

# SIPC® ASSET PROTECTION REFERENCE GUIDE

## Overview of the Protection of Client Assets Held in Custody by Pershing LLC

For over 70 years, Pershing has been a leading global provider of financial business solutions to many of the world's most respected financial organizations. It remains focused on the safekeeping, servicing, segregation and reporting of assets held in its custody. As of September 30, 2010, Pershing was operating with a net capital of \$1.1 billion, well above the minimum requirement. You may refer to Pershing's Statement of Financial Condition for additional information.

Pershing is a subsidiary of BNY Mellon, one of the world's largest financial organizations. BNY Mellon ranks among the top financial services companies in the world, with a market capitalization of approximately \$32.4 billion, as of September 30, 2010, and \$24.4 trillion in assets held under custody and administration. Please refer to BNY Mellon's Third Quarter 2010 Financial Results for additional information.

Pershing is a member of the Securities Investor Protection Corporation® (SIPC®). As a result, securities in your account are protected up to \$500,000 (of which \$250,000 can be for claims for cash awaiting reinvestment). For details, please go to [www.sipc.org](http://www.sipc.org). Please note that SIPC does not protect against any loss due to market fluctuation.

In addition to SIPC protection, Pershing provides coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurers.<sup>1</sup> Please note that the current excess of SIPC policy is scheduled to expire on December 10, 2011.<sup>2</sup> The excess of SIPC coverage provides the following protection for assets held in custody by Pershing and Pershing Securities Limited, its London-based affiliate:

- An aggregate loss limit of \$1 billion for eligible securities – across all client accounts
- A per-client loss limit of \$1.9 million for cash awaiting reinvestment – within the aggregate loss limit of \$1 billion

The excess of SIPC coverage does not protect against loss due to market fluctuation. For more information about Lloyd's of London, please see [www.lloyds.com](http://www.lloyds.com). An excess of SIPC coverage claim would only arise in the unlikely event that Pershing fails financially and client assets for covered accounts – as defined by SIPC for Pershing LLC accounts or the Financial Services Compensation Scheme (FSCS) for Pershing Securities Limited accounts – cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.



Financial Services

<sup>1</sup> Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

<sup>2</sup> The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

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## Q. HOW ARE THE ASSETS HELD IN MY BROKERAGE ACCOUNT PROTECTED?

A. Our core financial strength provides the foremost measure of the protection of assets held in our custody. As of September 30, 2010, Pershing was operating with a net capital of \$1.1 billion, well above the minimum requirement.

In addition to our financial strength, Pershing, as a clearing agent, provides a number of safeguards for the physical protection of assets held in our custody, including:

- An annual audit by a major independent audit firm and the audit team at our parent company, BNY Mellon.
- An annual Statement on Auditing Standards (SAS) 70 Type II audit, which is performed (as required) by a major independent audit firm, to provide additional evaluation of the design and operating effectiveness of Pershing's internal controls as they relate to:
  - Account transfers
  - Broker-dealer billing
  - Clearance and settlement
  - Confirmations and cash management functions
  - Corporate actions
  - Foreign exchange and prime brokerage controls
  - Interest
  - Margin monitoring
  - Order and trade processing
  - Physical custody
  - Pricing
  - Statements

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In addition to SIPC protection, Pershing provides coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurers.<sup>3</sup> Please note that the current excess of SIPC policy is scheduled to expire on December 10, 2011.<sup>4</sup> The excess of SIPC coverage provides the following protection for assets held in custody by Pershing and Pershing Securities Limited, its London-based affiliate:

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The excess of SIPC coverage does not protect against loss due to market fluctuation. For more information about Lloyd's of London, please see [www.lloyds.com](http://www.lloyds.com). An excess of SIPC coverage claim would only arise in the unlikely event that Pershing fails financially and client assets for covered accounts – as defined by SIPC for Pershing LLC accounts or the Financial Services Compensation Scheme (FSCS) for Pershing Securities Limited accounts – cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.

