2021 Annual Report

Securities Investor Protection Corporation

SIPC

Securities Investor Protection Corporation
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April 29, 2022

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

Dear Chair Gensler:

On behalf of the Board of Directors I submit herewith the Fifty-First 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,

Claudia Slacik
Chair

CONTENTS

IN 2021:

As the country surpassed the first full year of the pandemic, significant progress was made toward the completion or advancement of two of the largest and most challenging liquidation proceedings in SIPC's history, both of which were initiated in 2008 at the start of the financial crisis. With one liquidation moving toward completion and the other forging ahead to maximize recoveries for customers, the results in each continued to defy expectations.

Lehman Brothers Inc.

Within weeks of the firm being placed in liquidation, more than $92 billion of assets were transferred enabling more than 110,000 customer accounts to regain control of their assets. A total of approximately $106 billion ultimately would be returned to customers. As the liquidation progressed and customers and secured creditors were made whole, the focus turned to recovery for general creditors. As of the end of 2021, more than $9 billion had been distributed to unsecured general creditors, for a distribution of more than 40% of amounts owed. The resolution of certain unsecured general creditor claims litigation has delayed the completion of the liquidation. The litigation, which began in the Bankruptcy Court and wound its way through the appellate process, by the end of the year, was positioned to end with the filing by the claimants of a petition for a writ of certiorari to the United States Supreme Court. The denial of the petition will pave the way for the Trustee to make final distributions and to prepare the estate for closure.

Bernard L. Madoff Investment Securities LLC

In 2021, the Madoff case continued to see court decisions on novel and complex issues that not only enabled the Trustee to move forward with the recovery of customer assets, but added to an impressive body of law under the Securities Investor Protection Act (SIPA) that will provide important precedent for cases to come. At the end of 2021, more than $14.5 billion had been recovered for customers, with more than $14.16 billion distributed. A customer with an allowed claim of up to $1.65 million was made whole. Other customers with larger allowed claims received 69.85% of the net amounts custodied with the Madoff firm. With over 1000 cases initiated by the Trustee for the recovery of customer assets, roughly 125 remain in litigation. No customer assets or recoveries are used to pay the administrative expenses of the proceeding which are financed wholly by SIPC.

LOOKING AHEAD:

The fact that no new SIPA cases have been brought in recent years continues to be a testament to the effectiveness of the SEC's net capital and customer protection rules and to regulatory bodies' enforcement of them. The absence of new cases has allowed SIPC to concentrate on the modernization of its processes. Modernization includes not only the ongoing migration to the cloud of SIPC services and applications, but the creation and development of a broker portal. The portal, which SIPC expects to deploy in 2022, will make it easier for members to file assessment forms with SIPC and make payments to it, and on the back-end, will facilitate SIPC's processing of the information and payments.

While making workstreams more efficient, automation brings with it a heightened concern of a cyber breach or attack. SIPC continues to emphasize to its staff the importance of cyber threat awareness. As a member of the Financial and Banking Information Infrastructure Committee, SIPC keeps abreast of significant issues relating to cybersecurity and critical infrastructure within the financial services sector.

As SIPC emerges from 2021, the SIPC Fund remains strong as it moves steadily toward its target of $5 billion, thanks to the support of its members. Notwithstanding the challenges of the pandemic, 2021 was business as usual for the SIPC staff which remained prepared at all times to answer any call. As it did in 2020, therefore, SIPC again extends its thanks to its staff for their never-failing dedication to SIPC's mission. SIPC also expresses its appreciation to the SEC and FINRA with which SIPC continued to consult and collaborate over the past year in pursuit of their common goal of investor protection.

A PERSONAL NOTE:

I was confirmed as a SIPC Director by the Senate on February 4, 2022, and on February 7, 2022, the President designated me as Chair of SIPC. I am honored and humbled to lead an organization that has the important mission of protecting investors who otherwise risk losing their hard-earned savings if their securities brokerage fails. I look forward to working with the talented SIPC staff and with my fellow Directors. Together, we will strive to ensure that SIPC's mandate of investor protection is carried out to its fullest so that investor confidence remains strong and our nation's capital markets remain vital.

Claudia Slacik
Chair

Claudia Slacik

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.[Δ]

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

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

Δ 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	• Establishes, reviews, and updates the investment policy for approval by the Board • Formulates, for Board consideration and approval, 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 associated expenses • Reports on investment performance and changes in investments to the Board

Committee	Purpose	Authority/Responsibilities
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's Whistleblower Policy 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 Employee Handbook. As outlined by the Policy, each employee may report complaints and allegations concerning violations of SIPA, the SIPC Bylaws, the SIPC Code of Conduct and general principles of law and business ethics to the employee's supervisor, his or her supervisor, SIPC's Compliance Officer, or SIPC's President. All SIPC staff must acknowledge annually that they have read and understand the SIPC Employee Handbook 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 five meetings in 2021. 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:

