



2014



ANNUAL REPORT
SECURITIES INVESTOR
PROTECTION CORPORATION



Securities Investor Protection Corporation

805 Fifteenth Street, N.W., Suite 800
Washington, D.C. 20005-2215
(202) 371-8300 Fax (202) 371-6728
www.sipc.org

April 30, 2015

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Dear Chair White:

On behalf of the Board of Directors I submit herewith the Forty-fourth 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,

A handwritten signature in dark ink, appearing to read "Stephen P. Harbeck". The signature is fluid and cursive, with the first name "Stephen" being more prominent.

Stephen P. Harbeck
President & CEO



CONTENTS

Message from the Board of Directors	3
Overview of SIPC	4
Directors & Officers	5
Corporate Governance Practices	6
Customer Protection Proceedings	8
Membership and the SIPC Fund	10
Litigation	13
Disciplinary and Criminal Actions	17
Financial Statements and Auditor's Report	18
SIPC Fund Comparison	29
Appendix 1: Distributions for Accounts of Customers for the Forty-Four Years Ended December 31, 2014	30
Appendix 2: Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 2014	31
Appendix 3: Customer Protection Proceedings	32
A: Customer Claims and Distributions Being Processed	32
B: Customer Claims Satisfied, Litigation Matters Pending	34
C: Proceedings Completed in 2014	36
D: Summary	38

MESSAGE FROM THE BOARD OF DIRECTORS

DEVELOPMENTS REGARDING THE SIPC BOARD

In June 2014, SIPC Acting Chairman Sharon Y. Bowen resigned from the SIPC Board and was sworn in as a Commissioner of the U.S. Commodity Futures Trading Commission. SIPC and its Board are grateful to Ms. Bowen for her service as a Director, and as Acting Chair. We wish her well.

In September 2014, SIPC welcomed Director Mark Kaufman to its Board as a government director. Prior to joining the Department of the Treasury as Counselor to the Deputy Secretary, Mr. Kaufman served as the Maryland Commissioner of Financial Regulation, where he led supervision of state chartered banks, and directed vigorous efforts to address foreclosure servicing problems, illegal online payday lending, and abusive debt collection practices. In recognition of his contributions to consumer protection, he was named Consumer Advocate of the Year by the Maryland Consumer Rights Coalition in 2014. The Board congratulates Director Kaufman for this well-earned award. The Board also expresses its appreciation to the outgoing SIPC Director from the Treasury Department, former Assistant Secretary for Financial Institutions Cyrus Amir-Mokri.

MAJOR EXISTING CASES

SIPC initiated no new customer protection proceedings in 2014. Happily, developments in existing liquidations allowed for significant distributions in SIPC's largest cases.

Including court-approved settlements, the trustee in the *Madoff* liquidation recovered more than \$1 billion in 2014, which brought total amounts recovered through year-end to \$10.55 billion. Although the trustee continues to hold amounts in reserve pending the outcome of litigation, the court-approved distributions of customer property through February 2015, combined with SIPC advances, resulted in every customer with an allowed claim of \$976,592 or less, being fully satisfied. Through February 2015, the trustee distributed \$7.21 billion which included \$694.18 million in SIPC net advances. In addition to its advances for customers, SIPC continued to advance funds to pay the administrative expenses of the liquidation, including those associated with the trustee's recovery efforts. No customer funds are used for that purpose. With SIPC's support, the Madoff trustee's efforts to maximize amounts returned to customers will continue into 2015. In 2014, the signature achievement in the *Lehman Brothers* liquidation was the resolution of a large volume of claims, and the distribution of assets to a variety of classes of creditors. The trustee substantially completed a 100% distribution exceeding \$105 billion, to over 111,000 claimants. The trustee also made 100% distributions to secured and priority creditors, which totaled in excess of \$250 million. In addition, the trustee made a first interim distribution of more than \$3.4 billion (17 cents on the dollar) to more than 3,000 general unsecured creditors, and established court-approved reserves for all outstanding claims. To date, the trustee has resolved over 13,000

general creditor claims totaling \$123 billion, with more than 6,000 general creditor claims asserted in an aggregate of \$11 billion being resolved in 2014 alone.

In addition to distributions, the trustee made substantial progress in asset recovery efforts, including the recovery of more than \$560 million from Lehman affiliates, and an additional \$30 million in recoveries from third parties. Asset sales in 2014 yielded more than \$430 million, adding to a total of over \$7.5 billion realized by the estate. All told, since Lehman's collapse in September 2008, the trustee has administered approximately \$122 billion to customers or for administrative expenses, at no cost to SIPC.

In the *MF Global* liquidation, the trustee largely completed the distribution of over \$6.2 billion in property to MFGI's securities and futures customers, representing a return of 100% of the property owed to the more than 30,000 affected customers with allowed claims. The trustee continued to work to resolve outstanding claims against MFGI's general estate, and, by the end of 2014, had resolved nearly all of those claims. The trustee sought and obtained court permission to make 100% distributions on allowed claims for administrative expenses and secured and priority claims against MFGI's general estate, along with a first interim distribution to unsecured estate creditors of 39% of the property owed to them. The trustee has now commenced those distributions, and expects to be able to make additional distributions to unsecured creditors as required reserves for administrative expenses are reduced and as the estate receives additional recoveries from various sources.

The Board looks forward to building on these positive events in the coming year.

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 38, 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. § 78o(b)(11)(A)]

Also excluded are government securities brokers or dealers who are members of a national securities exchange but who are registered under section 15C(a)(1)(A) of the Securities Exchange Act of 1934 and brokers or dealers registered under Section 15(b)(11)(A) of the Securities Exchange Act of 1934.

Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," available on SIPC's website at www.sipc.org/news-and-media/ and also available in bulk from the Securities Industry and Financial Markets Association (SIFMA), c/o Howard Press, 450 West First St., Roselle, NJ 07203, phone number (908)620-2547, and from the FINRA Book Store, P.O. Box 9403, Gaithersburg, MD 20898-9403. The web site address for FINRA orders is www.finra.org/Industry/order 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 & OFFICERS

DIRECTORS



Anthony D'Agostino
Maven Medical
CEO and Founder



Matthew J. Eichner
**Board of Governors of the
Federal Reserve System**
Deputy Director, Division of
Reserve Bank Operations and
Payment Systems



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



Mark Kaufman
**United States Department
of the Treasury**
Counselor to the
Deputy Secretary

COMMITTEE COMPOSITION

Audit and Budget Committee

William S. Jasien
Matthew J. Eichner—Chair

Compensation Committee

Gregory S. Karawan—Chair

Investment Committee

Matthew J. Eichner
Anthony D'Agostino—Chair

OFFICERS

Stephen P. Harbeck
President & CEO

Josephine Wang
General Counsel & Secretary

Joseph S. Furr, Jr.
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. In furtherance of its responsibilities, the Board has delegated certain duties to three standing committees—the Audit and Budget Committee, the Investment Committee, and the Compensation Committee. SIPC's Bylaws provide that each Committee is comprised of a public director, an industry director, and a government director.

Committee	Purpose	Authority/Responsibilities
Audit & Budget Committee	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Selects the independent external auditor to examine accounts, controls, and financial statements Monitors independence and performance of external auditors Reviews financial statements and financial disclosures Reviews the proposed budget relative to annual goals and objectives, and recommends final budget to Board Reviews systems of internal control Reviews federal tax return
Investment Committee	<ul style="list-style-type: none"> Assists the Board in formulating investment policies Oversees management of the SIPC Fund and compliance with the Securities Investor Protection Act provisions relating to Fund investments Ensures adequate controls to minimize the investment risks to which the Fund is exposed 	<ul style="list-style-type: none"> Establishes, reviews, and updates the investment policy for approval by the Board Oversees the adoption of appropriate risk management policies and procedures to manage, to the extent possible, market, liquidity, credit, and other investment and asset management risks Ensures that investments are made only in United States Government or agency securities as statutorily required Reviews overall investment performance, asset allocation, and expenses Reports on investment performance and changes in investments to the Board
Compensation Committee	<ul style="list-style-type: none"> Provides oversight of total compensation strategy and assists the Board in determining the appropriate compensation for officers and compensation levels for staff Ensures that human resources opportunities and risks are properly identified and managed 	<ul style="list-style-type: none"> Oversees the development and administration of SIPC's Human Resource programs and policies including talent management, staffing, performance management, benefits, and succession planning Establishes, reviews and updates compensation strategy and structure for approval by the Board Annually reviews proposals regarding compensation Recommends compensation for officers and staff for approval by the Board Recommends strategies and plans for merit pay/incentives/severance pay and other unusual compensation arrangements that may arise

ETHICS AND WHISTLEBLOWER POLICY

Annually, SIPC's public and industry directors must confirm receiving the SIPC Director Code of Ethics, having reviewed it, and being familiar with its contents. They must disclose any actual or potential conflicts of interest, avoid activities that could reasonably lead to a conflict of interest, not use their position for personal gain or for the gain of a spouse, dependent, or partner and maintain in strict confidence all information that would reasonably be expected to be maintained in confidence.

SIPC has a Whistleblower Policy that encourages and enables employees to raise serious concerns about violations of SIPC's Code of Conduct, which is a part of the SIPC Bylaws and included in the SIPC Personnel Guide. As outlined by the Policy, employees may report complaints and allegations concerning violations of the SIPC Code of Conduct and general principles of law and business ethics to their supervisors or SIPC's

Compliance Officer. All SIPC staff must acknowledge annually that they have read and understand the SIPC Personnel Guide including the Business Ethics Policy, the Ethics Rules, and the Whistleblower Policy.

