SIPC

SECURITIES INVESTOR PROTECTION CORPORATION

ANNUAL REPORT 2019

Securities Investor Protection Corporation
1667 K Street, N.W., Suite 1000
Washington, D.C. 20006-1620
(202) 371-8300 Fax (202) 223-1679
www.sipc.org

April 30, 2020

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-ninth 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,

Josephine Wang
President & CEO

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MESSAGE
FROM THE BOARD
OF DIRECTORS

The Year in Review

2019 was a successful year for SIPC. Substantial progress continued in ongoing cases and SIPC progressed in efforts to modernize further its operations. 2019 also was a year of change as SIPC transitioned its leadership.

In April 2019, Josephine Wang succeeded Stephen P. Harbeck as President and Chief Executive Officer of SIPC. Mr. Harbeck retired after 43 years at SIPC. In the last nearly 15 years of his tenure, as President and CEO, Mr. Harbeck led SIPC with distinction and intelligence during some of the most challenging times in SIPC's history. The SIPC Board expresses its heartfelt gratitude and thanks to Mr. Harbeck.

Ms. Wang, who previously served as SIPC's General Counsel, was succeeded in that role by Kenneth J. Caputo.

SIPC's Cases

Westor Capital Group, Inc. and Legend Securities, Inc.

The final report in the **Westor Capital** case was filed with, and approved by, the Court. Necessary administrative tasks to close the proceeding will be completed in early 2020. **Legend Securities**, a Direct Payment Procedure, was successfully closed in 2019.

SIPC's Largest Cases

The two largest pending cases under the Securities Investor Protection Act began in 2008—at the outset of the financial crisis. As these cases moved into their eleventh year, the results in both far exceeded expectations.

The insolvency proceeding for **Lehman Brothers Inc.**, the largest of any kind, is substantially concluded. All securities customers received the contents of their securities accounts, and secured and priority claims were paid in full. The Trustee distributed more than $106 billion to customers, and more than $9.261 billion to general creditors, with general unsecured creditors receiving 39.75% of their claims. Ultimately, 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 two judicial proceedings where the Trustee is the appellee in both.

In 2019, recoveries in the liquidation of Bernard L. Madoff Investment Securities LLC, the largest Ponzi scheme in history, continued to be achieved to benefit the victims with allowed customer claims in the case. At year end, the Trustee had recovered $14.3 billion, and distributed nearly $13.6 billion. Any customer with a net asset value of up to approximately $1.49 million was made whole. Customers with larger claims have received over 66.63% of the net amount entrusted to Madoff. Additional distributions are expected as complex litigation to recover additional assets continues.

LOOKING FORWARD

SIPC initiated a review of its online presence, with a view to refreshing and updating its website for convenience, clarity, and ease of use. The updated website was introduced in 2019.

In 2019, SIPC laid the groundwork for development of a broker portal. The portal, which is a multi-year project, is expected to streamline the processing by SIPC of membership information through automation and system integration. The portal will facilitate the submission of member assessment forms and the payment and collection of assessments, and provide another means for broker-dealers to communicate electronically with SIPC.

Cybersecurity continues to be of paramount concern. Efforts continue by SIPC to refine and update its cyberattack response plan, and to increase SIPC employee awareness of cyber threats. In 2019, SIPC continued to play a role in the Financial and Banking Information Infrastructure Committee, which coordinates and plans the prevention of cyberattacks and the response to successful attacks in the financial sector.

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.△

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

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

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

The SIPC staff, numbering 37, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purposes. In cases where the court appoints SIPC as Trustee and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. In addition, if the need arises, the SEC has the authority to lend SIPC up to $2.5 billion, which it, in turn, would borrow from the United States Treasury.

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

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

(i) persons whose principal business, in the determination of SIPC, taking into account business of affiliated entities, is conducted outside the United States and its territories and possessions;

(ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts; and

(iii) persons who are registered as a broker or dealer pursuant to [15 U.S.C. § 78*o*(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 and also available in bulk from the Securities Industry and Financial Markets Association (SIFMA), 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/order-printed-publications and the phone number is (240) 386-4200.

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

DIRECTORS

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

W. Moses Kim
United States Department of the Treasury
Director, Office of Financial Institutions Policy

COMMITTEE COMPOSITION

Audit and Budget Committee
Daniel M. Covitz—Chair
William S. Jasien

Compensation Committee
Gregory S. Karawan—Chair
W. Moses Kim

Investment Committee
Anthony D'Agostino—Chair
W. Moses Kim

OFFICERS

Josephine Wang
President & CEO

Kenneth J. Caputo
General Counsel & Secretary

Charles E. Glover
Vice President—Finance

Karen L. Saperstein
Vice President—Operations

CORPORATE GOVERNANCE PRACTICES

COMMITTEES

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

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

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 nine meetings in 2019. 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 was as follows:

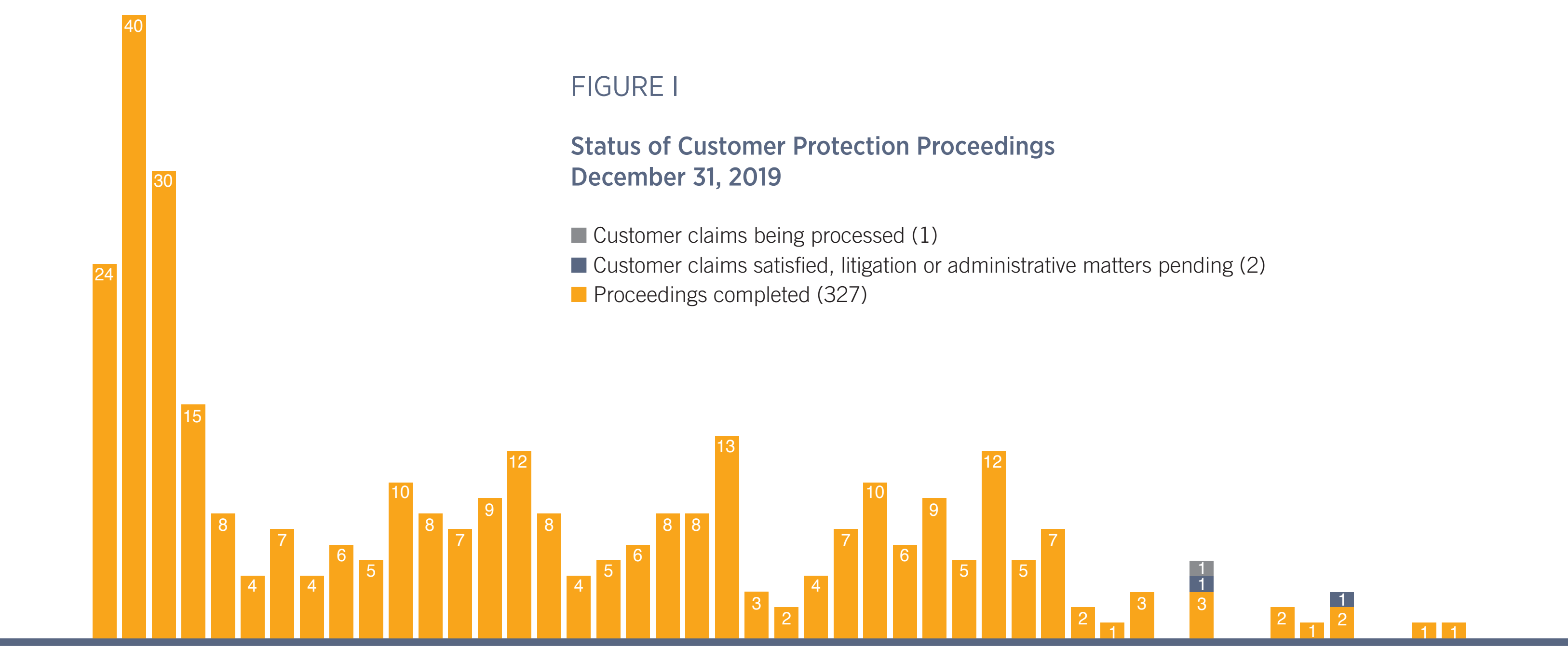
Director	Board Meetings	Committee Meetings
Anthony D'Agostino	9/9	1/1
Daniel M. Covitz	9/9	4/4
William S. Jasien	9/9	4/4
Gregory S. Karawan	8/9	2/2
W. Moses Kim	9/9	3/3