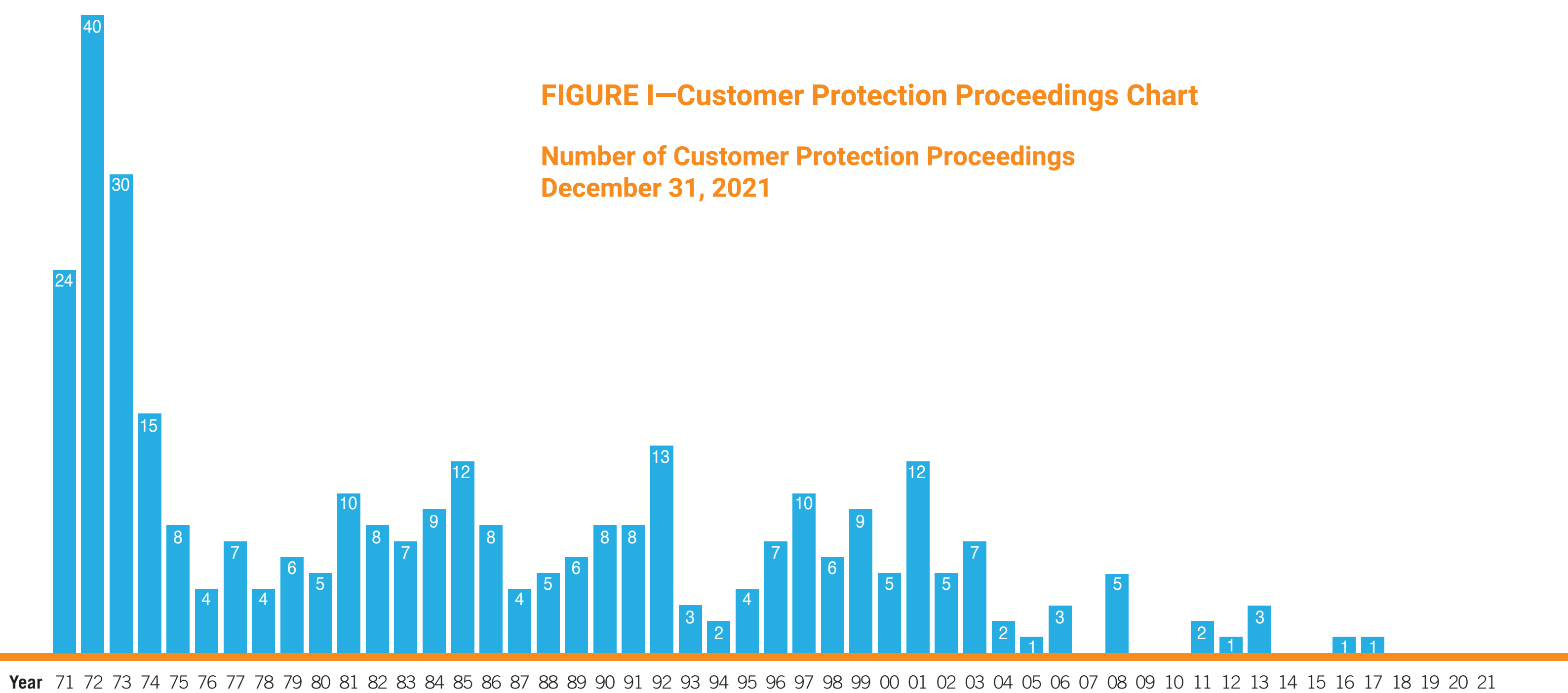
Director	Board Meetings	Committee Meetings
Anthony D'Agostino	5/5	1/1
Daniel M. Covitz	5/5	4/4
William S. Jasien	5/5	4/4
Gregory S. Karawan	5/5	2/2
W. Moses Kim	4/4	3/3

CUSTOMER PROTECTION PROCEEDINGS

In 2021, no customer protection proceeding was initiated. Over the last ten-year period, the annual average of new cases was 0.6. 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-one years. Currently, SIPC has 3,404 members. During SIPC's fifty-one year history, cash and securities distributed for accounts of customers totaled approximately $142 billion. Of that amount, approximately $141.1 billion came from debtors' estates and $922 million came from the SIPC Fund (See Appendix 1).

FIGURE I—Customer Protection Proceedings Chart

Number of Customer Protection Proceedings
December 31, 2021



“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, 2021, 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 $2.74 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 $3.10 billion, or 95 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

Net Advances from the SIPC Fund
December 31, 2021
330 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
$40,000,001	up	1	$2,745,789,710
10,000,001	$40,000,000	11	229,956,549
5,000,001	10,000,000	18	125,976,099
1,000,001	5,000,000	62	136,647,175
500,001	1,000,000	38	28,004,439
250,001	500,000	43	14,827,486
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	$3,281,218,423†

* 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 ($922,159,676) and for administration expenses ($2,359,058,747).

MEMBERSHIP AND THE SIPC FUND

The net decrease of 44 members during the year brought the total membership to 3,404 at December 31, 2021. 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, 2021, there were 89 members who were subjects of uncured notices, 51 of which were mailed during 2021, 13 during 2020, six during 2019, six during 2018, five during 2017, one during 2016, three during 2015, one during 2014, one in 2012 and two in 2010. Subsequent filings and payments by 37 members left 52 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 $4.16 billion at year end, an increase of $207 million during 2021.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2021. The 2021 member assessments were $448.0 million and interest from investments was $73.0 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2021, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2021) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2021.

[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, 2021

Designated Examining Authorities	Total	Added[a]	Terminated[a]
FINRA[b]	3,292	105	127
Cboe Exchange, Inc.[h]	32	2	—
NYSE American LLC[g]	4	—	—
NYSE Arca, Inc.[e]	10	—	—
Nasdaq PHLX LLC[f]	16	1	1
NYSE Chicago, Inc.[i]	11	—	—
None[c]	39	—	24
	3,404	108	152

Notes:

(a) The numbers in this category do not reflect transfers of members to successor designated examining authorities that occurred within 2021. 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 2020 but processed by SIPC in 2021.

