SECURITIES INVESTOR PROTECTION CORPORATION

ANNUAL REPORT 1990

SIPC

SECURITIES INVESTOR PROTECTION CORPORATION
805 FIFTEENTH STREET, N.W. SUITE 800
WASHINGTON, D.C. 20005-2207
(202) 371-8300

April 30, 1991

The Honorable Richard C. Breeden
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Twentieth 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,

James G. Stearns
Chairman

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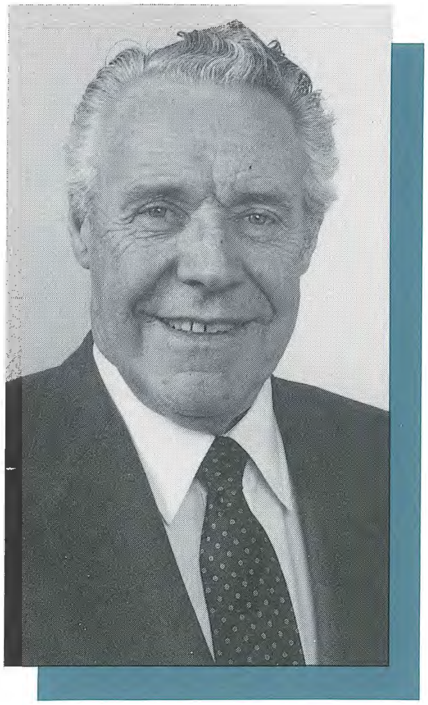
"SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers . . ."*

—Securities Investor Protection Act of 1970 Sec. 3(a)(1)(A) & (2)(A)

*Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.

Message From The Chairman



I am pleased to note that, once again, SIPC has had a remarkably good year. In this, our 20th year of operations, the number of new liquidations we have had to commence continues to be relatively small, and the financial resources available to SIPC are at an all-time high.

As detailed more fully in this report, SIPC commenced eight customer protection proceedings in 1990. It is important to recognize that a majority of those proceedings were very small in terms of number of customers and anticipated dollar exposure to the SIPC Fund. Of equal significance is the fact that at year end, the SIPC Fund stood at $569 million, the highest it has ever been in our history.

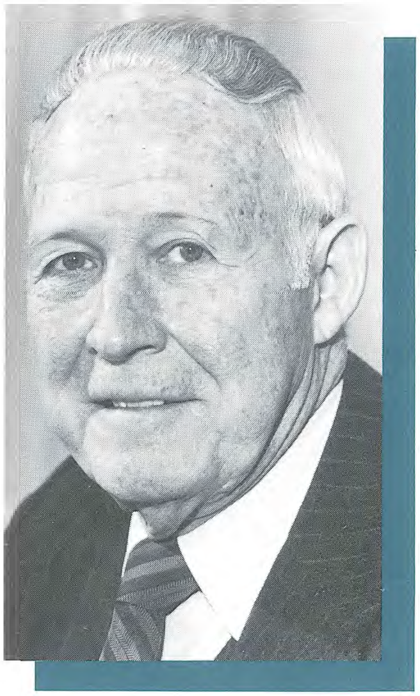
In spite of such an encouraging year, we at SIPC have continued to examine very carefully how we can best and most efficiently deliver the protections our program provides to the public. This has been combined with a thorough review of the financial resources needed to continue to keep the SIPC program on a sound and solid footing. We engaged the national accounting firm of Deloitte & Touche to conduct a study for us on the financial resources needed to support the SIPC program. The report, which we received in the fall, concluded that "the SIPC Fund and funding structure is adequate to . . ." meet expected needs. The report also pointed out, however, that a major failure or failures could result in the depletion of the SIPC Fund. Our directors spent the last months of 1990 and the early part of 1991 considering the report and other information which we had gathered on the subject. In February of 1991, our directors took the following actions: First, the board unanimously decided to build the SIPC Fund to $1 billion subject to reduction of that goal if SIPC finds other more efficient ways to achieve that level of protection. As an important corollary to that decision, the board also decided to establish a task force which has been asked to examine and report to the board on the SIPC assessment base and alternative means of satisfying the assessment burden. We look forward to the receipt of that report and the insights it will provide for us.

Finally, I should note the retirement of one of SIPC's original officers, John B. Bourne, who, as our Vice President—Finance, was instrumental in developing and maintaining many of the financial policies and procedures for our organization. After 19 years of loyal service, we all wish Jack health and happiness in his retirement.

James G. Stearns
Chairman

In Memory

Hugh F. Owens
SIPC's Second Chairman
October 15, 1909–September 1, 1990

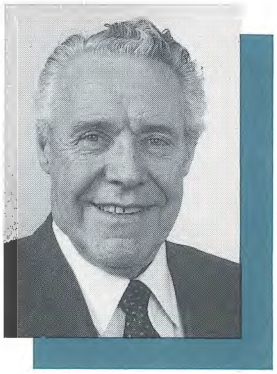


Mr. Owens, SIPC's second chairman, led a life of public service characterized by a remarkable history of bipartisan recognition of his abilities. He was first appointed a Commissioner of the Securities and Exchange Commission in 1964 by President Lyndon Johnson. He was subsequently reappointed by President Richard Nixon. He was appointed chairman of SIPC by President Nixon in 1973 and subsequently reappointed by President Jimmy Carter.

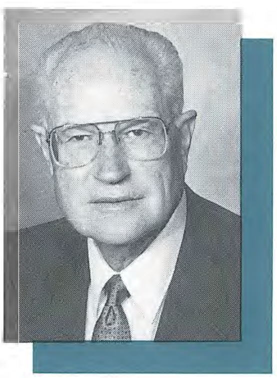
In 1971 Mr. Owens received a Presidential Citation from President Nixon expressing the President's "personal appreciation" for presiding over the SEC "with great distinction" as its acting chairman in 1971. He carried this notion of service "with great distinction" over to SIPC when he took over its helm in late 1973. At the time of his Senate confirmation hearings, in November 1973, Mr. Owens assured the Senate Committee on Banking, Housing, and Urban Affairs that "the first thing" he would do as chairman of SIPC would be to look into ways to amend SIPA so as to streamline its procedures and achieve a more rapid distribution of cash and securities to customers. As Chairman Owens subsequently testified in support of proposed amendments to SIPA, "One of my first official acts as chairman of SIPC was to appoint a task force to review the 1970 act and its operations with a view towards achieving better, faster, and more efficient methods of investor protection." This task force had its first meeting on January 3, 1974, only a few weeks after Chairman Owens took office. With Chairman Owens' energetic support, the task force recommended legislative changes which were introduced in Congress in 1974. These changes were eventually adopted and for the first time enabled SIPC to give the customer what he expected to receive from his broker. In Chairman Owens' words: "If John Q. Investor has 100 fully-paid shares of IBM and a credit balance of $200, he expects to receive from the trustee a stock certificate for 100 shares of IBM and a check for $200." The amendments achieved this goal by authorizing the transfer of customer accounts in bulk to other firms and by authorizing the purchase of missing securities in the market. In addition, the amendments eliminated the need for expensive and cumbersome court supervised liquidation proceedings in very small cases.

As a result of Chairman Owens' vision of customer protection, SIPC is now able in many cases to deliver thousands of customers' securities accounts to them in days and weeks rather than in months as was the case prior to the amendments which he championed. Chairman Owens brought the SIPC program to maturity and enabled it to fulfill its purposes.

