

SECURITIES INVESTOR PROTECTION CORPORATION



SiPC

#### **Securities Investor Protection Corporation**

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April 29, 2016

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

Dear Chair White:

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

Step P. Hubeh

Stephen P. Harbeck President & CEO

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# MESSAGE FROM THE BOARD OF DIRECTORS

The Securities Investor Protection Corporation (SIPC) made substantial progress in each of its three major ongoing cases in 2015. Further, for the second consecutive year, SIPC was not called upon to initiate a new customer protection proceeding on behalf of investors in 2015.

### DEVELOPMENTS IN MAJOR EXISTING CASES

Lehman Brothers, Inc. is not only the largest brokerage firm failure in history; together with its parent company, it is the largest bankruptcy proceeding of any kind in history. Since the firm's failure in September 2008, the SIPA Trustee James Giddens has recovered assets for nearly all Lehman customers and creditors.

- > Every one of the more than 111,000 Lehman customers with approved claims has gotten the contents of their securities accounts back, totaling more than \$105 billion.
- Every secured and priority creditor has had their assets returned, exceeding \$250 million.
- More than 97% of general creditors have had their assets returned, totaling more than \$7,678,000,000 (or 35 cents on the dollar). Trustee Giddens continues to maintain court-approved reserves for all outstanding claims.

Bernard Madoff perpetrated the largest Ponzi Scheme in history. Seven years ago, when SIPC initiated a customer protection proceeding for **Bernard L. Madoff Investment Securities LLC**, that firm held only minimal assets for customers. Trustee Irving Picard has now amassed over \$11 billion. Every dollar of those recovered funds will go directly to Madoff customers. Each customer with an allowed net claim of up to \$1,163,000 has been fully satisfied as of the latest interim distribution. Customers who had investments over that amount will receive 57 percent of their allowed claims. We are optimistic that additional recoveries will be made for customers, as the Trustee continues to collect additional funds through settlements, and, where necessary, litigation. SIPC pays all of the considerable administrative expenses of the proceeding in order to maximize customers' recoveries.

**MF Global Inc.** failed in October 2011. The collapse of that firm presented unique challenges for SIPC, given that the firm held substantial assets on behalf of both securities and commodities clients. In terms of assets under administration, the failure of MF Global and its parent company is the eighth largest bankruptcy in history. Trustee James Giddens has wound down the firm with exceptional results.

- > Every securities customer has received all of the securities that were custodied at the brokerage.
- > All commodities claimants have been satisfied in full.
- > General Creditors have received 95 cents on the dollar.

The Trustee closed this case in February, 2016.

In each of these three proceedings, Lehman Brothers, Madoff, and MF Global, the results for investors have exceeded any reasonable expectations that existed when those firms failed. We believe that the SIPA statute has met the challenges posed by the 2008 financial crisis, demonstrating the effectiveness of its customer protection framework under exceptionally difficult circumstances.

### **OTHER CASES**

SIPC served as Trustee in the liquidation of Hudson Valley Capital Management beginning in 2012. SIPC initiated a Direct Payment Procedure for Take Charge Financial, Inc. in 2013. Both of those cases were closed in 2015. The use of SIPC personnel in a Trusteeship or Direct Payment Procedure streamlines the satisfaction of claims and permits a swift return of assets to customers in smaller brokerage firm failures.

### COOPERATION AND COORDINATION WITH REGULATORS THROUGH FBIIC

SIPC is a member of the Financial and Banking Information Infrastructure Committee ("FBIIC"). FBIIC consists of 18 member organizations from across the financial regulatory community, both federal and state. Through monthly meetings, staff from FBIIC member organizations work on operational and tactical issues related to critical infrastructure matters, including cybersecurity, within the financial services industry.

### **RELOCATION OF SIPC'S OFFICE**

In August 2015, SIPC moved its primary office for the first time in 28 years. The Corporation used this opportunity to update its physical and technical infrastructure to enhance efficiency, resiliency, and security, including the installation of dedicated work areas for those cases where SIPC serves as Trustee or uses the Direct Payment Procedure. The Board and staff believe these upgrades will help SIPC to better serve investors in 2016 and beyond.

# 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 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.

- \* 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;
- (iii) 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/ and 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.

See the Series 100 Rules Identifying Accounts of "Separate Customers" of SIPC members.

# **DIRECTORS** & OFFICERS

### DIRECTORS



Anthony D'Agostino Maven Medical CEO and Founder



Matthew J. Eichner Board of Governors of the Federal Reserve System Deputy Director, Division of Reserve Bank Operations and Payment Systems



William S. Jasien Stonehedge Global Partners President & CEO



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



Mark Kaufman United States Department of the Treasury Counselor to the Deputy Secretary

### COMMITTEE COMPOSITION

Audit and Budget Committee Matthew J. Eichner—Chair William S. Jasien

# OFFICERS

Stephen P. Harbeck President & CEO

Josephine Wang General Counsel & Secretary Compensation Committee Gregory S. Karawan—Chair Mark Kaufman

Investment Committee

Anthony D'Agostino—Chair Matthew J. Eichner

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

Karen L. Saperstein Vice President—Operations

# **CORPORATE** GOVERNANCE PRACTICES

### COMMITTEES

The Board of Directors oversees the management of SIPC's business and affairs, as well as its corporate governance, a continuing priority for SIPC. The Board's statutory composition is intended to provide confidence that SIPC is effectively overseen and well governed. To further this goal, the Board has delegated certain duties to three standing committees—the Audit and Budget Committee, the Investment Committee, and the Compensation Committee. SIPC's Bylaws provide that each Committee is comprised of a public director, an industry director, and a government director.

