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April 30, 2014

SIPC

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-third 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,

Ahann y. Bowen Sharon Y. Bowen

Sharon Y. Bowen Acting Chair

"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<sup>\*</sup> . . . . "

-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)(11)(A) of the Securities Exchange Act of 1934.

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## MESSAGE FROM THE ACTING CHAIR



Sharon Y. Bowen

## FIVE YEARS LATER: A PERSPECTIVE ON SIPC AND THE FINANCIAL CRISIS

The financial crisis of 2008 propelled SIPC into the most important cases in the Corporation's history. Five years later, we are in a position to evaluate SIPC's role in that crisis. I believe SIPC fulfilled its statutory mandate, and had a critical role in promoting investor confidence at a time when the nation's financial system was in great jeopardy.

#### Lehman Brothers Inc.

The Lehman insolvency was the largest bankruptcy of any kind in history. Immediately after the United States District Court approved SIPC's application to place Lehman Brothers Inc. (LBI) into a SIPA liquidation proceeding on September 19, 2008, the United States Bankruptcy Court convened a hearing to transfer LBI's customer accounts to other brokerage firms so that individual investors could make investment decisions concerning their portfolios. The trustee transferred 110,000 retail customer accounts containing \$92 billion in short order. This was absolutely critical to investor confidence at a time of great price volatility in the markets.

The trustee for LBI then set about the business of liquidating the firm. Litigation ensued on many fronts. There were substantial disputes as to which of the many international Lehman entities was entitled to any particular asset. There were disputes as to the nature and extent of SIPC's coverage of certain investments. Many of those issues have now been resolved. LBI's liquidation has now reached a point where the trustee has noted that SIPC's funds will not be necessary to either replace customer assets, or to satisfy administrative expenses. Commenting on the scope of the case when he confirmed the investment bank's liquidation plan, Bankruptcy Judge James Peck called it "the biggest, the most incredibly complex, the most impossibly challenging international bankruptcy that ever was."

Lehman Brothers Holding Inc., parent company of the SIPC member brokerage firm, reached agreements which made it possible to settle creditor claims over time. Judge Peck noted that "the interrelated settlements that have been presented today on a consensual basis are truly remarkable and represent a comprehensive consensual resolution of one of the most complex matters ever to be resolved in history frankly, at least in the commercial sense."

#### Bernard L. Madoff Investment Securities LLC

The failure of Bernard Madoff's firm in December, 2008 was radically different from the failure of LBI a few months before. Madoff ran the largest, longest running ponzi scheme in history. An account transfer, such as was effected in the LBI case, was impossible. The books and records of the brokerage were a fiction. The trustee for the liquidation, working with SIPC, received court approval to value customer accounts on a "money in minus money out" basis, which had been used in previous ponzi schemes in SIPA cases. That methodology was litigated through the federal court system and affirmed.

The trustee simultaneously began an investigation into the decades-long scheme run by Madoff. Facts revealed in the investigation led the trustee to commence a large number of lawsuits. At the start of the liquidation the trustee took custody of approximately \$860.0 million in cash and proprietary securities. By litigation, settlement, sales of assets and other means, the trustee has, to date, recovered an additional almost \$9.0 billion. Currently any customer with a net cash position of \$875,000 has been paid in full, and a customer with a net position larger than that has received 42.867% of their respective claim from "customer property," and up to an additional \$500,000 in advances from SIPC. Additional distributions will ensue as litigation resolves outstanding issues and as additional funds are added to the "customer property" estate.

In addition to the approximately \$9.8 billion recovered by the trustee, the United States Attorney used criminal and civil forfeiture proceedings to recover an additional approximately \$4.0 billion. The US Attorney was able to use information gathered in the trustee's investigation that will enhance the distribution to Madoff victims. While the universe of "customers" in the SIPA case is not the same group of persons who will receive distributions from the forfeiture fund, there is considerable overlap. This was an impressive example of two different entities collaborating and acting in the public interest to benefit the victims.

I would be remiss if I did not mention Judge Burton Lifland, who presided over the Madoff case. Judge Lifland passed away in January 2014. He was a legal scholar who knew the law well, and also knew that the consequences of his rulings affected the lives of many people. In the Madoff case, he presided over difficult issues with a distinctly compassionate touch.

#### MF Global Inc.

MF Global was placed in a SIPA liquidation on October 31, 2011. This proceeding was the eighth largest bankruptcy in history. Although most of the account holders at the firm dealt in commodities, as opposed to securities, the securities customers were at risk because the firm did not have sufficient liquid assets to continue operating the business. SIPC initiated the proceeding on the same day the United States Securities and Exchange Commission

informed SIPC that the conditions at the firm required SIPC to act.

The trustee for the firm was able to transfer securities customer accounts in short order. Commodities customer accounts, which cannot be supplemented with SIPC funds, were satisfied in increasingly larger amounts as the financial condition of the firm was determined.

In November of 2013, Bankruptcy Judge Martin Glenn signed an order authorizing the payment, in full, of money owed to commodity customers, both in the United States and abroad. The Judge noted that "I don't know of anyone who thought when the case started that the foreign and domestic commodity customers would be looking at 100% recoveries."

Once again, as in the Lehman Brothers case, it has been determined that SIPC's funds will not be necessary to supplement payments to customers, nor will it be necessary for SIPC to make advances for administrative expenses.

#### Subsequent Proceedings

Since the failure of MF Global, SIPC initiated four much smaller customer protection proceedings in 2012 and 2013. One of those proceedings was sufficiently small to use the "direct payment procedure" authorized by SIPA, and the other three cases were eligible for SIPC to serve as trustee.

Achieving these impressive results these past five years was due in no small measure to the extremely capable and committed management and staff. Their dedication is greatly appreciated.

thanon y. Bowen

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.<sup>Δ</sup>

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

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

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

The SIPC staff, numbering 38, 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.

- 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)(11)(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," available on SIPC's website at www.sipc.org/news-and-media/brochures also 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.