DIRECTOR HONORARIA AND MEETING ATTENDANCE

The Chairman receives a yearly honorarium of \$15,000. The Vice Chairman and the three industry directors each receive annual honoraria of \$6,250. The Chairman, Vice Chairman, and three industry directors are reimbursed for their official business expenses. The two government directors receive no honoraria and are not reimbursed for their official business expenses.

The Board held five regular, and five special meetings in 2014. The Audit and Budget Committee met five times; the Investment Committee once; and the Compensation Committee had no meetings.¹ The Director attendance at Board and committee meetings for the year ended December 31, 2014 was as follows:

Director	Board Meetings	Committee Meetings
Anthony D'Agostino	10/10	1/1
Matthew J. Eichner	9/10	6/6
William S. Jasien	9/10	4/5
Gregory S. Karawan	10/10	0/0
Mark Kaufman	3/3	N/A
Cyrus Amir-Mokri*	0/3	0/0
Sharon Bowen*	4/4	3/3

* Directorship terminated during the year

¹ Because of vacancies on the Board, the Compensation Committee had only one member during its scheduled meetings. As such, the whole Board performed the functions normally conducted by the Compensation Committee.

CUSTOMER PROTECTION PROCEEDINGS

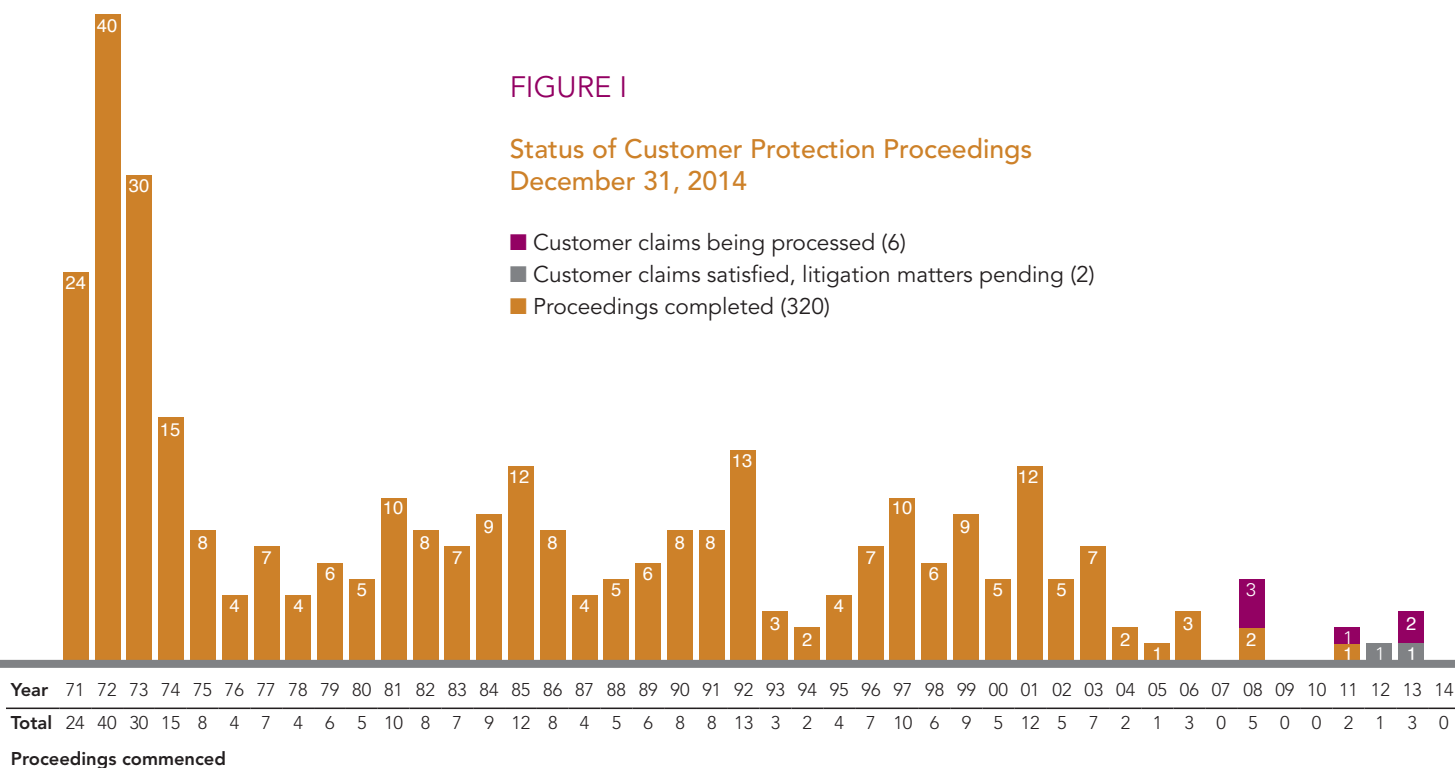
In 2014, no customer protection proceedings were initiated. Over the last ten-year period, the annual average of new cases was 1.5. Since the inception of SIPC, 328 proceedings commenced under SIPA. These 328 members represent less than one percent of the approximately 39,600 broker-dealers that have been SIPC members during the last forty-four years. Currently, SIPC has 4,080 members.

During SIPC's forty-four year history, cash and securities distributed for accounts of customers totaled approximately \$134.0 billion. Of that amount, approximately \$133.0 billion came from debtors' estates and \$1.0 billion came from the SIPC Fund (See Appendix 1).

FIGURE I

Status of Customer Protection Proceedings December 31, 2014

- Customer claims being processed (6)
- Customer claims satisfied, litigation matters pending (2)
- Proceedings completed (320)



"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 more than 625,200 claims satisfied in completed or substantially completed cases as of December 31, 2014, a total of 352 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 352 claims represent less than one-tenth of one percent of all claims satisfied. The unsatisfied portion of claims, \$47.3 million, is unchanged in 2014. These remaining claims approximate three-tenths of one percent of the total value of securities and cash distributed for accounts of customers in those cases.

SIPC Fund Advances

Table 1 shows that the 89 debtors, for which net advances of more than \$1 million have been made from the SIPC Fund, accounted for 98 percent of the total advanced in all 328 customer protection proceedings. The largest net advance in a single liquidation is \$1.81 billion in Bernard L. Madoff Investment Securities LLC. This exceeds the net advances in all of the other proceedings combined.

In the 29 largest proceedings, measured by net funds advanced, SIPC advanced \$2.17 billion, or 92 percent of net advances from the SIPC Fund for all proceedings.

TABLE I

Net Advances from the SIPC Fund December 31, 2014 328 Customer Protection Proceedings

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$40,000,001	up	1	\$1,809,671,263
10,000,001	\$40,000,000	11	229,906,696
5,000,001	10,000,000	17	126,010,535
1,000,001	5,000,000	60	134,825,023
500,001	1,000,000	40	28,063,280
250,001	500,000	43	14,976,227
100,001	250,000	61	9,802,670
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)*
			<u>\$2,343,334,033†</u>

* 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 (\$1,027,977,923) and for administration expenses (\$1,315,356,110).

MEMBERSHIP AND THE SIPC FUND

The net decrease of 100 members during the year brought the total membership to 4,080 at December 31, 2014. Table 2 shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).¹ As of December 31, 2014, there were 38 members who were the subjects of uncured notices, 13 of which were mailed during 2014, 12 during 2013, five during 2012, four in 2010, two in 2009 and one in 2008 and 2003. Subsequent filings and payments by 8 members left 30 notices uncured. SIPC has been advised by the SEC

staff that: (a) 13 are no longer engaged in the securities business and are under review by the Commission for possible revocation, (b) 1 registration has been cancelled, and (c) 16 have been referred to the Commission Regional Office for possible cancellation.

SIPC Fund

The SIPC Fund, Table 5, on page 29, consisting of the aggregate of cash and investments in United States Government securities at fair value, amounted to \$2.15 billion at year end, an increase of \$253 million during 2014.

Tables 3 and 4, on pages 11 and 12, present principal revenues and expenses for the years 1971 through 2014. The 2014 member assessments were \$426.7 million and interest from investments was \$40.0 million. During the years 1971 through 1977, 1983 through 1985, 1989 through 1995, and 2009 through 2014, member assessments were based on a percentage of each member's gross revenue (net operating revenue for 1991 through 1995 and 2009 through 2014) from the securities business.

Appendix 2, on page 31, is an analysis of revenues and expenses for the five years ended December 31, 2014.

TABLE 2

SIPC Membership Year Ended December 31, 2014

Agents for Collection of SIPC Assessments	Total	Added ^(a)	Terminated ^(a)
FINRA ^(b)	3,908	147	192
SIPC ^(c)	26	—	29 ^(d)
Chicago Board Options Exchange Incorporated	76	1	30
NYSE MKT LLC ^(g)	16	—	3
NYSE Arca, Inc. ^(e)	15	2	1
NASDAQ OMX PHLX ^(f)	22	6	1
Chicago Stock Exchange, Incorporated	17	—	—
	4,080	156	256

Notes:

(a) The numbers in this category do not reflect transfers of members to successor collection agents that occurred within 2014.

(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) SIPC serves as the collection agent for registrants under section 15(b) of the 1934 Act that are not members of any self-regulatory organization.

The "SIPC" designation is an extralegal category created by SIPC for internal purposes only. It is a category by default and mirrors the SECO broker-dealer category abolished by the SEC in 1983.

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

(e) Formerly the Pacific Stock Exchange, Inc.

(f) Formerly the Philadelphia Stock Exchange, Inc.

