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Highlights

Highlights of GAO-03-811, a report to congressional requesters

July 2003

SECURITIES INVESTOR PROTECTION

Update on Matters Related to the Securities Investor Protection Corporation

Why GAO Did This Study

As result of ongoing concerns about the adequacy of disclosures provided to investors about the Securities Investor Protection Corporation (SIPC) and investors' responsibilities to protect their investments, GAO issued a report in 2001 entitled *Securities Investor Protection: Steps Needed to Better Disclose SIPC Policies to Investors (GAO-01-653)*. GAO was asked to determine the status of recommendations made to the Securities and Exchange Commission (SEC) and SIPC in that report. GAO was also asked to review a number of issues involving excess SIPC insurance, private insurance securities firms purchase to cover accounts that are in excess of SIPC's statutory limits.

What GAO Recommends

To ensure that investors have access to relevant information about SIPC, GAO recommends that SIPC provide more specific references to investor education information in its brochure.

In addition, GAO recommends that SEC, in conjunction with the SROs, ensure that firms are providing investors with meaningful disclosures about excess SIPC and monitor firm disclosures about any changes in the coverage.

SEC and SIPC generally agree with the report's findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-03-811.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman, (202) 512-8678, hillmanr@gao.gov.

What GAO Found

SEC has taken steps to implement each of the seven recommendations directed to SEC in GAO's May 2001 report. SEC has updated its Web site to provide investors with more information about SIPC's policies and practices, particularly with regard to unauthorized trading and nonmember affiliate claims. SEC has taken other steps consistent with our recommendations to improve its oversight of SIPC and is working with self-regulatory organizations (SRO) to increase investor awareness of SIPC's policies through distribution of the SIPC brochure and disclosures on account statements.

Likewise, SIPC has taken steps to implement the three recommendations directed to SIPC in our 2001 report, but additional work is needed on one. SIPC has updated its brochure and Web site to clarify that investors should complain in writing to their securities firms about suspected unauthorized trades. SIPC also expanded a statement in its brochure that discusses market risk and SIPC coverage and amended its advertising bylaws to require firms that display an expanded statement about SIPC to include a reference or link to SIPC's Web site. Moreover, SEC, the NASD, and many securities firms provide the recommended disclosures about the scope of SIPC coverage to investors on their Web sites. SIPC also added links to Web sites in its brochure that offer information about investment fraud. However, investors could benefit from more specific links to investor education information.

Until this year, certain well-capitalized, large, and regional securities firms were able to purchase and provide excess SIPC coverage from four major insurers. The insurance policies varied by firm and insurer in terms of the amount of coverage offered per customer and in aggregate per firm. Attorneys familiar with the policies agreed that the disclosure of the coverage and the terms of coverage could be improved. During the review, GAO found that three of the four major insurers that offered excess SIPC coverage in 2002 stopped underwriting these policies in 2003. Consequently, as the policies expire in 2003, most insurers are not renewing their existing policies and have stopped underwriting new policies. At this time, holders of the insurance policies have not decided what to do going forward. However, several options are being explored including self-insuring and purchasing policies from the remaining major insurer.