CUSTOMER PROTECTION PROCEEDINGS

In 2019, no customer protection proceeding was initiated. Over the last ten-year period, the annual average of new cases was 0.8. Since the inception of SIPC, 330 proceedings commenced under SIPA. These 330 members represent less than one percent of the approximately 40,000 broker-dealers that have been SIPC members during the last forty-nine years. Currently, SIPC has 3,524 members. During SIPC's forty-nine year history, cash and securities distributed for accounts of customers totaled approximately $141.5 billion. Of that amount, approximately $140.5 billion came from debtors' estates and $1.0 billion came from the SIPC Fund (See Appendix 1).

FIGURE I

Status of Customer Protection Proceedings
December 31, 2019



Year	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95
Total	24	40	30	15	8	4	7	4	6	5	10	8	7	9	12	8	4	5	6	8	8	13	3	2	4

Year	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19
Total	7	10	6	9	5	12	5	7	2	1	3	0	5	0	0	2	1	3	0	0	1	1	0	0

Proceedings commenced

"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, 2019, a total of 355 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 355 claims, a net decrease of one during 2019, represent less than one percent of all claims satisfied. The unsatisfied portion of claims, $49.7 million, decreased insignificantly in 2019. 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 I shows that the 92 debtors, for which net advances of more than $1 million have been made from the SIPC Fund, accounted for 99 percent of the total advanced in all 330 customer protection proceedings. The largest net advance in a single liquidation is $2.51 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 $2.86 billion, or 94 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

Net Advances from the SIPC Fund
December 31, 2019
330 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$40,000,001	up	1	$2,506,252,108
10,000,001	$40,000,000	11	230,293,411
5,000,001	10,000,000	18	125,988,365
1,000,001	5,000,000	62	136,979,801
500,001	1,000,000	38	28,012,194
250,001	500,000	43	14,841,548
100,001	250,000	62	9,939,340
50,001	100,000	42	2,995,426
25,001	50,000	24	879,779
10,001	25,000	11	168,668
0	10,000	11	26,087
Net Recovery		7	(13,991,621)*
		330	$3,042,385,105†

* 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 ($946,216,630) and for administration expenses ($2,096,168,475).

MEMBERSHIP
AND THE SIPC FUND

The net decrease of 99 members during the year brought the total membership to 3,524 at December 31, 2019. Table 2 shows the members' designated examining authorities, as well as the year's changes therein.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 2019, there were 53 members who were subjects of uncured notices, 27 of which were mailed during 2019, 9 during 2018, 8 during 2017, one during 2016, three during 2015, one during 2014, two in 2012 and 2010. Subsequent filings and payments by 17 members left 36 notices uncured. 2 registrations have been cancelled. SIPC has referred the remaining 34 members to the Commission for further action.

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 $3.49 billion at year end, an increase of $344 million during 2019.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2019. The 2019 member assessments were $317.6 million and interest from investments was $75.6 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2019, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2019) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2019.

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

TABLE 2

SIPC Membership
Year Ended December 31, 2019

Designated Examining Authorities	Total	Added[(a)]	Terminated[(a)]
FINRA[(b)]	3,414	99	177
Cboe Exchange, Inc.[(h)]	35	1	3
NYSE American LLC[(g)]	3	—	—
NYSE Arca, Inc.[(e)]	11	—	—
Nasdaq PHLX LLC[(f)]	16	1	1
NYSE Chicago, Inc.[(i)]	12	—	1
None[(c)]	33	1	19
	3,524	102	201

Notes:

(a) The numbers in this category do not reflect transfers of members to successor designated examining authorities that occurred within 2019. The numbers in this category do not reflect members who due to timing differences between the effective date of new registrations and terminations and the date processed by SIPC were added or terminated in 2018 but processed by SIPC in 2019.

(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) The "None" 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. 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 NASDAQ OMX PHLX

