



Annual Report 1986

SECURITIES INVESTOR PROTECTION CORPORATION



SECURITIES INVESTOR PROTECTION CORPORATION
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WASHINGTON, D.C. 20006
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April 30, 1987

The Honorable John S. R. Shad
Chairman
Securities and Exchange Commission
450 5th St., N.W.
Washington, D.C. 20549

Dear Sir:

On behalf of the Board of Directors I submit herewith the Sixteenth 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 black ink, appearing to read "James G. Stearns". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James G. Stearns
Chairman

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

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

*Except those engaged exclusively in the distribution of mutual fund shares, the sale of variable annuities, the insurance business, furnishing investment advice to investment companies or insurance company separate accounts, and those whose principal business is conducted outside the United States.

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Securities Investor Protection Corporation

Directors



James G. Stearns
Chairman



Roger A. Yurchuck, Esquire
Vorys, Sater, Seymour & Pease
Columbus, Ohio
Vice Chairman



Stephen L. Hammerman,
Esquire
Executive Vice President
Chief Administrative Officer and
General Counsel
Merrill Lynch & Co., Inc.
New York, New York



James W. Fuller
President
Bull & Bear Group, Inc.
New York, New York



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Director, Division of Research and
Statistics
Board of Governors of the Federal
Reserve System
Washington, D.C.



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Chairman of the Board
Goldberg Securities, Inc.
Chicago, Illinois



Charles O. Sethness
Assistant Secretary for Domestic
Finance
Department of the Treasury
Washington, D.C.

Officers

Theodore H. Focht
President & General Counsel

Michael E. Don
Deputy General Counsel & Secretary

John B. Bourne
Vice President—Finance

J. H. Moelter
Vice President—Operations

A Message from the Chairman



During 1986 SIPC continued to experience the level of new liquidations which has been occurring for the recent past. The eight customer protection proceedings which we commenced this year put this year's level of new proceedings at the average number of cases we have had over the past 10 years. It compares very favorably with the average of 23 new cases which we found in our initial five years of operations. It is also of interest to note that none of the proceedings started this year will present the SIPC Fund exposure that some of our larger proceedings have in the past.

Unfortunately, some of those larger proceedings from past years continue to present a significant drain on the SIPC Fund. For example, the Bevill, Bresler & Schulman, Inc., liquidation, started in May of 1985 in Livingston, New Jersey, has already resulted in advances of \$16 million from the SIPC Fund, and there will be further significant advances required before that case is concluded.

Our Directors will continue to monitor carefully the anticipated demands on the SIPC Fund required by the proceedings we have commenced as well as those which we may anticipate. These requirements will, of course, be substantially affected by judicial determinations of the scope of the protections provided by the SIPC program. We have continued this year to monitor carefully the size of the SIPC Fund and the appropriate level for the Fund in the future in light of these developments and needs.

As detailed more specifically in this report, the SIPC Fund now totals \$383 million. Further financial support for our program is available to us through the \$500 million confirmed line of credit we established on March 31, 1986, with a consortium of banks throughout the country. Finally, we would rely on the statutorily authorized borrowing of \$1 billion from the U.S. Treasury if it were ever needed.

The trustees and counsel appointed in SIPC proceedings have continued to work cooperatively with the SIPC staff to provide to customers of SIPC members the protections afforded by our program. We look with confidence to the future.

A handwritten signature in black ink, appearing to read "James H. ...". The signature is written in a cursive style with a long horizontal line extending to the right.

Customer Protection Proceedings

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

—Preamble to SIPA

Customer protection proceedings were initiated for eight SIPC members in 1986, bringing the total since SIPC's inception to 197 proceedings commenced under SIPA. The 197 members represent less than 1 percent of the approximately 22,600 broker-dealers that have been SIPC members during the last 16 years. Currently, SIPC has 11,305 members.

The eight new cases compare with twelve commenced in 1985. Over the last ten-year period, the annual average of new cases was eight. During SIPC's first five years, 1971 through 1975, new proceedings averaged 23 per year.

Trustees other than SIPC were appointed in six of the cases commenced during the year. SIPC serves as trustee in two of the new proceedings. SIPC members for which customer protection proceedings were undertaken are:

Member	Date Trustee Appointed
Bartel Securities, Inc. Langhorne, Pennsylvania (SIPC)	1/27/86
Brittenum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	1/30/86
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	3/26/86
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	5/02/86
Cusack, Light & Company, Inc. West Orange, New Jersey (Frederick B. Lacey, Esq.)	6/25/86
Norbay Securities, Inc. Bayside, New York (Irving H. Picard, Esq.)	10/14/86
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	11/05/86
Cambridge Capital Corporation* Los Angeles, California (Alexander C. McGilvray, Jr., Esq.)	12/22/86

*Formerly I.R.A. Financial Investment Corp.

Of the 197 proceedings begun under SIPA to date, 138 have been completed, 53 involve pending litigation matters, and claims in 6 are being processed (See Figure 1 and Appendix I).

During SIPC's sixteen year history, cash and securities distributed for accounts of customers aggregated approximately \$941 million. Of that amount, approximately \$769 million came from debtors' estates and \$171 million came from the SIPC Fund (See Appendix III).

SIPC Fund Advances

Table I shows that the 39 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 85 percent of the total advanced in all 197 customer protection proceedings. The largest net advance in a single liquidation is \$39 million for Bell & Beckwith. This exceeds the net advances in the 158 smallest proceedings combined.

In seven proceedings SIPC advanced \$105 million, or 54 percent of net advances from the SIPC Fund for all proceedings.

TABLE I
Net Advances from the SIPC Fund
As of December 31, 1986
197 Customer Protection Proceedings

Net Advances	Number of Proceedings	Amounts Advanced	
			From
\$10,000,001	up	3	\$ 75,701,376
5,000,001	\$10,000,000	4	29,606,025
1,000,001	5,000,000	32	59,514,301
500,001	1,000,000	16	11,264,762
250,001	500,000	24	8,051,240
100,001	250,000	47	7,632,720
50,001	100,000	35	2,566,152
25,001	50,000	19	710,803
10,001	25,000	5	76,451
0	10,000	9	29,150
Net recovery		3	(1,026,853)*
			<u>\$194,126,127†</u>

*Recovery of assets and appreciation of debtor's investments after the filing date enabled the trustee to repay SIPC its advances plus interest.

†Consists of advances for accounts of customers (\$171,535,165) and for administration expenses (\$22,590,962).

Claims over the Limits

Of the more than 200,000 claims satisfied as of December 31, 1986, a total of 323 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 323 claims, a net increase of 51 during 1986, represent approximately two-tenths of one percent of all claims satisfied. The unsatisfied portion of claims, \$79.9 million, increased approximately \$69.2 million during 1986. These remaining claims approximate 8 percent of the total value of securities and cash distributed for accounts of customers.