(g) Formerly the American Stock Exchange LLC (NYSE Amex LLC)

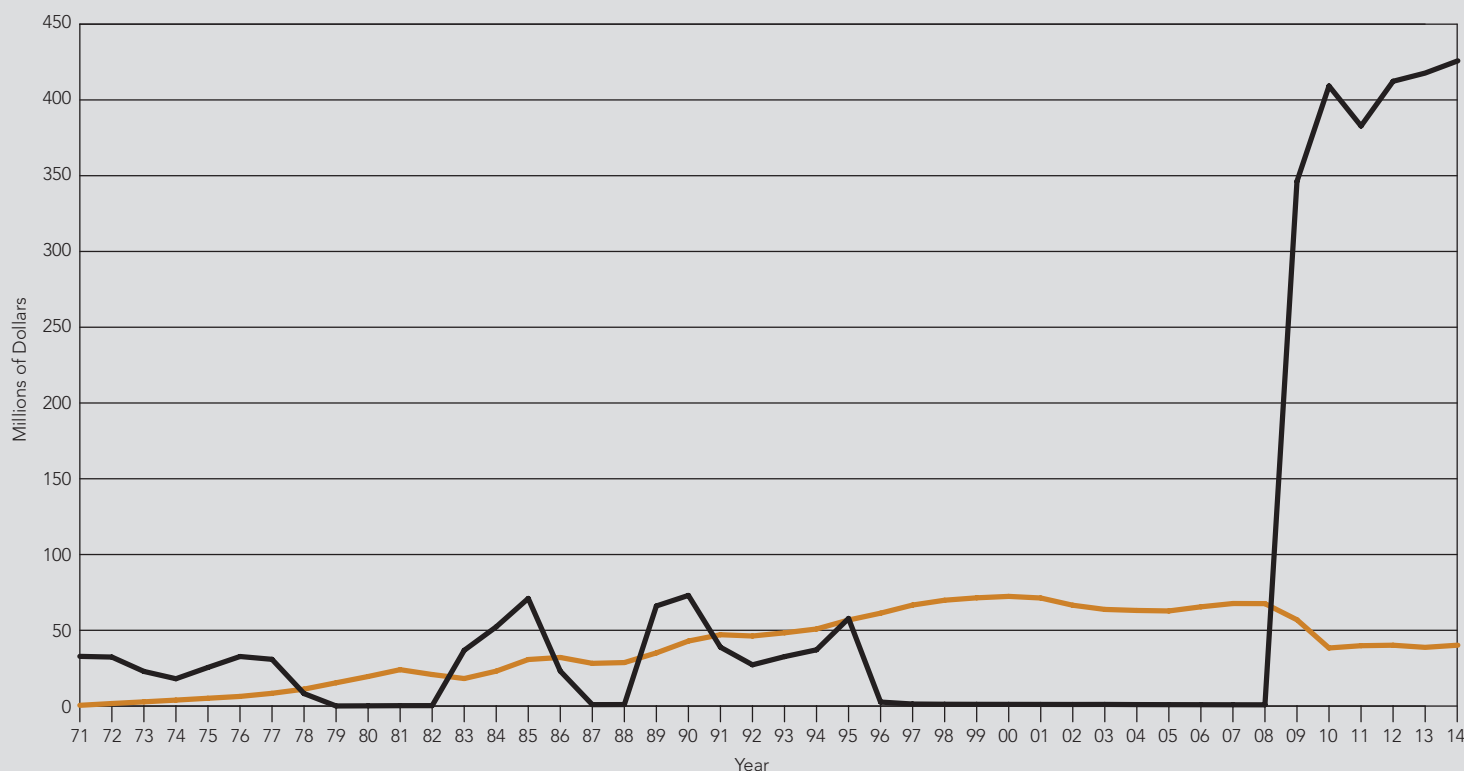
¹ 14(a) Failure to Pay Assessment, etc.—If a member of SIPC shall fail to file any report or information required pursuant to this Act, or shall fail to pay when due all or any part of an assessment made upon such member pursuant to this Act, and such failure shall not have been cured, by the filing 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 3

SIPC Revenues for the Forty-Four Years
Ended December 31, 2014

■ Member assessments and contributions: \$3,131,954,854

■ Interest on U.S. Government securities: \$1,731,563,864



History of Member Assessments*

1971: ½ of 1% plus an initial assessment of 1/8 of 1% of 1969 revenues (\$150 minimum).

1972–1977: ½ of 1%.

January 1–June 30, 1978: ¼ of 1%.

July 1–December 31, 1978: None.

1979–1982: \$25 annual assessment.

1983–March 31, 1986: ¼ of 1% effective May 1, 1983 (\$25 minimum).

1986–1988: \$100 annual assessment.

1989–1990: 3/16 of 1% (\$150 minimum).

1991: .065% of members' net operating revenues (\$150 minimum).

1992: .057% of members' net operating revenues (\$150 minimum).

1993: .054% of members' net operating revenues (\$150 minimum).

1994: .073% of members' net operating revenues (\$150 minimum).

1995: .095% of members' net operating revenues (\$150 minimum).

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

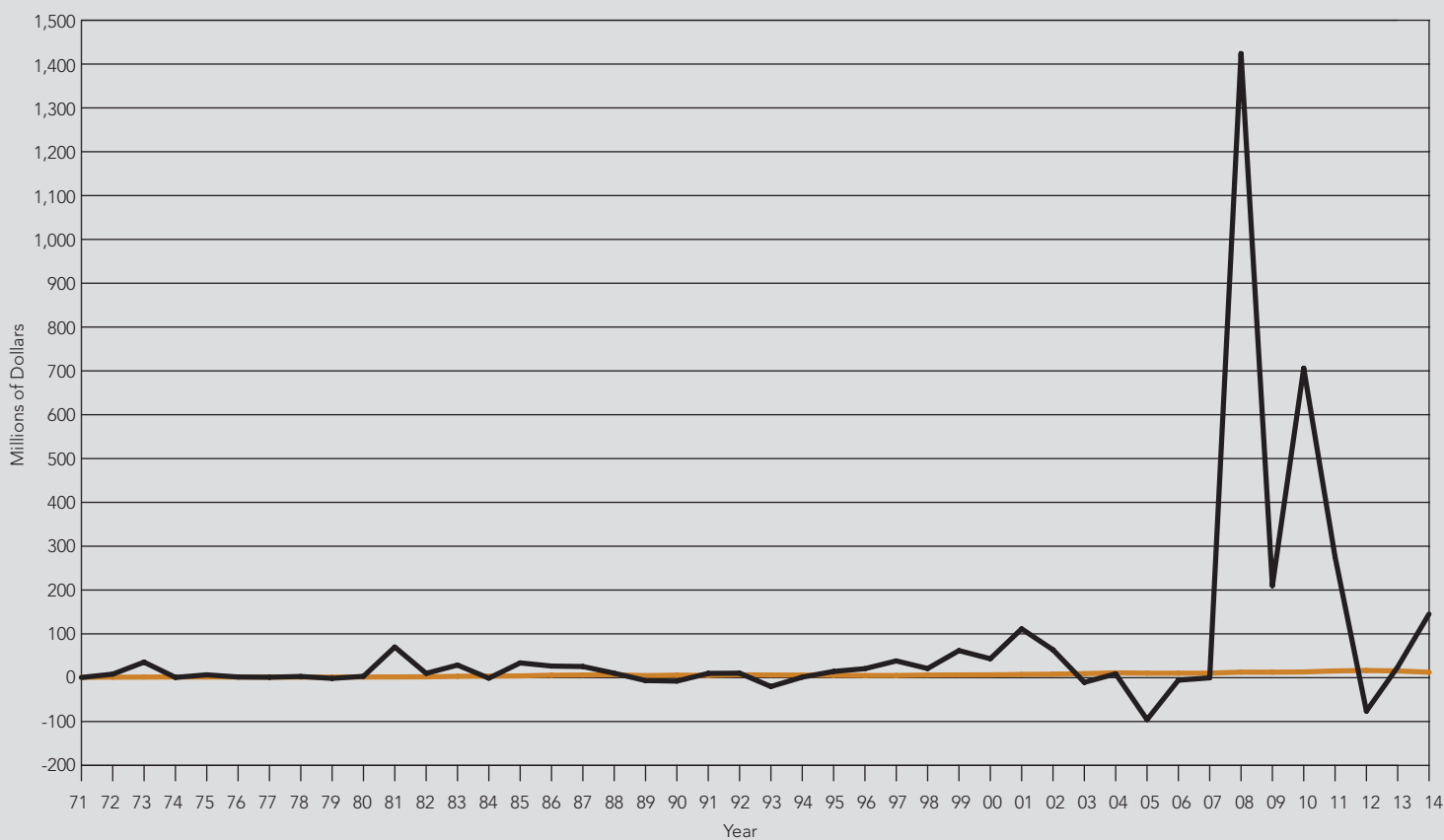
April 1, 2009–December 31, 2014: .25% of members' net operating revenues.