<sup>3</sup> Pershing's excess of SIPC coverage is provided by Lloyd's of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

<sup>4</sup> The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

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## **Q. HOW DOES PERSHING ENSURE THAT THE CONTROLS IT HAS IN PLACE ARE OPERATING EFFECTIVELY?**

A. As required, Pershing segregates investor assets, which are fully paid for, from its own assets. Therefore, in the unlikely event of a financial failure at Pershing, investors' assets will remain untouched and separate from Pershing's own assets. Pershing is required to maintain enough liquid assets, net of any liabilities, to ensure the return of investors' assets in the event of firm failure and liquidation.

In addition, an annual SAS 70 Type II audit is performed (as required) by a major independent audit firm, to provide additional evaluation of the design and operating effectiveness of Pershing's internal controls as they relate to:

- Account transfers
- Broker/dealer billing
- Clearance and settlement
- Confirmations and cash management functions
- Corporate actions
- Foreign exchange and prime brokerage controls
- Interest
- Margin monitoring
- Order and trade processing
- Physical custody
- Pricing
- Statements

## **Q. WHAT IS SIPC?**

A. To learn about SIPC and the role SIPC plays in investor protection, please visit [www.sipc.org](http://www.sipc.org).

## **Q. WHO CAN BE A MEMBER OF SIPC?**

A. All SIPC members must be registered with the U.S. Securities and Exchange Commission (SEC). If a member loses its SEC registration, its SIPC membership is automatically terminated. To search for member firms, please visit [www.sipc.org](http://www.sipc.org).

## **Q. WHO EXAMINES THE OPERATIONAL AND FINANCIAL CONDITIONS OF SIPC MEMBERS?**

A. The SEC, the Financial Industry Regulatory Authority, Inc.<sup>TM</sup> (FINRA<sup>TM</sup>) and state regulators are the "examining authorities" for SIPC members. SIPC itself has no authority to examine or inspect member broker/dealers.

## **Q. HOW DOES SIPC PROTECTION WORK?**

A. To learn about how SIPC protection works, please refer to the following brochure: [www.sipc.org](http://www.sipc.org).

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**Q. IN ADDITION TO SIPC PROTECTION, PERSHING PROVIDES COVERAGE IN EXCESS OF SIPC LIMITS FROM LLOYD’S OF LONDON, IN CONJUNCTION WITH OTHER INSURERS.<sup>5</sup> WHAT IS EXCESS OF SIPC COVERAGE?**

A. Through private arrangements between broker/dealers and insurance companies, most broker/dealers also provide additional account protection beyond SIPC coverage, which is commonly known as “excess of SIPC” coverage.

**Q. WHO IS LLOYD’S OF LONDON?**

A. Lloyd’s of London is one of the world’s best-known insurance brands. Unlike most other insurance brands, Lloyd’s of London is not a company, it is a marketplace of members, who join together as syndicates to insure and reinsure risks. Supporting capital is provided by investment institutions, specialist investors, international insurance companies and individuals. Additional information can be found by visiting [www.lloyds.com](http://www.lloyds.com).

**Q. WHAT ARE THE LIMITS TO THE EXCESS OF SIPC COVERAGE THAT IS AVAILABLE FOR ASSETS HELD IN CUSTODY AT PERSHING?**

A. For assets held in custody at Pershing, the excess of SIPC coverage follows the terms, provisions, exclusions and limits of SIPC protection (for details, visit [www.sipc.org](http://www.sipc.org)) with certain other limited restrictions. After the SIPC limit (\$500,000 of net equity protection, of which \$250,000 can be for claims for cash awaiting reinvestment) is exceeded, Pershing also provides coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurers. The additional protection is necessary and available only in the unlikely event that assets are not fully recovered when the SIPC protection limits have been reached.

