

Frequently Asked Questions Regarding Excess SIPC Insurance

The following frequently asked questions help representatives explain the role of the Securities Investor Protection Corporation plays in protecting investors' assets at securities firms.

1. How are customer assets held at securities firms protected?

Customers Assets are separate from firm's assets

Securities regulations protect your funds and your securities when you keep them at a broker/dealer. The Securities and Exchange Commission requires broker/dealers to deposit customer funds in a separate account, distinct from the firm's own money. Securities held by clients in "street name" are kept securely with the Depository Trust Company, separate and distinct from the assets of securities firms. Regulated by the SEC and the Federal Reserve, the depository is a national clearinghouse for settling trades and a custodian of securities. Regulators and independent auditors periodically review firms' financial records to ensure that clients' assets are accurately tracked and held separately from the firms' own holdings.

Customer Assets are Protected by SIPC

In addition, Congress created the Securities Investor Protection Corporation (SIPC) in 1970 to protect customers of member broker/dealers that may fail or be liquidated. If any securities or cash are missing from eligible customer accounts, the corporation steps in to replace those securities and cash. This protection is limited to \$500,000 per customer, including up to \$100,000 in cash. SIPC does not protect customers against market risk. (Losses resulting from a fall in a security's value are not covered.) See www.sipc.org for more information about SIPC.

Customer Assets may be Protected by "Excess SIPC"

Most securities firms offer additional account protection beyond SIPC's limits (commonly referred to as "Excess SIPC"). This coverage is provided through private arrangements between securities firms and insurance companies. Since the protections vary from firm to firm, clients should talk with their broker/dealer to learn about what is provided.

2. How does SIPC Protection Work?

Customers can have confidence that, given the very high percentage of client assets that are recovered during liquidation, SIPC coverage is adequate for nearly all customer accounts. Consider:

First, federal securities law requires that customer assets be segregated from a firm's own assets. The law is backed by internal and external audits and regulatory examinations.

Second, most customer assets are held in book-entry form at industry depositories and not in physical possession by the firms themselves.

Third, SIPC reports that 99.7 percent of eligible investors have been made whole in the 306 failed brokerage firm cases that it has handled over the past 32 years. None

of these cases required a payment under excess SIPC coverage. The remaining 0.3 percent of investors had claims in excess of the SIPC limits, but LPL Financial understands that these claims were filed by clients of broker/dealers that did not carry excess coverage.

Fourth, SIPC funds are used to make investors whole after all customer assets held at the brokerage firm have been recovered. The SIPC limit of \$500,000 (\$100,000 cash) per account does not mean that the account will receive only up to \$500,000. Rather, in a SIPC customer proceeding, the account will receive a pro-rata share of all client assets recovered in liquidation and then will receive up to \$500,000 from SIPC to make up any difference that may still exist.

To illustrate a SIPC liquidation:

- Assume a firm fails, resulting in \$5 billion of client claims on assets
- Assume a recovery rate of assets in liquidation of 90 percent or \$4.5 billion
- Assume a client with an account of \$5 million
- In a customer proceeding, the client would receive \$4.5 million from recovered assets and \$500,000 from SIPC. The loss on a \$5 million client account would be zero

3. How does SIPC protection compare with FDIC insurance?

The Federal Deposit Insurance Corporation (FDIC) protects deposits up to \$100,000 in most, but not all, U.S. banks and savings associations in the event that the institution becomes insolvent. FDIC does not cover securities, mutual funds, or similar types of investments. For more information about FDIC insurance, see www.fdic.gov.

4. I am an investor with an account value at a broker/dealer that is higher than \$500,000. What should I do?

Ask your brokerage firm representative to explain the protection that is available for you account above the SIPC limits and to discuss the firm's internal controls and financial strength. Knowing that you are with a well run, financially stable firm is your best assurance that your assets are safe and protected.

5. What is the LPL Financial Excess SIPC coverage and who is the carrier?

LPL Financial has Excess SIPC protection from Lloyd's of London. The firm's coverage limit is \$750,000,000 in the aggregate.

Additional Information and Frequently Asked Questions Regarding Excess SIPC Insurance

WHAT SIPC COVERS... and what it does not

SIPC is **not** the FDIC. The Securities Investor Protection Corporation does **not** offer to investors the same blanket protection that the Federal Deposit Insurance Corporation provides to bank depositors. How are SIPC and the FDIC different? When a member bank fails, the FDIC insures all depositors at that institution against loss up to a certain dollar limit. The FDIC's no-questions-asked approach makes sense because the banking world is "risk averse." Most savers put their money in FDIC-insured bank accounts because they can't afford to lose their money. That is **precisely** the opposite of how

investors behave in the stock market, in which rewards are only possible with risk. Most market losses are a normal part of the ups and downs of the risk-oriented world of investing. That is why SIPC does not bail out investors when the value of their stocks, bonds and other investments falls for any reason. Instead, SIPC replaces **missing** stocks and other securities where it is possible to do so...even when investments have increased in value. SIPC does not cover individuals who are sold worthless stocks and other securities. SIPC helps individuals whose money, stocks and other securities are stolen by a broker or put at risk when a brokerage fails for other reasons.