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

TABLE 4

SIPC Expenses for the Forty-Four Years
Ended December 31, 2014

- Customer protection proceedings: \$3,230,634,033 (Includes net advances of \$2,343,334,033 and \$898,600,000 of estimated costs to complete proceedings less estimated future recoveries of \$11,300,000.)
- Other expenses: \$280,124,647



In 2014, SIPC and trustees under the Securities Investor Protection Act ("SIPA") were actively involved in litigation at the trial and appellate levels. The more noteworthy matters are summarized below:

In *S.E.C. v. Securities Investor Protection Corp.*, 758 F.3d 357 (D.C. Cir. 2014), the Court of Appeals affirmed the District Court's denial of the Securities and Exchange Commission's ("SEC") application for an order compelling SIPC to commence a liquidation of Stanford Group Company ("SGC"), a SIPC member broker-dealer. The SEC had asserted that purchasers of certificates of deposit ("CD") issued by an offshore Antiguan bank might be eligible for SIPA protection. The Antiguan bank was an affiliate of the broker-dealer. Although, in some instances, their business had been solicited by the brokerage, the CD purchasers had voluntarily sent their funds directly to the bank, and they or their designees had custody of their CDs. Because the broker-dealer held no cash or securities for the CD purchasers, a *sine qua non* for "customer" status, SIPC declined to file an application to commence a liquidation proceeding. The Court noted that judicial interpretations supported a narrow construction of the term "customer." Based on the parties' stipulations that the CD purchasers sent their funds directly to the bank and that the SEC was not asserting that the broker-dealer ever held the investors' securities, the Court found that the SEC had failed to establish entrustment, an element critical to "customer" status. The Court also rejected the SEC's argument that the bank and brokerage should be substantively consolidated. The SEC contended that in that circumstance, a deposit with the bank would constitute a deposit with the brokerage. The Court disagreed, noting that SIPA excludes from "customer" status any person who invests in the SIPA debtor by making a loan to the debtor. In the event of a consolidation, the CD purchasers would be lenders to the consolidated entity, and not "customers." The SEC did not petition the Supreme Court for review.

In an avoidance suit filed by a SIPA Trustee, the Bankruptcy Court in *Gilbert v. Goble*

(*In re North American Clearing, Inc.*), 2014 WL 4956848 (Bankr. M.D. Fla. September 29, 2014), after a six-day trial, entered judgment in favor of the defendant. The defendant was the indirect owner and manager of the debtor. The Trustee sought to recover from the defendant monthly credit card and other miscellaneous payments for both personal and business expenses made by the debtor, North American Clearing, Inc. The Court found that the transfers were not avoidable because the debtor received reasonably equivalent value for its reimbursement of defendant's valid business expenses and his personal expenses. The Court determined that these payments were effectively compensation for defendant's services. Additionally, the Court held that it was unproven that the debtor was in serious financial distress when the transfers occurred.

Litigation in the liquidation of Lehman Brothers Inc. ("LBI") and of MF Global Inc. ("MFGI") resulted in several significant decisions:

The Bankruptcy Court in *Lehman Brothers Inc.*, 503 B.R. 778 (Bankr. S.D.N.Y. 2014), granted the Trustee's motion to subordinate the damages claim of a prime-brokerage customer, and granted the Trustee's objection to certain other claims for contribution, finding that these also were subject to subordination. The Court agreed with the Trustee's interpretation of Bankruptcy Code section 510(b), which mandates subordination of certain claims related to securities issued by the debtor or debtor's affiliate. The Court held that section 510(b) required subordination of claims relating to bonds issued by Lehman Brothers Holdings Inc. ("LBHI"), LBI's parent. Thus, a breach of contract damages claim filed by a prime brokerage customer based on LBI's asserted failure to purchase LBHI bonds, and reimbursement and contribution claims filed by junior underwriters based on the sale of LBHI bonds, were both subject to subordination.

In a subsequent appeal, the District Court in *In re Lehman Brothers Inc.*, 519 B.R. 434 (S.D.N.Y. 2014), affirmed the Bankruptcy Court's ruling.

The District Court in *PricewaterhouseCoopers LLP v. Giddens (In re MF Global Inc.)*, 505 B.R. 623 (S.D.N.Y. 2014), affirmed the Bankruptcy Court's order which granted the Trustee's motion to approve his proposed allocation of property and the terms of an advance of general estate property that would enable the estate to make a final 100% distribution to former commodity futures customers. The appellants, individuals and MFGI's auditor, who were defendants in a putative class-action suit filed by MFGI customers ("the Customer Action"), had objected to the agreement among the Trustee, MFGI customers, and others. The agreement would allow general estate property to be advanced for payment to customers in return for an assignment to the Trustee of customers' claims in the Customer Action. Recoveries in the Customer Action would be allocated to the general estate for distribution to the debtor's remaining creditors. The District Court agreed with the Bankruptcy Court that the Appellants lacked standing to object to the Bankruptcy Court's Order because the order did not affect their "rights to litigate." The District Court also held that the Bankruptcy Court's finding of a shortfall in MFGI's commodities customer estate, was based on an adequate record, and that the Bankruptcy Court properly permitted the Trustee to accept the assignment and to proceed as subrogee.

In *CarVal Investors UK Ltd. v. Giddens (In re Lehman Brothers Inc.)*, 506 B.R. 346 (S.D.N.Y. 2014), the District Court upheld the decision of the Bankruptcy Court which affirmed the Trustee's determination denying appellants' claims. The District Court held that the claimants—parties to stock repurchase agreements with LBI—did not

LITIGATION

continued

establish the fiduciary relationship with LBI required for claimants to be “customers” under SIPA. Instead, by transferring securities to LBI in exchange for cash under a series of long-term repurchase agreements, the claimants created a contractual relationship with LBI giving LBI the right to sell, transfer, pledge, or hypothecate the securities, all of which it exercised. Because LBI held no securities for claimants on the filing date and had no legal obligation to do so, LBI was not “entrusted” with the claimants’ securities. As counterparties in a sophisticated financial transaction, claimants were not entitled to recover under SIPA as “customers.” The matter is on appeal. (2d Cir. No. 14-890).

In a matter of first impression, the Bankruptcy Court in *In re MF Global Inc.*, 506 B.R. 582 (Bankr. S.D.N.Y. 2014), granted in part and denied in part a claim purchaser’s motion for an order requiring the disclosure and court approval of fees and expenses of non-attorney professionals hired by the Trustee. The Bankruptcy Court rejected the claim purchaser’s argument that SIPA and the Bankruptcy Code required the Trustee to seek court approval of payment to non-attorney professionals, including accountants and financial consultants. The Court held that SIPA establishes two separate systems for compensation which require different forms of oversight—one for the SIPA Trustee and his counsel which requires Court approval and one for non-attorney professionals which does not require Court approval. Congress granted SIPC exclusive oversight and supervision of the payment of non-attorney professionals and any payments made by the Trustee are subject to SIPC’s review and approval. However, the Court found that the Trustee should disclose fees and expenses of non-attorney professionals to allow the Court to evaluate the Trustee’s oversight of non-attorney professionals in its assessment of the Trustee’s own fees and expenses. Enough detail of non-attorney professional

fees and expenses should be provided to allow for a meaningful review of the reasonableness of the Trustee’s fees.

In *In re MF Global Inc.*, 2014 WL 1320094 (Bankr. S.D.N.Y. April 1, 2014), the Bankruptcy Court granted the Trustee’s motion seeking an order expunging certain general creditor claims as untimely. The Bankruptcy Court held that it did not have the equitable power to extend the statutory time limit for filing claims in a SIPA proceeding under 15 U.S.C. section 78fff-2(a)(3). Even if it had such power, the Bankruptcy Court found that none of the claimants established that an extension was necessary to avoid manifest injustice.

In *Barclays Capital Inc., Barclays Bank PLC v. Giddens (In re Lehman Brothers Holdings Inc.)*, 761 F.3d 303 (2d Cir. 2014), the Second Circuit affirmed the District Court’s order reversing in part and affirming in part the Bankruptcy Court’s decision regarding a dispute over the sale of the North American business assets of LBI to Barclays Capital Inc. At issue were approximately \$4 billion maintained by LBI as collateral for its exchange-traded derivative business (“Margin Assets”) and about \$1.9 billion in certain assets in LBI’s clearance boxes (“Clearance Box Assets”) at the Depository Trust & Clearing Corporation. The Second Circuit held that the transfer of the Margin Assets was included in the Asset Purchase Agreement between the parties. The Second Circuit also found that the Trustee was not entitled to the Clearance Box Assets as the Bankruptcy Court committed no clear error in assessing multiple agreements between the parties and extrinsic evidence where ambiguities were evident. A petition for issuance of a writ of certiorari has been filed (S. Ct., No. 14-710).

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

In *Marshall v. Picard*, 740 F.3d 81 (2d Cir. 2014), in affirming the decision of the District Court, the Court of Appeals agreed that the Bankruptcy Court had the power under

the Bankruptcy Code and the United States Constitution to enter a permanent injunction barring claims that were “duplicative or derivative” of those belonging to the Trustee. The Trustee had settled with the estate of an alleged co-conspirator of Bernard L. Madoff (“Madoff”), and the Bankruptcy Court had granted a permanent injunction, and barred appellants’ state-law class-actions against the same alleged co-conspirator. The Circuit Court found that the class action claims were “duplicative or derivative” of those asserted by the Trustee; thus the appellants’ claims were appropriately barred. The appellants had failed to allege any particularized injuries directly traceable to the defendants in their state-law actions. Rather, the appellants’ state-law claims were predicated upon “secondary harms” resulting from withdrawals and depletion of BLMIS funds, the recovery of which was the subject of the fraudulent conveyance claims belonging to the Trustee. Because the appellants’ state-law actions were in reality disguised fraudulent conveyance claims, the Circuit Court held that the Bankruptcy Court had the authority to enjoin them.

