

Rosen Seymour Shapss Martin & Company LLP  
 Certified Public Accountants & Profitability Consultants

# The Watchful Eye

*A Publication of the Business Investigative and Insolvency Service Group  
 of Rosen Seymour Shapss Martin & Company LLP*

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## Greetings!

**Welcome to The Watchful Eye** - a publication of the Business Investigative and Insolvency Services Group of Rosen Seymour Shapss Martin & Company.

We welcome your questions or comments about the topics discussed or related ones. Please feel free to contact me at 212-303-9027 or by e-mail at [rmodansky@rsmcpa.com](mailto:rmodansky@rsmcpa.com) or my partner and co-chair, Martin Leventhal at 212-303-9030 or by e-mail at [mleventhal@rsmcpa.com](mailto:mleventhal@rsmcpa.com) and let us know how we can be of assistance.

Sincerely,

Robert A. Modansky, CPA  
 Martin Leventhal, CPA

Partners and Co-Champions of the Business Investigative and Insolvency Services Group

## Whose Watching Your Money?, FDIC?, SIPC?

There is uneasiness amongst investors resulting from the volatility that has befallen Wall Street. People are questioning what has become of their cash and securities held by Lehman Brothers ("Lehman"). Do they have immediate access to these assets or must they wait until the situation resolves itself? The purpose of this article is to inform the reader about the protection an investor has through two governmental agencies, Securities Investor Protection Corporation ("SIPC") and Federal Deposit Insurance Corporation ("FDIC").

There is a significant difference between the operations of a bank and a brokerage house as it relates to depositors' funds. A bank is in the business of lending its customers' assets (cash) for the purpose of generating income (interest) for the institution. However a brokerage house cannot do this. Its

customers' assets (cash and securities) must be kept segregated in separate accounts. In fact when the comment is passed that the accounts are held in "street name" that is a misnomer. Generally all of the assets are registered in the customers' names and are kept at other institutions. Cash is deposited in an unrelated bank but may be invested in a money market that is managed by Lehman. The securities are kept at a separate institution and Lehman only is involved in overseeing the delivery of the stocks and bonds when there is a transaction (sale, purchase, call, etc.).

The FDIC insures up to \$100,000 of bank deposits per account. Its role is limited to bank deposits - i.e. checking accounts, money market deposits, saving accounts, and certificates of deposit. SIPC insures up to \$500,000 of brokerage assets which includes stocks, bonds, and mutual funds. Included in the \$500,000 cap is coverage for up to \$100,000 in cash. Additionally, most brokerage firms (all of the major firms) maintain additional insurance coverage above the SIPC limits.

***What would happen if your brokerage firm went out of business?***

The answer to that question determines the role SIPC plays. In the case of fraud (or poor record keeping), SIPC would help coordinate the transfer of the assets in your account and would also be responsible for replacing missing securities-up to a total of \$500,000. However if there is no fraud involved, as in the Lehman situation, SIPC might not even have an involvement. Lehman would simply sell its assets (e.g. its trading division) to another firm and you would have full access to your account as if nothing had happened.

In a report released Monday, September 15, 2008, SIPC President Stephen Harbeck said, "SIPC has not initiated a liquidation proceeding against the broker-dealer Lehman Brothers Inc. and we do not currently anticipate doing so. As of this morning, it appears that all customer cash, stocks, and other securities are accounted for."

The partners and principals of Rosen Seymour Shapss Martin & Company LLP are available if you wish to discuss your specific situation.

Rosen Seymour Shapss Martin & Company LLP, through its Business Investigative & Insolvency Services Group, provides services to clients, attorneys and others in the interpretation and evaluation of complex accounting, tax and other financial and business issues. Areas in which we provide our expertise include:

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