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THE STANFORD PONZI SCHEME: LESSONS FOR PROTECTING INVESTORS FROM THE NEXT SECURITIES FRAUD

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

MAY 13, 2011

Printed for the use of the Committee on Financial Services

Serial No. 112–30

U.S. GOVERNMENT PRINTING OFFICE

66–868 PDF WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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THE STANFORD PONZI SCHEME: LESSONS FOR PROTECTING INVESTORS FROM THE NEXT SECURITIES FRAUD

Friday, May 13, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 11:22 a.m., in room 2128, Rayburn House Office Building, Hon. Randy Neugebauer [chairman of the subcommittee] presiding.

Members present: Representatives Neugebauer, Fitzpatrick, Pearce, Posey, Hayworth, Canseco; and Capuano.

Ex officio present: Representative Bachus.

Also present: Representatives Harper, McCaul, and Cassidy.

Chairman NEUGEBAUER. Good morning. The committee will come to order.

I would like to thank everyone for being here today.

I know that we have a number of visitors in the gallery today, and we appreciate you being here; we just would remind folks who are in the gallery that you are an observation team only and that we would ask not to have any placards or any verbal shows of support for or against the testimony.

This is a very important hearing on a very important issue. We want to have plenty of time for members to give this panel appropriate questions. We want to hear from the panelists, as well.

We want to remind everyone, particularly the members who are here, that you can submit an opening statement for the record, and that will be made a part of the permanent record.

We have four Members who are not currently on the subcommittee or on the committee who have asked to join us today. And so I ask unanimous consent that Mr. McCaul, Mr. Cassidy, Mr. Harper, and Ms. Schwartz be a part of the panel today.

What I am going to do here is, I am going to have one Member who is going to make a brief statement and then going to submit his questions for the record. And so, I am going to go ahead and yield 2 minutes to the gentleman from Texas, Mr. McCaul, for a statement.

Mr. MCCAUL. Thank you, Mr. Chairman. Thank you for holding this hearing today and allowing me to participate.

Many of my constituents were hurt by the fraud committed by the Stanford Group, and I am pleased to see that Congress is investigating the reasons why this fraud was allowed to continue for so long after the SEC received initial warnings that something was wrong.

In addition to learning from past mistakes and correcting them to prevent another case like this, we must also do what we can to help the investors and the victims in this case recover what they can. I believe, as in the Madoff Ponzi scheme, that the Stanford investors should be covered by the SIPC, and I would like to work with this committee and the SEC to see that this gets done.

Unfortunately, due to my flight schedule, I will not be able to stay for the entire hearing. So, Mr. Chairman, with your consent, I would like to submit questions in writing for the witnesses.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. MCCAUL. Once again, Mr. Chairman, thank you for letting me participate. And I yield back my time.

Chairman NEUGEBAUER. Thank you.

I am going to yield myself just a few minutes here.

This is a very important hearing. And I think as we go through the hearing today, we are going to see some very alarming facts: that here was a Ponzi scheme that really started off from the very beginning as a Ponzi scheme and that, along the way, very early in the process, people were trying to call attention to the fact that this was, in fact, a Ponzi scheme.

We are going to put a chart up on the screen here in just a minute. But, basically, what we see is, in a very short period of time, really from 1995, where we were starting off with a fund that had a very limited number of investors, around $200 million, at the end had nearly $7 billion. And all along the way, where you see the little stars, were opportunities where people were saying that this fund was a fraud, was a Ponzi scheme, and yet people ignored those warnings and let the fund get larger and larger. And then, of course, when you look at 2005, as with all Ponzi schemes, the larger they get, the larger the appetite for more funds, and so the more pressure to bring more money in.

I had the opportunity recently, when I was back in Texas, to meet with some of the victims. And what I think we will learn is that a good number of the victims were people who came in here at the end. It is just egregious that so many points along the way would have saved so many billions of dollars but not—I want to take the dollar signs off of it—and saved the life savings of a number of people.

And so the questions are going to be tough today, because we had people trying to make others act on the fact that this was, in fact, a Ponzi scheme and yet they were ignored by not just one agency, but two agencies.

I hope that several things will come out of this hearing.

One, it is important for regulators to do their job. And one of the things we are going to hear today is that, even if we would have had Dodd-Frank in place, it wouldn't have prevented this from happening; the resources were there, the infrastructure was in place, and yet people just didn't do their job. So when people call for more regulations in a lot of cases, it is sometimes when we find govern-

ment not living up to its expectations. And, unfortunately, the Washington answer generally has been, we just need more people and we need more regulations. This is a case where more people and more regulations wouldn't have solved it. What would have solved this problem is if we would have had regulators actually doing their job.

And I think it also points out the importance of what happens when regulators don't do their job, particularly in these agencies where the people in our country have—expecting these agencies to have integrity inside the agencies and to address these issues, and yet we have seen a fairly systemic failure.

In many ways, I don't want to minimize the Madoff issue, but this is a case different from Madoff, in that Madoff was—toward the end, people realized that was a Ponzi scheme. But what is so egregious about this is, from the very beginning, people realized that this was a Ponzi scheme, and yet it went unanswered.

And so, I look forward to having a very robust hearing today.

And now it is my pleasure to yield to the ranking member, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Thank you for having this hearing.

And for the victims who are in the audience listening to this, I can only tell you that, as part of the government, I apologize. I agree with what the chairman said, that the government failed you in this situation.

But I also think that it is indicative of the situation that was going on for the last 15 years. This country has continuously let itself believe that the lack of regulation or the lack of enforcement of regulations, somehow everything would just take care of itself. And it was endemic, across-the-board, which, in my opinion, caused the economic collapse that we witnessed in the last 10 years.

This is certainly a part of it, and I agree with the chairman that no laws can stop illegal behavior. But the attitude that is endemic upon all of us for the last 15, 20 years, that somehow regulation is not necessary, somehow a free and unfettered market, free of any oversight, would police itself and everything would just be okay is wrong. This is more proof that it is wrong.

Regulators must regulate. Enforcers must enforce. And when we don't, we owe an apology to the people who have been hurt and we owe them our best efforts to make it right.

With that, Mr. Chairman, I yield back.

Chairman NEUGEBAUER. The Chair now recognizes the gentleman from New Mexico, Mr. Pearce, for 2 minutes.

Mr. PEARCE. I think the chairman.

Any time a nation makes a promise that it does not keep, the entire nation loses confidence in itself and in its capabilities, especially when middle-class and just working-class families are affected.

So I appreciate the chairman calling the hearing today, and we are listening with interest to the comments that are made from the people whom we asked to be in charge. We appreciate your service, but we also have questions about why it arose.

Thank you very much. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And I now yield 2 minutes to Mr. Harper, the gentleman from Mississippi.

Mr. HARPER. Thank you, Mr. Chairman. I appreciate very much you holding this very important hearing, something that is extremely important to our office and to many of our constituents.

And I think about all of the natural disasters that my State of Mississippi has and is enduring, but at least we had warning. At least we had a little early detection on what was going on there so you could take action to protect your families. But the Stanford financial Ponzi scheme and the lives it shattered in my home State stands in stark contrast to those natural disasters. For years, while this calamity was brewing, there were many warning signs and reliable forecasts that could have been given by our government but were not.

Mr. Chairman, by and large, these were not wealthy investors. On the contrary, these were hardworking people—parents, grandparents, factory workers, school teachers, retired individuals—who lost their life savings. Eighty percent of those victims invested less than $500,000. Of the $7 billion in total losses, $2 billion was lost by over 5,000 victims in the United States. Of those, 125 that we know of were from my State of Mississippi alone, totaling over $64 million.

From many meetings that we have had and research that has been done, there was a monumental breakdown within our regulatory and enforcement agencies. From what I have seen, the SEC's own Inspector General uncovered problems as far back as 1977, when the first examinations were conducted and when there was only $250 million in deposits with Stanford. And yet, investors were not warned, and investments continued until 2009, when deposits totaled $7.2 billion.

I find that absolutely unbelievable, how this could happen. How could it go unnoticed by the SEC? Why did former SEC employees receive jobs in the Stanford company? Why did the SEC hesitate? Why weren't investors alerted years earlier? Indeed, how could this happen in our country? And what do we do now?

It is my understanding that the SEC's own forensic accounting investigators determined that none of the invested funds ever went to purchase a security. This is absolutely amazing, the lavish and extravagant lifestyle that was done by these Stanford leaders.

It is quite clear that there is a very hyper-technical dispute on whether these victims warrant coverage by the Securities Investor Protection Corporation. So we have to ask, if they failed to do their job, then why would these victims' investments not be covered by SIPC?

Mr. Chairman, I thank you for holding this very important hearing. We need closure and a final resolution by the SEC and their government.

Mr. Chairman, I have in my possession a document here representing over 80 Stanford Financial constituents' stories. And I ask unanimous consent that it be entered into the permanent record of this subcommittee.

Chairman NEUGEBAUER. Without objection, it is so ordered.

And I thank the gentleman.

Mr. HARPER. Thank you, Mr. Chairman.

Chairman NEUGEBAUER. And now the gentleman from Louisiana, Mr. Cassidy, for 2 minutes.

Mr. CASSIDY. I thank the chairman and the ranking member for holding these hearings and allowing me to join.

It is estimated that 1,500 Stanford victims live in Louisiana, with more than $500 million in assets lost. But "an asset lost" is kind of a nice way of saying "a human tragedy." The typical person in my district worked in a petrochemical plant, and saved a lifetime so their kids could go to college and have a better life. They paid their mortgage, and then they sacrificed a little extra so that after retirement, they could live independently. That said, after they retire, they took their savings, put it with Stanford, and, poof, it is gone—a lifetime of work not there.

You can imagine how they feel, particularly when the IG's report looked at the SEC and found that, as early as 1997, there were indications that something was wrong. Double-digit returns on these CDs could not be possible, it was said.

But it wasn't pursued, presumably because—or at least, according to the IG's report, because that Fort Worth office preferred slam-dunk cases, as opposed to complex things. Unfortunately, this was complex—unfortunately, for the victims in my district.

But the level of victimization doesn't stop there. It is perceived that the court-appointed receiver was more interested in billable hours than in pursuing the best interests of those victims. And, lastly, there is one more level of victimization: They don't qualify for SIPC, supposedly because they were given CDs which had a value. But the value of that CD was fictitious.

We cannot make these people whole most of the time, but about 80 percent of them were teachers, petrochemical workers, blue-collar folks who did it right, planning for independence. What we can do is extend them the SIPC coverage to allow them to have a second chance at that for which they worked a lifetime.

With that, I ask for unanimous consent to enter these reports from my constituents on their personal fraud, and I yield back. Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

That concludes our opening statements. And I will remind members that their full statements will be made a part of the record, and we will hold the record open.

At this time, I will introduce our first panel:

Mr. H. David Kotz, Inspector General, Office of the Inspector General, U.S. Securities and Exchange Commission; Mr. Robert Khuzami, Director, Division of Enforcement, U.S. Securities and Exchange Commission; Mr. Carlo di Florio, Director, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission; and Mr. Richard Ketchum, Chief Executive Officer, Financial Industry Regulatory Authority, or FINRA.

Welcome.

Mr. Kotz?

STATEMENT OF H. DAVID KOTZ, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

Mr. KOTZ. Thank you for the opportunity to testify before this subcommittee. I appreciate the interest of the chairman, the ranking member, and the other members of the subcommittee in the SEC and the Office of Inspector General.

On October 13, 2009, we opened an investigation into the handling of the SEC's investigation into Robert Allen Stanford and his various companies. In the course of our investigation, we obtained and searched over 2.7 million e-mails from a total of 42 current and former SEC employees for pertinent time periods from 1997 to 2009. We also conducted 51 interviews of individuals with knowledge relating to the SEC's examinations and investigations of Stanford.

On March 31, 2010, we issued to the Chairman of the SEC a comprehensive report of our investigation in the Stanford matter, containing over 150 pages of analysis and 200 exhibits. The report found that the SEC's Fort Worth office was aware since 1997 that Stanford was likely operating a Ponzi scheme, having reached that conclusion merely 2 years after Stanford Group Company, Stanford's investment advisor, registered with the SEC in 1995.

We found that, over the next 8 years, the SEC's Fort Worth examination group, including Julie Preuitt, who is a witness in this hearing, conducted four examinations of Stanford's operations, finding in each examination that the CDs Stanford was promoting could not have been legitimate and that it was highly unlikely that the returns Stanford claimed to generate could have been achieved with their purported conservative investment approach. The only significant difference in the exam group's findings over the years was that the potential fraud was growing exponentially, from $250 million to $1.5 billion.

We found that the Fort Worth examination group, and particularly Ms. Preuitt, made multiple efforts after each examination to convince the enforcement group to conduct an examination of Stanford. However, no meaningful effort was made by the enforcement group to investigate the potential fraud until late 2005.

Even in 2005, the enforcement group missed an opportunity to bring an action against Stanford Group Company for its admitted failure to conduct any due diligence regarding Stanford's investment portfolio, which could have potentially halted the sales of the Stanford CDs and also could have provided investors and prospective investors with notice that the SEC considered such sales to be fraudulent.

In our investigation, we found evidence that SEC-wide institutional influence with enforcement factored into its repeated decisions not to undertake a full and thorough investigation of Stanford. We found that senior Fort Worth officials perceived that they were being judged on the number of cases they brought, so-called "stats," and communicated to the enforcement staff that novel or complex cases were disfavored. We found that because Stanford was not going to be a quick hit, it was not considered to be as high a priority as other easier cases.

We also found that the former head of enforcement in Fort Worth, who played a significant role in multiple decisions over the years to quash investigations of Stanford, sought to represent Stanford on three separate occasions after he left the Commission and, in fact, represented Stanford briefly in 2006 before he was informed by the SEC's ethics office that it was improper for him to do so.

We provided our report of our investigation on Stanford to the SEC Chairman, with numerous recommendations to improve the operations of the SEC. We have followed up with those offices and Divisions, and they have all been implemented and closed to our satisfaction.

