

Title: SIPC as Protection? No No, It's the Out, and Why You SHOULD DRS

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Greetings friends,

I've been seeing a few posts here and there about SIPC Insurance, its protections, its limits, and its place in this whole saga, and I think there is a general theme that has been overlooked but absolutely needs to be discussed.

****The important part isn't that DRS removes the need for SIPC insurance coverage, it's that** ***it removes the ability to receive it.*****

If you are in a position to receive it you most certainly will, and you won't like that.

This is not a FUD post, this is a wake up call, and an appeal to the rational side of your brain hoping to remind you that the system is stacked against you, and no amount of idealistic dreaming will change that fact. To those running the financial world we live in, you do not matter. (I'm not picking on you...I don't matter either.)

The Background – What is SIPC Insurance?

For those unaware, the Securities Investor Protection Corporation (SIPC) is a non-profit corporation that works to restore investors' cash and securities when their brokerage firm fails. You can read more about them here: <https://www.sipc.org>. From their website:

>SIPC protection is limited. SIPC only protects the custody function of the broker dealer, which means that SIPC works to restore to customers their securities and cash that are in their accounts when the brokerage firm liquidation begins.

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>The limit of SIPC protection is \$500,000, which includes a \$250,000 limit for cash. Most customers of failed brokerage firms are protected when assets are missing from customer accounts. There is no requirement that a customer reside in or be a citizen of the United States. A non-U.S. citizen with an account at a brokerage firm that is a member of SIPC is treated the same as a resident or citizen of the United States with an account at a SIPC member brokerage firm.

Basically, in the event of a brokerage failure, there is a process which will allow you to receive protection for up to \$500,000 worth of assets held in your account as of the date of liquidation, regardless of whether or not you are a US citizen. This crosses all sovereign boundaries.

Street Name Ownership & SIPC Liquidation

So we've all heard about the concept of street name ownership – it's the driving force behind the DRS movement – but what are the implications?

Let's start with Investopedia[: <https://www.investopedia.com/ask/answers/185.asp>](<https://www.reddit.com/r/DDintoGME/:%20https://www.investopedia.com/ask/answers/185.asp>)

>****What Is in Street Name?****

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>A security is held in "street name" when a brokerage holds it on behalf of a client. The name that appears on the stock or bond certificate is that of the broker, but the person who paid for the securities retains ownership rights.

This is all your broker shares. The important thing to know is that there is no record of your existence

outside of the broker's books (their name is on the stock certificate after all, and they are a private company with proprietary information, which includes yours, that they are under no obligation to share). The most important thing to keep in mind is that you do not own your shares, the broker does. You just have rights associated with ownership, like voting and all that fun stuff.

So let's get back to the SIPC: in the event of a brokerage failure, first thing's first: you'll need to be involved. But how? What does that mean? Let's see what FINRA has to say about it (edited to show just the parts relevant to this post) but you can read all of it here: <https://www.finra.org/investors/alerts/if-broke>

> ****If a Brokerage Firm Closes Its Doors****

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> You may wonder what would happen to your securities account if your brokerage firm closed its doors. In virtually all cases, when a brokerage firm ceases to operate, customer assets are safe and typically are transferred in an orderly fashion to another registered brokerage firm.

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> ****Regulatory Safety Net****

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> SEC's Rule 15c3-3—the "Customer Protection Rule"—requires brokerage firms that have custody of customer assets to keep those assets separate from their own accounts.

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> ****What Happens to My Account?****

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> Historically, brokerage firms that have faced financial insolvency—meaning they cannot meet their financial obligations as they come due—have handled the crisis in different ways. Some have been able to find a buyer to stave off insolvency. Bear Stearns, for example, was bought by J.P. Morgan in 2008.

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> *Other firms self-liquidate* (*emphasis mine*), as did Drexel Burnham Lambert in 1990. When a brokerage firm self-liquidates, securities regulators, including the SEC and FINRA, work with the firm to make sure that customer accounts are protected and that customer assets are transferred in an orderly fashion to one or more SIPC-protected brokerage firms.

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> ****If My Firm Fails, What Do I Do?****

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> The failure of a brokerage firm will understandably cause some anxiety for the firm's customers. The first thing you should do is avoid panic. If you hear your firm is in financial trouble, contact the firm to see what procedures you should follow. For example, *there may be a window of time when you cannot trade or transfer your account* (*emphasis mine*).

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> ****What Happens if SIPC Protection Is Invoked****

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> It covers the replacement of missing stocks and other securities up to \$500,000, including \$250,000 in cash claims. However, it does so only when a firm shuts down due to financial *circumstances* *in which customer assets are missing* (*emphasis mine*)—because of theft, conversion or unauthorized trading—or are otherwise at risk because of the firm's failure.

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> ****SIPC Liquidation: Step-by-Step****

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> If a SIPC liquidation takes place, you will be notified by letter that your brokerage firm has closed and that SIPC has begun a "Direct Payment Procedure" or a liquidation proceeding in court.

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> Once liquidation is initiated, most customers can *expect to receive their assets in one to three months* (*emphasis mine*). The speed at which customer funds and securities are returned depends on a number of factors, including the *accuracy of brokerage firm records* (*emphasis mine*).