HOW WE HELP

What you need to know about SIPC

Understanding the rules is the key to protecting yourself...and your money.

- **When SIPC gets involved.** When a brokerage firm fails owing customers cash and securities that are missing from customer accounts, SIPC usually asks a federal court to appoint a trustee to liquidate the firm and protect its customers. With smaller brokerage firm failures, SIPC sometimes deals directly with customers.
- **Investors eligible for SIPC help.** SIPC aids most customers of failed brokerage firms when assets are missing from customer accounts. (A list of ineligible investors may be found in the fourth question in the next section of this brochure.)
- **Investments protected by SIPC.** The cash and securities – such as stocks and bonds – held by a customer at a financially troubled brokerage firm are protected by SIPC. Among the investments that are **ineligible** for SIPC protections are commodity futures contracts, fixed annuity contracts, and currency, as well as investment contracts (such as limited partnerships) that are not registered with the U.S. Securities and Exchange Commission under the Securities Act of 1933.
- **Terms of SIPC help.** Customers of a failed brokerage firm get back all securities (such as stocks and bonds) that already are registered in their name or are in the process of being registered. After this first step, the firm's remaining customer assets are then divided on a pro rata basis with funds shared in proportion to the size of claims. If sufficient funds are not available in the firm's customer accounts to satisfy claims within these limits, the reserve funds of SIPC are used to supplement the distribution, up to a ceiling of \$500,000 per customer, **including** a maximum of \$100,000 for cash claims. Additional funds may be available to satisfy the remainder of customer claims after the cost of liquidating the brokerage firm is taken into account.
- **How account transfers work.** In a failed brokerage firm with accurate records, the court-appointed trustee and SIPC may arrange to have some or all customer accounts transferred to another brokerage firm. Customers whose accounts are transferred are notified promptly and then have the option of staying at the new firm or moving to another brokerage of their choosing.
- **How claims are valued.** Typically, when SIPC asks a court to put a troubled brokerage firm in liquidation, the financial worth of a customer's account is calculated as of the "filing date." Wherever possible, the actual stocks and other securities owned by a customer are returned to him or her. To accomplish this, SIPC's reserve funds will be used, if necessary, to purchase replacement securities (such as stocks) in the open market. It is always possible that market changes or fraud at the failed brokerage firm (or elsewhere) will result in the returned securities having lost some – or even all – of their value. In other cases, the securities may have increased in value.

SEVEN QUESTIONS

Investors ask most often

1. How can I be sure I am dealing with a SIPC member? Why is that important?

Look for this language:

Member Securities Investor Protection Corporation

Those words – or “Member SIPC” — appear in all signs and ads of SIPC members. If you have a question as to whether or not a particular firm is a member of SIPC, you may call the SIPC Membership Department at (202) 371-8300 or visit us on the Web at www.sipc.org. Why is the issue of SIPC membership relevant to you? SIPC protects customers of broker/dealers as long as the broker/dealer is a SIPC member. However, if a SIPC member’s registration with the U.S. Securities and Exchange Commission is terminated, the broker/dealer’s SIPC membership is also automatically terminated. SIPC loses its power to protect customers of former SIPC members 180 days after the broker/dealer ceases to be a member of SIPC. Normally, the SEC will attempt to prevent the termination of the registration and SIPC membership of a broker/dealer if the firm owes securities or cash to customers. However, a SIPC membership may be terminated if the Commission is unaware the firm owes securities or cash to customers.

