FREQUENTLY ASKED QUESTIONS ABOUT THE PROTECTION OF CLIENT ASSETS HELD AT PERSHING LLC
March 2009

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

At Pershing, we take great pride to support your business and make every effort to ensure your client's assets are protected.

As you know, Pershing has been a leading global provider of financial business solutions for 70 years and serves many of the world's most respected financial organizations, remaining focused on the segregation, safekeeping, servicing, and reporting of clients' assets in our custody. Pershing is well capitalized and our capital ratios exceed those required by regulators. You may refer to Pershing's Statement of Financial Condition for additional information.

Pershing's parent company, The Bank of New York Mellon Corporation, is one of the world's strongest global financial institutions. The Bank of New York Mellon ranks among the top financial services companies with a market capitalization of approximately $32.5 billion as of December 31, 2008, and holds $20.2 trillion in assets under custody and administration. Please refer to The Bank of New York Mellon's Fourth Quarter 2008 Financial Results for additional information.

Pershing is a member of the Securities Investor Protection Corporation (SIPC®). As a result, your clients' assets are protected by SIPC, up to $500,000 in value, including $100,000 in cash awaiting reinvestment. SIPC provides protection for eligible client assets held in custody by a SIPC member brokerage firm should the SIPC member firm fail financially and become unable to meet the obligations to its clients. SIPC does not protect assets that are not held in custody by Pershing. For more information about the protection of your clients' account assets you may visit SIPC's web site at www.sipc.org.

For additional security, Pershing also provides coverage in excess of SIPC limits for your clients through Lloyd's of London. The excess insurance policy purchased through Lloyd's of London provides the following excess account protection for assets held in custody with Pershing LLC and its London affiliate, Pershing Securities Limited:

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

This excess account protection offers the highest level of coverage that is available in the industry. For more information about Lloyd's of London, visit their web site at www.lloyds.com.

SIPC and excess account protection claims would only arise where Pershing failed financially and client assets for covered accounts, as defined by SIPC (for Pershing LLC accounts) or 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 customer securities or to maintain the special reserve bank account required by applicable rules (SEC 15c-3 in the US for Pershing LLC). If a customer's assets are missing for any of these reasons when Pershing is being liquidated, they would be replaced by the underlying account protection (SIPC) program up to published limits, then the Lloyd's excess account protection program would respond where the excess loss met the criteria discussed in the previous sentence.

## Questions your clients may ask:

**1) How are the assets I hold in my brokerage account protected?**

**A:** Broker-dealers are required to comply with various rules intended to minimize the chance of financial failure and maximize the protection of clients' assets. Due to this, clients' fully-paid-for assets are segregated from the assets of our clearing firm, Pershing LLC. The financial strength of Pershing provides the foremost measure of protection for your assets. Pershing is well capitalized, with capital ratios exceeding those required by regulators. As of December 31, 2008, Pershing operated with total net capital of $1.4 billion, which means their net capital was $1.3 billion in excess of the $100 million minimum required by the Securities Exchange Commission (SEC). Pershing's parent company, The Bank of New York Mellon Corporation, is one of the world's strongest global financial institutions, holding $20.2 trillion in assets under custody and administration.[1] The Bank of New York Mellon remains highly liquid, as it is funded primarily by deposits from institutional businesses. In addition to the financial strength of Pershing, the following measures are in place to ensure the safety of clients' assets held in custody at Pershing:

- Pershing is subject to extensive and ongoing regulatory reviews and is required to comply with various rules intended to minimize the chance of financial failure and maximize the protection of clients' assets.

- Client assets are protected by the Securities Investor Protection Act (SIPA), which is administered by the Securities Investor Protection Corporation (SIPC), up to $500,000, of which $100,000 can be in cash.

- Pershing provides coverage in excess of SIPC limits through Lloyd's of London. This excess account protection offers the highest level of coverage that is available in the industry.

