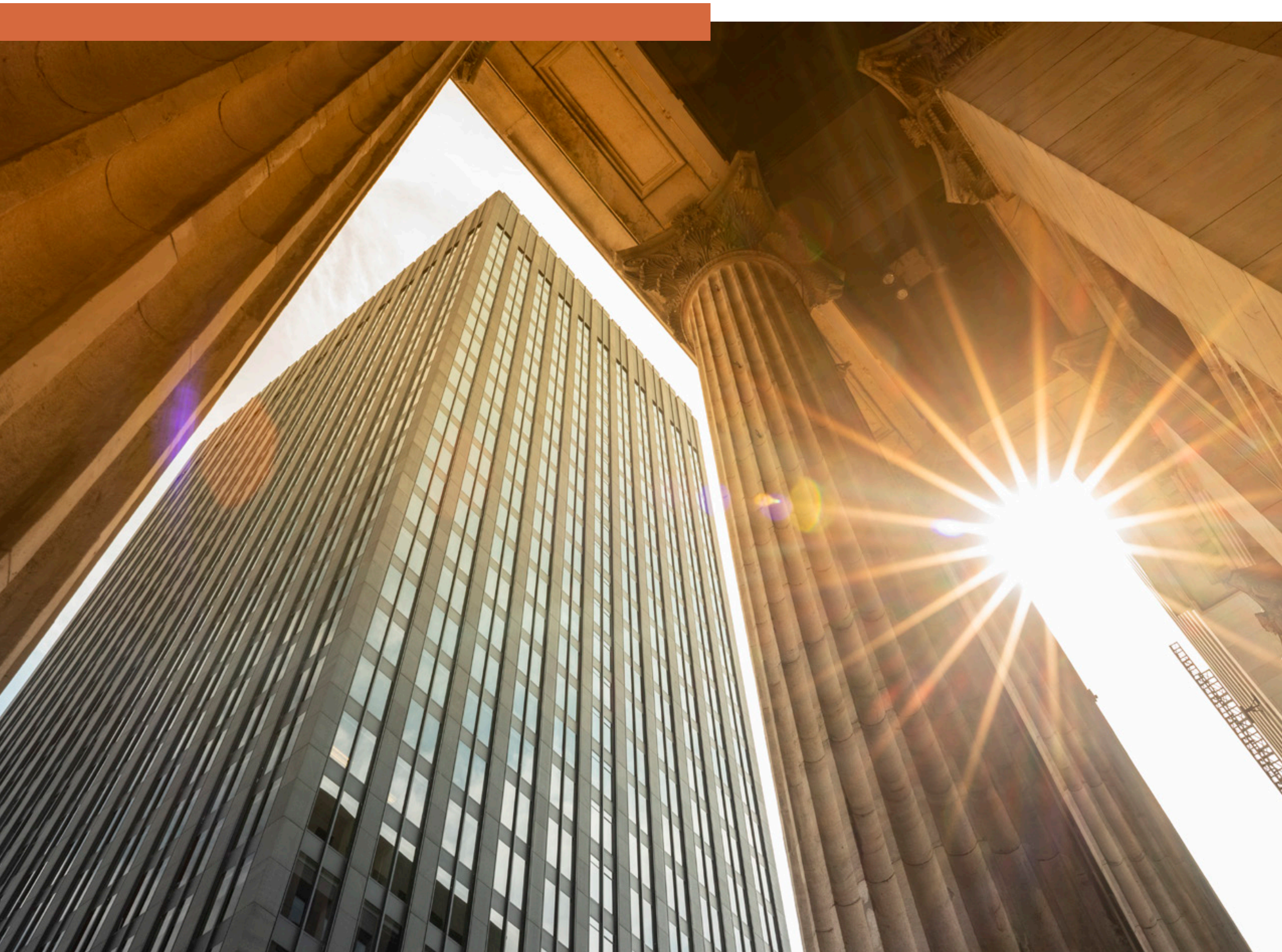
2020 Annual Report

Securities Investor Protection Corporation



Securities Investor Protection Corporation
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www.sipc.org

April 30, 2021

The Honorable Gary Gensler
Chairman
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Chairman Gensler:

On behalf of the Board of Directors I submit herewith the Fiftieth 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

CONTENTS

MESSAGE FROM THE BOARD OF DIRECTORS

This Report follows the Special Report and video produced by SIPC to commemorate its 50th Anniversary. *See* www.sipc.org. With pride, SIPC looked back upon its first 50 years, from its start as a young organization through its growth to one that has protected, and continues to protect, securities investors against the loss of their hard-earned assets in some of the largest and most complex securities brokerage liquidations in history.

IN 2020:

2020 has been a year unlike most others. As the country grapples with an insidious pandemic, SIPC has stood resolute in its mission of investor protection.

No new cases were brought in 2020. Substantial progress was made in pending brokerage firm liquidations.

Westor Capital Group Inc.

SIPC, as Trustee, completed its administration of Westor Capital Group Inc. Although smaller liquidation proceedings under the Securities Investor Protection Act (SIPA) dwarf in comparison to larger and more complex ones, they are no less important. With allowed claims totaling more than $9 million, the Trustee recovered or retrieved over $8.7 million in cash and securities for Westor customers. The balance of what customers were owed was satisfied with advances from SIPC that totaled roughly $510,000 and resulted in all customers being made whole.

SIPC's Largest Cases

The two largest pending cases under SIPA began in 2008—at the outset of the financial crisis. As the liquidation proceedings completed their twelfth year, the results in both have exceeded expectations.

Lehman Brothers Inc.

With more than $106 billion having been returned to customers, the allowed claims of customers and secured and priority claimants were fully satisfied. In 2020, an additional interim distribution brought amounts received by unsecured general creditors to more than $9.096 billion, resulting in a 40.06 percent rate of return. Although a discrete litigation matter remains, the Trustee, with court permission, took measures to prepare for the closing of the case.

Bernard L. Madoff Investment Securities LLC

In 2020, more recoveries in the liquidation of Bernard L. Madoff Investment Securities LLC were achieved to benefit the victims with allowed customer claims. At year end, the Trustee had recovered $14.4 billion, and distributed nearly $13.9 billion. Any customer with a net asset value of up to approximately $1.58 million was made whole. Customers with larger claims have received over 68.60% of the net amount entrusted to the Madoff firm. The Trustee and SIPC continue their pursuit of customers' fraudulently converted assets.

LOOKING AHEAD:

In 2020, in order to strengthen the SIPC Fund and enhance investor confidence, SIPC amended its assessment bylaw to build the size of the Fund from a target of $2.5 billion to $5 billion. To achieve the target, member assessments were left unchanged.

This year, substantial time and resources were devoted to the development of a broker portal. The portal, which SIPC expects to launch in 2022, will streamline the processing by SIPC of membership information through automation and system integration. The portal will make it easier for members to submit assessment forms and pay assessments, and offer another way for broker-dealers to communicate electronically with SIPC.