FIGURE 1
Status of Customer Protection Proceedings

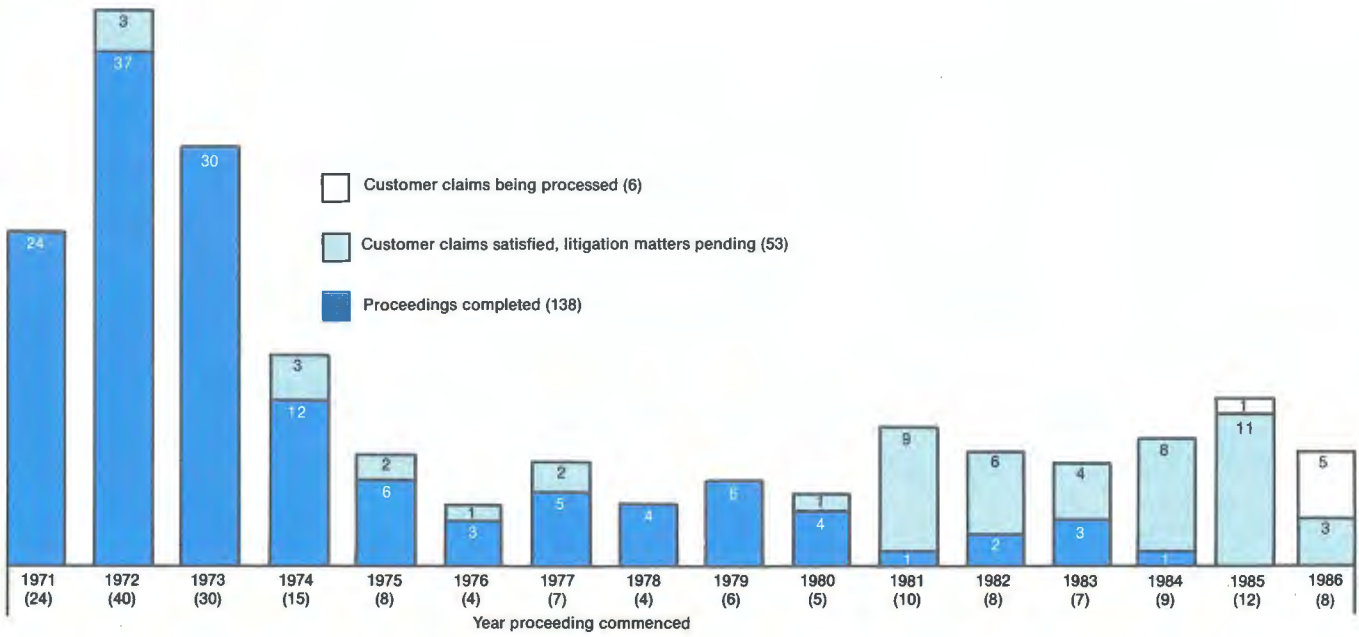
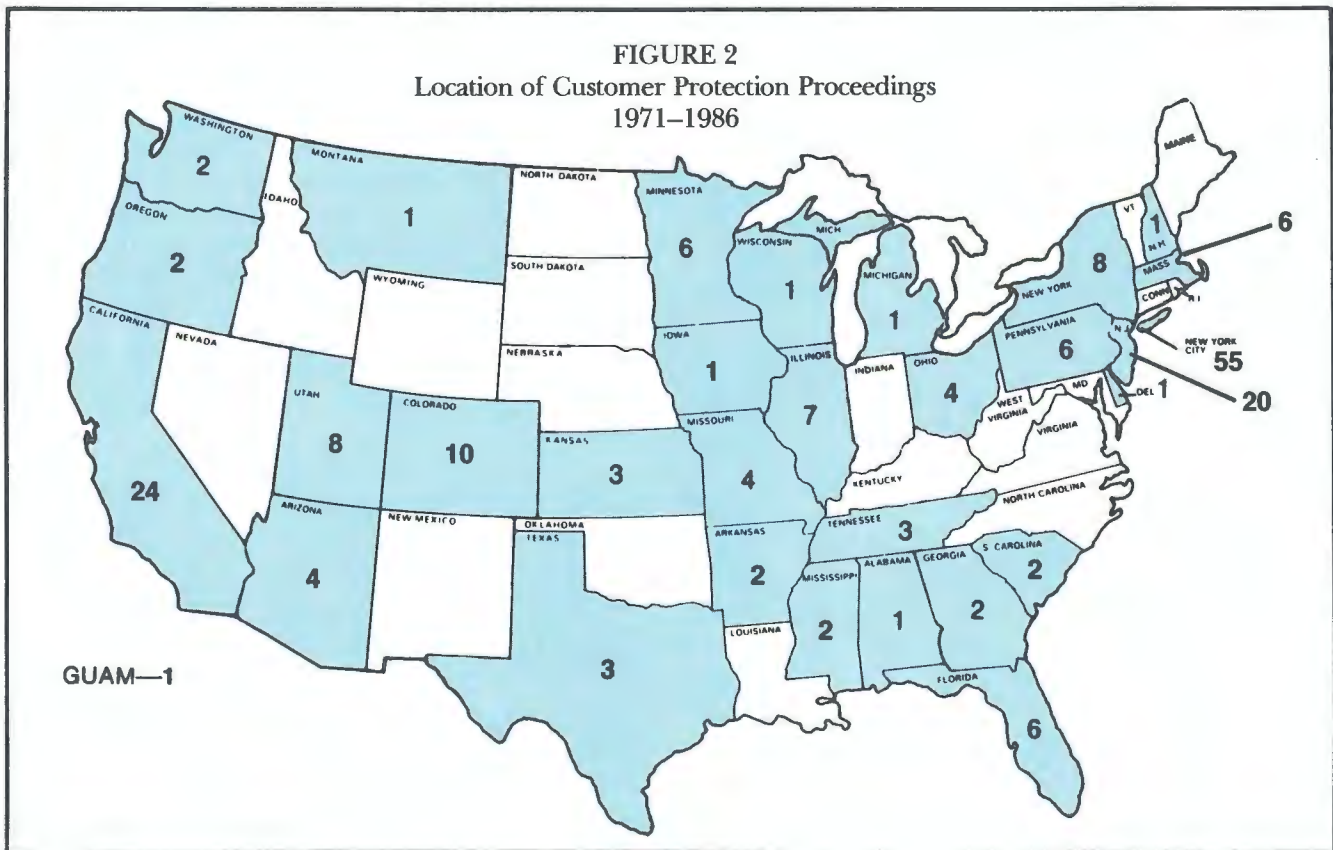


FIGURE 2
Location of Customer Protection Proceedings
1971-1986



Membership and the SIPC Fund

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

—SIPA, Sec. 4(c)2

The net increase of 301 members during the year brought the total membership to 11,305 at December 31, 1986. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1986

Agents for Collection of SIPC Assessments	Added(a)	Terminated(a)	Total
National Association of Securities Dealers, Inc.	44	466	5,584
SIPC(b)	1,521	732	1,896
Chicago Board Options Exchange Incorporated	33	45	1,856
New York Stock Exchange, Inc.	8	70	897
American Stock Exchange, Inc.	8	24	512
Pacific Stock Exchange, Inc.	11	12	249
Philadelphia Stock Exchange, Inc.	8	9	194
Midwest Stock Exchange, Inc.	-	4	90
Boston Stock Exchange, Inc.	-	-	27
	<u>1,633</u>	<u>1,362</u>	<u>11,305</u>

Notes:

- Excluding transfers (2,233) of members to successor collection agents.
- SIPC is the collection agent and the SEC is the examining authority for brokers and dealers that are not members of any self-regulatory organization. The additions in this category reflect the temporary status of many broker-dealers between the date of their registrations under Section 15(b) of the 1934 Act and their becoming members of a securities exchange or association. The large number of terminations reflect the temporary status after broker-dealers terminate their memberships in these self-regulatory organizations and before their withdrawal of registrations as broker-dealers.