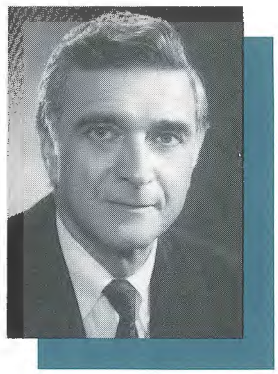
Directors



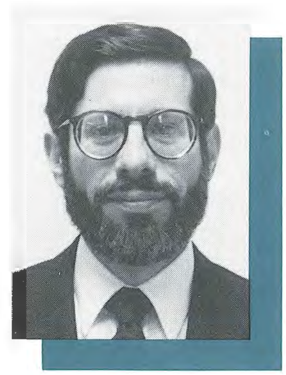
JAMES G. STEARNS
Chairman



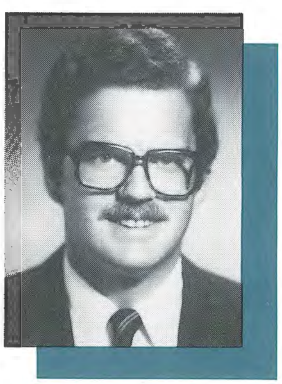
JESSE D. WINZENRIED
Vice Chairman



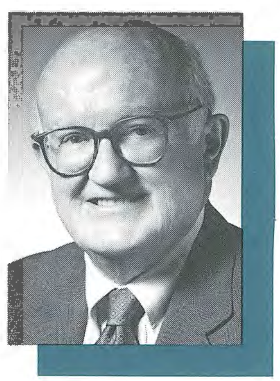
FRANK G. ZARB
Chairman &
Chief Executive Officer
Smith Barney, Harris
Upham & Co., Inc.



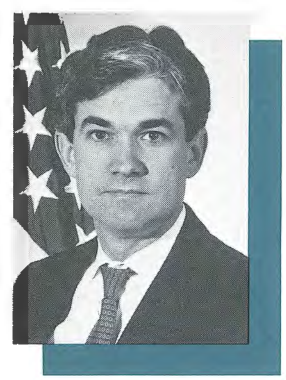
MICHAEL J. PRELL
Director, Division of Research and
Statistics
Board of Governors of the Federal
Reserve System



THOMAS J. HEALEY
Partner
Goldman Sachs & Co.



GEORGE H. PFAU, JR.
Senior Vice President
PaineWebber Incorporated



JEROME H. POWELL
Assistant Secretary
for Domestic Finance
Department of the Treasury

Officers

THEODORE H. FOCHT
President & General Counsel

MICHAEL E. DON
Deputy General Counsel & Secretary

J. H. MOELTER
Senior Vice President

JOSEPH F. MARINO
Vice President—Operations & Finance

Customer Protection Proceedings

"An Act to provide greater protection for customers of registered brokers and dealers and members of national securities exchanges."

—Preamble to SIPA

Customer protection proceedings were initiated for eight SIPC members in 1990, bringing the total since SIPC's inception to 220 proceedings commenced under SIPA. The 220 members represent less than 1 percent of the approximately 27,800 broker-dealers that have been SIPC members during the last 20 years. Currently, SIPC has 9,958 members.

The eight new cases compare with six commenced in 1989. Over the last ten-year period, the annual average of new cases was eight.

Trustees other than SIPC were appointed in six of the cases commenced during the year, and the other two cases were direct payment proceedings. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
Underhill Associates, Inc. Red Bank, New Jersey (Direct Payment)	4/03/90*
Oberweis Securities, Inc. Chicago, Illinois (J. William Holland, Esq.)	6/18/90
First Ohio Securities Company Cleveland, Ohio (Joseph Patchan, Esq.)	6/22/90
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	8/01/90
K.A. Knapp & Co., Inc. Grand Rapids, Michigan (Direct Payment)	9/06/90*
D F W Clearing, Inc. Fort Worth, Texas (Robert G. Richardson, Esq.)	9/17/90
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	10/31/90
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	12/22/90

*Date notice published

Of the 220 proceedings begun under SIPA to date, 170 have been completed, 41 involve pending litigation matters, and claims in 9 are being processed (See Figure I and Appendix I).

During SIPC's twenty year history, cash and securities distributed for accounts of customers aggregated approximately $1.8 billion. Of that amount, approximately $1.6 billion came from debtors' estates and $171 million came from the SIPC Fund (See Appendix III).

SIPC Fund Advances

Table I shows that the 41 debtors for which net advances from the SIPC Fund of more than $1 million have been made accounted for 84 percent of the total advanced in all 220 customer protection proceedings. The largest net advance in a single liquidation is $32.5 million for Bell & Beckwith. This exceeds the net advances in the 174 smallest proceedings combined.

In ten proceedings SIPC advanced $126 million, or 56 percent of net advances from the SIPC Fund for all proceedings.

