothers Inc. ("LBI") and of MF Global Inc. ("MFGI") also resulted in significant decisions:

In *In the Matter of Lehman Brothers International (Europe) (In Administration) and In the Matter of the Insolvency Act 1986*, [2012] UKSC 6, the Supreme Court of the United Kingdom rendered an opinion on the status of client money that should have been segregated, but was not, LBI's U.K. affiliate, Lehman Brothers International (Europe) ("LBIE"). LBIE had failed properly to segregate client funds, including \$3 billion belonging to its affiliates such as LBI, and commingled them with other funds in its "house" account. The Court held that a statutory trust arises at the time the firm receives the customer funds, and that these client money and assets do not form part of the debtor's insolvent estate. The Court also found that the rules for distribution of client money apply to money identifiable as client money in the firm's house accounts and that participation in the client money pool is not limited only to clients whose money was actually held in segregated client accounts. The judgment confirmed that the claims of the affiliates in the LBIE administration were valid client money claims.

In *Barclays Capital Inc. and Barclays Bank PLC v. Giddens (In re Lehman Brothers Inc.)*, 478 B.R. 570 (S.D.N.Y. 2012), the District Court affirmed, in part, and reversed, in part, the Bankruptcy Court's decision regarding a dispute over the sale of the North American business assets of LBI to Barclays Capital Inc. The District Court rejected Barclays's claim to \$769 million in LBI's Rule 15c3-3 customer reserve accounts and \$507 million that was considered part of LBI's required Reserve Bank Account. However, the District Court also ruled that the LBI estate was not entitled to approximately \$3.5 billion in margin and other assets used to support LBI's derivatives trading and roughly \$2 billion in certain assets



in LBI's clearance boxes at the Depository Trust & Clearing Corporation. The District Court found the Asset Purchase Agreement and subsequent clarification letter to be unambiguous and to provide clearly for a sale of all Margin Assets to Barclays. The matter is on appeal.

In a matter of first impression, the Bankruptcy Court in *In re Lehman Brothers Inc.*, 474 B.R. 139 (Bankr. S.D.N.Y. 2012), confirmed the Trustee's determination that claims for soft dollar commission credits are not entitled to protection as "customer" claims under SIPA. Soft dollar credits are commission credits earned by money managers from the broker-dealer, and may be used solely to pay for research and other specialized services provided by broker-dealers. The Bankruptcy Court found that soft dollars were not securities or a cash equivalent, and could not be used to purchase securities. The Court concluded that instead of customer claims, the soft dollar claimants had unsecured claims based on a breach of LBI's contractual obligation to provide research services to its clients.



The District Court affirmed the Bankruptcy Court's Automatic Stay Order and its order approving the settlement between the Trustee and the estate of Jeffrey Picower and related defendants in *Adele Fox and Susanne Stone Marshall v. Picard*, 848 F. Supp. 2d 469 (S.D.N.Y. 2012).

In *In re MF Global Inc.*, 467 B.R. 726 (Bankr. S.D.N.Y. 2012), the Bankruptcy Court granted the Trustee's motion to approve the liquidation of precious metal warehouse receipts, to enable a distribution to customers. The Trustee asserted that the bulk sale of the certificates was the most cost-effective way of converting the property to cash. The Court held that the Trustee had established a valid business justification for the sale and that the price was fair and reasonable. The Court overruled a customer objection, finding that the warehouse receipts in his account were not entitled to any protection under SIPA

because they were not held in a securities account at the debtor and did not meet the definition of a "security" under SIPA.

Overruling an objection, the Bankruptcy Court in *In re MF Global Inc.*, 2012 WL 3242533 (Bankr. S.D.N.Y. Aug. 10, 2012), granted the Trustee's motion for approval of a settlement agreement between the Trustee of MFGI and the Chicago Mercantile Exchange Group. The Court found the settlement to be reasonable and in the best interests of the MFGI's estate because it provided for a return of more than \$160 million to the Trustee, thus allowing an immediate allo-

cation of \$130 million for the payment of allowed customer claims, and eliminating time-consuming and costly litigation.