In a further step toward modernization, SIPC also commissioned a study of its IT infrastructure, applications, and security, with a view toward migrating its services and applications to the cloud. The migration is projected to begin in 2021.

Cybersecurity remains a paramount concern. An incident response plan was completed by SIPC in 2020 which will be refined and updated over time. SIPC continues to stress to its employees the importance of cyber threat awareness. As a member of the Financial and Banking Information Infrastructure Committee, SIPC stays current on issues related to cybersecurity and other critical infrastructure matters within the financial services industry.

As SIPC navigates its way through the pandemic, SIPC expresses its appreciation to its staff for their dedication to SIPC's mission; to those entities and individuals with whom SIPC collaborates to resolve securities brokerage firm failures—the Securities and Exchange Commission, FINRA and other self-regulatory organizations, state securities regulators, and the trustees and their staffs, all under the watchful eye of Congress; and to its broker-dealer members for their unyielding support. As it moves ahead, SIPC resolves to continue to do its part to keep investor confidence high and the securities industry vibrant and strong.

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 government securities 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 [15 U.S.C. § 78o-5(a)(1)(A)].

Further information about the provisions for customer 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 MediaSource, 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
Wells Fargo Wealth and Investment Management
Data and Business Solutions Leader

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	Duties
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 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 disclosure • 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 Board in formulating investment policies • Oversees management of the SIPC Fund and compliance with the Securities Investor Protection Act provisions relating to Fund investments • Ensures adequate controls to minimize the investment risks to which the 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 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; disclosing any actual or potential conflicts of interest; avoiding activities or associations that could reasonably lead to a conflict of interest; not using their position for personal gain or for the gain of a spouse, dependents, or partner; and maintaining 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 $28,000. The Vice Chairman and the three industry directors each receive annual honoraria of $12,000, except that if the positions of Chairman and Vice Chairman are vacant and one of the Securities Directors performs certain functions of the Chairman for a continuous twelve-month period, then that Securities Director receives a yearly honorarium of $28,000 for that period. The Chairman, Vice Chairman, and three industry directors are reimbursed for their official business expenses. The two government directors receive no honoraria and are not reimbursed for their official business expenses.

The Board held seven meetings in 2020. 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	7/7	1/1
Daniel M. Covitz	7/7	4/4
William S. Jasien	7/7	4/4
Gregory S. Karawan	7/7	2/2
W. Moses Kim	6/6	2/2
Jonathan Greenstein*	1/1	1/1

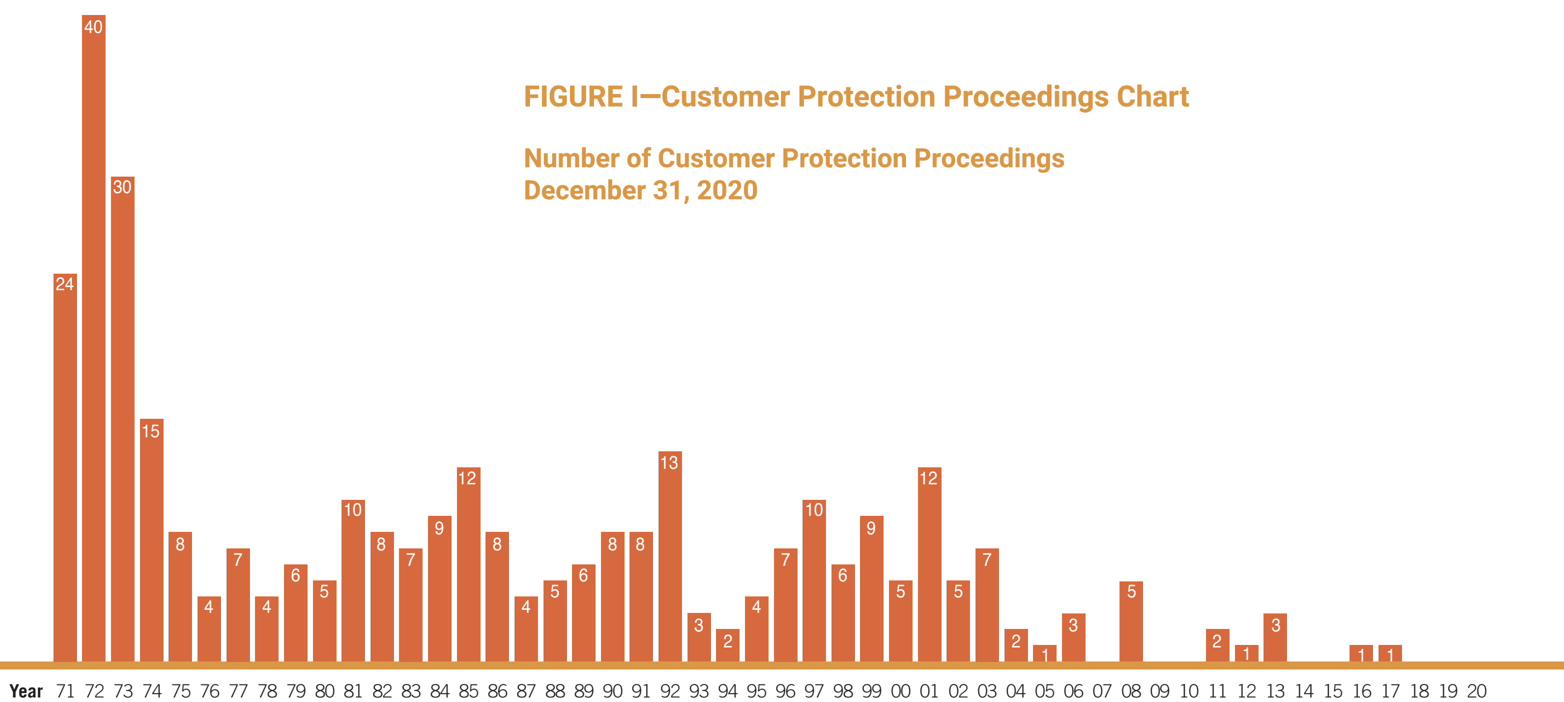
* Mr. Greenstein temporarily replaced Mr. Kim as the Treasury Department Board Director designee for one Board Meeting and one Committee Meeting.

CUSTOMER PROTECTION PROCEEDINGS

In 2020, 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 fifty years. Currently, SIPC has 3,441 members. During SIPC's fifty year history, cash and securities distributed for accounts of customers totaled approximately $141.8 billion. Of that amount, approximately $140.8 billion came from debtors' estates and $1.0 billion came from the SIPC Fund (See Appendix 1).