In addition, we recently completed an audit of the process by which the compliance group refers examination results to enforcement in all of the SEC's regional offices to determine if the concerns about the Fort Worth office existed in other offices. Our audit found that examiners across the regional offices are generally satisfied with actions taken by enforcement in response to exam-related referrals. We further found that where there was dissatisfaction with the referral process, the level of concern dramatically dropped over time and particularly in 2010. We also found that the large majority of examiners in these other offices do not believe that enforcement will only take referrals that involve high-dollar amounts; and, in addition, even those who did, believed that this approach was more evident in the past.

In September 2009, we completed another investigation involving the SEC's Fort Worth office and Ms. Preuitt. In this investigation, we found that Ms. Preuitt and a former colleague in the Fort Worth office voiced their differences at a planning meeting about management's initiative to begin conducting a certain type of examination. Shortly thereafter, Ms. Preuitt's supervisor called her into several meetings and admonished her for opposing the office's exam initiative. And a few months later, Ms. Preuitt's supervisor issued her a letter of reprimand. Eventually, Ms. Preuitt was involuntarily transferred to non-supervisory duties.

Ms. Preuitt's former colleague, who also voiced opposition to the new exam initiative, complained to senior management at SEC headquarters about the initiative and about the treatment of Ms. Preuitt. Shortly after he sent his complaint, he was issued a performance counseling memo. And less than a month later, he was issued a letter of reprimand for discussing, "unfounded and inaccurate allegations with senior management."

Our investigation concluded that it was improper for Fort Worth management to take action against employees for voicing opposition to program initiatives and for complaining. Based on our investigative findings, we recommended the consideration of performance-based or disciplinary action against the two senior officials.

In conclusion, I appreciate the interest of the chairman, the ranking member, and the subcommittee in the SEC and my office and, in particular, in our investigative reports. Thank you.

[The prepared statement of Mr. Kotz can be found on page 86 of the appendix.]

Chairman NEUGEBAUER. Thank you.

Excuse me. I think, Mr. Khuzami, you have someone with you that I didn't introduce. As you make your opening statement, if you would introduce—

Mr. KHUZAMI. I will, Mr. Chairman.

Chairman NEUGEBAUER. Thank you. You are recognized.

STATEMENT OF ROBERT KHUZAMI, DIRECTOR, DIVISION OF ENFORCEMENT, U.S. SECURITIES AND EXCHANGE COMMISSION (SEC), ACCOMPANIED BY MICHAEL CONLEY, DEPUTY SOLICITOR, SEC

Mr. KHUZAMI. Thank you.

Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee, thank you for the opportunity to testify on behalf of the Securities and Exchange Commission.

I have served as Director of the Division of Enforcement since March 2009. Prior to that, I was a Federal prosecutor in New York doing criminal securities fraud prosecutions in the U.S. Attorney's Office for the Southern District of New York and as chief of the Securities and Commodities Fraud Task Force. Prior to that, I also served in the Office of Counterterrorism Unit, where I was involved in the prosecution of the "blind sheik," Omar Ahmad Ali Abdel-Rahman, and nine codefendants for operating an international terrorism conspiracy responsible for, among other things, the 1993 bombing of the World Trade Center. I previously served as general counsel for the Americas for Deutsche Bank AG and as the bank's global head of litigation and regulatory affairs.

Mr. di Florio, who is Director of Compliance, and I are joined today by Michael Conley, who is the Commission's Deputy Solicitor for the Office of the General Counsel. Mr. Conley is involved in the Commission's analysis of the issues surrounding a potential liquidation of the Stanford Group Company under the Securities Investors Protection Act. He is here to answer any questions you may have in that regard.

The Commission commends the work of the Inspector General and the staff investigating the Stanford matter and in their April 2010 report. Their investigation clearly identifies that the SEC missed opportunities in the Stanford investigation. We did not do our job. We did not protect the Stanford investors as we should have, as our mission of investor protection requires us to do. We cannot evade responsibility for this failure, and we deeply regret our failure to act more quickly.

We cannot undo the past; what we can do is to act as a responsible agency going forward, which means, in this case, to take steps to prosecute those who perpetuate the fraud, to maximize recovery for the victims, and to change the way we operate in order to minimize the chance of this happening again. That is happening in four ways.

First, we are vigorously pursuing Mr. Stanford. In February 2009, we filed an emergency civil action to halt sales of the Stanford CDs and to seek return of funds to harmed investors. We later filed an amended complaint against Stanford and other perpetrators, alleging a massive Ponzi scheme. We also sued at that time Leroy King, the former CEO of Antigua's Financial Services Regulatory Commission, whom we alleged accepted bribes to conceal

Stanford's activities. Our investigation of the Stanford fraud continues, and we are closely focused on the conduct of others connected to the fraud, while also working closely with the Department of Justice, which has filed criminal charges against Stanford. And that trial is scheduled for September 12th.

Second, we are working with the Stanford receiver, the criminal authorities, and others to recover assets for the Stanford investors. That includes assets in Switzerland, Canada, and the United Kingdom which are subject to government restraints. For example, in April 2010, we worked with the receiver and Panama's regulatory authorities to secure millions of dollars from the sale of certain Stanford-related entities located there.

Third, the Inspector General's report identified a need for reforms in the Division of Enforcement and the Office of Compliance Inspections and Exams, seven of which related to the Division of Enforcement. They included: revamping the way we handle the tens of thousands of complaints and tips and referrals we get every year; improving coordination between enforcement and examination; adopting written investigative plans that make sure we coordinate with other experts in the AG, including those in the Office of International Affairs and the Division of Risk, Strategy, and Financial Innovations; and enhancing our procedures for opening and closing investigations. All seven of these have been deemed closed to the satisfaction of the Inspector General.

And, fourth, in the 2 years I have been with the Commission, we have undertaken a top-to-bottom review of our Division in what has been described as the largest restructuring in the history of the Enforcement Division. We have hired experts from the private sector with extensive knowledge of complex products, transactions, and practices; streamlined management; put attorneys back to the front line of conducting investigations; improved coordination; initiated new steps to prevent fraud; and improved our training.

Despite the many changes in the Division, more needs to be done. This will require commitment and creativity, and that I commit to you we will do. It also requires that we not forget how and why we fell short in the Stanford investigation.

We thank the Stanford Victims Coalition, the Official Stanford Investors Committee, the examiner, and others for their help and assistance, and hope and expect to work cooperatively with them in the future.

Thank you.

[The joint prepared statement of Mr. Khuzami and Mr. di Florio can be found on page 54 of the appendix.]

Chairman NEUGEBAUER. Mr. di Florio?

STATEMENT OF CARLO di FLORIO, DIRECTOR, OFFICE OF COMPLIANCE INSPECTIONS AND EXAMINATIONS, U.S. SECURITIES AND EXCHANGE COMMISSION (SEC)

Mr. DI FLORIO. Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee. Thank you for the opportunity to testify today on behalf of the U.S. Securities and Exchange Commission regarding the lessons learned from the Stanford Ponzi scheme.

As Mr. Khuzami said, we deeply regret that the SEC failed to act more quickly to limit the tragic investor losses suffered by Stanford's victims.

I joined the SEC last year, in January 2010. Prior to that, I was a partner with PricewaterhouseCoopers in New York in the financial services regulatory practice. Since joining the SEC, I have initiated a top-to-bottom review of the exam program to strengthen our effectiveness and our efficiency.

The SEC's examination program helps protect investors to ensure market integrity by examining for fraud, monitoring risk, informing policy, and promoting compliance as the eyes and ears of the SEC in the field. Our exams assess whether registrants are treating investors fairly or whether they are engaged in fraud, such as insider trading, market manipulation, Ponzi schemes.

In the Stanford matter, examiner Julie Preuitt showed the kind of determination that we encourage in all of our skilled and dedicated examiners, and I commend her. Unfortunately, Fort Worth leadership at that time did not act on the concerns about Stanford raised by Ms. Preuitt and the exam team. Those individuals are no longer with the SEC.

The SEC's Inspector General's recommendations identify the need for better coordination between enforcement and examination, and we are committed to doing just that. OC and enforcement are working together on multiple fronts to identify misconduct earlier so we can shut it down more rapidly.

During 2010 and 2011, nearly 200 enforcement investigations were opened and significant cases brought as a result of good exam work. We have introduced joint referral committees to proactively review referrals at a very senior level and a new governance process to ensure early escalation of any issues or concerns about how referrals are being handled.

Our new tips, complaints, and referral system helps ensure that we have one system of record for logging, tracking, escalating, and resolving referrals from the exam program to the enforcement program across the country.

More broadly, over the past year, we have been engaged in a top-to-bottom review of our exam program, taking a critical look at our strategy, our structure, our people and skills, our processes, and our technology. This has resulted in comprehensive improvement initiatives to become more effective and more targeted.

For example, we have implemented a new national governance process that breaks down silos and facilitates coordination, consistency, effectiveness, and accountability across the country, across Divisions, and across regulatory partners, including FINRA. We have implemented a new central Risk Analysis and Surveillance Unit to enhance our ability to target those firms, individuals, practices that present the greatest risk to investors and our capital markets. We have begun to recruit experts and launch new specialty groups that will bring deep technical knowledge and experience to our exam program in critical areas. And we are working to implement a new certified examiner training program across the country that raises technical training and certification standards.

As the Inspector General noted, he has also recently noted a report on an audit of the process by which examination findings are

referred to enforcement. I am pleased that the report was generally positive and found satisfaction among examiners with enforcement's responsiveness to exam referrals, particularly over this past year. The IG's audit report also made some very valuable recommendations, which will further improve our process and which we are currently working to effectively implement.

In conclusion, both OC and enforcement are committed to the reforms that strengthen our programs and address the lessons learned from the Stanford fraud. Thank you, and I welcome your questions.

[The joint prepared statement of Mr. Khuzami and Mr. di Florio can be found on page 54 of the appendix.]

Chairman NEUGEBAUER. Thank you.

I assume, Mr. Conley, you don't have an opening statement?

Mr. CONLEY. That is correct, Mr. Chairman.

Chairman NEUGEBAUER. Thank you.

And now, Mr. Ketchum.

STATEMENT OF RICHARD G. KETCHUM, CHAIRMAN AND CEO, FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)

Mr. KETCHUM. Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee. I am Richard Ketchum, chairman and CEO of the Financial Industry Regulatory Authority, or FINRA. On behalf of FINRA, I would like to thank you for the opportunity to testify today.

Unfortunately, we are here today because of a massive fraud that had tragic results for many investors. No regulator can feel good about its performance regarding Stanford. FINRA clearly could have done better, and we deeply regret that we did not.

In the wake of Stanford, we took a hard look at our regulatory programs and approaches and searched for ways to more effectively uncover misconduct, especially fraud, and enhance our programs to better protect investors. In early 2009, the FINRA board of governors established a special committee to conduct a review of FINRA's examination program as it related to the detection of fraud and Ponzi schemes, including the one Alan Stanford is charged with perpetrating.

The committee, which was chaired by former U.S. Comptroller General Charles Bowsher, found that FINRA missed opportunities to investigate the Stanford firm's role in this scheme involving offshore CDs. First, FINRA's Dallas office curtailed a 2005 investigation because of a concern that offshore CDs were not securities regulated under Federal securities laws. Second, FINRA procedures at the time did not set forth criteria for escalation of a matter to senior management or the use of especially trained investigators based on the gravity and substance of fraud allegations. Finally, during this period, FINRA did not have a centralized database that gave examiners direct electronic access to all relevant complaints and referrals associated with the firm. As a result, no single FINRA staff member was aware of the totality of information our organization had relating to the Stanford firm.

Following its review, the special committee made a series of recommendations intended to enhance the effectiveness of FINRA's examination program by increasing its ability to detect fraud.

FINRA approached the special committee's recommendations with the utmost seriousness and immediately instituted a plan to address each of them. FINRA has either implemented or is in the process of implementing all of the recommendations that did not require action by the SEC or Congress.

One of the first initiatives FINRA undertook to implement the committee's recommendations was the creation of the Office of Fraud Detection and Market Intelligence, or OFDMI, in October 2009. This group is responsible for the centralized intake and triage of regulatory filings and investor compliance. In 2010 alone, OFDMI referred more than 550 matters involving potential fraudulent or illegal conduct to the SEC or other Federal law enforcement agencies for further investigation.

FINRA's Office of the Whistleblower, first established in March 2009 and now part of OFDMI, received and triaged over 390 substantive calls and e-mails in 2010.

FINRA also enhanced its examination programs and procedures in a variety of ways intended to help us better detect conduct that could be indicative of fraud:

First, we are focusing resources on the highest-priority matters. In response to the special committee report, FINRA's staff created an "urgent" designation of those regulatory matters posing the greatest potential for substantial risk to the investing public. The committee also identified that the lack of a formal mechanism for the escalation of policy issues created risk within the organization. FINRA issued new procedures to enhance the process for escalation and documentation of complex legal and policy issues.

Second, we have undertaken efforts to enhance the expertise of our regulatory staff. We have increased the number of staff in district offices tasked with realtime monitoring of business and financial changes occurring at the firms we regulate.

Third, we have enhanced our use of third-party information to inform our regulatory programs. We have established procedures for third-party verification of customer assets.

Finally, we have established a multiyear technology enhancement program to strengthen our programs.

In addition to the internal initiatives I have described, FINRA has increased communication and coordination with the SEC relative to our programs. FINRA and SEC staff meet routinely to share details about strategic design and tactical delivery of information to our regulatory programs, as well as risk assessment, including models to measure risk for broker dealers, branch offices, and registered representatives.

The special review committee's report and recommendations provide an important roadmap for FINRA to enhance our ability to quickly identify and investigate conduct that could indicate fraud or other serious customer harm. I assure this subcommittee that I am fully committed to continue making the necessary changes to strengthen our programs and raise the level of protection for all investors.