The District Court in *Surabian v. Picard*, 2014 WL 917091 (S.D.N.Y. March 7, 2014), dismissed for lack of jurisdiction the appeal of an Order of the Bankruptcy Court denying appellants’ motion to remove the Trustee. After appellants’ customer claims had been denied, the appellants moved for removal of the Trustee. The Bankruptcy Court denied the motion. The District Court held that the appeal was untimely, requiring dismissal. Moreover, the Bankruptcy Court had not abused its discretion in denying the appellants’ motion to remove the Trustee. The appellants had failed to establish cause for removal; the Trustee had recovered substantial sums for the estate and was familiar with the consolidated liquidation; and removal therefore would be “harmful to efficiency and continuity in the administration of the estates.”

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

SIPA, Sec. 4(c)(2)

In consolidated briefing in *In re Madoff Securities*, 516 B.R. 18 (S.D.N.Y. 2014), defendants in avoidance and recovery actions brought by the Trustee moved to dismiss, arguing that the Trustee failed to plead their lack of "good faith." The Trustee contended that the defendants were sophisticated market participants, who failed to act in good faith because they were aware of suspicious circumstances that should have led them to investigate the possibility of the fraud at BLMIS. The District Court rejected the Trustee's "inquiry notice" standard for determining good faith. Instead, the Court held that the term meant that the transferee had neither actual knowledge of the fraud nor willfully blinded itself to circumstances indicating a high probability of fraud. In the Court's view, although in ordinary bankruptcy, good faith may be pled as an affirmative defense under both section 548(c) and section 550(b)(1) of the Bankruptcy Code, SIPA affected the burden of pleading good faith. A defendant could succeed on a motion to dismiss by showing that the complaint did not plausibly allege that the defendant had not acted in good faith. The District Court ordered the cases returned to the Bankruptcy Court for further proceedings.

The Bankruptcy Court in *Picard v. Marshall*, 511 B.R. 375 (Bankr. S.D.N.Y. 2014), granted the Trustee's motion to enforce a permanent injunction and to enjoin the plaintiffs from prosecuting their class action lawsuits against defendants with whom the Trustee had settled. In 2011, the Bankruptcy Court, when approving the settlement agreement between the Trustee and the defendants, issued a permanent injunction enjoining any BLMIS customer or creditor from asserting any claims duplicative or derivative of those belonging to the Trustee. After the Bankruptcy Court enjoined the original class action suits filed by the plaintiffs as being duplicative and derivative, they filed new complaints in Florida District Court against the same defendants. The Trustee again moved to enjoin the suits. The Bankruptcy Court held that it was appropriate for it to interpret the scope of its own permanent Injunction and the automatic stay and determined that the new complaints were derivative of claims belonging to the Trustee.

The District Court in *In re Madoff Securities*, 513 B.R. 437 (S.D.N.Y. 2014), denied a motion to dismiss by certain customers whose claims the Trustee sought to disallow. The defen-

dants, customers of BLMIS who received less from their accounts than they invested, filed claims with the Trustee seeking the remainder of their principal. The Trustee filed adversary proceedings against the defendants seeking the return of transfers they received from BLMIS and disallowance of their net equity claims pending a return of the transfers. The Court found that section 502(d) of the Bankruptcy Code, which requires disallowance of a bankruptcy claim asserted by any creditor that was the recipient of an avoidable transfer, applies to SIPA customer claims because the provision is not in conflict with SIPA. Thus, section 502(d) prohibited the payment of net equity claims until a defendant's liability for avoidable transfers was adjudicated and paid.

In *In re Madoff Securities*, 513 B.R. 222 (S.D.N.Y. 2014), the District Court dismissed certain of the Trustee's claims to recover foreign transfers. The Trustee sought to recover funds which, after being transferred from BLMIS to foreign customers, were subsequently transferred to other foreign persons and entities. The District Court found that Bankruptcy Code section 550(a)(2), which allows for the recovery from subsequent transferees, does not apply extraterritorially. The



LITIGATION

continued

Court held that the Trustee's use of section 550(a) was an extraterritorial application because the subsequent transfers and transferees were foreign. The Court found that Congress did not intend for section 550(a)(2) to apply to purely foreign transfers.

The Second Circuit in *Picard v. Fairfield Greenwich Limited*, 762 F.3d 199 (2d Cir. 2014), affirmed the District Court's rulings dismissing the Trustee's claims for declaratory and injunctive relief. The Trustee sought a stay of the settlement of a class-action lawsuit brought by investors in four BLMIS feeder funds against the funds and affiliated persons, and a stay of the settlement of a suit by the New York Attorney General against a feeder fund and affiliated persons. The Trustee alleged that the settlements violated the automatic stay as the moneys funding the settlements were the same moneys the Trustee sought to recover in his avoidance actions against the feeder funds. The Circuit Court held that the automatic stay and stay orders issued by the District Court were inapplicable because the actions did not involve estate property and were based on claims independent of the Trustee's. The Court also held that the Trustee could not establish that the settlements would have the required "immediate adverse economic consequence" for the BLMIS estate as the Trustee was still litigating the avoidance actions against the feeder funds and had yet to obtain judgments.

The Bankruptcy Court in *Picard v. Merkin*, 515 B.R. 117 (Bankr. S.D.N.Y. 2014), granted in part and denied in part the defendants' motions to dismiss the Trustee's 13-count complaint. The Trustee had sued to recover fraudulent transfers from the defendants, direct or indirect feeder funds that invested in BLMIS and the persons managing the funds. The Bankruptcy Court held that, as to some counts, the Trustee's complaint failed to meet the requisite standard of actual knowledge of Madoff's Ponzi scheme. Accordingly, the "safe harbor" under Bankruptcy Code section 546(e) shielded the defendants as to

those counts. However, the Court held that the Trustee's complaint adequately pled willful blindness, at least some subsequent transfers, and a claim for equitable subordination, and denied dismissal as to those counts.

In *In re Bernard L. Madoff Investment Securities LLC*, 515 B.R. 161 (Bankr. S.D.N.Y. 2014), the Bankruptcy Court granted the Trustee's motion for an order affirming his determinations denying the claims of claimants who invested in certain retirement plans. The claimants, participants in benefit plans regulated under the Employee Retirement Income Security Act of 1974 that invested funds with BLMIS, objected to the Trustee's denial of their claims. The Bankruptcy Court held that the claimants were not "customers" of BLMIS within the meaning of SIPA. The claimants failed to establish that they entrusted cash for the purchase of securities to BLMIS.

The Bankruptcy Court in *Picard v. JPMorgan Chase & Co.*, 2014 WL 5106909 (Bankr. S.D.N.Y. 2014), determined that the Applicants were not entitled to a partial refund of their prior settlements. Early in the BLMIS liquidation, the Trustee and two Bahamian BLMIS account-holders entered into a settlement agreement whereby the account-holders agreed to pay 85% of the amounts sought by the Trustee. The settlement agreement included an equal treatment provision, requiring the Trustee to refund a portion of the settlement if future settlements between the Trustee and other similar defendants were for a lower percentage. The applicants argued that the Trustee's settlement of avoidance claims brought against a bank triggered the equal treatment clause. After trial, the Court disagreed and concluded that the later settlement did not trigger any refund requirement because the Trustee's claims in the later suit were significantly different and more difficult to prove than the claims against the Bahamian companies.

The Bankruptcy Court in *In re Bernard L. Madoff Investment Securities LLC*, 522 B.R. 41 (Bankr. S.D.N.Y. 2014), granted the Trust-

ee's motion for an order affirming his methodology for calculating net equity in accounts involving transfers from other BLMIS accounts. The Court agreed that the Trustee properly eliminated fictitious profits transferred between accounts, so that the transferees did not receive credit for any fictitious gains in the transferors' accounts. Claimants argued that the Trustee's method violated the statutory two-year reach-back for fraudulent transfers and improperly combined separate customer accounts. The Court disagreed and determined that the Trustee's methodology did not avoid transfers, but merely determined what was transferred, with customer accounts remaining distinct. The Court also held that it had the constitutional authority to make final determinations on all issues required as part of the claims process, including the calculation of net equity claims.

In *Picard v. Ida Fishman Revocable Trust*, 773 F.3d 411 (2d Cir. 2014), the Second Circuit affirmed the ruling of the District Court that section 546(e) of the Bankruptcy Code shielded payments received by defendants, BLMIS account holders who had withdrawn more from their accounts than they deposited. The Trustee sued hundreds of BLMIS customers who withdrew more from their accounts than they invested, thereby profiting from Madoff's scheme. The District Court dismissed the claims concluding that Bankruptcy Code section 546(e), which provides a safe harbor for certain transfers made by a stockbroker in connection with a securities contract or settlement payment, shielded the payments from avoidance. Among other things, the Circuit Court found the BLMIS account-opening documents executed by the investors to be "security contracts" under section 741(7) of the Bankruptcy Code, and the payments of fictitious profit to the investors to be "settlement payments" under section 741(8) of the Bankruptcy Code, all within the scope of section 546(e).

DISCIPLINARY AND CRIMINAL ACTIONS

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

Criminal and Administrative Actions

Criminal actions have been initiated in 130 of the 328 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 312 indictments have been returned in federal or state courts, resulting in 272 convictions to date.

Administrative and/or criminal actions in 287 of the 328 SIPC customer protection proceedings initiated through December 31, 2014, were accomplished as follows:

Action Initiated	Number of Proceedings
Joint SEC/Self-Regulatory Administrative Actions	60
Exclusive SEC Administrative Actions	41
Exclusive Self-Regulatory Administrative Actions	56
Criminal and Administrative Actions	103
Criminal Actions Only	27
Total	287

In the 260 customer protection proceedings in which administrative actions have been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension ¹	117	114
Bar from Association	353	234
Fines	Not Applicable	\$11,733,781

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

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

The \$11,733,781 in fines assessed by self-regulatory authorities were levied against 130 associated persons and ranged from \$250 to \$1,600,000.