(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

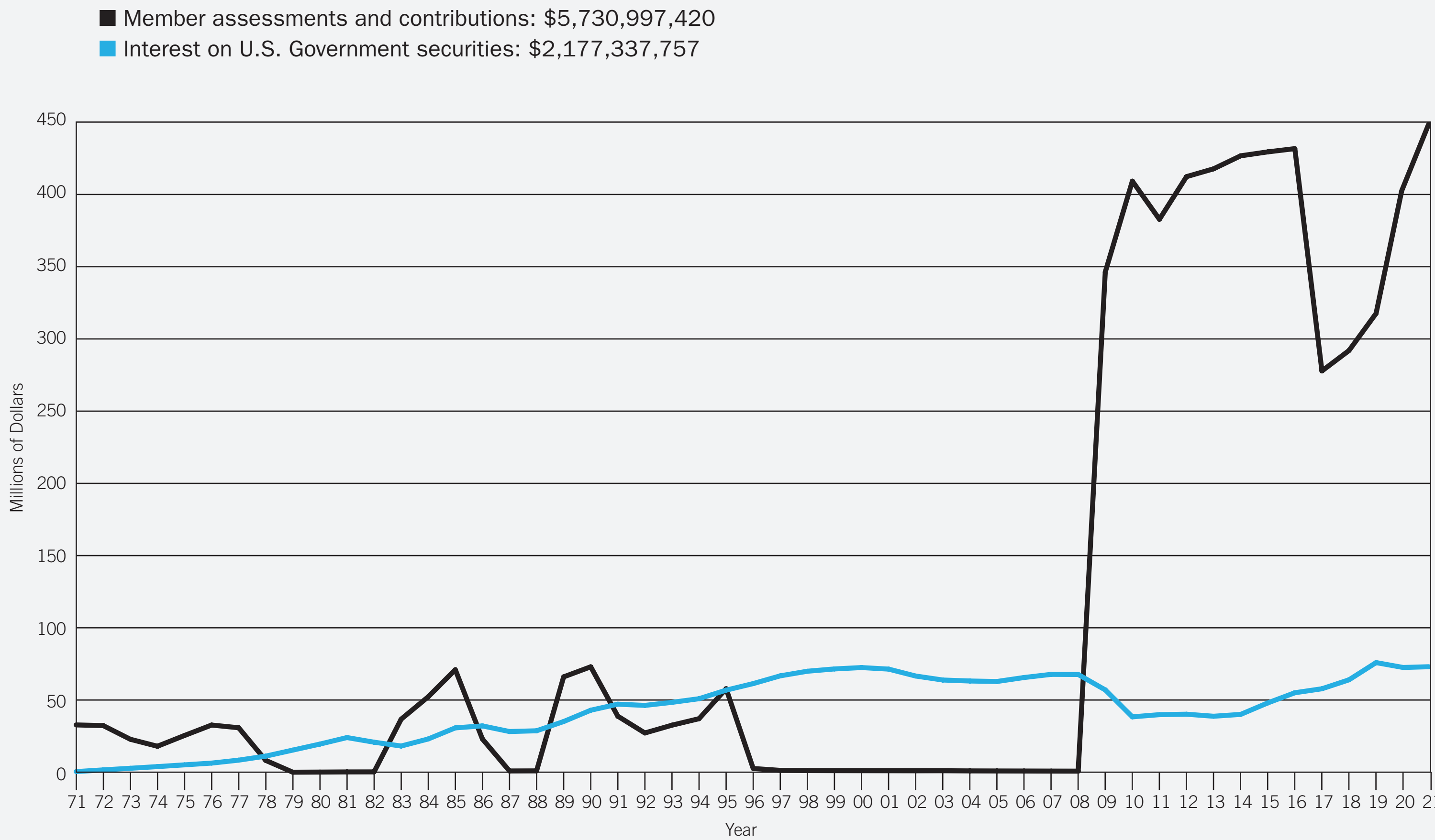
(g) Formerly NYSE MKT LLC

(h) Formerly Chicago Board Options Exchange Incorporated

(i) Formerly Chicago Stock Exchange, Incorporated

TABLE 3

SIPC Revenues for the Fifty-One Years Ended December 31, 2021



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, 2021: .15%.

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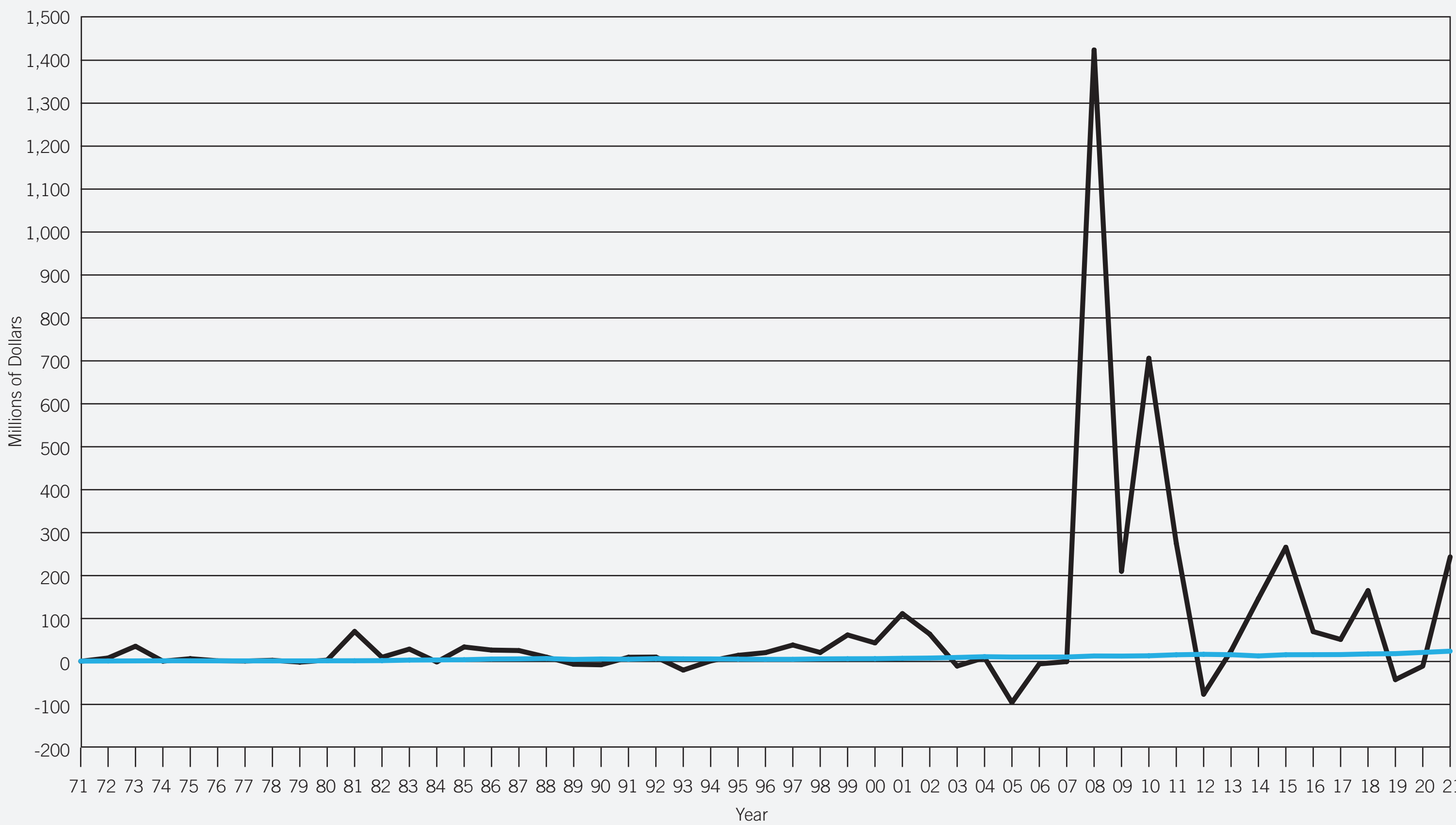
* Rates based on each member's gross revenues (net operating revenues for 1991–1995 and April 1, 2009 to present) from the securities business.