Again, I appreciate the opportunity to testify today and I would be happy to answer any questions you may have.

[The prepared statement of Mr. Ketchum can be found on page 78 of the appendix.]

Chairman NEUGEBAUER. I thank the panel.

I would like for the folks to put our chart back up. I think some of you have a copy of the chart, but let's put the chart back up.

Mr. Kotz, you mentioned that in 2005, there was a very significant event that happened that was not executed on, in your testimony. Do you want to go back over and just kind of frame what happened in 2005 where there was a real opportunity there, an opportunity missed?

Mr. KOTZ. Sure.

So, over time, even before that, this issue was raised. And then, finally, in 2005, the Enforcement Division in the Fort Worth office decided to take on the case. But instead of going forward with sort of emergency relief and immediately taking an action, they spent more time investigating and doing research and didn't actually bring an action until many years later.

And we found that there was a possibility, even though we didn't have enough evidence of any alleged fraud at that point, to bring an action based on the lack of due diligence. Stanford Group Company was an investment advisor, and they were referring and getting referral fees for folks to invest in the CDs for Stanford International Bank. But they didn't have information about why they were able to achieve these returns, what they were getting the fees for.

So there was certainly a strong argument to be made that you could have brought an action saying that Stanford Group Company didn't perform appropriate due diligence. If that action had been brought, then, even if it hadn't been successful, it would have triggered for the investors out there that the SEC believes that there is a potential fraud in Stanford Group Company.

There are always difficult cases, and sometimes cases take a long time to fully go forward with. But if you are in a situation where you realize in 2005 that there has been a fraud growing for 8 years, then you need to take action immediately, even if you lose in court eventually.

Nevertheless, we did interviews and we spoke with lots of victims, and we did a survey, and an overwhelming percentage of those folks said if they had heard any whiff of a problem with Stanford, even any lawsuit that was brought, they would have immediately taken out their money. So—

Chairman NEUGEBAUER. Thank you.

Mr. KOTZ. —we believe that there is an obligation on the part of the regulators to do something to let investors know that there are issues, even if you don't have enough evidence, necessarily, to go forward with a full-blown Ponzi scheme case. And we believe that that opportunity was in 2005.

Chairman NEUGEBAUER. Okay.

I want everybody to look up at this chart. This is basically the fund balance of Stanford through the process. And I think the thing that is so discouraging and really incenses, I think, a lot of members of this panel today is, had—of course, there were other opportunities, there were four other opportunities that were missed there, but in 2005, what we see is the amount of money flow increased exponentially.

So who was the head of enforcement in the Fort Worth office during this time?

Mr. KOTZ. There was an individual named Degenhardt and then Addleman over time, depending on the periods of time.

Actually—I am sorry—the enforcement head was a man named Spencer Barasch, who, as we indicated in our report, after he left the SEC and had been involved in efforts to not allow the SEC to go forward with the Stanford case, made efforts to represent Stanford against the SEC and, in fact, was able to represent Stanford for a short period of time.

In fact, Julie Preuitt, as she was trying to push the SEC to go forward and bring this case, actually prepared a memo and waited for Spencer Barasch to leave the agency because she knew, while Spence Barasch was there, they were never going to go ahead with the case.

And immediately after the decision was made to go forward with the case because Spence Barasch had left, then Spencer Barasch wanted to try to represent Stanford in the case on the other side.

Chairman NEUGEBAUER. Now, in your report, I think if I am correct on this, did you refer your report to the SEC's Ethics Counsel for referral to the Texas bar?

Mr. KOTZ. Yes. And there was a referral to both the Texas Bar and the D.C. Bar. Both of them are continuing to actively look at that matter. We also referred it to the U.S. Attorney's Office and the FBI, and there is an active matter on that, as well.

Chairman NEUGEBAUER. Mr. Khuzami, do you agree that Mr. Barasch engaged in unethical and improper professional conduct?

Mr. KHUZAMI. Congressman, the rules clearly prohibited him from representing, in my view, my personal view, prohibited him from representing Mr. Stanford. That was a matter under his control and management at the time. So my personal conclusion would be, certainly the evidence appears to be the case.

I will say one thing. He called the Fort Worth office twice and asked about representation, and both times the people in the Fort Worth office told him, no, you cannot do that. He called a third time to the ethics office, who gave him the same advice. And then, he later went ahead and represented Mr. Stanford, I believe, for, I think the records show, 10 hours or so thereafter.

So my only point is that I think the ethics office and the Fort Worth people gave him the right answer in this case.

Chairman NEUGEBAUER. But when he violated that, is there any kind of action that the SEC would take to prohibit him, then, for future opportunities? What is the policy on that?

Mr. KHUZAMI. I think the problem here was we did not know that he represented Mr. Stanford for that period of time. Had we known, we would have made the same referrals that were made in this case years later when that fact became apparent.

Chairman NEUGEBAUER. So now that you know that, what kinds of action have you taken?

Mr. KHUZAMI. Against Mr. Barasch? He is no longer an employee, since 2005. So the referrals have been made, and the criminal authorities and the ethics authorities are conducting their investigations.

Chairman NEUGEBAUER. But could he represent a client before the SEC today?

Mr. KHUZAMI. He has a permanent ban on any matter in which he was personally or substantially involved in while he was an SEC employee, so I think the answer is "no."

Chairman NEUGEBAUER. But, today, he can actively represent clients before the SEC?

Mr. KHUZAMI. He is permanently banned from anything he was involved in.

Chairman NEUGEBAUER. But what about things he was not involved in?

Mr. KHUZAMI. Without speaking to the particulars, in general, SEC employees who leave are subject to a 1-year cooling-off period; they can't represent anything. After 2 years, they can't represent a client in any matter that they managed or were involved in. And, like I said, a permanent ban on anything they were personally and substantially involved in.

Chairman NEUGEBAUER. I understand that the ban currently is such that I can advise a client, that I might have had an enforcement or something, but I can't represent that client. Is that correct?

Mr. KHUZAMI. You can't represent the client before the Commission, which means you can't appear, you can't sign papers, and stuff like that.

Chairman NEUGEBAUER. But you can advise them.

Mr. KHUZAMI. You could advise them, that is correct, subject to, I believe—I have to get back to you on that. I am not sure whether or not the 1- or 2-year prohibitions prevent even that kind of conduct.

Chairman NEUGEBAUER. I think one of the things that hopefully comes out of this is some title rules on that and where we have seen this kind of behavior for that individual to be able to continue. I understand that Mr. Barasch is still practicing law. In fact, I think on his firm's Web site, he is listed as the leader of corporate governance in the securities enforcement team. So, obviously, that is very alarming.

I have gone way over my time, so we will now go to Mr. Fitzpatrick.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Mr. Kotz, in your opinion, did the SEC have the authority and the resources at their disposal to prevent the Stanford Ponzi scheme from occurring?

Mr. KOTZ. I do believe that they certainly were aware of the possibility of a Ponzi scheme back since 1997, and they had the manpower to be able to bring an action to attempt to stop the alleged Ponzi scheme from going forward. So I don't think that this was a question of lack of resources, no.

Mr. FITZPATRICK. If you had to pinpoint the failure, where was it? Not resources.

Mr. KOTZ. It was an attitude failure. It was that the office at Fort Worth, at that time, was concerned about numbers. They wanted to show that they brought more cases than other offices. And in order to bring more cases than other offices, you have to bring easy, slam-dunk, quick-hit cases. If you brought a case like

Stanford, which was complicated and complex, involved Antigua, foreign issues, the question of whether the CD was a security, etc., that wouldn't give you a number very quickly. It would take a long time.

It would have saved investors billions of dollars, but, at that time, their focus was on the numbers. And that, we believe, was the primary reason.

Mr. FITZPATRICK. And so, would the enactment of the Dodd-Frank legislation have prevented the Ponzi scheme?

Mr. KOTZ. I don't believe that Dodd-Frank or either the procedures involved or the resources would have made a difference, in this case.

Mr. FITZPATRICK. Mr. Kotz, I believe that this case and the Madoff case have demonstrated that more resources were not needed at the SEC, that more regulations were not needed. What we needed were the regulators to just do their job. Yet, the SEC has been before this committee asking for further appropriations after repeatedly failing investors in this country.

Along those lines, I am aware of a report that you are working on related to the SEC's decision to lease $400 million of office space without a competitive bidding process. And that occurred just 2 weeks after the Dodd-Frank Act passed, an act which authorized lawmakers to double the agency's budget to 2015.

Can you elaborate on your findings of that report thus far?

Mr. KOTZ. We are looking at that. We haven't completed it yet. We are almost near completion. We actually plan to issue that report very, very shortly. But we are looking into the whole circumstances of how the SEC got to a point where they obligated the Federal Government for over $550 million with respect to that lease. And so, we will get that report to you shortly and be able to give you a full reckoning of what happened.

Mr. FITZPATRICK. Are you able to elaborate on any of the details of the report at this point?

Mr. KOTZ. I would rather not get into too many details. I can say that some of the things we are finding are quite disturbing, in terms of what the SEC's actions were in this case.

Mr. FITZPATRICK. I have nothing further.

Chairman NEUGEBAUER. I thank the gentleman.

Now, the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. di Florio, you mentioned that the managers are no longer with the SEC. Did you recommend any punitive action? Did you terminate them? Or did they just quit and look for greener pastures?

Mr. DI FLORIO. These were the enforcement managers who were involved in not accepting the referral at that time, and I believe that they left the SEC.

Mr. PEARCE. I am asking, did you terminate them or did they leave?

Mr. DI FLORIO. I believe they left. I don't believe they were terminated.

Mr. PEARCE. So you had two managers. Who were the managers during that period of time?

Mr. DI FLORIO. I believe that was Spencer Barasch, principal.

Mr. PEARCE. Only 1 for 10 years?

Mr. DI FLORIO. Was there another Director of Enforcement?

Mr. KHUZAMI. Mr. Barasch was the Enforcement Director until 2005. An interim Director was there from 2005 to 2006.

Mr. PEARCE. How about from 1997 on? If you would put that chart back up there, that is kind of an effective chart showing that things are happening all around and somebody is ignoring it.

And so you only had two managers then, temporary managers, from 1997 on?

Mr. KHUZAMI. No, no, I am sorry. Mr. Barasch was there, I believe, from about late 1997–1998 through 2005. Then for 1 year, there was an interim manager and then a permanent manager in 2006.

Mr. PEARCE. Okay. Now, somewhere in that period of time, someone wrote a letter of reprimand, did I hear that, on Ms. Preuitt?

Mr. DI FLORIO. Congressman, if I could—

Mr. PEARCE. Who wrote that letter of reprimand? And they wrote the letter of reprimand because she kept insisting that the agency do its job, right?

Mr. DI FLORIO. Correct, Congressman

Mr. PEARCE. And so who wrote that letter of reprimand?

Mr. DI FLORIO. I believe that was the letter written in the 2008 timeframe, and it was written by the Associate Director for Examinations in the Fort Worth regional office.

Mr. PEARCE. He was uncomfortable that she kept pressing the envelope here, wanting some action, and he said that is inappropriate on her part, is that right? Is that the basic context of the letter? He didn't like that she was pushing the deal?

Mr. DI FLORIO. My understanding, Congressman—this was before I was at the SEC, obviously—was that there were circumstances and facts regarding behavior that the Associate Director was—

Mr. PEARCE. Having to do with Stanford?

Mr. DI FLORIO. Not having anything to do with Stanford.

Mr. PEARCE. Nothing to do with Stanford?

Mr. DI FLORIO. Nothing to do with Stanford.

Mr. PEARCE. So the Fort Worth office was an anomaly; they were more concerned about numbers. Who reviewed the stuff up above? Surely those four instances on the chart there, surely those four red stars on the chart got reviewed by somebody above Fort Worth. Did it ever get reviewed by anybody above Fort Worth?

Mr. DI FLORIO. Congressman, I believe that one of the points that is made in the Inspector General's report that is disturbing is that it was not escalated outside of Fort Worth and reviewed above.

Mr. PEARCE. Who would have been responsible to review that on a higher level?

Mr. DI FLORIO. On a higher level—

Mr. PEARCE. What department, what office?

Mr. DI FLORIO. If there was any concern in Fort Worth that a matter wasn't being addressed effectively, I would expect and certainly under my leadership today that would be escalated directly to my attention.

Mr. PEARCE. Are those people who were in that office still employed at SEC?

Mr. DI FLORIO. No, they are not, Congressman.

Mr. PEARCE. Were they terminated or did they quit?

Mr. DI FLORIO. They left, Congressman.

Mr. PEARCE. Have you brought official actions against anybody from Mr. Barasch on up? In other words, have you brought proceedings against them to—

Mr. DI FLORIO. We don't have authority over folks once they leave the SEC, so we have—

Mr. PEARCE. You don't have a Web page that describes the actions of people while they are in your employ so that people could come on and take a look and see what your report is? Did you prepare any final report on that so that people who would want to know, people who were going to hire him as a lawyer? Did you ever do anything like that?

Mr. DI FLORIO. Congressman, I believe, if we take action, we do make that public so people are aware, if they want to hire that individual or they want to do business with that individual, that individual has an action.

Mr. PEARCE. Mr. Khuzami, you gave us your four-point plan. Which exact item—you said you are fixed, it is all okay now. Which item on your four-point plan, if it were in place before, would have stopped the circumstances from moving forward, would have made sure that manager did not have the ability to push the stuff under the rug? Which point would have stopped this?

Mr. KHUZAMI. Congressman, first, we are never done. We have done a lot, and we are going to keep ongoing.

Mr. PEARCE. No, I want to know which point. Because I don't believe, myself—I don't think that the agency is going to change much, because I don't see anything where people are being held accountable and responsible. So I am suspicious that your four-point plan is mostly just a little bit of eyewash, and we warmed it up and we shined it up.