FIGURE I
Status of Customer Protection Proceedings
December 31, 1990

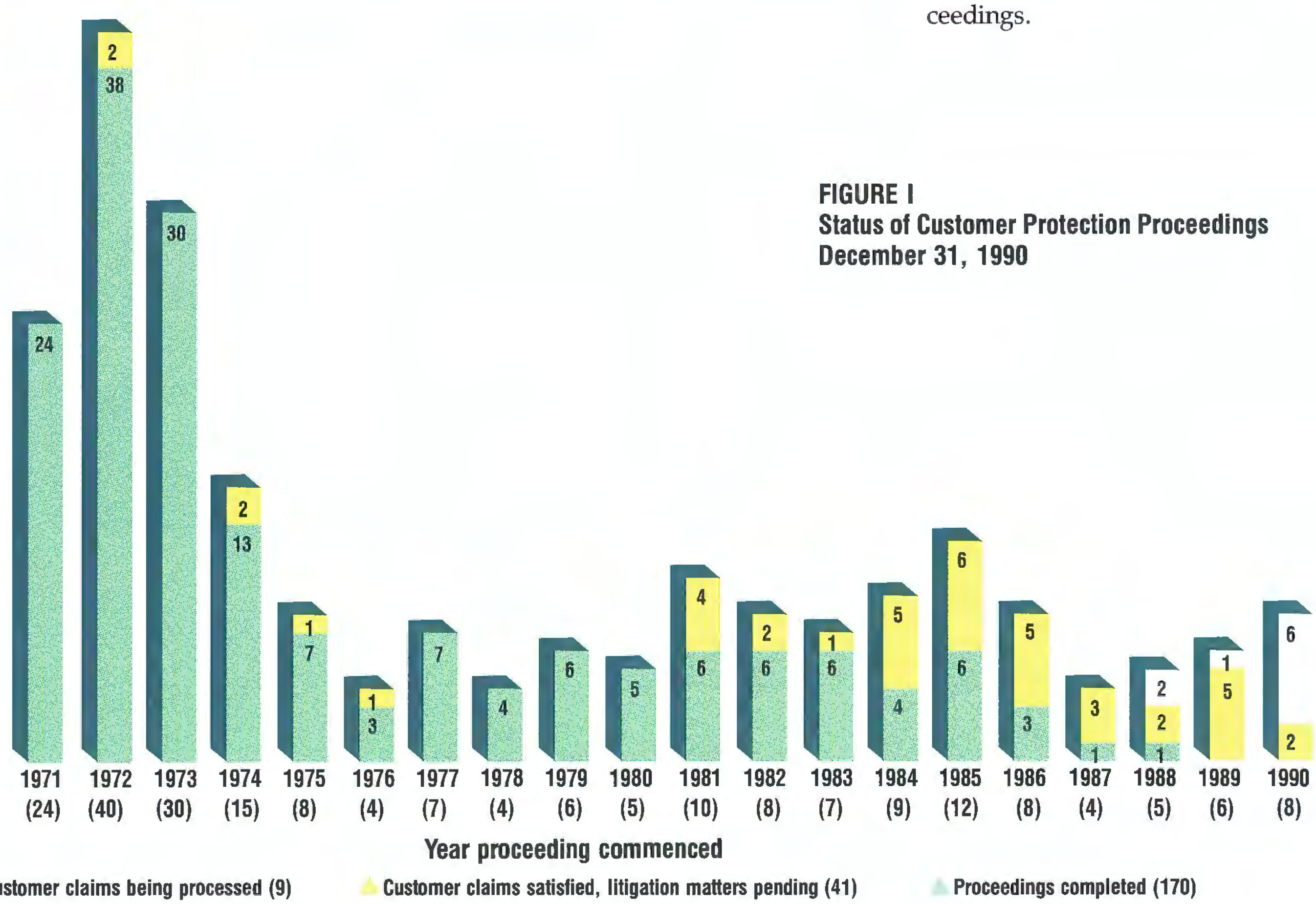
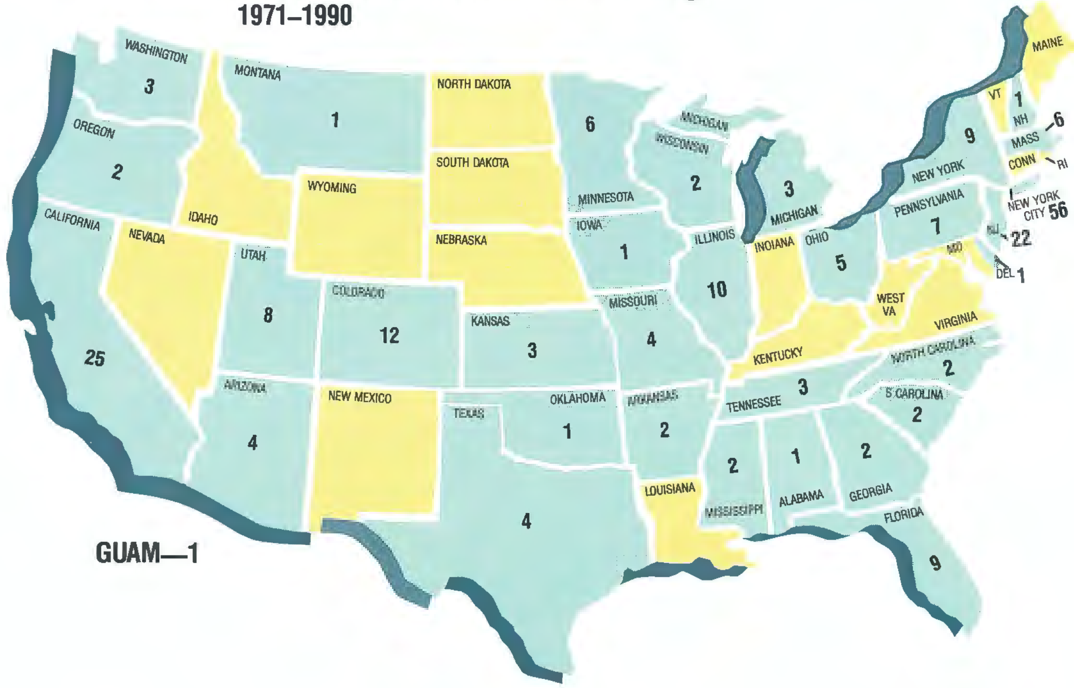


FIGURE 2
Location of Customer Protection Proceedings
1971–1990



Claims over the Limits

Of the more than 320,000 claims satisfied as of December 31, 1990, a total of 293 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 293 claims, a net decrease of 6 during 1990, represent less than two-tenths of one percent of all claims satisfied. The unsatisfied portion of claims, $24.4 million, increased approximately $5.4 million during 1990. These remaining claims approximate 1 percent of the total value of securities and cash distributed for accounts of customers.

TABLE I
Net Advances from the SIPC Fund
December 31, 1990
220 Customer Protection Proceedings

Net Advances From	Net Advances To	Number of Proceedings	Amounts Advanced
$10,000,001	up	4	$ 87,159,195
5,000,001	$10,000,000	6	38,867,151
1,000,001	5,000,000	31	61,773,263
500,001	1,000,000	24	16,790,979
250,001	500,000	27	9,018,363
100,001	250,000	51	8,416,198
50,001	100,000	37	2,630,859
25,001	50,000	20	743,258
10,001	25,000	7	99,316
0	10,000	9	26,089
Net recovery		4	(1,119,827)*
			$224,404,844†

*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 ($171,209,297) and for administration expenses ($53,195,547).

Membership and the SIPC Fund

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

—SIPA, Sec. 4(c)2

The net decrease of 1,326 members during the year brought the total membership to 9,958 at December 31, 1990. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1990

Agents for Collection of SIPC Assessments	Total	Added(a)	Terminated(a)
National Association of Securities Dealers, Inc.	4,781	272	136
SIPC(b)	1,857	297(c)	2,075(d)
Chicago Board Options Exchange Incorporated	1,418	140	45
New York Stock Exchange, Inc.	721	72	14
American Stock Exchange, Inc.	565	68	11
Pacific Stock Exchange, Inc.	282	53	4
Philadelphia Stock Exchange, Inc.	205	27	1
Midwest Stock Exchange, Inc.	104	25	1
Boston Stock Exchange, Inc.	25	3	—
	9,958	957	2,287

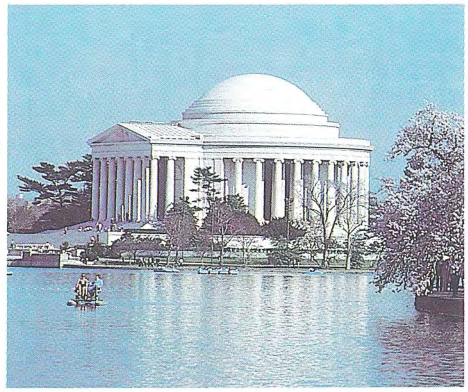
Notes:

a. The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 1990.

b. SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization. The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.

c. This number reflects the temporary status of broker-dealers between the effective date of registration under section 15(b) of the 1934 Act and membership in a self-regulatory organization.

d. This number reflects the temporary status of broker-dealers between the termination of membership in a self-regulatory organization and the effective date of the withdrawal or cancellation of registration under section 15(b) of the 1934 Act.



Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).[1] As of December 31, 1990, there were 1,551 members who were subjects of uncured notices, 727 of which were mailed during 1990, 424 during 1989 and 400 during the years 1979 through 1988. Subsequent filings and payments by 29 members left 1,522 notices uncured. SIPC has been advised by the SEC staff that: (a) 329 member registrations have been cancelled or are being withdrawn; (b) 37 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 150 are expected to cure their delinquencies; and (d) 1,006 are being contacted by its regional offices or the affected examining authorities.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to $568.6 million at year end, an increase of $96.9 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1990. The 1990 member assessments were $73.0 million and interest from investments was $42.8 million. During the years 1971 through 1977, 1983 through 1985 and 1989 through 1990, member assessments were the principal source of revenues and they were based on a percentage of each member's gross revenue from the securities business.

Appendix II is an analysis of revenues and expenses for the five years ended December 31, 1990.

[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.