In *In re MF Global Inc.*, 478 B.R. 611 (Bankr. S.D.N.Y. 2012), the Bankruptcy Court granted the Trustee's motion to assign his claims against former directors, officers and employees of MFGI and MF Global Holdings in addition to his claims against PricewaterhouseCoopers, MFGI's former independent auditor, to class-action plaintiffs who were former commodity customers of MFGI. The auditor objected, arguing that the claims against it were not assignable because its engagement letter with MFGI included an anti-assignment provision. The Bankruptcy Court allowed the assignment, finding that the anti-assignment clause only applied to breach of contract claims and not the tort/malpractice claims which were the subject of the assignment.

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 325 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 272 convictions to date.

Administrative and/or criminal actions in 284 of the 325 SIPC customer protection proceedings initiated through December 31, 2012, 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	53
Criminal and Administrative Actions	103
Criminal Actions Only	27
Total	284

In the 257 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 ¹	117	113
Bar from Association	353	232
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 2012 SIPC received three new referrals under Section 5(a). One, Hudson Valley Capital Management became a SIPC proceeding in 2012.

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.

¹ Notices of suspension include those issued in conjunction with subsequent bars from association.





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Report of Independent Certified Public Accountants

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying financial statements of Securities Investor Protection Corporation, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McLean, Virginia
April 18, 2013

A handwritten signature in black ink that reads "Grant Thornton LLP".

SECURITIES INVESTOR PROTECTION CORPORATION

Statement of Financial Position as of December 31, 2012

ASSETS

Cash	\$ 31,681,590
U.S. Government securities, at fair value and accrued interest receivable of (\$11,147,055); (amortized cost \$1,451,596,726) (Note 6)	1,567,923,663
Estimated member assessments receivable (Note 3)	197,373,278
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$1,438,640,638) (Note 4)	113,000,000
Assets held for deferred compensation plan (Note 8)	640,662
Other (Note 5, and Note 9)	2,365,598
	<hr/>
	\$1,912,984,791

LIABILITIES AND NET ASSETS

Accrued benefit costs (Note 8)	9,554,317
Amount due on deferred compensation plan (Note 8)	640,662
Accounts payable and other accrued expenses	785,841
Deferred rent (Note 5)	244,959
Estimated costs to complete customer protection proceedings in progress (Note 4)	1,115,500,000
Member assessments received in advance (Note 3)	2,030,000
	<hr/>
	1,128,755,779
Net assets	784,229,012
	<hr/>
	\$1,912,984,791

The accompanying notes are an integral part of these statements.



**Statement of Activities
for the year ended December 31, 2012**

Revenues:	
Member assessments (Note 3)	\$412,305,529
Interest on U.S. Government securities	40,145,482
	452,451,011
Expenses:	
Salaries and employee benefits (Note 8)	9,993,350
Legal and accounting fees (Note 4)	1,646,263
Rent (Note 5)	738,916
Other	4,072,317
	16,450,846
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(76,255,721)
	(59,804,875)
Total net revenue	512,255,886
Realized and unrealized loss on U.S. Government securities (Note 6)	(14,309,673)
Pension and postretirement benefit changes other than net periodic costs (Note 8)	390,854
Increase in net assets	498,337,067
Net assets, beginning of year	285,891,945
Net assets, end of year	\$784,229,012

**Statement of Cash Flows
for the year ended December 31, 2012**

Operating activities:	
Interest received from U.S. Government securities	\$ 41,995,964
Member assessments received	385,004,628
Advances paid to trustees	(229,138,121)
Recoveries of advances	1,793,842
Salaries and other operating activities expenses paid	(14,882,573)
Net cash provided by operating activities	184,773,740
Investing activities:	
Proceeds from sales of U.S. Government securities	165,095,610
Purchases of U.S. Government securities	(318,327,342)
Purchases of furniture and equipment	(854,106)
Net cash used in investing activities	(154,085,838)
Increase in cash	30,687,902
Cash, beginning of year	993,688
Cash, end of year	\$ 31,681,590

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 \$1,599,605,253.

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 one-quarter of 1 per centum 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 2012 but not received until 2013.