FIGURE I—Customer Protection Proceedings Chart

Number of Customer Protection Proceedings
December 31, 2020



“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, 2020, a total of 355 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 355 claims, represent less than one percent of all claims satisfied. The unsatisfied portion of claims, $49.7 million, represent less than one percent of the total value of securities and cash distributed for accounts of customers in the 329 completed or substantially completed 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 $2.63 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 $2.98 billion, or 94 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

Net Advances from the SIPC Fund
December 31, 2020
330 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$40,000,001	up	1	$2,627,882,111
10,000,001	$40,000,000	11	230,293,411
5,000,001	10,000,000	18	125,982,341
1,000,001	5,000,000	62	136,664,450
500,001	1,000,000	38	28,005,294
250,001	500,000	43	14,838,997
100,001	250,000	62	9,938,625
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	$3,163,683,568†

* 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 ($932,422,110) and for administration expenses ($2,231,261,458).

MEMBERSHIP AND THE SIPC FUND

The net decrease of 96 members during the year brought the total membership to 3,441 at December 31, 2020. 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). As of December 31, 2020, there were 74 members who were subjects of uncured notices, 43 of which were mailed during 2020, eight during 2019, seven during 2018, eight during 2017, one during 2016, three during 2015, one during 2014, one in 2012 and two in 2010. Subsequent filings and payments by 20 members left 54 notices uncured. Three registrations have been cancelled. Uncured delinquencies are referred to the SEC 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 market value plus accrued interest, amounted to $3.95 billion at year end, an increase of $461 million during 2020.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2020. The 2020 member assessments were $402.5 million and interest from investments was $72.4 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2020, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2020) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2020.

[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, 2020

Designated Examining Authorities	Total	Added[a]	Terminated[a]
FINRA[b]	3,329	117	193
Cboe Exchange, Inc.[h]	32	1	1
NYSE American LLC[g]	3	—	—
NYSE Arca, Inc.[e]	11	—	—
Nasdaq PHLX LLC[f]	15	1	1
NYSE Chicago, Inc.[i]	11	—	—
None[c]	40	—	20
	3,441	119	215

Notes:

(a) The numbers in this category do not reflect transfers of members to successor designated examining authorities that occurred within 2020. 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 2019 but processed by SIPC in 2020.

(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

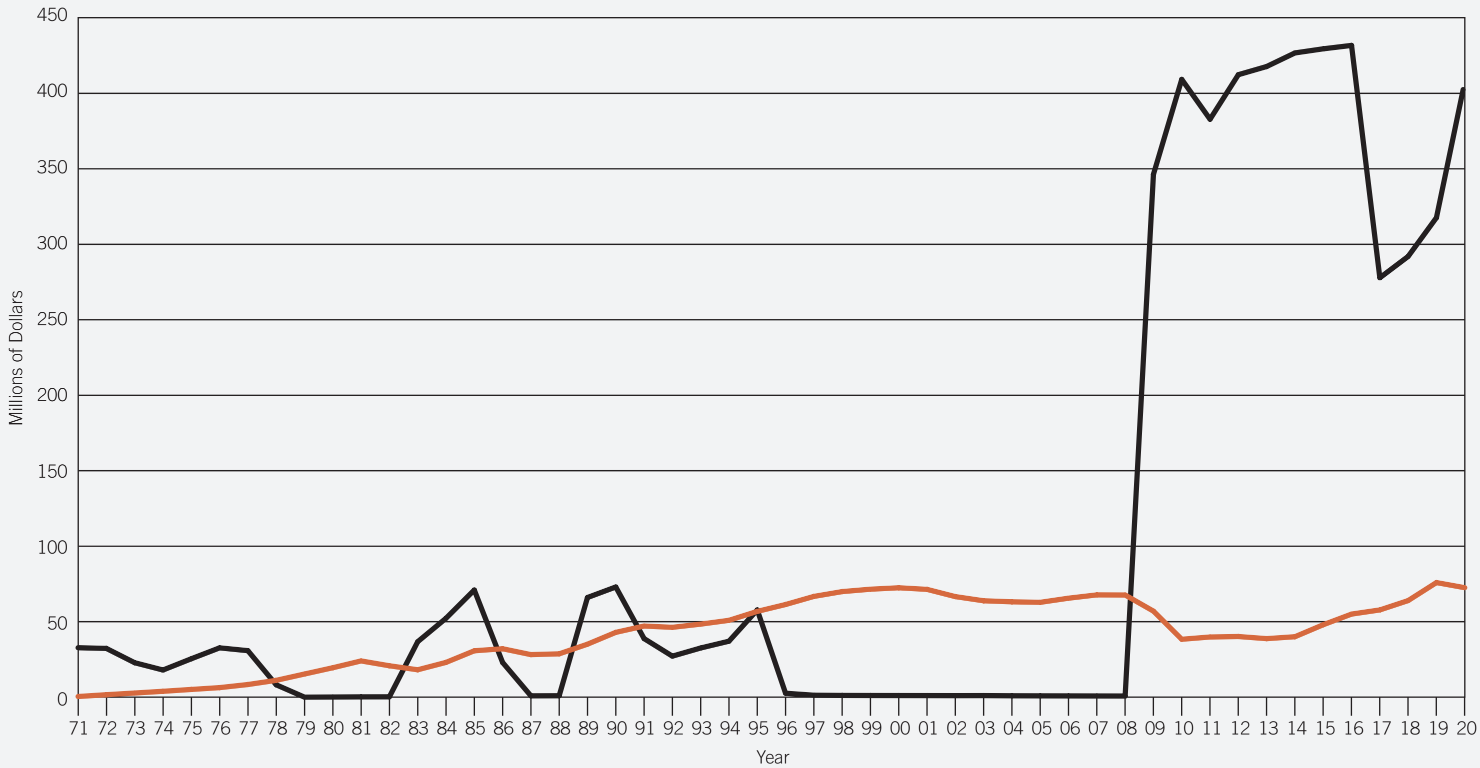
(h) Formerly Chicago Board Options Exchange Incorporated

(i) Formerly Chicago Stock Exchange, Incorporated

TABLE 3

SIPC Revenues for the Fifty Years Ended December 31, 2020

■ Member assessments and contributions: $5,282,997,406
■ Interest on U.S. Government securities: $2,104,366,093



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% ($150 minimum).

1992: .057% ($150 minimum).

1993: .054% ($150 minimum).

1994: .073% ($150 minimum).

1995: .095% ($150 minimum).

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

April 1, 2009–2016: .25% ($150 minimum through June 2010).

2017–December 31, 2020: .15%.

