FREQUENTLY ASKED QUESTIONS ABOUT THE PROTECTION OF CLIENT ASSETS HELD AT PERSHING LLC
July 2008

As a registered broker-dealer in the United States, Pershing LLC (Pershing) is a member of the Securities Investor Protection Corporation (SIPC®), which protects client accounts for up to $500,000, of which $100,000 can be in cash. Please note that money market fund securities (registered with the Securities and Exchange Commission [SEC] and sold by prospectus) are considered securities (not cash) by SIPC and are, therefore, covered up to the $500,000 limit. More information about SIPC protection can be obtained on the Internet at www.sipc.org.

Pershing carries "Excess SIPC" (in excess of the SIPC limits discussed above) protection through a private insurance company, Customer Asset Protection Company (CAPCO), for the net equity of your clients' securities positions and cash in their accounts in excess of the SIPC limits. Net equity refers to the value of your clients' securities, plus cash minus anything that may be owed, such as a margin loan. CAPCO is a captive insurance company licensed by the state of Vermont and has received an A+ (negative watch) financial strength rating by Standard & Poor's® as of 2007. Please note that this rating may be changed by Standard & Poor's at any time. CAPCO is owned by 15 financial service firms, including The Bank of New York Mellon Corporation, Pershing's parent company. More information on CAPCO can be obtained on the Internet at www.capcoexcess.com.

Excess SIPC protection is intended to protect U.S. client accounts and follows the underlying terms of the Securities Investor Protection Act (SIPA), which is administered by SIPC. Each client account, subject to certain conditions and limitations as set forth in SIPA, are protected up to the net equity for securities and cash held in the account.

For your convenience, we have provided the answers to some frequently asked questions your clients might ask regarding the protection of their assets held at securities firms.

Q. *How are the assets I hold in my brokerage account protected?*
A. As outlined below, your assets are held separate from the assets of our clearing firm, Pershing. In addition, your 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. For accounts in excess of $500,000, your assets are protected by the Excess SIPC program purchased by Pershing through the Consumer Asset Protection Company (CAPCO), a captive insurance company licensed by the state of Vermont insurance company that has received an A+ (negative watch) financial strength rating by Standard & Poor's®.

- **Client assets are held separately from their firms' assets.** Securities regulations are designed to protect your funds and your securities when you keep them at a securities firm. The Securities and Exchange Commission (SEC) requires securities firms to deposit client funds in a separate account, distinct from the securities firm's own money. Most securities held by clients in "street name" are kept securely with the Depository Trust and Clearing Corporation (DTCC) or other approved depositories, separate and distinct from the assets of securities firms. Regulated by the SEC, the Federal Reserve, and the New York state banking authorities, DTCC is a national clearing house for settling trades and a custodian of securities. Regulators and independent auditors periodically review firms' financial records to ensure that clients' assets are accurately tracked and held separately from each firm's own holdings. See www.dtcc.com for additional information about DTCC.

- **Client assets are protected by SIPC.** Congress created SIPC in 1970 to protect clients of member securities firms that may fail or be liquidated. If any securities or cash are missing from eligible client accounts at the time of liquidation, the corporation 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. See www.sipc.org for further information about SIPC.

- **Client assets are protected by Excess SIPC.** Through private arrangements between securities firms and insurance companies, most securities firms also provide additional account protection beyond SIPC, commonly known as "Excess SIPC." This protection often varies from firm to firm. Our clearing firm, Pershing, provides account protection for the net equity of your securities positions and cash in your account. Net equity refers to the value of your securities, plus cash, minus any amount that may be owed, such as a margin loan. Of that total, SIPC provides $500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment. Pershing purchases the additional protection through a commercial insurer on terms similar to SIPC. Visit www.sipc.org for more information about SIPC and www.capcoexcess.com for more information about Pershing's commercial insurer, CAPCO.

Q. I have heard that Excess SIPC is being eliminated or reduced. What is happening with this additional account protection?

A. The domestic insurance companies that provide Excess SIPC protection announced in December 2003 that they will no longer offer this protection. As a result, some securities firms have changed their account protection or have negotiated new account protection. The underlying SIPC protection is not affected by these changes, however, and each firm is responsible for notifying its clients of any change in coverage to Excess SIPC.

Our clearing firm, Pershing, provides account protection for the net equity of securities positions and cash in your account. Net equity refers to the value of your securities, plus cash, minus any amount that may be owed, such as a margin loan. Of that total, SIPC provides $500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment. Pershing purchases the remaining account protection through a commercial insurer, on terms similar to SIPC. Visit www.sipc.org for more information about SIPC.

Pershing purchases Excess SIPC through CAPCO, a captive insurance company licensed by the state of Vermont that has received an A+ (negative watch) financial strength rating from Standard and Poor's. CAPCO intends to provide protection that is similar to the Excess SIPC protection that had been available from the domestic insurance market until it became no longer available. It protects U.S. client accounts and follows the underlying terms of SIPA.

Similar to the coverage previously available, each client account, subject to certain conditions and limitations, will be protected up to its net equity for securities and cash held in the account.

Q. *How does SIPC protection work?*

A. You can have confidence that, given the very high percentage of client assets that are recovered during liquidation, SIPC protection is adequate for nearly all client accounts. Consider the following:

- Federal securities laws require that client assets be segregated from a firm's own assets. The law is backed by 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 firms themselves.

- According to the Securities Industry Association (SIA), SIPC reports that 99.7% of eligible investors' claims have been made whole in the 306 failed securities firm cases that it has handled over the past 32 years. None of these cases required a payment using Excess SIPC. The remaining 0.3% of investors had claims in excess of the SIPC limits, but SIA understands that these claims were filed by clients of securities firms that did not carry excess account protection.

