



Report of Independent Certified Public Accountants

To the Board of Directors of
Securities Investor Protection Corporation

We have audited the accompanying statement of financial position of Securities Investor Protection Corporation (SIPC) as of December 31, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of SIPC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2008, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McLean, Virginia
April 30, 2009

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

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SECURITIES INVESTOR PROTECTION CORPORATION

Statement of Financial Position

as of December 31, 2008

ASSETS

Cash	\$ 523,658
U.S. Government securities, at fair value and accrued interest receivable of (\$19,011,988); (amortized cost \$1,508,787,402) (Note 6)	1,698,516,300
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$83,749,433) (Note 4)	1,800,000
Other (Note 5 and Note 8)	974,067
	\$1,701,814,025

LIABILITIES AND NET ASSETS

Advances to trustees—in process (Note 4)	\$ 675,000
Accrued benefit costs (Note 8)	11,074,298
Accounts payable and other accrued expenses	641,250
Deferred rent	410,876
Estimated costs to complete customer protection proceedings in progress (Note 4)	1,425,600,000
	1,438,401,424
Net assets	263,412,601
	\$1,701,814,025

The accompanying notes are an integral part of these statements.

Statement of Activities

for the year ended December 31, 2008

Revenues:

Interest on U.S. Government securities	\$ 67,601,131
Member assessments (Note 3)	816,322
	68,417,453

Expenses:

Salaries and employee benefits (Note 8)	6,461,396
Legal and accounting fees (Note 4)	173,804
Credit agreement commitment fee (Note 5)	1,686,889
Rent (Note 5)	707,604
Other	3,642,288
	12,671,981
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	1,423,952,260
	1,436,624,241
Total net expenses	(1,368,206,788)
Realized and unrealized gain on U.S. Government securities (Note 6)	132,368,130
Pension and postretirement benefit changes other than net periodic pension costs	(5,752,428)
Decrease in net assets	(1,241,591,086)
Net assets, beginning of year	1,505,003,687
Net assets, end of year	\$ 263,412,601

The accompanying notes are an integral part of these statements.

Statement of Cash Flows

for the year ended December 31, 2008

Operating activities:	
Interest received from U.S. Government securities	\$ 69,008,667
Member assessments received	816,322
Advances paid to trustees	(12,917,342)
Recoveries of advances	1,240,168
Salaries and other operating activities expenses paid	(12,188,519)
Net cash provided by operating activities	45,959,296
Investing activities:	
Proceeds from sales of U.S. Government securities	180,649,129
Purchases of U.S. Government securities	(226,237,196)
Purchases of furniture and equipment	(137,370)
Net cash used in investing activities	(45,725,437)
Increase in cash	233,859
Cash, beginning of year	289,799
Cash, end of year	\$ 523,658

The accompanying notes are an integral part of this statement.

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.

SIPC elects to defer the application of Financial Interpretation 48 ("FIN 48") under FASB Staff Position FIN 48-3, "Effective Date of FASB Interpretation No.48 for Certain Nonpublic Enterprises," until the period beginning January 1, 2009.

SIPC accounts for uncertain tax positions and other loss contingencies, including tax-related audits, in the normal course of our op-

erations on our balance sheet. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," SIPC records a loss contingency for these matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. SIPC reviews loss contingencies routinely to ensure that appropriate liabilities are recorded on the balance sheet. SIPC adjusts these liabilities based on estimates and judgments made by management with respect to the likely outcome of these matters, including the effect of any applicable insurance coverage for litigation matters. The estimates and judgment could change based on new information, changes in laws or regulations, changes in management's plans or intentions, the outcome of legal proceedings, settlements or other factors.

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

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$1,699,039,958.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed \$1 billion. In addition, SIPC maintained \$1 billion revolving lines of credit with a consortium of banks, \$500 million of which expired effective March 1, 2009.

SECURITIES INVESTOR PROTECTION CORPORATION

3. Member assessments

For calendar year 2008 and through March 31, 2009 each member's assessment was \$150. Effective April 1, 2009, each member's assessment is at the rate of ¼ of 1% of net operating revenues from the securities business or \$150, whichever is greater. Assessments received in advance will be applied to future assessments and are not refundable except to terminated members.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 14 proceedings in progress at December 31, 2008. Customer claims have been satisfied in 7 of these proceedings and in 7 proceedings customer claims and distributions are being processed.

Advances to trustees represent net amounts disbursed and amounts currently payable for proceedings in progress, less an allowance for possible losses.

Estimated costs to complete proceedings are accrued based upon the costs of completed cases of comparable size and complexity and other costs that can be reasonably estimated. Recoveries are estimated based upon the expected disposition of the debtors' estates.

