

Statement of Armando J. Bucelo, Jr.

Chairman

Securities Investor Protection Corporation

Mr. Chairman and Members of the Committee:

I am pleased to appear before the Committee today as SIPC's Chairman. With me today are SIPC's President, Stephen Harbeck, and SIPC's General Counsel, Josephine Wang. It is an honor to serve as SIPC's Chairman and I look forward to a full term in that capacity. I joined the SIPC Board in 2002 as Vice-Chairman, and since the appointment of SIPC's Chairman W.R. "Tim" Timken as Ambassador to Germany in late 2005, I have served as Chairman.

I am proud of my association with SIPC, which serves to protect investors in the event of brokerage firm failures. During the years I have served on the Board, I have had an opportunity to see for myself that this segment of the investor safety net is functioning well.

A brief background on SIPC will be useful to the Committee in measuring how far investor protection has come since SIPC's inception. In 1969 and 1970, customer losses mounted as the rate of stockbroker failures accelerated. The Congress responded by enacting the Securities Investor Protection Act ("SIPA"). SIPA had many purposes: to protect individual investors from financial hardship, to insulate the economy from the disruption which can follow the failure of major financial institutions, and to achieve a general upgrading of financial responsibility requirements of brokers and dealers to eliminate, as much as possible, the risks which lead to customer loss. SIPA also created SIPC and, among other things, established procedures for liquidating financially troubled broker-dealers who are members of SIPC.

SIPC is about to conclude the largest brokerage firm liquidation in its 36 year history. MJK Clearing Corporation was a prominent regional brokerage firm in Minneapolis that failed when a fraudulent stock loan scheme completely depleted its cash reserves. In the troubled period of late September, 2001, SIPC and a trustee appointed to liquidate the firm returned control of customer assets to 175,000 customers in approximately one week. SIPC advanced \$177,000,000 to return cash and securities to those investors. I am pleased to report to the Committee that as the case winds to a close, as a result of rigorous litigation efforts to recover missing customer assets, all customers, all creditors, all subordinated lenders, and SIPC have been paid 100 cents on the dollar, plus interest. SIPC's Board and staff are justly proud of this achievement. As the only attorney on the Board, I have come to appreciate the complexity of the legal issues SIPC faces with respect to bankruptcy and securities law. I can report to the Committee that investors have benefited from SIPC's vigorous pursuit of those who are responsible for any particular brokerage firm failure.

I am also pleased to report to the Committee that the regulatory system is preventing brokerage firm failures in the first place. Only one small brokerage firm failed in 2005. Only one small firm has failed this year. We attribute this outstanding result to the Securities and Exchange Commission, the state regulatory authorities, and the securities industry self-regulatory organizations that monitor the financial health of the securities brokerage industry. As I noted in SIPC's 2005 Annual Report, investor confidence in the securities markets is enhanced when investors know that brokerage firm failure is a rare event.

SIPC's Board is committed to maintaining adequate resources to fulfill SIPC's statutory mission. SIPC's Fund now stands at over \$1.3 billion, an historic high. As Chairman, I have initiated a Board level Investment Committee to make sure that SIPC continues the prudent

management of this Fund. No taxpayer funds have ever been used in the SIPC program, and the Board continually monitors the adequacy of SIPC's funding.

Investor education has also been a priority for SIPC. The statute that created SIPC is, by the very nature of bankruptcy and securities law, a complex and technical law. We have undertaken a continuing public interest media campaign to make sure investors know what SIPC protects, and equally important, what SIPC does not protect.

Finally, SIPC is preparing for the future, and the inevitable problems we have not faced in the past. We have tested a business continuity program, complete with an emergency alternative work facility. We are also preparing for the possibility of a brokerage firm failure that crosses international borders. SIPC has executed memoranda of understanding with its counterparts in Canada and the United Kingdom. Other such agreements will follow.

In summary, SIPC is robust financially, fulfilling its statutory mission, and preparing for the future. I am pleased to be at its helm.