



Asset Safety Matters to Schwab

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SIPC protection does not cover fluctuations in the market value of securities. Account protection is not provided for the accounts of banks or broker/dealers maintained from their own account.

Introduction

Purpose: Describe Safety and Soundness of Broker/Dealer Custody

FOCUSING ON...

- Business overview
- Charles Schwab & Co, Inc. credit philosophy
- How SIPC and excess SIPC work

Subject Matter Experts

CONTRIBUTORS TO THE CONTENT OF THIS PRESENTATION

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Some Context for Concerns about Asset Safety

The Risk

1. The broker-dealer (BD) fails
2. And securities “go missing” ...
3. Or securities are not returned...
 - Securities were loaned or re-hypothecated and one or more counterparties fails

Mitigants

- BD financial condition
- BD cash collateral to repurchase “loaned” securities
- Risk management controls
- Clients have full rights to securities which are held at Depository Trust Company (DTC) – no creditor access
- Loss is shared pro rata across all clients at BD



Quote from SEC Chairman Christopher Cox

“Despite the run on the bank to which Bear Stearns was subjected, its customers were fully protected. At no time...were any of the customers of Bear Stearns’s broker-dealer at risk of losing their cash or their securities.....

...there is one thing we know to a certainty: with or without JPMorgan Chase’s acquisition of Bear, and with or without a bankruptcy, Bear Stearns’s securities customers are and would have been fully protected from loss of cash or securities.”

Source: Quote is from testimony Christopher Cox gave before the U.S. Senate Committee on Banking, Housing and Urban Affairs in April 3, 2008

Business Overview



Business Snapshot

SOME KEY PRINCIPLES

- Operating discipline
- Balance profitability with investment to drive growth
- Conservative approach to managing credit risk
- Rigorous capital management
- Commitment to a strong and flexible balance sheet

Charles Schwab & Co, Inc. Credit Philosophy



Schwab's Credit Philosophy

FOCUSED ON THE SAFETY OF CLIENT ASSETS

1. Customer Protection Rule
 - Uninvested cash and regulatory limitations
 - Protected from Schwab creditor claims
2. Counterparty and concentration controls
 - Independent Research Team
 - Margin Lending
 - Special Reserve Account
 - Securities Lending

Note: for

Securities Investor Protection Corporation (SIPC)



SIPC's History

In 2007, for the first time in SIPC's history, there were no Customer Protection Proceedings.

