



SIPC

**SECURITIES
INVESTOR
PROTECTION
CORPORATION**

**ANNUAL
REPORT
1989**



SECURITIES INVESTOR PROTECTION CORPORATION
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April 30, 1990

The Honorable Richard C. Breeden
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 Nineteenth 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, written over a horizontal line.

James G. Stearns
Chairman

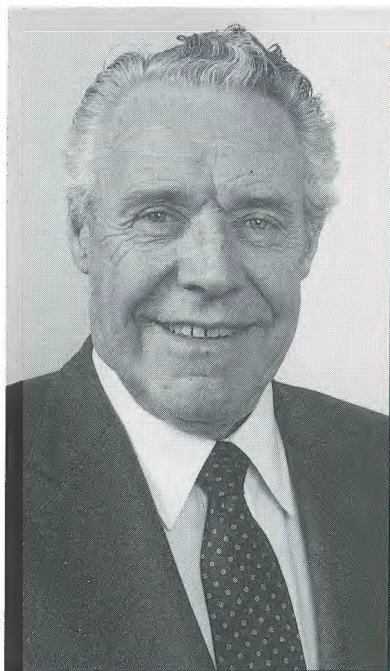
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“SIPC shall not be an agency or establishment of the United States Government . . . SIPC shall be a membership corporation the members of which shall be all persons registered as brokers or dealers . . .”*

*—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. Also excluded are government securities brokers and dealers who are registered as such under section 15C(a)(1)(A) of the Securities Exchange Act of 1934.



Once again I am pleased to report that SIPC had a very low number of new customer protection proceedings in the past year. We started six new proceedings in 1989, and four of them involved an aggregate of fewer than 50 customer claims. These new proceedings put the average number of cases per year for the last ten years at seven. I am also pleased to report that as of December 31, 1989, the SIPC Fund stood at \$472 million—the highest level in SIPC's history for the second year in a row. This is as a result of the decision by the Board of Directors in June of 1988 to resume assessments based on a percentage of gross revenues from the securities business, effective January 1, 1989. The assessment rate was set at three-sixteenths of one percent per annum and that has generated a total of \$66 million in assessments in 1989.

Despite the relatively high level of the SIPC Fund and the clear financial health of SIPC, the Board decided in mid-1989 that, during this period involving major events in the securities industry, it would be appropriate to conduct a study of SIPC's likely future fund needs and the best way to meet those needs. Accordingly, after receiving proposals from a number of organizations, the Board selected the national accounting firm of Deloitte & Touche to conduct a study aimed at determining the appropriate size of the SIPC Fund, taking into account such matters as the causes of brokerage firm failure and SIPC's immediate, short term, and long term needs in the unlikely event of any substantial liquidation proceedings. Upon the completion of this study the Board expects to commission a further study of how an appropriate fund level can best be met and maintained, including a review of the structure for imposing assessments on SIPC members.

I wish to comment again on the essential resilience of our securities industry. In my message contained in SIPC's Annual Report for 1987 I stated: "What is particularly notable . . . is the fact that we experienced only one new customer protection proceeding as a result of the October market activity."

This year I believe it is particularly worth noting, in the context of the SIPC program of promoting customer confidence in our securities markets, that during the past two years, when we have seen major events occurring in our financial markets, we have continued to see strength in the area of financial responsibility of our members. Indeed, some large retail brokerage houses have gone out of business without the loss of customer assets and without any need for SIPC involvement. In those circumstances where SIPC involvement in brokerage house failures has been needed, the proceedings have been small, contained, and handled with a minimum of disruption to the customers.

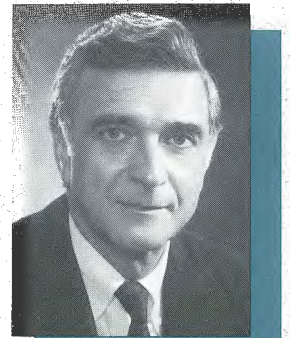
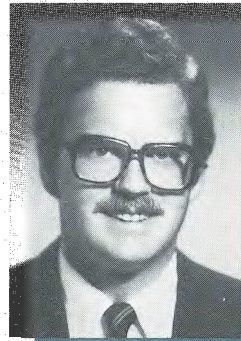
A handwritten signature in black ink, which appears to read "James G. Stearns". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

James G. Stearns
Chairman

Securities Investor Protection Corporation



JAMES G. STEARNS
Chairman



Directors

JESSE D. WINZENRIED
Vice Chairman

THOMAS J. HEALEY
Partner
Goldman Sachs & Co.
New York, New York

FRANK G. ZARB
Chairman &
Chief Executive Officer
Smith Barney, Harris
Upham & Co. Inc.
New York, New York

Officers

THEODORE H. FOCHT
President & General Counsel

JOHN B. BOURNE
Vice President—Finance

MICHAEL E. DON
Deputy General Counsel & Secretary

J. H. MOELTER
Vice President—Operations



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

DAVID W. MULLINS, JR.
Assistant Secretary
for Domestic Finance
Department of the Treasury
Washington, D.C.

One position of Director is
vacant, pending appointment
by the President of the United
States, subject to Senate
approval.



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 six SIPC members in 1989, bringing the total since SIPC's inception to 212 proceedings commenced under SIPA. The 212 members represent less than 1 percent of the approximately 26,900 broker-dealers that have been SIPC members during the last 19 years. Currently, SIPC has 11,284 members.

The six new cases compare with five commenced in 1988. Over the last ten-year period, the annual average of new cases was seven. During SIPC's first five years, 1971 through 1975, new proceedings averaged 23 per year.