TABLE 4

SIPC Expenses for the Fifty-One Years Ended December 31, 2021

■ Customer protection proceedings: $3,972,718,423 (consists of net advances of $3,281,218,423 and $696,200,000 of estimated costs to complete proceedings less estimated future recoveries of $4,700,000).

■ Other expenses: $401,193,981



During 2021, 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 Second Circuit Court of Appeals rendered an important decision concerning a pair of separate appeals arising from the liquidation of Lehman Brothers, Inc. ("LBI") in *344 Individuals v. Giddens (In re Lehman Brothers Holdings, Inc.)*, 2021 WL 4127075 (2d. Cir. 2021). Former employees of Shearson Lehman Brothers, Inc., ("ESEP claimants") were participants in the firm's Executive and Select Employees Deferred Compensation Plan ("ESEP"). Seeking to recover about $270 million of deferred compensation at a higher claim priority in the SIPA proceeding than 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.

One line of appeal to the Second Circuit involved a decision of the Bankruptcy Court, affirmed by the District Court, that held the ESEP claims were properly reclassified as unsecured. While that appeal was pending, the ESEP claimants reversed course and filed an adversary proceeding which asserted that the sought-after 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. After the Bankruptcy Court granted the Trustee's motion to dismiss the adversary proceeding, the Second Circuit accepted it as a direct appeal, consolidated the appeal with the prior pending appeal, and considered both in tandem.

The Second Circuit summarily affirmed the Bankruptcy Court's decision to reclassify the ESEP claims as unsecured, holding that the ESEP agreements contained plain language to that effect. The Court also found that the ESEP claimants exhibited lack of dil-

igence in waiting almost ten years from the initial filing of their claims to assert that section 541(b)(7) excludes their property from the estate, and that the Trustee was prejudiced by that lack of diligence. Accordingly, the Second Circuit affirmed the Bankruptcy Court's holding that the claimants' delay in commencing the adversary proceeding 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 the consolidated appeal *Picard v. Citibank, N.A. (In re Bernard L. Madoff Inv. Sec. LLC*), 12 F.4th 171 (2d. Cir. 2021), the Second Circuit Court of Appeals held in favor of the Trustee and SIPC, reversing two Bankruptcy Court orders granting motions to dismiss. The Bankruptcy Court decisions held that the Trustee's complaint had not pleaded the defendants' lack of good faith, based upon a District Court opinion which held that, in a SIPA liquidation, (1) a transferee's lack of good faith is established by the transferee's willful blindness to the fraudulent transfer, and (2) the SIPA trustee bears the burden of pleading lack of good faith. In its reversal, the Second Circuit stated that good faith in a SIPA liquidation is determined by the same inquiry notice standard applied under the Bankruptcy Code, and the Securities Exchange Act of 1934 does not change the standard. Under an inquiry notice standard, a transferee does not receive a transfer in good faith if it had knowledge of suspicious facts which would cause a reasonable person in its position to investigate further. The Court

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

SIPA, Sec. 4(c)(2)

further ruled that the defendants had the burden of pleading and proving their good faith as an affirmative defense. The Second Circuit's decision revives the Trustee's pursuit of more than $560,000,000 from the defendants in the two cases before the Court, and the inquiry notice standard makes it possible for the Trustee to avoid and recover billions of dollars of transfers in other actions. The decision also sets important guidelines for the intersection of SIPA with securities and bankruptcy law.

In *Picard v. Fairfield Greenwich (In re Fairfield Sentry),* 627 B.R. 546 (Bankr. S.D.N.Y. 2021), the Bankruptcy Court denied a motion to dismiss the Trustee's action brought involving the largest "feeder fund" to have invested in BLMIS. The Trustee, substituted as a plaintiff for the fund liquidation representatives, was seeking to recover more than $919,000,000 in management and performance fees paid to defendants on account of their knowing participation in the BLMIS's fraudulent scheme. The Trustee's allegations included breach of contract, unjust enrichment, and constructive trust claims. The defendants moved to dismiss. The Court ruled that the Trustee had sufficiently alleged a breach of contract claim involving a contract provision requiring that the defendant "use its best efforts to monitor the activities and performance" of investments. The Court, however, limited the Trustee's unjust enrichment claims to only certain defendants.

In *Picard v. Fairfield Inv. Fund Ltd.*, Adv. Pro. No. 09-01239 (CGM), 2021 WL 3477479 (Bankr. S.D.N.Y. Aug. 6, 2021), the Bankruptcy Court denied a motion to dismiss the Trustee's action to recover stolen customer property withdrawn by the Fairfield feeder funds and subsequently transferred to Defendants as redemption payments and fees. The Defendants argued that the Trustee had failed to plausibly allege that Fairfield funds and the Defendants (1) had actual knowledge of BLMIS's fraud, as necessary to recover transfers made in the six years prior to Madoff's arrest, or (2) had willfully blinded themselves to BLMIS's fraud, as necessary to recover transfers made in the two years prior to Madoff's arrest. The Court disagreed, holding that, with the exception of one defendant in her individual capacity, the Trustee's complaint was replete with allegations that both the individual Defendants and, by imputation, the Fairfield funds had actual knowledge that Madoff was not trading securities.