In addition to Pershing’s financial strength and SIPC coverage, our excess of SIPC coverage led by Lloyd’s of London offers the highest level of coverage that is available in the industry today.<sup>6</sup> The excess of SIPC coverage provides the following protection for assets held in custody at Pershing and Pershing Securities Limited, its London-based affiliate.

- An aggregate loss limit of \$1 billion for eligible securities – across all client accounts
- A per-client loss limit of \$1.9 million for cash awaiting reinvestment – within the aggregate loss limit of \$1 billion

The excess of SIPC coverage does not protect against any loss due to market fluctuation. For more information about Lloyd’s of London, please visit [www.lloyds.com](http://www.lloyds.com). An excess of SIPC coverage claim would only arise in the unlikely event that Pershing fails financially and client assets for covered accounts – as defined by SIPC for Pershing LLC accounts or the Financial Services Compensation Scheme (FSCS) for Pershing Securities Limited accounts – cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.

If the assets of our customers’ clients are missing for any of these reasons should Pershing be liquidated, they would be replaced by the underlying account protection (SIPC) program up to the published limits, and then the excess of SIPC coverage would respond in cases in which the excess loss met the criteria discussed in the previous sentence.

For additional information, please contact Jeff Bloch, Managing Director and Senior Managing Counsel, Pershing Legal Department, at 201 413-4168.

<sup>5</sup> Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

<sup>6</sup> The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

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## Q. HOW DOES EXCESS OF SIPC COVERAGE WORK?

- A. The following scenario illustrates how excess of SIPC coverage works: Imagine the unlikely event that Pershing LLC fails and, as a result, there are \$200 million of client claims on assets from three clients that are in excess of SIPC limits over a period of 10 months. Assuming that the client account values are \$100 million, \$75 million and \$25 million:
- In an account protection claim proceeding, the clients would receive up to \$500,000 from SIPC and the remaining assets up to the limit of the excess of SIPC coverage policy through the commercial insurance program led by Lloyd's of London.
  - The loss on the \$100 million, \$75 million and \$25 million client accounts would be zero, assuming that the aggregate limit of the excess of SIPC coverage policy (\$1 billion) has not been reached. The excess of SIPC coverage led by Lloyd's of London would pay these excess claims.
  - The outstanding aggregate amount for any further excess of SIPC coverage claims for the remaining two months (within the 12-month period) is \$800 million, assuming no other claims have been paid.

## Q. UNDER WHAT CIRCUMSTANCES WOULD A SIPC CLAIM OR EXCESS OF SIPC COVERAGE CLAIM BE APPROPRIATE?

- A. SIPC and excess of SIPC coverage claims would only arise in the unlikely event that Pershing fails financially and client assets for covered accounts – as defined by SIPC for Pershing LLC accounts or the Financial Services Compensation Scheme (FSCS) for Pershing Securities Limited accounts – cannot be located due to theft, misplacement, destruction, burglary, robbery, embezzlement, abstraction, failure to obtain or maintain possession or control of client securities, or to maintain the special reserve bank account required by applicable rules.

If the assets of our customers' clients are missing for any of these reasons should Pershing be liquidated, they would be replaced by the underlying account protection (SIPC) program up to the published limits, and then the excess of SIPC coverage would respond in cases in which the excess loss met the criteria discussed in the previous sentence.

## Q. I AM AN INVESTOR WITH AN ACCOUNT VALUE AT PERSHING THAT IS HIGHER THAN \$500,000. WHAT SHOULD I DO?

- A. Pershing is a member of SIPC. As a result, securities in your account are protected up to \$500,000. For details, please visit [www.sipc.org](http://www.sipc.org). Please note that SIPC does not protect against any loss due to market fluctuation.