But I would like to know which point in your four-point plan would have stopped this thing from moving forward so that any of those stars at any point would have been pushed further and so that you would have had somebody at a higher level say, something is not right down there. Which point in your four-point plan?

Mr. KHUZAMI. We do quarterly reviews, and we review every case that each senior officer has within their docket, and we discuss problems, roadblocks, investigative challenges, theories. We have more expertise available across the Division. We have escalation of the process so that if an exam personnel does not get satisfaction in how their referral is being treated by the Enforcement Division, that gets escalated.

And, in fact, the Inspector General's report, which he just indicated, showed that, in the last couple of years, the level of dissatisfaction in that regard has dropped dramatically.

Mr. PEARCE. I am not convinced.

Thank you, Mr. Chairman. My time is up.

Chairman NEUGEBAUER. I appreciate the gentleman.

The gentleman from Florida, Mr. Posey.

Mr. POSEY. Thank you, Mr. Chairman.

Mr. di Florio said that some of the individuals involved in this are no longer with the agency. And Chairman Schapiro shared that

with us, about the 50-some investigators and examiners who are culpable in the Madoff crimes, as well. That doesn't do anybody a whole lot of good, to know that they are no longer with the agency.

A question that always begs for an answer is, where are they now? Are they examining or investigating for somebody else? And now, we have learned that this guy is actively involved in a law practice, apparently.

We have said that the authorities were given a referral. What authorities, and when were they given the referral? Can you share that with us?

Mr. KHUZAMI. I believe Mr. Barasch was referred to both the State ethics boards of Texas and the District of Columbia, as well as criminal authorities.

Mr. POSEY. What about the Justice Department, racketeering?

Mr. KHUZAMI. I am sorry. By criminal authorities, I meant the Justice Department. I am sorry.

Mr. POSEY. Thank you. When?

Mr. KHUZAMI. Shortly after the release of Mr. Kotz's report in April of 2010, I believe.

Mr. KOTZ. Yes, and we have been working with the Justice Department and the FBI on the ongoing case against Mr. Barasch.

Mr. POSEY. Okay.

In regard to the IG's report that is forthcoming, we were all privy to the opportunity to look at the Madoff report, which was very incriminating, wasn't quite as bad as Mr. Markopolos' book, but it was still very incriminating. Over 50 examiners and investigators botched it. The IG was kind of silent on the head management people who were culpable, but obviously, there were some.

Can you tell us, at this point, the depth to which we have examiners and investigators who failed to do their job in the Stanford investigation?

Mr. KHUZAMI. I am sorry. The extent to which they are out there working in the industry, is that the question?

Mr. POSEY. How many of them failed to do their job? We know there were over 50 in the Madoff case. Are we finding a similar depth in this case?

Mr. KHUZAMI. Congressman, in my opinion, the failure here was largely the result of the senior management. The staff who were working the case on the enforcement side are the same staff who eventually brought the case in 2009. So, from my personal opinion—

Mr. POSEY. Okay. That is good.

Mr. KHUZAMI. —just primarily the managers who refused to—didn't let the case go forward.

Mr. POSEY. The next question. Have we canonized Julie Preuitt yet?

Mr. DI FLORIO. Congressman, as I said in my opening statement, I publicly commend Julie Preuitt. She did a terrific job, exactly what we expect and hope from our examiners in uncovering this fraud, in referring it and trying to persistently—

Mr. POSEY. Have we done anything to thank her? Has she been promoted? She probably should be running the agency.

Mr. DI FLORIO. Congressman, we are working closely with Ms. Pruitt right now to structure a portfolio of responsibilities that we

think will let her demonstrate her talents to their fullest potential and include not only critical issues like oil and gas fraud in the Southwest region but also examines issues of national significance and importance.

Mr. POSEY. My point is we should reward her foresight and courage and dedication to her job with more than a mere "thank you." It should be something to be recognized for decades, something that other employees should look up to and seek to emulate.

Most importantly, my concern is with the rightful compensation of the victims.

Mr. POSEY. I have written the chairman as recently as April 27th. She has responded—actually, her response is April 27th—and said, I expect the Commission will make final decisions on whether the Securities Investor Protection Corporation should initiate a civil proceeding as soon as all this information has been thoroughly reviewed, which should occur in the near future. It has only been 3, 4 years now. Are we at a point where we can make a call on this and get this on the table and see if the acceptances are valid and the rejections are invalid and this can be debated?

Mr. CONLEY. Congressman, this matter is now with the Commission, and we do anticipate that there will be a decision in the very near future.

Mr. POSEY. Could you define "near future" for me?

Mr. CONLEY. I would say within the next few weeks we will have an answer from the Commission on this question.

Mr. POSEY. Very good.

Next of all, what type of enhanced restrictions on employment do you foresee—any of you, feel free to speak up on this—as necessary to stop the revolving door of regulators to exploiters. I look at this current financial crisis. You are aware of the players from top to bottom. You are aware of the key positions in the highest levels of government that people have gone from regulator to profiteer to manager when it was convenient and a good reason to sell off their stock and take profits and run. What do you think we should do, in your professional opinions, to tighten up the regulations, to stop the revolving door from regulator to exploiter or profiteer or whatever you want to call it?

Mr. DI FLORIO. Congressman, I would note that, under Chairman Schapiro's leadership, we have started to undertake a top-to-bottom review of the ethics and compliance function at the SEC to make sure that we do have appropriate controls around the revolving door. So under Chairman Schapiro's leadership, she has appointed the first ever Chief Compliance Officer for the SEC, a new Senior Ethics Council that has embarked on looking at how to strengthen those controls and make sure that there aren't revolving door issues.

We have put in place a system that is one of the leading systems in the Federal agency—among the Federal agencies—concerning conflicts of interest and managing those conflict of interests. So I think there are a lot of positive steps under Chairman Schapiro's leadership that have been taken.

In addition, GAO is looking at the revolving door. We are working closely with them and their report is due out soon. We expect that there will be good recommendations there on how we can fur-

ther strengthen those controls and make sure there aren't those conflicts of interest. And we will certainly implement those recommendations.

Mr. POSEY. Thank you for your forthright answers.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. Thank you.

I am going to change order here and have the gentleman from Mississippi, Mr. Harper.

Mr. HARPER. Thank you, Mr. Chairman.

I thank each of the witnesses for being here in a very difficult situation and to those in the Stanford Victims Group, our hearts go out to you. This matter is not over. And I certainly admire and all of us admire your diligence and your persistence in staying in the fight.

Mr. Kotz, I want to say, first of all, thank you for your hard work, your very long but very detailed and revealing report. And so I just wanted to express on my behalf that we really appreciate the effort that you made in putting this together.

Mr. KOTZ. Thank you very much, sir.

Mr. HARPER. Now, Mr. Ketchum, when we look at this issue and we look at the things here, we look at the efforts of FINRA, did FINRA review— and I have a few of their marketing materials— these materials, your agency?

Mr. KETCHUM. FINRA reviews advertising materials that specifically go to the sale of products, yes. They don't review every material that broker-dealers put out.

Mr. HARPER. But you do review most or at least you make an effort to review?

Mr. KETCHUM. We review products that in one way or another try to sell securities.

Mr. HARPER. Do you request those materials from them or do they send them to you on a voluntary basis?

Mr. KETCHUM. No. They are obligated by rule to send them to us.

Mr. HARPER. When you look at many of these, it says here in the fine print in most of these that security products and services in the United States are offered through the Stanford Group Company, member FINRA and SIPC. Would the average investor conclude from reading that that there was SIPC coverage?

Mr. KETCHUM. It is difficult without seeing the full thing there and what they say about the CDs that were being sold. But clearly, Stanford cynically used the broker-dealer to create the impression there was going to be coverage, yes.

Mr. HARPER. I guess if this hearing underlies the contention that the victims believed that they were indeed purchasing registered securities and, in fact, they were not and that the SEC failed to do its job, then the question for all of the victims here and for us is, why would these victims' investments not be covered by SIPC?

Mr. KETCHUM. I think that is a fair question, though fairly, I think I properly should defer that to the SEC that has the oversight responsibility with respect to SIPC.

Mr. HARPER. Tell me what efforts FINRA made to protect the investors, the Stanford investors.

Mr. KETCHUM. As I indicated in both my written statement and oral statement, clearly not enough. We as well missed red flags that indicated concerns. We, as well as the SEC, became overly intimidated by the jurisdictional issues and the issues as to whether the CDs were securities and didn't focus on the fundamental exposure and risk to investors. And that was unacceptable behavior and unacceptable from the standpoint of how we responded.

Mr. HARPER. When this is being reviewed and you are looking at information—go back to 2007. When it is determined that SGC had an almost $3 million overdrawn account in 2007, what did FINRA do in response to that?

Mr. KETCHUM. I am sorry. I don't know exactly what you are referring to with respect to the $3 million over—

Mr. HARPER. In the investigation looking at—maybe it is a question that one of the other witnesses could answer better. But did FINRA take any action—when was the first action that FINRA took to protect investors?

Mr. KETCHUM. Our actions were cooperative with the SEC from the standpoint of the investigation that finally led to the actions of 2009. We also commenced investigations, just as the SEC does, in part from a Dallas/Fort Worth referral with respect to the case that did not lead to actions other than a minor action with respect to advertising that Stanford put out.

Mr. HARPER. Mr. Chairman, I thank you.

And with that, I yield back my time.

Chairman NEUGEBAUER. Thank you.

Now we go to Mr. Cassidy. I am sorry.

I messed up there.

Mr. Canseco, after you have been so polite—exactly. Cassidy, Canseco, you know. The gentleman from Texas.

Mr. CANSECO. Thank you, Mr. Chairman.

And, gentlemen, thank you very much for appearing here today. Just before I get started with questioning, I do want to say several things. It is a little disconcerting to sit here today and see how for over a decade, employees of the SEC continuously notified their superiors and the enforcement group that something needed to be done with Stanford. And for a number of reasons, they were ignored. Nobody in a position of authority seemed interested in drawing outside the lines, whether it was because SIB was located outside of the United States or because the SEC was only focused during that time on taking on cases that could be quickly resolved.

Nobody seemed to step back from the situation and say, something doesn't look right here. And as a consequence, people were hurt, investors were hurt. And I want to point out someone from my district—one of the ones who was hurt from my district, Mr. Barney Hallman from Alpine, Texas, wrote to me. And I am just going to read a little excerpt from it. He said, "I went to the SEC and FINRA's Web site and checked the history of the FA as well as the history of Stanford Group Company. Both Web sites reported no allegations, no fines and no discernible problems with either."

And he goes on to say, "At that time, I had no idea that the SEC had been investigating SGC for 10 years since 1997, nor did I know that the Fort Worth's regional office per the OIG's Investigative Re-

port 526 clearly believed that SGC was part of Stanford's Ponzi scheme. I also didn't know that for over a decade, the SEC knew investors who used their Web site and FINRA's to base their critical decisions would lose their money with certainty."

It highlights what fell between the cracks here. And it is particularly disconcerting given the fact that recent legislation has thrown new burdens on the SEC and other agencies without allowing for structural problems to be fixed first. The worst part about this is even if Dodd-Frank bill had been in place beforehand, its provisions still wouldn't have stopped the Stanford case. The laws were there. The regulators were there, but the regulators failed. And so now, the honest companies in the industry are paying the price for Stanford, as well as the good citizen investors who invested with Mr. Stanford.

It is a travesty that these companies need to pay the price and that these individuals need to pay the price of the SEC and FINRA's failures.

Let me start by asking Mr. Kotz, in your March 31st report from your office, you noted that by early summer of 2003, you say, "It had been approximately 6 years since the SEC examination staff had concluded that SIB CDs were likely a Ponzi scheme. During that period, the SEC had conducted three examinations resulting in two enforcement referrals. An enforcement inquiry had been opened and closed with no meaningful effort to obtain evidence related to the Ponzi scheme. It would take almost another 6 years, another examination and enforcement referral and the collapse of the Madoff Ponzi scheme before the SEC acted to shut down Stanford's Ponzi scheme."

Are enforcement personnel who were involved—and this is the question—in the Stanford matter still employed by the SEC and in what capacity?

Mr. KOTZ. The managers who made the ultimate decisions left the SEC some time ago.

Mr. CANSECO. And have any SEC personnel been disciplined for missing the Stanford fraud?

Mr. KOTZ. Not to my knowledge, no.

Mr. CANSECO. Okay. I still have some time.

Mr. Khuzami and Mr. di Florio, the SEC in the Fiscal Year 2010 report notes that the Division of Enforcement completed structural reforms that were the most significant in 4 decades and noted that the Office of Compliance, Inspections, and Examinations established a new national governance structure. But absent in the Fiscal Year 2010 report, it seems, is any description of how these two Divisions are going to improve their communication and work with one another. The divide between the two was at the heart of the Stanford matter. What are your two Divisions doing to improve your work with one another?

Mr. KHUZAMI. From the Division Enforcement's perspective, Congressman, we are doing a lot. We have much better integration between the two Divisions. We meet early on in investigation cases. We educate ourselves about the particular registrant that might be under examination. There is much better communication. We track referrals. We have an escalation approach to make sure the referrals are properly handled by the Enforcement Division, and we

have expertise that we have hired in each Division to deal with particular types of market practices that might be under scrutiny.

All in all, I think, a change of culture and, frankly, also due to the change in personnel who understands the value of the examination staff and what they bring.

Mr. CANSECO. Thank you. We are short on time.

Mr. di Florio?

Mr. DI FLORIO. I would just endorse what Mr. Khuzami said. I think it starts with the tone at the top. And we have a commitment to a culture of teamwork and collaboration, starting with the chairman setting that tone. We meet regularly. Our staff meet regularly. We have put in place governance processes that bring us together to talk about cases earlier, raise concerns earlier, think about ways we can collaborate to stop fraud and rapidly shut it down. So there are a number of mechanisms, and I think we are very competent here today that this kind of situation wouldn't occur, we would nip it in the bud, we would have mechanisms in place to ensure that it got escalated and addressed.

