Banks and Broker Dealers: FDIC or SIPC?

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Many clients do not understand the difference between insurance provided by the Federal Deposit Insurance Corporation (FDIC) and protection provided by the Securities Investor Protection Corporation (SIPC). The first distinction to understand is that FDIC insurance covers deposits at banks and SIPC protects customers if their brokerage firm fails. There are organizations, such as Charles Schwab, that consist of both a bank and a brokerage firm. In this scenario, FDIC would apply to assets deposited on the bank side of the firm and SIPC would apply to assets housed on the brokerage side of the company.

Another important fact to understand is client assets at broker dealers are required by law to be segregated from the broker dealer's assets. This means that the client assets cannot be attached to satisfy liabilities of the broker dealer.

Let's examine the coverages available from FDIC and SIPC:

FDIC:

FDIC deposit insurance coverage depends on two things: (1) whether your chosen financial product is a deposit product; and (2) whether your bank is FDIC-insured.

FDIC deposit insurance covers checking accounts, negotiable order of withdrawal (NOW) accounts, savings accounts, money market savings

deposit accounts (MMDAs), time deposits such as certificates of deposit (CDs), cashier's checks, money orders and other official items issued by a bank.

The FDIC **does not** cover stock investments, bond investments, mutual funds, life insurance policies, annuities, municipal securities, safe deposit boxes or their contents, U.S. Treasury bills, bonds or notes.

The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category.

The FDIC provides separate coverage for deposits held in different account ownership categories. Depositors may qualify for coverage over $250,000 if they have funds in different ownership categories and all FDIC requirements are met.

All deposits that an accountholder has in the same ownership category at the same bank are added together and insured up to the standard insurance amount.

For more information on the FDIC and available coverage please visit fdic.gov.

SIPC:

When a brokerage firm is closed and customer assets are missing, SIPC steps in, and within certain limits, works to return customers' cash, stock, and other securities held by the firm.

If a firm closes, SIPC protects the securities and cash in a customer's brokerage account up to $500,000. The $500,000 protection includes up to $250,000 protection for cash in the account.

SIPC protects customers if:

- The brokerage firm is a SIPC member.

• The customer has securities at the brokerage firm.

• The customer has cash at the brokerage firm on deposit in connection with the purchase or sale of a security.

SIPC **does not** protect:

• Investments if the firm is not a SIPC member.

• Market loss.

• Promises of investment performance.

• Commodities or futures contracts except under certain conditions.

SIPC does not protect market losses because market losses are a normal part of the ups and downs of the risk-oriented world of investing. Instead, in a liquidation, SIPC replaces the missing stock and other securities when it is possible to do so.

In many instances, a broker dealer will purchase additional private insurance commonly known as "excess SIPC" insurance. This is designed to provide additional protection after the standard SIPC coverage is exhausted. This coverage typically includes a maximum amount of protection per each client broken down by maximum coverage for securities and maximum coverage for cash. In addition, these policies generally have an aggregate limit of coverage for all clients.

For more information on SIPC coverage please visit sipc.org.

With a better understanding of the protections available from FDIC and SIPC lets review the coverages available at the three custodians, Charles Schwab, TD Ameritrade and Fidelity, utilized by IFA.

Charles Schwab:

Schwab's organizational structure includes both a bank and a broker dealer. Their bank is FDIC insured and their broker dealer is a SIPC member. As a

result, deposits in their bank are covered by FDIC insurance and assets in the broker dealer are covered by SIPC.

Schwab purchases excess SIPC protection from Lloyd's of London and other London insurers. This coverage is provided up to an aggregate of $600 million, limited to a combined return to any customer from SIPC and Lloyd's of $150 million, including up to $1,150,000 in cash.

To view an interview with Schwab CEO Walter Bettinger regarding the recent volatility in Charles Schwab common stock and differences between assets at Schwab's bank and at Schwab's broker dealer please click the link below:

https://youtu.be/E38qSneYQUU

Charles Schwab and Walter Bettinger recently published a joint statement outlining their perspective on recent industry events. You can read this statement here.

For more information on how client assets are protected at Schwab please visit: welcome.schwab.com/alliance/resource/asset-safety

TD Ameritrade:

In 2020 Charles Schwab completed its acquisition of TD Ameritrade. Currently, TD Ameritrade is a broker dealer and a wholly owned subsidiary of Charles Schwab. The integration of TD Ameritrade into Schwab is scheduled to be completed by the end of 2023.

As a SIPC member, all client assets held there enjoy SIPC protection. In addition, TD Ameritrade has purchased excess SIPC coverage from London insurers. This provides each client $149.5 million worth of protection for securities and $2 million of protection for cash over and above the standard SIPC protection. In the event of insolvency, a client may receive amounts due from the trustee in bankruptcy and then SIPC. Excess SIPC is paid out after the trustee and SIPC payouts and each client is limited to a combined return

of $152 million from a trustee, SIPC and excess SIPC coverage. The TD Ameritrade excess SIPC coverage has an aggregate limit of $500 million over all clients.

Fidelity:

As a broker dealer, Fidelity is a SIPC member. As a result, all Fidelity accounts are covered by SIPC.

In addition to SIPC protection, Fidelity provides its brokerage customers with additional "excess of SIPC" coverage through Lloyd's of London. The excess coverage would only be used when SIPC coverage is exhausted. Like SIPC, excess protection does not cover investment losses in customer accounts, including losses due to market fluctuation. Total aggregate excess of SIPC coverage available through Fidelity's excess of SIPC policy is $1 billion. Within Fidelity's excess of SIPC coverage, there is no per customer dollar limit on coverage of securities, but there is a per customer limit of $1.9 million on coverage of cash awaiting investment.

As you can see, the custodians above each provide clients with both SIPC and excess SIPC coverage. This should give anyone with assets deposited at one of these firms comfort knowing that in the event the firm were to close and client assets were missing, there are significant protections available to replace the securities and/or cash.