

2017

Securities Investor  
Protection Corporation  
Annual Report







**Securities Investor Protection Corporation**

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April 30, 2018

The Honorable Jay Clayton  
Chairman  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Dear Chairman Clayton:

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

Respectfully,

A handwritten signature in cursive script that reads "Stephen P. Harbeck".

Stephen P. Harbeck  
President & CEO

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## The Year in Review

SIPC made substantial progress on all fronts in 2017. SIPC initiated a direct payment procedure to protect the customers of a small brokerage firm, closed two liquidation proceedings, and made major progress in ongoing cases.

### Legend Securities, Inc.

In October, SIPC began a direct payment procedure, which is an out-of-court claims process, for Legend Securities, Inc. Claims are now being received and reviewed.

### TWS Financial, LLC and North American Clearing, Inc.

Liquidation proceedings for TWS Financial, LLC and North American Clearing, Inc. were brought to conclusion in 2017. The North American Clearing case was the oldest pending proceeding on SIPC's roster, having been initiated in May 2008.

### Lehman Brothers Inc.

While not fully completed, Lehman Brothers Inc., part of the largest insolvency proceeding of any kind, is a resounding success. All securities customers have received the content of their securities accounts, secured and other priority claims have been paid in full, the trustee has distributed \$8.8 billion, and it was not necessary for SIPC to advance funds for either customers or administration of the estate. The case remains open for the resolution of a small number of judicial proceedings in which the trustee is an appellee.

### Bernard L. Madoff Investment Securities LLC

The trustee for the liquidation of Bernard L. Madoff Investment Securities LLC, the largest Ponzi Scheme in history, continues to collect and distribute funds to the victims of this case. At this juncture, the trustee has distributed \$11.43 billion, with 1,388 accounts now fully satisfied. Any customer that gave Madoff Investment Securities up to \$1,385,000 has now been made whole. Customers with larger claims have received more than 63% of the net amount they gave to Madoff Investment Securities, plus \$500,000 from SIPC. More distributions are expected as complex litigation to recover additional assets continues.

### Westor Capital Group, Inc.

SIPC serves as trustee for Westor Capital Group, Inc. That proceeding is substantially complete, with one disputed matter still at issue. Full resolution of the case is expected in 2018.

### Global Arena Capital Corp.

In Global Arena Capital Corp., all customer claims have been resolved. SIPC, acting as trustee, has sued several individuals and related entities, for the repayment of loans made to them by the brokerage and the recovery of monies transferred.

## OTHER INITIATIVES

In September 2017, SIPC, in conjunction with the Financial Industry Regulatory Authority (FINRA), eased the regulatory burden on SIPC members with respect to the filing of Annual Reports with SIPC. SIPC and FINRA signed a services agreement so that the Annual Report need only be submitted once with FINRA. That submission will satisfy each brokerage firm's filing obligation with SIPC, easing regulatory compliance and costs.

## LOOKING FORWARD

We expect to begin offering electronic claims filing procedures to speed the satisfaction of customer claims. In 2018, we will review SIPC's online presence, with a view to refreshing SIPC's website to improve convenience, clarity, and ease of use. SIPC continues to play a role in the Financial and Banking Information Infrastructure Committee (FBIIC), which aims to coordinate and plan the prevention of cyberattacks and respond promptly should an attack within the financial industry occur.

# 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 broker-dealers

who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding<sup>†</sup>. This requires that SIPC apply to a Federal District Court for appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 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.

<sup>Δ</sup> See the Series 100 Rules Identifying Accounts of "Separate Customers" of SIPC members.

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

- (i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions;
- (ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts; and
- (iii) persons who are registered as a broker or dealer pursuant to [15 U.S.C. § 78α(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](http://www.sipc.org/news-and-media/brochures) and also available in bulk from the Securities Industry and Financial Markets Association (SIFMA), [www.sifma.org/store](http://www.sifma.org/store), phone number (212) 313-1000, and from the FINRA Media Source, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for FINRA orders is [www.finra.org/Industry/order](http://www.finra.org/Industry/order) and the phone number is (240) 386-4200.**

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

## DIRECTORS



**Daniel M. Covitz**  
**Board of Directors of the  
Federal Reserve System**  
Deputy Director, Division of  
Research and Statistics



**Anthony D'Agostino**  
**Maven Medical**  
CEO and Founder



**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



**Jared C. Sawyer**  
**United States Department  
of the Treasury**  
Deputy Assistant Secretary,  
Financial Institutions Policy

## COMMITTEE COMPOSITION

### Audit and Budget Committee

Daniel M. Covitz—Chair  
William S. Jasien

### Compensation Committee

Gregory S. Karawan—Chair  
Jared C. Sawyer

### Investment Committee

Anthony D'Agostino—Chair  
Jared C. Sawyer

## OFFICERS

**Stephen P. Harbeck**  
President & CEO  
**Josephine Wang**  
General Counsel & Secretary

**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  |
|-------------------------------------|--|---|
| <b>Audit &amp; Budget Committee</b> | <ul style="list-style-type: none"> <li>Provides oversight of the integrity of financial statements and financial reporting and the overall effectiveness of internal control environment</li> <li>Oversees compliance with applicable legal and regulatory requirements and the independence, qualifications, and performance of the external auditor</li> <li>Ensures adequate management controls to minimize the financial risks to which the SIPC Fund is exposed</li> </ul> | <ul style="list-style-type: none"> <li>Selects the independent external auditor to examine accounts, controls, and financial statements</li> <li>Monitors independence and performance of external auditors</li> <li>Reviews financial statements and financial disclosures</li> <li>Reviews the proposed budget relative to annual goals and objectives, and recommends final budget to Board</li> <li>Reviews systems of internal control</li> <li>Reviews federal tax return</li> </ul>  |
| <b>Investment Committee</b>         | <ul style="list-style-type: none"> <li>Assists the Board in formulating investment policies</li> <li>Oversees management of the SIPC Fund and compliance with the Securities Investor Protection Act provisions relating to SIPC Fund investments</li> <li>Ensures adequate controls to minimize the investment risks to which the SIPC Fund is exposed</li> </ul>   | <ul style="list-style-type: none"> <li>Establishes, reviews, and updates the investment policy for approval by the Board</li> <li>Oversees the adoption of appropriate risk management policies and procedures to manage, to the extent possible, market, liquidity, credit, and other investment and asset management risks</li> <li>Ensures that investments are made only in United States Government or agency securities as statutorily required</li> <li>Reviews overall investment performance, asset allocation, and expenses</li> <li>Reports on investment performance and changes in investments to the Board</li> </ul>           |
| <b>Compensation Committee</b>       | <ul style="list-style-type: none"> <li>Provides oversight of total compensation strategy and assists the Board in determining the appropriate compensation for officers and compensation levels for staff</li> <li>Ensures that human resources opportunities and risks are properly identified and managed</li> </ul>   | <ul style="list-style-type: none"> <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> <li>Establishes, reviews and updates compensation strategy and structure for approval by the Board</li> <li>Annually reviews proposals regarding compensation</li> <li>Recommends compensation for officers and staff for approval by the Board</li> <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 eight meetings in 2017. The Audit and Budget Committee met four times; the Compensation Committee twice; and the Investment Committee met once. The Director attendance at Board and committee meetings for the year ended December 31, 2017 was as follows:

| Director           | Board Meetings | Committee Meetings |
|--------------------|----------------|--------------------|
| Daniel M. Covitz   | 8/8            | 4/4                |
| Anthony D'Agostino | 8/8            | 1/1                |
| William S. Jasien  | 7/8            | 3/4                |
| Gregory S. Karawan | 6/8            | 2/2                |
| Jared C. Sawyer    | 3/4            | 3/3                |
| Sarah Hammer*      | 3/4            | 0/0                |

\*Directorship terminated during the year.



# “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 approximately 770,400 claims satisfied in completed or substantially completed cases as of December 31, 2017, a total of 359 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 359 claims, a net increase of three during 2017, represent less than one percent of all claims satisfied. The unsatisfied portion of claims, \$50.5 million, increased by \$0.5 million in 2017. These remaining claims represent less than 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 92 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 330 customer protection proceedings. The largest net advance in a single liquidation is \$2.26 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 \$2.61 billion, or 94 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

### Net Advances from the SIPC Fund December 31, 2017 330 Customer Protection Proceedings

| Net Advances |              | Number of Proceedings | Amounts Advanced |
|--------------|--------------|-----------------------|------------------|
| From         | To           |                       |                  |
| \$40,000,001 | up           | 1                     | \$2,258,004,369  |
| 10,000,001   | \$40,000,000 | 11                    | 230,322,729      |
| 5,000,001    | 10,000,000   | 18                    | 126,052,575      |
| 1,000,001    | 5,000,000    | 62                    | 136,892,807      |
| 500,001      | 1,000,000    | 38                    | 28,034,095       |
| 250,001      | 500,000      | 43                    | 14,872,247       |
| 100,001      | 250,000      | 61                    | 9,734,360        |
| 50,001       | 100,000      | 42                    | 2,995,426        |
| 25,001       | 50,000       | 25                    | 915,413          |
| 10,001       | 25,000       | 11                    | 168,668          |
| 0            | 10,000       | 11                    | 26,087           |
|              | Net Recovery | 7                     | (13,991,621)*    |
|              |              | 330                   | \$2,794,027,155† |

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

† Consists of advances for accounts of customers (\$981,856,520) and for administration expenses (\$1,812,170,635).