Mr. CANSECO. Thank you. Mr. Chairman, may I have one more question, sir?

Chairman NEUGEBAUER. Quickly.

Mr. CANSECO. Yes, sir.

Mr. Ketchum, have the rules and regulations promulgated by Dodd-Frank—would they have helped solve the situation at Stanford?

Mr. KETCHUM. No, no. This was a matter from all of our agencies' standpoint of being able to identify and push through a difficult situation and ensure that a serious fraud didn't continue. This wasn't about rules and regulations. We had the rules and regulations on our books.

Mr. CANSECO. Thank you very much, sir.

I yield back, and thank you for my time.

Chairman NEUGEBAUER. And now the gentleman from Louisiana, Mr. Cassidy. Thank you.

Mr. CASSIDY. Thank you, Mr. Chairman. The goal of my office has been to ensure an effective, transparent, and compassionate response.

Frankly, it seems as if all three have failed. Not to point fingers, because none of you were involved, again, Mr. Kotz, if anyone else was supposed to be made a saint, it so should be you because the only transparency has come from your office.

For example, my office, as well as eight or nine other Members of Congress, Senate, and bipartisan, bicameral, requested the chance to look at an unredacted copy of the IG's report. Some of the redactions seemed to have pertained to someone's name, but others are just redacted. I have no clue what is behind there. We sent that letter sometime ago and have never received a response. Asking committee staff, an unredacted report has not been sent nor made available. Why can't we get a chance to look at an unredacted report?

Mr. DI FLORIO. Congressman, I don't know the answer to that. I don't know whether or not there are Privacy Act restrictions that come into play.

Mr. CASSIDY. I am willing to look at it in a room without windows with you standing behind my back to make sure that I don't take notes. But as I try to ensure a transparent response to people for whom transparency has been totally lacking, except for Mr. Kotz, why not?

Mr. DI FLORIO. I don't know. I will find the answer out for you, Congressman. My understanding is that a lot of their redactions have to do with maybe the ongoing investigations or other sensitive matters, but I will get back to you with a response.

Mr. CASSIDY. Sounds great.

FINRA apparently or your predecessor in September of 2003 sent a letter to SEC suggesting that this may not be on the up and up.

Mr. Ketchum, did FINRA, your predecessor, send it to the Fort Worth office, or did they send it to the D.C. office? Because it seems like, if you will, blame is being put on the gentleman who was in charge of Fort Worth—and again, the lack of transparency has made me a little bit concerned. Do we know that higher-ups were not culpable and/or negligent? So I am asking, that report sent from September of 2003, to whom did that go?

Mr. KETCHUM. The communications between the SEC and FINRA were done at the Dallas and Fort Worth offices. I think actually the letter you are referring to or at least the primary letter you are referring to was a letter from the Dallas/Fort Worth SEC office to FINRA providing a partial referral to the thing.

But, no. Part of the problem I think on both of our sides was an absence of escalation. It stayed at the two offices.

Mr. CASSIDY. One of you, maybe Mr. Conley, I understand that SIPC will cover Madoff because the stock transactions were fictitious but the underlying value of the CDs was fictitious. So why does the fictitious nature of the stock transaction of Madoff qualify for SIPC coverage but the fictitious value of the CDs does not?

Mr. CONLEY. Congressman, this is one of the questions that the Commission is now looking at. The victims in this case through the Stanford Victims Coalition have made the argument to the Commission—they have met with the staff and made the argument and also in letters to the Commission that they believe that the CDs in this case should qualify as fictitious and, therefore, they should be—assuming they are customers, they would have an argument that they were entitled to the money that they invested. And that is a question that the Commission is looking at currently.

Mr. CASSIDY. I understand the Commission so far has been negative regarding that argument. Is that true or not?

Mr. CONLEY. There has been no determination made by the Commission at this point. That is something that is currently under review by the Commission.

Mr. CASSIDY. Let us assume that they rule against. I am a physician, and I know that if a physician does something bad, something negligent, there is other recompense. Frankly, this is bureaucratic agency negligence. We have heard that. Is there sovereign immunity, or will there be civil cases allowed against the SEC for frankly totally failing their responsibility? Does the SEC have sovereign immunity?

Mr. DI FLORIO. As a general matter, I believe there is sovereign immunity, and I believe there have been some lawsuits filed. I don't know the current status of them.

Mr. CASSIDY. Can you let us know that?

Mr. DI FLORIO. Certainly, Congressman.

Mr. CASSIDY. Let us see. Also with the receiver. Now, I actually know some of those broker-dealers. They said that they showed up for work one day, and they were told to go home. The receiver was there. He hacked into their account, and he paid some IT people a lot of money to pull up lists that if they had stood behind him, he could have opened his account; they could have checked the documents he pulled down against the Pershing account and all of those billable hours that Janvey racked up are gone. So more money would have been there to compensate victims. I know the courts had told Janvey to downgrade his charges. The court was offended by the number of charges. Going forward, is there going to be a review of the procedures used to instruct receivers so that they can't maximize billable hours when there are shortcuts to the same thing?

Mr. DI FLORIO. Congressman, we vigorously check bills of receivers and, in this case, in fact, on a number of occasions, have achieved reductions in those bills.

Mr. CASSIDY. I understand that. But my fundamental question is, there was an easier way to do it. You just stand behind the guy as he opens it up, and you stand behind and have an IT guy there to make sure that maybe he opens up a similar computer with the same password so somebody who knows about computers can make sure there is not a game going on, and boom, you have all the accounts.

And you don't take 2 months racking up IT—I am sure $200 forensic accountants, etc., when you say here is the Pershing account data that Stanford is using, here is what you showed me. Why don't we do it that way and save a heck of a lot of dough?

Mr. DI FLORIO. I think that is entirely appropriate and that should happen. As the SEC, we don't control the receiver, and to some degree, the court is responsible ultimately for dictating how and in what method the receiver approaches his task. But we have been doggedly following his expenditures and suggesting ways he can do things more efficiently, including not spending money chasing assets that are overseas that are already subject to freeze orders.

Mr. CASSIDY. So it sounds like—it is understood that this particular receiver is problematic. I guess my question is, what does Congress have to do—I am not on this committee, and it is by the indulgence of the Chair that I am here—what does this committee or Congress need to do so that receivers operate within certain guidelines? I keep returning to this, but the perception is the guy is just racking up billable hours. It is a gold mine. I am sure he has made partner. The fact is that there are cheaper ways to do it. Are there guidelines that can be promulgated to help the fellow do so?

Mr. DI FLORIO. Congressman, I am not sure that is something that Congress could promulgate, but we will take a look at it and get back to you.

Mr. CASSIDY. You have been indulgent. Thank you. I yield back.

Chairman NEUGEBAUER. I thank the gentleman. Good questions. All good questions.

I just have a quick follow-up. It is my understanding, Mr. Khuzami, is that the Texas State Bar has not received any kind of referral, and I think you testified that you had referred it, a formal complaint, to the Texas Bar on Mr. Barasch; is that correct.

Mr. KHUZAMI. My understanding was that there was a referral made to both Texas and the District of Columbia, but I could be mistaken that it was one or the other and not both. That was my understanding. We can certainly confirm that and get back to you.

Chairman NEUGEBAUER. Would you think it would have been appropriate to refer to both?

Mr. KHUZAMI. It depends on where he is registered to practice. So wherever he is registered, there should have been a referral.

Chairman NEUGEBAUER. Were you aware that Mr. Barasch had business before the Commission last Friday?

Mr. KHUZAMI. I was not aware of that.

Chairman NEUGEBAUER. Should he be allowed to do that?

Mr. KHUZAMI. Congressman, again, the government-wide ethics rule would say that if it is not something that he wasn't personally involved in, he is not permanently barred from representing clients in front of the SEC.

Chairman NEUGEBAUER. But I want to understand this. You said that you referred charges to—criminal charges; is that correct?

Mr. KHUZAMI. We made a reference to the criminal authorities, correct. But there has been no result of that. If Mr. Barasch is ultimately criminally charged, then he could lose his license and not practice anywhere.

Chairman NEUGEBAUER. Another follow-up question. I think it was in the IG's report that there was a recommendation to discipline the supervisors whom I think most people think unfairly disciplined Ms. Preuitt. Have you taken any action against them?

Mr. DI FLORIO. Congressman, again, this was before I joined the SEC. But my understanding is that there was a review done when the Inspector General's report came out regarding the retaliation and the need to follow up with regard to those senior managers. The findings of that review apparently were that those senior managers had sought the consultation of counsel and experts on human resources throughout the process of developing their discipline, and so it was inappropriate to discipline them for following the procedures we encouraged them to follow. That is my understanding of how that occurred.

Chairman NEUGEBAUER. Do they have the facts that we all have now, that in fact, people were ignoring her, and in fact demoted her because she kept raising this flag? Do they have that information?

Mr. DI FLORIO. Congressman, what we have done since we have came on board, Mr. Khuzami and I, is when we learned of further concerns regarding treatment of Ms. Preuitt, we assembled a very senior team of our most senior deputies and sent them down to Fort Worth to do an independent review so that we could take appropriate action if there were circumstances that remained inappropriate. And as I mentioned earlier, we are working very closely as a result of that review with Ms. Preuitt to make sure that she

has an appropriate opportunity to show her talents and to be able to work effectively in our mission.

Mr. POSEY. Mr. Chairman?

Chairman NEUGEBAUER. Yes, Mr. Posey.

Mr. POSEY. Can I follow up along that same line?

Chairman NEUGEBAUER. Sure.

Mr. POSEY. And it is mainly—probably we should invite Ms. Preuitt to come here.

Chairman NEUGEBAUER. She is here. She is on the next panel.

Mr. POSEY. Okay. Good.

Chairman NEUGEBAUER. I agree with you. We do.

I would close—do any other members have any follow-up comments that they want to make? I would recognize members—because we are about to dismiss this panel, and I don't want members to come away and say, I wish I had more time.

Everybody good?

I think the take-away here hopefully to both FINRA and the SEC is this was—this is not even defensible and that the American people deserve better than this. I can assure you as chairman of the Oversight Subcommittee, we are going to work extremely hard to make sure that the cultures in both of these organizations have changed in such a way that this doesn't happen again.

When you go back and you look at the history on the number of occasions in both agencies where this thing should have been shut down when it was less than a billion dollars, really when it was in the millions of dollars and yet when we look and—at the escalation from the chart of how much money from 2005, almost $6 billion additional dollars, went into that—and this has been brought up; you have to personalize that. In many cases those were peoples' life savings, and it is extremely disturbing that we had a culture in agencies that demand high levels of disclosure and integrity that within, that very agency there wasn't the similar amount of integrity inside those agencies. It is inexcusable.

And so I hope that I am hearing—I have met with Mr. Khuzami and Mr. Ketchum, and I hear them talking the talk, but we are going to want to see them walk the walk. And with that, we thank you for being here. And this panel is excused.

We want to welcome our second panel. I don't think the first person needs any introduction after the conversation during the first panel, but Ms. Julie Preuitt, who is Assistant Regional Director of the U.S. Securities & Exchange Commission, Fort Worth regional office.

Ms. Preuitt, welcome.

And Mr. Charles Rawl, who is a former employee of Stanford Group Company.

I would now like to yield to my colleague, Mr. Fitzpatrick, for the introduction of our third panelist.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

I am very pleased indeed to introduce Mr. Kauffman, who traveled here to the Nation's capital from our home State of Pennsylvania. He and his wife Linda reside in a community right next to my community of Bucks County. Mr. Kauffman was a public school teacher in the City of Philadelphia where he educated some of the

State's most disadvantaged children, making a real difference in the lives of many of them.

Mr. Chairman, Mr. Kauffman retired 6 years ago, which is right around the same time that FINRA and the SEC were going back and forth about who had the authority do something about Stanford. The Kauffmans sought a safe and secure investment for their life savings and eventually chose CDs in the Stanford International Bank to invest their retirement savings.

The tragedy of losing their life savings was only compounded by the fact that they were both diagnosed with cancer in 2009.

Thankfully, they are both survivors, and Mr. Chairman, Mr. Kauffman is here today to share his story and to raise some very legitimate questions.

So, sir, thank you for coming to the Nation's Capital. We look forward to your testimony.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Ms. Preuitt, you are recognized. Thank you for being here.

STATEMENT OF JULIE PREUITT, ASSISTANT REGIONAL DIRECTOR, U.S. SECURITIES AND EXCHANGE COMMISSION, FORT WORTH REGIONAL OFFICE

Ms. PREUITT. I want to thank you for the opportunity to testify before the subcommittee today. I have been asked to discuss my work for the Securities and Exchange Commission as it relates to R. Allen Stanford and his affiliated companies, as well as my experience as the whistleblower within the Commission.

I am representing my personal views, which do not necessarily reflect the views of the staff, the Commission or the Commissioners.

First, I really would like to note that I am just a representative of the many highly skilled experienced examiners who have done their best to protect all investors, including those defrauded by Stanford. I know this may not provide comfort. It certainly doesn't lessen Stanford victims' losses in any way, but I and the examination staff truly care about being an advocate for the investor. And behind the public and personal face of a large institution like the SEC are many individuals who truly, truly mourn their losses.

The intertwining of my career with Stanford starts simply enough. In August of 1997, I selected Stanford's broker-dealer for examination because of the high-risk nature of its business model. That examination resulted in enforcement referral for the likelihood Stanford was engaging in a Ponzi scheme. Enforcement declined to open a formal investigation.

In July of 1998, Fort Worth's investment advisory examination group also found concerns with Stanford. Enforcement also declined to pursue their referral.

In November of 2002, the investment advisory examination group conducted another examination of Stanford. This time the Associate Director for Enforcement decided to refer their findings to the Texas State Securities Board.