4. Customer protection proceedings

SIPC commenced a liquidation of Lehman Brothers Inc. (LBI) on September 19, 2008. As of December 31, 2012, the estate had received 124,247 customer claims and had resolved through the transfer of related accounts to solvent broker-dealers more than 110,000 of these claims. The remaining customer claims generally fall into four categories: claims filed on behalf of prime brokerage arrangements, claims filed by Lehman Brothers Holdings Inc. (LBHI) and certain of its affiliates, claims filed by Lehman Brothers International (Europe) (LBIE), and claims filed by other Lehman affiliates. The LBI Trustee has reached agreements with LBIE and LBHI and its affiliates, which would resolve all claims among the entities, and has filed motions seeking approval of the agreements with the U.S. Bankruptcy Court.

Of the approximately \$180 billion in customer claims submitted, \$92.3 billion of these claims, including nearly all of LBI's former "retail" customers, received 100 percent recoveries through account transfers within days of the commencement of the liquidation. If the agreements noted above are consummated and approved, distributions to the remaining institutional customer claimants are expected to approach full satisfaction.

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.

Because the agreements are not yet final, it is reasonably possible that these matters would need to 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 7811(2) of SIPA, the definition of a "customer" includes a "person who had 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 customer's 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. 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 were released in July 2012. On November 6, 2012 several Tremont Funds deposited \$1.025 billion in an escrow account in settlement of Trustees' lawsuits. At the end of the year the funds were still in escrow.

SIPC commenced a 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 was June 2, 2012. As of December 31, 2012, the estate received 428 customer claims under SIPA; the total allowed value of securities claims and related settlements is approximately \$378 million. MF Global Inc. also operated as a Futures Commission Merchant (FCM). Claims for FCM property are separate from the above-referenced securities claims.

There are certain remaining contingencies in the liquidation of MF Global Inc. that may ultimately require coverage under SIPA, including, for example, pending settlement agreements and disputed claims determinations. These contingencies are considered in determining estimated costs to complete proceedings, and management believes that any liabilities or settlements arising from these contingencies will not have a material effect on SIPC's net assets.

SIPC has advanced a net of \$1.55 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$1.44 billion 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, 2012 that result from these proceedings:

Customer Protection Proceedings		
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$ 1,700,000	\$1,307,800,000
Add:		
Provision for current year recoveries	100,000	
Provision for estimated future recoveries	113,000,000	
Provision for estimated costs to complete proceedings	—	36,800,000
Less:		
Recoveries	1,800,000	—
Advances to trustees	—	229,100,000
Balance, end of year	\$ 113,000,000	\$1,115,500,000

5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2013 - \$595,988; 2014 - \$610,905; 2015 - \$417,490; for a total of \$1,624,383, as of December 31, 2012. Additional rental expense is based on SIPC's pro rata share of operating expenses in accordance with the terms of 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. As of December 31, 2012 the unamortized balances are \$11,085 and \$92,080 respectively, see Note 9.

On December 27, 2012, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new seven-year lease commences August 1, 2013. Future minimum rentals for the space, expiring on July 31, 2020, are as follows: 2013 - \$127,112; 2014 - \$141,220; 2015 - \$145,103; 2016 - \$149,094; 2017 - \$153,194; 2018 - thereafter \$414,984; for a total of \$1,130,707 as of December 31, 2012. Additional rental expense is based on SIPC's pro rata share of operating expenses in accordance with the terms of 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, 2012. 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, 2012 all securities held within the portfolio are priced using level 2 input.

U.S. Government securities as of December 31, 2012, included cumulative gross unrealized gains of \$116,355,749 and cumulative gross unrealized losses of \$28,812.

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

Increase in net assets	\$498,337,067
Net decrease in estimated cost to complete customer protection proceedings	(192,300,000)
Net increase in estimated recoveries of advances to trustees	(111,300,000)
Increase in estimated assessment receivable	(27,490,900)
Realized and unrealized loss on U.S. Government securities	14,309,673
Net amortized discount on U.S. Government securities	1,650,318
Depreciation and amortization	727,440
Increase in payables and accrued expenses	705,218
Decrease in accrued interest receivable on U.S. Government securities	200,162
Increase in member assessments received in advance	190,000
Increase in prepaid expenses	(187,822)
Decrease in deferred rent	(67,416)
Net cash provided by operating activities	\$184,773,740