Administration

Three of SIPC's directors terminated their service on our board during this year. In June, David W. Mullins, Jr., who had been the representative on our board from the Department of the Treasury, left his position with the Department of the Treasury to become a member of the Federal Reserve Board. Robert R. Glauber, Under Secretary for Finance, then served as a director replacing Mr. Mullins from June, 1990, until November, 1990, when Jerome H. Powell was confirmed as Assistant Secretary for Domestic Finance, at which point the Secretary of the Treasury appointed him as a director of SIPC. In addition to the above changes, Frederick N. Khedouri, Managing Director of Bear Stearns & Co., Inc., who had been serving as an industry member of our board under a recess appointment from President Reagan, ceased his service with us.

One of SIPC's original employees, John B. Bourne, who had been serving as Vice President—Finance since 1984, retired in July of 1990 after 19 years of service.

We at SIPC have benefited greatly from the talents and expertise of these individuals, and we thank them for their time and service to our corporation.

TABLE III
SIPC Revenues for the Twenty Years Ended December 31, 1990

Member assessments and contributions: $528,188,412

Interest on U.S. Government securities: $358,450,921

History of Member Assessments*

1971: ½ of 1% plus an initial assessment of ⅛ 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 uniform annual assessment.
1983–March 31, 1986: ¼ of 1% effective May 1, 1983 ($25 minimum).
1986–1988: $100 annual assessment.
1989–1990: $\frac{3}{16}$ of 1% ($150 minimum).

*Rates based on each member's gross revenues from the securities business.

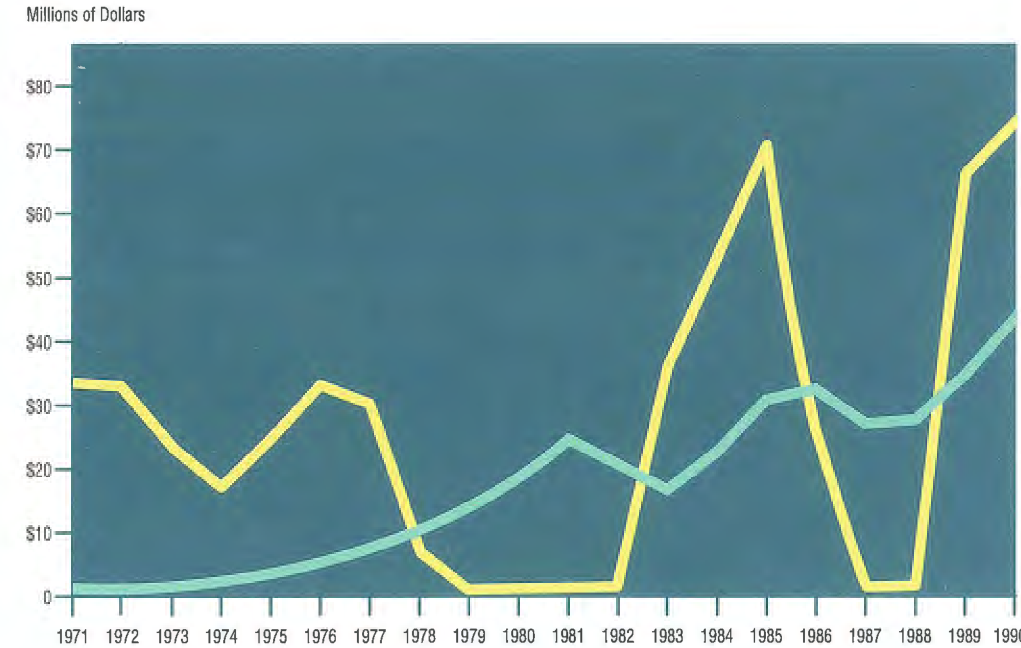
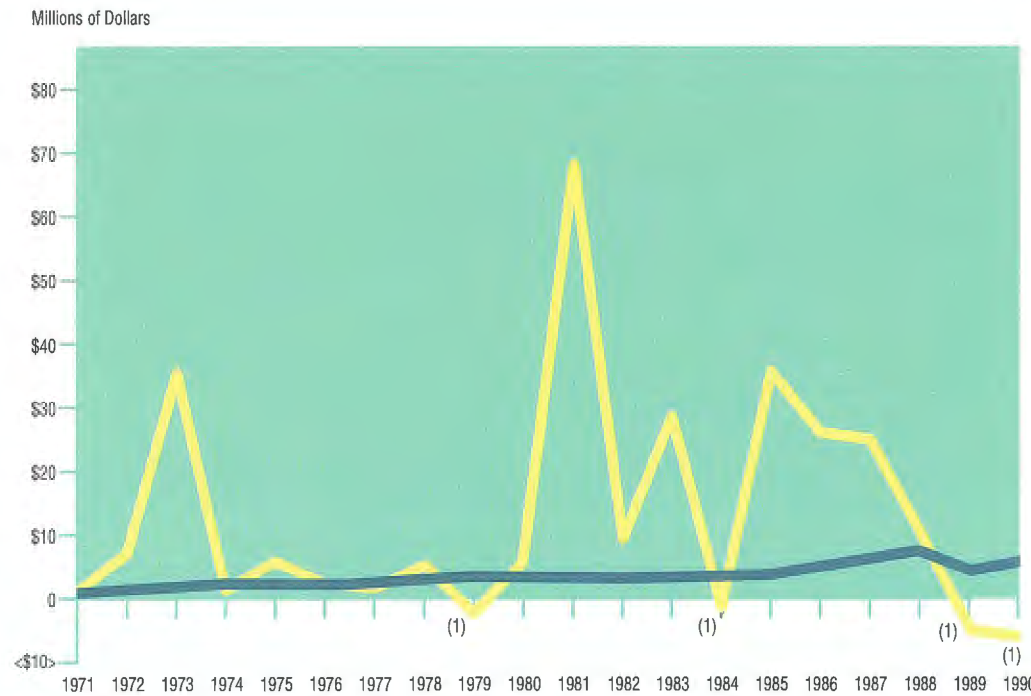


TABLE IV
SIPC Expenses for the Twenty Years Ended December 31, 1990

Customer protection proceedings: $247,504,844
(Includes net advances of $224,404,844 less estimated future recoveries of $5,700,000 and $28,800,000 of estimated costs to complete proceedings.)

Other expenses: $57,417,502



(1) Net recoveries.

Litigation

During 1990, SIPC and SIPC trustees were actively involved in litigation at both the trial and appellate levels. The more significant decisions are summarized below.

In *SIPC v. Vigman*, 908 F.2d 1461 (9th Cir. 1990), an action wherein SIPC and trustees for two broker-dealers in liquidation under SIPA alleged numerous violations of the antifraud provisions of the securities laws and of the Racketeer Influenced and Corrupt Organizations Act ("RICO") by various individuals, corporate entities related to them, and seven issuers of securities in which the two broker-dealers made markets, the court of appeals reversed the district court's grant of summary judgment to one of the defendants and held (i) that SIPC need not be a purchaser or seller of securities to have standing to bring the action under RICO, and (ii) that as a conspirator, the defendant is responsible for the acts of others undertaken in furtherance of the illegal agreement. A petition for certiorari to the United States Supreme Court is pending (No. 90-727).

In *In re Investment Bankers, Inc.*, (Turner v. Davis, Gillenwater & Lynch), No. 90-1168 (10th Cir., December 5, 1990), the court of appeals dismissed an appeal because the order of the district court was not final. The district court has remanded the case to the bankruptcy court for a determination of whether, and for what amount, the trustee is entitled to prejudgment interest on the amounts set aside by the court as preferential and fraudulent transfers, including fees paid by the debtor to its attorney to resist the SIPA liquidation petition. Civil Action No. 86-C-1945, Adv. Proc. No. 82-M-0087 (D. Colo., May 15, 1990).