2. What should I be vigilant about before a problem strikes?

Some SIPC members have affiliated or related companies or persons that conduct financial or investment businesses but are not members of SIPC. Some of these affiliates have names which are similar to the name of the SIPC member, or which operate from the same offices or with the same employees. Be sure you receive written confirmation of each securities transaction in your securities account with the SIPC member, and that each confirmation statement and each statement of account is issued by the SIPC member and not by a non-SIPC affiliate. Deposits for credit to your securities account, by check or otherwise, should not be made payable to your account executive, registered representative, or to any other individual, but generally only to your SIPC member broker/dealer or, if your account is carried at another SIPC member who provides clearing services for your SIPC member broker/dealer, then to that other SIPC member. If your check or deposit is payable to other than a SIPC member broker/dealer (such as to the issuer of the securities you are purchasing or to a bank escrow agent), you should take steps to insure that your funds are properly applied. You should be vigilant to assure that you receive your periodic statements on a timely basis. The failure to provide statements may indicate the broker/dealer has gone out of business. If you do not receive your statement when due and cannot get a satisfactory explanation, or if for any other reason you believe your broker/dealer may have ceased doing business, you should promptly contact the nearest office of the Commission. If your broker/dealer ceases to be a SIPC member while still owing cash and securities to you, you should notify the Commission well within the 180-day period.

3. How quickly will I get my investments back?

Most customers can expect to receive their property in one to three months. When the records of the brokerage firm are accurate, deliveries of some securities and cash to customers may begin shortly after the trustee receives the completed claim forms from customers, or even earlier if the trustee can transfer customer accounts to another broker/dealer. Delays of several months usually arise when the failed brokerage firm’s records are not accurate. It also is not uncommon for delays to take place when the troubled brokerage firm or its principals were involved in fraud.

4. Who is not eligible for SIPC protections?

Most customers with cash and securities missing from customer accounts are eligible for SIPC assistance. However, SIPC’s funds may **not** be used to pay claims of any failed brokerage firm customer who also is:

- A general partner, officer or director of the firm.

- The beneficial owner of five percent or more of any class of equity security of the firm (other than certain nonconvertible preferred stocks).
- A limited partner with a participation of five percent or more in the net assets or net profits of the firm.
- Someone with the power to exercise a controlling influence over the management or policies of the firm.
- A broker/dealer or bank acting for itself rather than for its own customer or customers.

5. Where do I submit my claim form?

If your brokerage firm is put into liquidation, the court-appointed trustee will notify you and send a claim form and instructions. You must return the completed claim form to the trustee within the time limits set forth in the notice and as described in the instructions. Failure to do so may result in the loss of all or a portion of your claim. If you are notified that your brokerage account has been transferred to another brokerage firm, you should still file a claim form in order to preserve the right to correct any errors that may crop up during the transfer of accounts. For a step-by-step guide to this process, see the SIPC Web site at www.sipc.org

6. Is there a time limit for filing claims?

Yes. There are **two** deadlines for the filing of customer claims: **Court deadline.** The time set by the bankruptcy court for filing of customer claims is usually 60 days after the date the notice of the proceeding is published, but could be as little as 30 days after the publication date. The deadline appears in the published notice and a copy of the notice is mailed to customers along with claim forms and instructions that also prominently display the date. Pay close attention to the deadline set forth in the notice and be certain the trustee receives your claim in a timely manner.

IMPORTANCE NOTICE

The Securities Investor Protection Act of 1970 (SIPA) is a complex and technical statute. This brochure provides a basic explanation of the Securities Investor Protection Corporation and SIPA. However, it does not explain the SIPA statute with respect to any particular fact pattern. Answers to questions involving particular facts depend upon interpretations, trustees' decisions and court actions. *The U.S. Securities and Exchange Commission's Office of Investor Education and Assistance has reviewed this publication. The SEC does not endorse the commercial activities, products or members of this or any other private organization.*

Federal law deadline. If your completed claim form is received by the trustee after the date set by the bankruptcy court but no later than six months after public notice is published, the claim is subject to delayed processing and, possibly, limited payment. The six-month deadline is set out in the federal law governing SIPC. The federal deadline absolutely bars any claim that is received more than six months after the publication date. Except for some very narrow exceptions, there are no grounds for time extensions beyond the deadline.

7. Do I have to prove what the broker owes me? How does that work?

Yes, usually that is done by describing in your claim form the cash and securities that are owed to you. The court-appointed trustee will compare what you claim against the books and records of the brokerage firm. SIPC and court-appointed trustees assume that the brokerage firm's records are accurate. Frequently, your entire account can be transferred to another brokerage firm for your benefit before you have even filed a claim. However, there are sometimes instances of mistakes in brokerage firm records. In rare cases, these mistakes show transactions made without your authority. You should keep copies of trade confirmations. You should keep copies of your latest monthly or quarterly statement of account from your brokerage firm. A trustee may ask you to supply copies of these documents. If you ever discover an error in a confirmation or statement, you should immediately bring the error to the attention of the brokerage firm **in writing**. Keep

a copy of any such writing you send to the brokerage firm. Remember, if there is something wrong with the brokerage firm's records of your account, you will have to prove that, or SIPC and the trustee will assume that the firm's records are accurate.



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