In approximately September of 2004, the Associate Director for Examinations asked me to conduct a fourth examination of Stanford. As expected, the fourth examination supported examination

staff's belief that Stanford was engaged in a fraudulent scheme. The only difference is that the size of the scheme had gone from several hundred million to $1.5 billion. Again, enforcement did not want to pursue the findings from the fourth examination.

That began a battle which went from April of 2005 until November of 2005 when I was able to extract a commitment from enforcement to pursue the investigation. It was still another 11 months from that time until enforcement completed the process to get a formal order and to get subpoena authority and to kick the investigation to high gear.

Much has been said about the SEC-wide institutional influence that created a disincentive to pursue matters that were resource-intensive and whose outcome was less than certain. And Stanford was certainly such a matter. There is no question that during the early Stanford timeframe, Fort Worth senior management firmly believed that the office's success was measured strictly by the number of cases filed each year.

Unfortunately, the mentality that motivated managers in Fort Worth to sometimes ignore the best interests of the public into a race for numbers has not been limited to the enforcement program. In 2007, a new Associate Director for Examinations in Fort Worth wanted the broker-dealer examiners to conduct a new type of examination which would consist of only a half day of interviews.

The sole purpose of these examinations was to boost examination numbers, even if it was at the cost of legitimate examinations, such as the ones conducted on Stanford.

After 8 years of fighting the shortsighted mentality that kept enforcement from an opening an investigation on Stanford, I now had to battle with a similar mentality in my own program. I expressed my concerns to local senior management, but my concerns were met with hostility.

I contacted headquarters regarding this new type of exam, and headquarters was unaware of this new initiative and also concurred with my belief that it was inappropriate. They ultimately stopped these mini-examinations from going forward.

Unfortunately, I paid a very heavy price for complaining. I was given a letter of reprimand that actually cited my lack of support for the Associate Director's program initiatives and for contacting headquarters to complain about them.

Two months later, I was transferred out of my position. My new position did not come with any supervisory responsibilities or any clearly assigned duties. The goal seemed only to convince me to leave the Commission.

After finding no one within the Commission hierarchy willing to speak with me, much less help me resolve the situation, I complained to the IG. And even after the IG concluded in 2009 that there was merit to my retaliation claim and suggested discipline for the perpetrators, no discipline has occurred to the perpetrators. Further, no substantive actions have been taken to correct my situation.

Many have asked me why I haven't left the Commission over the course of the last several years. And my answer is unwavering: I am passionately committed to the mission of the SEC. Thank you.

[The prepared statement of Ms. Preuitt can be found on page 105 of the appendix.]

Chairman NEUGEBAUER. Thank you.

Mr. Rawl?

STATEMENT OF CHARLES W. RAWL, FORMER EMPLOYEE, STANFORD FINANCIAL GROUP, AND STANFORD FINANCIAL GROUP WHISTLEBLOWER

Mr. RAWL. Chairman Neugebauer, Vice Chairman Fitzpatrick, Ranking Member Capuano, and members of the subcommittee, it is an honor and a privilege to appear before you today, to speak about my experience as a Stanford Financial Group advisor and my experience with the SEC and FINRA as a whistleblower.

Thank you for inviting me to testify.

My name is Charlie Rawl, and in December of 2007, my business partner, Mark Tidwell, and I resigned from Stanford Financial Group because of the company's unethical and illegal business practices. We fought an incredibly difficult 15-month battle against Stanford and were labeled by Stanford as disgruntled employees as management attempted to discredit the very serious allegations we made when we left the firm and filed a lawsuit.

Once the SEC filed its civil suit against Stanford alleging massive ongoing fraud, we became known as the whistleblowers. Our testimony and evidence were used to support the SEC's civil lawsuit against Stanford to take a global network of companies into receivership on February 17, 2009.

Mark and I believe Stanford would still be operating today if we had not come forward to the SEC and FINRA. I would not be here today if we had relied solely upon the present regulatory rules and procedures.

I am in business today thanks to a strong business partner, Mark Tidwell, and an important third partner, my friend, client, and one of our attorneys—Mike O'Brien. It took the three of us to survive the past 3 years.

Shortly after we resigned from Stanford in mid-December of 2007, Stanford sued Mark and me in FINRA arbitration. Our worst fears became reality as we quickly learned that the FINRA arbitration process was in Stanford's favor. We later have learned that as many as 30 other FINRA arbitrations had taken place with other former Stanford employees, all alleging fraudulent business practice. FINRA had sided with Stanford in every single one of those cases, including at least one case in which a former employee alleged Stanford International Bank was a Ponzi scheme.

It is an understatement to say that the regulatory process failed us. After realizing Stanford would likely crush us in arbitration, we accelerated our efforts to ask other regulators and law enforcement for help. We came first to the SEC. The allegations we brought to the SEC's attention did not appear to be a high priority, and nothing really happened until Madoff confessed in December of 2008. Then, the SEC had a sudden sense of urgency for taking action against Stanford. We proceeded to work closely with the SEC, providing testimony and evidence that was crucial to the SEC's suit against Stanford. We helped the SEC craft its legal strategy, legal tactic to implicate the U.S. broker-dealer Stanford Group Company.

Despite the significant contributions we made to the SEC's fight against Stanford, the SEC failed to deliver on its promises to protect us, and we were ultimately sued by the receiver the SEC put in place to administer the Stanford estate. The regulatory process had failed us a second time.

It is very important to note that while we learned of many red flags and collected evidence of unethical and illegal business practices while working at Stanford Group, we did not know that Stanford was a Ponzi scheme when we resigned. It was only after an FBI agent told me he thought Stanford was a Ponzi scheme in August of 2008 that I considered that that might be true.

We just knew there was fraud and that the investors were not being protected. We never imagined the magnitude of the fraud or the level of the devastation that resulted that all could have been prevented.

In conclusion, I would like to say that the Stanford Financial Group scandal has left an enormous footprint in this country. The devastation it has caused has ruined lives. I have met victims who are literally on their deathbeds, who have lost their homes, who can't afford their medical care. By and large, these are middle class people who needed the protection of this country's regulators. The SEC and FINRA have failed them, and they continue to fail them.

Chairman Neugebauer and members of the subcommittee, I thank you for allowing me to be here today, and I thank you for the attention you are giving the very serious regulatory issues that have come to light in the Stanford Financial Group fraud.

[The prepared statement of Mr. Rawl can be found on page 112 of the appendix.]

Chairman NEUGEBAUER. Thank you.

And, Mr. Kauffman.

STATEMENT OF STAN KAUFFMAN, VICTIM, STANFORD FINANCIAL GROUP PONZI SCHEME

Mr. KAUFFMAN. Good afternoon, ladies and gentlemen. I would like to thank Chairman Neugebauer, Vice Chairman Fitzpatrick, Ranking Member Capuano, and the honorable members of the House Financial Services Subcommittee on Oversight and Investigations for holding this hearing today and for looking deeper at what is surely one of the most inconceivable acts of financial regulatory failure in our Nation's history.

I thank you also for allowing me the opportunity to tell my story.

My name is Stan Kauffman. I live in Blue Bell, Pennsylvania, and I am 63 years old. In 2005, I retired from the Philadelphia Public School System where I taught science for 31 years. When I retired, I withdrew my retirement contributions from the Pennsylvania public school employee's retirement system, and my wife Linda and I sought a safe, conservative investment to protect our savings.

Based on a referral, we met with the Stanford Group Company broker-dealer financial advisor. We saw that he had 30-plus years of experience with many of the large financial firms and was a member of FINRA. We explained to him that we did not want to take big risks with my teacher's retirement as well as our life savings.

He told us about the Stanford International Bank CDs. He explained the bank was heavily regulated and that the deposits were insured. The rate we were offered was a mere 2 percent higher than other banks at the time and that the difference was justified and the details are in my submitted testimony. We were told that the Stanford CDs were safer than a U.S. bank, and we invested our savings of $500,000 in these safe CDs, including my teacher's retirement.

Now, I am not a savvy investor, and I absolutely relied on the professional expertise of a FINRA-licensed and SEC-registered representative who had a fiduciary duty to recommend the most appropriate investments for my needs.

He explained to me the Stanford Financial Group was based in Houston, Texas, and that all the company's operations were managed in the United States. Knowing Stanford's operations were in the United States and subject to U.S. laws made me comfortable with my decision.

And that is how I ended up with Stanford Group Company and investing in bogus CDs. From 2005 to 2009, we watched as the company grew exponentially with more than 30 offices in the United States. We saw Stanford international bank grow by billions of dollars in deposits. We saw photos of our Senators and Congressmen with Allen Stanford. We even received a copy of a letter from President George W. Bush applauding the Stanford Financial Group in 2008.

My written testimony goes into further detail about my decision to invest with Stanford. But in short, we had zero reason to doubt the company's stability, but we did not know what the government regulators knew.

On February 17, 2009, our world was turned upside down when we learned that Stanford had been accused of a massive ongoing fraud. Massive ongoing fraud. We watched the news coverage in shock as we realized our government regulators failed us in an unprecedented manner and that all of our life savings were gone.

I would like to briefly share with you what my wife and I have faced in the last 2 years. My wife lost a job she had for over 11 years due to downsizing as a result of the economic downturn. We were forced to put our house up for sale, and I had to go back to work.

And then we got the bad news: In 2009, my wife and I were both diagnosed with cancer and had to undergo multiple surgeries and treatments.

Fortunately, we are survivors, but the stress of Stanford has taken its toll. The devastating reality that our government regulators have failed us has taken its toll as well. There are thousands of victims like myself. We are not wealthy people, but honest, hard-working Americans. These are everyday, middle-class citizens who were preyed upon by a criminal enterprise with a sales force of 200 of the most qualified professionals in the industry. These are people who were looking for a safe place to protect their savings and should have been protected.

The insult added to injury here is the reality we have been victimized a second time, as the SEC has seemingly gone out of its way to not order the protection we feel we legally qualified for from

the Securities Investor Protection Corporation, SIPC. We were sold securities that never even existed, and the receiver's forensic accountant has provided testimony saying our money didn't even go to Stanford International Bank and that it certainly didn't go to purchase the CDs we were sold. Our money sat in U.S. bank accounts and was used to pay previous investors for bankrolling the Stanford Financial Group's expansion and Allen Stanford's lavish lifestyle.

SIPC was created to protect investors from a broker-dealer stealing its customers' funds. The SEC has accused Stanford of stealing our funds in a massive Ponzi scheme. When it comes to repairing the damage of the SEC's aborted attempts to protect us in the first place, we are being told our money was stolen the wrong way.

I think it is important to note we are not seeking SIPC protection for a foreign bank product. We are seeking SIPC protection from a registered broker-dealer and a SIPC member who stole our funds instead of buying the offshore bank CD.

Our government regulators have abandoned thousands of America's seniors who have been struggling to get by as they wait month in and month out for the SEC to finally respond to an 18-month old request to initiate a SIPC liquidation of Stanford Group Company.

Chairman Neugebauer, Vice Chairman Fitzpatrick, Ranking Member Capuano, and honorable members of the subcommittee, please do not allow the SEC and FINRA to get away with what has transpired in this case. We need your help to get our lives back. Stanford stole our savings, but the SEC and FINRA held the door wide open. Please don't stand for that door to now be slammed shut in our faces. Thank you for your time and your attention.

[The prepared statement of Mr. Kauffman can be found on page 70 of the appendix.]

Chairman NEUGEBAUER. Thank you, Mr. Kauffman.

We have been joined by the chairman of the full committee, Mr. Bachus from Alabama. And I would yield 5 minutes to him for questions.

Chairman BACHUS. Thank you. We had many Members of Congress just in the past several months who brought this to our attention, that there were some—that this was truly a horror story, and when we decided to have this hearing, I had no idea until I saw the testimony how widespread this was and what a monumental failure of our regulators to catch this fraud.

And obviously, there were many innocent victims, including SEC employees, and former Stanford employees, as well as thousands of people who invested. And it really is depressing even to hear about it. I cannot imagine what you have been through, and I am disappointed that you haven't been protected and that you have really been treated not only unjustly, but even after all of the facts were out, there has been no attempt to right those wrongs.

You have been made so many promises that I hesitate to make another one because you have been let down so many times. But I can tell you that this won't be the end of this here. I know Mr. Posey asked one of the questions I was going to ask. And that is whether the SEC employee in Fort Worth who had taken actions since he has left which indicate a real conflict of interest and eth-

ical misbehavior, whether that had been referred to the Justice Department. And Mr. Posey was told that it had.

Do any of you have any knowledge as to where that investigation is? Has there been an indictment brought?

Ms. PREUITT. Probably none of us would probably be privy to what is happening with that, but I understand there is currently no indictment.

Chairman BACHUS. Thank you.

Obviously, our staff has investigated this in the past few weeks, but we want to continue to work with you to see that your actions, which are exemplary and ought to be encouraged by others, that what has happened to you, that we try in every way we can to right that wrong, because there is also a strong message if that doesn't happen, that others shouldn't step up.

And a lot of the testimony by the first panel was, we know about this now, and we are going forward. I was encouraged by the Inspector General and some of the acknowledgements, but Ms. Preuitt, what is your present situation? Are you with the SEC?

Ms. PREUITT. I am with the SEC. I am still in the Fort Worth office. I still don't have a staff. My duties are still vague. They have currently discussed with me working out some kind of an arrangement where I will report to somebody in another office, and they might let one or two people work with me. But that is subject to the enforcement—or not—the Associate Director who disciplined me in the first place as to whether or not she would let Stanford—

Chairman BACHUS. And they are still in charge of that office?

Ms. PREUITT. The head of the office who was noted for retaliating against me just recently retired. The Associate Director for Examinations is still there.

Chairman BACHUS. Who disciplined you?

Ms. PREUITT. And she has not been disciplined.

Chairman BACHUS. Has she apologized to you?

Ms. PREUITT. She has not apologized to me. They still firmly believe that, apparently, that she has not done nothing wrong because not only has she not been disciplined, she was actually elevated. They talked about Mr. di Florio. There is a National Exam Program. They created an executive committee for that. And last summer, she was put on the executive committee for the National Exam Program.