As noted in last year's Annual Report, in *Clark v. Goldberg*, 893 F.2d 1139 (10th Cir. 1990), the court of appeals affirmed the district court's decision that the former wife of the debtor's principal had waived and is now estopped from claiming any rights to property acquired by her former husband during their marriage. The SIPA trustee had garnished the property to satisfy large judgments obtained against the principal. The court of appeals noted that the district court had exclusive jurisdiction over the property subject to garnishment.

In *SIPC v. Blinder, Robinson & Co.*, Civil Action No. 90-1354 (D. Colo., August 1, 1990), the district court ordered the initiation of the debtor's liquidation proceeding over the objection of the broker-dealer, which had filed for reorganization under Chapter 11 of the Bankruptcy Code. The district court stated that the filing of the Chapter 11 petition was sufficient grounds to grant SIPC's application. The United States Court of Appeals for the Tenth Circuit refused to stay the district court's order because the broker-dealer failed to show that it had a likelihood of success on the merits and the existence of irreparable harm. No. 90-1223 (10th Cir., August 10, 1990). An appeal to the United States Court of Appeals for the Tenth Circuit is pending (No. 90-1223).

In *In re Government Securities Corp.* (Camp v. National Union Fire Insurance Company), 111 B.R. 1007 (S.D. Fla. 1990), the district court affirmed the bankruptcy court's order and held that (i) section 541(c)(1)(B) of the Bankruptcy Code applies to SIPA liquidation proceedings and thereby invalidates the automatic termination provision in the debtor's securities dealer blanket bond and (ii) the SIPA trustee was entitled to seek coverage for a possible loss under the bond. An appeal to the United States Court of Appeals for the Eleventh Circuit is pending (No. 90-5356).

In *In re Bell & Beckwith (McKenny v. McGraw)*, Case No. 89CV7534 (N.D. Ohio, April 16, 1990), the district court affirmed the bankruptcy court's decision and held, among other things, (i) that the SIPA statute is constitutional, (ii) that under the Supremacy Clause of the U.S. Constitution inconsistent state laws must give way to SIPA, and (iii) that the method of allocation and distribution of customer property proposed by the SIPA trustee was in concert with SIPA. An appeal to the United States Court of Appeals for the Sixth Circuit is pending (Nos. 90-3434 and 90-3454).

In *In re Bell & Beckwith (McGraw v. Betz)*, 112 B.R. 863 (N.D., Ohio 1990), the bankruptcy court held that it had jurisdiction over general partners of the debtor and that the general partners were personally liable for the approximately $30 million deficiency in the property of the debtor's estate.

In *In re Investors Center, Inc.*, No. 089-0017-21 (Bankr. E.D.N.Y., August 14, 1990), the bankruptcy court held that, where customers claim that securities were sold, internal brokerage documents evidencing the placement of sell orders by the customers do not, under SIPC Rule 502(b), 17 C.F.R. 300.502(b), constitute written confirmation that the orders to sell were in fact executed.

Shortly after 1990, in *In re Brentwood Securities, Inc. (SIPC v. Pepperdine University)*, No. 88-6257 (9th Cir., February 5, 1991), the court of appeals reversed in part, affirmed in part, and remanded a district court judgment. The circuit court held that only claimants who could show that they had entrusted cash and/or securities to a securities broker-dealer and were owed cash and/or securities when the broker-dealer became insolvent could recover under SIPA. In this case, the claimants had drawn their checks to the issuer of the stock they wished to purchase and the issuer collected the proceeds of the check. The claimants had not entrusted cash or securities to the debtor broker-dealer, nor was the debtor involved in the transactions at all. The court stated the SIPA definition of "customer:"

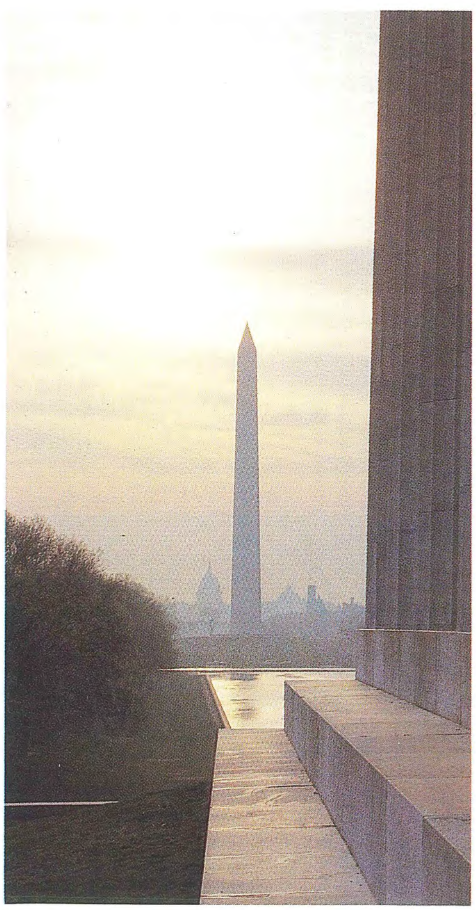
> "embodies a common-sense concept: An investor is entitled to compensation from the SIPC only if he has entrusted cash or securities to a broker-dealer who becomes insolvent; if an investor has not so entrusted cash or securities, he is not a customer and therefore not entitled to recover from the SIPC trust fund."

Disciplinary and Criminal Actions

"Congress enacted SIPA to . . . restore confidence in the capital markets, and upgrade the financial responsibility requirements for registered brokers and dealers. The Act apportions responsibility for these tasks among the SEC, the securities industry self-regulatory organizations and the SIPC . . ."

—Supreme Court Justice T. Marshall
*May 19, 1975**

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(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.



As a result of SEC and self-regulatory action in 1990, seven persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer.

Criminal and Administrative Actions

Criminal action has been initiated in 84 of the 220 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 199 indictments have been returned in federal or state courts, resulting in 163 convictions to date. As of December 31, 1990, sentencing was pending against 1 person who had been convicted.

Administrative and/or criminal action in 211 of the 220 SIPC customer protection proceedings initiated through December 31, 1990, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	57
2. Exclusive SEC Administrative Action	36
3. Exclusive Self-Regulatory Administrative Action	34
4. Criminal and Administrative Action	77
5. Criminal Action Only	7
Total	211

In the 204 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension[1]	112	92
Bar from Association	332	191
Fines	Not Applicable	$2,820,300

Suspensions by self-regulatory authorities ranged from five days to a maximum of ten years. Those imposed by the SEC ranged from five days to a maximum of one year.

Bars against associated persons included exclusion from the securities business as well as bars from association in a principal or supervisory capacity.

The $2,820,300 in fines assessed by self-regulatory authorities were levied against 77 associated persons and ranged from $250 to $450,000.

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 NASD 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

SIPC maintained active files on 22 members referred under Section 5(a) during the calendar year 1990. Fifteen new referrals were received during the year and seven active referrals had been carried forward from prior years. Three of the 22 remained on active referral at year-end.

In addition to formal referral of members under Section 5(a), SIPC received periodic reports from the self-regulatory organizations identifying those members which, although not considered to be in or approaching financial difficulty, had failed to meet certain pre-established financial or operational criteria and were under closer-than-normal surveillance.

*SIPC v. Barbour, 421 U.S., 415 (1975)

[1]Notices of suspension include those issued in conjunction with subsequent bars from association.

