

becomes insolvent. FDIC does not cover securities, mutual funds, or similar types of investments. For more information about FDIC insurance, see [www.fdic.gov](http://www.fdic.gov).

**4. I am an investor with an account value at a broker/dealer that is higher than \$500,000.**

**What should I do?**

Ask your brokerage firm representative to explain the protection that is available for your account above the SIPC limits and to discuss the firm's internal controls and financial strength. Knowing that you are with a well-run, financially stable firm is your best assurance that your assets are safe and protected.

**5. What is LPL Financial excess SIPC coverage, and who is the carrier?**

LPL Financial has excess SIPC protection from Lloyd's of London. The firm's coverage limit is \$750,000,000 in the aggregate. Please contact your registered representative or refer to [www.lpl.com](http://www.lpl.com) for further information.

## **Frequently Asked Questions Regarding Excess SIPC Insurance**

The following frequently asked questions help explain the role the Securities Investor Protection Corporation plays in protecting investors' assets at securities firms.

## 1. How are customer assets held at securities firms protected?

### **Customers assets are separate from firm assets**

Securities regulations protect your funds and your securities when you keep them at a broker/dealer. The Securities and Exchange Commission (SEC) requires broker/dealers to deposit customer funds in a separate account, distinct from the firm's own money. Securities held by clients in "street name" are kept securely with the Depository Trust Company, separate and distinct from the assets of securities firms. Regulated by the SEC and the Federal Reserve, the depository is a national clearinghouse for settling trades, and a custodian of securities. Regulators and independent auditors periodically review firms' financial records to ensure that clients' assets are accurately tracked and held separately from the firms' own holdings.

### **Customer assets are protected by SIPC**

In addition, Congress created the Securities Investor Protection Corporation (SIPC) in 1970 to protect customers of member broker/dealers that may fail or be liquidated. If any securities or cash are missing from eligible customer accounts, the corporation steps in to replace those securities and cash. This account protection is limited to \$500,000 per customer, including up to \$100,000 in cash. The account protection applies in the event an SIPC member firm fails financially and is unable to meet obligations to securities clients, but it does not protect against losses from the rise

and fall in the market value of investments. (Losses resulting from a fall in a security's value are not covered.) For an explanatory brochure, please visit [www.sipc.org](http://www.sipc.org).

### **Customer assets may be protected by "excess SIPC"**

Most securities firms offer additional account protection beyond SIPC's limits (commonly referred to as "excess SIPC"). This coverage is provided through private arrangements between securities firms and insurance companies. Since the protections vary from firm to firm, clients should talk with their broker/dealer to learn about what is provided.

## 2. How does SIPC protection work?

Customers can have confidence that, given the very high percentage of client assets that are recovered during liquidation, SIPC coverage is adequate for nearly all customer accounts. Consider:

First, federal securities law requires that customer assets be segregated from a firm's own assets. The law is backed by internal and external audits and regulatory examinations.

Second, most customer assets are held in book-entry form at industry depositories and not in physical possession by the firms themselves.

Third, SIPC reports that 99.7% of eligible investors have been made whole in the 306 failed brokerage firm cases that it has handled over the past 32 years. None of these cases required a payment under excess SIPC coverage. The remaining 0.3 percent of investors had claims in excess of the SIPC limits, but LPL Financial understands that these claims were filed by clients of broker/dealers that did not carry excess coverage.

Fourth, SIPC funds are used to make investors whole after all customer assets held at the brokerage firm have been recovered. The SIPC limit of \$500,000 (\$100,000 cash) per account does not mean that the account will receive only up to \$500,000. Rather, in an SIPC customer proceeding, the account will receive a pro-rata share of all client assets recovered in liquidation and then will receive up to \$500,000 from SIPC to make up any difference that may still exist.

### **To illustrate an SIPC liquidation:**

- Assume a firm fails, resulting in \$5 billion of client claims on assets
- Assume a recover rate of assets in liquidation of 90 percent or \$4.5 billion
- Assume a client with an account of \$5 million
- In a customer proceeding, the client would receive \$4.5 million from recovered assets and \$500,000 from SIPC. The loss on a \$5 million client account would be zero.

## 3. How does SIPC protection compare with FDIC insurance?

The Federal Deposit Insurance Corporation (FDIC) protects deposits up to \$250,000 per depositor until December 31, 2009. On January 1, 2010, FDIC deposit insurance for all deposit accounts—except for certain retirement accounts—will return to at least \$100,000 per depositor. Insurance coverage for certain retirement accounts, which include all IRA deposit accounts, was increased permanently to \$250,000 per depositor in 2006. FDIC covers most, but not all, U.S. banks and savings associations in the event that the institution