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

# DIRECTORS & OFFICERS

## DIRECTORS



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



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



Anthony D'Agostino Maven Medical CEO and Founder



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



William S. Jasien Stonehedge Global Partners President & CEO



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

## OFFICERS

Stephen P. Harbeck President & CEO

Josephine Wang General Counsel & Secretary Joseph S. Furr, Jr. Vice President—Finance

Karen L. Saperstein Vice President—Operations

## CUSTOMER PROTECTION PROCEEDINGS

Customer protection proceedings were initiated for three SIPC members in 2013, bringing the total since SIPC's inception to 328 proceedings commenced under SIPA. The 328 members represent less than one percent of the approximately 39,400 brokerdealers that have been SIPC members during the last forty-three years. Currently, SIPC has 4,180 members.

The three new cases compares with one case commenced in 2012. Over the last tenyear period, the annual average number of new cases was two.

SIPC was appointed as trustee in two cases commenced during the year, and there was one direct payment proceeding. Customer protection proceedings were initiated for:

Member	Date Trustee Appointed
Take Charge Financial, Inc. Los Gatos, CA (Direct Payment)	01/08/13^
Westor Capital Group, Inc. New York, NY (SIPC)	04/16/13
TWS Financial, LLC Brooklyn, NY (SIPC)	05/31/13

^ Date Notice Published

During SIPC's 43 year history, cash and securities distributed for accounts of customers totaled approximately \$133.0 billion. Of that amount, approximately \$132.0 billion came from debtors' estates and \$1.0 billion came from the SIPC fund (See Appendix 1).



# "An Act to provide greater protection for customers of registered brokers and dealers and members of national securities exchanges."

## Preamble to SIPA

#### Claims over the Limits

Of the more than 625,200 claims satisfied in completed or substantially completed cases as of December 31, 2013, a total of 352 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 352 claims, a net increase of one during 2013, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$47.3 million, increased \$100,000 during 2013. 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 89 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 328 customer protection proceedings. The largest net advance in a single liquidation is \$1.62 billion in Bernard L. Madoff Investment Securities LLC. This exceeds the net advances in all of the other proceedings combined.

In the 29 largest proceedings, measured by net funds advanced, SIPC advanced \$1.97 billion, or 92 percent of net advances from the SIPC Fund for all proceedings.

## TABLE I

Net Advances from the SIPC Fund December 31, 2013 328 Customer Protection Proceedings

Net Ac	lvances	Number of Proceedings	Amounts Advanced
From	То		
\$40,000,001	up	1	\$1,618,851,504
10,000,001	\$40,000,000	11	229,156,874
5,000,001	10,000,000	17	120,976,568
1,000,001	5,000,000	60	133,520,346
500,001	1,000,000	40	29,499,154
250,001	500,000	43	14,900,315
100,001	250,000	61	9,805,174
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	11	26,087
Net Re	ecovery	7	(13,991,621)*
			\$2,146,788,274 <sup>†</sup>

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

<sup>+</sup> Consists of advances for accounts of customers (\$1,023,588,105) and for administration expenses (\$1,123,200,169).

## MEMBERSHIP AND THE SIPC FUND

The net decrease of 184 members during the year brought the total membership to 4,180 at December 31, 2013. Table 2 shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

#### Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).<sup>1</sup> As of December 31, 2013, there were 40 members who were subjects of uncured notices, 24 of which were mailed during 2013, seven during 2012, five during 2010, three in 2009 and 2008 and one in 2003. Subsequent filings and payments by three members left 37 notices uncured. SIPC has been advised by the SEC staff that: (a) 14 are no longer engaged in the securities business and are under review by

TABLE 2

### SIPC Membership

Year Ended December 31, 2013

Agents for Collection of SIPC Assessments	Total	Added <sup>(a)</sup>	Terminated <sup>(a)</sup>
FINRA <sup>(b)</sup>	3,977	95	179
SIPC <sup>(c)</sup>	31		77
Chicago Board Options Exchange Incorporated	105	4	20
NYSE MKT LLC <sup>(g)</sup>	19		1
NYSE Arca, Inc. <sup>(e)</sup>	14		1
NASDAQ OMX PHLX <sup>(f)</sup>	17	2	2
Chicago Stock Exchange, Incorporated	17	_	5
	4,180	101	285

Notes:

(a) The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2013.

(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 SEC0 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)

# the Commission for possible revocation and (b) 23 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 \$1.90 billion at year end, an increase of \$301 million during 2013.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2013. The 2013 member assessments were \$417.7 million and interest from investments was \$38.7 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 2013) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2013.

<sup>1 14(</sup>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 3

SIPC Revenues for the Forty-Three Years Ended December 31, 2013

- Member assessments and contributions: \$2,705,234,874
- Interest on U.S. Government securities: \$1,691,550,842



#### History of Member Assessments\*

1971:  $\frac{1}{2}$  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, 2013: .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-Three Years Ended December 31, 2013

- Customer protection proceedings: \$3,083,988,274 (Includes net advances of \$2,146,788,274 and \$948,000,000 of estimated costs to complete proceedings less estimated future recoveries of \$10,800,000.)
- Other expenses: \$267,325,362



### In 2013, SIPC and trustees under the Securities Investor Protection Act ("SIPA") were actively involved in litigation at the trial and appellate levels. The more noteworthy matters are summarized below:

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

The District Court in *In re Madoff Securities,* 490 B.R. 46 (S.D.N.Y. 2013), declined to withdraw the reference to the Bankruptcy Court of more than three hundred actions filed by the Trustee seeking to avoid fraudulent or preferential transfers made by BLMIS. Although the Bankruptcy Court could not enter final judgment in avoidance actions because the actions involved "private rights," it could hear the matters and recommend proposed findings of fact and conclusions of law. In the view of the District Court, considerations of efficiency and uniformity warranted such review by the Bankruptcy Court.