In *Picard v. RAR Entrepreneurial Fund,* 20-cv-1029 (JMF), 2021 WL 827195 (S.D.N.Y. 2021), the District Court granted the Trustee's motion for summary judgment in part and denied the defendant's cross motion for summary judgment. The Trustee sought to avoid and recover more than $12 million allegedly transferred to the defendants, who argued that their accounts were held at Madoff Securities and were never transferred to the Debtor, BLMIS LLC, after it was formed in 2001. The Court held that the transfers had been made within two years of the SIPA case being filed, and that they were made with the intent to hinder, defraud, and delay. However, the Court concluded that whether the transfers were made by the Debtor was an issue of fact requiring trial. The Court noted that two similarly situated defendants had lost on the same issue after Bankruptcy Court trials. The Court rejected various affirmative defenses made by the defendant.

The Trustee prevailed on motions for summary judgment in several avoidance actions:

In *Picard v. Estate of Seymour Epstein, et al. (In re BLMIS),* No. 10-04438 (Bankr. S.D.N.Y. January 27, 2021), the Bankruptcy Court granted the Trustee's motion for summary judgment. The Trustee filed suit under Bankruptcy Code section 548(a)(1)(A) to avoid and recover transfers of fictitious profits totaling $2.6 million made to the defendants. Referencing its earlier findings of fact in a related matter, the Bankruptcy Court ruled that the transfers had been made with an intent to hinder, delay, and defraud because they were part of a Ponzi scheme, had been made during the relevant two year period prior to the petition date, and involved customer property. The Court also found that all of the Defendants' legal arguments in the case had been rejected previously; such rejections were the law of the case. The Court awarded the Trustee pre-judgment interest at the rate of 4% from the date that the adversary proceeding was filed in November 2010.

In a detailed opinion in *Picard v. JABA Associates (In re BLMIS),* 528 F. Supp. 3d 219 (S.D.N.Y 2021), the District Court granted the Trustee's motion for summary judgment and denied the defendants' cross motion for summary judgment. The Trustee filed an avoidance action seeking recovery of more than $2.9 million in fraudulent transfers. The Court rejected the defendants' various argument and found that the transfers had not been made in exchange for value. The Court concluded that the three elements of fraudulent transfer were met with admissible evidence: BLMIS had an interest in the transferred property at issue; the transfers were within two years of the petition date; and the transfer of property was made with actual intent to defraud based on the Ponzi scheme presumption. The Court also awarded prejudgment interest.

The District Court issued a similarly detailed opinion in *Picard v. Lisa Beth Nissenbaum (In re BLMIS),* 2021 WL 1141638 (S.D.N.Y. 2021), granting the Trustee's motion for summary judgment. Rejecting the defendants' arguments, the Court found that transfers of fictitious profits made to the defendants in the relevant two-year period were made with the intent to defraud because of the Ponzi scheme presumption. The Trustee was awarded a judgment of $625,551 and prejudgment interest.

The Bankruptcy Court in *Picard v. Miller (In re BLMIS),* 631 B.R. 1 (Bankr. S.D.N.Y. 2021), granted the Trustee's motion for summary judgment in another action to avoid and recover fictitious profits received by the defendant through his IRA account in the two years prior to the commencement of the liquidation. Rejecting the defendant's argument, the Court held that the defendant's IRA account was not protected by ERISA, and even if it was, that distributions from the account were not. The Court also held that although certain New York state law provisions that exempt trust property from judgment execution may limit the Trustee's ability to collect on a judgment, they did not bar entry of the judgment. The Court also awarded the Trustee prejudgment interest.

In *Picard v. Gerald and Barbara Keller Family Trust (In re BLMIS),* 2021 WL 4476811 (Bankr. S.D.N.Y. 2021), the Bankruptcy Court granted the Trustee's motion for summary judgment and denied the defendants' cross-motion for summary judgment in another avoidance suit. The Court found that the Trustee met his burden on every element of his prima facie case: There was no genuine dispute regarding BLMIS's (i) interest in the transferred funds; (ii) payment of fictitious profits within the two-year period to or for the benefit of the defendants; and (iii) actual intent to hinder, delay, or defraud its creditors. The Court also granted the Trustee's request for prejudgment interest, pointing out that the Trustee had spent more than ten years prosecuting the case and could not be made whole otherwise.

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 2021 SIPC received one referral under Section 5(a). This referral did not result in SIPC initiating a liquidation proceeding in 2021.

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, 2021 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

Opinion
We have audited the financial statements of Securities Investor Protection Corporation (the "Corporation"), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021, 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.

Basis for opinion
We conducted our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always

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detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Grant Thornton LLP

Arlington, Virginia
April 14, 2022

SIPC FINANCIAL STATEMENTS

Statement of Financial Position as of December 31, 2021

ASSETS	
Cash	$ 15,823,283
U.S. Government securities, at fair value and accrued interest receivable of ($18,434,779); (amortized cost $4,052,365,296) (Note 6)	4,140,208,973
Estimated member assessments receivable (Note 3)	209,545,064
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses ($2,741,089,710) (Note 4)	4,700,000
Assets held for deferred compensation and pension plans (Note 8)	11,167,391
Other (Note 5 and Note 9)	1,300,586
	$4,382,745,297
LIABILITIES AND NET ASSETS	
Accrued costs for other postretirement benefits (Note 8)	$ 8,308,840
Amount due on deferred compensation plan (Note 8)	2,604,038
Accounts payable and other accrued expenses	1,719,519
Deferred rent (Note 5)	1,526,026
Estimated costs to complete customer protection proceedings in progress (Note 4)	696,200,000
Member assessments received in advance (Note 3)	4,789,763
	715,148,186
Unrestricted net assets	3,667,597,111
	$4,382,745,297

The accompanying notes are an integral part of these statements.

Statement of Activities for the year ended December 31, 2021

Revenues:	
Member assessments (Note 3)	$ 448,000,014
Interest on U.S. Government securities	72,971,664
	520,971,678
Expenses:	
Salaries and employee benefits (Note 8)	13,132,372
Legal and accounting fees (Note 4)	241,654
Rent (Note 5)	995,613
Other	5,563,275
	19,932,914
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	240,034,856
	$ 259,967,770
Excess revenues over expenses	261,003,908
Realized and unrealized loss on U.S. Government securities (Note 6)	(154,703,047)
Pension and postretirement benefit changes other than net periodic costs (Note 8)	6,248,553
Increase in unrestricted net assets	112,549,414
Unrestricted net assets, beginning of year	3,555,047,697
Unrestricted net assets, end of year	$3,667,597,111

The accompanying notes are an integral part of these statements.