Committee	Purpose	Authority/Responsibilities
Audit & Budget Committee	<ul> <li>Provides oversight of the integrity of financial statements and financial reporting and the overall effectiveness of internal control environment</li> </ul>	<ul> <li>Selects the independent external auditor to examine accounts, controls, and financial statements</li> </ul>
	<ul> <li>Oversees compliance with applicable legal and regulatory requirements and the independence, qualifications, and performance of the external auditor</li> </ul>	<ul> <li>Monitors independence and performance of external auditors</li> </ul>
	<ul> <li>Ensures adequate management controls to minimize</li> </ul>	Reviews financial statements and financial disclosures
	the financial risks to which the SIPC Fund is exposed	<ul> <li>Reviews the proposed budget relative to annual goals and objectives, and recommends final budget to Board</li> </ul>
		Reviews systems of internal control
		Reviews federal tax return
Investment Committee	Assists the Board in formulating investment policies	<ul> <li>Establishes, reviews, and updates the investment policy for approval by the Board</li> </ul>
	<ul> <li>Oversees management of the SIPC Fund and compliance with the Securities Investor Protection Act provisions relating to SIPC Fund investments</li> </ul>	<ul> <li>Oversees the adoption of appropriate risk management policies and procedures to manage, to the extent</li> </ul>
	<ul> <li>Ensures adequate controls to minimize the investment risks to which the SIPC Fund is exposed</li> </ul>	possible, market, liquidity, credit, and other investment and asset management risks
		• Ensures that investments are made only in United States Government or agency securities as statutorily required
		<ul> <li>Reviews overall investment performance, asset allocation, and expenses</li> </ul>
		<ul> <li>Reports on investment performance and changes in investments to the Board</li> </ul>
Compensation Committee	<ul> <li>Provides oversight of total compensation strategy and assists the Board in determining the appropriate compensation for officers and compensation levels for staff</li> </ul>	<ul> <li>Oversees the development and administration of SIPC's Human Resource programs and policies including talent management, staffing, performance management, benefits, and succession planning</li> </ul>
	<ul> <li>Ensures that human resources opportunities and risks are properly identified and managed</li> </ul>	<ul> <li>Establishes, reviews and updates compensation strategy and structure for approval by the Board</li> </ul>
		Annually reviews proposals regarding compensation
		<ul> <li>Recommends compensation for officers and staff for approval by the Board</li> </ul>
		<ul> <li>Recommends strategies and plans for merit pay/ incentives/severance pay and other unusual compensation arrangements that may arise</li> </ul>

### ETHICS AND WHISTLEBLOWER POLICY

Annually, SIPC's public and industry directors must confirm receiving the SIPC Director Code of Ethics, having reviewed it, and being familiar with its contents. They must disclose any actual or potential conflicts of interest, avoid activities that could reasonably lead to a conflict of interest, not use their position for personal gain or for the gain of a spouse, dependent, or partner and maintain in strict confidence all information that would reasonably be expected to be maintained in confidence.

SIPC has a Whistleblower Policy that encourages and enables employees to raise serious concerns about violations of SIPC's Code of Conduct, which is a part of the SIPC Bylaws and included in the SIPC Personnel Guide. As outlined by the Policy, employees may report complaints and allegations concerning violations of the SIPC Code of Conduct and general principles of law and business ethics to their supervisors or SIPC's Compliance Officer. All SIPC staff must acknowledge annually that they have read and understand the SIPC Personnel Guide including the Business Ethics Policy, the Ethics Rules, and the Whistleblower Policy.

### DIRECTOR HONORARIA AND MEETING ATTENDANCE

The Chairman receives a yearly honorarium of \$15,000. The Vice Chairman and the three industry directors each receive annual honoraria of \$6,250. The Chairman, Vice Chairman, and three industry directors are reimbursed for their official business expenses. The two government directors receive no honoraria and are not reimbursed for their official business expenses.

The Board held seven meetings in 2015. The Audit and Budget Committee met four times; the Compensation Committee thrice; and the Investment Committee had no meetings. The Director attendance at Board and committee meetings for the year ended December 31, 2015 was as follows:

Director	Board Meetings	Committee Meetings
Anthony D'Agostino	7/7	0/0
Matthew J. Eichner	7/7	4/4
William S. Jasien	6/7	3/4
Gregory S. Karawan	7/7	3/3
Mark Kaufman	7/7	3/3

# CUSTOMER PROTECTION PROCEEDINGS

In 2015, no customer protection proceedings were initiated. Over the last ten-year period, the annual average of new cases was 1.4. Since the inception of SIPC, 328 proceedings commenced under SIPA. These 328 members represent less than one percent of the approximately 39,700 broker-dealers that have been SIPC members during the last forty-five years. Currently, SIPC has 3,950 members.

During SIPC's forty-five year history, cash and securities distributed for accounts of customers totaled approximately \$138.2 billion. Of that amount, approximately \$137.2 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 655,300 claims satisfied in completed or substantially completed cases as of December 31, 2015, a total of 351 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 351 claims, a net decrease of one during 2015, represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$47.2 million, decreased by \$100,000 in 2015. 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 328 customer protection proceedings. The largest net advance in a single liquidation is \$1.98 billion in Bernard L. Madoff Investment Securities LLC. This exceeds the net advances in all of the other proceedings combined.

In the 30 largest proceedings, measured by net funds advanced, SIPC advanced \$2.34 billion, or 93 percent of net advances from the SIPC Fund for all proceedings.

### TABLE I

### Net Advances from the SIPC Fund December 31, 2015 328 Customer Protection Proceedings

Net Ad	vances	Number of Proceedings	Amounts Advanced
From	То		
\$40,000,001	up	1	\$1,983,302,780
10,000,001	\$40,000,000	11	230,602,853
5,000,001	10,000,000	18	126,365,783
1,000,001	5,000,000	61	134,941,407
500,001	1,000,000	38	28,035,094
250,001	500,000	43	14,894,847
100,001	250,000	61	9,736,000
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	covery	7	(13,991,621)*
			\$2,517,957,103+

\* 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 (\$1,026,690,160) and for administration expenses (\$1,491,266,943).

# MEMBERSHIP AND THE SIPC FUND

The net decrease of 130 members during the year brought the total membership to 3,950 at December 31, 2015. 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, 2015, there were 81 members who were subjects of uncured notices, 53 of which were mailed during 2015, nine during 2014, 11 during 2013, three in 2012, two in 2010 and one in 2009, 2008 and 2003. Subsequent filings and payments by 17 members left 64 notices uncured. SIPC has been advised by the SEC

TABLE 2

### SIPC Membership Year Ended December 31, 2015

Agents for Collection of SIPC Assessments	Total	Added <sup>(a)</sup>	Terminated <sup>(a)</sup>
FINRA <sup>(b)</sup>	3,805	111	210
SIPC <sup>(c)</sup>	28	_	23 <sup>[d]</sup>
Chicago Board Options Exchange Incorporated	55	1	3
NYSE MKT LLC <sup>(g)</sup>	14	_	2
NYSE Arca, Inc. <sup>[e]</sup>	12	_	2
NASDAQ OMX PHLX <sup>[f]</sup>	21	—	1
Chicago Stock Exchange, Incorporated	15	_	1
	3,950	112	242

Notes:

(a) The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2015.

(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)

staff that: (a) 10 are no longer engaged in the securities business and are under review by the Commission for possible revocation (b) 3 registrations have been cancelled, and (c) 51 have been referred to Commission 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 \$2.42 billion at year end, an increase of \$263 million during 2015.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2015. The 2015 member assessments were \$429.4 million and interest from investments was \$48.0 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2015, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2015) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2015.

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

### TABLE 3

### SIPC Revenues for the Forty-Five Years Ended December 31, 2015

Member assessments and contributions: \$3,561,402,067

Interest on U.S. Government securities: \$1,779,510,919



#### History of Member Assessments\*

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

1972-1977: 1/2 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, 2015: .25% of members' net operating revenues (\$150 minimum through June 2010).