Report of Ernst & Young Independent Auditors

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1990 and the related statements of operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst & Young

Washington, D.C.
March 18, 1991

Statement of Financial Condition
December 31, 1990

ASSETS	
Cash (Net of $103,961 escrowed funds)	$ 443,272
Estimated member assessments receivable (Note 3)	37,200,000
U.S. Government securities, at amortized cost and accrued interest receivable ($10,871,029); (approximate market $572,300,000)	568,143,978
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($134,232,162) (Note 4)	5,700,000
Other	338,284
	$611,825,534
LIABILITIES AND FUND BALANCE	
Advances to trustees—in process (Note 4)	$ 9,486
Accounts payable and accrued expenses (Note 7)	1,299,061
Estimated costs to complete customer protection proceedings in progress (Note 4)	28,800,000
	30,108,547
Commitments (Note 5)	
Fund balance	581,716,987
	$611,825,534

Statement of Operations and Fund Balance
for the year ended December 31, 1990

Revenues:	
Member assessments (Note 3)	$ 73,029,832
Interest on U.S. Government securities	42,894,033
	115,923,865
Expenses:	
Salaries and employee benefits (Note 7)	3,120,435
Legal and accounting fees (Note 4)	240,274
Credit agreement commitment fee (Note 5)	1,052,135
Rent (Note 5)	459,323
Other	861,185
	5,733,352
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4)	(7,734,088)
	(2,000,736)
Excess revenues	117,924,601
Fund balance, beginning of year	463,792,386
Fund balance, end of year	**$581,716,987**

See notes to financial statements.

Statement of Cash Flows for the year ended December 31, 1990

Operating activities:	
Member assessments received	$ 64,829,831
Interest received from U.S. Government securities	44,712,754
Advances paid to trustees	(10,704,694)
Recoveries of advances	4,781,906
Salaries and other operating activities expenses paid	(4,897,921)
Net cash provided by operating activities	98,721,876
Investing activities:	
Proceeds from sales of U.S. Government securities	563,361,771
Purchases of U.S. Government securities	(661,941,898)
Purchases of furniture and equipment	(22,334)
Net cash used by investing activities	(98,602,461)
Increase in cash	119,415
Cash, beginning of year	323,857
Cash, end of year	**$ 443,272**

See notes to financial statements.

Notes to Financial Statements

1. Organization

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.

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating $568,587,250.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed $1,000,000,000.

3. Member assessments

Effective January 1, 1989, each member's assessment is paid semi-annually and it is at the rate of 3/16ths of 1% of gross revenues from the securities business or $150, whichever is greater.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 50 proceedings in progress at December 31, 1990. Customer claims have been satisfied in 41 of these proceedings and in 9 proceedings customer claims and distributions are being processed.

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

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

The following table summarizes transactions during the year that result from these proceedings:

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	$5,700,000	$42,300,000
Add:		
Estimated future recoveries	4,800,000	
Less:		
Decrease in provision for estimated costs to complete proceedings		3,261,213
Recoveries estimated previously	4,800,000	
Advances to trustees		10,238,787
Balance, end of year	$5,700,000	$28,800,000

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.

5. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1987, at the rate of $404,730 for the first five years and $472,185 thereafter, total $3,035,000. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1990 totalled $459,323.

A credit agreement effective March 31, 1989 with a consortium of banks provides SIPC with a $500,000,000 revolving line of credit for a three-year period to and including March 31, 1992. Any outstanding borrowing by SIPC at the end of March 1992 must be repaid at a minimum in equal quarterly installments over the succeeding five years. A fee of ⅛th of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

6. Reconciliation of excess revenues with net cash provided by operating activities:

Excess revenues	$117,924,601
Net decrease in estimated costs to complete customer protection proceedings	(13,500,000)
Increase in member assessments receivable	(8,200,000)
Increase in amortized premium on U.S. Government securities	1,854,513
Provision for employee post-retirement insurance benefits	949,229
Decrease in accounts payable	(371,627)
Increase in accrued interest receivable on U.S. Government securities	(35,793)
Other reconciling items	100,953
Net cash provided by operating activities	$ 98,721,876

7. Retirement Plans

SIPC has a non-contributory defined benefit plan and a contributory defined contribution plan which cover all employees. Information regarding these plans, provided in accordance with Statement No. 87 of the Financial Accounting Standards Board, follows:

Defined benefit plan (actuarially determined*):	
Service cost-benefits earned during 1990	$163,950
Interest accrued on Projected Benefit Obligation	228,005
Return on Plan assets	(106,142)
Net amortization and deferral	(235,998)
Net pension expense	49,815
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	54,741
Total pension expense for 1990	$104,556

*Assumptions used:

1. Discount rate	8%
2. Expected long-term rate of return	9%
3. Average compensation increase	5%
4. Cost of living adjustment	4%

As of January 1, 1991, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:		
Vested	$2,788,612	
Non-vested	214,745	$3,003,357
Effect of projected future salary increases		779,827
Projected Benefit Obligation		3,783,184
Market value of Plan assets		3,497,359
Funded Status—Projected Benefit Obligation in excess of market value of Plan assets		(285,825)
Unrecognized net asset		315,125
		(600,950)
Accrued pension expense		96,117
Unrecognized net loss		$ (504,833)

In 1990 SIPC adopted a post-retirement health and life insurance benefit plan effective January 1, 1991, and recorded an actuarially determined transition obligation of $949,229.

APPENDIX I *Customer Protection Proceedings*

PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/ 8/85	9/ 8/88	9/ 8/88	16,500	392
Williams Financial Group, Inc. Spokane, Washington (Joseph A. Esposito, Esq.)	6/ 1/87	12/ 7/89	12/ 7/89	30	24
Oberweis Securities Inc. Chicago, Illinois (J. William Holland, Esq.)	12/27/78	7/10/89	6/18/90	48,000	331
First Ohio Securities Company Cleveland, Ohio (Joseph Patchan, Esq.)	1/ 9/85	6/22/90	6/22/90	900	200
Blinder, Robinson & Co., Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/23/70	7/30/90	8/ 1/90	215,000	62,031
D F W Clearing, Inc. Fort Worth, Texas (Robert G. Richardson, Esq.)	1/15/89	9/17/90	9/17/90	77,051	4,673
Carolina First Securities Group, Inc. Winston-Salem, North Carolina (L. Bruce McDaniel, Esq.)	6/12/89	8/24/90	10/31/90	210	10
Lloyd Securities, Inc. Elkins Park, Pennsylvania (Robert E. Shields, Esq.)	6/ 2/61	6/ 6/90	12/22/90	500 (Mailed 1/31/91)	
TOTAL 9 MEMBERS: PART A				359,291	68,069

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		$3,387,990	$1,834,581			$1,553,409	367
$ 62,822	14	120,246	87,552		$ 16,741	15,953	14
		144,394	29,394		115,000		3
103,887	72	244,097	157,632		35,383	51,082	8
		1,686,120	10,000		1,676,120		117
24,500,000 (Estimated)	29,000 (Estimated)	1,965,636	1,215,636			750,000	1,300
103,380	637	287,353	222,707			64,646	3
$24,770,089	**29,723**	**$7,835,836**	**$3,557,502**		**$1,843,244**	**$2,435,090**	**1,812**

APPENDIX I *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[(a)] To Whom Notices and Claim Forms Were Mailed	Responses[(a)] Received
Equitable Equities, Inc. New York, New York (Robert E. Smith, Esq.)	2/ 4/70	10/13/72	10/13/72 2/15/78*	134	69
Havener Securities Corp. New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	906	551
Christian-Paine & Co., Inc. Carlton Cambridge & Co., Inc Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
Llorens Associates, Inc. New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,780
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939
First State Securities Corp. North Miami, Florida (Lawrence A. Schroeder, Esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/ 7/68	7/27/81	7/27/81	8,000	4,279
John Muir & Co. New York, New York (Harvey R. Miller, Esq.)	10/28/37	8/16/81	8/16/81	54,500	10,000 (Estimated)

*Successor Trustee.