In the Bernard L. Madoff Investment Securities LLC proceeding, the trustee, utilizing the customer records available from the computer files of the firm identified those accounts believed to be valid customers. In accordance with section 78III (2) of SIPA, the definition of a "customer" includes a "person who has deposited cash with the debtor for the purpose of purchasing securities." The customer can be an individual, a corporation, a partnership, a pension plan or a "feeder fund." The trustee then calculated the "net cash" positions (cash de-

posited less cash withdrawn) for each customers' account and where available, this information was compared to other source documentation including banking records and customer portfolio files. Based on that valuation, the trustee determined the customer's net equity and maximum claim allowed under SIPA. Including administrative costs, management estimates that the total charges to SIPC for this case to be approximately \$1.4 billion. As actual claims are processed, the trustee will determine the ultimate amount of payment for each claim. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims to differ from the current estimate. Any changes in the estimate will be accounted for prospectively.

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

SIPC has advanced a net of \$82.5 million for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$80.7 million 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, 2008 that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$ 400,000	\$ 12,600,000
Add:		
Provision for current year recoveries	800,000	—
Provision for estimated future recoveries	1,800,000	—
Provision for estimated costs to complete proceedings	—	1,426,600,000
Less:		
Recoveries	1,200,000	—
Advances to trustees	—	13,600,000
Balance, end of year	<u>\$ 1,800,000</u>	<u>\$1,425,600,000</u>

5. Commitments

Future minimum rentals for office space in Washington, D.C., under a ten-year lease expiring August 31, 2015, are as follows: 2009 - \$539,911; 2010 - \$553,447; 2011 - 567,259; 2012 - \$581,485; 2013 - \$595,988; 2014 - \$610,905; 2015 - \$417,490; for a total of \$3,866,485, as of December 31, 2008. Additional rental based on increases in operating expenses and real estate taxes is required by the lease. The rent holiday of \$41,567 and the leasehold improvement incentive of \$345,300 are being amortized over the life of the lease.

On August 31, 2007, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new five-year lease commenced August 1, 2008. Future minimum rentals for the space, expiring on July 31, 2013, are as follows: 2009 - \$106,312; 2010 - \$109,502; 2011 - \$112,787; 2012 - \$116,171; 2013 - \$68,937; for a total of \$513,709 as of December 31, 2008. Additional rental is based on increases in operating expenses including real estate taxes as required by the lease.

In March 2006 SIPC entered into a \$500 million 3-year revolving credit facility with commitment fees of .10% per year. Additionally upfront fees averaging .14% were paid to certain banks. This facility expired in March 2009.

In March of 2007 an additional \$500 million 3-year revolving credit facility with a commitment fee of .10% per year was entered into. Upfront fees ranging from .12% to .15% were paid to certain banks based on the level of their commitment.

6. Fair value of securities

In 2008, SIPC adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years

beginning after November 15, 2007. SFAS 157 explains the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value of the U.S. Government securities is based on the Federal Reserve Bank of New York bid quote as of December 31, 2008. As a bid quote on U.S. Government securities vary substantially among market makers, the fair value bid quote is considered a level 2 input under SFAS No. 157. 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. FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157, Fair Value Measurements*, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value at least once a year, to fiscal years beginning after November 15, 2008. SIPC elects to defer the application until the period beginning January 1, 2009.

U.S. Government securities as of December 31, 2008, included gross unrealized gains of \$189,728,898 and no gross unrealized losses.

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

Decrease in net assets	\$(1,241,591,086)
Net increase in estimated cost to complete customer protection proceedings	1,413,000,000
Realized and unrealized gain on U.S. Government securities	(132,368,130)
Increase in payables and accrued expenses	6,055,995
Net amortized discount on U.S. Government securities	1,527,672
Net decrease in estimated recoveries of advances to trustees	(1,400,000)
Decrease in prepaid expenses	710,340
Depreciation and amortization	148,640
Increase in accrued interest receivable on U.S. Government securities	(120,136)
Decrease in deferred rent	(5,337)
Loss on disposal of assets	1,338
Net cash provided by operating activities	\$ 45,959,296



SECURITIES INVESTOR PROTECTION CORPORATION

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 \$198,369 year end market value of the supplemental plan is reflected in Other assets and as a deferred compensation liability in Accrued benefit costs. 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.

The provisions of Statement of Financial Accounting Standard No. 158 (FAS 158) (an amendment of FAS 132, 106, and 87) requires SIPC to recognize in the Statement of Financial Position the overfunded or underfunded status of the plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs.