In Picard v. Fairfield Greenwich Limited, 486 B.R. 579 (S.D.N.Y. 2013), the District Court granted a motion by class action plaintiffs to withdraw the bankruptcy reference with respect to the Trustee's application which sought 1) enforcement of the automatic stay, 2) a declaration that the class action was void *ab initio*, and 3) a preliminary injunction enjoining a proposed settlement between the class action plaintiffs and Fairfield Greenwich Limited and associated defendants ("Fairfield Defendants"). The Trustee argued that the injunction was needed because the money that would be used to pay the settlement was property of the BLMIS estate. The Court held that mandatory withdrawal of the reference was required because a determination of the nature of the class action's claims involved a significant interpretation of federal law outside of the Bankruptcy Code.

Subsequently, the District Court in *Picard v. Fairfield Greenwich Limited*, 490 B.R. 59 (S.D.N.Y. 2013), denied the Trustee's stay application. The Court held that the claims asserted in the class action were separate and distinct from the Trustee's claims and thus were not property of BLMIS, that the claims were independent of the BLMIS estate, and that they did not interfere with the Trustee's administration of the BLMIS estate or violate the automatic stay or various stay orders. The District Court also held the Trustee's application for an injunction to be barred by laches. The Trustee appealed the decision. (2d Cir., No. 13-1289).

In In re Madoff Securities, 2013 WL 1609154 (S.D.N.Y. Apr. 15, 2013), the District Court denied motions to dismiss of certain defendants claiming the protections of Bankruptcy Code § 546(e), which provides a safe harbor from avoidance for certain transfers made in connection with a securities contract. The District Court held that while § 546(e) generally applies to the Trustee's avoidance and recovery actions, it has no application where the transferees have actual knowledge of the fraud. The Court found that the Trustee had sufficiently alleged that the defendants had actual knowledge of the Ponzi scheme and that no actual securities transactions were being conducted.

In *Kruse v. SIPC*, 708 F.3d 422 (2d Cir. 2013), the Second Circuit upheld the lower courts' affirmance of the Trustee's denial of appellants' "customer" claims against BLMIS. The Circuit Court held that appellants were investors who had purchased ownership interests in hedge funds (feeder funds). The hedge funds, and not the investors, had used the funds to open accounts with BLMIS. The Court concluded that appellants did not qualify as customers of BLMIS because they had no direct financial relationship with BLMIS, had no property interest in assets the feeder

funds invested, had no securities accounts with BLMIS, lacked control over the investments, and were not identified in the debtor's books and records. Thus, the claimants never entrusted cash or securities to BLMIS for the purpose of trading securities, the critical aspect of the customer definition.

The District Court withdrew the reference to the Bankruptcy Court in Picard v. Schneiderman, 492 B.R. 133 (S.D.N.Y. 2013). The Trustee had filed a stay action and sought injunctive relief on the ground that state court actions filed by the New York Attorney General and certain BLMIS feeder fund receivers, and the subsequent settlement of those actions, violated the automatic stay. The Trustee alleged that the funds to pay the \$410 million settlement resulted from fraudulent transfers the Trustee was seeking to recover in his avoidance action against the managers of several of the feeder funds. The District Court withdrew the reference finding that there were several issues requiring "substantial and material consideration of non-bankruptcy federal law."

Following removal, the District Court in *Picard v. Schneiderman*, 491 B.R. 27 (S.D.N.Y. 2013), denied the Trustee's motion and dismissed the Trustee's stay action. The District Court held that the Trustee failed to demonstrate that any BLMIS property was at risk and that the state court actions involved independent claims against a non-debtor; thus, application of the automatic stay was unwarranted. Moreover, the Court held that the equitable doctrine of laches barred the Trustee's motion as his asserted delay in bringing the stay action had prejudiced the defendants. The Trustee and SIPC appealed the decision. (2d Cir., No. 13-1785).

In *Picard v. JPMorgan Chase*, 721 F.3d 54 (2d Cir. 2013), the Court of Appeals affirmed

# LITIGATION *continued*



the District Court's rulings that the Trustee's common law claims were barred by the doctrine of in pari delicto and that the Trustee lacked standing to pursue claims that the Court concluded belonged to BLMIS's customers. The Trustee had sued various financial institutions asserting that they aided and abetted the BLMIS fraud by collecting steep fees while ignoring blatant warning signs. The Circuit Court held that the Trustee, standing in the shoes of the debtor, could not assert claims against third parties for participating in the fraud. The Court rejected the Trustee's theories that he had standing as the bailee of BLMIS customers' property and as the enforcer of SIPC's subrogation rights. Petitions for issuance of a writ of certiorari have been filed. (S. Ct., No. 13-448).

The District Court in Picard v. Access Management Luxembourg, 2013 WL 4077586 (S.D.N.Y. Aug. 2, 2013), granted in part, and denied in part, a motion to withdraw the reference to the Bankruptcy Court. The Trustee commenced an action seeking an injunction prohibiting foreign defendants from naming the Trustee as a third-party defendant, as well as a declaration that the third-party writ was void ab initio. The Court found that the threshold issue of determining personal jurisdiction over the defendants was "well within the ken of the Bankruptcy Court" and declined to withdraw the reference on this issue. However, the Court also found that determining whether the Bankruptcy Court could properly issue an injunction against the court of a foreign sovereign required substantial and material consideration of non-bankruptcy federal law making withdrawal of the reference mandatory if the matter later survived the challenge to personal jurisdiction.

In United Congregations Mesora v. Picard, 2013 WL 4778163 (S.D.N.Y. Sept. 6, 2013), the District Court affirmed the Bankruptcy Court's order denying intervention in Bankruptcy Court proceedings dealing with the resolution of "customer" claims under SIPA. The Appellants were defendants in avoidance actions brought by the Trustee to recover payments by BLMIS and were not BLMIS customers with claims. Nevertheless, the Appellants sought to intervene in the Bankruptcy Court proceeding regarding the calculation of customers' "net equity." The District Court held that the Bankruptcy Court did not abuse its discretion and that the Appellants did not have a constitutional right to be heard regarding the net equity issue.