<sup>\*</sup> 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-Five Years Ended December 31, 2015

- Customer protection proceedings: \$3,496,657,103 (Includes net advances of \$2,517,957,103 and \$1,016,900,000 of estimated costs to complete proceedings less estimated future recoveries of \$38,200,000.)
- Other expenses: \$295,635,611



# LITIGATION

# In 2015, 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 Second Circuit in SIPC v. 2427 Parent Corporation (In re BLMIS), 779 F.3d 74 (2d Cir. 2015), affirmed the Bankruptcy Court's ruling approving the Trustee's calculation of net equity under SIPA without adjustments for interest, time value of money, or inflation. Customer claimants challenged the Trustee's methodology of calculating net equity, contending they were entitled to pre-judgment interest or inflation-based payments based on the economic concept that the value of a dollar changes over time. The Court held that the text and structure 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 in line with SIPA's primary purpose of returning customer accounts in the form they existed on the filing date. The Court noted that the purpose of determining net equity is to facilitate the proportional distribution of customer property actually held by the broker, not to restore to customers the value of the property that they originally invested. The Court also held that the Securities and Exchange Commission's interpretation, that claims should be adjusted for inflation, was novel, inconsistent with its earlier positions, and ultimately not entitled to deference. A petition for certiorari filed by claimants with the United States Supreme Court was denied.

In Picard v. the Estate (Succession) of Doris Igoin (In re BLMIS), 525 B.R. 871 (Bankr. S.D.N.Y. 2015), a motion to dismiss a \$150 million fraudulent conveyance action, based on lack of personal jurisdiction and forum non conveniens, was denied by the Bankruptcy Court. Regarding forum non conveniens, the

Court held that the defendants had failed to show either that the burden of trying the case in New York was so great or that the French forum was significantly preferable, so as to warrant a transfer. The Court also held that the Trustee had established, prima facie, that the defendants had sufficient minimum contacts with the United States to establish personal jurisdiction. The defendants had entered into contracts to invest in the U.S. stock market, with a New York based broker, BLMIS, and had had numerous ongoing contacts with the BLMIS office in New York. Because questions about the quality and nature of the defendants' contact with BLMIS remained, the Court concluded that the issue of personal jurisdiction would be tried together with the trial on the merits.

The District Court in Fox v. Picard (In re BLMIS), 531 B.R. 345 (S.D.N.Y. 2015), affirmed the Bankruptcy Court's decision preventing appellants from filing a second amended complaint in Florida district court because the proposed complaint derived from the Trustee's claims against the defendants and was barred by a permanent injunction previously entered by the Bankruptcy Court. The District Court rejected appellants' argument that only the Florida district court could consider whether the appellants stated non-derivative claims in their proposed complaint, and held that the Bankruptcy Court appropriately considered the Trustee's motion to enjoin appellants from filing the amended complaint. The matter is on appeal (2d Cir. No. 15-1869).

The defendants in 233 adversary proceedings moved to dismiss the Trustee's complaints to recover fictitious profits allegedly withdrawn by the defendants from their BLMIS accounts. The Bankruptcy Court in *In re BLMIS*, 531 B.R. 439 (Bankr. S.D.N.Y. 2015), granted the motions in part and denied them in part. With respect to issues of standing, jurisdiction, and its authority, the Court held the following: (1) the Trustee, suing as a representative of the fund of customer property, had established Article III standing, and the doctrine of in pari delicto did not apply as the Trustee's avoidance claims belonged not to the debtor, but to the Trustee, by law; (2) the defendants' arguments that the customer fund was sufficient or likely to become sufficient were unpersuasive in preventing the Trustee from pursuing his avoidance claims under SIPA; (3) the Court's authority to enter final judgment depended on whether a particular defendant had filed a claim that was subject to the claims allowance process; and (4) the complaints were appropriately filed in the Bankruptcy Court, and the summonses were not defective.

The Court also rejected arguments that the Trustee had violated defendants' due process rights finding that (1) the Trustee had no financial stake or interest in the outcome of litigation; and that (2) the due process challenge to the Trustee's calculation of Net Equity using the Net Investment Method already had been found to lack merit. The Court next concluded that payment of fictitious profits did not satisfy an antecedent debt or provide value, finding no support that the defendants could recover fictitious profits as a matter of New York contract law. By relying on the Ponzi scheme presumption, the Court also held that the Trustee sufficiently pled that BLMIS had made transfers with actual intent to defraud.

Finally, the Court granted portions of the motions to dismiss dealing with subsequent transfers and other avoidance claims, finding that those portions of the complaints were inadequately pled, lacked vital statistics, and failed to identify specific obligations to be avoided. The Court also denied the remain-

# **LITIGATION** *continued*

ing motions to dismiss that asserted (1) that Bankruptcy Code § 502(d) was inconsistent with SIPA, (2) that the Trustee's actions against charitable trusts violated the free exercise of religion, and (3) that the complaints violated New York public policy regarding commercial certainty and finality.

The Bankruptcy Court in Picard v. Ceretti (In re BLMIS), 2015 WL 4734749 (Bankr. S.D.N.Y. August 11, 2015), granted in part and denied in part defendants' motions to dismiss. The Trustee's complaint asserted twelve claims against the defendants-related Madoff feeder funds and their management-seeking to avoid and recover transfers from BLMIS equaling \$825 million. As to eight avoidance claims, the Trustee's complaint sufficiently alleged actual knowledge by the defendants. Specifically, the Trustee asserted that the feeder funds' managers and advisors, sophisticated financial professionals, knew Madoff was not engaged in securities trading. The complaint also pled sufficient facts to impute the managers' and advisors' knowledge to the funds as agents. With respect to the Trustee's claim for equitable subordination, the Trustee had standing and the complaint adequately alleged that the funds engaged in inequitable conduct because they did not receive initial transfers in good faith. The Court granted the dismissal of two counts wherein the Trustee sought to disallow the defendants' customer claims.

In Kingate Global Fund Limited v. Picard (In re BLMIS), 15-cv-7086 (S.D.N.Y. December 4, 2015), the District Court denied the defendants' motion for leave to appeal the Bankruptcy Court's interlocutory order granting in part and denying in part their motion to dismiss. The District Court found no exceptional circumstances justifying review.