# MEMBERSHIP AND THE SIPC FUND

The net decrease of 128 members during the year brought the total membership to 3,700 at December 31, 2017. 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, 2017, there were 61 members who were subjects of uncured notices, 33 of which were mailed during 2017, 10 during 2016, 11 during 2015, one during 2014 and 2013, three in 2012 and two in 2010. Subsequent filings and payment by 10 members left 51 notices uncured. SIPC has been advised by the SEC staff that : (a) 10 are no longer engaged in

the securities business and are under review by the Commission for possible revocation (b) seven registrations have been cancelled, and (c) 34 have been referred to Commission Regional Offices for possible cancellation.

## SIPC Fund

The SIPC Fund, shown at Table 5, on page 29, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to \$2.95 billion at year end, an increase of \$225 million during 2017.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2017. The 2017 member assessments were \$277.8 million and interest from investments was \$57.7 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2017, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2017) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2017.

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

TABLE 2

## SIPC Membership Year Ended December 31, 2017

| Agents for Collection of SIPC Assessments   | Total | Added <sup>(a)</sup> | Terminated <sup>(a)</sup> |
|---|-------|----------------------|---------------------------|
| FINRA <sup>(b)</sup>                        | 3,591 | 100                  | 189                       |
| SIPC <sup>(c)</sup>                         | 17    | —                    | 34 <sup>(d)</sup>         |
| Chicago Board Options Exchange Incorporated | 43    | 1                    | 2                         |
| NYSE American LLC <sup>(e)</sup>            | 7     | 1                    | 3                         |
| NYSE Arca, Inc. <sup>(e)</sup>              | 12    | —                    | 1                         |
| NASDAQ OMX PHLX <sup>(f)</sup>              | 17    | 1                    | 4                         |
| Chicago Stock Exchange, Incorporated        | 13    | 4                    | 2                         |
|   | 3,700 | 107                  | 235                       |

### Notes:

- (a) The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2017.
- (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 NYSE MKT LLC

TABLE 3

**SIPC Revenues for the Forty-Seven Years Ended December 31, 2017**

■ Member assessments and contributions: \$4,270,903,393  
 ■ Interest on U.S. Government securities: \$1,892,209,152



**History of Member Assessments\***

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

1972–1977: ½ of 1%.

January 1–June 30, 1978: ¼ of 1%.

July 1–December 31, 1978: None.

1979–1982: \$25 annual assessment.

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

1986–1988: \$100 annual assessment.

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

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

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

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

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

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

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

April 1, 2009–December 31, 2016: .25% of members' net operating revenues (\$150 minimum through June 2010).

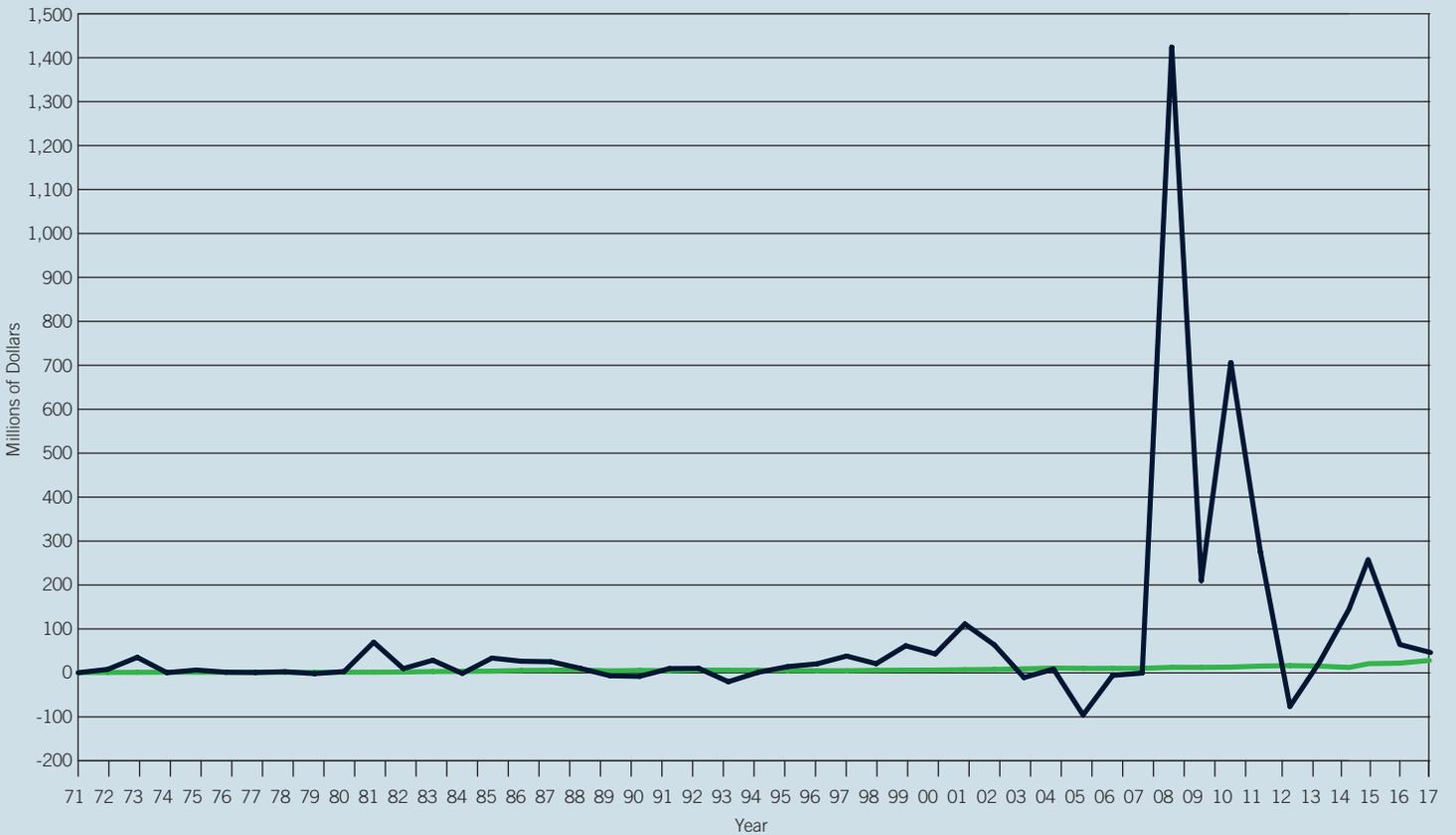
2017: .15% of members' net operating revenues.

\* 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-Seven Years Ended December 31, 2017**

- Customer protection proceedings: \$3,617,527,155 (Consists of net advances of \$2,794,027,155 and \$847,300,000 of estimated costs to complete proceedings less estimated future recoveries of \$23,800,000.)
- Other expenses: \$327,190,110



## In 2017, 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”) resulted in a number of significant decisions. Some of the decisions grew out of the Bankruptcy Court’s approval in 2011, of a global settlement agreement among the Trustee, certain defendants including the estate of Jeffrey Picower (the “Picower parties”), and the U.S. Government. In approving the settlement that resulted in the Picower parties disgorging \$7.2 billion—\$5 billion to the Trustee and \$2.2 billion to the Government—the Bankruptcy Court permanently enjoined any BLMIS customer or creditor from asserting claims duplicative or derivative of those of the Trustee.

The District Court in *A & G Goldman Partnership v. Capital Growth Company (In re BLMIS)*, 565 B.R. 510 (S.D.N.Y. 2017), affirmed the decision of the Bankruptcy Court enjoining the appellants from filing their third class action complaint against the Picower parties. The District Court agreed that appellants’ complaint, filed in federal district court in Florida, asserted only a generalized, and not a particularized, claim against the defendants. Because the complaint sought recovery for “a claim that affected all BLMIS investors in the same way,” the claim was derivative and belonged exclusively to the Trustee. Accordingly, the complaint was barred by the permanent injunction.

Similarly, in *Marshall v. Capital Growth Company (In re BLMIS)*, No. 15-01293 (Bankr. S.D.N.Y. March 7, 2017), the Bankruptcy Court denied a motion for declaratory relief and dismissed the complaint filed by a group of putative class action plaintiffs against the Picower Parties. The plaintiffs sought a declaration that their proposed third amended complaint asserted claims not barred by the automatic stay or the permanent injunction. The Bankruptcy Court held that the plaintiffs failed to identify any conduct by the Picower Parties directed at the putative class and failed

to identify any particularized injury, and that many allegations in the complaint were identical to those in the second amended complaint, which the Court previously found to violate the permanent injunction.