**FIGURE I
Status of Customer Protection Proceedings
December 31, 2007**

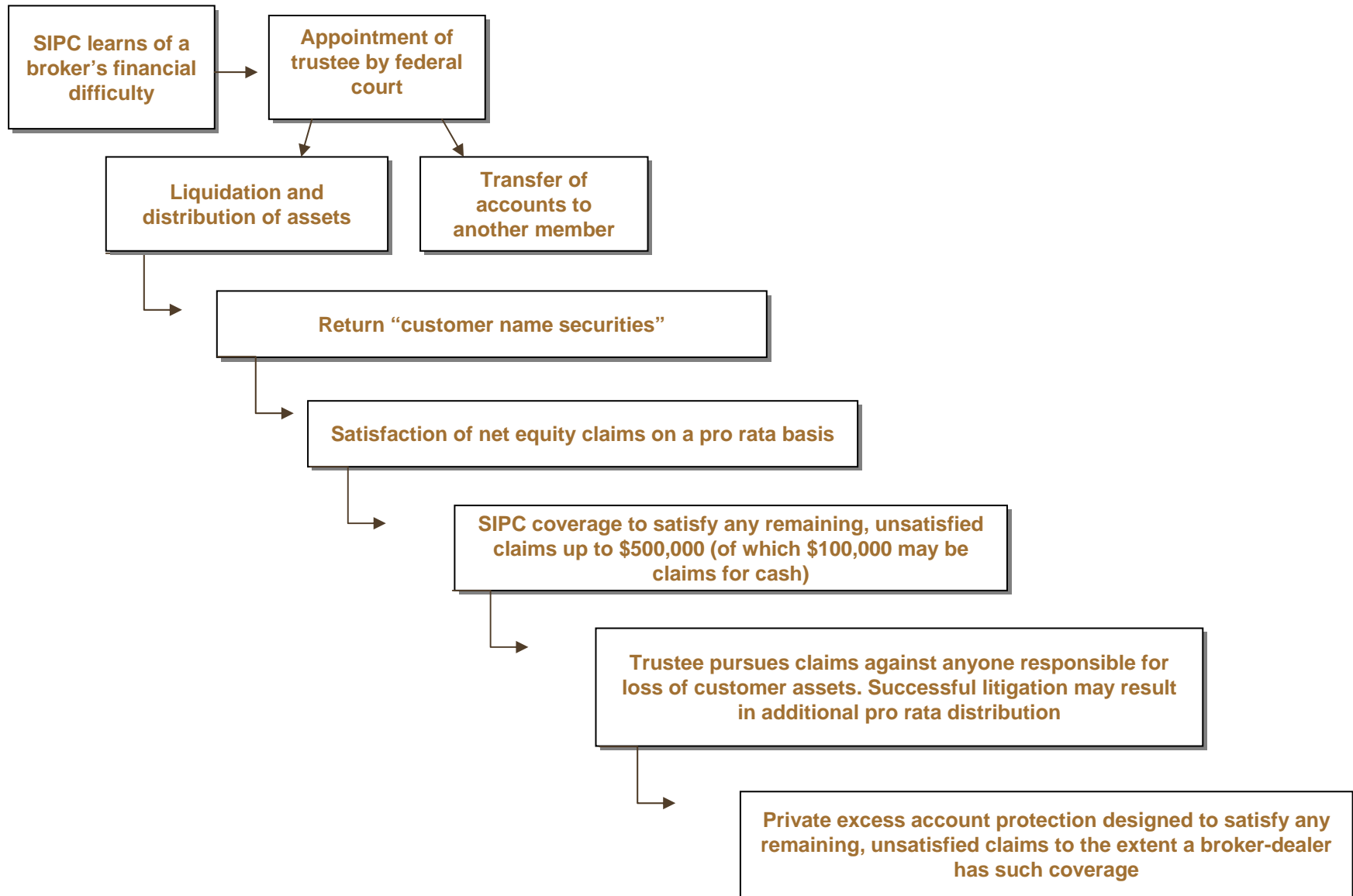




SEC Rules Affecting BD Custody

- Customer Protection Rule (15c3-3)
- Net Capital Rule (15c3-1)
- Record Keeping and Financial Reporting
- Inspections and Enforcement Proceedings
- Hypothecation Restrictions
- Supervisory Obligations
- Role of SROs

Customer Protection Proceeding (SIPC)





Broker-Dealer Failures Since 1971

- ✓ Total number of failures.....317
- ✓ Percentage of member failures.....0.8%
- ✓ Total number of claims satisfied by SIPC.....625,100
- ✓ Number of claims in excess of SIPC limits.....349
- ✓ Percentage of claims that were not fully satisfied by SIPC.....0.05%

Securities Investor Protection Corporation (SIPC)

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Schwab's Excess SIPC



Decision to Purchase Excess SIPC Insurance

- Schwab has been purchasing excess SIPC insurance on behalf of its customers since 1984.
- Schwab began purchasing excess SIPC insurance from the underwriters at Lloyd's of London in December 31, 2003, when changes were made in how this coverage was offered.
- Lloyd's of London, and to some extent XL Insurance Ltd., began underwriting when other carriers exited the market. However, they were now only offering the product with a cap (limited liability) and at significantly higher premiums than companies had been paying prior to 2003.



Current Coverage

- Coverage: Insurance indemnifies Insured (Customers of CS&Co., Inc.) against physical loss or damage which results in loss of securities and/or cash to the customer(s).
- Limits: \$149,500,000 per Customer for securities, provided that the combined return to the customer from trustee distributions, SIPC and Underwriters at Lloyd's of London does not exceed \$150,000,000, including \$900,000 per customer for cash

Policy is subject to a \$600,000,000 aggregate limit for all customers.

- Deductible: Excess of SIPC



Schwab's Position Today

We believe the first line of account protection is the strength of the account custodian.