In *Picard v. Shapiro (In re BLMIS)*, 542 B.R. 100 (Bankr. S.D.N.Y. 2015), the Bankruptcy Court granted in part and denied in part the defendants' motion to dismiss the Trustee's second amended complaint. The Trustee sought to avoid and recover nearly \$41 million in transfers from BLMIS to 24 accounts owned by defendant Stanley Shapiro and his family members. The Trustee alleged that Shapiro, with unusual access to BLMIS and its investment advisory business, directed BLMIS to generate specific gains and losses and had it fabricate groups of backdated trades. The Court held that the complaint adequately alleged that Shapiro had actual knowledge that no securities transactions were being conducted. In addition, the Court ruled that the complaint adequately alleged that Shapiro acted as agent with respect to a group of core accounts and that his knowledge that no securities trades occurred could be imputed to the holders of those accounts. The Court denied dismissal with respect to the foregoing accounts, but dismissed the Trustee's claims with respect to transfers to a few other accounts finding that the allegations were insufficient to imply that as to those, Shapiro acted as agent.

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

In CarVal UK Ltd. v. Giddens (In re LBI), 791 F.3d 277 (2d Cir. 2015), the Second Circuit upheld the decisions of the District and Bankruptcy Courts which affirmed the Trustee's determination denying appellants' claims. The Second Circuit held that appellants, parties to stock repurchase agreements with LBI, were not "customers" under SIPA. By transferring securities to LBI in exchange for cash under a series of long-term repurchase agreements, the claimants established a contractual relationship with LBI. Under those bilateral agreements, LBI had the right to sell, transfer, pledge, or hypothecate the securities, all of which it exercised. LBI did not hold any securities for claimants on the filing date and had no legal obligation to do so. Thus, LBI was not "entrusted" with the claimants' securities, but rather was the intended counterparty in a sophisticated financial transaction. The Court concluded that the United States District Court for the District of New Jersey's 1986 *Bevill, Bresler* decision, which held that certain repo participants were customers for purposes of SIPA, was inconsistent with the overwhelming case law requiring the entrustment of securities to establish customer status. A petition for certiorari filed with the United States Supreme Court was denied.

On cross motions for summary judgment, the District Court in Moore Capital Management, L.P. v. Giddens (In re Lehman Brothers Inc.), 533 B.R. 362 (S.D.N.Y. 2015), granted the Trustee's motion confirming the Trustee's determination that the claim of Moore Global Investments, L.P. ("MGI") was not entitled to customer status. MGI asserted that it was a commodities customer entitled to about \$12 million of excess cash margin held by LBI on the filing date. LBI had required MGI to post margin on various over-the-counter foreign exchange ("OTC FX") contracts in which LBI and MGI were counterparties. The Court rejected MGI's argument that these OTC FX Contracts were virtually identical to FX Futures contracts and held that because the OTC FX Contracts were not subject to regulation by the Commodity Futures Trading Commission, they did not gualify as commodity contracts. As MGI did not deposit cash for the margining of a commodity contract, it was not a customer.

In 344 Individuals v. Giddens (In re Lehman Brothers Holdings, Inc.), 2015 WL 5729645 (S.D.N.Y. September 3, 2015), the District Court affirmed the Bankruptcy Court's order denying claimants' motion to compel arbitration. The Trustee sought an order from the Bankruptcy Court that certain claims filed by former employees of Shearson Lehman Brothers Inc. ("Shearson"), a predecessor of LBI, should be subordinated to the general unsecured creditors' claims. The Claimants, who were participants in a deferred compensation plan ("Plan"), sought to compel arbitration on the issue of whether their claims

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

SIPA, Sec. 4(c)(2)

could be subordinated under the Plan. At issue on appeal was the applicability of the Plan's arbitration clause in the context of the LBI SIPA proceeding. In affirming, the District Court held that the adversary proceedings were "quintessentially core bankruptcy proceedings," and that the underlying purpose of the Bankruptcy Code would be adversely affected by enforcing the arbitration clause. The matter is on appeal. (2d Cir. No. 15-3480).

The Bankruptcy Court in In re Lehman Brothers Inc., 541 B.R. 45 (Bankr. S.D.N.Y. 2015), granted in part and denied in part the Trustee's objection to general creditor claims filed by former employees of LBI. The claimants sought payment of non-discretionary bonuses for fiscal years 2007 and 2008, in accordance with the terms of their written employment agreements, despite accepting employment and substantial sums from Barclays Capital. Barclays purchased LBI's North American capital markets and investment banking businesses pursuant to an asset purchase agreement ("agreement"), which offered employment to LBI employees working in the acquired business. The Court found that the plain language of the agreement indicated that LBI delegated its obligation to pay transferred employees bonuses for fiscal year 2008, but that LBI remained liable for 2007 bonus obligations. The Court also rejected the claim of one of the former employees that he was not a transferred employee, as defined in the agreement, and found that Barclays had satisfied LBI's obligation to pay his guaranteed 2008 bonus of \$76 million to him.

The Bankruptcy Court in In re Lehman Brothers Inc., 2015 WL 7451411 (Bankr. S.D.N.Y. November 23, 2015), granted the Trustee's motion for an order expunging the customer claim filed by FirstBank Puerto Rico ("First Bank") and denied FirstBank's motion for summary judgment. In its claim, FirstBank sought the return of securities pledged to Lehman Brothers Special Financing ("LBSF") as part of a routine interest rate swap agreement. The Court held that First-Bank was not a customer under SIPA because its relationship was as a counterparty with LBSF, and that it had not entrusted any securities to LBI. The Court also held that it had already decided the key issues in the case and collateral estoppel barred FirstBank's claim. The matter is on appeal (S.D.N.Y. No. 16-cv-00069 (JSR)).

In ANZ Securities. Inc. v. Giddens (In re LBI), 808 F.3d 942 (2d Cir. 2015), the Court affirmed the judgment in favor of the Trustee which subordinated appellants' contribution claims to those of unsecured general creditors. The appellants, junior underwriters to LBI in the offering and issuance of LBHI securities totaling \$32.4 billion, incurred legal costs of almost \$78 million in the defense and settlement of securities fraud claims related to the offerings. The appellants filed general creditor claims in the LBI liquidation seeking contribution under an agreement among the underwriters and under federal law. At issue was the application of Bankruptcy Code section 510(b), which mandates subordination of certain claims related to securities issued by the debtor or debtor's affiliate. In affirming the judgment against the appellants, the Court explained that "claims arising from securities of a debtor's affiliate should be subordinated in the debtor's bankruptcy proceeding to all claims or interests senior or equal to claims in the bankruptcy proceeding that are of the same type as the underlying securities."

# **LITIGATION** *continued*

In *In re MF Global Inc.*, 531 B.R. 424 (Bankr. S.D.N.Y. 2015), the Bankruptcy Court sustained the Trustee's objection and disallowed a general creditor claim based on earlier causes of action for breach of contract, breach of fiduciary duty of care and misrepresentations in violation of the Commodity Exchange Act previously asserted against MF Global. The Trustee alleged, and the Court agreed, that the account's negative balance was estate property subject to turnover pursuant to Bankruptcy Code § 542. The Court rejected the claimant's argument that the Trustee sought relief that procedurally had to be pursued in an adversary proceeding.