In *Picard v. J. Ezra Merkin (In re BLMIS)*, 563 B.R. 737 (Bankr. S.D.N.Y. 2017), an adversary proceeding to avoid and recover transfers by BLMIS to initial and subsequent transferees, the Bankruptcy Court denied Defendants’ motions for summary judgment, except as to one subsequent transferee. The Court found that an issue of material fact remained as to whether J. Ezra Merkin, a money manager and partner in several investment funds, willfully blinded himself to the Madoff fraud. Although the defendants contended that Merkin conducted “appropriate due diligence of BLMIS and Madoff” and “did not suspect” BLMIS was a Ponzi scheme, the Court noted that the Trustee’s evidence supported the inference that Merkin suspected Madoff was running a Ponzi scheme and did nothing to investigate his suspicions. Because Merkin’s state of mind and his actions presented disputed issues of fact, the Court deemed summary judgment claims “notoriously inappropriate.”

In *Picard v. Cohen (In re BLMIS)*, No. 16 CV 5513-LTS (February 24, 2017), the District Court adopted the Bankruptcy Court’s Proposed Findings of Fact and Conclusions of Law and entered a judgment of \$1,143,461 in favor of the Trustee. The Trustee sought to avoid and recover, as fraudulent transfers, payments made by BLMIS to the defendant. After the parties stipulated that the defendant had no knowledge of the Ponzi scheme and that he withdrew his fictitious profits within two years of the filing date, the Bankruptcy Court held that the Trustee met his burden of proof in relying on the presumption that in a Ponzi scheme, transfers are made with actual fraudulent intent. The Bankruptcy Court rejected the defendant’s affirmative defenses focused primarily on the

assertion that the withdrawals were payments for antecedent debts.

The Bankruptcy Court in *In re BLMIS*, 570 B.R. 477 (Bankr. S.D.N.Y. 2017), affirmed the Trustee’s denial of certain customer claims. While an account held as a tenancy in common was a qualifying joint account under SIPC Rule 105, thus making the claimant a customer, the individual co-tenants were not separate customers of BLMIS. These co-tenants did not entrust cash or securities to BLMIS for the purpose of trading securities, and thus failed to satisfy this critical aspect of the customer definition. The Court applied the same rationale in denying claims filed by co-tenants of another joint account.

The Second Circuit in *Sagor v. Picard (In re BLMIS)*, 697 F. App’x 708 (2d Cir. 2017), affirmed the lower court decisions approving the Trustee’s methodology for calculating net equity in accounts involving transfers of fictitious profit from other BLMIS customer accounts. The Court found that the Trustee’s use of the “Inter-Account Method” properly applied the earlier approved “Net Investment Method” to accounts that received inter-account transfers. The Court held that consistent with the “Net Investment Method,” the only relevant data points for calculating net equity were external cash deposits and external cash withdrawals, not transfers of fictitious profit. The Court rejected the argument that the Inter-Account method violated the avoidance provisions of the Bankruptcy Code, holding that the method did not void transfers, but was merely a system for determining net equity in an account.

In *Picard v. The Lustig Family 1990 Trust (In re BLMIS)*, 568 B.R. 481 (Bankr. S.D.N.Y. 2017), the Trustee sued the defendants in avoidance to recover approximately \$7 million in fictitious profits that Defendants withdrew from their BLMIS customer accounts. The defendants claimed that they reinvested the

## LITIGATION

### continued

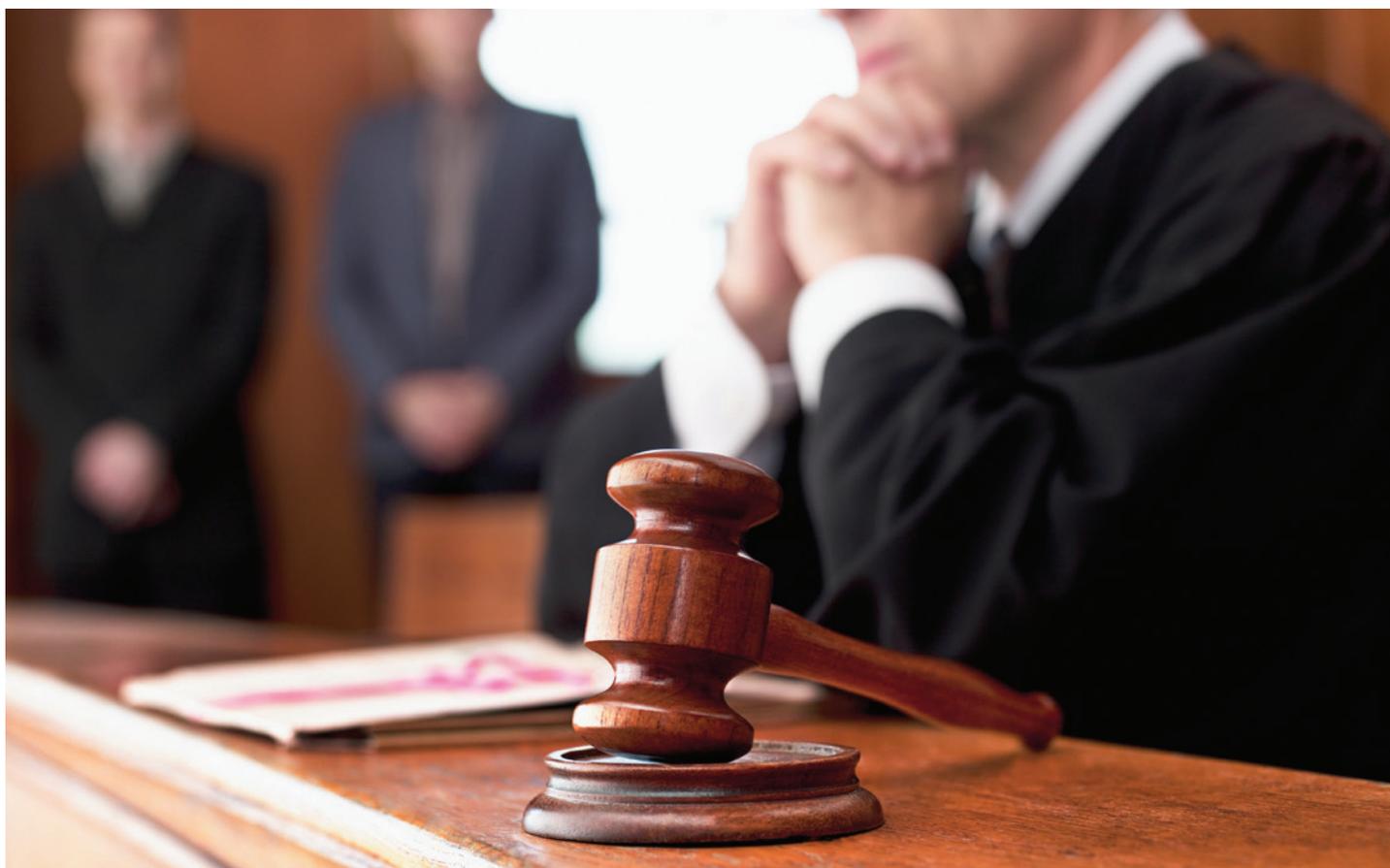
withdrawn sums with BLMIS feeder funds, and that all reinvested money was ultimately lost. In granting the Trustee's motion to strike the defendants' affirmative defenses, the Bankruptcy Court held that it could not exercise its general equity power under Bankruptcy Code § 105(a) to dismiss the avoidance claims or grant "equitable credit" for the reinvestment. Those credits belonged to the entities that gave value to the debtor—namely, the feeder funds. The Court also held that the Trustee did not violate Bankruptcy Code § 550(d), which limits the Trustee to a single recovery when suing subsequent transferees to recover an avoided initial transfer. Here, the Trustee sued the feeder funds not as subsequent transferees of the defendants, but for separate initial transfers.

Finally, the Court rejected Defendants' reliance on the doctrine of recoupment which allows for the deduction of money where cross demands arise out of the same transaction. Because the parties' claims arose from two different transactions—the Trustee's from the initial transfers to the defendants, the defendants' from their investment with feeder funds, the doctrine did not apply.

Afterwards, the defendants filed a motion for leave to appeal the Bankruptcy decision, which the District Court denied in *Picard v. the Lustig Family 1990 Trust*, 2017 WL 4838575 (S.D.N.Y. October 24, 2017). The Court found that none of the issues presented pure questions of law and would require fact-intensive inquiries not appropriate for interlocutory appeal.

Then, the defendants' motion seeking reconsideration of the adverse Bankruptcy Court order was denied in *Picard v. The Lustig Family 1990 Trust (In re BLMIS)*, 2017 WL 6205381 (Bankr. S.D.N.Y. December 6, 2017). The Bankruptcy Court, incorporating its earlier decision, rejected the defendants' arguments that the Court made several factual and legal errors. The Court found that the defendants' arguments were based on a misreading of the Court's decision and a misunderstanding of fraudulent transfer law. The defendants were the initial transferees of the funds, exercising dominion and control over that money, and not "mere conduits."

In *In re BLMIS*, 2017 WL 2602332 (Bankr. S.D.N.Y. June 15, 2017), the Bankruptcy Court granted the Trustee's motion *in limine*



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

## SIPA, Sec. 4(c)(2)

to preclude certain claimants from calling the Trustee as a witness. The claimants disagreed with the Trustee that notations of “PW” in BLMIS’s books and records were profit withdrawals, that is, actual withdrawals of cash by BLMIS customers. The Court held that the testimony sought from the Trustee as to the PW notations was immaterial, would duplicate the experts’ testimony, would unnecessarily prolong the trial, and would harass the Trustee. After being informed that certain claimants would testify in person, the Court deferred ruling on the Trustee’s other motion *in limine* to preclude the claimants’ deposition testimony based on their alleged lack of personal knowledge.