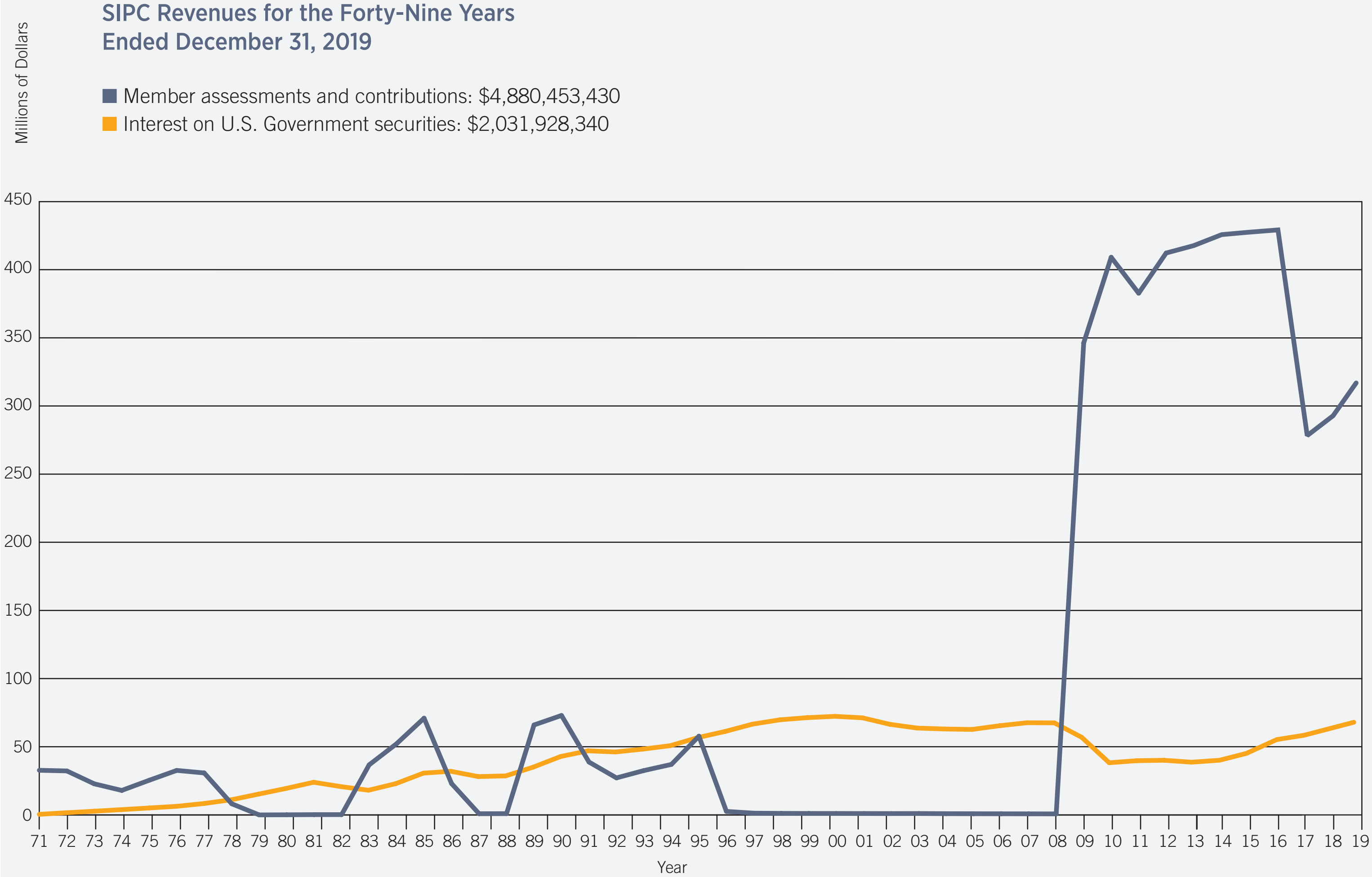
(g) Formerly NYSE MKT LLC

(h) Formerly Chicago Board Options Exchange Incorporated

(i) Formerly Chicago Stock Exchange, Incorporated

TABLE 3

SIPC Revenues for the Forty-Nine Years Ended December 31, 2019



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

2017–December 31, 2019: .15% of members' net operating revenues.

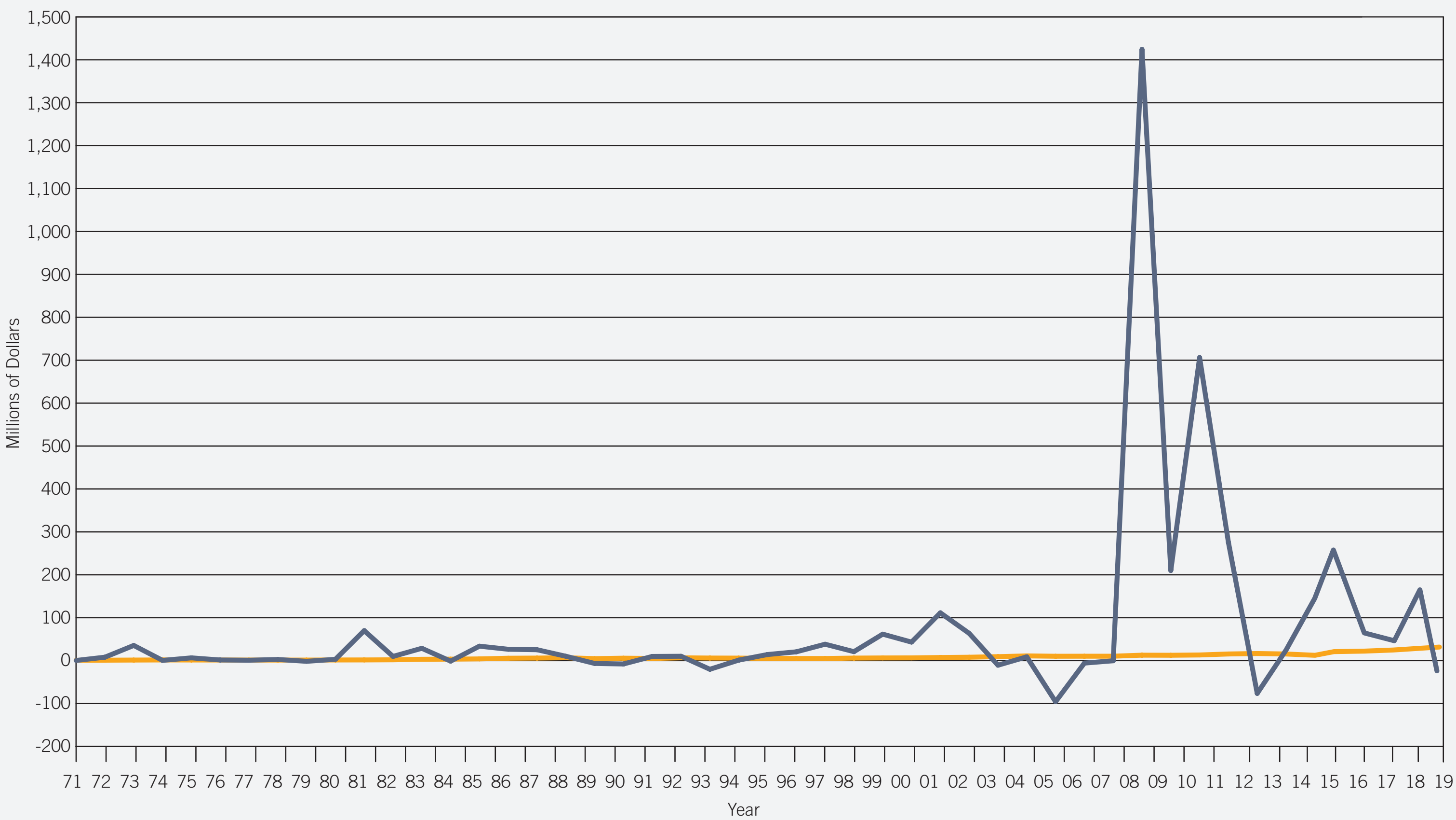
* Rates based on each member's gross revenues (net operating revenues for 1991–1995 and April 1, 2009 to present) from the securities business.

TABLE 4

SIPC Expenses for the Forty-Nine Years Ended December 31, 2019

■ Customer protection proceedings: $3,740,285,105 (consists of net advances of $3,042,385,105 and $712,500,000 of estimated costs to complete proceedings less estimated future recoveries of $14,600,000).

■ Other expenses: $362,578,652



During 2019, SIPC and trustees under the Securities Investor Protection Act were actively involved in litigation at both the trial and appellate levels. The noteworthy matters are summarized below.

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

In a decision with wide implications, the U.S. Court of Appeals for the Second Circuit in *In re Irving H. Picard, Trustee for the Liquidation of BLMIS*, 917 F. 3d 85 (2nd Cir. 2019), rejected the application of the presumption against extraterritoriality to Bankruptcy Code section 550(a) to bar the recovery of subsequent transfers of BLMIS funds to foreign parties. The Court reversed the decision of the District Court that had resulted in the Bankruptcy Court's dismissal of dozens of the avoidance cases seeking billions of dollars transferred by foreign BLMIS feeder funds. The Trustee filed actions under Bankruptcy Code section 550(a)(2) to recover customer property fraudulently transferred by BLMIS to foreign feeder funds and then subsequently transferred to appellees—foreign feeder fund investors. The District Court held first that the actions were barred by the presumption against extraterritoriality because section 550(a)(2) focused on the subsequent transfer and did not provide for extraterritorial reach. Next, the District Court held that, regardless of the presumption against extraterritoriality, certain actions were barred by concerns of international comity in deference to the foreign liquidation of feeder funds in their respective jurisdictions. In accordance with the District Court's guidance, the Bankruptcy Court dismissed the cases (1) as barred by the presumption against extraterritoriality where the subsequent transfer was made between two foreign entities or (2) on international comity grounds where the feeder fund was in liquidation in a foreign jurisdiction.

The Second Circuit reversed, holding, first, that section 550(a) focused on the initial transfer that depleted the debtor's estate rather than on any subsequent transfers. Accordingly, actions to recover property fraudulently transferred by BLMIS—from a U.S. bank—had a domestic focus and did not implicate the presumption against extraterritoriality, even where such subsequent transfers occurred abroad. Second, with respect to comity, the Court held that the United States has a compelling interest in the recovery of fraudulently transferred property by domestic debtors, which interest outweighs the interests of foreign jurisdictions liquidating the initial transferee feeder funds.