In addition to SIPC protection, Pershing provides coverage in excess of SIPC limits from Lloyd's of London, in conjunction with other insurers. The excess of SIPC coverage led by Lloyd's of London offers the highest level of coverage that is available in the industry today.<sup>7</sup> The excess of SIPC coverage provides the following protection for assets held in custody by Pershing and Pershing Securities Limited, its London-based affiliate:

- An aggregate loss limit of \$1 billion for eligible securities – across all client accounts
- A per-client loss limit of \$1.9 million for cash awaiting reinvestment – within the aggregate loss limit of \$1 billion

Please note that the excess of SIPC coverage does not protect against any loss due to market fluctuation. For more information about Lloyd's of London, please visit [www.lloyds.com](http://www.lloyds.com).

<sup>7</sup> The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

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## **Q. IS LLOYD’S OF LONDON RATED? WHO RATED LLOYD’S OF LONDON AND WHAT IS THE RATING?**

A. Yes. Lloyd’s of London currently has an “A” (“Excellent”) with “Stable Outlook” rating from A. M. Best and “A+” (“Strong”) with “Stable Outlook” ratings from Fitch Ratings and Standard & Poor’s® (S&P®). These ratings are based on the financial strength of the company and are subject to change by the rating agencies at any time.

## **Q. WHEN DOES THE LLOYD’S OF LONDON POLICY EXPIRE?**

A. The insurance policy was renewed and extends through December 10, 2011.

## **Q. DOES THE EXCESS OF SIPC COVERAGE THAT PERSHING PROVIDES FROM LLOYD’S OF LONDON, IN CONJUNCTION WITH OTHER INSURERS, COVER INSTITUTIONAL INVESTORS IN THE UNITED STATES?**

A. Yes. Subject to the terms and conditions generally applicable to all other clients under SIPC protection, the excess protection covers institutional clients for all accounts held in custody at Pershing LLC.

## **Q. ARE ANY ACCOUNT ASSETS EXCLUDED FROM THE EXCESS OF SIPC COVERAGE?**

A. Certain types of assets that are not protected under SIPC are also not covered by excess of SIPC protection. Among ineligible investments are assets that are not registered with the SEC under the Securities Act of 1933:

- Antiques and collectibles
- Bank deposits
- Commodity futures contracts
- Fixed and variable annuity contracts
- Investment contracts (such as limited partnerships)
- Precious metals

## **Q. IF MY ASSETS ARE NOT AN ASSET TYPE THAT IS PROTECTED BY SIPC, DO I HAVE ANY EXCESS OF SIPC COVERAGE?**

A. No. Your assets must first be protected by SIPC in order to be eligible for excess of SIPC coverage. Visit [www.sipc.org](http://www.sipc.org) for more information.

## **Q. IS THERE ANYONE WHO IS EXCLUDED FROM SIPC PROTECTION?**

A. Please refer to the following link to understand what kinds of investors are eligible for assistance: [www.sipc.org](http://www.sipc.org).

## **Q. HOW LONG DOES IT TYPICALLY TAKE TO RECEIVE SECURITIES AND CASH FROM SIPC IF THE ACCOUNT PROTECTION IS INSTITUTED?**

A. Please refer to the following link to learn more about the SIPC claims process: [www.sipc.org](http://www.sipc.org).

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## **Q. SHOULD I HOLD MY OWN CERTIFICATES?**

A. No. Certificates you hold can be misplaced, stolen or accidentally destroyed. In addition, when you hold your own securities, you are responsible for collecting interest and dividend payments and monitoring events, such as bond calls and tender offers. Missing such events can cost you money.

## **Q. WHAT DOES SIPC AND THE EXCESS OF SIPC COVERAGE COVER?**

A. SIPC and excess of SIPC coverage is available for the following products held in custody by Pershing:

- Bonds
- Cash balances
  - Up to \$250,000 in cash awaiting reinvestment through SIPC
  - A per-client loss limit of \$1.9 million for cash awaiting reinvestment – within the aggregate loss limit of \$1 billion – through the excess of SIPC coverage program led by Lloyd’s of London
- Certificates of deposit (CDs)
- Mutual funds
- Notes
- Stocks

Among the investments that are ineligible for SIPC and excess of SIPC coverage are the following:

- Antiques and collectibles
- Bank deposits
- Commodity futures contracts
- Fixed and variable annuity contracts
- Investment contracts (such as limited partnerships)
- Precious metals

To learn more about eligible protection through SIPC, please visit [www.sipc.org](http://www.sipc.org).