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

Member	Date Trustee Appointed
Investors Center, Inc. Hauppauge, New York (Irving H. Picard, Esq.)	3/07/89
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	4/10/89
Richard Wallace Humphries d/b/a Humphries & Company, Inc. San Francisco, California (Direct Payment)	9/26/89*
J. L. Henry & Co. Coral Gables, Florida (Direct Payment)	9/26/89*
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	11/01/89
Williams Financial Group, Inc. Spokane, Washington (Joseph D. Esposito, Esq.)	12/07/89

*Date notice published

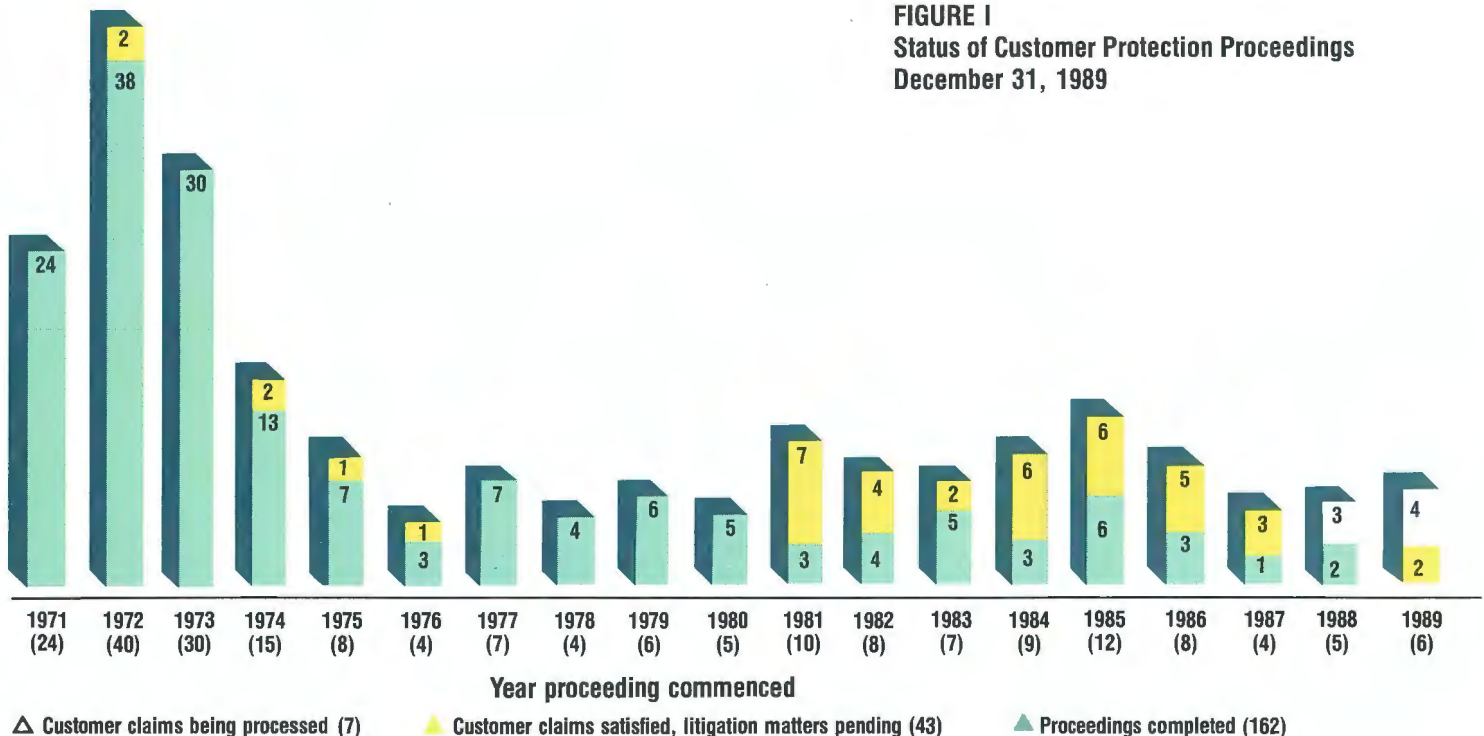
Of the 212 proceedings begun under SIPA to date, 162 have been completed, 43 involve pending litigation matters, and claims in 7 are being processed (See Figure I and Appendix I).

During SIPC's nineteen year history, cash and securities distributed for accounts of customers aggregated approximately \$1.5 billion. Of that amount, approximately \$1.3 billion came from debtors' estates and \$178 million came from the SIPC Fund (See Appendix III).

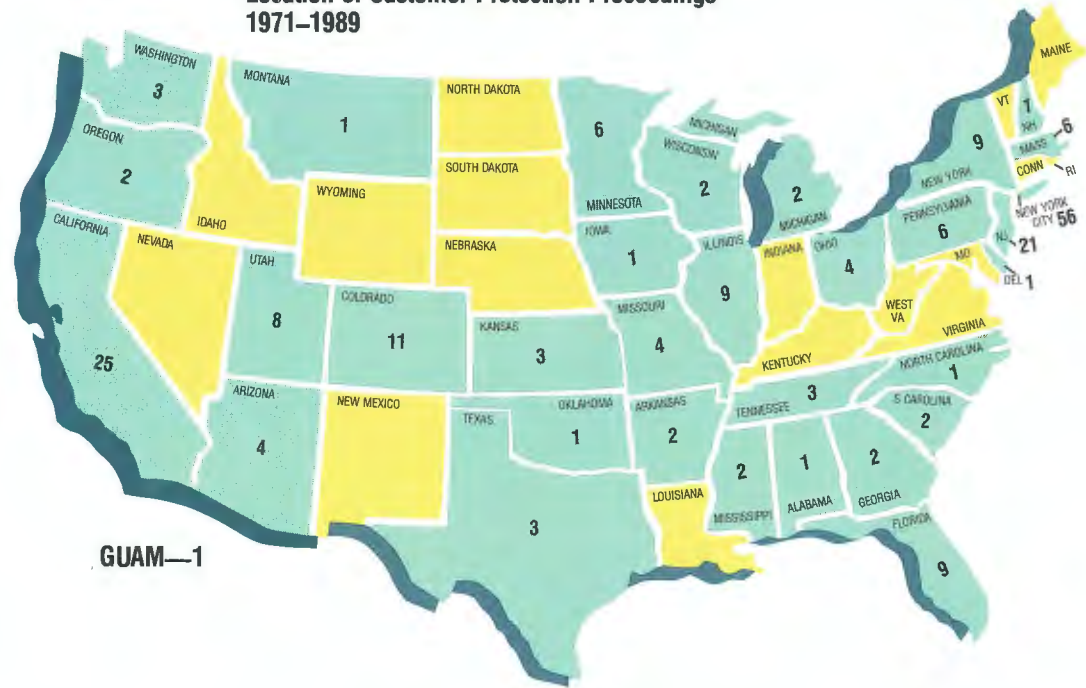
SIPC Fund Advances

Table I shows that the 40 debtors for which net advances from the SIPC Fund of more than \$1 million have been made accounted for 84 percent of the total advanced in all 212 customer protection proceedings. The largest net advance in a single liquidation is \$32.5 million for Bell & Beckwith. This exceeds the net advances in the 172 smallest proceedings combined.

In nine proceedings SIPC advanced \$121 million, or 55 percent of net advances from the SIPC Fund for all proceedings.