**2) What regulatory requirements and evaluations is Pershing subject to?**

**A:** Securities regulations are designed to protect clients' funds and fully paid-for securities when they are in custody at a registered broker-dealer, such as Pershing. The SEC requires Pershing to segregate fully-paid-for, investor-owned assets—meaning that, even if Pershing fails—investors' assets will remain safe, separate from Pershing's own assets. Pershing is also subject to the SEC Net Capital Rule, which requires them to maintain enough liquid assets, net of any liabilities, to ensure the return of investors' assets in the event of firm failure and liquidation. Pershing is subject to extensive and ongoing regulatory reviews, is subjected to numerous internal and external audits, and compliance testing. On an annual basis, Pershing fulfills its regulatory broker-dealer requirements by having its financial statements audited by its independent auditor KPMG.

As of December 31, 2008, Pershing operated with total net capital of $1.4 billion, which means their net capital was $1.3 billion in excess of the $100 million minimum required by the Securities Exchange Commission (SEC). Pershing is well capitalized, with capital ratios exceeding those required by regulators.

**3) How does Pershing ensure that the controls we have in place are operating effectively?**

**A:** Pershing also commissions an annual SAS 70 Level II review, performed by KPMG, to provide additional independent evaluation of the design and operating effectiveness of Pershing's internal controls related to order and trade processing, clearance and settlement, corporate actions, physical custody, margin monitoring, account transfer, pricing, interest, broker-dealer billing, statements, confirmations, and cash management functions.

**4) What is SIPC?**

**A:** Congress created SIPC in 1970 to protect clients of member broker-dealers that may fail or be liquidated. If any securities or cash is missing from eligible client accounts at the time of liquidation, SIPC steps in to replace those securities and cash. SIPC provides $500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment. SIPC does not protect against losses from the rise and fall in the market value of investments. Go to www.sipc.org for further information about SIPC.

**5) Who can be a member of SIPC?**

**A:** All SIPC members must be registered with the SEC. If a member loses its SEC registration, its SIPC membership is automatically terminated.

**6) Who examines the operational and financial conditions of SIPC members?**

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

**7) How does SIPC protection work?**

**A:** Federal securities laws require that client assets be segregated from a broker-dealer's own assets. The law requires internal and external audits, regulatory examinations, and weekly and monthly reporting requirements. Most client assets are held in book-entry form at industry depositories and are not in physical possession by the broker-dealers themselves. SIPC funds are used to make investors whole after all client assets held in custody by the broker-dealer have been recovered. SIPC coverage provides $500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment, but that does not necessarily mean that the account will receive only up to $500,000. Rather, in a SIPC 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 a SIPC liquidation, assume that a broker-dealer fails (e.g. Pershing), resulting in $5 million of client claims on assets, with a recovery rate of assets in liquidation of 90% or $4.5 million, and assume a client account value of $5 million:

- In a SIPC claim 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 in this example.

**8) In addition to the SIPC protection available, Pershing provides excess account protection through Lloyd's of London. What is excess account protection?**

**A:** Through private arrangements between broker-dealers and insurance companies, most broker-dealers also provide additional account protection beyond SIPC, commonly known as "excess account protection." This protection often varies among broker-dealers. In addition to SIPC's existing coverage, Pershing provides coverage in excess of SIPC limits through Lloyd's of London.

**9) 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 is not a company, it is a marketplace where members 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.

**10) What are the limits to the excess account protection that is available for client assets held in custody at Pershing?**

**A:** For securities held in custody by Pershing, the Lloyd's of London excess account protection coverage follows the terms, provisions, exclusions, and limits of SIPC protection (www.sipc.org) with certain other limited restrictions. After the SIPC limit ($500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment) is exceeded, Pershing provides coverage in excess of SIPC limits through Lloyd's. 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 insurance policy purchased through Lloyd's of London provides the following excess account protection for assets held in custody with Pershing LLC and its London affiliate, Pershing Securities Limited:

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

This excess account protection offers the highest level of coverage that is available in the industry. For more information about Lloyd's of London, visit their web site at www.lloyds.com.