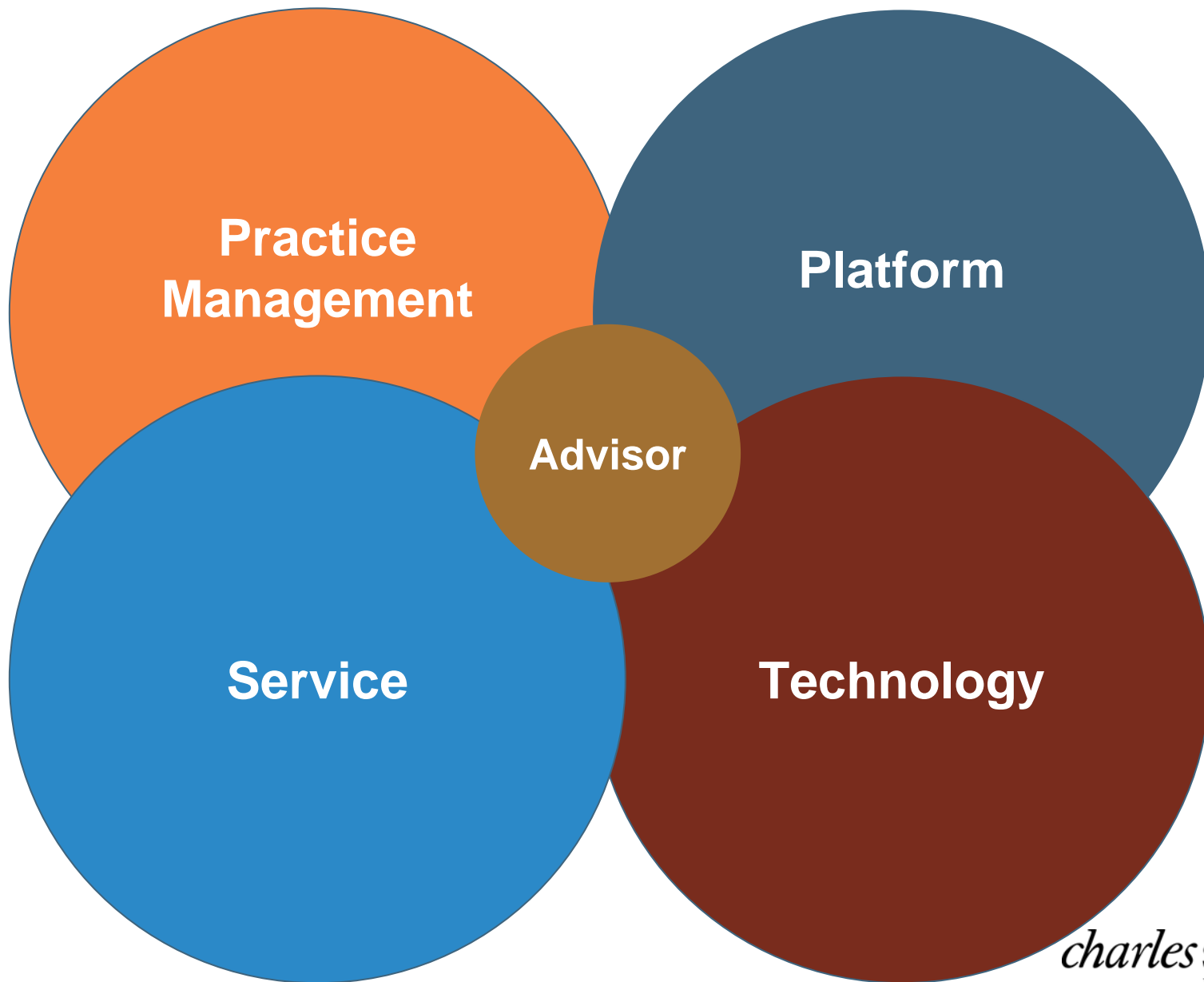
Beyond the financial strength and other internal controls at Schwab:

- SIPC provides historical support for adequacy of coverage in the event of a covered securities firm failure.
- Schwab has purchased an excess SIPC policy through certain underwriters at Lloyd's of London since December 2003.

Schwab Institutional



The Evolving Schwab Institutional Offer



Appendix

An Example Where an Actual Loss is Assumed

Hypothetical Scenario	\$100M client, \$1.4T firm, \$2B missing
Individual Customer Account Value	\$100,000,000
All Customer/Firm Assets	\$1,400,000,000,000
Total Missing Assets	\$2,000,000,000
All Customer Assets Held by Trustee	\$1,398,000,000,000
Pro Rata Share of Customer Assets	99.86%
Pro Rata Customer Value	\$99,860,000
SIPC Coverage up to \$500,000	\$140,000
Amount Customer Receives	\$100,000,000

Source: Securities Investor Protection Corporation, July 2008

Assumptions: All claims are for securities, all customers file claims, no general estate exists