Several noteworthy decisions were issued in the liquidation of Lehman Brothers, Inc. (“LBI”):

The Second Circuit in *FirstBank Puerto Rico v. Giddens (In re LBI)*, 689 F. App’x 14 (2d Cir. 2017), affirmed the decisions of the District and Bankruptcy Courts which granted the Trustee’s motion to expunge FirstBank’s customer claim. FirstBank sought the return of securities pledged to Lehman Brothers Special Financing (“LBSF”), a subsidiary of LBI, as part of a routine interest rate swap agreement. LBSF subsequently transferred most of these securities to LBI pursuant to repurchase

agreements to which FirstBank was not a party. The Court held that collateral estoppel barred FirstBank from asserting an interest in the securities at issue. In addition, the Court affirmed the findings of the lower courts that FirstBank was not a customer of LBI within the meaning of SIPA because FirstBank could not demonstrate that it entrusted securities to LBI, a prequalification for customer status.

The Bankruptcy Court in *Giddens v. 344 Individuals (In re LBI)*, 574 B.R. 52 (Bankr. S.D.N.Y. 2017), granted the Trustee’s motion for summary judgment and denied the defendants’ cross-motion for summary judgment. At issue was whether the claims of former employees of Shearson Lehman Brothers Inc. (“Shearson”) were subordinated to the claims of LBI’s general unsecured creditors. These former employees, by entering into the Executive and Select Employees Deferred Compensation Plan (“ESEP agreements”) with Shearson, agreed to defer portions of their compensation in exchange for benefits upon their retirement. The Court found that there was no basis to allow the employees’ claims as unsubordinated general unsecured claims. The Court held that the language in the ESEP agreements was unambiguous in providing for the subordination of the Employee claims, that LBI and Shearson were the same

legal entity, and, even if LBI instead were considered a successor to Shearson, that the subordination provisions would be binding on Shearson’s successors. The Court also held that the employees’ arguments that LBI breached the ESEP agreements and that the ESEP agreements constituted executory contracts were irrelevant to the subordination issue.

The Second Circuit in *IEE LLC v. Giddens (In re LBI)*, 703 F. App’x 18 (2d Cir. 2017), affirmed in part and reversed in part the decision of the District Court. Two former employees of LBI, who later accepted employment offers from Barclays, filed claims in the LBI liquidation for payment of nondiscretionary bonuses for fiscal years 2007 and 2008. The Circuit Court upheld the District Court’s ruling that the claimants could not claim the 2008 bonuses because they accepted payment of these bonuses from Barclays which Barclays was obligated to pay. Overruling the District Court, the Second Circuit held that the 2007 bonus was different as Barclays had no obligation to pay it, giving the claimant the right to pursue his unpaid 2007 bonus claim against LBI.

In other matters, in *SIPC v. Sara*, Claim No. FA1705001733440 (National Arbitration Forum July 10, 2017), SIPC filed a complaint with the National Arbitration Forum seeking

## LITIGATION

### continued

to have the domain name <sipc.online> transferred to it. The arbitrator found that the subject domain name was confusingly similar to SIPC's service mark, that the registrant had no legitimate interest in the domain name, and that the registrant had used the domain in bad faith, primarily to attract Internet traffic and commercially benefit from the goodwill of the SIPC mark. The arbitrator ordered the domain name transferred to SIPC.

Similarly, in *SIPC v. Rex Lopez*, Claim No. FA1707001741285 (National Arbitration Forum August 17, 2017), the National

Arbitration Forum arbitrator found that the registrant had no legitimate interest in the <sipc-report.com> domain name and had used the domain in bad faith, in order to divert investors to the fraudulent site. The arbitrator ordered the domain name transferred to SIPC.

The Bankruptcy Court granted in part and denied in part the defendants' motion to dismiss in *Securities Investor Protection Corporation, as Trustee v. Desiderio (SIPC v. Global Arena Capital Corp.)*. SIPC, as Trustee for the liquidation of Global Arena Capital Corporation, had sued the defendants seeking repayment of amounts

owed to the debtor under certain promissory notes. The complaint also alleged actual and constructive fraudulent transfers, conversion, and unjust enrichment by the defendants and contained a claim for attorneys' fees. The Court denied the defendants' motion to dismiss as to the claims regarding the promissory notes, actual and constructive fraudulent transfers, and attorneys' fees finding that these causes of action had been adequately pled in the complaint. The Court granted the motion without prejudice regarding the conversion and unjust enrichment claims subject to repleading.



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 131 of the 330 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 314 indictments have been returned in federal or state courts, resulting in 272 convictions to date.

Administrative and/or criminal actions in 289 of the 330 SIPC customer protection proceedings initiated through December 31, 2017, were accomplished as follows:

| Action Initiated                                 | Number of Proceedings |
|--|-----------------------|
| Joint SEC/Self-Regulatory Administrative Actions | 61                    |
| Exclusive SEC Administrative Actions             | 41                    |
| Exclusive Self-Regulatory Administrative Actions | 56                    |
| Criminal and Administrative Actions              | 103                   |
| Criminal Actions Only                            | 28                    |
| <b>Total</b>                                     | <b>289</b>            |

### 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 2017 SIPC received one referral 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.



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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
Securities Investor Protection Corporation

We have audited the accompanying financial statements of Securities Investor Protection Corporation, which comprise the statement of financial position as of December 31, 2017, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements on pages 20 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.



**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, 2017, 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*

Arlington, Virginia  
April 12, 2018

# SIPC

## FINANCIAL STATEMENTS

### Statement of Financial Position as of December 31, 2017

#### ASSETS

|  |                        |
|--|------------------------|
| Cash   | \$ 849,459             |
| U.S. Government securities, at fair value and accrued interest receivable of (\$16,826,701); (amortized cost \$2,967,337,626) (Note 6) | 2,945,799,390          |
| Estimated member assessments receivable (Note 3)   | 131,203,478            |
| Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$2,237,608,303) (Note 4)    | 23,800,000             |
| Assets held for deferred compensation plan (Note 8)  | 1,571,565              |
| Other (Note 5 and Note 9)  | 2,797,892              |
|  | <b>\$3,106,021,784</b> |

#### LIABILITIES AND NET ASSETS

|  |                        |
|--|------------------------|
| Accrued benefit costs (Note 8)   | \$ 13,028,565          |
| Amount due on deferred compensation plan (Note 8)                                | 1,571,565              |
| Accounts payable and other accrued expenses                                      | 925,885                |
| Deferred rent (Note 5)   | 1,958,754              |
| Estimated costs to complete customer protection proceedings in progress (Note 4) | 847,300,000            |
| Member assessments received in advance (Note 3)                                  | 5,338,472              |
|  | 870,123,241            |
| Unrestricted net assets  | 2,235,898,543          |
|  | <b>\$3,106,021,784</b> |

The accompanying notes are an integral part of these statements.

### Statement of Activities for the year ended December 31, 2017

#### Revenues:

|  |                    |
|--|--------------------|
| Member assessments (Note 3)            | \$ 277,800,032     |
| Interest on U.S. Government securities | 57,725,105         |
|  | <b>335,525,137</b> |

#### Expenses:

|   |            |
|---|------------|
| Salaries and employee benefits (Note 8) | 11,379,039 |
| Legal and accounting fees (Note 4)      | 200,441    |
| Rent (Note 5)                           | 983,172    |
| Other                                   | 3,327,088  |
|   | 15,889,740 |

|  |                   |
|--|-------------------|
| Provision for estimated costs to complete customer protection proceedings in progress (Note 4) | 51,328,300        |
|  | <b>67,218,040</b> |

|   |                        |
|---|------------------------|
| Excess revenues over expenses   | 268,307,097            |
| Realized and unrealized loss on U.S. Government securities (Note 6)               | (14,174,544)           |
| Pension and postretirement benefit changes other than net periodic costs (Note 8) | (3,327,187)            |
| Increase in unrestricted net assets   | 250,805,366            |
| Unrestricted net assets, January 1, 2017  | 1,985,093,177          |
| Unrestricted net assets, December 31, 2017  | <b>\$2,235,898,543</b> |

The accompanying notes are an integral part of these statements.

## Statement of Cash Flows for the year ended December 31, 2017

### Operating activities:

|   |               |
|---|---------------|
| Interest received from U.S. Government securities     | \$ 59,235,908 |
| Member assessments received                           | 357,069,111   |
| Advances paid to trustees                             | (172,405,547) |
| Recoveries of advances                                | 11,176,969    |
| Salaries and other operating activities expenses paid | (14,020,786)  |
| Net cash provided by operating activities             | 241,055,655   |

### Investing activities:

|   |               |
|---|---------------|
| Proceeds from sales of U.S. Government securities | 443,998,017   |
| Purchases of U.S. Government securities           | (685,880,684) |
| Purchases of furniture and equipment              | (145,922)     |
| Net cash used in investing activities             | (242,028,589) |

|                         |            |
|-------------------------|------------|
| Decrease in cash        | (972,934)  |
| Cash, January 1, 2017   | 1,822,393  |
| Cash, December 31, 2017 | \$ 849,459 |

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 \$2,946,648,849.