Characterizing it as "creative and novel," the Bankruptcy Court in *In re MF Global Inc.*, 535 B.R. 596 (Bankr. S.D.N.Y. 2015), approved the Trustee's sale to MF Global Holdings Ltd. ("MFGH") of all of the Trustee's claims, rights and interests in MF Global's estate assets. The sale agreement granted primarily pending litigation claims to MFGH in exchange for a waiver by MFGH of future distributions by the Trustee of over \$1.16 billion in allowed unsecured general creditor claims. The agreement allowed the Trustee to make a final cumulative 95% distribution to other unsecured creditors, in addition to the allowed customer, secured, administrative and priority claims, which were satisfied in full. In ruling that the terms of sale were "fair, reasonable and in the best interests of the creditors," the Court noted that the agreement allowed MF Global's "SIPA case to be closed in months instead of years."

In Goble v. Ward, 2015 WL 6389959 (11th Cir. October 22, 2015), the 11th Circuit

affirmed the District Court's order dismissing the plaintiff's complaints and denying his motions to amend his complaints. After North American Clearing, Inc. ("NACI") became the subject of a SIPA liquidation, the former principal of NACI "sued almost everyone involved in liquidating" NACI, including the United States, the SEC, SEC employees, SIPC, and SIPC employees. The District Court dismissed each claim. The Circuit Court held that the plaintiff had waived review of all of the dismissals except those of the claims against the United States and the SEC because these were the only dismissals contested in his initial appellate brief. The Circuit Court then affirmed the District Court's dismissals of the claims against the United States and the SEC based on sovereign immunity.





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, 2015, 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

### 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 2015 SIPC received one new referral under Section 5(a).

SIPC also 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.



### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP 2010 Corporate Ridge, Suite 400 McLean, VA 22102-7838 T 703.847.7500 F 703.848.9580 www.GrantThornton.com

Board of Directors Securities Investor Protection Corporation

We have audited the accompanying financial statements of Securities Investor Protection Corporation (SIPC), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements on pages 21 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 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.

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#### 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, 2015, 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.

GRANT THORNTON LLP

Gener Wardon LLP

McLean, Virginia April 14, 2016

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

# **SIPC** FINANCIAL STATEMENTS

### Statement of Financial Position as of December 31, 2015

ASSETS Cash	¢ 1 100 070
	\$ 1,180,973 2,414,255,417
U.S. Government securities, at fair value and accrued interest receivable of (\$14,480,563); (amortized cost \$2,381,966,714) (Note 6) Estimated member assessments receivable (Note 3)	193,690,178
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$1,966,107,635) (Note 4)	38,200,000
Advances to trustees for customer protection proceedings in progress, tess attowance for possible tosses (\$1,760,107,033) (Note 4) Assets held for deferred compensation plan (Note 8)	1,045,238
Other (Note 5, and Note 9)	4,560,628
	\$2,652,932,434
LIABILITIES AND NET ASSETS	φ2,002,702,404
Accrued benefit costs (Note 8)	\$ 7,661,938
Amount due on deferred compensation plan (Note 8)	1,045,238
Accounts payable and other accrued expenses	953,651
Deferred rent (Note 5)	1,911,087
Estimated costs to complete customer protection proceedings in progress (Note 4)	1,016,900,000
Member assessments received in advance (Note 3)	1,550,000
	1,030,021,914
Unrestricted net assets	1,622,910,520
	\$2,652,932,434
The accompanying notes are an integral part of these statements.	
Statement of Activities for the year ended December 31, 2015 Revenues:	
Member assessments (Note 3)	\$ 429,447,213
Interest on U.S. Government securities	47,947,055
	477,394,268
Expenses:	
Salaries and employee benefits (Note 8)	10,363,111
Legal and accounting fees (Note 4)	259,320
Rent (Note 5)	1,186,494
Other	3,702,039
	15,510,964
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	266,023,070
	281,534,034
Excess revenues over expenses	195,860,234
Realized and unrealized loss on U.S. Government securities (Note 6)	(25,917,850)
Pension and postretirement benefit changes other than net periodic costs (Note 8)	(911,654)
Increase in unrestricted net assets	169,030,730
Unrestricted net assets, beginning of year	1,453,879,790
Unrestricted net assets, end of year	\$1,622,910,520
The accompanying notes are an integral part of these statements.	

The accompanying notes are an integral part of these statements.

### Statement of Cash Flows for the year ended December 31, 2015

Operating activities:	
Interest received from U.S. Government securities	\$ 46,398,823
Member assessments received	431,187,570
Advances paid to trustees	(186,056,717)
Recoveries of advances	11,433,646
Salaries and other operating activities expenses paid	(13,214,764)
Net cash provided by operating activities	289,748,558
Investing activities:	
Proceeds from sales of U.S. Government securities	500,552,385
Purchases of U.S. Government securities	(796,038,621)
Purchases of furniture and equipment	(2,728,621)
Net cash used in investing activities	(298,214,857)
Decrease in cash	(8,466,299)
Cash, beginning of period	9,647,272
Cash, end of period	\$ 1,180,973

The accompanying notes are an integral part of these statements.

#### **Notes to Financial Statements**

#### 1. Organization and general

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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 \$2,415,436,390.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission (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 SIPC Fund and to repay any borrowings by SIPC. If the balance of the SIPC 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 1 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. Member 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 2015 but not received, or expected to be received, until 2016.

# **SIPC** FINANCIAL STATEMENTS continued

### 4. Customer protection proceedings

SIPC commenced a liquidation of Lehman Brothers Inc. (LBI) on September 19, 2008. As of December 31, 2015, 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, 2015, the Trustee had distributed \$13.5 billion to these customers.

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

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 78lll (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. Management estimates and records a charge for this and other proceedings, including legal and administrative costs, at the amounts which can reasonably be estimated based on available information provided by the Trustees. Management estimates that the total charges to SIPC for the Madoff proceeding to be approximately \$3.0 billion. As actual claims were processed, the Trustee determined the ultimate amount of payment for each claim and the associated legal and administrative costs incurred. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims, and associated legal and administrative costs, to differ from the current estimate. Quantifying the liability associated with proceedings is subject to a number of uncertainties, however, while additional losses beyond those recorded are probable, the additional amount is not currently estimable. Any changes in the estimate will be accounted for prospectively. In 2015, based on the Trustee's estimate of the possible completion of the proceeding, the provision for loss was increased for future periods previously not estimable. This change in estimate resulted in an additional provision of approximately \$266 million for future legal and administrative costs to the estimated possible completion year of the proceeding. Recoveries on this and other proceedings are recorded as a reduction to the provision for estimated costs when realized, which occurs when notification is received from the Trustee.