Delinquencies

Members who are delinquent in paying assessments receive notices pursuant to SIPA Section 14(a).¹ As of December 31, 1986, there were 995 members who were subjects of uncured notices, 546 of which were mailed during 1986 (126 in December) 246 during 1985 and 203 during the years 1974 through 1984. Subsequent filings and payments by 144 members left 851 notices uncured. SIPC has been advised by the SEC staff that: (a) 176 member registrations have been cancelled or are being withdrawn; (b) 340 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) I is the subject of an administrative proceeding; and (d) 334 are being contacted by its regional offices or the affected examining authorities.

SIPC Fund

The SIPC Fund, consisting of the aggregate of cash and investments in United States Government securities, amounted to \$382.7 million at year end, an increase of \$55.7 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1986. The 1986 member assessments were \$23 million and interest from investments was \$32 million. During the periods 1971 through 1977 and 1983 through 1985, member assessments were the principal source of revenues and they were based on a percentage of each member's gross revenue from the securities business.

Appendix II is an analysis of revenues and expenses for the five years ended December 31, 1986.

¹14(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.

Millions of Dollars

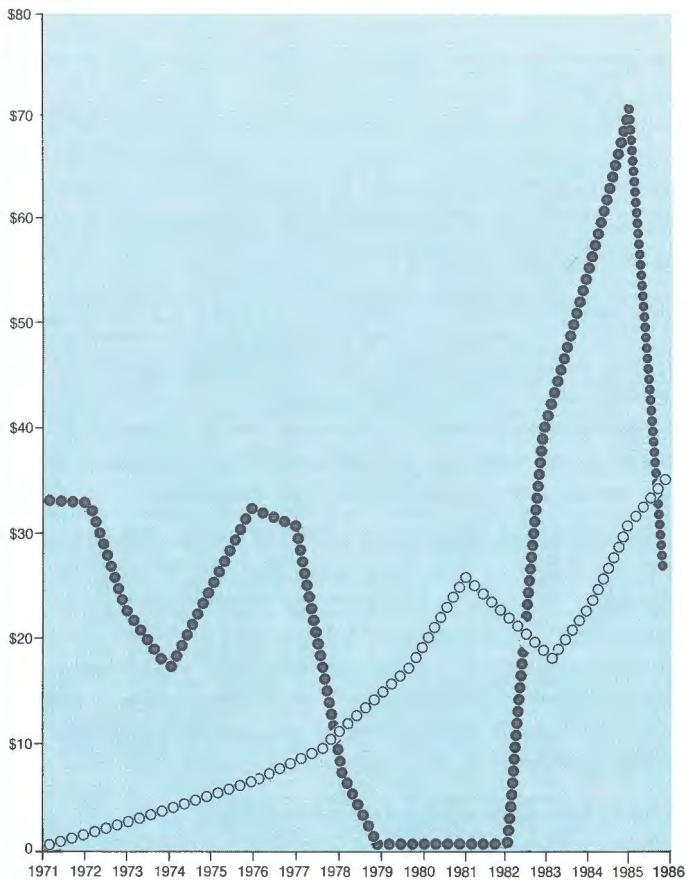


TABLE III
SIPC Revenues for the
Sixteen Years Ended December 31, 1986

●●●● Member assessments and contributions: \$387,847,000
○○○○ Interest on U.S. Government securities: \$222,948,000

History of Member Assessments*

1971: 1/2 of 1% plus an initial assessment of 1/4 of 1% of 1969 revenues, \$150 minimum.

1972-1977: 1/2 of 1%.

January 1-June 30, 1978: 1/4 of 1%.

July 1-December 31, 1978: None

1979-1982: \$25 uniform annual assessment.

1983-March 31, 1986: 1/4 of 1% effective May 1, 1983 (\$25 minimum).

1986: \$100 annual assessment.

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

Millions of Dollars

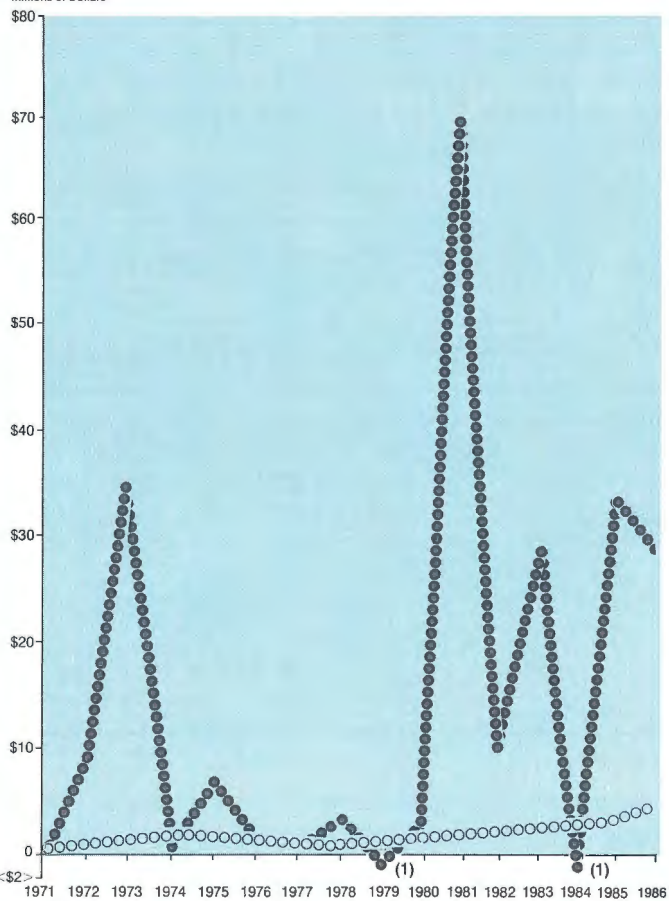


TABLE IV
SIPC Expenses for the
Sixteen Years Ended December 31, 1986

●●●● Customer protection proceedings: \$226,026,000
(Includes net advances of \$194,126,000 less estimated future recoveries of \$5,800,000 and \$37,700,000 of estimated costs to complete proceedings.)

○○○○ Other expenses: \$34,213,000

(1) Net recoveries.

Litigation

During 1986, SIPC was actively involved in litigation at both the trial and appellate levels. The more significant court decisions are summarized below.

SIPC v. Vigman, 803 F.2d 1513 (9th Cir. 1986), is an action wherein SIPC and trustees for two broker-dealers in liquidation under SIPA alleged numerous violations of the antifraud provisions of the securities laws and of the Racketeer Influenced and Corrupt Organizations Act (“RICO”) by various individuals, corporate entities related to them, and seven issuers of securities in which the two broker-dealers make markets. The court of appeals reversed the district court’s order dismissing the securities fraud claims brought by SIPC. The court of appeals held that when a broker makes an unauthorized purchase or sale of securities with his customer’s assets, that purchase or sale may be attributed to the customer and that SIPC, if it reimburses the customer for the cash or securities the broker was supposed to be holding, will have standing to assert the underlying securities fraud claim.

In *SIPC v. Ambassador Church Finance/Development Group, Inc.*, 788 F.2d 1208 (6th Cir. 1986), the court of appeals reversed the district judge’s decision and held that (i) customers cannot bring an action directly against SIPC and (ii) SIPA does not authorize SIPC to pay interest on a customer’s net equity, either by advancing funds to the trustee or by paying the debtor’s customers directly.

In *SIPC v. I.E.S. Management Group, Inc.*, Nos. 85-5464, 85-5550 (3d Cir. May 6, 1986), *aff’g* 612 F.Supp. 1172 (D.N.J. 1985), the court of appeals affirmed the district court’s holding that claimants, limited partners in a real estate syndication sold through the Debtor and for which the debtor’s affiliate was the general partner, were not “customers” entitled to SIPC protection where the claimants had received their limited partnership interests.