Statement of Cash Flows for the year ended December 31, 2021

Operating activities:	
Interest received from U.S. Government securities	$ 71,981,442
Member assessments received	427,076,714
Advances paid to trustees	(128,338,362)
Recoveries of advances	10,803,507
Salaries and other operating activities expenses paid	(20,878,134)
Net cash provided by operating activities	360,645,167
Investing activities:	
Proceeds from sales of U.S. Government securities	390,755,391
Purchases of U.S. Government securities	(744,070,093)
Purchases of furniture and equipment	(18,730)
Net cash used in investing activities	(353,333,432)
Increase in cash	7,311,735
Cash beginning of period	8,511,548
Cash, end of period	$ 15,823,283

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 $4,156,032,256. Together with the estimated member assessments receivable of $209,545,064 and advances to trustees for customer protection proceedings in progress (less allowance for possible losses) of $4,700,000, SIPC's financial assets available for general expenditures within one year of the December 31, 2021 statement of financial position date total $4,370,277,320.

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 2021 but not received, or expected to be received, until 2022.

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 $3.4 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 $2.75 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, $2.74 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, 2021 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	$10,400,000	$579,400,000
Add:		
Provision for current year recoveries	400,000	—
Provision for estimated future recoveries	4,700,000	—
Provision for estimated costs to complete proceedings	—	245,100,000
Less:		
Recoveries	10,800,000	—
Advances to trustees	—	128,300,000
Balance, end of year	$4,700,000	$696,200,000

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: 2022—$1,035,807; 2023—$1,061,685; 2024—$1,088,185; 2025—$1,115,412; 2026—$754,362; for a total of $5,055,451, as of December 31, 2021. 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 $162,127 in 2022 and $152,483 in 2023; for a total of $314,610, as of December 31, 2021. 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, 2021.

The fair value of U.S. Government securities is based on the bid quote as of December 31, 2021 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, 2021, all securities held within the portfolio are priced using Level 2 inputs.

U.S. Government securities as of December 31, 2021 included cumulative gross unrealized gains of $109,996,322 and cumulative gross unrealized losses of $22,152,645.

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

Increase in unrestricted net assets	$ 112,549,414
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Realized and unrealized loss on U.S. Government securities	154,703,047
Net amortized premium on U.S. Government securities	(701,552)
Depreciation and amortization	306,758
Changes in operating assets and liabilities:	
Net increase in estimated cost to complete customer protection proceedings	116,800,000
Increase in estimated assessment receivable	(24,563,300)
Increase in prepaid expenses	(7,231,244)
Net decrease in estimated recoveries of advances to trustees	5,700,000
Increase in member assessments collected in advance	3,639,273
Increase in accrued interest receivable on U.S. Government securities	(288,669)
Decrease in deferred rent	(179,773)
Decrease in payables and accrued expenses	(88,787)
Net cash provided by operating activities	$360,645,167

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 $2,604,038 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	$77,443,117	$ 8,965,247
Service cost	2,122,132	395,870
Interest cost	1,907,895	231,019
Plan participants' contributions	—	38,202
Amendments	—	—
Actuarial (gain)	(2,571,520)	(1,155,936)
Benefits paid	(1,934,639)	(165,576)
Benefit obligation at end of year	$76,966,985	$ 8,308,826
Change in Plan Assets		
Fair value of plan assets at beginning of year	$79,288,975	$ —
Actual return (loss) on plan assets	6,076,003	—
Employer contributions prior to measurement date	—	—
Employer contributions	2,100,000	127,374
Plan participants' contributions	—	38,202
Benefits paid	(1,934,639)	(165,576)
Fair value of plan assets at end of year	$85,530,339	$ —
Funded status	$ 8,563,354	$(8,308,826)
Employer contributions between measurement and statement date	—	—
Funded status at year end	$ 8,563,354	$(8,308,826)
Amounts recognized in the Statement of Financial Position and net assets consist of:		
Net amount recognized in the Statement of Financial Position	$ 8,563,354	$(8,308,826)
Accumulated benefit obligation end of year	$73,052,624	$ 8,308,826

	Pension Benefits	Other Postretirement Benefits
Weighted-average assumptions for disclosure as of December 31, 2021		
Discount rate	2.90%	3.00%
Salary scale 2021 / thereafter	3.75% / 3.75%	N/A
Health Care Cost Trend: Initial Pre-65/Post-65	N/A	6.75% / 5.25%
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	$ 2,122,132	$ 395,870
Interest cost	1,907,895	231,019
Expected return on plan assets	(4,299,340)	—
Recognized prior service credit	—	(1,488)
Recognized actuarial loss	740,319	5,603
Net periodic benefit cost	471,006	631,004
Pension and other postretirement benefit changes other than net periodic benefit cost		
Net actuarial gain	(4,348,183)	(1,155,936)
Recognized actuarial loss	(740,319)	(5,603)
Prior service cost	—	—
Recognized prior service credit	—	1,488
Total pension and postretirement benefit changes other than net periodic cost	(5,088,502)	(1,160,051)
Total net periodic other benefit cost and pension and other postretirement benefits changes other than net periodic benefit cost	$ (4,617,496)	$ (529,047)
Weighted-average assumptions for net periodic cost as of December 31, 2021		
Discount rate	2.50%	2.60%
Expected asset return	5.50%	N/A
Salary scale 2021 / 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

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 2021, the unrecognized net loss decreased by 6.6% of the 12/31/2020 projected benefit obligation primarily due to the increased discount rate and higher than expected asset returns offset by higher than expected cost-of-living adjustments, updated mortality tables and other unfavorable plan experience.