Chairman BACHUS. Pretty incredible testimony. It is not often that we hear of such a devastating failure of regulation and no acknowledgement that they were wrong, that they had treated all three of you shabbily.

I will yield back the balance of my time.

Chairman NEUGEBAUER. I thank the chairman.

One of the things that we have been trying to do is ensure that we open up the "People's House" and the "People's Congress" to their participation.

So we have initiated a "You Witness" question program and people can go online, and they can submit questions for hearings. And I think this is going to be—this question that I am going to use this morning is our very first question. And it comes from Cassie Wilkerson in Austin, Texas. She said, "My question is to Ms. Preuitt. As Allen Stanford's alleged Ponzi scheme began to rapidly

grow and it was apparent that losses to the investors would be massive, was there ever any conversation with supervisors in your department about the impact that this was going to have on the investors' lives and what the SEC's responsibility is to the investors? If so, whom did you speak with and what was the outcome of that conversation?"

Ms. PREUITT. I am thrilled to get to be the first recipient of a question that is a novel way. There were many conversations. That was a constant nonstop discussion both among the examination staff, who truly worried about it tremendously. Those conversations with enforcement staff obviously didn't go very well.

I many times encouraged them, even if you don't think we can do this at this level, it needs to be elevated to the Commission, and let them decide if this is too difficult of a case to follow up on. Because so many investors are being affected, and it is just growing rapidly, and there appeared to be no end in sight.

It was truly a stressful time. But I cannot say how much the examination staff truly cared, and we really tried to find ways to make it happen.

Chairman NEUGEBAUER. And so the culture there was, if we couldn't get a blue ribbon here pretty quick, we just don't mess with it.

Ms. PREUITT. Yes. To me, I could never really find an acceptable reason or answer as to why we weren't going forward with it. There was no reason. There was a variety of different ways that we could approach it. And I was actually, I think, considered a pest in enforcement because I was constantly nagging them and pushing them forward. And many suggested, "Why don't you just drop it? This isn't going to fly." And in case you hadn't noticed, I am a rather tenacious person and didn't drop it.

Chairman NEUGEBAUER. Yes. It is extremely discouraging. I guess it begs the question, why have an examination force if you are not going to enforce it?

Mr. Rawl, so, basically, you were in the business—how long have you been in the investment advisory business?

Mr. RAWL. Since 1995.

Chairman NEUGEBAUER. What were you doing prior to that?

Mr. RAWL. I was a commercial banker and lender.

Chairman NEUGEBAUER. I am sorry?

Mr. RAWL. A commercial banker and lender. I have been in financial services since I got out of college in 1981.

Chairman NEUGEBAUER. Okay. And so you went to work. Were you recruited to come to Stanford? Did they actively recruit you?

Mr. RAWL. Yes, sir, I was recruited to Stanford. That process started in December of 2004.

Chairman NEUGEBAUER. And what was the arrangement when you came to work for them? Did they pay you a bonus to come to work for them?

Mr. RAWL. Yes, sir. As was common in the industry, a fairly standard recruiting deal, which included a bonus to come, would be given over a period of time, 5 years in my case. I earned different bonuses by achieving different levels of success as I brought my book of business to the company. This is common in the industry.

Part of is to make up for what we left behind at the prior firm, deferred compensation, etc. And, unfortunately, part of it, in my opinion now, is to tie you to the gaining firm. And it creates an incredible conflict of interest for the advisor, particularly where, as in our situation, we saw that there was a lot wrong, and yet we had an employment contract and we owed money back if we were to leave prematurely.

I hope that this type of practice and this methodology of recruiting advisors, that I said before is common, I hope that it is outlawed because it creates a conflict that is intolerable. That is why it was so difficult to leave. We knew we would be sued when we left, and we knew we would be sued by a deep-pocketed plaintiff.

We tried to sit down and pay back a good portion of that money which we had saved for that purpose, but, in this case, we could never get to the bargaining table.

Chairman NEUGEBAUER. As I understand it, looking at your testimony, what brought something to your attention that something was awry? I think you testified a while ago that you didn't really think that there was a Ponzi scheme that was going on, but you were concerned about the returns that were being advertised and the returns that were being delivered to your clients, is that right?

Mr. RAWL. Yes, sir. I was concerned about the advertised returns of the traditional managed account program at the broker-dealer. I never dreamed that the regulated managed account program, that the numbers would not be able to be substantiated. So that was one concern.

But there were many other concerns. And it started, unfortunately, not long after I arrived at Stanford. The advisors were called into the manager's office to talk about these inquiry letters the SEC had sent to many new customers of the bank.

That began a time, over the next couple of years, where I just continued, my partner and I as well as other advisors, continued to dig up things that didn't make sense. We didn't understand the way management would handle certain issues we brought to attention. Decisions were made not for good business reasons. We learned that certain Treasury regulations were not being followed with respect to the investments in the offshore CD. We accumulated a long list of what I call red flags, and these accumulated over time. We dug and we dug, and we were known for due diligence, and we didn't forget. We pressed management. Generally, we were dismissed, lied to, covered up.

Finally, these things became untolerable. My partner, Mark Tidwell, and I both decided that we had to figure out how to leave, because we were very concerned about the well-being of our clients. So we started—

Chairman NEUGEBAUER. So here is my final question. With a banking background—I was in the banking business for a while, and the CD business is a competitive way to attract funds for banks and financial institutions. And, the spread was—maybe bank "X" was 25 basis points more. Maybe if they were trying to really recruit some funds and manage—there might be a 35-, 40-basis-points difference.

But when you look at some of the numbers, how much were the spreads over what you could offer your clients a domestic U.S. CD?

Mr. RAWL. That is a very good question, and it has been the subject of a lot of confusion.

The CDs did not offer exorbitant returns, themselves. From my experience, the CDs were priced at typically 200 or 300 basis points above what you could get in the United States. And Stanford had a very well-orchestrated answer to that, that did make sense: the bank being located in Antigua, domiciled in Antigua, where there is no corporate income tax. That is a huge multiplier to the bottom line.

There were a lot of reasons. I feel gullible to some extent, of course, for ever going there. But it was a well-orchestrated fraud that had been—the bank had been around 25 years.

And there have been media comments about the CDs and these exotic returns. It is not true that the returns were not exotic. It was the investments behind them that we have learned were—those were the fraudulent returns.

Chairman NEUGEBAUER. I see my time has expired.

I yield to the vice chairman of the committee, Mr. Fitzpatrick.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

I appreciate the testimony of all three witnesses. Your testimony is incredible, to say the least.

Ms. Preuitt, I want to associate myself with the laudatory remarks of Mr. Posey earlier. You described yourself, in your opening testimony here, as just another examiner at the SEC. I think that is rather humble of you. I think that you have set the standard for public servants, not just in the Commission, but across all Federal agencies, I hope.

Now, we were led to believe by the previous panel that the SEC is working very closely with you to put all of your talents to use at the SEC. Is that a fair description of what is going on right now in the Fort Worth office and your employment relationship with the Commission?

Ms. PREUITT. They are trying to work with me to make things better. However, it seems to be based on the notion, still, that there is to be no—not to restore me to my full position that I was before and, also, under the notion that they still should not discipline the person who inappropriately retaliated against me.

In doing so, although I may get partially better than where I was before, my talents are still very limited. It also sends an incredible message to the staff. It says, "Don't speak up," and it says "We will tolerate misbehavior on the part of senior management." And as long as that is the case, I don't think that the situation in Fort Worth is going to be resolved.

Mr. FITZPATRICK. Is it true that you were one of the first, if not the first to identify the potential of a Ponzi scheme in connection with the Stanford investment program?

Ms. PREUITT. Yes. I was just going through the annual filings, and I noticed that it looked impossible, their business model. And so I suspected that there had to be a fraudulent scheme.

Mr. FITZPATRICK. And so you had referred to enforcement on a number of occasions, and those referrals were rebuffed, correct?

Ms. PREUITT. That is correct.

Mr. FITZPATRICK. Looking back on it, have you made recommendations about ways to better coordinate today and going for-

ward between the exam group and the Enforcement Division, at least in the Fort Worth office? Have you made those recommendations? And, if so, what has happened?

Ms. PREUITT. I have not made those recommendations because, in many ways, this was not a process issue. This was managers who were not being held accountable for poor decision-making. So, in that sense, I have grave concerns that a process will not be better. There has to be, instead, a system that holds managers accountable for poor decision-making and for placing their own interests above the needs of the investing public.

Mr. FITZPATRICK. And was one of those managers, the one who retaliated, the same manager who was promoted?

Ms. PREUITT. Yes.

Mr. FITZPATRICK. Mr. Rawl, over the course of your employment with Stanford, when did you first suspect fraud at the organization? When was that in the timeline?

Mr. RAWL. In mid-2006, I became suspicious of the literature that was designed to promote the registered managed account program at Stanford. It took 9 months to push and push and push management to do a study and come back and report on that. And on March 28, 2007, management admitted that they could not substantiate the numbers and that there was a problem. That was one of those red flags, so to speak.

Mr. FITZPATRICK. And when did your FINRA arbitration occur?

Mr. RAWL. We resigned from Stanford in December of 2007, and Stanford sued us immediately. And the FINRA arbitration process started in January of 2008.

Mr. FITZPATRICK. And what was the result of your arbitration?

Mr. RAWL. Unfortunately, there has been no result. We have a nice case with—most of our bullet points and charges have been proven out, but I think the technical term is that it has been "abated." I can't proceed in our arbitration against Stanford—of course, there is nothing to proceed against—but the receiver can still proceed against me in the meantime.

Mr. FITZPATRICK. Were you familiar with this fellow, Barasch, who was the head of enforcement at the Fort Worth office while you were at Stanford?

Mr. RAWL. I was not. I certainly knew the name, but I did not know him.

Mr. FITZPATRICK. You had not met him?

Mr. RAWL. No, sir.

Mr. FITZPATRICK. Mr. Kauffman, what did employees at the Stanford Investment Group, what kind of information or assurances did they give you, as an investor, that your investments would be safe?

Mr. KAUFFMAN. We were told that the investments were insured by Lloyd's of London. We were told that their expenses were less since they didn't have a brick-and-mortar presence in the United States, and that made the investment a good investment.

Mr. FITZPATRICK. Can you describe for the committee how this incredible financial loss has affected you and your family?

Mr. KAUFFMAN. It has been difficult psychologically knowing what we have lost, knowing all of the hours I put in. I always worked a second job for 31 years. Being a schoolteacher, I had the

time. And I was proud of the fact that I could put away the funds for retirement.

I didn't anticipate getting sick, and neither did my wife, but when we were slammed with that, as I like to say, the funds that would have been there to make it a little bit easier for us were just not there. So we have had to cut back, in our expenses and such. We don't eat out that much anymore.

Mr. FITZPATRICK. Okay. Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

The gentleman from Florida, Mr. Posey.

Mr. POSEY. Mr. Chairman, my microphone doesn't work. May I move down?

It seems like the SEC has been doing some maintenance on the microphone over there.

Mr. Chairman, I am really sad to say that I expected to get some better answers here today. After we heard the last panel, I thought we would hear from this panel and it would be encouraging that we are on the right track and seeing things going in the right direction. But this is really appalling, to hear what we have heard today. The more we hear, the worse it gets.

And, first of all, on behalf of all my constituents and the others who were victimized, before you leave today, I would like to shake your hand, Ms. Preuitt.

And, Mr. Brubaker and Ms. McClure, would you raise your hand?

I want you to get with them, please, before you leave today and give them your contact information, because I would like to stay in touch with you, just have some idea of what kind of reality goes on down in the real world.

Mr. Chairman, I assume that is okay? With your permission, I would like her to feel free to communicate with us—actually, request that she communicate with us, maybe give us a monthly status report, an inside view of what is going on down there.

I could not possibly have understood your answer correctly. It seemed like you said, in response to somebody's question, that the person who trashed you before for trying to do your job is still your boss. Tell me that isn't so.

Ms. PREUITT. She is not technically my boss. There have been times when they have—the person who did retaliate—there were two who retaliated against me, the head of the office and the Associate Director. And I was reporting to the head of the office who had retaliated against me for the last several years until she retired just last month.

To get any sort of staff to work with me, to work on projects, they are going to have go get the staff from the person who retaliated against me who is still with the Commission. So I am still, in some way, subject—

Mr. POSEY. That is just incredibly hard for me to accept and to understand. So, excuse me for being a little bit at a loss for words. It seems that SEC management is more interested in protecting rotten employees, or too interested in that, at the expense of recognizing or rewarding good behavior. And it seems like it is backward, from this perspective. I don't know how you could see it otherwise.

In the real world, people perceive justice is that if somebody steals a television set and sells it to somebody else, that when a thief is caught, the thief goes to jail. If there were any other bad people involved in the process who were culpable, then they have some kind of punishment. And then they go recover the TV set, or what is left of it, and they give that back to the rightful owner.

That is just a rough illustration of how I think the public generally perceives justice in the case of a theft. And none of that, Mr. Chairman, seems to be working here. None of that seems to translate to this little bit more complex issue we have before us.

What I wanted to talk about more—and I realize we have time constraints, and I am not going to be able to do that—and, at some point, maybe if you would like to respond in writing, any of you or all of you, what you think would help in the reorganization of the SEC, any idea that any of you may have for the reason it has taken years to determine whether or not the victims qualify under SIPA—I mean the Securities Investor Protection Act.

I think the investors deserve a timely "yes" or "no" answer: yes, to anticipate something good might happen; no, to be able to come to grips with the reality that nothing good is going to happen or get some closure or to have a grounds challenge the decision, either one. But I think just keeping them in the dark year after year is just adding insult to injury and totally inexcusable.

If any of you know—and I would have liked to have heard from your panel before the last one—how aggressively we are pursuing the recovery of assets and why we are not utilizing the clawback efforts that we did with Madoff?