The District Court in *Picard v. Lowrey* (*In re BLMIS*), 596 B.R. 451 (S.D.N.Y. 2019), adopted the Report and Recommendation of the Bankruptcy Court granting the Trustee's motion for summary judgment on claims to avoid and recover $41 million in fictitious profits transferred by BLMIS to defendants and denying the defendants' cross-motion. The District Court found unpersuasive the defendants' contentions that they had provided "value" for the transfers in the form of antecedent debt and that the "Net Investment Method" of calculating the amounts of the fraudulent transfers was incorrect. The District Court noted that both of these arguments had been repeatedly rejected in the past.

After a two-day trial, the Bankruptcy Court in *Picard v. Nelson* (*In re BLMIS*), 610 B.R. 197 (Bankr. S.D.N.Y. 2019), avoided transfers made by BLMIS to the defendants and awarded a final judgment in favor of the Trustee and against the defendants in the aggregate amount of $3,065,077.00. The Trustee sought recovery of amounts withdrawn by defendants Carol Nelson and Stanley Nelson in the two years preceding the commencement of the liquidation. The Court rejected the defendants' argument the Trustee lacked standing and that the Court had no jurisdiction because the transfers they received were made by Bernard L. Madoff personally, and not BLMIS. The Court found that BLMIS was a successor to the sole proprietorship that Madoff operated prior to 2001. As successor, all of the business and business property were transferred to BLMIS, and thus BLMIS made the transfers to the defendants. The Court held that the Trustee, by establishing both the existence of a Ponzi scheme and badges of fraud, had shown that BLMIS had made the transfers with actual fraudulent intent. The various evidentiary objections made by the defendants were denied, and various testimony and earlier criminal allocutions were deemed admissible. The Court also rejected Ms. Nelson's contention that the IRA custodian rather than she was the initial transferee of her IRA account. The judgment included an award of prejudgment interest of nine percent from the date of demand.

In *Picard v. Legacy Capital Ltd.* (*In re BLMIS*), 603 B.R. 682 (Bankr. S.D.N.Y. 2019), the Bankruptcy Court found that although the Trustee had established his *prima facie* case for avoidance and recovery of fraudulent transfers, remaining contested issues of fact regarding the defendant's value defenses precluded summary judgment in the Trustee's favor. On his motion for summary judgment, the Trustee sought to avoid and recover transfers of $86 million in fictitious profits from the defendant's BLMIS account made within two years of the filing date. The Court ruled that because the Trustee established that BLMIS was a Ponzi scheme, the Trustee would be entitled to rely on the "Ponzi scheme presumption" that the transfers were made with an actual intent to defraud. In asserting that its fictitious profits should be lower or zero because it had given "value" for the transfers, the defendant argued: (1) the Ponzi scheme started later than the Trustee asserted; (2) the defendant earned profits from legitimate T-Bill trades in its account; and (3) the transfers satisfied antecedent debts. The Court rejected the defendant's contention that the antecedent debt provided any value.

The Bankruptcy Court in *Picard v. Citibank* (*In re BLMIS*), 608 B.R. 181 (Bankr. S.D.N.Y. 2019), denied the Trustee's motion for leave to amend his complaint filed in December 2010 to meet the more rigorous pleading standards relating to allegations of bad faith imposed by the District Court after that date. The Trustee sought to file an amended complaint alleging that defendants, who had received subsequent transfers totaling over $343 million, had "willfully blinded" themselves to the fact that BLMIS was not actually trading securities, and that the initial transfers from BLMIS were fraudulent. The Bankruptcy Court denied the Trustee's motion finding that the amended complaint lacked sufficient allegations to defeat a good faith defense. The matter is on appeal.

In *Picard v. BAM* (*In re BLMIS*), 597 B.R. 466 (Bankr. S.D.N.Y. 2019), the Bankruptcy Court denied the defendants' motion to withdraw the reference and have the adversary proceeding adjudicated in District Court. The Trustee filed an avoidance action to recover $2.8 million from three former BLMIS customers, who filed customer claims, objected to the Trustee's determination denying those claims, and then withdrew their customer claims. The Court ruled that, because the defendants had filed claims and objections, it had equitable jurisdiction over the Trustee's avoidance action at the time the action commenced, and the subsequent withdrawal of those claims did not destroy its jurisdiction over the action.

Subsequently, the Trustee moved for summary judgment. The Trustee relied on facts set forth in the criminal allocutions of Madoff and BLMIS employee Frank DiPascali to establish the existence of a Ponzi scheme and argued that certain defenses asserted by defendants were barred by *res judicata* because of the earlier customer claims litigation between the defendants and the Trustee. The defendants contended that BLMIS's fraudulent actions were not a Ponzi scheme, and that the transfers were made by Madoff and not by BLMIS. In *Picard v. BAM* (*In re BLMIS*), 608 B.R. 165 (Bankr. S.D.N.Y. 2019), the Court denied the

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

SIPA, Sec. 4(c)(2)

motion holding that although the Trustee established BLMIS was a Ponzi scheme and the transfers were fraudulent, the cause of action was different in the adversary proceeding than the claims litigation; thus, *res judicata* did not apply.

In *Blecker v. Picard* (*In re BLMIS*), 605 B.R. 570 (S.D.N.Y 2019), the District Court affirmed the decision of the Bankruptcy Court and upheld the Trustee’s customer claims determination that appellants had no net equity. The Court rejected appellants’ arguments regarding admissibility of evidence presented before the Bankruptcy Court. The Court also affirmed the Bankruptcy Court’s finding that “profit withdrawals,” designated in BLMIS’s books and records by the notation “PW,” referred to distributions that BLMIS sent by check to the customer and were properly treated as debits under the Net Investment Method of calculating customer claims. Consequently, the customers had withdrawn more than they deposited, and hence had no “net equity” claims. The Court further affirmed the Bankruptcy Court’s holding that claimants bear the burden of establishing the amount of their customer claims, and as to a particular customer’s claim, the customer had ratified the PW transactions as cash withdrawals.

In *re Bernard L. Madoff Investment Securities*, 2019 WL 3436542 (Bankr. S.D.N.Y. 2019), the Bankruptcy Court again disallowed the customer claim filed by a private trust after granting the claimant’s motion for reconsideration of the initial disallowance of its customer claim. The Court found that the trust was a “net winner” that had withdrawn from its BLMIS accounts more than it deposited. The claimant contended that under the Net Investment Method a name change on the account entitled it to full credit of the stated amount in the account. The Court found this argument unavailing, noting that the account was entirely made up of fictitious profits at the time of the name change, and no new principal was ever deposited.

The District Court in *Susanne Stone Marshall v. Capital Growth Company* (*In re BLMIS*), 598 B.R. 102 (S.D.N.Y. 2019), affirmed the Bankruptcy Court’s denial of appellants’ motion for a declaratory judgment that their complaint against the estate of Jeffrey M. Picower and related defendants (“Picower parties”) was not barred by a permanent injunction previously entered by the Bankruptcy Court. In 2011, the Bankruptcy Court issued a permanent injunction as part of approving a $7.2 billion settlement between the Trustee and the Picower parties. The appellants’ proposed complaint asserted six claims for violations of the Securities Exchange Act, federal and Florida RICO statutes, and federal common law. The District Court agreed with the Bankruptcy Court decision and with previous Bankruptcy Court, District Court, and Circuit Court decisions that the various claims were duplicative and derivative of the claims previously settled by the Trustee, and thus were enjoined.