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 \$640,662 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
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$36,524,927	\$ 5,258,769
Service cost	945,760	186,927
Interest cost	1,644,913	243,978
Plan participants' contributions	—	24,794
Amendments	—	—
Actuarial loss (gain)	2,813,108	(75,619)
Benefits paid	(1,073,960)	(108,399)
Benefit obligation at end of year	\$40,854,748	\$ 5,530,450
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$33,488,021	\$ —
Actual return on plan assets	4,416,820	—
Employer contributions prior to measurement date	—	—
Employer contributions	—	83,605
Plan participants' contributions	—	24,794
Benefits paid	(1,073,960)	(108,399)
Fair value of plan assets at end of year	\$36,830,881	\$ —
Funded status	\$ (4,023,867)	\$(5,530,450)
Employer contributions between measurement and statement date	—	—
Funded status at year end	\$ (4,023,867)	\$(5,530,450)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Net amount recognized in the Statement of Financial Position	\$ (4,023,867)	\$(5,530,450)

SECURITIES INVESTOR PROTECTION CORPORATION *continued*

	Pension Benefits	Other Postretirement Benefits
Other Amounts Recognized within the Statement of Activities consist of:		
Net actuarial gain	\$ (520,012)	\$ (207,435)
Prior service (credit) cost	(58,098)	394,691
Pension and postretirement benefit changes other than net periodic benefit costs	\$ (578,110)	\$ 187,256
Accumulated Benefit Obligation end of year	\$37,717,947	\$ 5,530,450
Weighted-average Assumptions for Disclosure as of December 31, 2012		
Discount rate	4.00%	4.20%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	8.50%/6.50%
Health Care Cost Trend: Ultimate	N/A	4.50%
Year Ultimate Reached	N/A	2021
Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities		
Net periodic benefit cost		
Service cost	\$ 945,760	\$ 186,927
Interest cost	1,644,913	243,987
Expected return on plan assets	(2,454,553)	—
Recognized prior service cost (credit)	58,098	(394,691)
Recognized actuarial loss	1,370,853	131,816
Net periodic benefit cost	1,565,071	168,039
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities		
Net actuarial loss (gain)	850,841	(75,619)
Recognized actuarial loss	(1,370,853)	(131,816)
Prior service cost	—	—
Recognized prior service (cost) credit	(58,098)	394,691
Total recognized within the Statement of Activities	(578,110)	187,256
Total recognized in net benefit cost and within the Statement of Activities	\$ 986,961	\$ 355,295
Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year		
Loss recognition	\$ 1,181,331	\$ 100,486
Prior service cost (credit) recognition	37,292	(394,691)
Total	\$ 1,218,623	\$ (294,205)
Effect of a 1% Increase in Trend on:		
Benefit Obligation	N/A	\$ 880,529
Total Service Interest Cost	N/A	\$ 93,399
Effect of a 1% Decrease in Trend on:		
Benefit Obligation	N/A	\$ (712,602)
Total Service Interest Cost	N/A	\$ (71,775)

	Pension Benefits	Other Postretirement Benefits
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Weighted-average Assumptions for Net Periodic Cost as of December 31, 2012

Discount rate	4.60%	4.70%
Expected asset return	7.50%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	8.50%/8.50%
Health Care Cost Trend: Ultimate	N/A	4.50%
Year Ultimate Reached	N/A	2020

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 2012, the unrecognized net loss decreased by 1.42% of the 12/31/2011 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 2012 by (\$542,000)/\$476,000 and (decreased)/increased the year-end projected benefit obligation by (\$5.1)/\$5.8 million.

Pension Plan Asset Summary

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level1)
Equity securities:	
U.S. large and multi-cap mutual funds	\$19,586,331
Non-U.S. large and multi-cap mutual funds	4,926,365
Total Equity	24,512,696
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	12,318,185
Total Fixed Income	12,318,185
Total	\$36,830,881

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 2012 by \$327,000.

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 12/31/2012
Equity securities	9.30%	60–70%	67%
Debt securities	4.20%	40–30%	33%
Total	7.50%	100%	100%

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2013	\$ 1,607,567	\$ 144,800
2014	\$ 1,699,254	\$ 169,400
2015	\$ 1,867,460	\$ 177,800
2016	\$ 2,021,022	\$ 200,500
2017	\$ 2,094,416	\$ 216,400
2018–2022	\$11,925,661	\$ 1,427,600

Contributions

The company expects to make no contributions to the pension plan in 2013 for the 2012 plan year and \$144,800 to the postretirement benefit plan during 2013.

Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	\$ 196,040
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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, 2012 are \$2,111,680 (net of \$2,245,357 accumulated depreciation) and \$140,744 (net of \$433,273 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 member broker-dealer. On July 3, 2012, the SEC application was denied by the District Court. The SEC has appealed this decision. At this time, SIPC cannot determine the impact, if any, of the final outcome of the suit on the corporation.

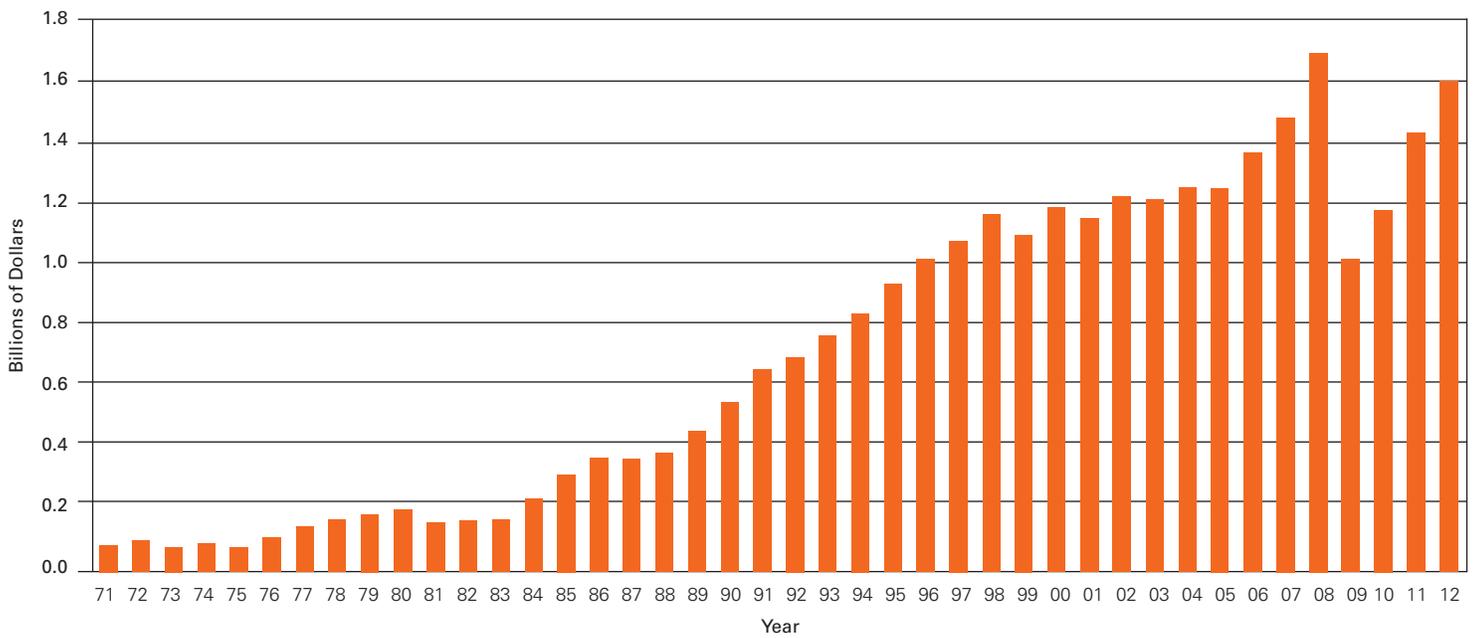
11. Subsequent Events

SIPC evaluated its December 31, 2012 financial statements for subsequent events through April 18, 2013, 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, 2012



APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS for the Forty-Two Years Ended December 31, 2012 (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) [†]	(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) [△]	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662) [△]	(37,700)	(49,362)	159,663
2005	(24,245) [#]	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) [®]	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
2012	3,217,290	19,338	(1,774)	17,564	3,234,854
	\$119,614,126	\$1,485,914	\$(352,888)	\$1,133,026	\$120,747,152

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

[†] Reflects adjustments to customer distributions in the John Muir & Co. customer protection proceeding based upon Trustee's final report.