SIPC commenced a liquidation of MF Global Inc. on October 31, 2011. The estate received 430 customer claims under SIPA; the total allowed value of securities claims and related settlements was approximately \$376 million. MF Global Inc. also operated as a Futures Commission Merchant (FCM). Claims for FCM property were separate from the above-referenced securities claims.

In 2013, the Trustee repaid all SIPC advances. No funds were required from SIPC for customers or administrative expenses of the estate. On February 10, 2016, the U.S. Bankruptcy Court for the Southern District of New York entered an order that closed the MF Global Inc. liquidation proceeding and discharged the Trustee.

SIPC has advanced a net of \$2.01 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$1.97 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, 2015 that result from these proceedings:

	Customer Protection Proceedings		
	Advances to trustees, less allowance for possible losses	Estimated costs to complete	
Balance, beginning of year	\$11,300,000	\$ 898,600,000	
Add:			
Provision for current year recoveries	100,000	_	
Provision for estimated future recoveries	38,200,000	—	
Provision for estimated costs to complete proceedings	_	304,400,000	
Less:			
Recoveries	11,400,000	_	
Advances to trustees	_	186,100,000	
Balance, end of year	\$38,200,000	\$1,016,900,000	

#### 5. Commitments

A ten-year lease for office space, in Washington D.C., expired August 31, 2015. Additional rent was 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 were amortized over the life of the lease.

On June 20, 2014, SIPC signed a lease for new office space in Washington, D.C. The new 11 year lease commenced on August 1, 2015. Future minimum rentals for the space, expiring on August 31, 2026, are as follows: 2016—\$662,189; 2017—\$827,918; 2018—\$848,611; 2019—\$869,805; 2020— \$895,623; thereafter—\$5,980,604; for a total of \$10,084,750, as of December 31, 2015. Additional rent expense is based on SIPC's pro rata share of operating expenses in accordance with the terms of the lease. The rent holiday of \$915,103 and the leasehold improvement incentive of \$1,364,400 are being amortized over the life of the lease.

On December 27, 2012, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new seven-year lease commenced on August 1, 2013. Future minimum rentals for the space, expiring on July 31, 2020, are as follows: 2016—\$149,094; 2017—\$153,194; 2018—\$157,407; 2019— \$161,735; 2020—\$95,842; for a total of \$717,272, as of December 31, 2015. Additional rent is based on SIPC's pro rata share of operating expenses in accordance with the terms of the lease.

#### 6. Fair value of securities

FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unob-

servable inputs (level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1—Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that SIPC has the ability to access.

Level 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3—Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of observable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

The fair value of U.S. Government securities is based on the bid quote as of December 31, 2015 as reported in the *Wall Street Journal*. As a bid quote on U.S. Government securities varies 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 mar-

# **SIPC** FINANCIAL STATEMENTS *continued*

ket makers, or in which little information is released publicly. As of December 31, 2015, all securities held within the portfolio are priced using Level 2 inputs. U.S. Government securities as of December 31, 2015 included cumulative gross unrealized gains of \$40,326,517 and cumulative gross unrealized losses of \$8,037,814.

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

Increase in net assets	\$169,030,730
Net increase in estimated cost to complete customer protection proceedings	118,300,000
Net Increase in estimated recoveries of advances to trustees	(26,900,000)
Realized and unrealized loss on U.S. Government securities	25,917,850
Decrease in estimated assessment receivable	2,456,500
Increase in deferred rent	1,823,940
Increase in payables and accrued expenses	1,593,152
Increase in accrued interest receivable on U.S. Government securities	(1,016,713)
Increase in prepaid expenses	(993,266)
Depreciation and amortization	781,581
Decrease in Member assessments collected in advance	(739,512)
Net amortized premium on U.S. Government securities	(531,517)
Loss on disposal of assets	25,813
Net cash provided by operating activities	\$289,748,558

#### 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 \$1,045,238 year-end market value of the supplemental plan is reflected as assets held for deferred compensation plan and as amount due on deferred compensation plan 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	\$45,789,810	\$ 6,114,642
Service cost	1,333,565	255,406
Interest cost	1,762,470	242,844
Plan participants' contributions	—	21,929
Amendments	—	_
Actuarial (gain) loss	(2,369,851)	196,068
Benefits paid	(1,035,268)	(94,092)
Benefit obligation at end of year	\$45,480,726	\$ 6,736,797
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$45,645,409	\$ —
Actual return (loss) on plan assets	(54,556)	_
Employer contributions prior to measurement date	-	_
Employer contributions	—	72,163
Plan participants' contributions	-	21,929
Benefits paid	(1,035,268)	(94,092)
Fair value of plan assets at end of year	\$44,555,585	\$ —
Funded status	\$ (925,141)	\$(6,736,797)
Employer contributions between measurement and statement date	_	-
Funded status at year end	\$ (925,141)	\$(6,736,797)
Amounts recognized in the Statement of Financial Position and net assets consist of:		
Net amount recognized in the Statement of Financial Position	\$ (925,141)	\$(6,736,797)
Accumulated benefit obligation end of year	\$45,480,726	\$ 6,736,797

# **SIPC** FINANCIAL STATEMENTS *continued*

	Pension Benefits	Other Postretirement Benefits
Weighted-average assumptions for disclosure as of December 31, 2015		
Discount rate	4.20%	4.30%
Salary scale 2016 / thereafter	3.00%/2.50%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	7.55%/6.10%
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 Stateme	ent of Activities	
Net periodic benefit cost		
Service cost	\$1,333,565	\$ 255,406
Interest cost	1,762,470	242,844
Expected return on plan assets	(3,378,920)	_
Recognized prior service cost (credit)	37,292	(398,660)
Recognized actuarial loss	629,421	79,986
Net periodic benefit cost	383,828	179,576
Pension and other postretirement benefit changes other than net periodic benefit cost		
Net actuarial loss	1,063,625	196,068
Recognized actuarial loss	(629,421)	(79,986)
Prior service cost	_	_
Recognized prior service (cost) credit	(37,292)	398,660
Total pension and postretirement benefit changes other than net periodic cost	396,912	514,742
Total net periodic other beneift cost and pension and other postretirement benefits changes other than net periodic benefit cost	\$ 780,740	\$ 694,318
Amounts expected to be recognized in net periodic cost in the coming year		
Loss recognition	\$ 683,486	\$85,991
Prior service cost (credit) recognition	28,982	(398,660)
Total	\$ 712,468	\$ (312,669)
Effect of a 1% increase in trend on:		
Benefit Obligation	N/A	\$1,255,462
Total Service Interest Cost	N/A	\$ 133,854
Effect of a 1% decrease in trend on:		
Benefit Obligation	N/A	\$ (984,979)
Total service interest cost	N/A	\$ (97,802)
Weighted-average assumptions for net periodic cost as of December 31, 2015		
Discount rate	3.90%	4.00%
Expected asset return	7.50%	N/A
Salary scale	2.50%	N/A
Health Care Cost Trend: Initial pre-65/post-65	N/A	8.05%/6.30%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year ultimate reached	N/A	2022

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 2015, the unrecognized net loss increased by 0.9% of the 12/31/2014 projected benefit obligation primarily due a change in the salary scale and the mortality scale.