In a matter of first impression, the Bankruptcy Court in In re Bernard L. Madoff Investment Securities LLC, 496 B.R. 744 (Bankr. S.D.N.Y. 2013), granted the Trustee's motion for an order affirming his calculation of net equity and finding that net equity did not include interest, time value of money, or inflation adjustments. Customer claimants challenged the Trustee's methodology of calculating net equity, contending they were entitled to pre-judgment interest or inflationbased payments based on the economic concept that the value of a dollar changes over time. In approving the Trustee's methodology, the Court first determined that the SEC's position that the calculation of net equity under SIPA allowed for a constant dollar adjustment was not entitled to deference. The Court held that the plain language of SIPA, especially its silence as to interest, inflation or other timebased damages, supported the Trustee's unadjusted net investment method and that the exclusion of time-based damages was more in line with SIPA's primary purpose of promoting investor confidence and returning customer accounts in the form they existed on the filing date. The Court found that Second Circuit precedent in a non-SIPA Ponzi scheme case also supported the Trustee's methodology. Finally, the Court concluded that the claimants, in seeking time-based adjustments, were actually seeking damages stemming from Madoff's wrongdoings, which are not

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

protected by SIPA. The Court concluded that only Congress had the power to enact a law to include time-based damages in the calculation of net equity.

The District Court in *A* & *G* Goldman Partnership v. Picard, 2013 WL 5511027 (S.D.N.Y. Sept. 30, 2013), affirmed the Bankruptcy Court's order denying appellants' motion for declaratory relief that commencement of proposed class actions against the estate of Jeffry Picower and related defendants ("Picower Defendants") would not violate the automatic stay or an order by the Bankruptcy Court enjoining claims that were derivative or duplicative of the Trustee's. The Court held that because the Appellants' claims derived from the Trustee's already-settled claims, they violated the Bankruptcy Court's injunction.

The District Court in *In re Madoff Securities*, 499 B.R. 416 (S.D.N.Y. 2013), denied defendants' motions to dismiss avoidance actions filed by the Trustee against BLMIS investors who withdrew more than they invested. The defendants sought to retain their excess withdrawals as satisfaction of an antecedent debt of the debtor. The defendants argued that they were entitled to retain transfers in excess of initial investments to the extent that the transfers compensated them for claims against BLMIS. The Court, in rejecting this argument, found that SIPA created a separate customer property estate with distributions according to each customer's netequity claim. To the extent the defendants had claims for the satisfaction of an antecedent debt, the claims would be for damages against the general estate and could not be the basis for the retention of customer property. The Court also affirmed that the Trustee's Net Investment Method was the appropriate method to calculate a defendant's fraudulenttransfer liability.

In *In re Madoff Securities*, 2013 WL 6301415 (S.D.N.Y. Dec. 6, 2013), the District Court granted, in part, and denied, in part, a motion to dismiss a suit by the

Trustee as an assignee of customers' common law claims against various feeder fund defendants. The defendants argued that the Trustee lacked standing to assert the common law claims which they maintained were precluded by the Securities Litigation Uniform Standards Act of 1998 ("SLUSA"). The District Court held that the Trustee had standing to bring claims as an assignee of customers' common law claims, but concluded that the Trustee was aggregating claims of more than fifty assignors, and such an aggregation of claims was a covered class action precluded by SLUSA. The Court also dismissed for lack of standing the Trustee's unjust enrichment claims brought against the wives of Madoff's two sons finding that the "insider exception" to the doctrine of in pari delicto did not apply because the wives were not corporate insiders of BLMIS.

In *In re Madoff Securities*, 505 B.R. 135 (S.D.N.Y. 2013), the District Court granted in part, and denied in part, defendants'

# LITIGATION *continued*

motions to dismiss avoidance of transfers related to swap agreements to which the investment fund defendants were parties. The defendants relied on Bankruptcy Code § 546(g)'s safe harbor provision for protecting transfers made in connection with a swap agreement. The transfers consisted of either redemption payments-withdrawals of funds from BLMIS customer accounts that were based on the defendants' requests for redemptions occasioned by reductions in the collateral underlying the swap transactionsor collateral payments-initial withdrawals of funds from BLMIS customer accounts that were subsequently used to provide collateral. The District Court granted the motion to dismiss with respect to redemption payments, finding that they were subject to the § 546(g) safe harbor, but denied the motion with respect to collateral payments.

Litigation in the liquidation of Lehman Brothers Inc. and of MF Global Inc. also resulted in significant decisions:

In In re Lehman Brothers Inc., 492 B.R. 379 (Bankr. S.D.N.Y. 2013), the Bankruptcy Court affirmed the Trustee's determination that claims relating to repurchase agreements were not entitled to protection as "customer" claims under SIPA. The Bankruptcy Court found that on the filing date the claimants' accounts with the debtor held no property, and the debtor had no obligation to, and did not, hold repo-related securities in such accounts. The Court agreed with the Trustee that cash or securities must be entrusted with the debtor to qualify for customer protection under SIPA, and that the debtor's contractual duty to deliver securities pursuant to repurchase agreements did not equal possession by the debtor.

Subsequently, in *CarVal Investors UK Ltd. v. Giddens (In re Lehman Brothers Inc.)*, 2013 WL 5272937 (S.D.N.Y. Sept. 18, 2013), the District Court denied a motion filed by appellants seeking certification to appeal directly to the United States

Court of Appeals for the Second Circuit a Bankruptcy Court order denying them customer status with respect to various repurchase transactions. The District Court held that none of the grounds for direct appeal of the "customer" issue were present. The Court found that the Second Circuit had addressed the criteria for customer status several times and that a controlling decision therefore existed; that any contradictions identified by the appellants would benefit from the District Court's examination through the normal appeal process; and that the appellants had failed to explain how an immediate appeal would impact the public at large. Thus, in the Court's view, an immediate appeal would not materially advance the case.

In *In re Lehman Brothers Inc.*, 493 B.R. 437 (Bankr. S.D.N.Y. 2013), the Bankruptcy Court granted the Trustee's motion seeking an order disallowing and expunging claims filed after the six-month claims bar date. Agreeing with SIPC and the Trustee, the Court held that the six-month time limit for filing claims in SIPA was inflexible, and that the limited circumstances under which the Court could grant relief from the deadline were not present.