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

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 2014 SIPC received no new referrals under Section 5(a).

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



Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
2010 Corporate Ridge, Suite 400
McLean, VA 22102-7838
T 703.847.7500
F 703.848.9580
www.GrantThornton.com

Board of Directors
Securities Investor Protection Corporation

Report on the financial statements

We have audited the accompanying financial statements of Securities Investor Protection Corporation (SIPC), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements on pages 20 through 28.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SIPC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SIPC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

McLean, Virginia
April 14, 2015



SIPC

FINANCIAL STATEMENTS

Statement of Financial Position as of December 31, 2014

ASSETS

Cash	\$ 9,647,272
U.S. Government securities, at fair value and accrued interest receivable of \$13,463,956; (amortized cost \$2,084,850,276) (Note 6)	2,143,138,801
Estimated member assessments receivable (Note 3)	196,146,678
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$1,818,629,630) (Note 4)	11,300,000
Assets held for deferred compensation plan (Note 8)	935,588
Other (Note 5 and Note 9)	1,755,785
	\$2,362,924,124

LIABILITIES AND NET ASSETS

Accrued benefit costs (Note 8)	\$ 6,259,043
Amount due on deferred compensation plan (Note 8)	935,588
Accounts payable and other accrued expenses	873,044
Deferred rent (Note 5)	87,147
Estimated costs to complete customer protection proceedings in progress (Note 4)	898,600,000
Member assessments received in advance (Note 3)	2,289,512
	909,044,334
Net assets	1,453,879,790
	\$2,362,924,124

The accompanying notes are an integral part of these statements.

Statement of Activities for the year ended December 31, 2014

Revenues:

Member assessments (Note 3)	\$ 426,719,980
Interest on U.S. Government securities	40,013,022
	466,733,002

Expenses:

Salaries and employee benefits (Note 8)	8,563,289
Legal and accounting fees (Note 4)	240,209
Rent (Note 5)	797,186
Other	3,198,601
	12,799,285
Provision for estimated costs to complete customer protection proceedings in progress (Note 4)	146,645,759
	159,445,044
Excess of revenues over expenses	307,287,958
Realized and unrealized loss on U.S. Government securities (Note 6)	(5,281,585)
Pension and postretirement benefit changes other than net periodic costs (Note 8)	(10,755,619)
Increase in net assets	291,250,754
Net assets, beginning of year	1,162,629,036
Net assets, end of year	\$1,453,879,790

The accompanying notes are an integral part of these statements.

Statement of Cash Flows for the year ended December 31, 2014

Operating activities:

Interest received from U.S. Government securities	\$ 43,793,529
Member assessments received	431,288,780
Advances paid to trustees	(211,477,196)
Recoveries of advances	11,717,502
Salaries and other operating activities expenses paid	(12,906,141)
Net cash provided by operating activities	262,416,474

Investing activities:

Proceeds from sales of U.S. Government securities	368,990,693
Purchases of U.S. Government securities	(647,463,361)
Purchases of furniture and equipment	(748,401)
Net cash used in investing activities	(279,221,069)

Decrease in cash	(16,804,595)
Cash, beginning of year	26,451,867
Cash, end of year	\$ 9,647,272

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Organization and general

The Securities Investor Protection Corporation (SIPC) was created by the Securities Investor Protection Act of 1970 (SIPA), which was enacted on December 30, 1970, primarily for the purpose of providing protection to customers of its members. SIPC is a nonprofit membership corporation and shall have succession until dissolved by an Act of Congress. Its members include all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934, except for those persons excluded under SIPA.

SIPC is exempt from income taxes under 15 U.S.C. § 78kkk(e) of SIPA and under § 501(c)(6) of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make

estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. The "SIPC Fund" and SIPC's resources

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$2,152,786,073.

In the event the SIPC Fund is or may reasonably appear to be insufficient for the purposes of SIPA, the Securities and Exchange Commission (Commission) is authorized to make loans to SIPC and, in that connection, the Commission is authorized to issue notes or other obligations to the Secretary of the Treasury in an aggregate amount not to exceed \$2.5 billion.

3. Member assessments

Section 78ddd(c) and (d) of SIPA states that SIPC shall, by bylaw, impose upon its members such assessments as, after consultation with self-regulatory organizations, SIPC may

deem necessary and appropriate to establish and maintain the fund and to repay any borrowings by SIPC. If the balance of the 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

SIPC

FINANCIAL STATEMENTS

continued

Protection Act. 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 2014 but not received until 2015.

4. Customer protection proceedings

SIPC commenced a liquidation of Lehman Brothers Inc. (LBI) on September 19, 2008. As of December 31, 2014, the estate had received 124,248 customer claims. 110,920 of these claims, totaling \$92.3 billion and including nearly all of LBI's former "retail" customers, received 100 percent recoveries through account transfers within days of the commencement of the liquidation. Distributions to all other allowed customer claimants are expected to result in 100 percent satisfaction of all allowed customer claims. As of December 31, 2014, the Trustee had distributed \$13.4 billion to these customers.

In June 2013, the Trustee repaid in full all SIPC advances.

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 be-

lieved to be valid customers. In accordance with Section 78III (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. Including administrative costs, management estimates that the total charges to SIPC for this case to be approximately \$2.7 billion. As actual claims were processed, the Trustee determined the ultimate amount of payment for each claim. Claims can be disputed, which among other factors, could cause the ultimate amount of the claims to differ from the current estimate. Any changes in the estimate will be accounted for prospectively.

SIPC commenced a liquidation of MF Global Inc. on October 31, 2011. As of December 31, 2014, the estate had received 430 customer claims under SIPA; the total

allowed value of securities claims and related settlements is approximately \$376 million. MF Global Inc. also operated as a Futures Commission Merchant (FCM). Claims for FCM property are separate from the above-referenced securities claims.

In 2013, the Trustee repaid all SIPC advances and estimates that no funds would be required from SIPC for customers or administrative expenses.

SIPC has advanced a net of \$1.83 billion for proceedings in progress to carry out its statutory obligation to satisfy customer claims and to pay administration expenses. Of this amount, \$1.82 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, 2014 that result from these proceedings:

Customer Protection Proceedings		
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$10,800,000	\$948,000,000
Add:		
Provision for current year recoveries	900,000	—
Provision for estimated future recoveries	11,300,000	—
Provision for estimated costs to complete proceedings	—	158,900,000
Less:		
Recoveries	11,700,000	—
Advances to trustees	—	208,300,000
Balance, end of year	\$11,300,000	\$898,600,000

5. Commitments

Future minimum rentals for office space, in Washington, D.C., under a ten-year lease, expiring August 31, 2015, total \$417,491, as of December 31, 2014. 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 \$41,567 and the leasehold improvement incentive of \$345,300 are being amortized over the life of the lease. As of December 31, 2014, the unamortized balances are \$2,770 and \$23,022, respectively.

On December 27, 2012, SIPC renewed its lease for additional office space in Fairfax, Virginia. The new seven-year lease commenced on August 1, 2013. Future minimum rentals for the space, expiring on July 31, 2020, are as follows: 2015 - \$145,103; 2016 - \$149,094; 2017 - \$153,194; 2018 - \$157,407; 2019 - \$161,735; thereafter - \$95,842; for a total of \$862,375, as of December 31, 2014. Additional rent expense is based on SIPC's pro rata share of operating expenses in accordance with the terms of the lease.

On June 20, 2014, SIPC signed a lease for new office space in Washington, D.C. The new 11-year lease commences on August 1, 2015. Future minimum rentals for the space, expiring on July 31, 2026, are as follows: 2015 - zero; 2016 - \$734,957; 2017 - \$827,918; 2018 - \$848,611; 2019 - \$869,805; thereafter - \$6,781,932; for a total of \$10,063,223, as of December 31, 2014. 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.

6. Fair value of securities

SIPC adopted guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy

based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3—Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants

use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity.

SIPC considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The fair value of the U.S. Government securities is based on the bid quote as of December 31, 2014 as reported in the *Wall Street Journal*. 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, 2014, all securities held within the portfolio are priced using Level 2 inputs.

U.S. Government securities as of December 31, 2014 included cumulative gross unrealized gains of \$58,637,435 and cumulative gross unrealized losses of \$348,910.