In *Murray v. McGraw (In re Bell & Beckwith)*, 66 B.R. 703 (N.D. Ohio 1986), *aff’g* 47 B.R. 528 (Bankr. N.D. Ohio 1985), the district court affirmed the bankruptcy court’s holding that a customer was entitled to receive back his securities rather than cash proceeds from the sale of the securities where, even though the customer

had received a confirmation of the sale, the debtor broker-dealer had neither transferred the securities to, nor received payment from, the purchasing broker-dealers. An appeal is pending in the United States Court of Appeals for the Sixth Circuit.

In *Cohen v. Army Moral Support Fund (In re Bevill, Bresler & Schulman Asset Management Corporation)*, 67 B.R. 557 (D.N.J. 1986), the district court held that repurchase and reverse repurchase agreements were contracts for the sale and resale of securities and that the participants in the repurchase and reverse repurchase transactions are “customers” entitled to SIPC protection.

In *First Federal Savings & Loan Association of Lincoln v. Bevill, Bresler & Schulman, Inc. (In re Bevill, Bresler & Schulman, Inc.)*, 59 B.R. 353 (D.N.J. 1986), the district court held that under the SIPA distribution scheme, customers could not reclaim securities as their own unless the securities fit the SIPA definition of “customer name securities,” and that the distribution scheme did not violate the United States Constitution.

In *In re John Muir & Co.*, 81 B11761 (Bankr. S.D.N.Y. July 8, 1986), *aff’d sub nom. Andretti v. Miller*, 86 Civ. 6622 (S.D.N.Y. December 2, 1986), the bankruptcy court held that a Muir limited partner had made a subordinated capital contribution to the debtor, rather than an ordinary loan, and that both the principal and the “excess capital” accumulated on the initial contribution were contractually and legally subordinate to the claims of general unsecured creditors.

In *Blake v. Ravis (In re Investors Security Corporation)*, Bankruptcy No. 75-1036 (Bankr. W.D. Pa. May 24, 1986), *aff’d*, Civil Action No. 86-1413 (W.D. Pa. October 6, 1986), the bankruptcy court, which was subsequently affirmed by the district court, expunged claims for SIPA protection where the claimants, in settling their claims against third parties arising from the same facts as their SIPA claims, had released those parties and were therefore unable to assign their claims to the trustee, as is required by SIPA upon satisfaction of their customer claims.

Administration

Lloyd W. McChesney, SIPC’s Senior Vice President-Finance, retired in spring of 1986. Mr. McChesney had served as SIPC’s first Vice President-Finance from 1971 until 1984 when the Board of Directors appointed him

to the position he held at the time of his retirement. For 15 years Mr. McChesney served as chief financial officer of SIPC, and he was instrumental in implementing the internal procedures by which SIPC has operated.

Disciplinary and Criminal Actions

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

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

SIPC routinely forwards to the Securities and Exchange Commission, for possible action under Section 10(b) of SIPA, the names of principals and others associated with members for which SIPC customer protection proceedings have been initiated. Those individuals are also reported to the self-regulatory organization exercising primary examining authority for appropriate action by the organization. Trustees appointed to administer customer protection proceedings and SIPC personnel cooperate with the SEC and with law enforcement authorities in their investigations of possible violations of law.

As a result of SEC and self-regulatory action in 1986 twelve persons associated with members subject to SIPC proceedings were barred from association with any broker or dealer.

Criminal and Administrative Actions

Criminal action has been initiated in 66 of the 197 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December, 1970. A total of 189 indictments have been returned in federal or state courts, resulting in 151 convictions to date. As of December 31, 1986, trial or sentencing was pending against 21 persons who had been indicted or convicted.

Administrative and/or criminal action in 180 of the 197 SIPC customer protection proceedings initiated through December 31, 1986, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	52
2. Exclusive SEC Administrative Action	34
4. Exclusive Self-Regulatory Administrative Action	24
4. Criminal and Administrative Action	63
5. Criminal Action Only	7
Total	180

*SIPC v. Barbour, 421 U.S. 412, 415 (1975)

In the 169 customer protection proceedings in which administrative action has been effected, the following sanctions have been imposed against associated persons:

	SEC	Self-Regulatory Organizations
Notice of Suspension ¹	89	78
Bar from Association	305	176
Fines	Not Applicable	\$781,000

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 \$781,000 in fines assessed by self-regulatory authorities were levied against 63 associated persons and ranged from \$250 to \$100,000.

Members in or Approaching Financial Difficulty

Section 5(a)(1) of SIPA requires the SEC or the self-regulatory organizations to immediately notify SIPC upon discovery of facts which indicate that a broker or dealer subject to their regulation is in or is approaching financial difficulty. The Commission, the securities exchanges and the NASD fulfill this requirement through regulatory procedures which integrate examination and reporting programs with an early-warning procedure for notifying SIPC. The primary objective of those programs is the early identification of members which are in or are approaching financial or operational difficulty and the initiation of remedial action by the regulators necessary to protect the investing public.

Members on Active Referral

SIPC maintained active files on 38 members referred under Section 5(a) during calendar year 1986. Twenty-four new referrals were received during the year and 14 active referrals had been carried forward from prior years. Eight of the 38 remained on active referral at year-end.

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

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

Financial Statements

Accountants' Report

Board of Directors
Securities Investor Protection Corporation
Washington, D.C.

We have examined the statement of financial condition of Securities Investor Protection Corporation as of December 31, 1986, and the related statements of operations and fund balance and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Securities Investor Protection Corporation at December 31, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & WHINNEY

Washington, D.C.
March 11, 1987

Securities Investor Protection Corporation

Statement of Financial Condition

December 31, 1986

ASSETS

Cash	\$	861,617
U.S. Government securities, at amortized cost and accrued interest receivable (\$8,772,807); (approximate market \$386,100,000)		381,833,208
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$147,704,819) (Note 4)		5,800,000
Other		316,280
		<u>\$388,811,105</u>

LIABILITIES AND FUND BALANCE

Advances to trustees—in process (Note 4)	\$	18,610
Accounts payable and accrued expenses		536,237
Estimated costs to complete customer protection proceedings in progress (Note 4)		37,700,000
		<u>38,254,847</u>
Commitments (Note 5)		
Fund balance		350,556,258
		<u>\$388,811,105</u>

Statement of Operations and Fund Balance

for the year ended December 31, 1986

Revenues:		
Interest on U.S. Government securities	\$	32,070,704
Member assessments (Note 3)		23,067,147
		<u>55,137,851</u>
Expenses:		
Salaries and employee benefits (Note 6)		1,717,296
Legal and accounting fees (Note 4)		1,657,531
Credit agreement commitment fee (Note 5)		1,305,478
Professional fees—automation		52,564
Rent (Note 5)		322,786
Other		592,875
		<u>5,648,530</u>
Provision for estimated costs to complete customer protection proceedings (Note 4)		26,550,779
		<u>32,199,309</u>
Excess revenues		22,938,542
Fund balance, beginning of year		327,617,716
Fund balance, end of year		<u>\$350,556,258</u>

See notes to financial statements.