Excess account protection claims would only arise where Pershing failed financially and client assets for covered accounts, as defined by SIPC (for Pershing LLC accounts) or 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 customer securities or to maintain the special reserve bank account required by applicable rules (SEC 15c-3 in the US for Pershing LLC). If a customer's assets are missing for any of these reasons when Pershing is being liquidated, they would be replaced by the underlying account protection (SIPC) program up to published limits, then the Lloyd's excess account protection program would respond where 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.

**11) How does excess account protection coverage work?**

**A:** The following scenario illustrates how excess account protection coverage works: Imagine that the unlikely event that Pershing LLC fails, and as a result, there are $200 million of client claims on assets over a period of 10 months, from three clients that are in excess of SIPC limits. 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 through Lloyd's of London, up to the limit of the Lloyd's insurance policy.
- The loss on the $100 million, $75 million, and $25 million client accounts would be zero, assuming the aggregate limit of the Lloyd's of London policy ($1 billion) has not been reached. Lloyd's of London would pay these excess claims.
- The outstanding aggregate amount for any further excess account protection claims for the remaining 2 months (within the 12-month period) is $800 million, assuming no other claims have been paid.

**12) How much money will it cost to receive this excess account protection?**

**A:** This coverage is being automatically extended to Pershing's customers at no cost at the present time.

**13) Under what circumstances would a SIPC claim or excess account protection claim be appropriate?**

**A:** SIPC and excess account protection claims would only arise where Pershing failed financially and client assets for covered accounts, as defined by SIPC (for Pershing LLC accounts) or 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 customer securities or to maintain the special reserve bank account required by applicable rules (SEC 15c-3 in the US for Pershing LLC). If a customer's assets are missing for any of these reasons when Pershing is being liquidated, they would be replaced by the underlying account protection (SIPC) program up to published limits, then the Lloyd's excess account protection program would respond where the excess loss met the criteria discussed in the previous sentence.

**14) I am an investor with an account value at Pershing (or your firm) that is higher than $500,000. What should I do?**

**A:** Pershing is a member of SIPC. As a result, your clients' assets are protected by SIPC, up to $500,000 in value, including $100,000 in cash awaiting reinvestment. SIPC provides protection for eligible client assets held in custody by a SIPC member brokerage firm should the SIPC member firm fail financially and become unable to meet the obligations to its clients. SIPC does not protect assets that are not held in custody by Pershing. For more information about the protection of your clients' account assets you may visit SIPC's web site at www.sipc.org.

For additional security, Pershing also provides coverage in excess of SIPC limits for your clients through Lloyd's of London. In addition to Pershing's financial strength and SIPC coverage, our excess insurance policy purchased through Lloyd's of London provides the following excess account protection for assets held in custody with Pershing and its London-based affiliate, Pershing Securities Limited:

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

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**15) Is Lloyd's of London rated? Who rated Lloyd's of London and what is the rating?**

**A:** Yes. Lloyd's currently enjoys an A ("Excellent") rating with "Stable Outlook" from A.M. Best and A+ ("Strong") ratings with "Stable Outlook" from Fitch Ratings and Standard & Poor's. These ratings are subject to change at any time.

**16) When does the Lloyd's of London's policy expire?**

**A:** The policy expires on December 10, 2010.

**17) Does the excess account protection that Pershing purchases through Lloyd's of London cover institutional clients in the United States?**

**A:** Yes, subject to the terms and conditions generally applicable to all other clients under SIPC protection, the Lloyd's excess account protection covers institutional clients for all accounts held in custody by Pershing LLC.