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. Effective January 1, 2017, the assessment rate will be 0.15 per centum. 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 2017 but not received, or expected to be received, until 2018.

# SIPC

## FINANCIAL STATEMENTS

### continued

#### 4. Customer protection proceedings

In the Bernard L. Madoff Investment Securities LLC proceeding, the Trustee, utilizing the customer records available from the computer files of the firm, identified those accounts believed to be valid customers. In accordance with Section 7811(2) of SIPA, the definition of a "customer" includes a "person who had deposited cash with the debtor for the purpose of purchasing securities." The customer can be an individual, a corporation, a partnership, a pension plan or a "feeder fund." The Trustee then calculated the "net cash" positions (cash deposited less cash withdrawn) for each customer's account and, where available, this information was compared to other source documentation including banking records and customer portfolio files. Based on that valuation, the Trustee determined the customer's net equity and maximum claim allowed under SIPA. 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 \$3.1 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. 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 has advanced a net of \$2.26 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$2.24 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, 2017 that result from these proceedings:

\*Subsequent judicial opinions may result in fluctuations in this number.

| Customer Protection Proceedings                       |   |                             |
|---|---|-----------------------------|
|   | Advances to trustees,<br>less allowance for possible losses | Estimated costs to complete |
| Balance, beginning of year                            | \$11,100,000  | \$944,500,000               |
| Add:  |   |                             |
| Provision for current year recoveries                 | 100,000   | —                           |
| Provision for estimated future recoveries             | 23,800,000  | —                           |
| Provision for estimated costs to complete proceedings | —   | 75,100,000                  |
| Less:   |   |                             |
| Recoveries  | 11,200,000  | —                           |
| Advances to trustees                                  | —   | 172,300,000                 |
| Balance, end of year                                  | \$23,800,000  | \$847,300,000               |

## 5. Commitments

On June 20, 2014, SIPC signed a lease for office space in Washington, D.C. The 11 year lease commenced on August 1, 2015. Future minimum rentals for the space, expiring on August 31, 2026, are as follows: 2018—\$848,611; 2019—\$869,805; 2020—\$895,623; 2021—\$925,154; 2022—\$1,035,807; thereafter—\$4,019,644; for a total of \$8,594,644, as of December 31, 2017. 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 seven-year lease commenced on August 1, 2013. Future minimum rentals for the space, expiring on July 31, 2020, are as follows: 2018—\$157,407; 2019—\$161,735; 2020—\$95,842; for a total of \$414,984, as of December 31, 2017. 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 unobservable 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 unobservable 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, 2017.

The fair value of U.S. Government securities is based on the bid quote as of December 31, 2017 as reported by a third party pricing service. 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 market makers, or in which little information is released publicly. As of December 31, 2017, all securities held within the portfolio are priced using Level 2 inputs.

U.S. Government securities as of December 31, 2017 included cumulative gross unrealized gains of \$14,298,385 and cumulative gross unrealized losses of \$35,836,621.

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

|  |                      |
|--|----------------------|
| Increase in unrestricted net assets  | \$250,805,366        |
| Net decrease in estimated cost to complete customer protection proceedings | (97,200,000)         |
| Decrease in estimated assessment receivable                                | 76,249,200           |
| Realized and unrealized loss on U.S. Government securities                 | 14,174,544           |
| Net increase in estimated recoveries of advances to trustees               | (12,700,000)         |
| Increase in payables and accrued expenses                                  | 4,921,661            |
| Increase in member assessments collected in advance                        | 2,989,002            |
| Net amortized discount on U.S. Government securities                       | 2,355,608            |
| Increase in accrued interest receivable on U.S. Government securities      | (844,805)            |
| Depreciation and amortization  | 701,871              |
| Increase in prepaid expenses   | (336,214)            |
| Decrease in deferred rent  | (61,080)             |
| Loss on disposal of assets   | 502                  |
| <b>Net cash provided by operating activities</b>                           | <b>\$241,055,655</b> |

## 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 \$1,571,565 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 |
|---|------------------|-------------------------------|
| <b>Change in Benefit Obligation</b>   |                  |                               |
| Benefit obligation at beginning of year   | \$47,976,916     | \$ 7,626,882                  |
| Service cost  | 1,432,786        | 324,954                       |
| Interest cost   | 1,886,627        | 310,253                       |
| Plan participants' contributions  | —                | 22,387                        |
| Amendments  | —                | —                             |
| Actuarial loss  | 8,450,842        | 10,847                        |
| Benefits paid   | (1,073,694)      | (94,716)                      |
| Benefit obligation at end of year   | \$58,673,477     | \$ 8,200,607                  |
| <b>Change in Plan Assets</b>  |                  |                               |
| Fair value of plan assets at beginning of year  | \$47,112,381     | \$ —                          |
| Actual return on plan assets  | 7,793,371        | —                             |
| Employer contributions prior to measurement date  | —                | —                             |
| Employer contributions  | —                | 72,329                        |
| Plan participants' contributions  | —                | 22,387                        |
| Benefits paid   | (1,073,694)      | (94,716)                      |
| Fair value of plan assets at end of year  | \$53,832,058     | \$ —                          |
| Funded status   | \$ (4,841,419)   | \$(8,200,607)                 |
| Employer contributions between measurement and statement date                               | —                | —                             |
| Funded status at year end   | \$ (4,841,419)   | \$(8,200,607)                 |
| <b>Amounts recognized in the Statement of Financial Position and net assets consist of:</b> |                  |                               |
| Net amount recognized in the Statement of Financial Position                                | \$ (4,841,419)   | \$(8,200,607)                 |
| Accumulated benefit obligation end of year  | \$56,170,207     | \$ 8,200,607                  |

# SIPC

## FINANCIAL STATEMENTS

### continued

|  | Pension Benefits | Other Postretirement Benefits |
|--|------------------|-------------------------------|
| <b>Weighted-average assumptions for disclosure as of December 31, 2017</b>   |                  |                               |
| Discount rate  | 3.60%            | 3.80%                         |
| Salary scale 2018 / thereafter   | 3.00%/3.00%      | N/A                           |
| Health Care Cost Trend: Initial Pre-65/Post-65   | N/A              | 6.55%/5.70%                   |
| Health Care Cost Trend: Ultimate   | N/A              | 5.00%                         |
| Year ultimate reached  | N/A              | 2022                          |
| <b>Components of net periodic benefit cost and other amounts recognized within the Statement of Activities</b>                   |                  |                               |
| <b>Net periodic benefit cost</b>   |                  |                               |
| Service cost   | \$1,432,786      | \$ 324,954                    |
| Interest cost  | 1,886,627        | 310,253                       |
| Expected return on plan assets   | (3,357,513)      | —                             |
| Recognized prior service cost  | 1,426            | 3,673                         |
| Recognized actuarial loss  | 584,229          | 109,316                       |
| Net periodic benefit cost  | 547,555          | 748,196                       |
| <b>Pension and other postretirement benefit changes other than net periodic benefit cost</b>                                     |                  |                               |
| Net actuarial loss   | 4,014,984        | 10,847                        |
| Recognized actuarial loss  | (584,229)        | (109,316)                     |
| Prior service cost   | —                | —                             |
| Recognized prior service cost  | (1,426)          | (3,673)                       |
| Total pension and postretirement benefit changes other than net periodic cost  | 3,429,329        | (102,142)                     |
| Total net periodic other benefit cost and pension and other postretirement benefits changes other than net periodic benefit cost | \$3,976,884      | \$ 646,054                    |
| <b>Amounts expected to be recognized in net periodic cost in the coming year</b>   |                  |                               |
| Loss recognition   | \$ 875,128       | \$ 95,494                     |
| Prior service cost recognition   | —                | 7,842                         |
| Total  | \$ 875,128       | \$ 103,336                    |
| <b>Effect of a 1% increase in trend on:</b>  |                  |                               |
| Benefit obligation   | N/A              | \$ 1,423,340                  |
| Total service interest cost  | N/A              | \$ 154,529                    |
| <b>Effect of a 1% decrease in trend on:</b>  |                  |                               |
| Benefit obligation   | N/A              | \$ (1,348,069)                |
| Total service interest cost  | N/A              | \$ (123,580)                  |
| <b>Weighted-average assumptions for net periodic cost as of December 31, 2017</b>  |                  |                               |
| Discount rate  | 4.00%            | 4.10%                         |
| Expected asset return  | 7.25%            | N/A                           |
| Salary scale 2017/thereafter   | 3.0%/2.5%        | N/A                           |
| Health Care Cost Trend: Initial pre-65/post-65   | N/A              | 7.05%/5.90%                   |
| 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 2017, the unrecognized net loss increased by 7.2% of the December 31, 2016 projected benefit obligation primarily due to a change in the salary scale and the mortality improvement 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 high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2017 by (\$681,000)/\$833,000 and (decreased)/increased the year-end projected benefit obligation by (\$7.5)/\$9.5 million.