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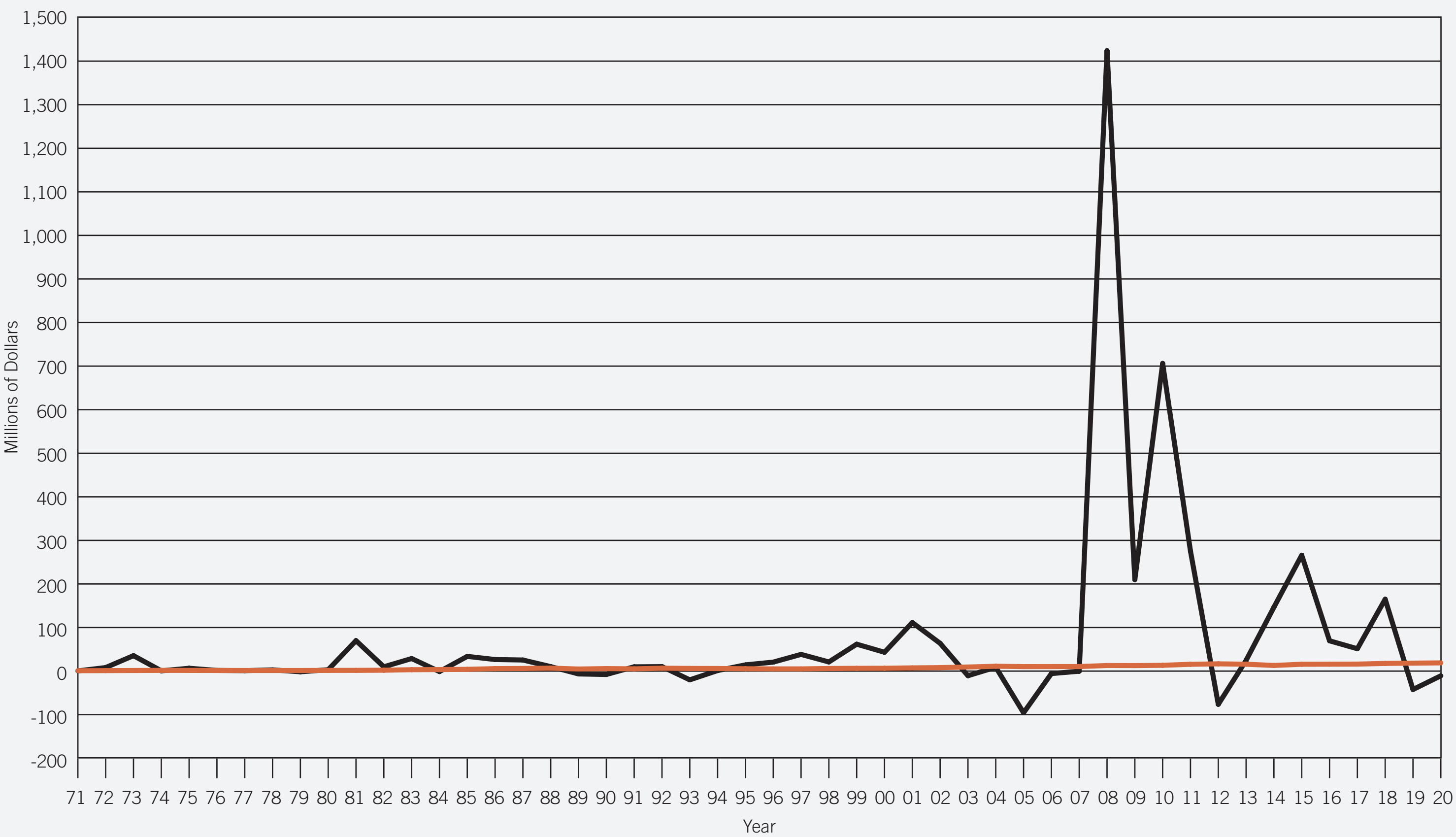
* Rates based on each member's gross revenues (net operating revenues for 1991–1995 and April 1, 2009 to present) from the securities business.

TABLE 4

SIPC Expenses for the Fifty Years Ended December 31, 2020

■ Customer protection proceedings: $3,732,683,568 (consists of net advances of $3,163,683,568 and $579,400,000 of estimated costs to complete proceedings less estimated future recoveries of $10,400,000).

■ Other expenses: $381,261,067



During 2020, 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 Bankruptcy Court conducting the liquidation of Lehman Brothers, Inc. ("LBI") rendered a pair of decisions concerning an adversary proceeding filed by former employees of Shearson Lehman Brothers, Inc., a predecessor to LBI. The former employees ("ESEP claimants") were participants in a deferred compensation plan, the Executive and Select Employees Deferred Compensation Plan ("ESEP"), and had voluntarily entered into the ESEP by signing individual agreements with Shearson. Seeking to recover about $270 million of deferred compensation at a higher claim priority in the SIPA proceeding than eventually determined by the Trustee, the ESEP claimants, after submitting their claims, filed multiple motions, resulting in several adverse decisions from the Bankruptcy Court, multiple District Court judges, and panels of the Court of Appeals.

After six years of litigation in pursuit of recovery from the LBI estate on their claims, the ESEP claimants shifted tack and filed an adversary proceeding arguing that deferred compensation should be excluded from the general estate under section 541(b)(7) of the Bankruptcy Code, which excludes from estate property certain funds withheld or contributed to ERISA plans. Afterwards, at a hearing where the Bankruptcy Court received a general update about the case, the Court made comments on the record noting the extensive litigation. Thereafter, the ESEP plaintiffs moved to have the presiding Judge recuse herself. The Bankruptcy Court in an oral decision, *In re Lehman Brothers Inc.,* No. 08-cv-1420 (Bankr. S.D.N.Y. February 7, 2020), denied the motion. The Court noted that comments it had made at the earlier hearing did not reflect any deep-seated favoritism or antagonism that would require recusal. The Court found that the standards for disqualification regarding lack of impartiality and personal bias or prejudice, under the applicable statute, 28 U.S.C. § 455, were not met.

Subsequently, the Bankruptcy Court, in *In re Lehman Brothers Inc.,* 617 B.R. 231 (Bankr. S.D.N.Y. 2020), granted the Trustee's motion to dismiss the adversary proceeding. The Court held that section 541(b)(7) did not exclude the deferred compensation from LBI's estate because it was an unfunded "top-hat" plan and the assets of such plans become part of the general estate. In addition, the Court ruled that the claimants' cause of action was brought well outside the applicable statute of limitations and thus time-barred. Finally, the Court found that the claimants' delay in commencing the adversary proceeding also mandated dismissal under the doctrine of laches.

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

In *HSBC Holdings PLC, et al. v. Irving H. Picard, et al.,* 140 S. Ct. 2824 (S. Ct. June 1, 2020) (No. 19-277), the U.S. Supreme Court denied a petition for writ of certiorari seeking review of the decision of the Second Circuit Court of Appeals in favor of the BLMIS Trustee. The Second Circuit had reversed the District Court's decision resulting in the dismissal of dozens of avoidance actions seeking billions of dollars transferred by foreign BLMIS feeder funds. The Trustee filed the 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 Second Circuit rejected 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. With respect to comity, the Second Circuit 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. Denial of the writ of certiorari permitted the Trustee to resume his efforts to recover foreign subsequent transfers, which seek more than $3 billion in recoveries.

The Second Circuit Court of Appeals, in *Picard v. Gettinger (In re Bernard L. Madoff Inv. Sec. LLC),* 976 F.3d 184 (2d Cir. 2020), affirmed the grant of summary judgment by the District Court. The Appellate Court held that the Trustee could recover transfers of $41 million in fictitious profits that appellants, former BLMIS customers, had received in excess of their original investments. The Appellate Court rejected the former customers' arguments that the fictitious profits were "for value." Agreeing with the lower courts, the Appellate Court held that that because BLMIS never traded in securities and the customers had recovered their initial investments, their claims to recoup more could not qualify as antecedent debts. The Appellate Court also held that computation of the total amount the investors received that was in excess of what they deposited was not limited by the two-year look-back period applicable to fraudulent transfers.