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$ 126,647	54	$ 66,848		$ 13,987	$ 16,034	$ 36,827	33
814,261	491	541,729	$ 311,746	40,044	16,368	173,571	233
776,386	12,572	4,047,860	1,741,478	3,125	2,044,056	259,201	6,571
36,827	54	178,252	122,019	214	17,814	38,205	30
2,271,501	1,219	2,702,629	607,151	30,535	1,449,655	615,288	1,341
3,728,930	1,296	256,371	156,000		62,591	37,780	484
2,128,941	883	3,667,484				3,667,484	1,189
6,458,025	260	5,251,716	4,449,243	60,804	329,980	411,689	778
27,218,033	2,417	11,238,353	4,534,518		268,257	6,435,578	1,328
190,380,000[b]	16,000 (Estimated)	2			2		

APPENDIX I *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
G.V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/ 8/82	4/15/82	600	50
OTC Net Incorporated Denver, Colorado (Glen E. Keller, Jr., Esq.)	8/10/78	6/ 3/82	6/ 9/82	38,500	15,796
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/ 5/83	2/10/83	10,500	6,888
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/ 9/76	1/31/84	1/31/84	16,000	1,752
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/ 1/84	2/ 1/84	3,200	1,800
Southeast Securities of Florida, Inc. Hoboken, New Jersey (David J. Sheehan, Esq.)	11/16/81	1/31/84	2/13/84	20,000	11,653
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/ 8/76	3/14/84	3/14/84	8,246	1,338
First Interwest Securities Corp. Denver, Colorado (Glen E. Keller, Jr., Esq.)	4/25/83	6/ 7/84	6/ 7/84	6,785	2,621
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/ 7/85	754	129
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$ 16,227	4	$ 1,393,680	$ 796,038		$ 391,048	$ 206,594	23
17,426,419	14,107	(26,053)	(26,053)				
80,755,000	2,300	32,534,716	6,786,230			25,748,486	6,523
37,153,288	1,500	(1)	(1)				
972,617	1,560	1,568,646	653,158		556,070	359,418	328
28,883,867	11,658	2,644,585	1,266,104		420,523	957,958	1,590
20,015,101	1,337	1,045,513	10,000	$130,000	476,569	428,944	63
5,302,067	6,140	739,233	290,000		190,240	258,993	139
		1,022,773	458,745			564,028	61
1,630,400	314	809,445			809,445		314

APPENDIX I *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[(a)] To Whom Notices and Claim Forms Were Mailed	Responses[(a)] Received
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	4,700
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/ 6/85	5/17/85	1,350	63
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/ 1/75	7/30/85	8/13/85 2/17/87*	8,300	2,469
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/ 4/85	272	78
Brittenum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	12/ 4/75	1/28/86	1/30/86	2,100	212
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/ 2/81	7/23/85	3/26/86	23,000	1,047
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	4/15/83	10/29/85	5/ 2/86	74	70
Cusack, Light & Company, Inc. West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	180
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/ 4/84	11/ 5/86	11/ 5/86	550	18
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,325

*Successor Trustee.

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$ 397,836,433	3,300	$ 26,395,628	$ 6,736,106	$ 1,107	$ 7,483,186	$12,175,229	3,601
1,298,503	13	2,760,215			2,760,215		10
5,976,892	2,362	8,703,576	1,285,900		7,013,546	404,130	213
1,427,215	26	623,458	177,128		446,330		23
23,275,481	86	31,037	31,037				
		1,000,059	745,797		185,083	69,179	40
523,300	25	2,357,280	563,407			1,793,873	68
6,749,988	260	1,354,881	457,035		78,436	819,410	57
359,721	1	531,838	7,360		410,770	113,708	2
		227,358	40,879		65,000	121,479	8
32,735,697	2,403	9,109,953	488,318		6,178,104	2,443,531	862

APPENDIX I *Customer Protection Proceedings*

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers[a] To Whom Notices and Claim Forms Were Mailed	Responses[a] Received
H.B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/ 8/57	10/20/87	10/20/87	18,000	5,242
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/ 5/83	3/21/88	3/21/88	2,885	176
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (P. David Newsome, Jr., Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000
Investors Center, Inc. Hauppauge, New York (Irving H. Picard, Esq.)	3/ 1/84	2/28/89	3/ 7/89	55,000	10,268
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	9/19/83	1/22/88	4/10/89	250	17
J. L. Henry & Company, Inc. Coral Gables, Florida (Direct Payment)	2/14/86	9/26/89	9/26/89†	95	3
Richard Wallace Humphries d/b/a Humphries & Company, Inc. San Francisco, California (Direct Payment)	3/23/87	9/26/89	9/26/89†	3	2
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	6/16/83	11/ 1/89	11/ 1/89	7,800	11
Underhill Associates, Inc. Red Bank, New Jersey (Direct Payment)	10/31/74		4/ 3/90†	3	1
K.A. Knapp & Co., Inc. Grand Rapids, Michigan (Direct Payment)	3/22/83		9/ 6/90†	1	1
TOTAL 41 MEMBERS: PART B				**413,183**	**120,591**

†Date notice published

December 31, 1990

Distributions From Debtor's Estates: Value	Distributions From Debtor's Estates: Number of Customers	SIPC Advances: Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
$ 106,204,000	5,158	$ 125,000	$ 125,000				
		620,832	159,825		$ 430,620	$ 30,387	44
132,071,748	30,376	5,416,354	450,000		280,726	4,685,628	
163,750		2,916,584	1,850,610		820,139	245,835	443
		137,098	77,098			60,000	2
		65,210	1,275			63,935	3
		34,020	812			33,208	3
		101,394	72,302		29,092		16
		218,104	110		168,847	49,147	1
		5,506	189		5,317		1
$1,134,717,265	**118,176**	**$132,419,166**	**$35,426,564**	**$279,816**	**$33,404,063**	**$63,308,723**	**26,425**

APPENDIX I *Customer Protection Proceedings*

PART C: Proceedings Completed in 1990

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Dennis Lee Mirus Lake Forest, Illinois (Robert Dunn Glick, Esq.)	3/17/81	13	$ 638
M.S. Wien & Co., Inc. Jersey City, New Jersey (Michael R. Griffinger, Esq.)	9/10/81	9,726	35,174,569
Langheinrich & Fender, Inc. Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	9/22/81	1,984	2,107,574
T.E. Slanker Co., Inc. Portland, Oregon (Douglas M. Thompson, Esq.)	2/24/82	2,980	9,986,026
International Securities, Inc. Denver, Colorado (William D. Scheid, Esq.)	2/25/82	1,194	3,740,307
Hanover Square Securities Group Inc. New York, New York (James W. Giddens, Esq.)	12/15/83	2,378	48,444,633
June S. Jones Co. Portland, Oregon (Robert H. Huntington, Esq.)	6/ 6/84	1,079	13,683,835
Rothschild Equity Management Group Inc. Ft. Lauderdale, Florida (Direct Payment)	12/ 9/88†	2	
TOTAL 8 MEMBERS 1990		19,356	113,137,582
TOTAL 162 MEMBERS 1973–1989(b)		119,363	402,240,624
TOTAL 170 MEMBERS 1973–1990		138,719	$515,378,206