**FIGURE 2
Location of Customer Protection Proceedings
1971-1989**



Claims over the Limits

Of the more than 250,000 claims satisfied as of December 31, 1989, a total of 299 were for cash and securities whose value was greater than the limits of protection afforded by SIPA.

The 299 claims, a net decrease of 6 during 1989, represent less than two-tenths of one percent of all claims satisfied. The unsatisfied portion of claims, \$19.1 million, decreased approximately \$12.6 million during 1989. These remaining claims approximate 1 percent of the total value of securities and cash distributed for accounts of customers.

**TABLE I
Net Advances from the SIPC Fund
December 31, 1989
212 Customer Protection Proceedings**

Net Advances		Number of Proceedings	Amounts Advanced
From	To		
\$10,000,001	up	4	\$ 86,755,052
5,000,001	\$10,000,000	5	34,257,667
1,000,001	5,000,000	31	62,409,563
500,001	1,000,000	24	16,875,307
250,001	500,000	26	8,719,422
100,001	250,000	44	7,208,831
50,001	100,000	37	2,628,032
25,001	50,000	20	741,147
10,001	25,000	8	124,302
0	10,000	9	39,436
Net recovery		4	(1,119,827)*
			<u>\$218,638,932†</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 (\$178,479,435) and for administration expenses (\$40,159,497).

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

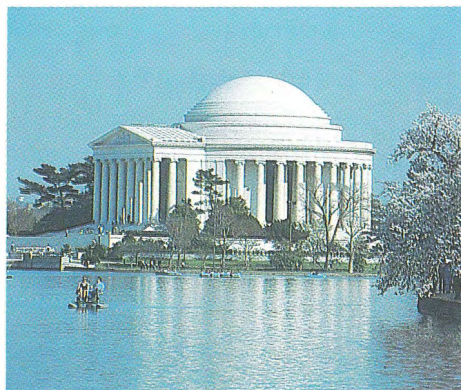
The net decrease of 738 members during the year brought the total membership to 11,284 at December 31, 1989. Table II shows the members' affiliation for purposes of assessment collection, as well as the year's changes therein.

TABLE II
SIPC Membership
Year Ended December 31, 1989

Agents for Collection of SIPC Assessments	Added(a)	Terminated(a)	Total
National Association of Securities Dealers, Inc.	337	88	5,304
SIPC(b)	613	1,642	2,441
Chicago Board Options Exchange Incorporated	76	26	1,663
New York Stock Exchange, Inc.	61	15	750
American Stock Exchange, Inc.	67	1	536
Pacific Stock Exchange, Inc.	46	7	281
Philadelphia Stock Exchange, Inc.	22	13	201
Midwest Stock Exchange, Inc.	10	5	85
Boston Stock Exchange, Inc.	2	—	23
	<u>1,234</u>	<u>1,797</u>	<u>11,284</u>

Notes:

- Excluding transfers 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, 1989, there were 2,297 members who were subjects of uncured notices, 1,530 of which were mailed during 1989, 321 during 1988 and 446 during the years 1979 through 1987. Subsequent filings and payments by 72 members left 2,225 notices uncured. SIPC has been advised by the SEC staff that: (a) 714 member registrations have been cancelled or are being withdrawn; (b) 989 are no longer engaged in the securities business and cancellations of their registrations have been or are being recommended; (c) 266 are expected to cure their delinquencies; and (d) 256 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 \$471.7 million at year end, an increase of \$73.4 million during the year.

Tables III and IV present principal revenues and expenses for the years 1971 through 1989. The 1989 member assessments were \$66.0 million and interest from investments was \$35.1 million. During the years 1971 through 1977, 1983 through 1985 and 1989, 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, 1989.

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.

TABLE III
SIPC Revenues for the
Nineteen Years Ended December 31, 1989

- Member assessments and contributions:
\$455,158,580
- Interest on U.S. Government securities:
\$315,556,888

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).
 1986-1988: \$100 annual assessment.
 1989: 3/16 of 1% (\$150 minimum).

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

Millions of Dollars

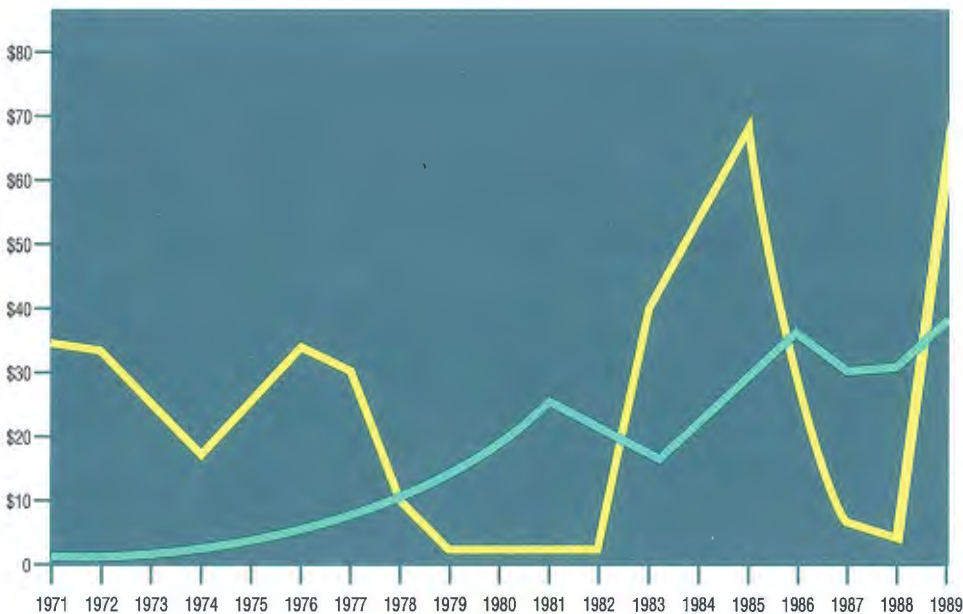
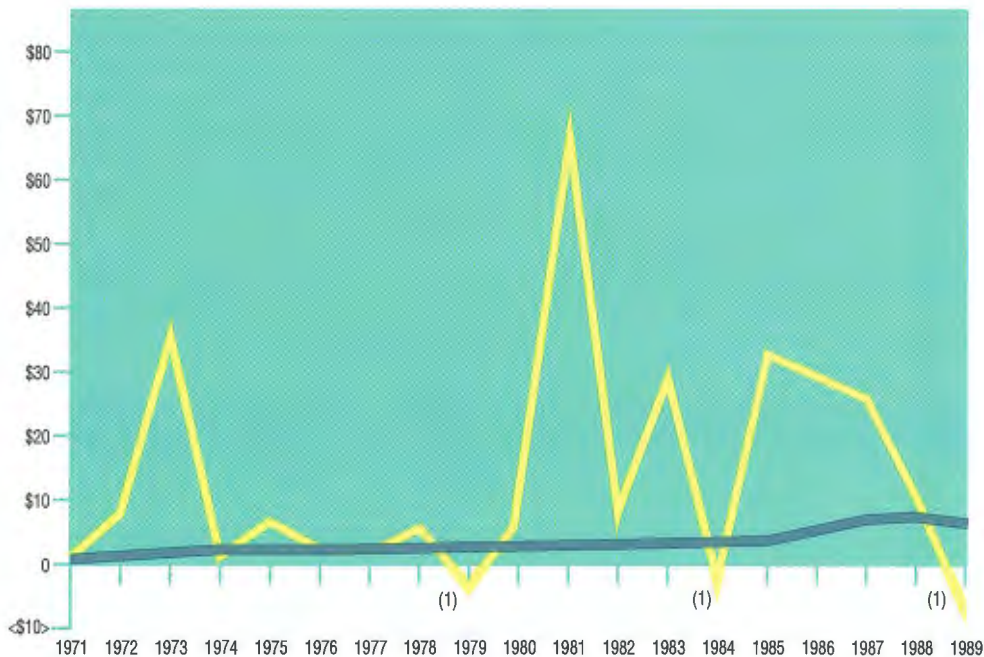