In *In re MF Global Inc.*, 491 B.R. 355 (Bankr. S.D.N.Y 2013), the Bankruptcy Court upheld the Trustee's determination of eight claims. The Court agreed with the Trustee that the claims properly were denied on the grounds that two of the claimants had commodities, and not securities, accounts, that four of the claimants had failed to prove that they had accounts with the debtor, and that the claims of the final two claimants were based on broker misconduct and were not "customer" protected claims.

The Bankruptcy Court in *In re MF Global Inc.*, 492 B.R. 407 (Bankr. S.D.N.Y. 2013), affirmed the Trustee's determination that claims arising out of to-be-announced ("TBA") contracts were not entitled to protection as "customer" claims. The Court agreed with the Trustee that TBA contracts bilateral agreements to buy or sell "to be announced" Agency Mortgage Backed Securities at a future date—were not securities under SIPA. The Court found that the claimant had not entrusted property to the debtor and was instead asserting a claim for damages based on a breach of contract. Thus, its claim was not entitled to customer status under SIPA and should instead be reclassified as a general creditor claim.

In PricewaterhouseCoopers LLP v. Giddens (In re MF Global Inc.), 496 B.R. 315 (S.D.N.Y. 2013), the District Court affirmed the Bankruptcy Court's order granting the Trustee's motion to assign his claims against former directors, officers and employees of the debtor and its holding company, in addition to his claims against PricewaterhouseCoopers, the debtor's former independent auditor, to class action plaintiffs. The auditor appealed, arguing that because its engagement letter with debtor included an anti-assignment provision, the Trustee's malpractice and breach of fiduciary duty claims were not assignable. The District Court held that the anti-assignment clause applied only to breach of contract claims and not the assigned tort claims, which arose from the auditor's independent legal duty.

In *In re MF Global Inc.*, 2013 WL 5232578 (Bankr. S.D.N.Y. Sept. 17, 2013), the Bankruptcy Court denied a motion filed by a customer seeking to recover from the estate the difference in value of shares on the filing date and on the date the shares were transferred to the customer in satisfaction of his claim. The Court held that SIPA and case law make clear that a customer's net equity and the value of distributed securities are calculated as of the filing date. Because the customer received the full contents of his account, his claim was satisfied in full and he was not entitled to any additional distribution for market losses.

## DISCIPLINARY AND CRIMINAL <u>ACTIONS</u>

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 328 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 287 of the 328 SIPC customer protection proceedings initiated through December 31, 2013, 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	56
Criminal and Administrative Actions	103
Criminal Actions Only	27
Total	287

In the 260 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension <sup>1</sup>	117	114
Bar from Association	353	234
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 2013 SIPC received two new referrals under Section 5(a). Westor Capital Group, Inc. and TWS Financial, LLC both became SIPC proceedings in 2013.

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

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

# O Grant Thornton

#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors Securities Investor Protection Corporation

#### Report on the financial statements

We have audited the accompanying financial statements of Securities Investor Protection Corporation (SIPC), which comprise the statement of financial position as of December 31, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements on pages 19 through 28.

#### 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 audits. We conducted our audits 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 SIPC'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 SIPC'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, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gener Wardon LLP

McLean, Virginia April 14, 2014

Grant Thornton LLP U.S. member firm of Grant Thornton International Ltd

# Statement of Financial Position as of December 31, 2013

#### ASSETS Cash

Cash	\$ 26,451,867
U.S. Government securities, at fair value and accrued interest receivable of (\$12,220,439); (amortized cost \$1,810,159,294) (Note 6)	1,873,728,226
Estimated member assessments receivable (Note 3)	199,835,478
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$1,622,460,474) (Note 4)	10,800,000
Prepaid benefit costs (Note 8)	8,399,724
Assets held for deferred compensation plan (Note 8)	799,866
Other (Note 5 and Note 9)	1,743,977
	\$2,121,759,138
LIABILITIES AND NET ASSETS Advances to trustees—in process (Note 4)	\$ 3,213,934
Accrued benefit costs (Note 8)	4,484,549
Amount due on deferred compensation plan (Note 8)	799,866
Accounts payable and other accrued expenses	1,053,398
Deferred rent (Note 5)	168,843
Estimated costs to complete customer protection proceedings in progress (Note 4)	948,000,000
Member assessments received in advance (Note 3)	1,409,512
	959,130,102
Net assets	1,162,629,036
	\$2,121,759,138

The accompanying notes are an integral part of these statements.

## SECURITIES INVESTOR PROTECTION CORPORATION *continued*

## Statement of Activities

for the year ended December 31, 2013

Revenues:	
Member assessments (Note 3)	\$ 417,721,699
Interest on U.S. Government securities	38,738,942
	456,460,641
Expenses:	
Salaries and employee benefits (Note 8)	10,146,315
Legal and accounting fees (Note 4)	1,057,949
Rent (Note 5)	758,128
Other	3,635,525
	15,597,917
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	24,649,891
	40,247,808
Total net revenue	416,212,833
Realized and unrealized loss on U.S. Government securities (Note 6)	(52,663,109)
Pension and postretirement benefit changes other than net periodic costs (Note 8)	14,850,300
Increase in net assets	378,400,024
Net assets, beginning of year	784,229,012
Net assets, end of year	\$1,162,629,036

#### Statement of Cash Flows for the year ended December 31, 2013

Operating activities:	
Interest received from U.S. Government securities	\$ 44,724,749
Member assessments received	414,639,011
Advances paid to trustees	(215,088,568)
Recoveries of advances	128,352,611
Salaries and other operating activities expenses paid	(13,264,434)
Net cash provided by operating activities	359,363,369
Investing activities:	
Proceeds from sales of U.S. Government securities	291,286,670
Purchases of U.S. Government securities	(655,740,147)
Purchases of furniture and equipment	(139,615)
Net cash used in investing activities	(364,593,092)
Decrease in cash	(5,229,723)
Cash, beginning of year	31,681,590
Cash, end of year	\$ 26,451,867

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 \$1,900,180,093.