†Date notice published

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
	$ 638	$ 455,976	$ 141,824		$ 53,452	$ 260,700
$ 24,989,564	10,185,005	5,307,081		$ 262,203	3,321,555	1,723,323
1,601,387	506,187	831,871	202,786		180,768	448,317
9,770,005	216,021	344,727	216,732		127,995	
2,902,907	837,400	268,174	241,319		10,480	16,375
46,014,548	2,430,085	1,780,859	322,140		608,719	850,000
13,271,473	412,362	306,501			305,797	704
		10,826	7,826			3,000
98,549,884	**14,587,698**	**9,306,015**	**1,132,627**	**262,203**	**4,608,766**	**3,302,419**
367,719,564	**34,521,060**	**74,843,827**	**13,078,854**	**904,872**	**31,010,786**	**29,849,315**
$466,269,448	**$49,108,758**	**$84,149,842**	**$14,211,481**	**$1,167,075**	**$35,619,552**	**$33,151,734**

APPENDIX I *Customer Protection Proceedings*

PART D: Summary

	Responses Received/ Customers Receiving Distributions	Total
Part A: 9 Members—Customer Claims and Distributions Being Processed	68,069	$ 24,770,089
Part B: 41 Members—Customer Claims Satisfied, Litigation Matters Pending	120,591	1,134,717,265
Sub-Total	188,660	1,159,487,354
Part C: 170 Members—Proceedings Completed	138,719(c)	515,378,206
TOTAL	**327,379**	**$1,674,865,560**

Notes:

(a) Notices and claim forms are commonly sent to all persons who, from the debtor's records, may have been customers. This is done so that potential claimants may be advised of the proceeding.

(b) Revised from previous reports to reflect subsequent recoveries, disbursements and adjustments.

(c) Number of customers receiving securities and/or cash.

(d) To be reported at completion of liquidation.

December 31, 1990

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 24,770,089	(d)	$ 7,835,836	$ 3,557,502		$ 1,843,244	$ 2,435,090
1,134,717,265	(d)	132,419,166	35,426,564	$ 279,816	33,404,063	63,308,723
1,159,487,354		140,255,002	38,984,066	279,816	35,247,307	65,743,813
466,269,448	$49,108,758	84,149,842	14,211,481	1,167,075	35,619,552	33,151,734
$1,625,756,802	**$49,108,758**	**$224,404,844**	**$53,195,547**	**$1,446,891**	**$70,866,859**	**$98,895,547**

APPENDIX II *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1990*

	1990	1989	1988	1987	1986
Revenues:					
Member assessments and contributions	$ 73,029,832	$ 66,046,991	$ 988,079	$ 935,368	$23,067,147
Interest on U.S. Government securities	42,827,097	34,965,465	28,680,924	28,161,228	31,702,230
Interest on assessments	66,936	111,675	10,196	20,533	368,474
	115,923,865	101,124,131	29,679,199	29,117,129	55,137,851
Expenses:					
Salaries and employee benefits	3,120,435	1,974,100	1,801,726	1,652,073	1,717,296
Legal fees	208,874	417,695	2,484,989	1,959,731	1,648,246
Accounting fees	31,400	19,000	19,000	14,900	9,285
Credit agreement commitment fee	1,052,135	1,227,634	1,300,009	1,300,000	1,305,478
Professional fees—other	233,044	43,689	66,236	52,845	67,564
Other:					
Assessment collection direct cost	23,439	22,992	19,741	2,230	16,468
Custodian fees	35,330	28,827	27,735	33,215	16,795
Depreciation and amortization	108,174	126,931	119,459	103,299	83,639
Directors fees and expenses	14,272	11,337	10,830	7,698	5,359
Insurance	18,885	19,228	21,401	15,217	12,682
Office supplies and expenses	118,980	176,666	163,652	163,694	194,224
Postage	17,982	13,058	15,777	15,534	19,579
Printing and mailing annual report	60,845	54,928	58,587	26,231	30,279
Publications and reference services	58,817	53,555	45,643	47,617	47,856
Rent—office space	459,323	436,817	418,644	377,291	322,786
Telephone	13,818	12,469	14,308	14,063	20,426
Travel and subsistence	153,089	92,503	141,625	190,169	108,890
Miscellaneous	4,510	8,359	11,128	15,441	21,678
	1,087,464	1,057,670	1,068,530	1,011,699	900,661
	5,733,352	4,739,788	6,740,490	5,991,248	5,648,530
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(19,733)	(76,793)	(3,558)	—	16,000
Securities	(2,488,908)	(967,860)	357,148	9,795,412	4,278,504
Cash	1,640,187	(14,742,160)	(2,796,497)	8,108,976	5,787,319
	(868,454)	(15,786,813)	(2,442,907)	17,904,388	10,081,823
Administration expenses	6,125,694	9,355,168	5,001,525	9,264,713	2,340,366
	5,257,240	(6,431,645)	2,558,618	27,169,101	12,422,189
Net change in estimated future recoveries	—	1,500,000	2,100,000	(3,500,000)	2,500,000
	5,257,240	(4,931,645)	4,658,618	23,669,101	14,922,189
SIPC as Trustee:					
Securities	29,092	18,161	412,318	—	27,461
Cash	50,000	25,953	117,147	62,060	505,881
	79,092	44,114	529,465	62,060	533,342
Administration expenses	120,580	71,383	196,956	241,012	253,509
	199,672	115,497	726,421	303,072	786,851
Direct payments:					
Securities	174,164	—	—	—	34,307
Cash	131,290	18,000	35,500	—	6,526
	305,454	18,000	35,500	—	40,833
Administration expenses	3,546	2,087	10,154	6,000	906
	309,000	20,087	45,654	6,000	41,739
Net change in estimated costs to complete proceedings	(13,500,000)	(1,700,000)	4,800,000	1,500,000	10,800,000
	(7,734,088)	(6,496,061)	10,230,693	25,478,173	26,550,779
	(2,000,736)	(1,756,273)	16,971,183	31,469,421	32,199,309
Excess revenues (expenses)	**$117,924,601**	**$102,880,404**	**$12,708,016**	**$ (2,352,292)**	**$22,938,542**

APPENDIX III *Distributions for Accounts of Customers for the Twenty Years Ended December 31, 1990*

(In Thousands of Dollars)

	From Debtor's Estates (Including Securities) As Reported By Trustees	From SIPC	Total
1971	$ 271	$ 401	$ 672
1972	9,300	7,343	16,643
1973	170,672	31,706	202,378
1974	21,582	(222)*	21,360
1975	6,379	4,746	11,125
1976	19,901	764	20,665
1977	5,462	254	5,716
1978	1,242	2,518	3,760
1979	9,561	(4,779)*	4,782
1980	10,163	2,848	13,011
1981	36,738	63,238	99,976
1982	28,442	9,359	37,801
1983	21,901	37,138	59,039
1984	184,910	(1,992)*	182,918
1985	180,973†	7,674	188,647†
1986	28,570	10,472	39,042
1987	394,443	17,828	412,271
1988	72,052†	(1,878)*	70,174†
1989	121,958	(15,725)*†	106,233†
1990	301,237	(484)*	300,753
	$1,625,757	**$ 171,209**	**$1,796,966**

*Net recoveries.
†Restated to reflect correction.

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 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail 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 $100,000 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, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (SEC) 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 pro-

ceeding. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

The SIPC staff, numbering 33, 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 purpose. In cases where the court appoints SIPC or a SIPC employee 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 to the courts having jurisdiction.

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. As a supplement to the SIPC Fund, a $500 million revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the SEC has the authority to lend SIPC up to $1 billion, which it, in turn, would borrow from the United States Treasury.

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

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

(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.

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.

Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, NY 10271, and from the National Association of Securities Dealers, Inc., Book Order Department, P.O. Box 9403, Gaithersburg, MD 20898-9403.