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 2015 by (\$710,000)/\$814,000 and (decreased)/ increased the year-end projected benefit obligation by (\$5.8)/\$7.3 million.

Asset Summary	
Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)
Equity securities:	
U.S. large and multi-cap mutual funds	\$24,326,024
Non-U.S. large and multi-cap mutual funds	5,108,055
Total Equity	29,434,079
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	15,121,506
Total Fixed Income	15,121,506
Total	\$44,555,585

#### **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 2015 by \$451,000.

#### 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 12/31/2015
Equity securities	9.30%	60-70%	66%
Debt securities	4.20%	40-30%	34%
Total	7.50%	100%	100%

# **SIPC** FINANCIAL STATEMENTS continued

## Estimated Future Benefit Payments

	Pension	Other Benefits
2016	\$ 1,271,481	\$ 121,200
2017	\$ 1,763,639	\$ 150,000
2018	\$ 1,901,078	\$ 174,200
2019	\$ 2,036,704	\$ 188,600
2020	\$ 2,237,980	\$ 251,200
2021-2025	\$13,349,853	\$1,772,700

#### Contributions

SIPC expects to make no contributions to the pension plan in 2016 for the 2015 plan year and \$121,000 to the postretirement benefit plan during 2016.

#### Defined Contribution Plai

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

\$ 218,387

### 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. The equipment, furniture, and leasehold improvements listed below are included in "Other" assets within the Statement of Financial Position.

#### **10. Subsequent Events**

SIPC evaluated its December 31, 2015 financial statements for subsequent events through April 14, 2016, the date the financial statements were available to be issued. On February 16, 2016, SIPC commenced a proceeding for the liquidation of Global Arena Capital Corp. which is not expected to have a material effect on the financial statements. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Fixed Assets	
Office equipment at cost	\$ 65,384
Computer hardware at cost	3,051,549
Computer software at cost	1,717,851
Office furniture and fixtures at cost	1,061,291
Leasehold improvements at cost	1,414,751
Total fixed assets at cost	7,310,826
Less accumulated depreciation and amortization	(3,792,598)
Net fixed assets	\$3,518,228
2015 depreciation and amortization expense	\$ 781,581



### TABLE 5

SIPC Fund Comparison Inception to December 31, 2015



Year

# APPENDIX 1 DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Forty-Five Years Ended December 31, 2015 (In Theusands of Pollars)

(In Thousands of Dollars)

	From Debtor's Estates		From SIPC		
	As Reported by Trustees	Advances*	<b>Recoveries</b> *	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
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)	1,585,715
2007	1,167	7,054	(6,624)	430	1,595
2008	144,265,058	1,982	(709)	1,273	144,266,331
2009	(52,025,582) <sup>a</sup>	543,280	(213)	543,067	(51,482,515
2010	579,035	217,842	(1,824)	216,018	795,053
2010	8,169,689	32,678	(1,024)	32,584	8,202,273
2012	3,217,290	19,338	(1,774)	17,564	3,234,854
2012	12,411,307	8,646	(118,084)	(109,438)	12,301,869
2013	924,822	16,099	(11,709)	4,390	929,212
2015	4,247,436	10,137	(11,292)	(1,155)	4,246,281
2010	\$137,197,691	\$1,520,796	\$(493,973)	\$1,026,823	\$138,224,514

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

 $^{\scriptscriptstyle \#}$  Reflects adjustment to customer distributions based upon Trustee's revised allocation.

<sup>a</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, 2015

	2015	2014	2013	2012	2011
Revenues:					
Member assessments and contributions	\$429,447,213	\$426,719,980	\$417,721,699	\$412,305,529	\$382,800,000
Interest on U.S. Government securities	47,844,129	39,852,719	38,577,719	39,995,610	39,412,362
Interest on assessments	102,926	160,303	161.223	149,872	420,086
	477,394,268	466,733,002	456,460,641	452,451,011	422,632,448
Expenses:	,27,1,200				,302,113
Salaries and employee benefits	10,363,111	8,563,289	10,146,315	9,993,350	9,171,655
Legal fees	135,866	131,219	953,722	1,536,663	813,634
Accounting fees	123,454	108,990	104,227	109,600	295,049
Professional fees—other	394,795	346,600	863,160	741,567	842,302
Other:					
Assessment collection cost	27,299	24,975	18,788	19,390	17,735
Depreciation and amortization	781,581	766,894	772,156	727,440	608,873
Directors' fees and expenses	44,010	37,039	46,281	38,907	39,275
Insurance	39,281	36,906	36,324	30,710	38,305
Investor education	368,637	211,481	332,318	179,368	200,303
Office supplies and expense	281,081	261,362	154,917	200,347	184,497
EDP and internet expenses*	962,975	857,370	860,990	1,446,889	1,937,200
Postage	12,358	9,258	9,350	12,520	10,154
Printing & mailing annual report	30,192	28,921	37,471	37,636	38,153
Publications and reference services	282,382	232,080	180,428	179,340	165,018
Rent office space	1,186,494	797,186	758,128	738,916	751,955
Telephone	142,204	100,494	113,849	103,141	108,704
Travel and subsistence	113,958	136,704	149,809	155,444	164,691
Pesonnel recruitment	177,584	114,580	152,400		
Miscellaneous	43,702	33,937	59,684	47,218	39,645
	4,493,738	3,649,187	3,530,493	4,069,666	4,304,508
	15,510,964	12,799,285	15,597,917	16,450,846	15,427,148
Customer protection proceedings: Net advances to (recoveries from): Trustees other than SIPC: Securities	(1,127,239)	(68,428)	(106,909,317)	19,231,225	30,396,107
Cash	(28,222)	(1,763)	(3,514,070)	(1,651,432)	2,289,553
	(1,155,461)	(70,191)	(110,423,387)	17,579,793	32,685,660
Administration expenses	175,369,685	191,521,565	198,575,637	209,774,526	207,826,006
	174,214,224	191,451,374	88,152,250	227,354,319	240,511,666
Net change in estimated future recoveries	(26,900,000)	(500,000)	102,200,000	(111,300,000)	(1,700,000)
	147,314,224	190,951,374	190,352,250	116,054,319	238,811,666
SIPC as Trustee:	(15/ (00)	0 / 54 5 / 4	//0.05/	(1.004)	
Securities	(156,600)	3,651,561	669,354	(4,921)	(205,638)
Cash	24,299	808,448	211,774	(10,402)	91,407
	(132,301)	4,460,009	881,128	(15,323)	(114,231)
Administration expenses	541,747	633,401	800,084	5,283	24,427
	409,446	5,093,410	1,681,212	(10,040)	(89,804)
Direct payments:					
Securities					
Cash			103,714		12,584
			103,714		12,584
Administration expenses	(600)	975	12,715		21,301
	(600)	975	116,429		33,885
Net change in estimated cost to complete proceedings	118,300,000	(49,400,000)	(167,500,000)	(192,300,000)	36,800,000
	266,023,070	146,645,759	24,649,891	(76,255,721)	275,555,747
	281,534,034	159,445,044	40,247,808	(59,804,875)	290,982,895
Excess revenues over expenses	195,860,234	307,287,958	416,212,833	512,255,886	131,649,553
Realized and unrealized (loss) gain					
on U.S. Government securities	(25,917,850)	(5,281,585)	(52,663,109)	(14,309,673)	57,481,554
Pension and postretirement benefit changes					
other than net periodic benefit costs	(911,654)	(10,755,619)	14,850,300	390,854	(7,777,611)
Increase in unrestricted net assets	\$169,030,730	\$291,250,754	\$378,400,024	\$498,337,067	\$181,353,496
היו כעשכי ווו עווו כשנו וכנכע ווכנ מששכנש	ψισ7,000,700	ψΖ/1,ΖΟΟ,/Ο4	ψυ/0,400,024	φ470,007,007	ψ101,000,470