In *Blecker v. Picard (In re BLMIS),* 830 Fed.Appx. 669 (2nd Cir. 2020), the Second Circuit Court of Appeals affirmed the decisions of the District Court and Bankruptcy Court and upheld the Trustee's determination that appellants, former BLMIS customers, had no net equity customer claims. The Appellate Court rejected appellants' objections to the admission of BLMIS business records as evidence at trial before the Bankruptcy Court. The Appellate Court affirmed the Bankruptcy Court's finding, based upon evidence 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 had no net equity claims. The Appellate Court also found no clear error with the Bankruptcy Court's conclusion that the claimants had ratified the PW transactions as cash withdrawals.

In *In Re Bernard L. Madoff Investment Securities LLC,* 818 Fed.Appx. 48 (2nd Cir. 2020), the Second Circuit Court of Appeals agreed with the District Court and 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, as part of approving a $7.2 billion settlement between the Trustee and the Picower parties, issued a permanent injunction barring creditor and customer claims against the Picower parties that were duplicative of the Trustee's claims. The appellants' proposed complaint asserted various claims for violations of the Securities Exchange Act, federal and Florida RICO statutes, and federal common law. The Court affirmed the lower courts' findings that the investors lacked a claim that was particular to them and thus were barred by the permanent injunction included in the settlement.

In *Picard v. Defendants Listed on ECF No. 14283 (In re BLMIS),* 2020 WL 1488399 (Bankr. S.D.N.Y. 2020), the Court ordered an attorney representing a group of former BLMIS investors, who were defendants in an avoidance action, to personally pay attorneys' fees and arbitration costs

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

SIPA, Sec. 4(c)(2)

resulting from a lengthy discovery dispute. The attorney had filed multiple motions to compel the production of documents from the Trustee, which were all denied. The Trustee moved for fees and costs associated with defending the last motion to compel. The Court held that the attorney’s continued assertions that the trustee had lied and had hidden BLMIS trading records were false, and that she knew they were false. Thus, the attorney was personally responsible for costs associated with the dispute.

Following a trial, the Bankruptcy Court, in *Picard v. BAM (In re BLMIS),* 624 B.R. 55 (Bankr. S.D.N.Y. 2020), held that the Trustee was entitled to recover fictitious profits received by the defendants and was entitled to prejudgment interest. The defendants were former customers of BLMIS who collectively withdrew more than $2.8 million dollars in fictitious profits within two years of the Filing Date. The Court found that the “net losers”—BLMIS customers who invested more than they withdrew—were the real victims of defendants’ dilatory litigation tactics, reasoning that unlike other “net winners,” the defendants did not strive to do the right thing once they realized that they had received fictitious profits. Noting that the Trustee had spent ten years and incurred costs litigating against the defendants, who resisted the law of the case, the Court ordered the defendants to turn over the Two-Year Transfers and pay prejudgment interest at the annual rate of 4% for the nearly ten-year period.

In three separate cases, defendants in avoidance actions failed in their attempts to have the District Court withdraw the reference to the Bankruptcy Court:

The District Court in *Picard v. BAM L.P. (In re BLMIS),* 612 B.R. 257 (S.D.N.Y. 2020), denied motions brought by a group of BLMIS investors seeking to withdraw the reference and for leave to file an interlocutory appeal. After the investors filed customer claims that were eventually denied, the Trustee brought avoidance actions against the investors seeking recovery of excess transfers. Two months before the scheduled trial, the investors moved to withdraw their customer claims and to withdraw the reference. While the Bankruptcy Court granted the withdrawal of the customer claims, it held that it still had equitable jurisdiction over the avoidance action. The investors moved for leave to file an interlocutory appeal of that decision. The District Court held that because the investors had filed customer claims against the bankruptcy estate, they triggered the process of “allowance and disallowance of claims,” thereby subjecting themselves to the Bankruptcy Court’s equitable power. The District Court also found that the withdrawal of the customer claims after the adversary proceeding had already commenced did not nullify the jurisdiction of the Bankruptcy Court, and that the Bankruptcy Court had constitutional authority to adjudicate the Trustee’s fraudulent transfer avoidance claims.

Similarly, the District Court in *Picard v. Greiff,* 617 B.R. 198 (S.D.N.Y. 2020), denied the defendant’s motion to withdraw to the Bankruptcy Court the reference of avoidance and recovery of fraudulent transfers. The defendant had filed a customer claim before the Trustee commenced the avoidance action. The defendant argued that he had a constitutional right to a jury trial on the fraudulent transactions at issue in the case, and the Bankruptcy Court lacked final adjudicative authority, thus depriving it of jurisdiction. The District Court found that by filing the customer claim, the defendant had subjected himself to the Bankruptcy Court's jurisdiction and forsaken the right to a jury trial. The District Court also found that the Bankruptcy Court had constitutional authority to decide the case based on the separate ground of the defendant's implied consent to the Bankruptcy Court's jurisdiction by filing and pursuing the customer claim over the course of ten years.

Finally, in *Picard v. Savin (In re BLMIS),* 2020 WL 5370576 (S.D.N.Y. 2020), the defendants asked for withdrawal of the reference in their action and moved for dismissal of their case from the District Court, claiming that the trustee lacked constitutional standing to pursue his case in the Bankruptcy Court. As in the other two cases, the defendants had submitted customer claims before the Trustee filed his avoidance action seeking recovery of fraudulent transfers. The District Court held that the defendants failed entirely to show that any non-bankruptcy federal laws required significant interpretation and found that withdrawal was not mandatory. The District Court also found that the Bankruptcy Court had equitable jurisdiction and that the defendants had waived their right to be heard in the District Court by filing the customer claim in the Bankruptcy Court.

SECTION 5(A)(1) ALERTS; DISCIPLINARY AND CRIMINAL ACTIONS

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 2020 SIPC received one referral under Section 5(a). This referral did not result in a SIPC proceeding in 2020.

SIPC received periodic reports identifying those members which, although not considered to be in or approaching financial difficulty, have failed to meet certain pre-established financial or operational criteria and are under closer-than-normal surveillance.

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

Administrative and/or criminal actions were initiated in 289 of the 330 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970.

