Network for Investor Action and Protection

SIPC – KEY FACTS:

- SIPC was founded by Congress to give investors and the public confidence that should a broker-dealer go bankrupt, steal cash/securities from customers, or never purchase securities, those customers would be protected
    - The need arose after brokerages were allowed to hold securities in street name (on behalf of customers) to create greater efficiency in the brokerage industry
    - It was modeled after the FDIC, which gives bank customers a guarantee that their deposits will be reimbursed if the bank fails or if they are stolen by the bank
- Prior to Madoff and other high-profile frauds, SIPC was a largely unknown entity to the public, though numerous media outlets and brokerage theft victims reported having difficult experiences in trying to recover lost cash and securities
- For years SIPC charged its members, including some of the largest brokerages, a mere $150 annually; for members, this was paying almost nothing for a tremendous marketing benefit
- Concerns over underfunding--Several GAO reports found that SIPC was underfunded, including 1992 and 2003 reports declaring that a massive fraud at a major firm would stretch the organization too far and that the SIPC fund would be inadequate
    - Numerous additional reports, an SEC audit, Congressional warnings and several media outlets backed that up
- SIPC has always claimed that it would reimburse securities that were misappropriated, stolen or never purchased
    - In all previous proceedings, SIPC always used account statements to determine a customer's net equity, but has changed its procedure
    - That procedure should be no different for any case, even if no securities were ever purchased
    - Account statements are the fundamental connection investors have to their brokerage accounts; SIPC is shifting the burden and suggesting that investors need to do a better job of figuring out what cash and securities they hold, and that investors can no longer count on their brokerage statements
- Various media reports over time have been very critical of SIPC, including reports in the NY Times, Newsday, and TheStreet.com
    - SIPC is an organization that represents the brokerage industry, not the investing public
    - Trustees overseeing bankruptcies are selected by SIPC (rubber stamped by the bankruptcy court); several of the referred to media reports have suggested a clear conflict of interest applies to the SIPC/Trustee relationship
        - The Madoff Trustee has served SIPC numerous times before, and was drawn from a small pool of securities bankruptcies experts
    - Indeed, prior to the Madoff bankruptcy, SIPC has spent more on Trustee fees and litigating claims against investors than it has paid out in claims from its own fund