- SIPC funds are used to make investors whole after all client assets held at the securities firm have been recovered. SIPC 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 securities firm fails, resulting in $5 billion of client claims on assets, with a recovery rate of assets in liquidation of 90% or $4.5 billion, 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.

Q. *How does Excess SIPC work?*

A. After the SIPC limit ($500,000 of net equity protection, including $100,000 for claims for cash awaiting reinvestment) is exceeded, Excess SIPC covers the remaining net equity of securities positions and cash in your account.

Pershing purchases Excess SIPC through CAPCO, a captive insurance company licensed by the state of Vermont that has received an A+ (negative watch) financial strength rating from Standard and Poor's. The Excess SIPC protection provided by CAPCO is intended to protect U.S. client accounts and follows the underlying terms of SIPA. Similar to the coverage previously available, each client account, subject to certain conditions and limitations, will be protected up to its net equity for securities and cash held in the account. CAPCO also intends to provide a comparable form of account protection for clients of participating U.K. broker-dealers.

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

A. Knowing that your assets are held by our clearing firm, Pershing, be assured that your assets are safe and protected. Pershing, an affiliate of The Bank of New York Mellon Corporation, is a leading global provider of clearing and financial services outsourcing solutions to more than 1,100 institutional and retail financial organizations, registered investment advisors, and managed account programs.

Pershing purchases Excess SIPC through CAPCO, a captive insurance company licensed by the state of Vermont that has received an A+ (negative watch) financial strength rating from Standard and Poor's. The Excess SIPC protection provided by CAPCO is intended to protect U.S. client accounts and follows the underlying terms of SIPA. Similar to the coverage previously available from the domestic U.S. insurance market, each client account, subject to certain conditions and limitations set forth in SIPC protection, will be protected up to its net equity for securities and cash held in the account.

It is also important to note that CAPCO provides coverage for only one line of business, so it is not subject to potential losses in other lines of insurance-like, multiline international insurance companies who also sell Excess SIPC protection. CAPCO provides net equity protection not subject to a per-account limitation, which no other insurance company currently provides.

Q. Which securities firms comprise CAPCO?

A. Please visit www.capcoexcess.com for a list of ownership and insured broker-dealers.

Q. Is CAPCO rated? Who rated CAPCO and what is the rating?

A. Yes, CAPCO received an A+ (negative watch) financial strength rating from Standard and Poor's. This rating is subject to change by Standard & Poor's at any time.

Q How long does CAPCO's policy last?

A. The policy is issued for one year and requires an annual capital review.

Q What are the limits of liability for the Excess SIPC protection Pershing purchases through CAPCO?

A. There is no specific dollar limit to the protection that CAPCO offers for client accounts. CAPCO's protection is designed to cover the difference between a client's net equity (as defined by SIPA) and the total of all funds and securities distributed to the client from other resources. Thus, you cannot receive more than the net equity in your account.

Q. *What are the differences between CAPCO and other insurance companies that offer Excess SIPC protection?*

A. CAPCO provides coverage for only one line of business, so it is not subject to potential losses in other lines of insurance, for instance, multiline insurance companies that also sell Excess SIPC protection. CAPCO provides net equity protection not subject to a per-account limitation, which no other insurance company currently provides.

Q. *Does the Excess SIPC protection Pershing purchased through CAPCO cover institutional clients?*

A. Yes, subject to the terms and conditions generally applicable to all other clients.

Q. *Is anyone excluded from the Excess SIPC protection Pershing provides through CAPCO?*

A. No, all clients are eligible for the Excess SIPC protection Pershing purchases through CAPCO. However, the protection does not apply to all losses. For instance, the protection does not apply to any loss that arises directly or indirectly through fraudulent, dishonest, or wrongful acts on part of the client, or through any such act in which the client is implicated.

Q. *Are any account assets excluded from the Excess SIPC protection Pershing provides through CAPCO?*

A. Certain types of assets that are not protected under SIPC are also not covered by Excess SIPC protection. Among investments that are ineligible for SIPC protection are commodity futures contracts and precious metals, in addition to investment contracts, such as limited partnerships, and fixed annuity contracts that are not registered with the SEC under the Securities Act of 1933.

Q. *If my assets are not an asset type that is protected by SIPC, do I have any Excess SIPC account protection?*

A. No, your assets must first be protected by SIPC in order to be eligible for Excess SIPC protection. See www.sipc.org for more information.

Q. *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 claims of any failed securities firm for investors who are:

- A general partner, officer, or director of the firm
- The beneficial owner of 5% or more of any class of equity security of the firm (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 firm
- Someone with the power to exercise a controlling influence over the management or policies of the firm
- A broker or dealer or bank acting for itself rather than for its own clients

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

A. SIPC 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 securities firm. 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 and precious metals, as well as investment contracts (such as limited partnerships) and fixed annuity contracts that are not registered with the 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 in most, but not all, U.S. banks and savings associations in the event that the institution becomes insolvent. For further information about FDIC insurance, see 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 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, and other investments falls for any reason.

Q. If I have one account with one SIPC member and one account with another (separate) SIPC member, how are those accounts covered?

A. The accounts are treated as separate accounts. The $500,000 in protection applies to each account.

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

A. Yes, 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 financial organization. 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.

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

A. Most clients can expect to receive their property in one to three months. If the firm's records are inaccurate, or if the firm was involved in fraudulent activity, it may take longer.

Q. *Is it not safer to 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.

Q. *Can any securities firm 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.

Q. *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 firms.