Actions initiated through December 31, 2020 were as follows:

Action Initiated	Number of Actions
Joint SEC/Self-Regulatory Administrative Actions	61
Exclusive SEC Administrative Actions	42
Exclusive Self-Regulatory Administrative Actions	57
Criminal and Administrative Actions	103
Criminal Actions Only	28
Total	291*

*In one or more proceedings multiple types of actions were initiated.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying financial statements of Securities Investor Protection Corporation, which comprise the statement of financial position as of December 31, 2020, 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, 2020, 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, 2021

SIPC FINANCIAL STATEMENTS

Statement of Financial Position as of December 31, 2020

ASSETS	
Cash	$ 8,511,548
U.S. Government securities, at fair value and accrued interest receivable of ($18,197,070); (amortized cost $3,698,060,373) (Note 6)	3,940,607,097
Estimated member assessments receivable (Note 3)	184,981,764
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($2,617,482,111) (Note 4)	10,400,000
Assets held for deferred compensation and pension plans (Note 8)	4,135,474
Other (Note 5 and Note 9)	1,389,288
	$4,150,025,171
LIABILITIES AND NET ASSETS	
Accrued costs for other postretirement benefits (Note 8)	$ 8,965,156
Amount due on deferred compensation plan (Note 8)	2,289,617
Accounts payable and other accrued expenses	1,466,412
Deferred rent (Note 5)	1,705,799
Estimated costs to complete customer protection proceedings in progress (Note 4)	579,400,000
Member assessments received in advance (Note 3)	1,150,490
	594,977,474
Unrestricted net assets	3,555,047,697
	$4,150,025,171

The accompanying notes are an integral part of these statements.

Statement of Activities for the year ended December 31, 2020

Revenues:	
Member assessments (Note 3)	$ 402,543,976
Interest on U.S. Government securities	72,437,753
	474,981,729
Expenses:	
Salaries and employee benefits (Note 8)	13,113,285
Legal and accounting fees (Note 4)	272,231
Rent (Note 5)	962,241
Other	4,334,658
	18,682,415
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(7,601,536)
	$ 11,080,879
Excess revenues over expenses	463,900,850
Realized and unrealized gain on U.S. Government securities (Note 6)	166,303,052
Pension and postretirement benefit changes other than net periodic costs (Note 8)	1,932,568
Increase in unrestricted net assets	632,136,470
Unrestricted net assets, beginning of year	2,922,911,227
Unrestricted net assets, end of year	$3,555,047,697

The accompanying notes are an integral part of these statements.

Statement of Cash Flows for the year ended December 31, 2020

Operating activities:	
Interest received from U.S. Government securities	$ 67,219,306
Member assessments received	366,060,610
Advances paid to trustees	(136,263,405)
Recoveries of advances	14,964,942
Salaries and other operating activities expenses paid	(22,753,408)
Net cash provided by operating activities	289,228,045
Investing activities:	
Proceeds from sales of U.S. Government securities	369,899,965
Purchases of U.S. Government securities	(657,069,787)
Net cash used in investing activities	(287,169,822)
Increase in cash	2,058,223
Cash beginning of period	6,453,325
Cash, end of period	$ 8,511,548

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) 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 $3,949,118,645. Together with the estimated member assessments receivable of $184,981,764 and advances to trustees for customer protection proceedings in progress (less allowance for possible losses) of $10,400,000, SIPC's financial assets available for general expenditures within one year of the December 31, 2020 statement of financial position date total $4,144,500,409.

As part of its liquidity management, SIPC 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 (SEC) is authorized to make loans to SIPC and, in that connection, the SEC 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 2020 but not received, or expected to be received, until 2021.

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 accounts. 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 $2.63 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $2.62 billion is not expected to be recovered.

Customer payments and related expenses of direct payment proceedings are recorded as expenses as they are incurred.

Legal and accounting fees include fees and expenses of litigation related to proceedings.

These financial statements do not include accountability for assets and liabilities of members being liquidated by SIPC as Trustee. Such accountability is reflected in reports required to be filed with the courts having jurisdiction.

The following table summarizes transactions during the year ended December 31, 2020 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	$14,600,000	$712,500,000
Add:		
Provision for current year recoveries	400,000	—
Provision for estimated future recoveries	10,400,000	—
Provision for estimated costs to complete proceedings	—	3,200,000
Less:		
Recoveries	15,000,000	—
Advances to trustees	—	136,300,000
Balance, end of year	$10,400,000	$579,400,000

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: 2021—$925,154; 2022—$1,035,807; 2023—$1,061,685; 2024—$1,088,185; 2025—$1,115,412; thereafter $754,362; for a total of $5,980,605, as of December 31, 2020. 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 commenced on August 1, 2020. Future minimum rentals for the space, expiring on November 30, 2023, are as follows: 2021—$157,787; 2022—$162,127; 2023—$152,483; for a total of $472,397, as of December 31, 2020. 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, 2020.

The fair value of U.S. Government securities is based on the bid quote as of December 31, 2020 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, 2020, all securities held within the portfolio are priced using Level 2 inputs.

U.S. Government securities as of December 31, 2020 included cumulative gross unrealized gains of $246,403,233 and cumulative gross unrealized losses of $3,856,509.

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

Increase in unrestricted net assets	$632,136,470
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Realized and unrealized gain on U.S. Government securities	(166,303,052)
Net amortized premium on U.S. Government securities	(4,623,736)
Depreciation and amortization	458,051
Changes in operating assets and liabilities:	
Net decrease in estimated cost to complete customer protection proceedings	(133,100,000)
Increase in estimated assessment receivable	(36,495,400)
Net decrease in estimated recoveries of advances to trustees	4,200,000
Decrease in payables and accrued expenses	(4,159,108)
Increase in prepaid expenses	(2,247,044)
Increase in accrued interest receivable on U.S. Government securities	(594,711)
Decrease in deferred rent	(55,459)
Increase in member assessments collected in advance	12,034
Net cash provided by operating activities	$289,228,045

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 $2,289,617 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	$68,459,525	$ 8,313,718
Service cost	1,693,653	346,305
Interest cost	2,223,240	279,139
Plan participants' contributions	—	36,396
Amendments	—	—
Actuarial (gain) loss	6,859,893	150,003
Benefits paid	(1,793,194)	(160,314)
Benefit obligation at end of year	$77,443,117	$ 8,965,247
Change in Plan Assets		
Fair value of plan assets at beginning of year	$62,954,454	$ —
Actual return (loss) on plan assets	11,527,715	—
Employer contributions prior to measurement date	—	—
Employer contributions	6,600,000	123,918
Plan participants' contributions	—	36,396
Benefits paid	(1,793,194)	(160,314)
Fair value of plan assets at end of year	$79,288,975	$ —
Funded status at year end	$ 1,845,858	$(8,965,247)
Amounts recognized in the Statement of Financial Position and net assets consist of:		
Net amount recognized in the Statement of Financial Position	$ 1,845,858	$(8,965,247)
Accumulated benefit obligation end of year	$73,393,808	$ 8,965,247