Litigation in the liquidation of Lehman Brothers Inc. (“LBI”) also resulted in a couple of key decisions:

In *344 Individuals v. Giddens* (*In re LBI*), No. 15-cv-9670 (S.D.N.Y. September

29, 2019), the District Court affirmed the Bankruptcy Court's order granting the Trustee's motion to reclassify appellants' claims from secured to unsecured claims. Appellants, former employees of Shearson Lehman Brothers, Inc. ("Shearson"), a predecessor to LBI, were participants in a deferred compensation plan, the Executive and Select Employees Deferred Compensation Plan (the "ESEP"), and voluntarily entered into the ESEP by signing individual agreements with Shearson (the "ESEP agreements"). Appellants argued that the Bankruptcy Court erred by (1) not citing any evidence or argument that refuted their claims to secured status and (2) reversing the evidentiary burdens of the Trustee and appellants. As an initial matter, the Appellate Court noted that the ESEP agreements explicitly stated that any claims arising from the agreement would be unsecured. In affirming, the Court held that appellants did not establish a *prima facie* case of secured status because they did not provide any required evidence that their claimed security interest had been perfected. Moreover, the Court rejected appellants' argument that their claims were the equivalent of a secured claim under Bankruptcy Code section 541. Here, responding to the appellants' argument that the ESEP assets were not part of the debtor's estate, the Court reiterated the holding of the Bankruptcy Court that a party cannot have a secured claim in property of the debtor if the property at issue is not the debtor's.

The U.S. Court of Appeals for the Second Circuit in *344 Individuals v. Giddens* (*In re LBI*), 792 Fed. App'x 16 (2d Cir. 2019), affirmed the order of the District Court upholding the Bankruptcy Court grant of summary judgment to the Trustee finding that the claims of the ESEP participants were subordinated to claims of general unsecured creditors. As an initial matter, the Appellate Court held that the ESEP agreements unambiguously provided for subordination. The Court found that appellants' argument that the subordination provisions in the ESEP agreements applied only to Shearson and not to LBI was without merit. The Court held that LBI was a continuation of Shearson, and even if it were deemed a "successor" to Shearson, the subordination provisions would still apply. The Court also rejected appellants' contention that the debtor materially breached the agreements by reclassifying appellants' claims as subordinated. Even had there been a material breach, the Court held, that would not transform the claims from subordinated to unsubordinated. Finally, the Court found that the subordination provisions would be unaffected even if, as the appellants had argued, the ESEP agreements were rejected executory contracts.

DISCIPLINARY
AND CRIMINAL ACTIONS

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 14(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

Criminal and Administrative Actions

Criminal actions have been initiated in 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, 2019, 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
Total	289

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 2019 SIPC received one referral under Section 5(a). This referral did not result in a SIPC proceeding in 2019.

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.

GRANT THORNTON LLP
1000 Wilson Boulevard
Suite 1400
Arlington, VA 22209

D +1 703 847 7500
F +1 703 848 9580

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, 2019, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

Grant Thornton

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, 2019, 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 13, 2020

SIPC
FINANCIAL STATEMENTS

Statement of Financial Position as of December 31, 2019

ASSETS	
Cash	$ 6,453,325
U.S. Government securities, at fair value and accrued interest receivable of ($17,766,289); (amortized cost $3,405,672,104) (Note 6)	3,481,915,776
Estimated member assessments receivable (Note 3)	148,486,364
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($2,493,201,890) (Note 4)	14,600,000
Assets held for deferred compensation plan (Note 8)	1,966,225
Other (Note 5 and Note 9)	1,769,544
	$3,655,191,234
LIABILITIES AND NET ASSETS	
Accrued benefit costs (Note 8)	$ 13,818,173
Amount due on deferred compensation plan (Note 8)	1,966,225
Accounts payable and other accrued expenses	1,095,895
Deferred rent (Note 5)	1,761,258
Estimated costs to complete customer protection proceedings in progress (Note 4)	712,500,000
Member assessments received in advance (Note 3)	1,138,456
	732,280,007
Unrestricted net assets	2,922,911,227
	$3,655,191,234

The accompanying notes are an integral part of these statements.

Statement of Activities for the year ended December 31, 2019

Revenues:	
Member assessments (Note 3)	$ 317,610,000
Interest on U.S. Government securities	75,812,450
	393,422,450
Expenses:	
Salaries and employee benefits (Note 8)	12,537,157
Legal and accounting fees (Note 4)	346,220
Rent (Note 5)	1,005,684
Other	4,135,586
	18,024,647
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(42,244,615)
	$ (24,219,968)
Excess revenues over expenses	417,642,418
Realized and unrealized gain on U.S. Government securities (Note 6)	115,979,049
Pension and postretirement benefit changes other than net periodic costs (Note 8)	(3,597,040)
Increase in unrestricted net assets	530,024,427
Unrestricted net assets, beginning of year	2,392,886,800
Unrestricted net assets, end of year	$2,922,911,227

The accompanying notes are an integral part of these statements.

Statement of Cash Flows for the year ended December 31, 2019

Operating activities:	
Interest received from U.S. Government securities	$ 73,938,539
Member assessments received	298,576,514
Advances paid to trustees	(143,903,782)
Recoveries of advances	18,148,396
Salaries and other operating activities expenses paid	(20,298,104)
Net cash provided by operating activities	226,461,563
Investing activities:	
Proceeds from sales of U.S. Government securities	343,733,754
Purchases of U.S. Government securities	(589,594,885)
Purchases of furniture and equipment	(12,343)
Net cash used in investing activities	(245,873,474)
Decrease in cash	(19,411,911)
Cash beginning of period	25,865,236
Cash, end of period	$ 6,453,325

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 liquidity

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $3,488,369,101. Together with the estimated member assessments receivable of $148,486,364 and advances to trustees for customer protection proceedings in progress (less allowance for possible losses) of $14,600,000, SIPC's financial assets available for general expenditures within one year of the December 31, 2019 statement of financial position date total $3,651,455,465.

As part of SIPC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commision (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 is 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 2019 but not received, or expected to be received, until 2020.

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 78*lll* (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 the total charges to SIPC for the Madoff proceeding to be approximately $3.2 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 $2.51 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $2.50 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, 2019 that result from these proceedings:

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

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$17,900,000	$883,800,000
Add:		
Provision for current year recoveries	200,000	—
Provision for estimated future recoveries	14,600,000	—
Provision for estimated costs to complete proceedings	—	(27,400,000)
Less:		
Recoveries	18,100,000	—
Advances to trustees	—	143,900,000
Balance, end of year	$14,600,000	$712,500,000

5. Commitments

On June 20, 2014 SIPC signed a lease for new office space in Washington, D.C. The new 11 year lease commenced on August 1, 2015. Future minimum rentals for the space, expiring on August 31, 2026, are as follows: 2020—$895,622; 2021—$925,154; 2022—$1,035,807; 2023—$1,061,685; 2024—$1,088,185; thereafter $1,869,774; for a total of $6,876,227, as of December 31, 2019. 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 November 4, 2019 SIPC renewed its lease for additional office space in Fairfax, Virginia. The new 40 month lease commences on August 1, 2020. Future minimum rentals for the space, expiring on November 30, 2023, are as follows: 2020—$160,842; 2021—$157,787; 2022—$162,127; 2023—$152,483; for a total of $633,239, as of December 31, 2019. Additional rent is based on SIPC's pro rata share of operating expenses in accordance with the terms of the lease. The rent holiday of $52,000 and the leasehold improvement incentive of $36,000 are being amortized over the life 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, 2019.

The fair value of U.S. Government securities is based on the bid quote as of December 31, 2019 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, 2019, all securities held within the portfolio are priced using Level 2 inputs.

U.S. Government securities as of December 31, 2019 included cumulative gross unrealized gains of $80,201,498 and cumulative gross unrealized losses of $3,957,826.