| Asset Summary  |  |
|--|--|
| Asset Category   | Quoted Prices in Active Markets for Identical Assets (Level 1) |
| <b>Equity securities:</b>                                |  |
| U.S. large and multi-cap mutual funds                    | \$28,360,853   |
| Non-U.S. large and multi-cap mutual funds                | 7,095,603  |
| Total Equity   | 35,456,456   |
| <b>Fixed Income securities:</b>                          |  |
| U.S. Treasuries/Government & corporate bond mutual funds | 18,375,602   |
| Total Fixed Income                                       | 18,375,602   |
| Total  | \$53,832,058   |

#### 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 2017 by \$463,000.

#### 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 12/31/2017 |
|-----------------------------|---------------------------|-------------------|------------------------------|
| Equity securities           | 9.30%                     | 60–70%            | 66%                          |
| Debt securities             | 4.20%                     | 40–30%            | 34%                          |
| Total                       | 7.25%                     | 100%              | 100%                         |

# SIPC

## FINANCIAL STATEMENTS

continued

### Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

|           | Pension      | Other Benefits |
|-----------|--------------|----------------|
| 2018      | \$ 1,865,601 | \$ 126,503     |
| 2019      | \$ 2,092,649 | \$ 165,555     |
| 2020      | \$ 2,440,570 | \$ 241,942     |
| 2021      | \$ 2,767,309 | \$ 307,655     |
| 2022      | \$ 2,934,589 | \$ 348,526     |
| 2023–2027 | \$16,799,224 | \$2,023,779    |

### Contributions

SIPC expects to make no contributions to the pension plan in 2018 for the 2017 plan year and \$127,000 to the postretirement benefit plan during 2018.

### Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation) \$ 242,004

### 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

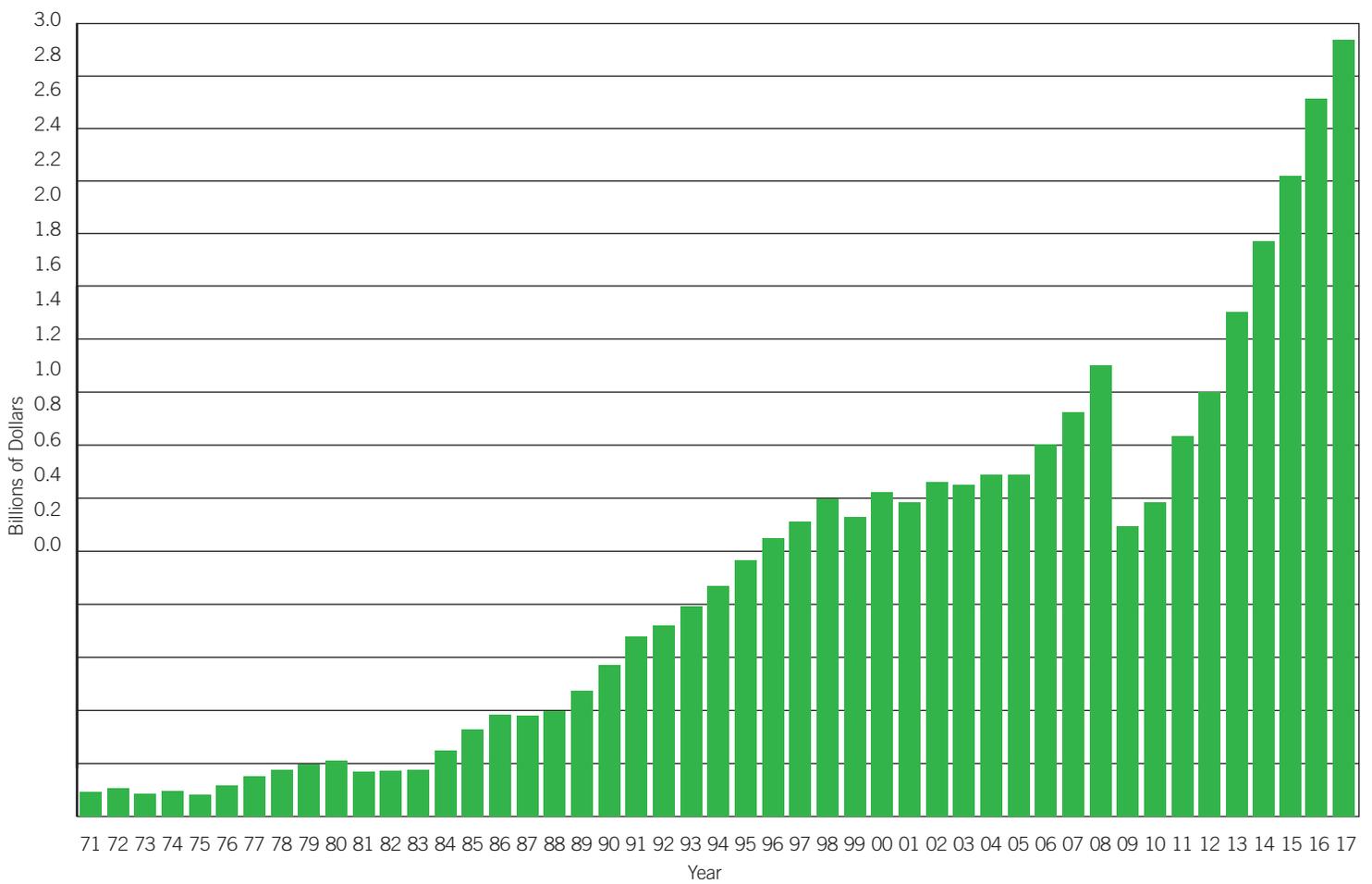
SIPC evaluated its December 31, 2017 financial statements for subsequent events through April 12, 2018, the date the financial statements were available to be issued. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

### Fixed Assets

|  |             |
|--|-------------|
| Office equipment at cost                       | \$ 68,464   |
| Computer hardware at cost                      | 3,242,199   |
| Computer software at cost                      | 1,730,492   |
| Office furniture and fixtures at cost          | 1,200,242   |
| Leasehold improvements at cost                 | 1,451,559   |
| Total fixed assets at cost                     | 7,692,956   |
| Less accumulated depreciation and amortization | (5,051,173) |
| Net fixed assets                               | \$2,641,783 |
| 2017 depreciation and amortization expense     | \$ 701,871  |

TABLE 5

**SIPC Fund Comparison  
Inception to December 31, 2017**



# APPENDIX 1

## DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Forty-Seven Years Ended December 31, 2017  
(In Thousands of Dollars)

|      | From Debtor's Estates     |                       | From SIPC   |           | Total         |
|------|---------------------------|-----------------------|-------------|-----------|---------------|
|      | As Reported by Trustees   | Advances*             | Recoveries* | Net       |               |
| 1971 | \$ 271                    | \$ 401                |             | \$ 401    | \$ 672        |
| 1972 | 9,300                     | 7,347                 | \$ (4)      | 7,343     | 16,643        |
| 1973 | 170,672                   | 35,709                | (4,003)     | 31,706    | 202,378       |
| 1974 | 21,582                    | 4,903                 | (5,125)     | (222)     | 21,360        |
| 1975 | 6,379                     | 6,952                 | (2,206)     | 4,746     | 11,125        |
| 1976 | 19,901                    | 1,292                 | (528)       | 764       | 20,665        |
| 1977 | 5,462                     | 2,255                 | (2,001)     | 254       | 5,716         |
| 1978 | 1,242                     | 4,200                 | (1,682)     | 2,518     | 3,760         |
| 1979 | 9,561                     | 1,754                 | (6,533)     | (4,779)   | 4,782         |
| 1980 | 10,163                    | 3,846                 | (998)       | 2,848     | 13,011        |
| 1981 | 36,738                    | 64,311                | (1,073)     | 63,238    | 99,976        |
| 1982 | 28,442                    | 13,807                | (4,448)     | 9,359     | 37,801        |
| 1983 | 21,901                    | 52,927                | (15,789)    | 37,138    | 59,039        |
| 1984 | 184,910                   | 11,480                | (13,472)    | (1,992)   | 182,918       |
| 1985 | 180,973                   | 19,400                | (11,726)    | 7,674     | 188,647       |
| 1986 | 28,570                    | 14,886                | (4,414)     | 10,472    | 39,042        |
| 1987 | 394,443                   | 20,425                | (2,597)     | 17,828    | 412,271       |
| 1988 | 72,052                    | 8,707                 | (10,585)    | (1,878)   | 70,174        |
| 1989 | 121,958                   | (5,481)               | (10,244)    | (15,725)  | 106,233       |
| 1990 | 301,237                   | 3,960                 | (4,444)     | (484)     | 300,753       |
| 1991 | 1,943                     | 6,234                 | (2,609)     | 3,625     | 5,568         |
| 1992 | 34,634                    | 7,816                 | (230)       | 7,586     | 42,220        |
| 1993 | 115,881                   | 4,372                 | (9,559)     | (5,187)   | 110,694       |
| 1994 | (14,882) <sup>#</sup>     | (1,283)               | (3,829)     | (5,112)   | (19,994)      |
| 1995 | 585,756                   | 17,850                | (4,196)     | 13,654    | 599,410       |
| 1996 | 4,770                     | (1,491)               | (10,625)    | (12,116)  | (7,346)       |
| 1997 | 314,813                   | 22,366                | (4,527)     | 17,839    | 332,652       |
| 1998 | 3,605                     | 4,458                 | (1,571)     | 2,887     | 6,492         |
| 1999 | 477,635                   | 47,360                | (7,460)     | 39,900    | 517,535       |
| 2000 | 364,065                   | 26,330                | (3,413)     | 22,917    | 386,982       |
| 2001 | 10,110,355                | 200,967               | (87,538)    | 113,429   | 10,223,784    |
| 2002 | 606,593                   | 40,785                | (5,812)     | 34,973    | 641,566       |
| 2003 | (643,242) <sup>#</sup>    | 22,729                | (4,425)     | 18,304    | (624,938)     |
| 2004 | 209,025                   | (11,662) <sup>#</sup> | (37,700)    | (49,362)  | 159,663       |
| 2005 | (24,245) <sup>#</sup>     | 1,175                 | (4,342)     | (3,167)   | (27,412)      |
| 2006 | 1,635,006                 | 2,653                 | (51,942)    | (49,289)  | 1,585,717     |
| 2007 | 1,167                     | 7,054                 | (6,624)     | 430       | 1,597         |
| 2008 | 144,265,058               | 1,982                 | (709)       | 1,273     | 144,266,331   |
| 2009 | (52,025,582) <sup>®</sup> | 543,280               | (213)       | 543,067   | (51,482,515)  |
| 2010 | 579,035                   | 217,842               | (1,824)     | 216,018   | 795,053       |
| 2011 | 8,169,689                 | 32,678                | (94)        | 32,584    | 8,202,273     |
| 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    |
| 2014 | 924,822                   | 16,099                | (11,709)    | 4,390     | 929,212       |
| 2015 | 4,247,436                 | 10,169 <sup>#</sup>   | (11,457)    | (1,288)   | 4,246,148     |
| 2016 | (608,091) <sup>#</sup>    | 8,188                 | (45,870)    | (37,682)  | (645,773)     |
| 2017 | 1,166,245                 | 4,024                 | (11,175)    | (7,151)   | 1,159,094     |
|      | \$137,755,845             | \$1,533,040           | \$(551,183) | \$981,857 | \$138,737,702 |