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 onehalf 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 2013 but not received until 2014.

#### 4. Customer protection proceedings

SIPC commenced a liquidation of Lehman Brothers Inc. (LBI) on September 19, 2008. As of December 31, 2013, the estate had received 124,248 customer claims. 110,920 of these claims, totaling \$92.3 billion and including nearly all of LBI's former "retail" customers, received 100 percent recoveries through account transfers within days of the commencement of the liquidation. Distributions to all other allowed customer claimants are expected to result in 100 percent satisfaction of all allowed customer claims. As of December 31, 2013, the Trustee had distributed \$11.25 billion to these customers.

In June 2013, the Trustee repaid in full all SIPC advances.

## SECURITIES INVESTOR PROTECTION CORPORATION *continued*

In the Bernard L. Madoff Investment Securities LLC proceeding, the trustee, utilizing the customer records available from the computer files of the firm identified those accounts believed to be valid customers. In accordance with section 78III (2) of SIPA. the definition of a "customer" includes a "person who 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 \$2.6 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.

SIPC commenced a liquidation of MF Global Inc. on October 31, 2011. As of

December 31, 2013, the estate had received 428 customer claims under SIPA; the total allowed value of securities claims and related settlements is approximately \$376 million. MF Global Inc. also operated as a Futures Commission Merchant (FCM). Claims for FCM property are separate from the abovereferenced securities claims.

In 2013, the Trustee repaid all SIPC advances and estimates that no funds would be required from SIPC for customers or administrative expenses.

SIPC has advanced a net of \$1.63 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$1.62 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, 2013 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$113,000,000	\$1,115,500,000
Add:		
Provision for current year recoveries	15,400,000	
Provision for estimated future recoveries	10,800,000	
Provision for estimated costs to complete proceedings	—	50,700,000
Less:		
Recoveries	128,400,000	_
Advances to trustees	_	218,200,000
Balance, end of year	\$ 10,800,000	\$ 948,000,000

#### 5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2014 - \$610,905; 2015 - \$417,490; for a total of \$1,028,395, as of December 31, 2013. 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, 2013 the unamortized balances are \$6,925 and \$57,553 respectively, see Note 9.

On December 27, 2012, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new seven-year lease commenced August 1, 2013. Future minimum rentals for the space, expiring on July 31, 2020, are as follows: 2014 - \$141,220; 2015 - \$145,103; 2016 - \$149,094; 2017 -\$153,194; 2018 - \$157,407; 2019 - thereafter \$257,577; for a total of \$1,003,595 as of December 31, 2013. 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



## SECURITIES INVESTOR PROTECTION CORPORATION *continued*

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, 2013. 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, 2013 all securities held within the portfolio are priced using level 2 input.

U.S. Government securities as of December 31, 2013, included cummulative gross unrealized gains of \$64,992,498 and cummulative gross unrealized losses of \$1,423,566.

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

Increase in net assets	\$378,400,024
Net decrease in estimated cost to complete customer protection proceedings	(167,500,000)
Net decrease in estimated recoveries of advances to trustees	102,200,000
Realized and unrealized loss on U.S. Government securities	52,663,109
Increase in prepaid expenses	(8,570,693)
Net amortized premium on U.S. Government securities	6,903,720
Increase in estimated assessment receivable	(2,462,200)
Increase in payables and accrued expenses	(1,429,073)
Increase in accrued interest receivable on U.S. Government securities	(917,915)
Depreciation and amortization	772,156
Decrease in member assessments received in advance	(620,488)
Decrease in deferred rent	(76,116)
Loss on disposal of assets	845
Net cash provided by operating activities	\$359,363,369

#### 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 \$799,866 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	\$ 40,854,748	\$ 5,530,450
Service cost	1,207,812	205,844
Interest cost	1,602,354	229,270
Plan participants' contributions	—	25,442
Amendments	—	(48,294)
Actuarial gain	(7,972,689)	(1,346,954)
Benefits paid	(1,085,350)	(111,209)
Benefit obligation at end of year	\$ 34,606,875	\$ 4,484,549
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 36,830,881	\$ —
Actual return on plan assets	7,261,068	—
Employer contributions prior to measurement date	—	—
Employer contributions	—	85,767
Plan participants' contributions	—	25,442
Benefits paid	(1,085,350)	(111,209)
Fair value of plan assets at end of year	\$ 43,006,599	\$ —
Funded status	\$ 8,399,724	\$(4,484,549)
Employer contributions between measurement and statement date		
Funded status at year end	\$ 8,399,724	\$(4,484,549)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Net amount recognized in the Statement of Financial Position	\$ 8,399,724	\$(4,484,549)
Other Amounts Recognized within the Statement of Activities consist of:		
Net actuarial gain	\$ (13,711,966)	\$(1,447,440)
Prior service (credit) cost	(37,292)	346,397
Pension and postretirement benefit changes other than net periodic benefit costs	\$(13,749,258)	\$(1,101,043)
Accumulated Benefit Obligation end of year	\$ 32,837,681	\$ 4,484,549

## SECURITIES INVESTOR PROTECTION CORPORATION *continued*

	Pensio	on Benefits	Other Postretirement Benefits
Weighted-average Assumptions for Disclosure as of December 31, 2013			
Discount rate		4.80%	4.90%
Salary scale (2014/2015 and after)	2.00	%/2.50%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65		N/A	8.65%/6.50%
Health Care Cost Trend: Ultimate		N/A	5.00%
Year Ultimate Reached		N/A	2022
Components of Net Periodic Benefit Cost and Other Amounts Recognized within the St	atement of Activi	ties	
Net periodic benefit cost			
Service cost	\$ 1	,207,812	\$ 205,844
Interest cost	1	,602,354	229,270
Expected return on plan assets	(2	2,703,122)	
Recognized prior service cost (credit)		37,292	(394,691)
Recognized actuarial loss	1	,181,331	100,486
Net periodic benefit cost	1	,325,667	140,909
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statemer	t of Activities		
Net actuarial gain	(12	2,530,634)	(1,346,954)
Recognized actuarial loss	(1	,181,331)	(100,486)
Prior service cost		_	(48,294)
Recognized prior service (cost) credit		(37,292)	394,691
Total recognized within the Statement of Activities	(13,	749,257)	(1,101,043)
Total recognized in net benefit cost and within the Statement of Activities	\$(12,	423,590)	\$ (960,134)
Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year			
Prior service cost (credit) recognition		37,292	(398,660)
Total	\$	37,292	\$ (398,660)
Effect of a 1% Increase in Trend on:			
Benefit Obligation		N/A	\$ 724,136
Total Service Interest Cost		N/A	\$ 94,311
Effect of a 1% Decrease in Trend on:			
Benefit Obligation		N/A	\$ (584,231)
Total Service Interest Cost		N/A	\$ (72,476)
Weighted-average Assumptions for Net Periodic Cost as of December 31, 2013			
Discount rate		4.00%	4.20%
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%/6.50%
Health Care Cost Trend: Ultimate		N/A	4.50%
Year Ultimate Reached		N/A	2021