\*2011 has been restated to combine Imaging expense with EDP and internet expenses

# **APPENDIX 3** CUSTOMER PROTECTION PROCEEDINGS

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
North American Clearing Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,699	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	111,888
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*	2,579
Westor Capital Group, Inc. New York, NY (SIPC)	09/27/00	04/16/13	04/16/13	499	140	97
TWS Financial, LLC Brooklyn, NY (SIPC)	03/09/04	05/31/13	05/31/13	2,272	75	12
TOTAL 5 MEMBERS: PART A				959,264	142,681	117,576

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

# This number does not include customer distributions made by the court appointed receiver prior to SIPC's involvement in the proceeding.

## December 31, 2015

		tribution of Assets Ield by Debtor <sup>(c)</sup>			SIPC Advances			
	Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
(	\$ 54,640,367	\$ 52,476,595#	\$ 2,163,772	\$ 14,157,790	\$ 12,557,790			\$ 1,600,000
	107,061,408,474	105,773,207,834	1,288,200,640					
	8,450,096,582	8,425,267,969	24,828,613	1,983,302,780	1,279,019,347		\$ 704,283,433	
	5,458,923	5,458,923		1,446,795	674,461		11,538	760,796
				5,400,270	1,170,573		3,947,297	282,400
	\$115,571,604,346	\$114,256,411,321	\$1,315,193,025	\$2,004,307,635	\$1,293,422,171		\$708,242,268	\$2,643,196

# **APPENDIX 3** CUSTOMER PROTECTION PROCEEDINGS *continued*

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions
MF Global Inc. New York, NY (James W. Giddens, Esq.)	07/31/74	10/31/11	10/31/11	74,763	28,711	30,088
TOTAL 1 MEMBERS: PART B				74,763	28,711	30,088

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

December 31, 2015

	ribution of Assets eld by Debtor <sup>(c)</sup>				SIPC Advances		
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 7,633,468,548	\$ 7,299,281,876 <sup>4</sup>	\$ 334,186,672					
\$7,633,468,548	\$7,299,281,876	\$334,186,672					

# **APPENDIX 3** CUSTOMER PROTECTION PROCEEDINGS *continued*

## PART C: Proceedings Completed in 2015<sup>[a]</sup>

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers <sup>(b)</sup> To Whom Notices and Claim Forms Were Mailed	Responses <sup>(b)</sup> Received	Customers <sup>(b)</sup> Receiving Distributions	
Hudson Valley Capital Management Croton-on-Hudson, NY (SIPC)	05/12/89	12/17/12	12/17/12	347	27	4	
Take Charge Financial, Inc. Los Gatos, CA (Direct Payment)	09/20/85		01/08/13^	156	31	26	
TOTAL 2 MEMBERS 2015				503	58	30	
TOTAL 320 MEMBERS 1973-2014 <sup>(d)</sup>				2,176,414	447,156	625,256	
TOTAL 322 MEMBERS 1973-2015				2,176,917	447,214	625,286	

<sup>^</sup> Date Notice Published

### December 31, 2015

\$15,9	66,580,830	\$15,641,997,452	\$324,583,378	\$51	3,649,468	\$19	7,844,772	\$1,388,427	\$18	3,209,324	\$13	1,206,945
15,9	66,080,693	15,641,497,355	324,583,338	51	13,161,779	19	7,699,769	\$1,388,427	18	2,991,255	13	1,082,328
	500,137	500,097	40		487,689		145,003			218,069		124,617
					116,804		13,090					103,714
\$	500,137	\$ 500,097	\$ 40	\$	370,885	\$	131,913		\$	218,069	\$	20,903
	Total	For Accounts of Customers	Administration Expenses	A	Total dvanced		inistration xpenses	Contractual Commitments	Se	ecurities		Cash
		ribution of Assets leld by Debtor <sup>(c)</sup>			SIPC Advances							

# 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: 5 Members — Customer Claims and Distributions Being Processed	959,264	142,681	117,576
Part B: 1 Members — Customer Claims Satisfied, Litigation Matters Pending	74,763	28,711	30,088
Sub-Total	1,034,027	171,392	147,664
Part C: 322 Members — Proceedings Completed	2,176,917	447,214	625,286
Total	3,210,944	618,606	772,950

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 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, 2015

	ribution of Assets						
•	leld by Debtor <sup>(c)</sup>				SIPC Advances		
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 115,571,604,346	\$ 114,256,411,321	\$ 1,315,193,025	\$ 2,004,307,635	\$ 1,293,422,171		\$ 708,242,268	\$ 2,643,196
7,633,468,548	7,299,281,876	334,186,672					
123,205,072,894	121,555,693,197	1,649,379,697	2,004,307,635	1,293,422,171		708,242,268	2,643,196
15,966,580,830	15,641,997,452	324,583,378	513,649,468	197,844,772	\$ 1,388,427	183,209,324	131,206,945
\$139,171,653,724	\$137,197,690,649	\$1,973,963,075	\$2,517,957,103	\$1,491,266,943	\$1,388,427	\$891,451,592	\$133,850,141



SECURITIES INVESTOR PROTECTION CORPORATION

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