Statement of Changes in Financial Position

for the year ended December 31, 1986

Cash provided from (used in) operations:	
Provided:	
Member assessments	\$43,067,147
Interest on U.S. Government securities	34,726,668
	<u>77,793,815</u>
Used:	
Advances to trustees, net of recoveries	(13,738,785)
Salaries, legal and accounting fees, credit agreement fee, rent, etc.	(5,706,149)
	<u>(19,444,934)</u>
	58,348,881
Other uses of cash:	
Purchases of U.S. Government securities, net	(57,907,431)
Miscellaneous	(21,307)
	<u>(57,928,738)</u>
Increase in cash	420,143
Cash, beginning of year	441,474
Cash, end of year	<u>\$ 861,617</u>

See notes to financial statements.

Notes to Financial Statements

1. Organization

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

2. The "SIPC Fund"

The "SIPC Fund," as defined by SIPA, consists of cash and U.S. Government securities aggregating \$382,694,825.

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

3. Member assessments

The Board of Directors amended SIPC's bylaws to provide that assessments based on gross revenues that had been effective May 1, 1983 at the rate of 1/4 of 1% be terminated as of the close of business on March 31, 1986. Each member's assessment beginning in 1986 is \$100 per annum.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 59 proceedings in progress at December 31, 1986. Customer claims have been satisfied in 53 of these proceedings and in 6 proceedings customer claims and distributions are being processed.

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

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

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

	Customer Protection Proceedings	
	Advances to trustees, less allowance for possible losses	Estimated costs to complete
Balance, beginning of year	\$8,300,000	(\$26,900,000)
Add:		
Estimated future recoveries	3,200,000	
Provision for estimated costs to complete proceedings		(29,750,779)
Less:		
Recoveries estimated previously	(5,700,000)	
Advances to trustees		18,950,779
Balance, end of year	\$5,800,000	(\$37,700,000)

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

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

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

5. Commitments

Future minimum annual rentals for office space under a ten-year lease effective September 1, 1987, at the rate of \$403,920 for the first five years and \$471,240 thereafter, total \$4,375,000. The lease for office space that expires December 31, 1987 provides for minimum annual rental for 1987 of \$303,468. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the leases. Rent expense for 1986 totalled \$322,786.

A credit agreement effective March 31, 1986 with a consortium of banks provides SIPC with a \$500,000,000 revolving line of credit for a three-year period to and including March 31, 1989. Any outstanding borrowing

by SIPC at the end of March 1989 must be repaid at a minimum in equal quarterly installments over the succeeding five years. A fee of ¼ of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

6. Retirement Plan

SIPC has a non-contributory retirement plan covering all employees.

As of January 1, 1987, the most recent actuarial valuation date, the market value of plan assets was \$2,465,978, and the present value of accumulated plan benefits based on an assumed interest rate of 7.5 percent per annum, calculated in accordance with Statement No. 36 of the Financial Accounting Standards Board, was as follows:

Vested:

Retired members and survivors	
currently receiving payments	\$ 515,275
Other members	801,276

1,316,551

Non-vested	207,568
	\$1,524,119

APPENDIX I

Customer Protection Proceedings

PART A: Customer Claims and Distributions Being Processed

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	4,700
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/ 2/81	7/23/85	3/26/86	23,000	1,047
Cusack, Light & Company West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	180
Norbay Securities, Inc. Bayside, New York (Irving H. Picard, Esq.)	10/28/70	10/14/86	10/14/86	8,000	6,047
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/ 4/84	11/ 5/86	11/ 5/86	550	18
Cambridge Capital Corporation* Los Angeles, California (Alexander C. McGilvray)	2/15/84	11/19/86	12/22/86	600	
TOTAL 6 MEMBERS: PART A				<u>57,354</u>	<u>11,992</u>

*Formerly I.R.A. Financial Investment Corp.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$160,024,410	3,700	\$16,047,526			\$ 5,700,275	\$10,347,251	3,601
		334,308	\$ 219,895		113,839	574	12
10,512		214,105	132,401		47,245	34,459	
3,668,690	3,650	98,000	55,000		43,000		2
		7,360	7,360				
<u>\$163,703,612</u>	<u>7,350</u>	<u>\$16,701,299</u>	<u>\$ 414,656</u>		<u>\$ 5,904,359</u>	<u>\$10,382,284</u>	<u>3,615</u>

APPENDIX I

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
Equitable Equities, Inc. New York, New York (Robert E. Smith, Esq.)	2/ 4/70	10/13/72	10/13/72 2/15/78*	134	69
Havener Securities Corp. New York, New York (Ezra G. Levin, Esq.)	11/13/59	10/13/72	10/24/72	900	533
C.I. Oren & Co., Inc. New York, New York (Martin R. Gold, Esq.)	11/10/68	10/13/72	10/26/72	345	61
Christian-Paine & Co., Inc. Carlton Cambridge & Co., Inc. Hasbrouck Heights, New Jersey (Irwin Weinberg, Esq.)	6/24/70 7/21/68	4/10/74	4/18/74	17,500	7,884
Llorens Associates, Inc. New York, New York (Lloyd Frank, Esq.)	4/ 1/70	6/18/74	7/ 1/74	548	93
Henry C. Atkeison, Jr., d/b/a Ambassador Church Finance Development Group, Inc.; d/b/a Atalbe Christian Credit Association, Inc. Brentwood, Tennessee (Fred D. Bryan)	4/18/70	11/ 7/74	12/17/74	531	115
Executive Securities Corp. New York, New York (Cameron F. MacRae, III, Esq.)	11/ 8/67	2/14/75	2/14/75	8,740	2,757
Investors Security Corp. Monroeville, Pennsylvania (Thomas P. Ravis, Esq.)	5/ 8/66	9/15/75	9/15/75	4,300	244
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,780
Swift, Henke & Co., Inc. Chicago, Illinois (J. William Holland, Esq.)	5/30/65	3/14/77	3/15/77	1,350	186
I.E.S. Management Group, Inc. Irvington, New Jersey (Michael R. Griffinger, Esq.)	6/17/70	6/ 9/77	9/27/77	3,600	1,682

*Successor Trustee.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances						
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers	
\$ 131,585	45	\$ 80,849	\$ 383	\$ 27,605	\$ 16,034	\$ 36,827	33	
814,261	491	541,729	311,746	40,044	16,368	173,571	233	
1,800	1	319,826	183,621	59,071	33,710	43,424	45	
776,386	12,572	4,047,860	1,741,478	3,125	2,044,056	259,201	6,571	
31,174	40	130,579	74,337	214	17,823	38,205	30	
6,860	11	368,433	65,507		210,609	92,317	18	
2,271,501	1,219	2,239,204	143,726	30,535	1,449,655	615,288	1,341	
800	1	1,606,309	292,569		326,971	986,769	161	
3,728,930	911	104,215			66,435	37,780	484	
2,896,742	194							
17,250	467	5,118,742				5,118,742	533	