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

Increase in unrestricted net assets	$530,024,427
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Realized and unrealized gain on U.S. Government securities	(115,979,049)
Net amortized premium on U.S. Government securities	(672,887)
Depreciation and amortization	617,859
Changes in operating assets and liabilities:	
Increase in estimated assessment receivable	(17, 533,486)
Increase in accrued interest receivable on U.S. Government securities	(1,201,023)
Net decrease in estimated cost to complete customer protection proceedings	(171,300,000)
Net decrease in estimated recoveries of advances to trustees	3,300,000
Decrease in member assessments collected in advance	(1,500,146)
Increase in payables and accrued expenses	1,170,523
Increase in prepaid expenses	(353,146)
Decrease in deferred rent	(111,509)
Net cash provided by operating activities	**$226,461,563**

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 $1,966,225 year-end market value of the supplemental plan is reflected as a deferred compensation asset and as a deferred compensation liability in the Statement of Financial Position. In addition, SIPC has two defined benefit postretirement plans that cover all employees. One plan provides medical and dental insurance benefits and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually to reflect changes in gross premiums; the life insurance plan is noncontributory.

SIPC is required to recognize the overfunded or underfunded status of the defined benefit plans as an asset or liability in the Statement of Financial Position and to recognize the funded status in the year in which the change occurs through the Statement of Activities. In addition, SIPC is required to recognize within the Statement of Activities, gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period and which are not being recognized as net periodic benefit costs.

	Pension Benefits	Other Postretirement Benefits
Change in Benefit Obligation		
Benefit obligation at beginning of year	$55,240,632	$ 7,598,728
Service cost	1,550,065	315,968
Interest cost	2,327,482	323,641
Plan participants' contributions	—	33,036
Amendments	—	—
Actuarial loss	11,083,950	185,931
Benefits paid	(1,742,604)	(143,586)
Benefit obligation at end of year	$68,459,525	$ 8,313,718
Change in Plan Assets		
Fair value of plan assets at beginning of year	$49,758,185	$ —
Actual return on plan assets	9,938,873	—
Employer contributions prior to measurement date	—	—
Employer contributions	5,000,000	110,550
Plan participants' contributions	—	33,036
Benefits paid	(1,742,604)	(143,586)
Fair value of plan assets at end of year	$62,954,454	$ —
Funded status	$ (5,505,071)	$(8,313,718)
Employer contributions between measurement and statement date	—	—
Funded status at year end	$ (5,505,071)	$(8,313,718)
Amounts recognized in the Statement of Financial Position and net assets consist of:		
Net amount recognized in the Statement of Financial Position	$ (5,505,071)	$(8,313,718)
Accumulated benefit obligation end of year	$65,474,474	$ 8,313,718

SIPC
FINANCIAL STATEMENTS continued

	Pension Benefits	Other Postretirement Benefits
Weighted-average assumptions for disclosure as of December 31, 2019		
Discount rate	3.30%	3.40%
Salary scale 2019 / thereafter	3.00% / 3.00%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	7.25% / 5.75%
Health Care Cost Trend: Ultimate	N/A	4.50%
Year Ultimate Reached: Initial Pre-65/Post-65	N/A	2031 / 2025
Components of net periodic benefit cost and other amounts recognized within the Statement of Activities		
Net periodic benefit cost		
Service cost	$1,550,065	$ 315,968
Interest cost	2,327,482	323,641
Expected return on plan assets	(3,162,310)	—
Recognized prior service cost	—	7,842
Recognized actuarial loss	888,436	—
Net periodic benefit cost	1,603,673	647,451
Pension and other postretirement benefit changes other than net periodic benefit cost		
Net actuarial loss	4,307,387	185,931
Recognized actuarial loss	(888,436)	—
Prior service cost	—	—
Recognized prior service cost	—	(7,842)
Total pension and postretirement benefit changes other than net periodic cost	3,418,951	178,089
Total net periodic other benefit cost and pension and other postretirement benefits changes other than net periodic benefit cost	$ 5,022,624	$ 825,540
Amounts expected to be recognized in net periodic cost in the coming year		
Loss recognition	$ 888,436	$ 1,494
Prior service cost recognition	—	7,842
Total	$ 888,436	$ 9,336
Effect of a 1% increase in trend on:		
Benefit obligation	N/A	$ 1,233,555
Total service interest cost	N/A	$ 150,455
Effect of a 1% decrease in trend on:		
Benefit obligation	N/A	$ (1,298,730)
Total service interest cost	N/A	$ (118,976)
Weighted-average assumptions for net periodic cost as of December 31, 2019		
Discount rate	4.30%	4.30%
Expected asset return	6.50%	N/A
Salary scale 2019 / thereafter	3.0% / 3.0%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	7.5% / 6.0%
Health Care Cost Trend: Ultimate	N/A	4.50%
Year Ultimate Reached: Initial Pre-65/Post-65	N/A	2031 / 2025

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 2019, the unrecognized net loss increased by 6.2% of the 12/31/2018 projected benefit obligation primarily due to assumption changes for discount rates and mortality table offset by higher than expected asset returns.

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 2019 by ($777,000)/$945,000 and (decreased)/increased the year-end projected benefit obligation by ($8.9)/$11.3 million.

Asset Summary

Asset Category	Quoted Prices in Active Markets for Identical Assets (Level 1)
Equity securities:	
U.S. large and multi-cap mutual funds	$22,408,710
Non-U.S. large and multi-cap mutual funds	9,653,304
Total Equity	32,062,014
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	30,892,440
Total Fixed Income	30,892,440
Total	$62,954,454

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 2019 by $487,000.

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 12/31/19
Equity securities	9.00%	45–55%	51%
Debt securities	4.00%	45–55%	49%
Total	6.5%	100%	100%

Estimated Future Benefit Payments Estimated future benefit payments, including future benefit accrual		
	Pension	Other Benefits
2020	$ 2,360,434	$ 209,242
2021	$ 2,572,329	$ 250,004
2022	$ 2,805,504	$ 306,707
2023	$ 3,179,209	$ 345,870
2024	$ 3,344,480	$ 389,140
2025–2029	$18,206,496	$2,056,334

Contributions

The company expects to make no contributions to the pension plan in 2020 for the 2019 plan year and $156,000 to the postretirement benefit plan during 2020.

Defined Contribution Plan	
Estimated SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 255,000

9. Fixed Assets

SIPC's policy is to capitalize fixed assets costing $2,500 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