TABLE IV
SIPC Expenses for the
Nineteen Years Ended December 31, 1989

- Customer protection proceedings:
\$255,238,932
(Includes net advances of \$218,638,932 less estimated future recoveries of \$5,700,000 and \$42,300,000 of estimated costs to complete proceedings.)
- Other expenses: \$51,684,150

Millions of Dollars



(1) Net recoveries.

Litigation

During 1989, SIPC and SIPC trustees were actively involved in litigation at both the trial and appellate levels. The more significant decisions are summarized below.

In *In re Brittenum & Associates, Inc.* (*Dowden v. Cross County Bank*), 868 F.2d 272 (8th Cir. 1989), the court of appeals affirmed the decisions of the district and bankruptcy courts and held that a bank could not set off against certificates of deposit and a savings account, each of which was entitled "Special Reserve Account For the Exclusive Benefit of Customers" pursuant to SEC Rule 15c3-3, 17 C.F.R. §240.15c3-3 (1989).

In *In re Brentwood Securities, Inc.* (*Jackman v. SIPC*), 96 B.R. 1002 (9th Cir. BAP 1989), the Bankruptcy Appellate Panel affirmed the bankruptcy court's order that claimant is not a "customer" because he had failed to establish his "customer" status regarding each of the underlying transactions with the debtor broker-dealer.

In *In re Bevill, Bresler & Schulman, Inc.* (*Hill v. Spencer Savings and Loan Association*), 94 B.R. 817 (D.N.J. 1989), an action by the trustee against two S&Ls to avoid transfer of securities, the district court granted partial summary judgment for the trustee and held that S&Ls could not use bankruptcy code provisions to overcome the SIPA section which creates a legal fiction which treats securities as if they were owned by the debtor prior to transfer, and, if the transfer was for the benefit of the customer, treats the customer as if it were a creditor.

In *In re Bevill, Bresler & Schulman, Inc.*, Civ. No. 85-2224 (D.N.J. May 22, 1989), the district court held that a claim-

ant who successfully litigated his action with the SIPA trustee is not entitled to attorney's fees or prejudgment interest.

In *In re The Investment Bankers, Inc.* (*Turner v. Davis, Gillenwater & Lynch*), Civil Action No. 86-C-1945, Adv. Proc. No. 82-M-0087 (D. Col., October 5, 1989), the district court, reversing the bankruptcy court, held that SIPA liquidation proceedings can be removed to bankruptcy courts. The district court, among other things, affirmed the bankruptcy court's decision that the SIPA trustee can recover fees paid by the debtor to its attorneys to resist the SIPA liquidation petition.

In *In re Government Securities Corporation (Camp v. Morey)*, 107 B.R. 1012 (S.D. Fla. 1989), the district court, reversing the bankruptcy court, held that, but for certain limited statutory exceptions, the time limits for filing claims in SIPA liquidation proceedings are mandatory and may not be extended by the exercise of some equity power.

In *In re Bell & Beckwith (McKenny v. McGraw)*, Case No. 86-0163 (Bankr. N.D. Ohio, August 10, 1989), the bankruptcy court upheld the constitutionality of the SIPA statute, held that under the Supremacy Clause of the U.S. Constitution inconsistent state laws must give way to SIPA, and found that the method of allocation and distribution of customer property proposed by the SIPA trustee was in concert with the statute and congressional intent. An appeal to the United States District Court for the Northern District of Ohio is pending (Case Nos. 89 CV 7534; 89 CV 7541).

In *In re Government Securities Corporation (Camp v. National Union Fire Insur-*

ance Company), 101 B.R. 343 (Bankr. S.D. Fla. 1989), the bankruptcy court held that (i) the automatic termination provision in the debtor's securities dealer blanket bond was ineffective by virtue of section 541(c)(1)(B) of the Bankruptcy Code and (ii) the SIPA trustee was entitled to seek coverage for a possible loss under the bond.

SIPC v. Vigman, Case No. CV 83-4742-AWT (Tx), 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 made markets. The district court granted the summary judgment motion of one of the defendants and held, among other things, that SIPC did not have standing to bring the action under RICO. An appeal to the United States Court of Appeals for the Ninth Circuit is pending (No. 89-55094).

Shortly after 1989, in *Clark v. Goldberg*, 893 F.2d 1139 (10th Cir. 1990), the court of appeals affirmed the district court's decision that the former wife of the debtor's principal had waived and is now estopped from claiming any rights to property acquired by her former husband during their marriage. The SIPA trustee had garnished the property to satisfy large judgments obtained against the principal. The court of appeals noted that the district court had exclusive jurisdiction over the property subject to garnishment.

"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 1989, nine 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 76 of the 212 SIPC proceedings commenced since enactment of the Securities Investor Protection Act in December 1970. A total of 194 indictments have been returned in federal or state courts, resulting in 159 convictions to date. As of December 31, 1989, sentencing was pending against 1 person who had been convicted.