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$21,299,634	\$ 5,279,158
Service cost	642,564	157,372
Interest cost	1,310,967	344,099
Plan participants' contributions	–	18,053
Amendments	–	(3,214,704)
Actuarial loss (gain)	486,891	1,428,763
Benefits paid	(637,671)	(102,423)
Benefit Obligation at end of year	\$23,102,385	\$ 3,910,318
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 21,123,143	\$ –
Actual return on plan assets	(5,608,698)	–
Employer contributions prior to measurement date	1,260,000	–
Employer contributions	–	84,370
Plan participants' contributions	–	18,053
Benefits paid	(637,671)	(102,423)
Fair value of plan assets at end of year	\$16,136,774	\$ –
Funded status	\$ (6,965,611)	\$ (3,910,318)
Employer contributions between measurement and statement date	–	–
Funded status at year end	\$ (6,965,611)	\$ (3,910,318)
Amounts Recognized in the Statement of Financial Position and Net Assets consist of:		
Current liabilities	\$ –	\$ (92,612)
Noncurrent liabilities	(6,965,611)	(3,817,706)
Net amount recognized in the Statement of Financial Position	\$ (6,965,611)	\$ (3,910,318)
Other Amounts Recognized within the Statement of Activities consist of:		
Net actuarial loss	\$ 7,611,816	\$ 1,425,064
Prior service cost	(58,098)	(3,226,354)
Pension and Postretirement benefit changes other than net periodic benefit costs	\$ 7,553,718	\$ (1,801,290)
Accumulated Benefit Obligation end of year	\$20,442,324	\$ 3,910,318
Weighted-average Assumptions for Disclosure as of December 31, 2008		
Discount rate	6.00%	6.00%
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	9.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2017

	Pension Benefits	Other Postretirement Benefits
Components of Net Periodic Benefit Cost and Other Amounts Recognized within the Statement of Activities		
Net Periodic Benefit Cost		
Service cost	\$ 642,564	\$ 157,372
Interest cost	1,310,967	344,099
Expected return on plan assets	(1,726,383)	–
Recognized prior service cost	58,098	11,650
Recognized actuarial loss	210,156	3,699
Net periodic benefit cost	\$ 495,402	\$ 516,820
Other Changes in Plan Assets and Benefit Obligations Recognized within the Statement of Activities		
Net actuarial loss	\$ 7,821,972	\$ 1,428,763
Recognized actuarial loss	(210,156)	(3,699)
Prior service credit	–	(3,214,704)
Recognized prior service cost	(58,098)	(11,650)
Total recognized within the Statement of Activities	7,553,718	(1,801,290)
Total recognized in net benefit cost and within the Statement of Activities	\$ 8,049,120	\$ (1,284,470)
Amounts Expected to be Recognized in Net Periodic Cost in the Coming Year		
Loss recognition	\$ 1,034,069	\$ 149,368
Prior service cost (credit) recognition	58,098	(389,686)
Total	\$ 1,092,167	\$ (240,318)
Effect of a 1% Increase in Trend on:		
Benefit Obligation	N/A	\$ 568,524
Total Service Interest Cost	N/A	\$ 90,382
Effect of a 1% Decrease in Trend on:		
Benefit Obligation	N/A	\$ (467,754)
Total Service Interest Cost	N/A	\$ (74,971)
Weighted-average Assumptions for Net Periodic Cost as of December 31, 2008		
Discount rate	6.25%	6.25%
Expected asset return	8.00%	N/A
Salary scale	4.00%	N/A
Health Care Cost Trend: Initial	N/A	10.00%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year Ultimate Reached	N/A	2013



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 2008 the unrecognized net loss increased by 35.7% of the 12/31/2007 projected benefit obligation.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. A 1% increase/(decrease) in the discount rate would have (decreased)/increased the net periodic benefit cost for 2008 by (\$315,500)/\$333,200 and (decreased)/increased the year-end projected benefit obligation by (\$2.6)/\$2.9 million.

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 at right.

9. Donated services

SIPC received contributed services of approximately \$5,000,000 for public service announcements during the year ended December 31, 2008. These contributed services were not recognized as revenue in the financial statements as they would not have been purchased if they were not contributed and SIPC determined that the services did not create or enhance a nonfinancial asset.

Pension Plan Assets

<u>Asset Category</u>	<u>Expected Long-Term Return</u>	<u>Target Allocation</u>	<u>Actual/Allocation 12/31/2008</u>
Equity securities	10.25%	60–70%	65%
Debt securities	4.50%	40–30%	35%
TOTAL	8.00–8.50%	100%	100%

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	<u>Pension</u>	<u>Other Benefits</u>
2009	\$ 745,648	\$ 95,400
2010	\$ 1,010,257	\$ 131,000
2011	\$ 1,127,099	\$ 153,900
2012	\$ 1,363,143	\$ 183,600
2013	\$ 1,456,321	\$ 196,100
2014–2018	\$ 9,122,899	\$ 1,292,300

Contributions

The company expects to contribute \$4,000,000 to the pension plan and \$95,400 to the postretirement benefit plan during 2009.

Defined Contribution Plan

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

\$ 135,286