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 2021 by ($814,000)/$1,479,000 and (decreased)/increased the year-end projected benefit obligation by ($10.3)/$13.1 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	$21,575,756
Non-U.S. large and multi-cap mutual funds	12,921,646
Total Equity	34,497,402
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	51,032,937
Total Fixed Income	51,032,937
Total	$85,530,339

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 2021 by $782,000.

Investment Policy

The plan's investment policy includes a dynamic asset allocation that reduces equity exposure as the plan becomes better funded to protect the plan funded status against changes in interest rates. The plan's assets are currently invested in funds representing most standard equity and debt security classes.

Pension Plan Asset Category	Expected Long-Term Return	Target Allocation	Actual Allocation 12/31/2021
Equity securities	8.50%	35–45%	40%
Debt securities	3.50%	55–65%	60%
Total	5.50%	100%	100%

Estimated Future Benefit Payments Estimated future benefit payments, including future benefit accrual		
	Pension	Other Benefits
2022	$ 2,632,306	$ 207,745
2023	$ 2,830,178	$ 214,180
2024	$ 3,074,796	$ 258,253
2025	$ 3,487,667	$ 331,321
2026	$ 3,600,184	$ 341,109
2027–2031	$19,706,420	$1,811,331

Contributions

The company expects to make no contributions to the pension plan in 2022 for the 2021 plan year and $183,000 to the postretirement benefit plan during 2022.

Defined Contribution Plan	
SIPC contributions (60% of employee contributions, up to 3.6% of compensation)	$ 275,000

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.

Fixed Assets	
Office equipment at cost	$ 68,464
Computer hardware at cost	3,417,852
Computer software at cost	1,811,815
Office furniture and fixtures at cost	1,215,134
Leasehold improvements at cost	1,501,958
Total fixed assets at cost	8,015,223
Less accumulated depreciation and amortization	(7,092,284)
Net fixed assets	$ 922,939
2021 depreciation and amortization expense	$ 306,758

10. Risks and Uncertainties

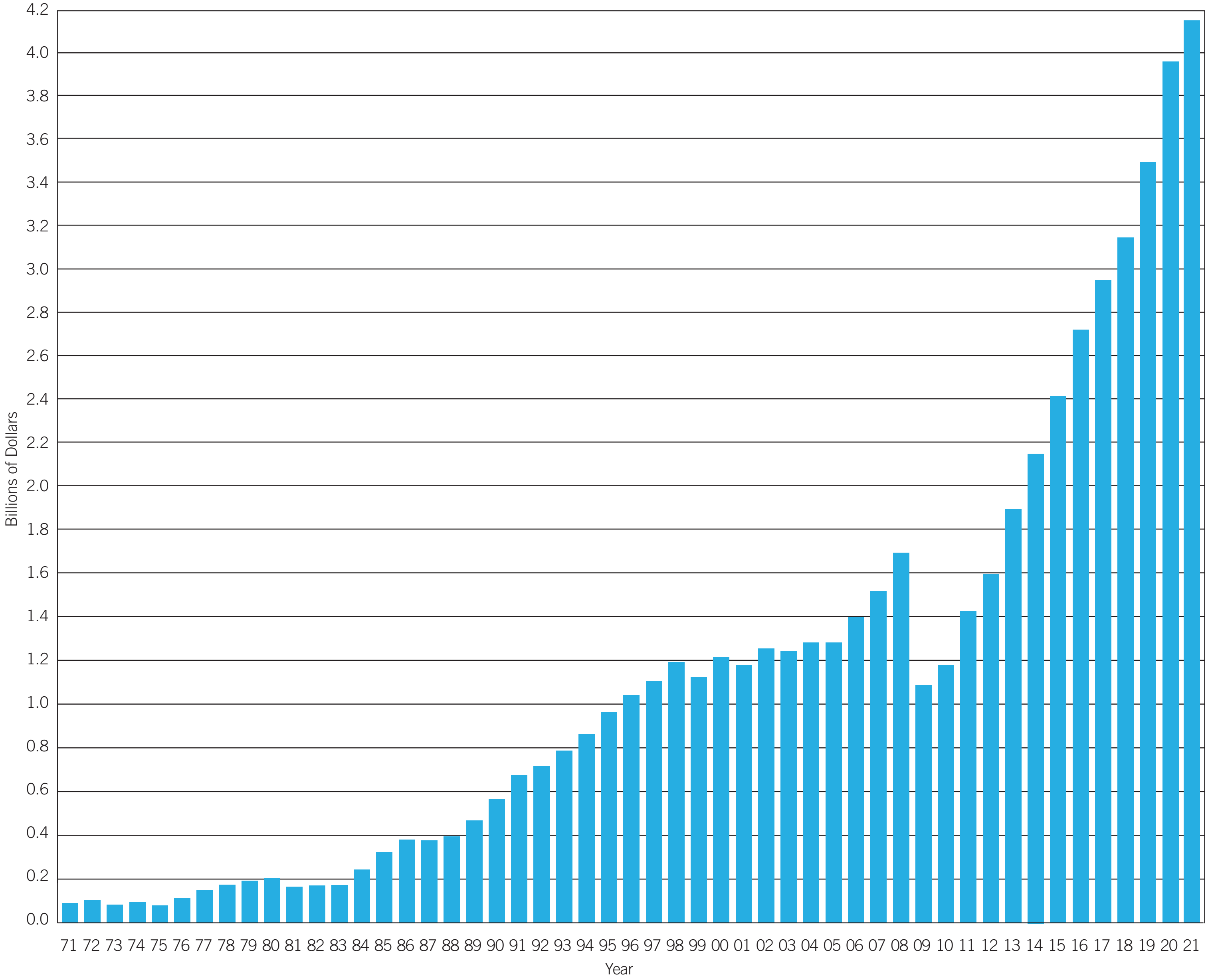
In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The spread of COVID-19 has caused significant volatility in U.S. and international markets. There is significant uncertainty around 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, 2021 financial statements for subsequent events through April 14, 2022 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.