Administrative and/or criminal action in 199 of the 212 SIPC customer protection proceedings initiated through December 31, 1989, was accomplished as follows:

Action Initiated	Number of Proceedings
1. Joint SEC/Self-Regulatory Administrative Action	53
2. Exclusive SEC Administrative Action	40
3. Exclusive Self-Regulatory Administrative Action	30
4. Criminal and Administrative Action	68
5. Criminal Action Only	8
Total	<u>199</u>

In the 191 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	100	86
Bar from Association	325	186
Fines	Not Applicable	\$1,420,300

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 \$1,420,300 in fines assessed by self-regulatory authorities were levied against 72 associated persons and ranged from \$250 to \$374,300.

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 20 members referred under Section 5(a) during the calendar year 1989. Ten new referrals were received during the year and 10 active referrals had been carried forward from prior years. Seven of the 20 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.

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

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



*Report of Ernst & Young
Independent Auditors*

Board of Directors
Securities Investor Protection Corporation

We have audited the accompanying statement of financial condition of Securities Investor Protection Corporation as of December 31, 1989 and the related statements of operations and fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Securities Investor Protection Corporation at December 31, 1989, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst + Young

Washington, D.C.
March 16, 1990



Securities Investor Protection Corporation

Statement of Financial Condition December 31, 1989

ASSETS

Cash.....	\$ 323,857
Estimated member assessments receivable (Note 3).....	29,000,000
U.S. Government securities, at amortized cost and accrued interest receivable (\$11,408,410); (approximate market \$473,200,000).....	471,382,571
Advances to trustees for customer protection proceedings in progress, less allowance for possible losses (\$138,034,666) (Note 4).....	5,700,000
Other.....	416,903
	<u>\$506,823,331</u>

LIABILITIES AND FUND BALANCE

Advances to trustees—in process (Note 4).....	\$ 166,047
Accounts payable and accrued expenses.....	564,898
Estimated costs to complete customer protection proceedings in progress (Note 4).....	42,300,000
	<u>43,030,945</u>
Commitments (Note 5).....	
Fund balance.....	463,792,386
	<u>\$506,823,331</u>

Statement of Operations and Fund Balance for the year ended December 31, 1989

Revenues:	
Member assessments (Note 3).....	\$ 66,046,991
Interest on U.S. Government securities.....	35,077,140
	<u>101,124,131</u>
Expenses:	
Salaries and employee benefits (Note 7).....	1,974,100
Legal and accounting fees (Note 4).....	436,695
Credit agreement commitment fee (Note 5).....	1,227,634
Rent (Note 5).....	436,817
Other.....	664,542
	<u>4,739,788</u>
Excess estimated future recoveries over provision for estimated costs to complete customer protection proceedings in progress (Note 4).....	(6,496,061)
	<u>(1,756,273)</u>
Excess revenues.....	102,880,404
Fund balance, beginning of year.....	360,911,982
Fund balance, end of year.....	<u>\$463,792,386</u>

See notes to financial statements.

Statement of Cash Flows for the year ended December 31, 1989

Operating activities:	
Member assessments received	\$ 37,046,991
Interest received from U.S. Government securities	31,323,534
Advances paid to trustees	(5,891,773)
Recoveries of advances	12,144,611
Salaries and other operating activities expenses paid	(4,983,687)
Net cash provided by operating activities	<u>69,639,676</u>
Investing activities:	
Proceeds from sales of U.S. Government securities	484,884,179
Purchases of U.S. Government securities	(554,616,874)
Purchases of furniture and equipment	(2,042)
Net cash used by investing activities	<u>(69,734,737)</u>
Decrease in cash	(95,061)
Cash, beginning of year	<u>418,918</u>
Cash, end of year	<u>\$ 323,857</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 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 \$471,706,428.

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 Commis-

sion 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

Effective January 1, 1989, each member's assessment is paid semi-annually and it is at the rate of $\frac{3}{16}$ ths of 1% of gross revenues from the securities business or \$150, whichever is greater.

4. Customer protection proceedings

Customer protection proceedings (proceedings) include liquidations conducted by court appointed trustees and direct payment proceedings conducted by SIPC. There are 50 proceedings in progress at December 31, 1989. Customer claims have been satisfied in 43 of these proceedings and in 7 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	\$ 7,200,000	\$(44,000,000)
Add:		
Estimated future recoveries	10,600,000	
Provision for estimated costs to complete proceedings		(4,103,939)
Less:		
Recoveries estimated previously	(12,100,000)	
Advances to trustees		5,803,939
Balance, end of year	<u>\$ 5,700,000</u>	<u>\$(42,300,000)</u>

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 \$404,730 for the first five years and \$472,185 thereafter, total \$3,440,000. Additional rental based on increases in operating expenses, including real estate taxes, and in the Consumer Price Index, is required by the lease. Rent expense for 1989 totalled \$436,817.

A credit agreement effective March 31, 1989 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, 1992. Any outstanding borrowing by SIPC at the end of March 1992 must be repaid at a minimum in equal quarterly installments over the succeeding five years. A fee of 1/8th of 1% per annum on the unused portion of the commitment is payable quarterly to the banks.

6. Reconciliation of excess revenues with net cash provided by operating activities:

Excess revenues	\$102,880,404
Net decrease in estimated costs to complete customer protection proceedings	(1,700,000)
Decrease in amortized premium on U.S. Government securities	(1,941,746)
Increase in interest receivable	(1,811,861)
Net decrease in estimated recoveries of advances to trustees	1,500,000
Increase in member assessments receivable	(29,000,000)
Decrease in payables	(399,472)
Other reconciling items	112,351
Net cash provided by operating activities	<u>\$ 69,639,676</u>

7. Retirement Plans

SIPC has a non-contributory defined benefit plan and a contributory defined contribution plan which cover all employees. Information regarding these plans, provided in accordance with Statement No. 87 of the Financial Accounting Standards Board, follows:

Defined benefit plan (actuarially determined*):	
Service cost-benefits earned during 1989	\$141,018
Interest accrued on Projected Benefit Obligation	200,304
Return on Plan assets	(576,652)
Net amortization and deferral	281,632
Net pension expense	46,302
Defined contribution plan—SIPC contributions (60% of employee contributions, up to 3.6% of salary)	
	50,472
Total pension expense for 1989	<u>\$ 96,774</u>

*Assumptions used:

1. Discount rate	8%
2. Expected long-term rate of return	9%
3. Average compensation increase	5%
4. Cost of living adjustment	4%

As of January 1, 1990, the most recent actuarial valuation date, the funded status of the defined benefit plan was:

Present value of benefit obligations:	
Vested	\$2,046,821
Non-vested	252,854
	<u>\$2,299,675</u>
Effect of projected future salary increases	595,883
Projected Benefit Obligation ...	2,895,558
Market value of Plan assets ...	3,458,011
Funded Status—Projected Benefit Obligation less than market value of Plan assets	562,453
Unrecognized net asset	350,139
	212,314
Accrued pension expense ...	46,302
Unrecognized net gain	<u>\$ 258,616</u>

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
Omni Mutual, Inc. New York, New York (Sam Scott Miller, Esq.)	10/23/80	5/25/88	5/25/88	1,100	408
Fitzgerald, DeArman & Roberts, Inc. Tulsa, Oklahoma (David Newsome, Esq.)	12/18/63	6/28/88	6/28/88	52,219	20,000
George R. Fairweather Securities, Inc. Jersey City, New Jersey (SIPC)	7/ 8/85	9/ 8/88	9/ 8/88	16,500	392
Investors Center, Inc. Hauppauge, New York (Irving H. Picard, Esq.)	3/ 1/84	2/28/89	3/ 7/89	55,000	10,365
J.L. Henry & Co. Coral Gables, Florida (Direct Payment)	2/14/86		9/26/89 [†]	95	3
Fitzgerald, Talman, Inc. Denver, Colorado (SIPC)	6/16/83	11/ 1/89	11/ 1/89	7,800	11
Williams Financial Group, Inc. Spokane, Washington (Joseph D. Esposito, Esq.)	6/ 1/87	12/ 7/89	12/ 7/89	30	
TOTAL 7 MEMBERS: PART A				<u>132,744</u>	<u>31,179</u>

[†]Date notice published

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
		\$ 2,456,858	\$1,064,057			\$1,392,801	311
\$91,543,225	30,204	5,916,354	450,000		\$5,466,354		
62,822	14	110,324	77,630		16,741	15,953	14
		2,370,681	1,434,990		748,598	187,093	250
		1,275	1,275				
		20,000	20,000				
		10,000	10,000				
<u>\$91,606,047</u>	<u>30,218</u>	<u>\$10,885,492</u>	<u>\$3,057,952</u>		<u>\$6,231,693</u>	<u>\$1,595,847</u>	<u>575</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	906	551
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
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
Institutional Securities of Colorado, Inc. Denver, Colorado (Ralph M. Clark, Esq.)	4/27/71	9/29/76	10/ 4/76	9,000	1,780
Dennis Lee Mirus Lake Forest, Illinois (Robert Dunn 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

*Successor Trustee.

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 126,647	54	\$ 66,848		\$ 13,987	\$ 16,034	\$ 36,827	33
814,261	491	541,729	\$ 311,746	40,044	16,368	173,571	233
776,386	12,572	4,047,860	1,741,478	3,125	2,044,056	259,201	6,571
36,827	54	178,252	122,019	214	17,814	38,205	30
2,271,501	1,219	2,386,344	290,866	30,535	1,449,655	615,288	1,341
3,728,930	1,296	256,371	156,000		62,591	37,780	484
		460,932	146,780		53,452	260,700	13
2,128,941	883	3,667,484				3,667,484	1,189
6,458,025	260	4,962,160	4,159,688	60,804	329,980	411,688	778
27,218,033	2,417	13,012,908	4,284,285		2,292,439	6,436,184	1,328
25,964,581	16,000 (Estimated)	2			2		
24,989,564	9,726	5,449,313		281,936	3,444,054	1,723,323	3,495

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
Langheinrich & Fender, Inc. Salt Lake City, Utah (Hershel J. Saperstein, Esq.)	2/ 2/78	9/14/81	9/22/81	4,330	2,750
T.E. Slanker Co., Inc. Portland, Oregon (Douglas M. Thompson, Esq.)	8/20/69	2/ 4/82	2/24/82	9,000	2,100
International Securities, Inc. Denver, Colorado (William D. Scheid, Esq.)	1/ 6/76	2/25/82	2/25/82	5,000	1,262
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
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

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 1,601,387	1,984	\$ 831,871	\$ 202,786		\$ 180,768	\$ 448,317	1,307
9,770,005	2,980	344,727	216,732		127,995		2,000
967,953	963	251,621	224,766		10,479	16,376	29
16,227	4	1,392,168	794,526		391,048	206,594	23
15,575,600	12,858	(26,053)	(26,053)				
80,755,000	2,300	32,534,716				32,534,716	6,523
1,666,660	228	1,458,719			608,719	850,000	2,700
37,153,288	1,500	(1)	(1)				
972,617	1,560	1,562,046	646,558		556,070	359,418	328
27,098,007	11,543	2,644,585	1,266,104		420,523	957,958	1,590
19,312,222	1,104	1,045,513	10,000	\$130,000	476,569	428,944	63

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	1,182
First Interwest Securities Corp. Denver, Colorado (Glen E. Keller, Jr., Esq.)	4/25/83	6/ 7/84	6/ 7/84	6,785	2,621
Brentwood Securities, Inc. Los Angeles, California (SIPC)	7/18/77	8/31/84	2/ 7/85	754	135
Coastal Securities Corporation Los Angeles, California (Gavin Miller, Esq.)	1/30/81	5/ 3/85	5/ 3/85	1,650	365
Bevill, Bresler & Schulman, Inc. Livingston, New Jersey (Richard W. Hill, Esq.)	12/ 1/75	4/ 8/85	5/ 8/85	23,800	4,700
Parr Securities Corp. New York, New York (Edwin B. Mishkin, Esq.)	8/14/81	5/ 6/85	5/17/85	1,350	63
Donald Sheldon & Co., Inc. New York, New York (Don L. Horwitz, Esq.)	12/ 1/75	7/30/85	8/13/85 2/17/87*	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
Brittenuum & Associates, Inc. Little Rock, Arkansas (James Dowden, Esq.)	12/ 4/75	1/28/86	1/30/86	2,100	212
Kobrin Securities Inc. East Brunswick, New Jersey (Jack Birnberg)	10/ 2/81	7/23/85	3/26/86	23,000	1,047

*Successor Trustee.