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

<sup>#</sup> Reflects adjustment to customer distributions based upon Trustee's revised allocation.

<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, 2017

|  | 2017          | 2016          | 2015          | 2014          | 2013          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues:</b>                                     |               |               |               |               |               |
| Member assessments and contributions                 | \$277,800,032 | \$431,701,294 | \$429,447,213 | \$426,719,980 | \$417,721,699 |
| Interest on U.S. Government securities               | 57,599,175    | 54,873,106    | 47,844,129    | 39,852,719    | 38,577,719    |
| Interest on assessments                              | 125,930       | 100,022       | 102,926       | 160,303       | 161,223       |
|  | 335,525,137   | 486,674,422   | 477,394,268   | 466,733,002   | 456,460,641   |
| <b>Expenses:</b>                                     |               |               |               |               |               |
| Salaries and employee benefits                       | 11,379,039    | 11,203,324    | 10,363,111    | 8,563,289     | 10,146,315    |
| Legal fees   | 32,816        | 159,881       | 135,866       | 131,219       | 953,722       |
| Accounting fees                                      | 167,625       | 85,575        | 123,454       | 108,990       | 104,227       |
| Professional fees—other                              | 300,231       | 289,169       | 394,795       | 346,600       | 863,160       |
| <b>Other:</b>  |               |               |               |               |               |
| Assessment collection cost                           | 37,119        | 23,201        | 27,299        | 24,975        | 18,788        |
| Depreciation and amortization                        | 701,871       | 773,371       | 781,581       | 766,894       | 772,156       |
| Directors' fees and expenses                         | 43,184        | 43,178        | 44,010        | 37,039        | 46,281        |
| Insurance  | 36,124        | 33,879        | 39,281        | 36,906        | 36,324        |
| Investor education                                   | 312,059       | 197,735       | 368,637       | 211,481       | 332,318       |
| Office supplies and expense                          | 223,742       | 228,482       | 281,081       | 261,362       | 154,917       |
| EDP and internet expenses*                           | 1,084,727     | 1,070,947     | 1,105,179     | 957,864       | 974,839       |
| Postage  | 10,577        | 12,722        | 12,358        | 9,258         | 9,350         |
| Printing & mailing annual report                     | 28,390        | 29,051        | 30,192        | 28,921        | 37,471        |
| Publications and reference services                  | 392,818       | 361,316       | 282,382       | 232,080       | 180,428       |
| Rent office space                                    | 983,172       | 978,121       | 1,186,494     | 797,186       | 758,128       |
| Travel and subsistence                               | 111,200       | 114,848       | 113,958       | 136,704       | 149,809       |
| Personnel recruitment                                |               | 177,584       | 114,580       |               |               |
| Miscellaneous  | 45,046        | 59,959        | 43,702        | 33,937        | 59,684        |
|  | 4,010,029     | 3,926,810     | 4,493,738     | 3,649,187     | 3,530,493     |
|  | 15,889,740    | 15,664,759    | 15,510,964    | 12,799,285    | 15,597,917    |
| <b>Customer protection proceedings:</b>              |               |               |               |               |               |
| Net advances to (recoveries from):                   |               |               |               |               |               |
| Trustees other than SIPC:                            |               |               |               |               |               |
| Securities   | (6,504,659)   | (37,710,029)  | (1,127,239)   | (68,428)      | (106,909,317) |
| Cash   | (758,179)     | (354)         | (28,222)      | (1,763)       | (3,514,070)   |
|  | (7,262,838)   | (37,710,383)  | (1,155,461)   | (70,191)      | (110,423,387) |
| Administration expenses                              | 167,747,967   | 151,630,458   | 175,369,685   | 191,521,565   | 198,575,637   |
|  | 160,485,129   | 113,920,075   | 174,214,224   | 191,451,374   | 88,152,250    |
| Net change in estimated future recoveries            | (12,700,000)  | 27,100,000    | (26,900,000)  | (500,000)     | 102,200,000   |
|  | 147,785,129   | 141,020,075   | 147,314,224   | 190,951,374   | 190,352,250   |
| SIPC as Trustee:                                     |               |               |               |               |               |
| Securities   | (77,900)      | (357,941)     | (156,600)     | 3,651,561     | 669,354       |
| Cash   | 189,528       | 385,893       | 24,299        | 808,448       | 211,774       |
|  | 111,628       | 27,952        | (132,301)     | 4,460,009     | 881,128       |
| Administration expenses                              | 595,721       | 893,724       | 541,747       | 633,401       | 800,084       |
|  | 707,349       | 921,676       | 409,446       | 5,093,410     | 1,681,212     |
| Direct payments:                                     |               |               |               |               |               |
| Securities   |               |               |               |               |               |
| Cash   |               |               |               | 103,714       |               |
|  |               |               |               | 103,714       |               |
| Administration expenses                              |               |               |               |               |               |
|  | 35,822        | (600)         | 975           | 12,715        |               |
|  | 35,822        | (600)         | 975           | 116,429       |               |
| Net change in estimated cost to complete proceedings | (97,200,000)  | (72,400,000)  | 118,300,000   | (49,400,000)  | (167,500,000) |
|  | 51,328,300    | 69,541,751    | 266,023,070   | 146,645,759   | 24,649,891    |
|  | 67,218,040    | 85,206,510    | 281,534,034   | 159,445,044   | 40,247,808    |
| Total revenues over expenses                         | 268,307,097   | 401,467,912   | 195,860,234   | 307,287,958   | 416,212,833   |
| Realized and unrealized loss                         |               |               |               |               |               |
| on U.S. Government securities                        | (14,174,544)  | (39,652,395)  | (25,917,850)  | (5,281,585)   | (52,663,109)  |
| Pension and postretirement benefit changes           |               |               |               |               |               |
| other than net periodic benefit costs                | (3,327,187)   | 367,140       | (911,654)     | (10,755,619)  | 14,850,300    |
| Increase in unrestricted net assets                  | \$250,805,366 | \$362,182,657 | \$169,030,730 | \$291,250,754 | \$378,400,024 |

\*2013–2015 have been restated to combine Telephone with EDP and internet expenses

# APPENDIX 3

## CUSTOMER PROTECTION PROCEEDINGS

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

| Member and Trustee<br>By Date of Appointment  | Date Registered<br>as Broker-Dealer | Filing<br>Date | Trustee<br>Appointed  | Customers <sup>(b)</sup><br>To Whom<br>Notices and<br>Claim Forms<br>Were Mailed | Responses <sup>(b)</sup><br>Received | Customers <sup>(b)</sup><br>Receiving<br>Distributions |
|---|-------------------------------------|----------------|-----------------------|--|--------------------------------------|--|
| Bernard L. Madoff Investment Securities LLC<br>New York, NY<br>(Irving H. Picard, Esq.) | 01/19/60                            | 12/11/08       | 12/15/08              | 8,110  | 16,519 <sup>*</sup>                  | 2,625  |
| Legend Securities, Inc.<br>New York, NY<br>(Direct Payment)                             | 11/19/98                            |                | 10/20/17 <sup>+</sup> | 6,514  | 75                                   |  |
| <b>TOTAL 2 MEMBERS: PART A</b>  |                                     |                |                       | <b>14,624</b>  | <b>16,594</b>                        | <b>2,625</b>   |