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 2013, the unrecognized net loss decreased by 33.56% of the 12/31/2012 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 highquality 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 2013 by (\$572,000)/\$614,000 and (decreased)/ increased the year-end projected benefit obligation by (\$4.2)/\$4.9 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	\$23,101,370
Non-U.S. large and multi-cap mutual funds	5,564,798
Total Equity	28,666,168
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	14,340,431
Total Fixed Income	14,340,431
Total	\$43,006,599

#### 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 2013 by \$361,000.

#### 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 12/31/2013
Equity securities	9.30%	60–70%	65%
Debt securities	4.20%	40–30%	35%
Total	7.50%	100%	100%

## SECURITIES INVESTOR PROTECTION CORPORATION *continued*

### Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2014	\$ 1,163,905	\$ 86,700
2015	\$ 1,438,531	\$ 117,300
2016	\$ 1,627,197	\$ 139,000
2017	\$ 1,932,825	\$ 162,700
2018	\$ 2,032,977	\$ 181,500
2019–2023	\$11,844,041	\$ 1,288,300

#### Contributions

The company expects to make no contributions to the pension plan in 2014 for the 2013 plan year and \$86,700 to the postretirement benefit plan during 2014.

#### Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation)

\$ 208,082

#### 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 as of December 31, 2013 are \$1,584,455 (net of \$2,797,469 accumulated depreciation) and \$71,708 (net of \$508,560 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, 2013 financial statements for subsequent events through April 14, 2014, 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.

## TABLE 5

SIPC Fund Comparison Inception to December 31, 2013



## APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Forty-Three Years Ended December 31, 2013 (In Thousands of Dollars)

	From Debtor's Estates		From SIPC		
	As Reported by Trustees	Advances*	Recoveries*	Net	- Total
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
1993 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
2000	10,110,355	200,967	(87,538)	113,429	10,223,784
2001 2002	606,593	40,785	(5,812)	34,973	641,566
2002	(643,242)△	22,729		18,304	
		(11,662)^	(4,425)		(624,938
2004	209,025		(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
2013	12,411,307	8,646	(118,084)	(109,438)	12,301,869
	\$132,025,433	\$1,494,560	\$(470,972)	\$1,023,588	\$133,049,021

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

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

<sup>A</sup> 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.

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

### APPENDIX 2 ANALYSIS OF SIPC REVENUES AND EXPENSES for the Five Years Ended December 31, 2013

2011 2010 2013 2012 2009 Revenues: \$417,721,699 \$412,305,529 \$382,800,000 \$409,200,016 \$346,299,978 Member assessments and contributions 38,577,719 39,995,610 39,412,362 38,160,886 56,636,031 Interest on U.S. Government securities 161,223 149,872 420,086 170,336 304,378 Interest on assessments 447,531,238 456,460,641 452,451,011 422,632,448 403,240,387 Expenses: 8,254,272 8,259,757 9,993,350 Salaries and employee benefits 10,146,315 9,171,655 953,722 104,227 1,536,663 813,634 346,375 56,255 Legal fees 109,600 295,049 331,901 521,581 Accounting fees 83,330 907,501 Credit agreement commitment fee 863,160 741,567 842,302 Professional fees-other 309,931 212,141 Other: Assessment collection cost 18,788 19,390 17,735 29,679 20,848 Depreciation and amortization 772,156 727,440 608,873 273,758 112,345 39,275 42,470 70,379 Directors' fees and expenses 46,281 38,907 Insurance 36,324 30,710 38,305 35,529 31,245 342,766 Investor education 332,318 179,368 200,303 247,317 Office supplies and expense 154.917 200,347 184,497 164,894 91,027 860,990 EDP and internet expenses\* 1,446,889 1,937,200 1,515,375 622,937 Postage 12,520 12,557 9,350 10,154 13.164 Printing & mailing annual report 37,471 37,636 38,153 38,443 39,625 Publications and reference services 180,428 179,340 165,018 156,760 175,277 Rent-office space 758,128 738,916 751,955 747,231 720,442 Telephone 108,704 104,201 71,229 113,849 103,141 155,444 223,391 271,242 Travel and subsistence 149,809 164,691 Personnel recruitment 152,400 46,000 10,000 47,218 59,684 39,645 74,236 23,924 Miscellaneous 3,530,493 4,069,666 4,304,508 3,807,897 2,520,394 15,597,917 16,450,846 15,427,148 13,133,706 12,477,629 Customer protection proceedings: Net advances to (recoveries from): Trustees other than SIPC: Securities (106,909,317) 19,231,225 30,396,107 212,738,676 547,280,342 (1,651,432) Cash (3,514,070)2,289,553 213,380 (5,100,190)212,952,056 (110,423,387) 17,579,793 32,685,660 542,180,152 198,575,637 209,774,526 207,826,006 177,227,833 135,564,649 Administration expenses 88,152,250 240,511,666 390,179,889 227,354,319 677,744,801 Net change in estimated future recoveries 102,200,000 (111,300,000) (1,700,000)1,900,000 (100,000)238,811,666 190,352,250 116,054,319 392,079,889 677,644,801 SIPC as Trustee: 669,354 (4,921) (205,638) 1,468,579 Securities (1,689)(10,402) (580,770) 211,774 91,407 (24,211) Cash 881,128 (15,323) (114,231) (25,900)887,809 Administration expenses 800,084 5,283 24,427 (8,586) 172,689 1,681,212 (10,040)(89,804) (34,486) 1,060,498 Direct payments: Securities Cash 103,714 12,584 103,714 12,715 12,584 21,301 Administration expenses 116,429 33,885 Net change in estimated cost to complete proceedings (167,500,000) (192,300,000) 36,800,000 314,100,000 (468,700,000) (76,255,721) 24,649,891 275,555,747 706,145,403 210,005,299 40.247.808 (59.804.875) 290,982,895 719,279,109 222,482,928 Total net revenues (expenses) 416,212,833 512,255,886 131,649,553 (271,747,871) 180,757,459 Realized and unrealized (loss) gain (52,663,109) (14,309,673) 57,481,554 32,321,095 (102,463,159) on U.S. Government securities Pension and postretirement benefit changes other than net periodic benefit costs 14 850 300 390 854 (280, 274)2.538.599 (7.777.611)\$(239,707,050) Increase (decrease) in net assets \$378,400,024 \$498,337,067 \$181,353,496 \$ 80,832,899

