



The Investor's Guide to Brokerage Firm Liquidations

Introduction

Brokerage firms that experience serious financial difficulties and must be shut down may undergo what are called “liquidation” proceedings. The good news is that such closures do not happen very often. Thanks to the combined efforts of securities regulators (the U.S. Securities and Exchange Commission and state securities regulators), and securities industry self-regulatory organizations (FINRA and stock exchanges), brokerage firm failures are a rare event in the United States. Even when a brokerage firm encounters financial difficulty, it usually has all of the assets owed to its customers, and can efficiently transfer those assets to another brokerage without a liquidation proceeding.

However, a small handful of brokerage firms do encounter more severe financial difficulties, including customer assets that may be missing due to theft. These are the instances where the Securities Investor Protection Corporation (SIPC) steps in to recover or replace customer cash and securities, within certain limits set by law. SIPC was created in 1970 by Congress under the Securities Investor Protection Act (SIPA) to protect the interests of investors and to help bolster confidence in the integrity of the American securities markets. Nearly all brokerage firms registered with the U.S. Securities and Exchange Commission are required by law to be members of SIPC.

If your brokerage firm is liquidated...

If your brokerage firm has closed and SIPC has initiated a liquidation proceeding in court or a Direct Payment Procedure, you should immediately do the following:

1. Gather key information together. Locate your brokerage account records. Pull together monthly or quarterly statements and trade confirmation slips of securities purchases or sales. Check these documents for accuracy. If you complained in writing to your brokerage firm about any discrepancy between your records and those of the firm, you also should gather this correspondence.

2. Make sure you receive a claim form. The Trustee will mail a claim form to each customer who had an account with the brokerage firm within the previous 12 months. If you do not receive a claim form in the mail, you can find a copy on our website, www.sipc.org, or request a claim form by contacting the Trustee or by contacting SIPC by email (asksipc@sipc.org) or by phone (202-371-8300).

3. Fill out a claim form and return it to the Trustee within the deadline. Make sure that you fill out the form in full and make a copy for your records. Send a copy of the form (and any necessary documents) – not the originals. Submit the claim form by certified mail with return receipt requested. It is important that you can prove the Trustee received your claim form. If the claim form is not received, you are at risk of not getting back your assets. Pay strict attention to time limits set forth in the notice and claim form.

What are the deadlines?

Maximum Protection Deadline. The bankruptcy court will establish a deadline for filing of customer claims. This deadline is usually 60 days after the date the notice of the proceeding is published, but could be as little as 30 days after the publication date. The deadline appears in the published notice and a copy of the notice is mailed to customers.

Six Month Deadline for All Claims. The six-month deadline for all claims is set out in the Securities Investor Protection Act. Federal law makes SIPC protection unavailable for any claim that is received more than six months after the publication date. Except for some very narrow exceptions, there are no grounds for time extensions beyond the six month deadline.

When can I expect to receive my property?

How quickly claims are satisfied depends on the complexity of the liquidation and the condition of the brokerage firm's records. Delays of several months can arise when the failed brokerage firm's records are not accurate. It also is not uncommon for delays to take place when the troubled brokerage firm or its principals were involved in fraud. When the records of the brokerage firm are accurate, and no fraud occurred, deliveries of some securities and cash to customers may begin shortly after the Trustee receives the completed claim forms from customers. Generally, in these cases, customers may receive at least some of their property one to three months after filing the completed claim form.

Frequently Asked Questions

Will SIPC protect my securities?

SIPC protects customers, up to \$500,000 for securities and cash (including a \$250,000 limit for cash only). For details of SIPC protection, go to SIPC's website at www.sipc.org.

I didn't get a claim form.

What should I do?

Go to SIPC's website at www.sipc.org. Shortly after a liquidation proceeding starts, SIPC will post a copy of the claim form on its website. You can print out the claim form on the website and send it in. You also can consult the SIPC website to find the address to use to write to the Trustee and request a claim form.

I think I was a victim of fraud. My broker convinced me to buy securities that went down sharply in value. Can SIPC return the amount of my initial investment?

No. SIPC returns the "filing date" value of your eligible holdings at a brokerage firm. If your securities have gone down in value, that is just part of the normal risk involved in being an investor. On the other hand, if your securities have gone up in value since you purchased them, SIPC will endeavor to return those securities to you at their "filing date" value. You may have a "general creditor claim" for your market losses, but that is not something that falls within the scope of SIPA. Funds from SIPC cannot be used to pay damage claims based on fraud.

How long will it take for me to get control of my account again?

Every liquidation proceeding is different. In some instances, a Trustee has been able to transfer accounts in as little as one to three weeks. However, if the records of the defunct brokerage firm are in disarray, or if for any other reason it is not possible to transfer your account to a financially healthy brokerage firm, the process may take more time. You can cut down on the delays by filing your claim promptly, correctly and with all required documentation.

After the liquidation proceeding involving my "old" brokerage firm started, I received a notice that my account was transferred to another brokerage firm. Should I still complete a claim form?

Yes. You should still complete the claim form anyway and return it to the Trustee. There are a number of things which might go wrong with a transfer of your assets to the new brokerage firm. Your account may be rejected by the new firm, or returned to the Trustee for some other reason. If anything does in fact go wrong with the transfer of your account, the claim form will be the only way you will be able to receive your assets. Fill out the claim form and return it even if you have been told your account has been transferred.

**You can find SIPC on
the Web at www.sipc.org.**



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