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

Increase in net assets	\$291,250,754
Net amortized discount on U.S. Government securities	5,000,962
Realized and unrealized loss on U.S. Government securities	5,281,585
Depreciation and amortization	766,894
Loss on disposal of assets	115,076
Decrease in estimated assessment receivable	3,688,800
Net increase in estimated recoveries of advances to trustees	(500,000)
Increase in accrued interest receivable on U.S. Government securities	(1,220,453)
Decrease in prepaid expenses	8,118,624
Decrease in payables and accrued expenses	(1,484,072)
Decrease in deferred rent	(81,696)
Net decrease in estimated cost to complete customer protection proceedings	(49,400,000)
Increase in member assessments collected in advance	880,000
Net cash provided by operating activities	\$262,416,474

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 \$935,588 year-end market value of the supplemental plan is reflected as deferred compensation assets 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
Benefit obligation at beginning of year	\$34,606,875	\$ 4,484,549
Service cost	1,012,372	167,936
Interest cost	1,633,524	217,644
Plan participants' contributions	—	20,065
Amendments	—	—
Actuarial loss	9,553,451	1,313,385
Benefits paid	(1,016,412)	(88,937)
Benefit obligation at end of year	\$45,789,810	\$ 6,114,642
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$43,006,599	\$ —
Actual return on plan assets	3,655,222	—
Employer contributions prior to measurement date	—	—
Employer contributions	—	68,872
Plan participants' contributions	—	20,065
Benefits paid	(1,016,412)	(88,937)
Fair value of plan assets at end of year	\$45,645,409	\$ —
Funded status	\$ (144,401)	\$ (6,114,642)
Employer contributions between measurement and statement date	—	—
Funded status at year end	\$ (144,401)	\$ (6,114,642)
Amounts recognized in the Statement of Financial Position and net assets consist of:		
Net amount recognized in the Statement of Financial Position	\$ (144,401)	\$ (6,114,642)
Accumulated benefit obligation end of year	\$43,523,235	\$ 6,114,642

SIPC
FINANCIAL
STATEMENTS
continued

	Pension Benefits	Other Postretirement Benefits
Weighted-average assumptions for disclosure as of December 31, 2014		
Discount rate	3.90%	4.00%
Salary scale	2.50%	N/A
Health Care Cost Trend: Initial pre-65/post-65	N/A	8.05%/6.30%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year ultimate reached	N/A	2022
Components of net periodic benefit cost and other amounts recognized within the Statement of Activities		
Net periodic benefit cost		
Service cost	\$1,012,372	\$ 167,936
Interest cost	1,633,524	217,644
Expected return on plan assets	(3,182,637)	—
Recognized prior service cost (credit)	37,292	(398,660)
Recognized actuarial loss	—	—
Net periodic benefit cost	(499,449)	(13,080)
Pension and other postretirement benefit changes other than net periodic benefit cost		
Net actuarial loss	9,080,866	1,313,385
Recognized actuarial loss	—	—
Prior service cost	—	—
Recognized prior service (cost) credit	(37,292)	398,660
Total pension and postretirement benefit changes other than net periodic benefit cost	9,043,574	1,712,045
Total net periodic other benefit cost and pension and other postretirement benefit changes other than net periodic benefit cost	\$8,544,125	\$1,698,965
Amounts expected to be recognized in net periodic benefit cost in the coming year		
Loss recognition	\$ 629,421	\$ 79,986
Prior service cost (credit) recognition	37,292	(398,660)
Total	\$ 666,713	\$ (318,674)
Effect of a 1% increase in trend on:		
Benefit obligation	N/A	\$1,213,235
Total service interest cost	N/A	\$ 89,718
Effect of a 1% decrease in trend on:		
Benefit obligation	N/A	\$ (942,887)
Total service interest cost	N/A	\$ (55,541)
Weighted-average assumptions for net periodic benefit cost as of December 31, 2014		
Discount rate	4.80%	4.90%
Expected asset return	7.50%	N/A
Salary scale (2.00% for 2014/2.50% for 2015)	2.00%/2.50%	N/A
Health Care Cost Trend: Initial pre-65/post-65	N/A	8.65%/6.50%
Health Care Cost Trend: Ultimate	N/A	5.00%
Year ultimate reached	N/A	2022

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 2014, the unrecognized net loss increased by approximately 26% of the 12/31/2013 projected benefit obligation primarily due to the decrease in discount rate and the adoption of new mortality tables.

The discount rate was determined by projecting the plan's expected future benefit payments as defined for the projected ben-

efit 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 2014 by (\$87,000)/\$296,000 and (decreased)/increased the year-end projected benefit obligation by (\$6.2)/\$7.2 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	\$25,239,923
Non-U.S. large and multi-cap mutual funds	5,334,355
Total Equity	30,574,278
Fixed Income securities:	
U.S. Treasuries/Government & corporate bond mutual funds	15,071,131
Total Fixed Income	15,071,131
Total	\$45,645,409

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 2014 by \$424,000.	

Investment Policy	
The plan's investment policy includes a mandate to diversify assets and in a variety of asset classes to achieve that goal. The plan's assets are currently invested in a variety of funds representing most standard equity and debt security classes.	

Pension Plan Asset Category	Expected Long-Term Return	Target Allocation	Actual Allocation 12/31/2014
Equity securities	9.30%	60-70%	67%
Debt securities	4.20%	40-30%	33%
Total	7.50%	100%	100%

SIPC

FINANCIAL STATEMENTS

continued

Estimated Future Benefit Payments

Estimated future benefit payments, including future benefit accrual

	Pension	Other Benefits
2015	\$ 1,208,120	\$ 88,000
2016	\$ 1,453,945	\$ 114,100
2017	\$ 1,856,146	\$ 143,700
2018	\$ 1,992,426	\$ 165,300
2019	\$ 2,112,278	\$ 181,200
2020–2024	\$12,860,277	\$1,366,800

Contributions

SIPC expects to make no contributions to the pension plan in 2015 for the 2014 plan year and \$88,000 to the postretirement benefit plan during 2015.

Defined Contribution Plan

SIPC contributions (60% of employee contributions, up to 3.6% of compensation) \$ 209,231

9. Fixed Assets

SIPC's policy is to capitalize fixed assets costing \$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 leaseholds listed below are included in "Other" assets within the Statement of Financial Position.

10. Subsequent Events

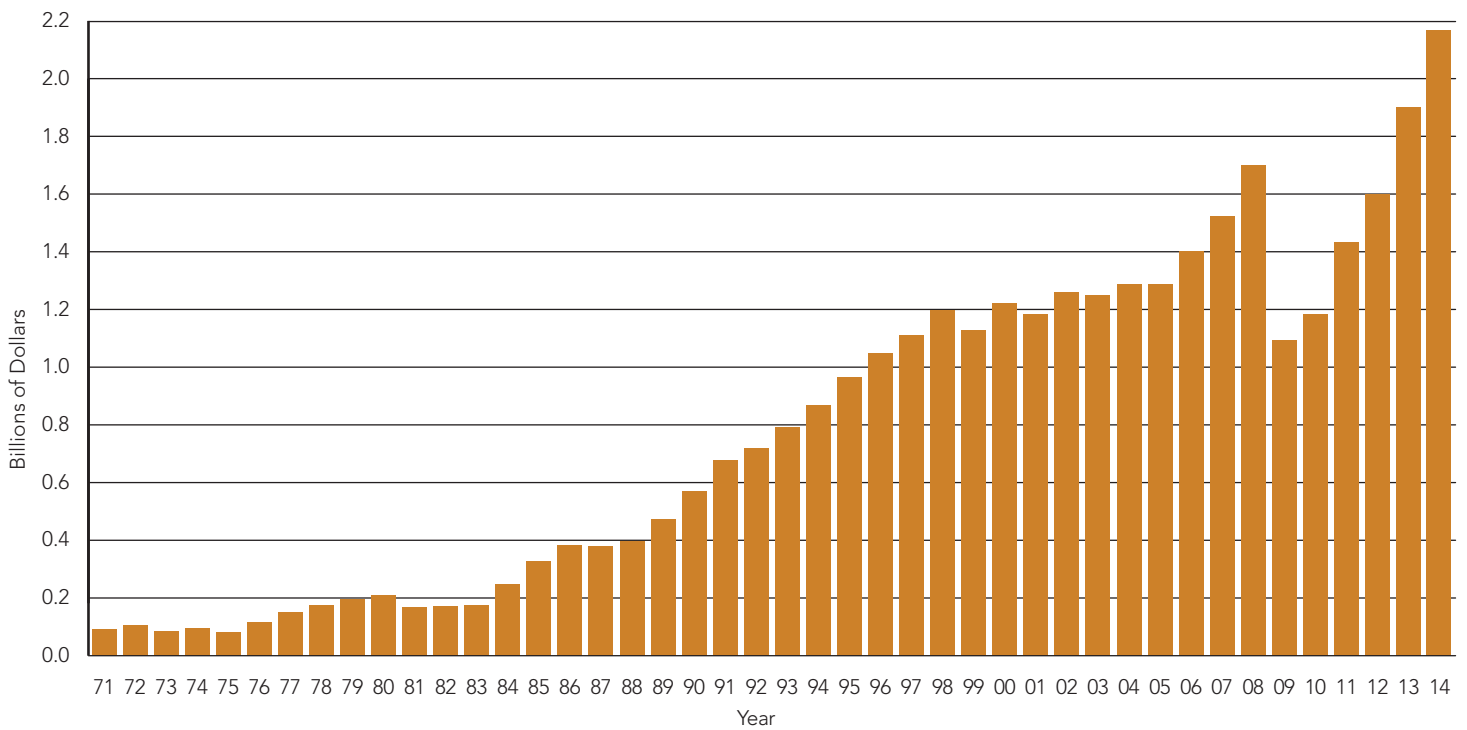
SIPC evaluated its December 31, 2014 financial statements for subsequent events through April 14, 2015, the date the financial statements were available to be issued. SIPC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

Fixed Assets

Office equipment at cost	\$ 63,649
Computer hardware at cost	2,416,986
Computer software at cost	1,708,938
Office furniture and fixtures at cost	421,288
Leasehold improvements at cost	580,268
Total fixed assets at cost	5,191,129
Less accumulated depreciation and amortization	(3,626,215)
Net fixed assets	\$1,564,914
2014 depreciation and amortization expense	\$ 766,894

TABLE 5

SIPC Fund Comparison
Inception to December 31, 2014



APPENDIX 1

DISTRIBUTIONS FOR ACCOUNTS OF CUSTOMERS

for the Forty-Four Years
Ended December 31, 2014
(In Thousands of Dollars)

	From Debtor's Estates		From SIPC		Total
	As Reported by Trustees	Advances*	Recoveries*	Net	
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
	\$132,950,255	\$1,510,659	\$(482,681)	\$1,027,978	\$133,978,233

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

* Reflects adjustment to customer distributions based upon Trustee's revised allocation.