[△] Reflects adjustments to customer distributions in the MJK Clearing, Inc. customer protection proceeding based upon Trustee's revised allocation.

[#] Reflects adjustment to distribution of customers assets subsequently determined not held by Donahue Securities, Inc.

[®] 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, 2012

	2012	2011	2010	2009	2008
Revenues:					
Member assessments and contributions	\$412,305,529	\$382,800,000	\$ 409,200,016	\$346,299,978	\$ 816,322
Interest on U.S. Government securities	39,995,610	39,412,362	38,160,886	56,636,031	67,597,794
Interest on assessments	149,872	420,086	170,336	304,378	3,337
	452,451,011	422,632,448	447,531,238	403,240,387	68,417,453
Expenses:					
Salaries and employee benefits	9,993,350	9,171,655	8,254,272	8,259,757	6,461,396
Legal fees	1,536,663	813,634	346,375	56,255	88,987
Accounting fees	109,600	295,049	331,901	521,581	84,817
Credit agreement commitment fee			83,330	907,501	1,686,889
Professional fees—other	741,567	842,302	309,931	212,141	179,957
Other:					
Assessment collection cost	19,390	17,735	29,679	20,848	9,127
Depreciation and amortization	727,440	608,873	273,758	112,345	148,640
Directors' fees and expenses	38,907	39,275	42,470	70,379	101,207
Insurance	30,710	38,305	35,529	31,245	32,544
Investor education	179,368	200,303	342,766	247,317	1,907,599
Office supplies and expense	200,347	184,497	164,894	91,027	143,778
EDP and internet expenses*	1,446,889	1,937,200	1,515,375	622,937	470,908
Postage	12,520	10,154	13,164	12,557	16,814
Printing & mailing annual report	37,636	38,153	38,443	39,625	31,493
Publications and reference services	179,340	165,018	156,760	175,277	160,067
Rent—office space	738,916	751,955	747,231	720,442	707,604
Telephone	103,141	108,704	104,201	71,229	73,258
Travel and subsistence	155,444	164,691	223,391	271,242	283,452
Personnel recruitment	152,400		46,000	10,000	10,625
Miscellaneous	47,218	39,645	74,236	23,924	72,819
	4,069,666	4,304,508	3,807,897	2,520,394	4,169,935
	16,450,846	15,427,148	13,133,706	12,477,629	12,671,981
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	19,231,225	30,396,107	212,738,676	547,280,342	296,456
Cash	(1,651,432)	2,289,553	213,380	(5,100,190)	(2,610,108)
	17,579,793	32,685,660	212,952,056	542,180,152	(2,313,652)
Administration expenses	209,774,526	207,826,006	177,227,833	135,564,649	9,884,474
	227,354,319	240,511,666	390,179,889	677,744,801	7,570,822
Net change in estimated future recoveries	(111,300,000)	(1,700,000)	1,900,000	(100,000)	(1,400,000)
	116,054,319	238,811,666	392,079,889	677,644,801	6,170,822
SIPC as Trustee:					
Securities	(4,921)	(205,638)	(1,689)	1,468,579	3,862,296
Cash	(10,402)	91,407	(24,211)	(580,770)	(276,003)
	(15,323)	(114,231)	(25,900)	887,809	3,586,293
Administration expenses	5,283	24,427	(8,586)	172,689	1,194,506
	(10,040)	(89,804)	(34,486)	1,060,498	4,780,799
Direct payments:					
Securities					
Cash		12,584			
		12,584			
Administration expenses		21,301			639
		33,885			639
Net change in estimated cost to complete proceedings	(192,300,000)	36,800,000	314,100,000	(468,700,000)	1,413,000,000
	(76,255,721)	275,555,747	706,145,403	210,005,299	1,423,952,260
	(59,804,875)	290,982,895	719,279,109	222,482,928	1,436,624,241
Total net revenues (expenses)	512,255,886	131,649,553	(271,747,871)	180,757,459	(1,368,206,788)
Realized and unrealized (loss) gain					
on U.S. Government securities	(14,309,673)	57,481,554	32,321,095	(102,463,159)	132,368,130
Pension and postretirement benefit changes					
other than net periodic benefit costs	390,854	(7,777,611)	(280,274)	2,538,599	(5,752,428)
Increase (decrease) in net assets	\$498,337,067	\$181,353,496	\$(239,707,050)	\$ 80,832,899	\$(1,241,591,086)

