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What Protections Do You Have When a Broker-Dealer Goes Out of Business?

It's the talk of the town. As a result of the recent turmoil in financial markets in the United States and the collapse of Bear Stearns and Lehman Brothers, investors are increasingly concerned about the protection of their assets held by broker-dealers. As a result, we thought it would be helpful to provide a brief overview of the rules and regulations that are already in place to protect customers of U.S. registered broker-dealers, which are enforced by the Securities and Exchange Commission (SEC), as well as protection by the Securities Investor Protection Corporation (SIPC).

SEC Customer Protection Rule

The SEC's Customer Protection Rule requires a broker-dealer to segregate customer cash and securities from a broker-dealer's own proprietary assets. More specifically, the rule requires that a broker-dealer keep customer cash and fully paid securities free of lien and in a safe location.

Any person who has deposited funds or securities in a securities account at a broker-dealer is a "customer" under the Customer Protection Rule. Securities customers of U.S. broker-dealers are not permitted to opt out of the protections afforded by the Customer Protection Rule.

SIPC Protections

In addition to the Commission's rules that protect securities customers, SIPC also protects securities customers up to \$500,000 per customer, including a maximum of \$100,000 for cash claims, if a brokerage firm goes out of business and is a member of SIPC. In addition, some brokerage firms obtain private insurance policies to provide protection above SIPC limits. If a member becomes insolvent, SIPC will ask a court to appoint a trustee to supervise the firm's liquidation and to process investors' claims.

SIPC covers most types of securities, such as stocks, bonds, and mutual funds. But SIPC *does not* protect you against:

- Losses caused by a decline in the market value of your securities;
- Investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the SEC; or
- Commodities futures contracts.

To determine if your broker-dealer is a member of SIPC, or to learn more about the SIPC protections, you can check the SIPC website at www.sipc.org.

We will continue to monitor all developments in this area, as the financial services industry undergoes epic change.

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