## **Q. IF I HAVE ONE ACCOUNT IN CUSTODY WITH ONE SIPC MEMBER AND ONE ACCOUNT IN CUSTODY WITH ANOTHER (SEPARATE) SIPC MEMBER, HOW ARE THOSE ACCOUNTS COVERED?**

A. The accounts are treated as two separately protected accounts. The SIPC coverage detailed above applies to each account.

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## Q. IF I HAVE MORE THAN ONE BROKERAGE ACCOUNT WITH PERSHING, IS EACH ACCOUNT PROTECTED THROUGH SIPC?

A. Each account is protected through SIPC, but only if you hold the accounts in separate, legal capacities. In other words, if you hold one account in your own capacity and maintain other accounts as a trustee for another person under certain trust arrangements, you would be deemed to be a different client in each capacity. Any client who has several different accounts must be acting in a “good-faith” separate capacity with respect to each account. For instance, an investor might have one account in his or her name and maintain a joint account with his or her spouse. All such accounts, however, must meet the requirements of SIPC rules identifying accounts of “separate” clients of your broker/dealer. Copies of these rules may be obtained at [www.sipc.org](http://www.sipc.org) or by writing to SIPC and requesting the “Series 100 Rules.”

As another example, an investor who in a single capacity has several different accounts with his or her financial organization, such as cash and margin accounts, would be considered a single client for the purposes of applying the SIPC account protection limits.

### QUICK GLANCE – EXCESS OF SIPC COVERAGE FROM LLOYD’S OF LONDON TOGETHER WITH OTHER INSURERS:

	Excess of SIPC Coverage
<b>What is the excess of SIPC coverage limit?</b>	In addition to SIPC protection, Pershing provides coverage in excess of SIPC limits from Lloyd’s of London, in conjunction with other insurers. <sup>8</sup> The current excess of SIPC policy is scheduled to expire on December 10, 2011. <sup>9</sup> The excess of SIPC coverage provides the following protection for assets held in custody by Pershing and Pershing Securities Limited, its London-based affiliate: <ul style="list-style-type: none"> <li>▪ An aggregate loss limit of \$1 billion for eligible securities – across all client accounts</li> <li>▪ A per-client loss limit of \$1.9 million for cash awaiting reinvestment – within the aggregate loss limit of \$1 billion</li> </ul>
<b>Is there coverage for institutional customers?</b>	Pershing LLC institutional customers are covered, subject to the terms and conditions generally applicable to all other clients under SIPC protection. Pershing Securities Limited institutional accounts are not covered since they are not covered under Financial Services Compensation Scheme (FSCS) protection.
<b>When does the coverage expire?</b>	The insurance policy was renewed and extends through December 10, 2011.
<b>What are the credit ratings from major credit rating agencies?</b>	Lloyd’s of London currently has an “A” (“Excellent”) with “Stable Outlook” rating from A.M. Best and “A+” (“Strong”) with “Stable Outlook” ratings from Fitch Ratings and Standard & Poor’s® (S&P®). These ratings are based on the financial strength of the company and are subject to change by the rating agencies at any time.

<sup>8</sup> Pershing’s excess of SIPC coverage is provided by Lloyd’s of London in conjunction with XL Specialty Insurance Co., Axis Specialty Europe Ltd., Great Lakes Reinsurance (UK) PLC and Ironshore Specialty Insurance Co.

<sup>9</sup> The \$1 billion aggregate loss limit for eligible securities is the highest policy offered in the industry.

**Certain securities may not be suitable for all investors. There are inherent risks in investing in securities. Investment return and principal value will fluctuate so an investor’s share, when redeemed, likely will be worth more or less than the original cost.**

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