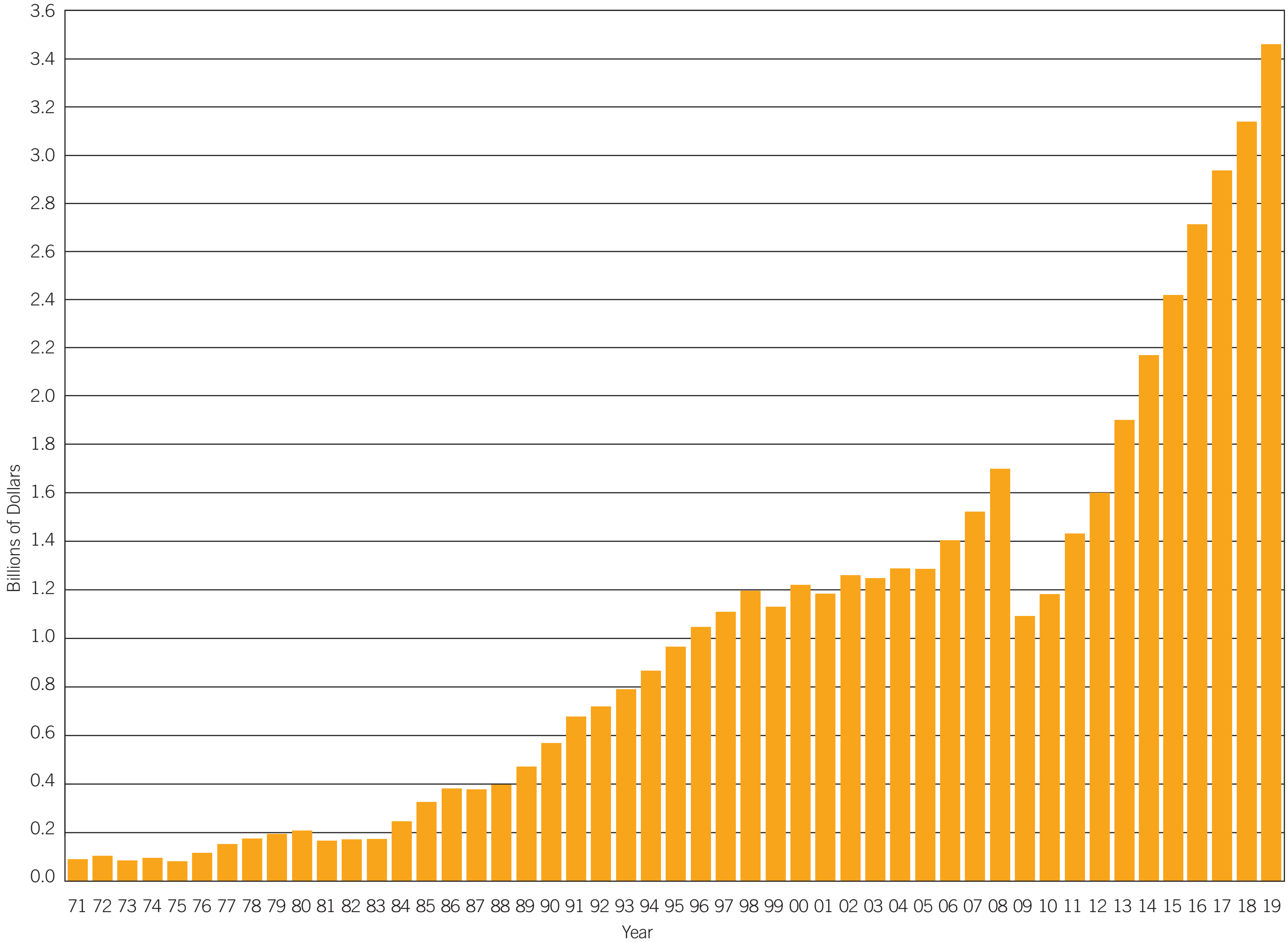
SIPC evaluated its December 31, 2019 financial statements for subsequent events through April 13, 2020, the date the financial statements were available to be issued. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, SIPC is unable to determine if it will have a material impact to its operations.

Fixed Assets	
Office equipment at cost	$ 68,464
Computer hardware at cost	3,399,122
Computer software at cost	1,811,815
Office furniture and fixtures at cost	1,215,134
Leasehold improvements at cost	1,464,977
Total fixed assets at cost	7,959,512
Less accumulated depreciation and amortization	(6,327,477)
Net fixed assets	$1,632,035
2019 depreciation and amortization expense	$ 617,859

TABLE 5

SIPC Fund Comparison
Inception to December 31, 2019



APPENDIX 1
DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS
for the Forty-Nine Years Ended December 31, 2019
(In Thousands of Dollars)

	From Debtor's Estates	From SIPC			
	As Reported by Trustees	Advances*	Recoveries*	Net	Total
1971	$ 271	$ 401		$ 401	$ 672
1972	9,300	7,347	$ (4)	7,343	16,643
1973	170,672	35,709	(4,003)	31,706	202,378
1974	21,582	4,903	(5,125)	(222)	21,360
1975	6,379	6,952	(2,206)	4,746	11,125
1976	19,901	1,292	(528)	764	20,665
1977	5,462	2,255	(2,001)	254	5,716
1978	1,242	4,200	(1,682)	2,518	3,760
1979	9,561	1,754	(6,533)	(4,779)	4,782
1980	10,163	3,846	(998)	2,848	13,011
1981	36,738	64,311	(1,073)	63,238	99,976
1982	28,442	13,807	(4,448)	9,359	37,801
1983	21,901	52,927	(15,789)	37,138	59,039
1984	184,910	11,480	(13,472)	(1,992)	182,918
1985	180,973	19,400	(11,726)	7,674	188,647
1986	28,570	14,886	(4,414)	10,472	39,042
1987	394,443	20,425	(2,597)	17,828	412,271
1988	72,052	8,707	(10,585)	(1,878)	70,174
1989	121,958	(5,481)	(10,244)	(15,725)	106,233
1990	301,237	3,960	(4,444)	(484)	300,753
1991	1,943	6,234	(2,609)	3,625	5,568
1992	34,634	7,816	(230)	7,586	42,220
1993	115,881	4,372	(9,559)	(5,187)	110,694
1994	(14,882)#	(1,283)	(3,829)	(5,112)	(19,994)
1995	585,756	17,850	(4,196)	13,654	599,410
1996	4,770	(1,491)	(10,625)	(12,116)	(7,346)
1997	314,813	22,366	(4,527)	17,839	332,652
1998	3,605	4,458	(1,571)	2,887	6,492
1999	477,635	47,360	(7,460)	39,900	517,535
2000	364,065	26,330	(3,413)	22,917	386,982
2001	10,110,355	200,967	(87,538)	113,429	10,223,784
2002	606,593	40,785	(5,812)	34,973	641,566
2003	(643,242)#	22,729	(4,425)	18,304	(624,938)
2004	209,025	(11,662)#	(37,700)	(49,362)	159,663
2005	(24,245)#	1,175	(4,342)	(3,167)	(27,412)
2006	1,635,006	2,653	(51,942)	(49,289)	1,585,717
2007	1,167	7,054	(6,624)	430	1,597
2008	144,265,058	1,982	(709)	1,273	144,266,331
2009	(52,025,582)@	543,280	(213)	543,067	(51,482,515)
2010	579,035	217,842	(1,824)	216,018	795,053
2011	8,169,689	32,678	(94)	32,584	8,202,273
2012	3,217,290	19,338	(1,774)	17,564	3,234,854
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#	(11,457)	(1,288)	4,246,148
2016	(608,091)#	8,188	(45,870)	(37,682)	(645,773)
2017	1,166,245	4,024	(11,175)	(7,151)	1,159,094
2018	1,103,404	2,956	(24,409)	(21,453)	1,081,951
2019	1,644,784	3,781	(17,969)	(14,188)	1,630,596
	$140,504,033	$1,539,777	($593,561)	$946,216	$141,450,249

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

Reflects adjustments to customer distributions based upon Trustees' revised allocation.