* Reflects adjustment to customer distributions in the Lehman Brothers Inc. customer protection proceeding based upon Trustee's revised allocation.

APPENDIX 2

ANALYSIS OF SIPC

REVENUES AND EXPENSES

for the Five Years Ended
December 31, 2014

	2014	2013	2012	2011	2010
Revenues:					
Member assessments and contributions	\$426,719,980	\$417,721,699	\$412,305,529	\$382,800,000	\$ 409,200,016
Interest on U.S. Government securities	39,852,719	38,577,719	39,995,610	39,412,362	38,160,886
Interest on assessments	160,303	161,223	149,872	420,086	170,336
	466,733,002	456,460,641	452,451,011	422,632,448	447,531,238
Expenses:					
Salaries and employee benefits	8,563,289	10,146,315	9,993,350	9,171,655	8,254,272
Legal fees	131,219	953,722	1,536,663	813,634	346,375
Accounting fees	108,990	104,227	109,600	295,049	331,901
Credit agreement commitment fee					83,330
Professional fees—other	346,600	863,160	741,567	842,302	309,931
Other:					
Assessment collection cost	24,975	18,788	19,390	17,735	29,679
Depreciation and amortization	766,894	772,156	727,440	608,873	273,758
Directors' fees and expenses	37,039	46,281	38,907	39,275	42,470
Insurance	36,906	36,324	30,710	38,305	35,529
Investor education	211,481	332,318	179,368	200,303	342,766
Office supplies and expense	261,362	154,917	200,347	184,497	164,894
EDP and internet expenses*	857,370	860,990	1,446,889	1,937,200	1,515,375
Postage	9,258	9,350	12,520	10,154	13,164
Printing & mailing annual report	28,921	37,471	37,636	38,153	38,443
Publications and reference services	232,080	180,428	179,340	165,018	156,760
Rent—office space	797,186	758,128	738,916	751,955	747,231
Telephone	100,494	113,849	103,141	108,704	104,201
Travel and subsistence	136,704	149,809	155,444	164,691	223,391
Personnel recruitment	114,580		152,400		46,000
Miscellaneous	33,937	59,684	47,218	39,645	74,236
	3,649,187	3,530,493	4,069,666	4,304,508	3,807,897
	12,799,285	15,597,917	16,450,846	15,427,148	13,133,706
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Securities	(68,428)	(106,909,317)	19,231,225	30,396,107	212,738,676
Cash	(1,763)	(3,514,070)	(1,651,432)	2,289,553	213,380
	(70,191)	(110,423,387)	17,579,793	32,685,660	212,952,056
Administration expenses	191,521,565	198,575,637	209,774,526	207,826,006	177,227,833
	191,451,374	88,152,250	227,354,319	240,511,666	390,179,889
Net change in estimated future recoveries	(500,000)	102,200,000	(111,300,000)	(1,700,000)	1,900,000
	190,951,374	190,352,250	116,054,319	238,811,666	392,079,889
SIPC as Trustee:					
Securities	3,651,561	669,354	(4,921)	(205,638)	(1,689)
Cash	808,448	211,774	(10,402)	91,407	(24,211)
	4,460,009	881,128	(15,323)	(114,231)	(25,900)
Administration expenses	633,401	800,084	5,283	24,427	(8,586)
	5,093,410	1,681,212	(10,040)	(89,804)	(34,486)
Direct payments:					
Securities					
Cash		103,714		12,584	
		103,714		12,584	
Administration expenses	975	12,715		21,301	
	975	116,429		33,885	
Net change in estimated cost to complete proceedings	(49,400,000)	(167,500,000)	(192,300,000)	36,800,000	314,100,000
	146,645,759	24,649,891	(76,255,721)	275,555,747	706,145,403
	159,445,044	40,247,808	(59,804,875)	290,982,895	719,279,109
Total net revenues (expenses)	307,287,958	416,212,833	512,255,886	131,649,553	(271,747,871)
Realized and unrealized (loss) gain					
on U.S. Government securities	(5,281,585)	(52,663,109)	(14,309,673)	57,481,554	32,321,095
Pension and other postretirement benefit changes					
other than net periodic benefit costs	(10,755,619)	14,850,300	390,854	(7,777,611)	(280,274)
Increase (decrease) in net assets	\$291,250,754	\$378,400,024	\$498,337,067	\$181,353,496	\$(239,707,050)

*2010–2011 have been restated to combine Imaging expense with EDP and internet expenses

APPENDIX 3

CUSTOMER PROTECTION PROCEEDINGS

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

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) Receiving Distributions
North American Clearing Inc. Longwood, FL (Robert N. Gilbert, Esq.)	11/15/95	05/27/08	07/28/08	43,383	1,699	3,000
Lehman Brothers Inc. New York, NY (James W. Giddens, Esq.)	03/27/65	09/19/08	09/19/08	905,000	124,248	111,850
Bernard L. Madoff Investment Securities LLC New York, NY (Irving H. Picard, Esq.)	01/19/60	12/11/08	12/15/08	8,110	16,519*	2,673
MF Global Inc. New York, NY (James W. Giddens, Esq.)	07/31/74	10/31/11	10/31/11	74,763	28,711	30,092
Westor Capital Group, Inc. New York, NY (SIPC)	09/27/00	04/16/13	04/16/13	499	140	89
TWS Financial, LLC Brooklyn, NY (SIPC)	03/09/04	05/31/13	05/31/13	2,272	75	12
TOTAL 6 MEMBERS: PART A				1,034,027	171,392	147,716

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

* This number does not include customer distributions made by the court appointed receiver prior to SIPC's involvement in the proceeding.

^a MF Global Inc. operated as a Futures Commission Merchant and a broker-dealer. The distribution amount includes assets distributed to commodities customers.

December 31, 2014

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 54,684,317	\$ 52,476,581 [#]	\$ 2,207,736	\$ 13,457,790	\$ 11,857,790			\$ 1,600,000
106,906,674,226	105,699,214,348	1,207,459,878					
5,290,028,051	5,266,723,375	23,304,676	1,809,671,263	1,104,261,123		\$ 705,410,140	
6,596,523,951	6,284,868,853 ^A	311,655,098					
5,104,350	5,104,350		1,308,115	572,748			735,367
			5,040,100	810,403		3,947,297	282,400
\$118,853,014,895	\$117,308,387,507	\$1,544,627,388	\$1,829,477,269	\$1,117,502,065		\$709,357,437	\$2,617,767

APPENDIX 3

CUSTOMER PROCEEDINGS

continued

PART B: Customer Claims Satisfied, Litigation 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
Hudson Valley Capital Management Croton-on-Hudson, NY (SIPC)	05/12/89	12/17/12	12/17/12	347	27	4
Take Charge Financial, Inc. Los Gatos, CA (Direct Payment)	09/20/85		01/08/13 [^]	156	31	26
TOTAL 2 MEMBERS: PART B				503	58	30

[^] Date Notice Published

December 31, 2014

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 424,017	\$ 404,369	\$ 19,648	\$ 452,362	\$ 50,000		\$ 381,458	\$ 20,904
			117,404	13,690			103,714
\$424,017	\$404,369	\$19,648	\$569,766	\$63,690		\$381,458	\$124,618

APPENDIX 3

CUSTOMER PROTECTION PROCEEDINGS

continued

PART C: Proceedings Completed in 2014^(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
TOTAL 0 MEMBERS 2014						
TOTAL 320 MEMBERS 1973–2013^(d)				2,176,414	447,156	625,256
TOTAL 320 MEMBERS 1973–2014				2,176,414	447,156	625,256

December 31, 2014

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$15,965,955,473	\$15,641,462,722	\$324,492,751	\$513,286,998	\$197,790,355	\$1,388,427	\$182,996,536	\$131,111,680
\$15,965,955,473	\$15,641,462,722	\$324,492,751	\$513,286,998	\$197,790,355	\$1,388,427	\$182,996,536	\$131,111,680

APPENDIX 3

CUSTOMER PROTECTION PROCEEDINGS

continued

PART D: Summary

	Customers ^(b) To Whom Notices and Claim Forms Were Mailed	Responses ^(b) Received	Customers ^(b) Receiving Distributions
Part A: 6 Members — Customer Claims and Distributions Being Processed	1,034,027	171,392	147,716
Part B: 2 Members — Customer Claims Satisfied, Litigation Matters Pending	503	58	30
Sub-Total	1,034,530	171,450	147,746
Part C: 320 Members — Proceedings Completed	2,176,414	447,156	625,256
Total	3,210,944	618,606	773,002

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, 2014

Distribution of Assets Held by Debtor ^(c)			SIPC Advances				
Total	For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 118,853,014,895	\$ 117,308,387,507	\$ 1,544,627,388	\$ 1,829,477,269	\$ 1,117,502,065		\$ 709,357,437	\$ 2,617,767
424,017	404,369	19,648	569,766	63,690		381,458	124,618
118,853,438,912	117,308,791,876	1,544,647,036	1,830,047,035	1,117,565,755		709,738,895	2,742,385
15,965,955,473	15,641,462,722	324,492,751	513,286,998	197,790,355	1,388,427	182,996,536	131,111,680
\$134,819,394,385	\$132,950,254,598	\$1,869,139,787	\$2,343,334,033	\$1,315,356,110	\$1,388,427	\$892,735,431	\$133,854,065



SECURITIES INVESTOR PROTECTION CORPORATION

805 FIFTEENTH STREET, N.W., SUITE 800 • WASHINGTON, D.C. 20005-2215

(202) 371-8300 FAX (202) 371-6728

WWW.SIPC.ORG