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 392,986	1,079	\$ 306,501			\$ 305,797	\$ 704	1,401
5,302,067	6,140	719,233	\$ 270,000		190,240	258,993	139
		1,019,573	455,545			564,028	61
1,288,590	314	1,220,000	20,000		1,200,000		325
397,836,433	3,300	24,216,931	4,557,409	\$ 1,107	7,483,186	12,175,229	3,601
771,571	7	2,760,215			2,760,215		5
6,027,008	2,362	8,703,576	1,285,900		7,013,546	404,130	213
828,071	26	623,458	177,128		446,330		23
23,275,481	94	31,037	31,037				
		1,000,059	754,132		176,748	69,179	40

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
Beacon Securities, Inc. Hilton Head, South Carolina (William G. Hays)	4/15/83	10/29/85	5/ 2/86	74	70
Cusack, Light & Company West Orange, New Jersey (Frederick B. Lacey, Esq.)	3/22/83	6/25/86	6/25/86	1,404	180
John Franklin & Associates, Inc. East Meadow, New York (SIPC)	12/ 4/84	11/ 5/86	11/ 5/86	550	18
EBS Brokerage Services, Inc. Tinley Park, Illinois (Robert Dunn Glick, Esq.)	8/19/85	3/13/87	3/23/87	950	28
Government Securities Corp. Coral Gables, Florida (John R. Camp, Jr., Esq.)	12/12/86	5/12/87	5/12/87	4,000	3,325
H.B. Shaine & Co., Inc. Grand Rapids, Michigan (Cyril Moscow, Esq.)	4/ 8/57	10/20/87	10/20/87	18,000	5,242
Windsor Equity Corporation Brookfield, Wisconsin (David A. Erne, Esq.)	1/ 5/83	3/21/88	3/21/88	2,885	176
Rothschild Equity Management Group, Inc. Ft. Lauderdale, Florida (Direct Payment)	3/19/82		12/ 9/88 [†]	1,024	44
Waddell-Jenmar Securities, Inc. Chapel Hill, North Carolina (SIPC)	9/19/83	1/22/88	4/10/89	250	17
Richard Wallace Humphries d/b/a Humphries & Company, Inc. San Francisco, California (Direct Payment)	3/23/87		9/26/89 [†]	3	2
TOTAL 43 MEMBERS: PART B				<u>395,138</u>	<u>107,686</u>

[†]Date notice published

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances					
Value	Number of Customers	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash	Number of Customers
\$ 335,000	25	\$ 2,533,764	\$ 739,892			\$ 1,793,872	68
434,885	260	889,517	410,931		\$ 115,588	362,998	53
359,721	1	531,838	7,360		410,770	113,708	2
		62,358	40,878			21,480	7
32,735,697	2,403	9,109,953	488,317		6,178,105	2,443,531	862
106,204,000	5,158	1,409,850	25,000		1,384,850		3,340
		610,563	149,556		430,620	30,387	44
		7,579	4,579			3,000	2
		31,908	21,908			10,000	1
		15,812	812			15,000	2
<u>\$865,194,172</u>	<u>103,165</u>	<u>\$132,873,840</u>	<u>\$23,988,664</u>	<u>\$561,752</u>	<u>\$40,594,611</u>	<u>\$67,728,813</u>	<u>40,267</u>

APPENDIX I *Customer Protection Proceedings*

PART C: Proceedings Completed in 1989

Member and Trustee By Date of Appointment	Trustee Appointed	Number of Customers For Whom Trustees Have Distributed Securities and Cash	Total
Swift, Henke & Co., Inc. Chicago, Illinois (J. William Holland, Esq.)	3/15/77	194	\$ 5,713,929
Stix & Co., Inc. St. Louis, Missouri (Harry O. Moline, Jr., Esq.)	11/ 9/81	4,205	35,182,723
G.S. Omni Corporation Denver Colorado (James H. Turner, Esq.)	3/ 8/82	3,295	4,083,184
American Western Securities, Inc. Denver, Colorado (SIPC)	4/24/84	30	13,938
Vantage Securities of Colorado Inc. Englewood, Colorado (Glen E. Keller, Jr., Esq.)	11/30/84	10,673	15,424,172
TK Securities, Inc. Ft.Lauderdale, Florida (Samuel A. Brodnax, Jr., Esq.)	10/ 4/85	346	462,665
TOTAL 6 MEMBERS 1989		18,743	60,880,611
TOTAL 156 MEMBERS 1973–1988^(b)		100,620	341,360,013
TOTAL 162 MEMBERS 1973–1989		119,363	\$402,240,624

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 3,621,765	\$ 2,092,164	\$ (92,974)	\$ (92,974)			
34,206,267	976,456	16,990,497			\$ 6,906,343	\$10,084,154
3,013,478	1,069,706					
13,938		52,782	41,087		4,208	7,487
14,920,199	503,973	1,324,684	800,895		127,378	396,411
396,443	66,222	570,747	464,580		73,024	33,143
56,172,090	4,708,521	18,845,736	1,213,588		7,110,953	10,521,195
<u>311,547,474</u>	<u>29,812,539</u>	<u>56,033,864</u>	<u>11,899,293</u>	<u>\$904,872</u>	<u>23,900,882</u>	<u>19,328,817</u>
<u>\$367,719,564</u>	<u>\$34,521,060</u>	<u>\$74,879,600</u>	<u>\$13,112,881</u>	<u>\$904,872</u>	<u>\$31,011,835</u>	<u>\$29,850,012</u>

APPENDIX I *Customer Protection Proceedings*

PART D: Summary

	Responses Received/ Customers Receiving Distributions	<u>Total</u>
Part A: 7 Members—Customer Claims and Distributions Being Processed	31,179	\$ 91,606,047
Part B: 43 Members—Customer Claims Satisfied, Litigation Matters Pending	<u>107,686</u>	<u>865,194,172</u>
Sub-Total	138,865	956,800,219
Part C: 162 Members—Proceedings Completed	<u>119,363^(c)</u>	<u>402,240,624</u>
TOTAL	<u>258,228</u>	<u>\$1,359,040,843</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.