APPENDIX I

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
Perry, Adams & Lewis Securities, Inc. Kansas City, Missouri (George H. Clay, Esq.)	12/ 4/75	4/ 2/80	4/11/80	259	18
Dennis Lee Mirus Lake Forest, Illinois (Robert D. Glick, Esq.)	1/11/79	10/10/80	3/17/81	19	15
The Investment Bankers, Inc. Denver, Colorado (James H. Turner, Esq.)	10/23/80	7/10/81	7/15/81	2,500	1,939
First State Securities Corp. North Miami, Florida (Lawrence A. Schroeder, Esq.)	6/19/75	7/24/81	7/24/81 7/17/85*	3,064	936
Joseph Sebag, Incorporated Los Angeles, California (Eugene W. Bell, Esq.)	3/ 7/68	7/27/81	7/27/81	8,000	4,279
John Muir & Co. New York, New York (Harvey R. Miller, Esq.)	10/28/37	8/16/81	8/16/81	54,500	10,000 (Estimated)
M.S. Wien & Co., Inc. Jersey City, New Jersey (Michael R. Griffinger, Esq.)	11/15/74	9/10/81	9/10/81	45,000	9,726
Langheinrich & Fender, Inc. Salt Lake City, Utah (Herschel J. Saperstein, Esq.)	2/ 2/78	9/14/81	9/22/81	4,330	2,750
Stix & Co., Inc. St. Louis, Missouri (Harry O. Moline, Jr., Esq.)	3/12/70	11/ 5/81	11/ 9/81	5,200	1,092
Morton Paul Kominsky North Bergen, New Jersey (Richard D. Shapiro, Esq.)	2/13/70	12/18/81	12/18/81	424	76
Stalvey & Associates, Inc. Jackson, Mississippi (Henry E. Chatham, Jr., Esq.)	2/18/78	2/18/82	2/18/82	229	52
T.E. Slanker Co., Inc. Portland, Oregon (Douglas M. Thompson, Esq.)	8/20/69	2/ 4/82	2/24/82	9,000	2,100

*Successor Trustee.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 131,376	3	\$ 1,009,538	\$ 596,215		\$ 408,123	\$ 5,200	13
		342,624	28,472		53,452	260,700	6
2,128,941	883	4,036,018				4,036,018	1,189
6,458,025	260	1,703,386	900,914	\$ 60,804	329,980	411,688	778
27,218,033	2,417	8,987,702	259,080		2,292,438	6,436,184	1,328
25,964,581	16,000 (Estimated)	1,876,365			1,876,365		16,000 (Estimated)
6,271,715	2,053	6,868,765	50,000	281,936	3,444,215	3,092,614	3,495
1,531,773	2,267	1,109,888	446,052	3,558	180,768	479,510	1,307
7,256,636		20,332,905			10,153,089	10,179,816	841
7,478	13	114,022	42,863		33,847	37,312	55
		1,692,546	72,333		1,252,049	368,164	140
		187,976	59,981		127,995		2,000

APPENDIX I

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
International Securities, Inc. Denver, Colorado (William D. Scheid, Esq.)	1/ 6/76	2/25/82	2/25/82	5,000	1,262
G.S. Omni Corporation Denver, Colorado (James H. Turner, Esq.)	2/25/80	2/24/82	3/ 8/82	8,500	3,347
G.V. Lewellyn & Co., Inc. Des Moines, Iowa (Paul R. Tyler, Esq.)	3/30/81	4/ 8/82	4/15/82	600	50
OTC Net Inc. Denver, Colorado (Glen E. Keller, Jr., Esq.)	8/10/78	6/ 3/82	6/ 9/82	38,500	15,796
Bell & Beckwith Toledo, Ohio (Patrick A. McGraw, Esq.)	2/22/50	2/ 5/83	2/10/83	10,500	6,888
Gibraltar, Inc. Santa Monica, California (Alexander C. McGilvray, Jr., Esq.)	1/26/75	6/21/83	6/22/83	7,000	681
Western Pacific Securities, Inc. Newport Beach, California (Richard M. Neiter, Esq.)	7/23/79	7/ 1/83	7/11/83	450	300
Hanover Square Securities Group, Inc. New York, New York (James W. Giddens, Esq.)	7/21/77	12/ 8/83	12/15/83	29,500	294
California Municipal Investors, Inc. Los Angeles, California (Theodore B. Stolman, Esq.)	1/ 9/76	1/31/84	1/31/84	16,000	1,752
Gattini & Co. New York, New York (William J. Rochelle, III, Esq.)	9/25/81	2/ 1/84	2/ 1/84	3,200	1,800
Southeast Securities of Florida, Inc. Hoboken, New Jersey (David J. Sheehan, Esq.)	11/16/81	1/31/84	2/13/84	20,000	11,653
MV Securities, Inc., a/k/a Multi-Vest Securities, Inc. New York, New York (Lee S. Richards, III, Esq.)	4/ 8/76	3/14/84	3/14/84	8,246	1,338
American Western Securities, Inc. Denver, Colorado (SIPC)	9/ 1/72	4/10/84	4/24/84	20,000	131

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,700		\$ 156,106	\$ 129,251		\$ 10,479	\$ 16,376	29
3,707,691	2,447	1,336,214	664,569		12,024	659,621	526
16,227	4	1,131,595	474,559		391,048	265,988	23
15,575,600	12,858	(26,053)	(26,053)				
80,755,000	2,300	39,320,945				39,320,945	6,523
877,376		1,896,872	490,000		1,216,872	190,000	811
1,013,415		1,026,394	70,264		936,634	19,496	29
1,617,475		2,467,475			1,617,475	850,000	2,700
31,786,350	1,500	(1)	(1)				
972,617	1,560	1,520,746	605,258		556,070	359,418	328
27,098,007	11,543	2,644,585	1,266,104		420,523	957,958	1,590
18,550,791	1,200	1,045,513	10,000	\$ 130,000	476,569	428,944	63
		37,810	27,535		2,788	7,487	5

APPENDIX I

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
June S. Jones Co. Portland, Oregon (Robert H. Huntington, Esq.)	2/ 1/59	6/ 4/84	6/ 6/84	3,200	836
First Interwest Securities Corp. Denver, Colorado (Glen E. Keller, Jr., Esq.)	4/25/83	6/ 7/84	6/ 7/84	6,785	2,621
Vantage Securities of Colorado, Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	4/ 1/81	11/30/84	11/30/84	20,000	10,667
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/ 7/85	754	135
Marsan Securities Company, Inc. New York, New York (Direct Payment)	10/27/78		4/ 8/85*	12	11
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/ 6/85	5/17/85	1,350	63
Apex Financial Planners Corp. Los Altos, California (SIPC)	10/13/73	6/ 4/85	6/ 4/85	4,200	511
Donald Sheldon, & Co., Inc. New York, New York (Stanley T. Lessër, Esq.)	12/ 1/75	7/30/85	8/13/85	8,300	2,469
Collins Securities Corporation Little Rock, Arkansas (Harvey L. Bell, Esq.)	9/30/83	4/16/85	9/ 4/85	272	78
R. H. Stewart & Company, Inc. Ft. Lauderdale, Florida (John R. Camp, Jr., Esq.)	7/27/83	9/27/85	9/30/85	2,868	923
TK Securities, Inc. Ft. Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/27/82	10/ 4/85	10/ 4/85	564	389

*Date notice published.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 1,200,768	\$ 725,459	\$ 63,175	\$ 410,349	\$ 1,785	3,401
\$ 5,302,067	6,140	719,233	270,000		190,240	258,993	139
17,775,018	10,400	1,437,533	913,744		127,378	396,411	280
		628,735	139,707			489,028	61
		30,560	650		16,314	13,596	7
1,288,590	314	1,220,000	20,000		1,200,000		325
		3,014,833			3,000,000	14,833	5
5,149		255,841	133,000			122,841	32
6,026,832		8,630,817	1,213,141		7,013,546	404,130	213
34,039,017	34						
16,779		1,430,924	363,993		807,824	259,107	161
125,703		313,579	207,412		73,024	33,143	75