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

+ Date Notice Published

December 31, 2017

| Distribution of Assets Held by Debtor <sup>(c)</sup> |                           |                         | SIPC Advances          |                         |                         |                      |      |
|--|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|----------------------|------|
| Total  | For Accounts of Customers | Administration Expenses | Total Advanced         | Administration Expenses | Contractual Commitments | Securities           | Cash |
| \$9,986,206,356                                      | \$9,966,098,555           | \$20,107,801            | \$2,258,004,368        | \$1,597,927,919         |                         | \$660,076,449        |      |
|  |                           |                         | 35,822                 | 35,822                  |                         |                      |      |
| <b>\$9,986,206,356</b>                               | <b>\$9,966,098,555</b>    | <b>\$20,107,801</b>     | <b>\$2,258,040,190</b> | <b>\$1,597,963,741</b>  |                         | <b>\$660,076,449</b> |      |

## APPENDIX 3

### CUSTOMER PROTECTION PROCEEDINGS

continued

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

| Member and Trustee<br>By Date of Appointment                     | Date Registered<br>as Broker-Dealer | Filing<br>Date | Trustee<br>Appointed | Customers <sup>(b)</sup><br>To Whom<br>Notices and<br>Claim Forms<br>Were Mailed | Responses <sup>(b)</sup><br>Received | Customers <sup>(b)</sup><br>Receiving<br>Distributions |
|--|-------------------------------------|----------------|----------------------|--|--------------------------------------|--|
| Lehman Brothers Inc.<br>New York, NY<br>(James W. Giddens, Esq.) | 03/27/65                            | 09/19/08       | 09/19/08             | 905,000  | 124,248                              | 111,888  |
| Westor Capital Group, Inc.<br>New York, NY<br>(SIPC)             | 09/27/00                            | 04/16/13       | 04/16/13             | 499  | 140                                  | 116  |
| Global Arena Capital Corp.<br>New York, NY<br>(SIPC)             | 09/26/85                            | 01/28/16       | 02/16/16             | 8,783  | 392                                  | 10   |
| <b>TOTAL 3 MEMBERS: PART B</b>                                   |                                     |                |                      | <b>914,282</b>   | <b>124,780</b>                       | <b>112,014</b>   |

December 31, 2017

| Distribution of Assets Held by Debtor <sup>(c)</sup> |                           |                         | SIPC Advances      |                         |                         |                 |                    |
|--|---------------------------|-------------------------|--------------------|-------------------------|-------------------------|-----------------|--------------------|
| Total  | For Accounts of Customers | Administration Expenses | Total Advanced     | Administration Expenses | Contractual Commitments | Securities      | Cash               |
| \$107,116,943,232                                    | \$105,773,207,834         | \$1,343,735,398         |                    |                         |                         |                 |                    |
| 7,806,970  | 7,792,931                 | 14,039                  | \$1,474,488        | \$674,460               |                         | \$13,538        | \$786,490          |
|  |                           |                         | 1,929,446          | 1,376,962               |                         | 895             | 551,589            |
| <b>\$107,124,750,202</b>                             | <b>\$105,781,000,765</b>  | <b>\$1,343,749,437</b>  | <b>\$3,403,934</b> | <b>\$2,051,422</b>      |                         | <b>\$14,433</b> | <b>\$1,338,079</b> |

# APPENDIX 3

## CUSTOMER PROTECTION PROCEEDINGS

continued

### PART C: Proceedings Completed in 2017<sup>(a)</sup>

| Member and Trustee<br>By Date of Appointment                              | Date Registered<br>as Broker-Dealer | Filing<br>Date | Trustee<br>Appointed | Customers <sup>(b)</sup><br>To Whom<br>Notices and<br>Claim Forms<br>Were Mailed | Responses <sup>(b)</sup><br>Received | Customers <sup>(b)</sup><br>Receiving<br>Distributions |
|---|-------------------------------------|----------------|----------------------|--|--------------------------------------|--|
| North American Clearing Inc.<br>Longwood, FL<br>(Robert N. Gilbert, Esq.) | 11/15/95                            | 05/27/08       | 07/28/08             | 43,383   | 1,699                                | 3,000  |
| TWS Financial, LLC<br>Brooklyn, NY<br>(SIPC)                              | 03/09/04                            | 05/31/13       | 05/31/13             | 2,272  | 76                                   | 12   |
| <b>TOTAL 2 MEMBERS 2017</b>   |                                     |                |                      | <b>45,655</b>  | <b>1,775</b>                         | <b>3,012</b>   |
| <b>TOTAL 323 MEMBERS 1973–2016<sup>(d)</sup></b>                          |                                     |                |                      | <b>2,251,680</b>   | <b>475,925</b>                       | <b>655,374</b>   |
| <b>TOTAL 325 MEMBERS 1973–2017</b>  |                                     |                |                      | <b>2,297,335</b>   | <b>477,700</b>                       | <b>658,386</b>   |

<sup>a</sup>This number does not include customer distributions made by the court appointed receiver prior to SIPC's involvement in the proceeding.

December 31, 2017

| Distribution of Assets Held by Debtor <sup>(c)</sup> |                            |                         | SIPC Advances        |                         |                         |                      |                      |
|--|----------------------------|-------------------------|----------------------|-------------------------|-------------------------|----------------------|----------------------|
| Total  | For Accounts of Customers  | Administration Expenses | Total Advanced       | Administration Expenses | Contractual Commitments | Securities           | Cash                 |
| \$ 54,720,014  | \$ 52,476,595 <sup>#</sup> | \$ 2,243,419            | \$ 13,913,763        | \$ 13,071,940           |                         |                      | \$ 841,822           |
| 1,811,865  | 1,811,865                  |                         | 5,102,282            | 1,283,272               |                         | \$ 3,536,610         | 282,400              |
| <b>56,531,879</b>                                    | <b>54,288,460</b>          | <b>2,243,419</b>        | <b>19,016,045</b>    | <b>14,355,212</b>       |                         | <b>3,536,610</b>     | <b>1,124,222</b>     |
| <b>22,621,378,999</b>                                | <b>21,954,457,237</b>      | <b>666,921,762</b>      | <b>\$513,566,986</b> | <b>\$197,800,260</b>    | <b>\$1,388,427</b>      | <b>\$183,173,571</b> | <b>\$131,204,729</b> |
| <b>\$22,677,910,878</b>                              | <b>\$22,008,745,697</b>    | <b>\$669,165,181</b>    | <b>\$532,583,031</b> | <b>\$212,155,472</b>    | <b>\$1,388,427</b>      | <b>\$186,710,181</b> | <b>\$132,328,951</b> |

# APPENDIX 3

## CUSTOMER PROTECTION PROCEEDINGS

continued

### PART D: Summary

|   | Customers <sup>(b)</sup><br>To Whom<br>Notices and<br>Claim Forms<br>Were Mailed | Responses <sup>(b)</sup><br>Received | Customers <sup>(b)</sup><br>Receiving<br>Distributions |
|---|--|--------------------------------------|--|
| Part A: 2 Members — Customer Claims and Distributions Being Processed     | 14,624   | 16,594                               | 2,625  |
| Part B: 3 Members — Customer Claims Satisfied, Litigation Matters Pending | 914,282  | 124,780                              | 112,014  |
| Sub-Total   | 928,906  | 141,374                              | 114,639  |
| Part C: 325 Members — Proceedings Completed                               | 2,297,335  | 477,700                              | 658,386  |
| <b>Total</b>  | <b>3,226,241</b>   | <b>619,074</b>                       | <b>773,025</b>   |

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, 2017

| Distribution of Assets Held by Debtor <sup>(c)</sup> |                           |                         | SIPC Advances          |                         |                         |                      |                      |
|--|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|----------------------|----------------------|
| Total  | For Accounts of Customers | Administration Expenses | Total Advanced         | Administration Expenses | Contractual Commitments | Securities           | Cash                 |
| \$ 9,986,206,356                                     | \$ 9,966,098,555          | \$ 20,107,801           | \$2,258,040,190        | \$1,597,963,741         |                         | \$660,076,449        |                      |
| 107,124,750,202                                      | 105,781,000,765           | 1,343,749,437           | 3,403,934              | 2,051,422               |                         | 14,433               | \$ 1,338,079         |
| 117,110,956,558                                      | 115,747,099,320           | 1,363,857,238           | 2,261,444,124          | 1,600,015,163           |                         | 660,090,882          | 1,338,079            |
| 22,677,910,878                                       | 22,008,745,697            | 669,165,181             | 532,583,031            | 212,155,472             | \$1,388,427             | 186,710,181          | 132,328,951          |
| <b>\$139,788,867,436</b>                             | <b>\$137,755,845,017</b>  | <b>\$2,033,022,419</b>  | <b>\$2,794,027,155</b> | <b>\$1,812,170,635</b>  | <b>\$1,388,427</b>      | <b>\$846,801,063</b> | <b>\$133,667,030</b> |







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