SIPC FINANCIAL STATEMENTS continued

	Pension Benefits	Other Postretirement Benefits
Weighted-average assumptions for disclosure as of December 31, 2020		
Discount rate	2.50%	2.60%
Salary scale 2020 / thereafter	3.75% / 3.75%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	7.00% / 5.50%
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	$ 1,693,653	$ 346,305
Interest cost	2,223,240	279,139
Expected return on plan assets	(3,707,752)	—
Recognized prior service cost (credit)	—	7,842
Recognized actuarial loss	1,113,165	1,494
Net periodic benefit cost	1,322,306	634,780
Pension and other postretirement benefit changes other than net periodic benefit cost		
Net actuarial (gain) loss	(960,070)	150,003
Recognized actuarial loss	(1,113,165)	(1,494)
Prior service cost	—	—
Recognized prior service (cost) credit	—	(7,842)
Total pension and postretirement benefit changes other than net periodic cost	(2,073,235)	140,667
Total net periodic other benefit cost and pension and other postretirement benefits changes other than net periodic benefit cost	$ (750,929)	$ 775,447
Amounts expected to be recognized in net periodic cost in the coming year		
Loss recognition	$ 740,319	$ 5,603
Prior service cost (credit) recognition	—	(1,488)
Total	$ 740,319	$ 4,115
Effect of a 1% increase in trend on:		
Benefit obligation	N/A	$ 1,489,368
Total service interest cost	N/A	$ 140,529
Effect of a 1% decrease in trend on:		
Benefit obligation	N/A	$ (1,495,971)
Total service interest cost	N/A	$ (116,224)
Weighted-average assumptions for net periodic cost as of December 31, 2020		
Discount rate	3.30%	3.40%
Expected asset return	6.00%	N/A
Salary scale 2020 / thereafter	3.0% / 3.0%	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

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 2020, the unrecognized net loss decreased by 3.0% of the 12/31/2019 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 2020 by ($994,000)/$1,204,000 and (decreased)/increased the year-end projected benefit obligation by ($10.9)/$14.0 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	$27,994,288
Non-U.S. large and multi-cap mutual funds	12,014,960
Total Equity	40,009,248
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	39,279,727
Total Fixed Income	39,279,727
Total	$79,288,975

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 below. A 1% increase/(decrease) in the expected return assumption would have (decreased)/increased the net periodic benefit cost for 2020 by $618,000.

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 12/31/20
Equity securities	9.00%	45–55%	50%
Debt securities	4.00%	45–55%	50%
Total	6.00%	100%	100%

Estimated Future Benefit Payments Estimated future benefit payments, including future benefit accrual		
	Pension	Other Benefits
2021	$ 2,284,739	$ 160,844
2022	$ 2,516,410	$ 214,839
2023	$ 2,715,238	$ 254,351
2024	$ 2,945,391	$ 301,743
2025	$ 3,305,513	$ 383,896
2026–2030	$18,410,051	$1,851,031

Contributions

The company expects to make no contributions to the pension plan in 2021 for the 2020 plan year and $144,000 to the postretirement benefit plan during 2021.

Defined Contribution Plan	
Estimated SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 265,000

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. Risks and Uncertainties

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.

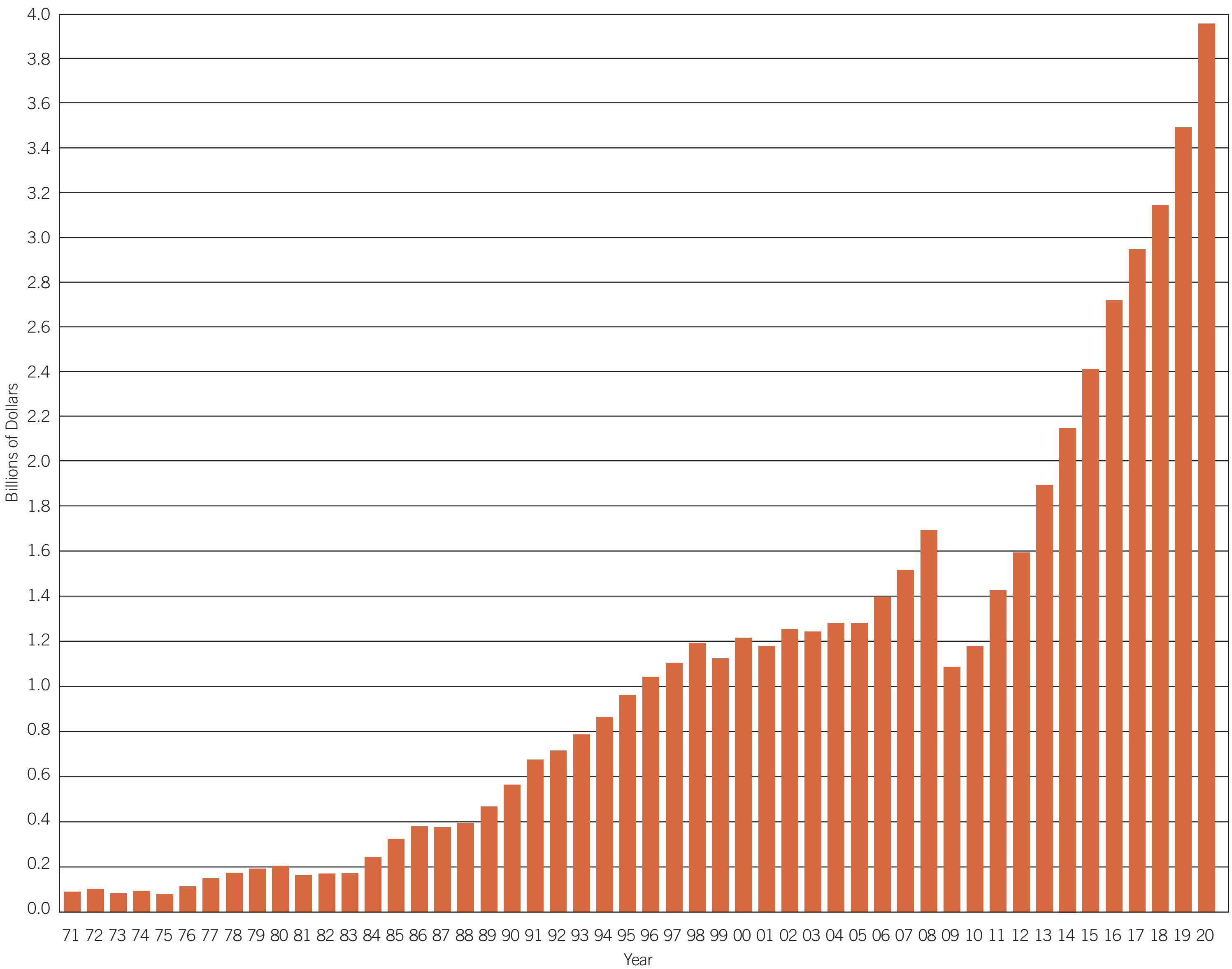
11. Subsequent Events

SIPC evaluated its December 31, 2020 financial statements for subsequent events through April 13, 2021, the date the financial statements were available to be issued. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Fixed Assets	
Office equipment at cost	$ 68,464
Computer hardware at cost	3,399,122
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	(6,785,525)
Net fixed assets	$1,173,987
2020 depreciation and amortization expense	$ 458,051

TABLE 5

SIPC Fund Comparison
Inception to December 31, 2020



For the Fifty Years Ended December 31, 2020 (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
2020	369,892	1,139	(14,933)	(13,794)	356,098
	$140,873,925	$1,540,916	$(608,494)	$932,422	$141,806,347

* 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.