**18) Are any account assets excluded from the excess account protection that Pershing provides through Lloyd's of London?**

**A:** Certain types of assets that are not protected under SIPC are also not covered by excess account protection. Among the investments that are ineligible for SIPC protection are: commodity futures contracts, precious metals, bank deposits, in addition to investment contracts (such as limited partnerships), and fixed annuity contracts that are not registered with the U.S. Securities and Exchange Commission (SEC) under the Securities Act of 1933.

**19) If my assets are not an asset type that is protected by SIPC, do I have any excess account protection?**

**A:** No, your assets must first be protected by SIPC in order to be eligible for excess account protection. Go to www.sipc.org for more information.

**20) Is there anyone who is excluded from SIPC protection?**

**A:** Most investors are eligible for SIPC assistance. However, SIPC's funds may not be used to pay the claims of any failed broker-dealer for investors who are:

- A general partner, officer, or director of the failed broker-dealer.

- The beneficial owner of 5% or more of any class of equity security of the failed broker-dealer (other than certain nonconvertible preferred stocks).
- A limited partner with a participation of 5% or more in the net assets or net profits of the failed broker-dealer.
- Someone with the power to exercise a controlling influence over the management or policies of the failed broker-dealer.
- A broker or dealer or bank acting for itself rather than for its own clients.

Go to www.sipc.org for further information.

**21) How long does it typically take to receive securities and cash from SIPC if the account protection is instituted?**

**A:** According to SIPC, most clients can expect to receive their property in one to three months. If the broker-dealer's records are inaccurate, or if the broker-dealer was involved in fraudulent activity, it may take longer.

**22) 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.

**23) What does SIPC cover and how does it differ from Federal Deposit Insurance Corporation (FDIC) insurance?**

**A:** SIPC coverage replaces missing stocks and other securities in cases in which it is possible to do so—even when the investments have increased in value. SIPC protects the cash and securities, such as stocks and bonds, held at a financially troubled broker-dealer. SIPC covers retail brokerage investors, as well as institutional investors.

SIPC does not cover individuals who are sold worthless stocks and other securities. Among the investments that are ineligible for SIPC protection are commodity futures contracts, precious metals, and bank deposits, as well as investment contracts (such as limited partnerships), and fixed annuity contracts that are not registered with the U.S. Securities and Exchange Commission (SEC) under the Securities Act of 1933.

It is also important to understand that SIPC protection is **not** the same as FDIC protection. SIPC does not offer to investors the same blanket protection that the FDIC provides to bank depositors. The FDIC protects deposits up to $100,000 ($250,000 most recently in certain instances) in most, but not all, U.S. banks and savings and loan associations in the event that the institution becomes insolvent. For further information about FDIC insurance, go to www.fdic.org. The FDIC does not cover securities, mutual funds, or similar types of investments, and money that is invested in an FDIC-insured product is not covered by SIPC. For instance, assume you had $200,000 invested with a bank. Of the $200,000 invested, $100,000 is covered by FDIC insurance. The $100,000 balance is not covered by SIPC. To file a claim, you would have to inquire with your bank.

The FDIC's "no-questions-asked" approach is appropriate because banks tend to be "risk averse." Most savers put their money in FDIC-insured bank accounts because they cannot afford to lose their money but do not want to take the risk of loss. That is precisely the opposite of how most investors behave in the stock market, in which rewards are only possible with risk. Most market losses are a normal part of the ups and downs of the risk-oriented world of investing. That is why SIPC does not bail out investors when the value of their stocks, bonds, or other investments falls for any reason.

**24) Are securities held at banks being supported by the United States government TARP program safer than securities held at other broker-dealers?**

**A:** Cash deposits at banks (not securities) are protected by FDIC insurance. Additional information on this can be obtained at www.fdic.gov. Securities held by banks are not protected by FDIC, nor are they protected by SIPC.

**25) 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 $500,000 in protection applies to each account.

**26) If I have more than one brokerage account with Pershing (or your firm), is each account protected through SIPC?**

**A:** Yes, 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 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 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.

[1] As of December 31, 2008.