APPENDIX I

Customer Protection Proceedings

PART B: Customer Claims Satisfied, Litigation Matters Pending

Member and Trustee By Date of Appointment	Date Registered as Broker-Dealer	Filing Date	Trustee Appointed	Customers ^(a) To Whom Notices and Claim Forms Were Mailed	Responses ^(a) Received
C. Harvey and Associates Securities, Inc. Phoenix, Arizona (Direct Payment)	3/16/83		12/ 4/85*	5	4
DMR Securities, Inc. Tucson, Arizona (Direct Payment)	5/30/70		12/ 4/85*	12	7
Bartel Securities, Inc. Langhorne, Pennsylvania (SIPC)	8/19/80	1/27/86	1/27/86		21
Brittenum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	12/ 4/75	1/28/86	1/30/86	2,100	212
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	4/15/83	10/29/85	5/ 2/86	74	70
TOTAL 53 MEMBERS: PART B				<u>399,115</u>	<u>113,061</u>

*Date notice published.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 40,531	\$ 611		\$ 33,995	\$ 5,925	4
		1,209	295		312	602	5
		105,126	500		31,898	72,728	13
\$ 8,093,827	45	31,037	31,037				
		2,437,412	313,071			2,124,341	68
<u>\$342,291,078</u>	<u>90,193</u>	<u>\$136,875,820</u>	<u>\$13,313,383</u>	<u>\$ 700,067</u>	<u>\$42,879,344</u>	<u>\$79,983,026</u>	<u>52,912</u>

APPENDIX I

Customer Protection Proceedings

PART C: Proceedings Completed in 1986

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
C.H. Wagner & Co., Inc. Boston, Massachusetts (Thomas J. Carens, Esq.)	2/28/72	253	\$1,125,877
Financial House, Inc. Detroit, Michigan (John Addis)	9/18/74 4/12/83*	406	1,246,369
Link-Up + 1 Securities, Inc. Denver, Colorado (SIPC)	8/ 9/79	18	661
P.J. Kisch & Co., Inc. Minneapolis, Minnesota (SIPC)	11/ 9/79	715	1,793,824
Simpson, Emery & Company, Inc. Pittsburgh, Pennsylvania (Carl F. Barger, Esq.)	3/ 3/80	509	6,246,170
Gallagher, Boylan & Cook, Inc. Beverly Hills, California (Charles D. Axelrod, Esq.)	3/17/81 4/ 9/82*	1,363	6,370,033
Royer Securities Co. West Caldwell, New Jersey (Direct Payment)	5/19/83 (Date notice published)	5	
Jay W. Kaufmann & Co. New York, New York (Irving H. Picard, Esq.)	1/23/84	1,019	1,996,600
TOTAL 8 MEMBERS 1986		<u>4,288</u>	<u>18,779,534</u>
TOTAL 130 MEMBERS 1973–1985^(b)		<u>85,069</u>	<u>268,851,168</u>
TOTAL 138 MEMBERS 1973–1986		<u>89,357</u>	<u>\$287,630,702</u>

PART D: Summary

	Responses Received/ Customers Receiving Distributions	
Part A: 6 Members—Customer Claims and Distributions Being Processed	11,992	\$163,703,612
Part B: 53 Members—Customer Claims Satisfied, Litigation Matters Pending	113,061	342,291,078
Sub-Total	125,053	505,994,690
Part C: 138 Members—Proceedings Completed TOTAL	<u>89,357^(c)</u> <u>214,410</u>	<u>287,630,702</u> <u>\$793,625,392</u>

Notes:

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

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

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

^(d) To be reported at completion of liquidation.

† Recovery of assets and appreciation of debtor's investments after the filing date enabled the Trustee to repay SIPC its advances plus interest.

* Successor Trustee.

December 31, 1986

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 1,125,877		\$ (1,000,800)†	\$ (1,000,800)			
822,965	\$ 423,404	738,559	123,345		\$ 568,250	\$ 46,964
661		159,006	300		114,962	43,744
1,719,512	74,312	266,929	107,190		91,700	68,039
5,656,293	589,877	17,074				17,074
5,986,312	383,721	2,741,144	1,084,281		1,656,863	
		74,566	44			74,522
1,996,600		1,694,694	556,377	\$ 15,480	859,794	263,043
<u>17,308,220</u>	<u>1,471,314</u>	<u>4,691,172</u>	<u>870,737</u>	<u>15,480</u>	<u>3,291,569</u>	<u>513,386</u>
<u>245,975,526</u>	<u>22,875,642</u>	<u>35,857,836</u>	<u>8,059,757</u>	<u>830,320</u>	<u>16,297,616</u>	<u>10,670,143</u>
<u>\$263,283,746</u>	<u>\$24,346,956</u>	<u>\$ 40,549,008</u>	<u>\$ 8,930,494</u>	<u>\$ 845,800</u>	<u>\$19,589,185</u>	<u>\$11,183,529</u>
\$163,703,612	(d)	\$ 16,701,299	\$ 414,656		\$ 5,904,359	\$ 10,382,284
<u>342,291,078</u>	(d)	<u>136,875,820</u>	<u>13,313,383</u>	<u>\$ 700,067</u>	<u>42,879,344</u>	<u>79,983,026</u>
<u>505,994,690</u>		<u>153,577,119</u>	<u>13,728,039</u>	<u>700,067</u>	<u>48,783,703</u>	<u>90,365,310</u>
<u>263,283,746</u>	<u>\$24,346,956</u>	<u>40,549,008</u>	<u>8,930,494</u>	<u>845,800</u>	<u>19,589,185</u>	<u>11,183,529</u>
<u>\$ 769,278,436</u>	<u>\$24,346,956</u>	<u>\$194,126,127</u>	<u>\$22,658,533</u>	<u>\$1,545,867</u>	<u>\$68,372,888</u>	<u>\$101,548,839</u>

APPENDIX II

Analysis of SIPC Revenues and Expenses
for the Five Years Ended December 31, 1986