TABLE 5

SIPC Fund Comparison
Inception to December 31, 2021



APPENDIX 1

DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

For the Fifty-One Years Ended December 31, 2021 (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
2021	231,362	530	(10,792)	(10,262)	221,100
	$141,105,287	$1,541,446	$(619,286)	$922,160	$142,027,447

* 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

For the Five Years Ended December 31, 2021

	2021	2020	2019	2018	2017
Revenues:					
Member assessments	$448,000,014	$402,543,976	$317,610,000	$291,940,037	$277,800,032
Interest on U.S. Government securities	72,915,767	72,341,920	75,629,051	63,840,516	57,599,175
Interest on assessments	55,897	95,833	183,399	66,222	125,930
	520,971,678	474,981,729	393,422,450	355,846,775	335,525,137
Expenses:					
Salaries and employee benefits	13,132,372	13,113,285	12,537,157	12,363,503	11,379,039
Legal fees	61,211	96,986	183,709	157,070	32,816
Accounting fees	180,443	175,245	162,511	185,898	167,625
Professional fees—other	2,912,782	1,668,646	929,404	498,583	300,231
Other:					
Assessment collection cost	15,174	33,924	36,807	25,015	37,119
Depreciation and amortization	306,758	458,051	617,859	672,878	701,871
Directors' fees and expenses	52,000	21,057	40,163	32,563	43,184
Insurance	148,589	79,500	37,200	38,193	36,124
Investor education	228,357	319,974	148,862	228,053	312,059
Office supplies and expense	175,433	219,738	470,710	209,069	223,742
EDP and internet expenses	1,218,879	1,123,508	1,258,469	1,046,396	1,084,727
Postage	2,226	3,215	6,330	7,964	10,577
Printing & mailing annual report	15,299	29,852	29,254	29,122	28,390
Publications and reference services	317,496	330,481	331,361	466,237	392,818
Rent office space	995,613	962,241	1,005,684	1,021,065	983,172
Travel and subsistence	5,486	21,885	149,745	124,915	111,200
Personnel recruitment	154,986		29,934	221,600	
Miscellaneous	9,810	24,827	49,488	35,771	45,046
	3,646,106	3,628,253	4,211,866	4,158,841	4,010,029
	19,932,914	18,682,415	18,024,647	17,363,895	15,889,740
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(9,900,767)	(13,494,404)	(14,144,107)	(21,008,817)	(6,504,659)
Cash	(336,862)	(2)	(8,152)	(13,760)	(758,179)
	(10,237,629)	(13,494,406)	(14,152,259)	(21,022,577)	(7,262,838)
Administration expenses	127,802,790	135,123,659	140,025,745	143,305,093	167,747,967
	117,565,161	121,629,253	125,873,486	122,282,516	160,485,129
Net change in estimated future recoveries	5,700,000	4,200,000	3,300,000	5,900,000	(12,700,000)
	123,265,161	125,829,253	129,173,486	128,182,516	147,785,129
SIPC as Trustee:					
Securities	(24,226)	(16,088)	(34,653)	(28,395)	(77,900)
Cash	(1,954)	(284,025)	(953)	(570,001)	189,528
	(26,180)	(300,113)	(35,606)	(598,396)	111,628
Administration expenses	(4,125)	(30,676)	(82,495)	748,529	595,721
	(30,305)	(330,789)	(118,101)	150,133	707,349
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	116,800,000	(133,100,000)	(171,300,000)	36,500,000	(97,200,000)
	240,034,856	(7,601,536)	(42,244,615)	165,002,562	51,328,300
	259,967,770	11,080,879	(24,219,968)	182,366,457	67,218,040
Total net revenues	261,003,908	463,900,850	417,642,418	173,480,318	268,307,097
Realized and unrealized (loss) gain on U.S. Government securities	(154,703,047)	166,303,052	115,979,049	(18,197,141)	(14,174,544)
Pension and postretirement benefit changes other than net periodic benefit costs	6,248,553	1,932,568	(3,597,040)	1,705,080	(3,327,187)
Increase in unrestricted net assets	$112,549,414	$632,136,470	$530,024,427	$156,988,257	$250,805,366

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*	2,655
TOTAL 1 MEMBER: PART A				**8,110**	**16,521**	**2,655**

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

December 31, 2021

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$13,332,065,563	$13,313,652,983	$18,412,580	$2,745,789,710	$2,144,248,775		$601,540,935	
$13,332,065,563	**$13,313,652,983**	**$18,412,580**	**$2,745,789,710**	**$2,144,248,775**		**$601,540,935**	

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, 2021

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$107,170,696,319	$105,773,207,834	$1,397,488,485					
$107,170,696,319	**$105,773,207,834**	**$1,397,488,485**					

PART C: Proceedings Completed in 2021

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
TOTAL 0 MEMBER 2021						
TOTAL 328 MEMBERS 1973–2020[d]				2,304,381	478,008	658,517
TOTAL 328 MEMBERS 1973–2021				2,304,381	478,008	658,517

December 31, 2021

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$22,688,240,985	$22,018,426,325	$669,814,661	$535,428,713	$214,809,972	$1,388,427	$186,608,666	$132,621,648
$22,688,240,985	$22,018,426,325	$669,814,661	$535,428,713	$214,809,972	$1,388,427	$186,608,666	$132,621,648

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	2,655
Part B: 1 Member — Customer Claims Satisfied, Litigation or Administrative Matters Pending	905,000	124,248	111,888
Sub-Total	913,110	140,769	114,543
Part C: 328 Members — Proceedings Completed	2,304,381	478,008	658,517
Total: 330	**3,217,491**	**618,777**	**773,060**

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, 2021

Distribution of Assets Held by Debtor[c]			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
$ 13,332,065,563	$ 13,313,652,983	$ 18,412,580	$2,745,789,710	$2,144,248,775		$601,540,935	
107,170,696,319	105,773,207,834	1,397,488,485					
120,502,761,882	119,086,860,817	1,415,901,065	2,745,789,710	2,144,248,775		601,540,935	
22,688,240,985	22,018,426,325	669,814,661	535,428,713	214,809,972	$1,388,427	186,608,666	$132,621,648
$143,191,002,867	**$141,105,287,142**	**$2,085,715,726**	**$3,281,218,423**	**$2,359,058,747**	**$1,388,427**	**$788,149,601**	**$132,621,648**

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