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> Investors should be aware that they may be unable to transfer accounts or execute trades during the liquidation process. Furthermore, *if a clearing firm is in financial trouble* (*emphasis mine*) or in liquidation, this may affect customers of introducing firms that clear through the troubled firm, including their ability to trade, liquidate their securities positions and/or transfer holdings to another firm.

There's a lot to unpack here. Let's start a new section with a fancy new header.

SIPC Insurance Allows for a Convenient Excuse

Let's recap. When a broker is in trouble and is either forced or voluntarily decides to shutter its doors, a process is put in motion to protect shareholder investments:

All of the shares custodied by the broker are transferred to another SIPC-participating broker. These shares are very easy to transfer because brokers are required by SEC Rule 15c3-3 to hold them in a segregated account. This is all well and good, until...until you remember that the broker doesn't actually hold your assets for you. You know, kind of like the whole naked short selling premise dictates, where there are synthetic shorts floating around that were not actually authorized and issued by GameStop. There are no stock certificates with broker names on them, and certainly no public record that says just how many investors the broker serves and how many shares they have beneficial rights to.

This puts us in the other camp: customer assets are missing.

In this case, brokers don't need to buy them. They are "missing". It simply doesn't matter whether or not there are open short positions. They do. Not. Need. To. Buy. Them. Why? Insurance coverage through the SIPC process. There is a safety net to cover you.

The broker gets to sort this out the old-fashioned way, in a court of law. Not only that, but they get a good amount of time to do so, likely three months. During that time, you cannot do anything. No trading. No transfers. THREE. MONTHS.

On top of that, this is all dependent on the accuracy of broker records. I'm not sure if you recall any shelves falling up and knocking out entire sprinkler systems or not, but I don't know if I'd fully trust brokers to keep an accurate record of my account. ****You'd need to get involved****. After you receive your letter from your broker, you're going to need proof of ownership, and probably proof of non-sale (which seems to me to be virtually impossible to prove – you try proving something didn't occur when a broker can easily argue against it). To be specific, this is what you'd need to do, according to FINRA:

- >Gather key information together, including brokerage account records, monthly or quarterly statements and trade confirmations;
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- >Locate cancelled checks and correspondence with your brokerage firm;
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- >Check your account statements for accuracy and verify that the statements reflect all cash deposits you sent to the brokerage firm. Determine if there are any transactions that you did NOT authorize.
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- >Verify your correct address. If you hear about a liquidation that involves your firm and have not received a letter, go to the SIPC website for contact information.
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- >Follow SIPC instructions in filling out necessary forms; and
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- >Pay strict attention to time limits set forth in the notice and claim form. Under federal law, no one—not the trustee, SIPC or the court—has the authority to satisfy claims that are filed late.

So here we are, with your broker shares locked out of any market activity for 3 months where not only can you not trade, but you have to provide indisputable evidence that you have purchased your shares and not sold them in order to receive ANY benefit. (Which you also have to file on time when FINRA states you may not even have received a letter with such a date.)

After all of that, you are protected for up to \$500,000. That's a far cry from what you might find on gmefloor.com, and this is for ALL of your shares. Not for each. All.

In short, you're f*#@ed. And oh yea, this also happens *if a clearing firm is in financial trouble*. In other words, if this goes to the DTCC, the Depository Trust and *Clearing* Corporation, the same would apply, and they are NOT required to segregate their records by shareholder.

Power to the Players

If I were a broker, I'd do what made the most sense for me. Forget ethics. When your life is on the line, you do what you need to do, and if that's the difference between running an honest business that costs me billions of dollars or running a dishonest (but still legal) one that costs me nothing...I'm choosing the latter. It's human and capitalist nature to act in your own best interest, especially when in danger.

I challenge anyone in the comments to convince me a broker would choose the honest way out when they have a tailor-made solution to let them off the hook.

So...what to do about it? Remove yourself from the position where you *can* receive SIPC insurance coverage, because if you can, you will. Remember, "SIPC only protects the custody function of the broker dealer." To quote Investopedia again:

>While securities held in street name are safe for retail investors (*chuckle chuckle chuckle*), direct registration may be a better choice for larger investors. Stocks held in street name may be loaned to short-sellers and resold to others. So, it is possible for more than one person to own shares held in street name. If the brokerage should fail, it may not be possible to recover 100% of all securities. Investors are protected by up to \$500,000 in insurance from the SIPC, but that may not be enough for high-net-worth individuals and large organizations.

In short, if you DRS, you are in the same boat as the high-net worth individuals and large organizations, able to recover more than what would otherwise "not be enough" through SIPC coverage. I don't know about you, but I plan to see a lot more than \$500,000 for everything I've invested.

Don't sit back and wait for this to blow up in your face. Take control of your investment. DRS your shares. Power to the Players.

****TLDR****: Brokers have a clear out to completely rug pull you by falling back on SIPC insurance, which I would argue is a probable outcome. Rather than buying shares to keep inventory on behalf of their clients, then can opt to liquidate voluntarily and put themselves in the position to claim your shares are missing. In that case, you will likely go through the SIPC insurance process, locking yourself out of market activity and limiting your upside potential, regardless of how many shares you own. Your shares are not safe with a broker, and the only safe option is to directly register them with Computershare.

Buy. Hold. DRS. Educate.