	1986	1985	1984	1983	1982
Revenues:					
Interest on U.S. Government securities	\$31,702,230	\$30,608,790	\$22,945,089	\$18,147,989	\$20,807,973
Member assessments and contributions	23,067,147	71,027,532	52,293,859	36,763,866	282,096
Interest on assessments	368,474	101,662	88,702	8,407	826
	<u>55,137,851</u>	<u>101,737,984</u>	<u>75,327,650</u>	<u>54,920,262</u>	<u>21,090,895</u>
Expenses:					
Salaries and employee benefits	1,717,296	1,564,250	1,533,851	1,296,849	1,195,920
Legal fees	1,648,246	1,343,102	935,128	1,057,907	142,411
Accounting fees*	9,285	18,063	152,894	89,463	41,000
Credit agreement commitment fee	1,305,478	—	—	—	—
Professional fees—automation	52,564	217,394	—	—	—
Other:					
Assessment collection direct cost	16,468	14,543	19,730	16,089	2,935
Custodian fees	16,795	15,237	12,331	9,540	9,164
Depreciation and amortization	83,639	66,340	17,832	15,879	12,866
Directors fees and expenses	5,359	14,758	10,798	15,369	11,200
Insurance	12,682	11,341	8,634	9,297	9,792
Office supplies and expenses	194,224	170,937	121,845	85,334	55,532
Postage	19,579	20,983	18,753	15,384	9,950
Printing and mailing annual report	30,279	23,397	27,216	20,663	16,322
Publications and reference services	47,856	42,805	39,342	32,701	19,334
Rent—office space	322,786	343,695	311,748	306,300	306,440
Telephone and telegraph	20,426	20,011	20,925	20,268	23,646
Travel and subsistence	108,890	154,740	163,159	104,323	135,786
Miscellaneous	36,678	38,223	129,636	132,047	9,831
	<u>915,661</u>	<u>937,010</u>	<u>901,949</u>	<u>783,194</u>	<u>622,798</u>
	<u>5,648,530</u>	<u>4,079,819</u>	<u>3,523,822</u>	<u>3,227,413</u>	<u>2,002,129</u>
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	16,000	44,975	63,356	(116)	341,939
Securities	4,278,504	256,798	28,776	(7,830,648)	3,262,149
Cash	5,787,319	7,178,900	(2,272,483)	43,986,859	7,019,471
	<u>10,081,823</u>	<u>7,480,673</u>	<u>(2,180,351)</u>	<u>36,156,095</u>	<u>10,623,559</u>
Administration expenses	2,340,366	2,350,497	1,555,161	787,407	3,331,870
	<u>12,422,189</u>	<u>9,831,170</u>	<u>(625,190)</u>	<u>36,943,502</u>	<u>13,955,429</u>
Net change in estimated future recoveries	2,500,000	6,300,000	1,600,000	(8,200,000)	2,700,000
	<u>14,922,189</u>	<u>16,131,170</u>	<u>974,810</u>	<u>28,743,502</u>	<u>16,655,429</u>
SIPC as Trustee:					
Securities	27,461	5,407	(173,839)	1,740	(900,096)
Cash	505,881	109,651	362,394	907,228	(356,719)
	<u>533,342</u>	<u>115,058</u>	<u>188,555</u>	<u>908,968</u>	<u>(1,256,815)</u>
Administration expenses	253,509	40,206	31,071	91,738	62,718
	<u>786,851</u>	<u>155,264</u>	<u>219,626</u>	<u>1,000,706</u>	<u>(1,194,097)</u>
Net change in estimated future recoveries	—	100,000	100,000	(200,000)	1,000,000
	<u>786,851</u>	<u>255,264</u>	<u>319,626</u>	<u>800,706</u>	<u>(194,097)</u>
Direct payments:					
Securities	34,307	16,313	—	41,921	—
Cash (net recoveries)	6,526	62,596	—	30,823	(8,008)
	<u>40,833</u>	<u>78,909</u>	<u>—</u>	<u>72,744</u>	<u>(8,008)</u>
Administration expenses	906	650	—	68	3,275
	<u>41,739</u>	<u>79,559</u>	<u>—</u>	<u>72,812</u>	<u>(4,733)</u>
Net change in estimated costs to complete proceedings	10,800,000	17,300,000	(2,400,000)	(800,000)	(6,600,000)
	<u>26,550,779</u>	<u>33,765,993</u>	<u>(1,105,564)</u>	<u>28,817,020</u>	<u>9,856,599</u>
	<u>32,199,309</u>	<u>37,845,812</u>	<u>2,418,258</u>	<u>32,044,433</u>	<u>11,858,728</u>
Excess revenues	<u>\$22,938,542</u>	<u>\$63,892,172</u>	<u>\$72,909,392</u>	<u>\$22,875,829</u>	<u>\$ 9,232,167</u>

*Includes fees and expenses of litigation related to proceedings (1985-\$3,363; 1984-\$127,709; 1983-\$77,763; 1982-\$25,000).

APPENDIX III

Distributions for Accounts of Customers for the Sixteen Years Ended December 31, 1986

(In Thousands of Dollars)

	From Debtor's Estates (Including Securities) As Reported By Trustees	From SIPC	Total
1971	\$ 271	\$ 401	\$ 672
1972	9,300	7,343	16,643
1973	170,672	31,706	202,378
1974	21,582	(222)*	21,360
1975	6,379	4,746	11,125
1976	19,901	764	20,665
1977	5,462	254	5,716
1978	1,242	2,518	3,760
1979	9,561	(4,779)*	4,782
1980	10,163	2,848	13,011
1981	36,738	63,238	99,976
1982	28,442	9,359	37,801
1983	21,901	37,138	59,039
1984	184,910	(1,992)*	182,918
1985	214,184†	7,674	221,858†
1986	28,570	10,492	39,062
	<u>\$769,278</u>	<u>\$171,468</u>	<u>\$940,746</u>

*Net recoveries.

†Restated to reflect correction.

Overview of SIPC

The Securities Investor Protection Corporation (SIPC) had its origins in the difficult years of 1968–70, when the paperwork crunch, brought on by unexpectedly high trading volume, was followed by a very severe decline in stock prices. Hundreds of broker-dealers were merged, acquired or simply went out of business. Some were unable to meet their obligations to customers and went bankrupt. Public confidence in our securities markets was in jeopardy.

Congress acted swiftly, passing the Securities Investor Protection Act of 1970 (SIPA). Its purpose is to afford certain protections against financial loss to customers of broker-dealers which fail and, thereby, promote investor confidence in the nation's securities markets. Currently, the limits of protection are \$500,000 per customer, except that claims for cash are limited to \$100,000 per customer.

SIPC is a nonprofit, membership corporation. Its members are, with some exceptions, all persons registered as brokers or dealers under Section 15(b) of the Securities Exchange Act of 1934 and all persons who are members of a national securities exchange.*

A board of seven directors determines policies and governs operations. Five directors are appointed by the President of the United States, subject to Senate approval. Three of the five represent the securities industry and two are from the general public. One director is appointed by the Secretary of the Treasury and one by the Federal Reserve Board from among the officers and employees of those organizations. The Chairman, who is the Corporation's chief executive officer, and the Vice-Chairman are designated by the President from the public directors.

The SIPC staff, numbering 35, initiates the steps leading to the liquidation of a member, advises the trustee, his counsel and accountants, reviews claims, audits distributions of property, and carries out other activities pertaining to the Corporation's purpose. In cases where the court appoints SIPC or a SIPC employee as Trustee

and in direct payment proceedings, the staff responsibilities and functions are all encompassing—from taking control of customers' and members' assets to satisfying valid customer claims and accounting for the handling of all assets and liabilities to the courts having jurisdiction.

The resources required to protect customers beyond those available from the property in the possession of the trustee for the failed broker-dealer are advanced by SIPC. The sources of money for the SIPC Fund are assessments collected from SIPC members and interest on investments in United States Government securities. As a supplement to the SIPC Fund, a \$500 million, three-year revolving line of credit was obtained March 31, 1986, from a consortium of banks. In addition, if the need arises, the Securities and Exchange Commission has the authority to lend SIPC up to \$1 billion, which it, in turn, would borrow from the United States Treasury.

The self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc. — and the SEC report to SIPC concerning member broker-dealers who are in or approaching financial difficulty. If SIPC determines that the customers of a member require the protection afforded by the Act, the Corporation initiates steps to commence a customer protection proceeding. This requires that SIPC apply to a Federal District Court for the appointment of a trustee to carry out a liquidation. Under certain circumstances, SIPC may pay customer claims directly.

Further information about the provisions for customer account protection is contained in a booklet, "How SIPC Protects You," which is available in bulk from the Securities Industry Association, 120 Broadway, New York, NY 10271, and from the National Association of Securities Dealers, Inc., 9513 Key West Avenue, Rockville, MD 20850.

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

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

(ii) persons whose business as a broker or dealer consists exclusively of (I) the distribution of shares of registered open end investment companies or unit investment trusts, (II) the sale of variable annuities, (III) the business of insurance, or (IV) the business of rendering investment advisory services to one or more registered investment companies or insurance company separate accounts.