\*2009–2011 have been reclassified to combine Imaging expense with EDP and internet expenses

### 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 <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
North American Clearing Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,699	3,000
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	905,000	124,248	111,695
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	28,710	29,743
Take Charge Financial, Inc. Los Gatos, CA (Direct Payment)	09/20/85		01/08/13^	156	31	26
Westor Capital Group, Inc. New York, NY (SIPC)	09/27/00	04/16/13	04/16/13	499	139	74
TWS Financial, LLC Brooklyn, NY (SIPC)	03/09/04	05/31/13	05/31/13	2,272	66	
TOTAL 7 MEMBERS: PART A				1,034,183	171,412	147,210

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

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

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

^ Date Notice Published

December 31, 2013

		stribution of Assets Held by Debtor <sup>(c)</sup>				SIPC Advances		
	Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$	283,424,813	\$ 281,239,290#	\$ 2,185,523	\$ 12,707,790	\$ 11,107,790			\$1,600,000
10	6,613,461,059	105,556,597,390	1,056,863,669					
	4,800,131,282	4,776,863,247	23,268,035	1,618,851,504	913,482,538		\$705,368,966	
	6,033,461,099	5,765,657,947^	267,803,152					
				116,429	12,715			103,71
	3,728,387	3,728,387		579,319	372,530			206,78
				375,736	375,736			
\$11	7.734.206.640	\$116,384,086,261	\$1,350,120,379	\$1,632,630,778	\$925,351,309		\$705,368,966	\$1,910,50

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS *continued*

### 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 <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions	
Hudson Valley Capital Management Croton-on-Hudson, NY (SIPC)	05/12/89	12/17/12	12/17/12	347	27	4	
TOTAL 2 MEMBERS: PART B				347	27	4	

December 31, 2013

	stribution of Assets Held by Debtor <sup>(c)</sup>				SIPC Advances		
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			\$746,125	\$50,000		\$675,222	\$20,903
			\$746,125	\$50,000		\$675,222	\$20,903

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS *continued*

### PART C: Proceedings Completed in 2013

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Continental Capital Investment Services, Inc. and Continental Capital Securities, Inc. Sylvania, OH (Thomas S. Zaremba, Esq.)	10/09/59	08/25/03	09/29/03	19,660	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 2013				21,043	437	107
TOTAL 318 MEMBERS 1973-2012(d)				2,155,371	446,719	625,149
TOTAL 320 MEMBERS 1973-2013				2,176,414	447,156	625,256

December 31, 2013

Distribution of Assets Held by Debtor <sup>(c)</sup>						SIPC Advances										
	For Accounts Administration Total Total of Customers Expenses Advanced				Administration Expenses		Contractual Commitments		Securities		Cash					
	\$	7,752,276	\$6	6,832,378	\$	919,898	\$	7,369,020	\$	7,369,020						
		2,081				2,081		886,200		70,041			\$	770,140	\$	46,019
		7,754,357	6	6,832,378		921,979		8,255,220		7,439,061				770,140		46,019
	15,	,958,076,576	15,634	1,514,309	32	3,562,267	50	05,156,150	1	90,359,799	\$1,388	3,427	18	32,337,970	13	1,069,954
	\$15,	,965,830,933	\$15,641	,346,687	\$32	24,484,246	,484,246 \$513,411,370 \$197,798,860 \$1,388,427 \$183,108,		\$183,108,110		10 \$131,115,973					

## APPENDIX 3 CUSTOMER PROTECTION PROCEEDINGS continued

#### PART D: Summary

	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
Part A: 7 Members — Customer Claims and Distributions Being Processed	1,034,183	171,412	147,210
Part B: 1 Members — Customer Claims Satisfied, Litigation Matters Pending	347	27	4
Sub-Total	1,034,530	171,439	147,214
Part C: 320 Members — Proceedings Completed	2,176,414	447,156	625,256
Total	3,210,944	618,395	772,470

Appendix 3 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 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, 2013

	tribution of Assets						
Total	Held by Debtor <sup>(c)</sup> For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	SIPC Advances Contractual Commitments	Securities	Cash
\$117,734,206,640	\$116,384,086,261	\$1,350,120,379	\$1,632,630,778	\$ 925,351,309		\$705,368,966	\$ 1,910,503
			746,125	50,000		675,222	20,903
117,734,206,640	116,384,086,261	1,350,120,379	1,633,376,903	925,401,309		706,044,188	1,931,406
15,965,830,933	15,641,346,687	324,484,246	513,411,370	197,798,860	\$1,388,427	183,108,110	131,115,973
\$133,700,037,573	\$132,025,432,948	\$1,674,604,625	\$2,146,788,273	\$1,123,200,169	\$1,388,427	\$889,152,298	\$133,047,379



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