ANALYSIS OF SIPC REVENUES AND EXPENSES

APPENDIX 2

For the Five Years Ended December 31, 2020

	2020	2019	2018	2017	2016
Revenues:					
Member assessments	$402,543,976	$317,610,000	$291,940,037	$277,800,032	$431,701,294
Interest on U.S. Government securities	72,341,920	75,629,051	63,840,516	57,599,175	54,873,106
Interest on assessments	95,833	183,399	66,222	125,930	100,022
	474,981,729	393,422,450	355,846,775	335,525,137	486,674,422
Expenses:					
Salaries and employee benefits	13,113,285	12,537,157	12,363,503	11,379,039	11,203,324
Legal fees	96,986	183,709	157,070	32,816	159,881
Accounting fees	175,245	162,511	185,898	167,625	85,575
Professional fees—other	1,668,646	929,404	498,583	300,231	289,169
Other:					
Assessment collection cost	33,924	36,807	25,015	37,119	23,201
Depreciation and amortization	458,051	617,859	672,878	701,871	773,371
Directors' fees and expenses	21,057	40,163	32,563	43,184	43,178
Insurance	79,500	37,200	38,193	36,124	33,879
Investor education	319,974	148,862	228,053	312,059	197,735
Office supplies and expense	219,738	470,710	209,069	223,742	228,482
EDP and internet expenses	1,123,508	1,258,469	1,046,396	1,084,727	1,070,947
Postage	3,215	6,330	7,964	10,577	12,722
Printing & mailing annual report	29,852	29,254	29,122	28,390	29,051
Publications and reference services	330,481	331,361	466,237	392,818	361,316
Rent office space	962,241	1,005,684	1,021,065	983,172	978,121
Travel and subsistence	21,885	149,745	124,915	111,200	114,848
Personnel recruitment		29,934	221,600		
Miscellaneous	24,827	49,488	35,771	45,046	59,959
	3,628,253	4,211,866	4,158,841	4,010,029	3,926,810
	18,682,415	18,024,647	17,363,895	15,889,740	15,664,759
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(13,494,404)	(14,144,107)	(21,008,817)	(6,504,659)	(37,710,029)
Cash	(2)	(8,152)	(13,760)	(758,179)	(354)
	(13,494,406)	(14,152,259)	(21,022,577)	(7,262,838)	(37,710,383)
Administration expenses	135,123,659	140,025,745	143,305,093	167,747,967	151,630,458
	121,629,253	125,873,486	122,282,516	160,485,129	113,920,075
Net change in estimated future recoveries	4,200,000	3,300,000	5,900,000	(12,700,000)	27,100,000
	125,829,253	129,173,486	128,182,516	147,785,129	141,020,075
SIPC as Trustee:					
Securities	(16,088)	(34,653)	(28,395)	(77,900)	(357,941)
Cash	(284,025)	(953)	(570,001)	189,528	385,893
	(300,113)	(35,606)	(598,396)	111,628	27,952
Administration expenses	(30,676)	(82,495)	748,529	595,721	893,724
	(330,789)	(118,101)	150,133	707,349	921,676
Direct payments:					
Securities					
Cash			168,951		
			168,951		
Administration expenses			962	35,822	
			169,913	35,822	
Net change in estimated cost to complete proceedings	(133,100,000)	(171,300,000)	36,500,000	(97,200,000)	(72,400,000)
	(7,601,536)	(42,244,615)	165,002,562	51,328,300	69,541,751
	11,080,879	(24,219,968)	182,366,457	67,218,040	85,206,510
Total net revenues	463,900,850	417,642,418	173,480,318	268,307,097	401,467,912
Realized and unrealized (loss) gain on U.S. Government securities	166,303,052	115,979,049	(18,197,141)	(14,174,544)	(39,652,395)
Pension and postretirement benefit changes other than net periodic benefit costs	1,932,568	(3,597,040)	1,705,080	(3,327,187)	367,140
Increase in unrestricted net assets	$632,136,470	$530,024,427	$156,988,257	$250,805,366	$362,182,657

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*	2,653
TOTAL 1 MEMBER: PART A				**8,110**	**16,521**	**2,653**

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

December 31, 2020

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$13,100,762,886	$13,082,653,564	$18,109,322	$2,627,882,111	$2,016,440,413		$611,441,698	
$13,100,762,886	**$13,082,653,564**	**$18,109,322**	**$2,627,882,111**	**$2,016,440,413**		**$611,441,698**	

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
TOTAL 1 MEMBER: PART B				**905,000**	**124,248**	**111,888**

December 31, 2020

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$107,159,594,988	$105,773,207,834	$1,386,387,154					
$107,159,594,988	**$105,773,207,834**	**$1,386,387,154**					

PART C: Proceedings Completed in 2020

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
Westor Capital Group, Inc. New York, NY (SIPC)	09/27/00	04/16/13	04/16/13	499	140	116
TOTAL 1 MEMBER 2020				**499**	**140**	**116**
TOTAL 327 MEMBERS 1973–2019[d]				**2,303,882**	**477,868**	**658,401**
TOTAL 328 MEMBERS 1973–2020				**2,304,381**	**478,008**	**658,517**

December 31, 2020

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$8,316,993	$8,295,266	$21,727	$1,259,657	$749,754			$509,903
8,316,993	**8,295,266**	**21,727**	**1,259,657**	**749,754**			**509,903**
22,679,550,799	**22,009,768,939**	**669,781,861**	**534,541,801**	**214,071,291**	**$1,388,427**	**$186,632,897**	**132,449,185**
$22,687,867,792	**$22,018,064,205**	**$669,803,588**	**$535,801,458**	**$214,821,045**	**$1,388,427**	**$186,632,897**	**$132,959,088**

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	2,653
Part B: 1 Member — Customer Claims Satisfied, Litigation or Administrative Matters Pending	905,000	124,248	111,888
Sub-Total	913,110	140,769	114,541
Part C: 328 Members — Proceedings Completed	2,304,381	478,008	658,517
Total: 330	**3,217,491**	**618,777**	**773,058**

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, 2020

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 13,100,762,886	$ 13,082,653,564	$ 18,109,322	$2,627,882,111	$2,016,440,413		$611,441,698	
107,159,594,988	105,773,207,834	1,386,387,154					
120,260,357,874	118,855,861,398	1,404,496,476	2,627,882,111	2,016,440,413		611,441,698	
22,687,867,792	22,018,064,205	669,803,588	535,801,457	214,821,045	$1,388,427	186,632,897	$132,959,088
$142,948,225,666	**$140,873,925,603**	**$2,074,300,064**	**$3,163,683,568**	**$2,231,261,458**	**$1,388,427**	**$798,074,595**	**$132,959,088**

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