Title: BROKER WARS: Part 2 — When are your shares covered/insured and by how much?
Author: iownbrokers
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It's like a maze full of mirrors. When brokers tell you your shares are covered and/or insured, you make assumptions from a distance... then when you look closely, things are not what they seemed!

This post is a deep dive looking at the coverage and insurance behind retail brokers. Numbers like $500,000 are regularly cited here on Reddit. What can you realistically expect if there's a squeeze on GME and your retail broker of choice is unable to cover?

TL;DR: The oft-cited coverage of $500k USD per customer only applies if your U.S. broker officially goes into liquidation! If your U.S. broker terminates a few accounts (e.g. GME holders) or decides not to handle that single asset, then the SIPC coverage does not apply. In Europe, it's only €20k EUR per customer but only applies in case the broker commits fraud or other administrative malpractice. In most cases, it's likely to take over a year for you to get paid.

See [BROKER WARS: Part 1](https://www.reddit.com/r/DDintoGME/comments/r500fc/broker_wars_part_1_how_will_they_handle_the/) about broker contracts. Part 2 is below and split into three sections:

1. What amount is theoretically covered.
2. When are your shares covered.
3. How long the procedure would take.

DISCLAIMER: I'm not a lawyer and this is not financial nor investment advice.

1. THEORETICAL COVERAGE AMOUNT

(This excludes private insurance for which you can additionally sign-up — for a fee.)

➔ United States: $500,000 (SIPC)

Which U.S.-based brokers are covered by the SIPC? Almost all of them, see [SIPC List Of Members](https://www.sipc.org/list-of-members):

>"All registered brokers or dealers are SIPC members by law, with some exceptions."

How much does the SIPC provide in coverage? See [How SIPC Protects You](https://www.sipc.org/media/brochures/HowSIPCProtectsYou-English-Web.pdf) \[PDF\]:

* Up-to $500,000 theoretical maximum for securities.
* Up-to $250,000 theoretical maximum for cash.

Why are they "theoretical" maximums? Because it's subject to a whole bunch of conditions explained in the next section.

➔ Europe: €20,000 (ICS)

In Europe, investors are protected under the EU Directive on [Investor Compensation Schemes](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/retail-financial-services/investor-compensation-schemes_en). Since it's a regulation, all retail brokers operating there are required to comply.

How much coverage is defined under ICS? As explained in the link above:

* Up-to €20,000 as minimum requirement.

In practice, brokers seem to comply at the bare minimum level and then provide additional insurance that's optional. For example:

Trading 212 ["Your funds and data are safe with us"](https://www.trading212.com/money-protection):

>If the sum of the funds and financial instruments per client shall exceed the amount of twenty thousand Euros (€20.000), the amount in excess shall not be taken into account in the calculation of eligible funds.

DeGiro ["Safe & Reliable"](https://www.degiro.co.uk/about-degiro/safe-and-reliable):

>In the unlikely event that the segregated assets cannot be returned to clients, DEGIRO falls under the German Investor Compensation Scheme, which compensates any losses from non-returned assets up to 90% (with a maximum of EUR 20,000).

2. COVERAGE CONDITIONS

➔ United States: Broker enters liquidation as defined by [SIPA](https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/securities-investor-protection-act-sipa)**.**

As specified on the page [How SIPC Protects You](https://www.sipc.org/media/brochures/HowSIPCProtectsYou-English-Web.pdf) (confirmed by email), the SIPC only applies in specific conditions:

>*When SIPC Gets Involved*
>
>When a SIPC member **brokerage firm fails** and owes customers cash and securities that are missing from customer accounts, SIPC receives a referral from the U.S. Securities and Exchange Commission (SEC) or the Financial Industry Regulatory Authority (FINRA). With this referral and **if grounds exist to start a liquidation**, SIPC may ask a federal court to appoint a Trustee to liquidate the firm for the protection of customers. With smaller brokerage firm failures, SIPC sometimes deals directly with customers in an out-of-court direct payment procedure.

Your assets (GME) are only covered if:

* The broker fails entirely — not just certain accounts or specific securities.
* The SEC or FINRA send a referral to the SIPC.
* There are grounds to liquidate the broker.