@ 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, 2019

	2019	2018	2017	2016	2015
Revenues:					
Member assessments	$317,610,000	$291,940,037	$277,800,032	$431,701,294	$429,447,213
Interest on U.S. Government securities	75,629,051	63,840,516	57,599,175	54,873,106	47,844,129
Interest on assessments	183,399	66,222	125,930	100,022	102,926
	393,422,450	355,846,775	335,525,137	486,674,422	477,394,268
Expenses:					
Salaries and employee benefits	12,537,157	12,363,503	11,379,039	11,203,324	10,363,111
Legal fees	183,709	157,070	32,816	159,881	135,866
Accounting fees	162,511	185,898	167,625	85,575	123,454
Professional fees—other	929,404	498,583	300,231	289,169	394,795
Other:					
Assessment collection cost	36,807	25,015	37,119	23,201	27,299
Depreciation and amortization	617,859	672,878	701,871	773,371	781,581
Directors' fees and expenses	40,163	32,563	43,184	43,178	44,010
Insurance	37,200	38,193	36,124	33,879	39,281
Investor education	148,862	228,053	312,059	197,735	368,637
Office supplies and expense	470,710	209,069	223,742	228,482	281,081
EDP and internet expenses*	1,258,469	1,046,396	1,084,727	1,070,947	1,105,179
Postage	6,330	7,964	10,577	12,722	12,358
Printing & mailing annual report	29,254	29,122	28,390	29,051	30,192
Publications and reference services	331,361	466,237	392,818	361,316	282,382
Rent office space	1,005,684	1,021,065	983,172	978,121	1,186,494
Travel and subsistence	149,745	124,915	111,200	114,848	113,958
Pesonnel recruitment	29,934	221,600			177,584
Miscellaneous	49,488	35,771	45,046	59,959	43,702
	4,211,866	4,158,841	4,010,029	3,926,810	4,493,738
	18,024,647	17,363,895	15,889,740	15,664,759	15,510,964
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(14,144,107)	(21,008,817)	(6,504,659)	(37,710,029)	(1,127,239)
Cash	(8,152)	(13,760)	(758,179)	(354)	(28,222)
	(14,152,259)	(21,022,577)	(7,262,838)	(37,710,383)	(1,155,461)
Administration expenses	140,025,745	143,305,093	167,747,967	151,630,458	175,369,685
	125,873,486	122,282,516	160,485,129	113,920,075	174,214,224
Net change in estimated future recoveries	3,300,000	5,900,000	(12,700,000)	27,100,000	(26,900,000)
	129,173,486	128,182,516	147,785,129	141,020,075	147,314,224
SIPC as Trustee:					
Securities	(34,653)	(28,395)	(77,900)	(357,941)	(156,600)
Cash	(953)	(570,001)	189,528	385,893	24,299
	(35,606)	(598,396)	111,628	27,952	(132,301)
Administration expenses	(82,495)	748,529	595,721	893,724	541,747
	(118,101)	150,133	707,349	921,676	409,446
Direct payments:					
Securities					
Cash		168,951			
		168,951			
Administration expenses		962	35,822		(600)
		169,913	35,822		(600)
Net change in estimated cost to complete proceedings	(171,300,000)	36,500,000	(97,200,000)	(72,400,000)	118,300,000
	(42,244,615)	165,002,562	51,328,300	69,541,751	266,023,070
	(24,219,968)	182,366,457	67,218,040	85,206,510	281,534,034
Total net revenues	417,642,418	173,480,318	268,307,097	401,467,912	195,860,234
Realized and unrealized (loss) gain on U.S. Government securities	115,979,049	(18,197,141)	(14,174,544)	(39,652,395)	(25,917,850)
Pension and postretirement benefit changes other than net periodic benefit costs	(3,597,040)	1,705,080	(3,327,187)	367,140	(911,654)
Increase in unrestricted net assets	$530,024,427	$156,988,257	$250,805,366	$362,182,657	$169,030,730

*2015 has been restated to combine Telephone with EDP and internet expenses.

APPENDIX 3
CUSTOMER PROTECTION PROCEEDINGS

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[(b)] To Whom Notices and Claim Forms Were Mailed	Responses[(b)] Received	Customers[(b)] Receiving Distributions
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	01/19/60	12/11/08	12/15/08	8,110	16,521*	2,646
TOTAL 1 MEMBER: PART A				**8,110**	**16,521**	**2,646**

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

December 31, 2019

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$12,730,228,873	$12,712,771,683	$17,457,190	$2,506,252,108	$1,881,316,085		$624,936,023	
$12,730,228,873	**$12,712,771,683**	**$17,457,190**	**$2,506,252,108**	**$1,881,316,085**		**$624,936,023**	

APPENDIX 3
CUSTOMER PROTECTION PROCEEDINGS
continued

PART B: Customer Claims Satisfied, Litigation or Administrative Matters Pending[(a)]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[(b)] To Whom Notices and Claim Forms Were Mailed	Responses[(b)] Received	Customers[(b)] Receiving Distributions
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	905,000	124,248	111,888
Westor Capital Group, Inc. New York, NY (SIPC)	09/27/00	04/16/13	04/16/13	499	140	116
TOTAL 2 MEMBERS: PART B				**905,499**	**124,388**	**112,004**

December 31, 2019

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$107,148,641,629	$105,773,207,834	$1,375,433,795					
8,295,266	8,295,266		$1,549,783	$749,754		$13,538	$786,490
$107,156,936,895	**$105,781,503,100**	**$1,375,433,795**	**$1,549,783**	**$749,754**		**$13,538**	**$786,490**

APPENDIX 3
CUSTOMER PROTECTION PROCEEDINGS
continued

PART C: Proceedings Completed in 2019[a]

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Customers[b] Receiving Distributions
Legend Securities, Inc. New York, NY (Direct Payment)	11/19/98	NA	10/20/2017 +	6,547	168	4
TOTAL 1 MEMBER 2019				**6,547**	**168**	**4**
TOTAL 326 MEMBERS 1973–2018[d]				**2,297,335**	**477,700**	**658,397**
TOTAL 327 MEMBERS 1973–2019				**2,303,882**	**477,868**	**658,401**

+ Date Notice Published

December 31, 2019

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
			$ 205,736	$ 36,784			$168,952
			205,736	**36,784**			**168,952**
$22,679,509,385	**$22,009,758,870**	**$669,750,516**	**$534,377,478**	**$214,065,852**	**$1,388,427**	**$186,635,526**	**$132,287,673**
$22,679,509,385	**$22,009,758,870**	**$669,750,516**	**$534,583,214**	**$214,102,636**	**$1,388,427**	**$186,635,526**	**$132,456,625**

APPENDIX 3
CUSTOMER PROTECTION PROCEEDINGS continued

PART D: Summary

	Customers[b] To Whom Notices and Claim Forms Were Mailed	Responses[b] Received	Customers[b] Receiving Distributions
Part A: 1 Member — Customer Claims and Distributions Being Processed	8,110	16,521	2,646
Part B: 2 Members — Customer Claims Satisfied, Litigation or Administrative Matters Pending	905,499	124,388	112,004
Sub-Total	913,609	140,909	114,650
Part C: 327 Members — Proceedings Completed	2,303,882	477,868	658,401
Total: 327	**3,217,491**	**618,777**	**773,051**

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, 2019

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 12,730,228,873	$ 12,712,771,683	$ 17,457,190	$2,506,252,108	$1,881,316,085		$624,936,023	
107,156,936,895	105,781,503,100	1,375,433,795	1,549,783	749,754		13,538	$786,490
119,887,165,768	118,494,274,783	1,392,890,985	2,507,801,891	1,882,065,839		624,949,561	786,490
22,679,509,385	22,009,758,870	669,750,516	534,583,214	214,102,636	$1,388,427	186,635,526	132,456,625
$142,566,675,153	**$140,504,033,653**	**$2,062,641,501**	**$3,042,385,105**	**$2,096,168,475**	**$1,388,427**	**$811,585,087**	**$133,243,115**

SECURITIES INVESTOR PROTECTION CORPORATION
1667 K STREET, N.W., SUITE 1000 • WASHINGTON, D.C. 20006-1620
(202) 371-8300 FAX (202) 223-1679
WWW.SIPC.ORG