December 31, 1989

Distributions From Debtor's Estates		SIPC Advances				
For Accounts of Customers	Administration Expenses	Total Advanced	Administration Expenses	Contractual Commitments	Securities	Cash
\$ 91,606,047	(d)	\$ 10,885,492	\$ 3,057,952		\$ 6,231,693	\$ 1,595,847
<u>865,194,172</u>	<u>(d)</u>	<u>132,873,840</u>	<u>23,988,664</u>	<u>\$ 561,752</u>	<u>40,594,611</u>	<u>67,728,813</u>
956,800,219		143,759,332	27,046,616	561,752	46,826,304	69,324,660
<u>367,719,564</u>	<u>\$34,521,060</u>	<u>74,879,600</u>	<u>13,112,881</u>	<u>904,872</u>	<u>31,011,835</u>	<u>29,850,012</u>
<u>\$1,324,519,783</u>	<u>\$34,521,060</u>	<u>\$218,638,932</u>	<u>\$40,159,497</u>	<u>\$1,466,624</u>	<u>\$77,838,139</u>	<u>\$99,174,672</u>

APPENDIX II *Analysis of SIPC Revenues and Expenses for the Five Years Ended December 31, 1989*

	1989	1988	1987	1986	1985
Revenues:					
Member assessments and contributions	\$ 66,046,991	\$ 988,079	\$ 935,368	\$23,067,147	\$ 71,027,532
Interest on U.S. Government securities	34,965,465	28,680,924	28,161,228	31,702,230	30,608,790
Interest on assessments	111,675	10,196	20,533	368,474	101,662
	<u>101,124,131</u>	<u>29,679,199</u>	<u>29,117,129</u>	<u>55,137,851</u>	<u>101,737,984</u>
Expenses:					
Salaries and employee benefits	1,974,100	1,801,726	1,652,073	1,717,296	1,564,250
Legal fees	417,695	2,484,989	1,959,731	1,648,246	1,343,102
Accounting fees*	19,000	19,000	14,900	9,285	18,063
Credit agreement commitment fee	1,227,634	1,300,009	1,300,000	1,305,478	—
Professional fees—automation	24,239	48,151	26,199	52,564	217,394
Other:					
Assessment collection direct cost	22,992	19,741	2,230	16,468	14,543
Custodian fees	28,827	27,735	33,215	16,795	15,237
Depreciation and amortization	126,931	119,459	103,299	83,639	66,340
Directors fees and expenses	11,337	10,830	7,698	5,359	14,758
Insurance	19,228	21,401	15,217	12,682	11,341
Office supplies and expenses	176,666	163,652	163,694	194,224	170,937
Postage	13,058	15,777	15,534	19,579	20,983
Printing and mailing annual report	54,928	58,587	26,231	30,279	23,397
Publications and reference services	53,555	45,643	47,617	47,856	42,805
Rent—office space	436,817	418,644	377,291	322,786	343,695
Telephone and telegraph	12,469	14,308	14,063	20,426	20,011
Travel and subsistence	92,503	141,625	190,169	108,890	154,740
Miscellaneous	27,809	29,213	42,087	38,678	38,223
	<u>1,077,120</u>	<u>1,086,615</u>	<u>1,038,345</u>	<u>915,661</u>	<u>937,010</u>
	<u>4,739,788</u>	<u>6,740,490</u>	<u>5,991,248</u>	<u>5,648,530</u>	<u>4,079,819</u>
Customer protection proceedings:					
Net advances to (recoveries from):					
Trustees other than SIPC:					
Contractual commitments	(76,793)	(3,558)	—	16,000	44,975
Securities	(967,860)	357,148	9,795,412	4,278,504	256,798
Cash	(7,955,931)	(2,796,497)	8,108,976	5,787,319	7,178,900
	<u>(9,000,584)</u>	<u>(2,442,907)</u>	<u>17,904,388</u>	<u>10,081,823</u>	<u>7,480,673</u>
Administration expenses	2,568,939	5,001,525	9,264,713	2,340,366	2,350,497
	<u>(6,431,645)</u>	<u>2,558,618</u>	<u>27,169,101</u>	<u>12,422,189</u>	<u>9,831,170</u>
Net change in estimated future recoveries	1,500,000	2,100,000	(3,500,000)	6,500,000	6,300,000
	<u>(4,931,645)</u>	<u>4,658,618</u>	<u>23,669,101</u>	<u>14,922,189</u>	<u>16,131,170</u>
SIPC as Trustee:					
Securities	18,161	412,318	—	27,461	5,407
Cash	25,953	117,147	62,060	505,881	109,651
	<u>44,114</u>	<u>529,465</u>	<u>62,060</u>	<u>533,342</u>	<u>115,058</u>
Administration expenses	71,383	196,956	241,012	253,509	40,206
	<u>115,497</u>	<u>726,421</u>	<u>303,072</u>	<u>786,851</u>	<u>155,264</u>
Net change in estimated future recoveries	—	—	—	—	100,000
	<u>115,497</u>	<u>726,421</u>	<u>303,072</u>	<u>786,851</u>	<u>255,264</u>
Direct payments:					
Securities	—	—	—	34,307	16,313
Cash	18,000	35,500	—	6,526	62,596
	<u>18,000</u>	<u>35,500</u>	<u>—</u>	<u>40,833</u>	<u>78,909</u>
Administration expenses	2,087	10,154	6,000	906	650
	<u>20,087</u>	<u>45,654</u>	<u>6,000</u>	<u>41,739</u>	<u>79,559</u>
Net change in estimated costs to complete proceedings					
	<u>(1,700,000)</u>	<u>4,800,000</u>	<u>1,500,000</u>	<u>10,800,000</u>	<u>17,300,000</u>
	<u>(6,496,061)</u>	<u>10,230,693</u>	<u>25,478,173</u>	<u>26,550,779</u>	<u>33,765,993</u>
	<u>(1,756,273)</u>	<u>16,971,183</u>	<u>31,469,421</u>	<u>32,199,309</u>	<u>37,845,812</u>
Excess revenues (expenses)	<u>\$102,880,404</u>	<u>\$12,708,016</u>	<u>\$(2,352,292)</u>	<u>\$22,938,542</u>	<u>\$ 63,892,172</u>

*Includes fees and expenses of litigation related to proceedings (1985-\$3,363).

APPENDIX III *Distributions for Accounts of Customers
for the Nineteen Years Ended December 31, 1989*
(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	180,973 [†]	7,674	188,647 [†]
1986	28,570	10,472	39,042
1987	394,443	17,828	412,271
1988	72,052 [†]	(1,878)*	70,174 [†]
1989	121,958	(8,939)*	113,019
	<u>\$1,324,520</u>	<u>\$178,479</u>	<u>\$1,502,999</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 self-regulatory organizations—the exchanges and the National Association of Securities Dealers, Inc.—and the Securities and Exchange Commission (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 pro-



ceeding. 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.

The SIPC staff, numbering 36, 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 revolving line of credit was obtained from a consortium of banks. In addition, if the need arises, the SEC has the authority to lend SIPC up to \$1 billion, which it, in turn, would borrow from the United States Treasury.

*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.

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.

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., Book Order Department, P.O. Box 9403, Gaithersburg, MD 20898-9403.