Then, the procedure would go through the courts to attempt to protect the brokers customers, however...

[BROKER WARS: Part 1](https://www.reddit.com/r/DDintoGME/comments/r500fc/broker_wars_part_1_how_will_they_handle_the/) explains how most retail brokers have the right to terminate your account immediately, without notice, and often at their own discretion. Furthermore, brokers have the legal obligation to create value for their shareholders, manage any risks, protect the company from insolvency — including by terminating accounts if necessary. As such, **retail brokers would never fail entirely nor get liquidated** because of a single security (GME) or the subset of customers who hold them.

Thus, your GME shares would NOT BE COVERED by the SIPC you're very unlikely to collect $500k!

➔ Europe: Broker commits fraud, administrative malpractice, or operational errors.

As explained on the European Commission website for [Investor Compensation Schemes](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/retail-financial-s ervices/investor-compensation-schemes_en):

>Claims under the directive typically arise if there is fraud or other administrative malpractice or when an investment firm is unable to fulfil its obligations as a result of operational errors

Europe also provides [Alternate Dispute Resolution for consumers](https://ec.europa.eu/info/live-work-travel-eu/consumer-rights-and-complaints/resolve-your-consumer-complaint/alternative-dispute-resolution-consumers_en) that could be helpful here. You wouldn't theoretically need to hire a lawyer or enter the courts, but you would be required to provide all the necessary evidence that proves fraud, administrative malpractice, or operational errors.

3. DURATION OF PROCEDURE

➔ United States: 18 months (estimated)

The procedure to liquidate your retail broker would be handled by bureaucrats and via the courts. As such, you can expect it to take longer — especially knowing it'll be a complex situation for a broker to fail.

In the best case, [how long does it take to liquidate a company?](https://www.forbesburton.com/blog/how-long-does-it-take-to-liquidate-a-company)

>"In practice it depends on the case, some can take 3 months, 6 months or even longer. If there are a lot of assets to be realised and sold for example the process could take a lot longer, in some cases in could even take a couple of years."

Further, the SIPC itself acknowledges there can be delays in complex cases such as fraud, see [How The Claims Process Works](https://www.sipc.org/cases-and-claims/how-the-claims-process-works):

>"It also is not uncommon for delays to take place when the troubled brokerage firm or its principals were involved in fraud."

As such, a liquidation of a large retail broker within 1-3 month is unlikely and upper bounds of the estimates are most likely — so may only end up being paid in 12-18 months or even more.

➔ Europe: 1 year (average)

As per official EU reports, for example [ADR schemes in The Netherlands](https://ec.europa.eu/info/sites/default/files/nl-consumer_en.pdf) where DeGiro's dispute resolutions are handled, it takes one year on average to resolve a complaint:

>Average time for ADR scheme to resolve a complaint: **one year**

You would not get your money until approximately a year after filing a dispute. Since this would also be handled by bureaucrats, and the case of GME is a complex one, one year may still be optimistic before you receive your €20,000.

CONCLUSION

1. In the U.S., you theoretically have $500k coverage, but in practice risky securities like GME would not be covered by the SIPC unless the retail broker fails entirely and is liquidated as specified by SIPA. Brokers would never allow this to happen and it's more likely your account would be terminated and/or position liquidated instead.
2. In Europe, you theoretically have €20k coverage, but it would require legal knowledge to prove that the retail broker had administrative malpractice or made operational errors.
3. In both cases, it could take a year or more for you to get paid as bureaucrats handle a situation that's already very complex.

There are other risks involved too, not least that you're relying on the regulators who were responsible for supervising the market until now — with mixed results. Why would the administration suddenly favour retail investors post-squeeze when it has not favoured them pre-squeeze?

In summary, it's unwise to rely on coverage or insurance to get paid for your GME shares held in retail brokers. The [Direct Registration System (DRS) from Computer Share](https://cda.computershare.com/Content/47b47cd0-4275-4c6c-b713-74ea92436529) \[PDF\] is a more reliable alternative as the shares are recorded under your name in a book-entry for GME — and not a "security" traded on the market that carries more risk. *(Not financial advice.)*