*2008–2011 have been reclassified to combine Imaging expense with EDP and internet expenses

APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

PART A: Customer Claims and Distributions Being Processed^(a)

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) 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	124,247	110,861
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*	2,672
MF Global Inc. New York, NY (James W. Giddens, Esq.)	07/31/74	10/31/11	10/31/11	74,763	28,588	29,673
Hudson Valley Capital Management Croton-on-Hudson, NY (SIPC)	05/12/89	12/17/12	12/17/12	347		
TOTAL 5 MEMBERS: PART A				1,031,603	171,053	144,338

* 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.

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

December 31, 2012

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 283,381,457	\$ 281,202,782 [#]	\$ 2,178,675	\$ 12,164,286	\$ 10,564,286			\$1,600,000
96,980,717,243	96,124,054,088	856,663,155	15,252,217			\$ 11,740,503	3,511,714
2,976,548,672	2,943,581,026	32,967,646	1,505,717,477	705,182,175		800,535,302	
4,820,855,649	4,627,481,195 [^]	193,374,454	10,000,000	10,000,000			
\$105,061,503,021	\$103,976,319,091	\$1,085,183,930	\$1,543,133,980	\$725,746,461		\$812,275,805	\$5,111,714

APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

PART B: Customer Claims Satisfied, Litigation Matters Pending^(a)

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) 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
TOTAL 2 MEMBERS: PART B				21,019	437	107

December 31, 2012

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$3,913,335	\$3,337,369	\$575,966	\$7,622,744	\$7,622,744			
			883,914	67,755		\$770,140	\$46,019
\$3,913,335	\$3,337,369	\$575,966	\$8,506,658	\$7,690,499		\$770,140	\$46,019

APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

PART C: Proceedings Completed in 2012

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) Receiving Distributions
WallStreet*E Financial Services, Inc. Coral Gables, FL (Direct Payment)	01/14/98		05/23/11 [†]	3,679	63	1
TOTAL 1 MEMBERS 2012				3,679	63	1
TOTAL 317 MEMBERS 1973–2011^(d)				2,155,371	446,719	625,148
TOTAL 318 MEMBERS 1973–2012				2,159,050	446,782	625,149

[†] Date Notice Published

December 31, 2012

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$ 33,886	\$ 21,302			\$ 12,584
			33,886	21,302			12,584
\$15,958,016,678	\$15,634,469,386	\$323,547,292	505,163,859	190,353,472	\$1,388,427	\$182,346,316	131,075,644
\$15,958,016,678	\$15,634,469,386	\$323,547,292	\$505,197,745	\$190,374,774	\$1,388,427	\$182,346,316	\$131,088,228

APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS

PART D: Summary

	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) Receiving Distributions
Part A: 5 Members — Customer Claims and Distributions Being Processed	1,031,603	171,053	144,338
Part B: 2 Members — Customer Claims Satisfied, Litigation Matters Pending	21,019	437	107
Sub-Total	1,052,622	171,490	144,445
Part C: 318 Members — Proceedings Completed	2,159,050	446,782	625,149
Total	3,211,672	618,272	769,594

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, 2012

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$105,061,503,021	\$103,976,319,091	\$1,085,183,930	\$1,543,133,980	\$725,746,461		\$812,275,805	\$ 5,111,714
3,913,335	3,337,369	575,966	8,506,658	7,690,499		770,140	46,019
105,065,416,356	103,979,656,460	1,085,759,896	1,551,640,638	733,436,960		813,045,945	5,157,733
15,958,016,678	15,634,469,386	323,547,292	505,197,745	190,374,774	\$1,388,427	182,346,316	131,088,228
\$121,023,433,034	\$119,614,125,846	\$1,409,307,188	\$2,056,838,383	\$923,811,734	\$1,388,427	\$995,392,261	\$136,245,961



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