And, when there are no consequences for bad behavior, it encourages bad behavior. We had a similar case with a life insurance company called TRG in Florida. They wrote policies in 49 States, Mr. Chairman. They were based in Indiana. They wrote policies in every State but their own State because nobody had ever crossed State lines to prosecute white-collar insurance fraud before.

We did that. And to make a long story short, 13 different agencies collaborated over State lines, and those two guys went to prison. And we went from having two dozen companies doing that in our State to having none of them doing it. When there are consequences, people behave better. And there is just no evidence that there is any consequences for all the bad behavior in the agency.

So any insight that the three of you may have on that issue, I would appreciate that, as well.

And I thank all of you for appearing here today and sharing your insight with us. I am truly sorry for the hardships you have suffered for doing the right thing.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Texas, Mr. Canseco, is recognized for 5 minutes.

Mr. CANSECO. Thank you, Mr. Chairman.

Mr. Kauffman, I gather you represent the group who is here, some of my constituents too. And I congratulate your courage, coming here before this committee. We don't bite, but we are here to listen with you and sympathize with your situation and, hopefully, help to solve it.

Now, if this SIPA were to come across with some funds, is that going to help your situation out?

Mr. KAUFFMAN. Congressman, if SIPA would come to fruition, approximately 80 percent of the victims of the Ponzi fraud would be made whole. And we would be one of them, yes.

Mr. CANSECO. Okay. Are you in line in any way with regards to the trustee who is handling right now the assets of Stanford?

Mr. KAUFFMAN. The receiver has about $70 million today. He had $80 million when this started, and he has billed for $70 million.

Mr. CANSECO. All right. So a lot of that is going into administrative costs of the receivership or trustee, whatever that is.

Mr. KAUFFMAN. Yes, sir.

Mr. CANSECO. When it should be really going towards paying all of the victims of the Ponzi scheme. Is that correct?

Mr. KAUFFMAN. Unfortunately, that is true.

Mr. CANSECO. And do you know the name of the receiver?

Mr. KAUFFMAN. I believe it is Ralph Janvey.

Mr. CANSECO. Okay. And do you keep contact with the receiver's office?

Mr. KAUFFMAN. Not on a personal level. There is a Web site you can go to see what is happening. But, no.

Mr. CANSECO. Is there a procedure in place for making your claim with a receiver?

Mr. KAUFFMAN. There is a procedure, but we haven't gotten back any information. We submitted it originally when this all took place. It is so long ago, we just haven't heard anything.

Mr. CANSECO. Again, I sympathize with your losses, all of you. And I would also welcome you to be in touch with my office and see how we can help you.

Brian O'Shea, would you raise your hand?

I represent Texas, but I represent all of you too. So please make sure and contact us on that.

Mr. Rawl and Ms. Preuitt, I congratulate you for your bravery. I know that you all stuck your necks out, and, to a certain extent, it has been chopped. And I regret that happened, and it shouldn't happen.

Mr. Rawl, you have mentioned that your cases with Stanford and the arbitrator have been held in abeyance. Is there a reason for that?

Mr. RAWL. I guess it is kind of pointless to prove Stanford wrong in my case. It is already a foregone conclusion. There is much bigger, exciting, more newsworthy cases, namely the Ponzi—the unfortunate Ponzi scheme, than whether I am to prevail in my allegations of fraud against the company.

But it is still open, and we have had a very valid counterclaim and claim. And that is, of course, never to be heard. We would never want to take money from the pool of money that would go to the victims, in any case. So we would like it to go away.

Mr. CANSECO. Do you have an opinion as to why FINRA ruled the way they did against you?

Mr. RAWL. Against the previous folks?

Mr. CANSECO. No, against you.

Mr. RAWL. FINRA hasn't ruled.

Mr. CANSECO. Why they sided with you in this—

Mr. RAWL. The arbitration process is unfair, and it is biased toward the broker-dealer. The entire process favors the broker-dealer, and there is no doubt about it.

The private nature should be questioned. And, certainly, if there is an arbitration between a registered rep or advisor like me in the firm, why should that be kept private? That can be a good red flag to the public and give warnings and be a good view into the firm to see if there is an inordinate amount of potentially fraudulent business practices going on. I think that would be a great way to warn the public.

But we sued in State court. That court case got remanded back to the arbitration. And, unfortunately, all that did was keep this hushed for a long time.

Mr. CANSECO. Thank you very much for your bravery.

Mr. RAWL. Thank you.

Mr. CANSECO. Ms. Preuitt, is there a reason why you think that you are being shut off there in your department?

Ms. PREUITT. I think that management wants to support management. She was more senior than I.

Nobody has really, from the Commission, discussed with me what all happened, all the events leading up to my removal from my position. And if they are basing their decisions mostly on the person who retaliated against me, as to whether or not I deserved it, it just strikes me as shortsighted, obviously.

Mr. CANSECO. Again, thank you very much for your bravery, and for being a whistleblower.

I yield back my time.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Louisiana, Mr. Cassidy.

Mr. CASSIDY. Again, as you all heard me say, first, I congratulate you all and I commiserate with you all, on behalf of all those in Louisiana who have either benefited or have been penalized, such as you, Mr. Kauffman.

And, again, the theme of our office has been to have an effective, transparent, compassionate response. I continue to hear from each of you that none of those three measures have been achieved.

Ms. Preuitt, you sent an investigator down to Houston, and, in a half a day, that investigator can sense that this is a Ponzi scheme. You are looking at their business model and the stuff that they have publicly submitted, and you are saying, this is not for real.

Why was it so complex that the office could not take it?

Ms. PREUITT. I have never really gotten a good answer to that. Many different things were brought up to me, but none of them seemed like a really good reason. So I think that the best answer we ever could come up with was just that it was going to be difficult.

Part of the reason that it was going to be difficult was, if you wanted to pursue it only as a Ponzi scheme, that would mean actually being able to prove where the money is going. Since much of the money went to, supposedly, Antigua and the Antiguan bank refused to give us the records, it was very difficult to track all the money. We simply could get no response from them regarding it.

Mr. CASSIDY. But Mr. Kauffman—and I have heard this before—said that a lot of the banks—was it a Memphis bank, Mr. Kauffman?

Mr. KAUFFMAN. Houston.

Mr. CASSIDY. A lot of the money never left the United States. Did the SEC not know that?

Where was the bank, Mr. Kauffman?

Mr. KAUFFMAN. Houston.

Mr. CASSIDY. Houston? I also thought there was also a Tennessee bank.

But, anyway, that said, apparently a lot of the money didn't—I should have asked before the other panel left, but the SEC was clueless, or they ignored that, or that seemed incidental?

Ms. PREUITT. No, the SEC was not aware, because the SEC did not get a subpoena to take all the actions that it needed to look to see what was happening at the firm.

Mr. CASSIDY. Okay. What is kind of hanging out there is whether Mr. Barasch engaged in criminal activity, whether he was—let's just put it out there. It may not be true, but, certainly, in my mind, I am wondering, did Stanford have a protector?

Mr. Rawl, you got one heck of a resourced, researched statement. Now, you mention that Stanford had employed as general counsel a former head of the Fort Worth SEC office, Wayne something. Oh, looking through the IG's report, I didn't see that. I am thinking, "Man, Rawl has done a great job."

And I don't have his name down here, but, I am sorry, Wayne—

Mr. RAWL. Wayne Secore.

Mr. CASSIDY. Did Secore and Barasch have a personal relationship? Do they play golf every Sunday?

Mr. RAWL. I do not know.

Mr. CASSIDY. Okay. I just thought I would ask because, again, I am sitting here thinking, it appears that Stanford was being protected. Was there something beyond a fear of taking on a complex case, which apparently an accountant can figure out in a half an hour was something fishy? So I am looking for another reason.

Mr. RAWL. In my written testimony, you will see that, at the latest days, even weeks before the SEC filed suit, they had problems—their problem was jurisdiction over a bank in Antigua. That was one of the excuses that they used.

But, to be more responsive to your question, there are different entities, and the U.S. Government had been investigating different things over different periods of time. There are a lot of questions as to what might be being covered up.

Mr. CASSIDY. Okay. And I don't mean to interrupt, but I don't have much time. So I am going to—again, I have such admiration for you.

The other agents—you mentioned there were about 30 folks over time who complained and filed complaints against Stanford. I think a lot of people want to know, should their agent have known? Did you have a particular position that allowed you to see that the business structure was not right? Or should anybody working for Stanford have known that?

And I address that both to you, Ms. Preuitt, and to Mr. Rawl.

Mr. RAWL. I was a financial advisor. I was not in management. I was, once upon a time, fairly well-liked amongst management and a lot of people at the firm, so I had friends in all different departments. And those were the folks I gathered intel from over time.

Mr. CASSIDY. So you were a connector. So the person in the front office, as in the retail office—somebody walks in and says, "Hello, how are you?" I say, "I am Mr. Smith; I am going to help you today"—that person may not have known, but, rather, your position as a connector kind of gave you that ability. Is that you are saying?

Mr. RAWL. I gained a lot of information because of friendships, more than most other advisors.

Mr. CASSIDY. Okay.

Now, Ms. Preuitt, again, just to repeat, we heard from the first panel a real effort to change the culture of the SEC. What we are hearing from you, at least in your experience, is that those efforts may not be bearing fruit.

Ms. PREUITT. I think that many of the efforts they are making are certainly of value. But if you really want to get the trust of the staff and the trust of the public that you are making changes, then you have to make some tough decisions, and one of those is actually holding people accountable for inappropriate behavior. And that has not happened in this situation. So, although I applaud many of the changes they are trying to make, none of those will be of value.

Mr. CASSIDY. Is it a question of due process? Is the person on administrative leave, or are they, frankly, going scot-free so far?

Ms. PREUITT. They are not only going scot-free, like I said, they have been promoted. Additionally, right after the report came out that there was retaliation against me, I understand that both the people who retaliated against me received a large bonus.

Mr. CASSIDY. And can I have one more question, please?

Mr. Kauffman, I mentioned to the first panel—you are not an attorney, but you are obviously a smart man. You know a heck of a lot more about this than I do. So if you can answer this, it is fine, but if not, that is okay.

The Commission is trying to decide whether or not there will be SIPA coverage. And you pointed out that, as regards the CD, the argument against giving SIPA coverage is that there was an underlying asset, and so it is just that the asset was overvalued, and that makes it different than the Madoff case, where there actually were no assets.

But you have pointed out that there was a group of folks who sold CDs for whom there was no underlying asset. If you will, that is exactly the same as in the Madoff case.

Is the Commission treating those two sets of "CD holders" differently, i.e., those who had an asset with a fictitious value versus those for whom there actually was no underlying asset?

Mr. KAUFFMAN. There is absolutely a difference in how they are treating the two victims. We are being denied the coverage.

Mr. CASSIDY. You are one of those guys who had no underlying asset. Are you also being denied coverage?

Mr. KAUFFMAN. Yes.

Mr. CASSIDY. And what is the legal rationale for that?

Mr. KAUFFMAN. We are waiting for an answer.

Mr. CASSIDY. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

I just have one follow-up question with Ms. Preuitt.

So you are in the Fort Worth office, and I believe your title is—

Ms. PREUITT. My title is Assistant Regional Director.

Chairman NEUGEBAUER. Where is your boss?

Ms. PREUITT. In the last couple of weeks, they have now assigned me to a supervisor in Denver.

Chairman NEUGEBAUER. So how is that working?

Ms. PREUITT. I am obviously—I don't feel like this is a good resolution.

Chairman NEUGEBAUER. So, you are in the Fort Worth office, but they have just kind of fenced you off. Basically, you don't have any responsibilities in the Fort Worth region at this point in time.

Ms. PREUITT. Nothing that is defined. I have been searching for work and finding projects that I can pitch in on, but, no, I don't have any clearly defined—

Chairman NEUGEBAUER. And so, what would you say that—how do the other employees in that Fort Worth office relate to you?

Ms. PREUITT. Some have been afraid to relate to me. At least one, in particular, after she was noted speaking with me, she then was harangued for an hour about, in part, her association with me. So some staffers are afraid to deal with me.

I have had another very dear friend who was—we were so close, she was actually there with me when my husband died, some years back. We had a very close relationship. And she told me that she felt like she was getting pushback for our friendship and has essentially withdrawn her friendship because she felt like it would place her in an uncomfortable position at work.

It has been very difficult, very stressful.

I do have many supporters, though, and many examiners who still seek me out for counsel and who would like to work with me if I had supervisory authority and responsibilities again.

Chairman NEUGEBAUER. Obviously, it doesn't send a signal that, when you find an inequity in the organization, there is reward in that, does it?

Ms. PREUITT. No. No, it doesn't. And I am proud of what I have done. So it is very, very difficult to be treated this way.

Chairman NEUGEBAUER. This is a great panel.

I want to just ask any Members—oh, Mr. Cassidy.

Mr. CASSIDY. Ms. Preuitt, while I was talking, my staff was researching something and just handed this to me, and I just want to speak with you.

This says that you testified at one point—let me see, I am going to read this. This is from a blog, and blogs are a little bit, they may be true, they may not be true, kind of like Democratic Party press releases.

This says that the first referral by an SEC examiner was sent to Barasch in 1998. According to the testimony of Julie Preuitt, who authored the request, Barasch declined to investigate after discussing the matter with Stanford's legal counsel at the time, former SEC Fort Worth District Administrator Wayne Secore.

Is that true?

Ms. PREUITT. I asked Mr. Barasch in—I think it was the summer of 2009 why he had never pursued the case, because it was never clear to me. And he told me it was that Wayne Secore, who was representing Stanford at the time, and had told him that there was nothing there.

Mr. CASSIDY. I did not see that in the IG report. Now, I am not criticizing the IG report—

Ms. PREUITT. It is in the IG report.

Mr. CASSIDY. It is in the IG report. So I just missed that. Okay. Thank you again.

Chairman NEUGEBAUER. Mr. Canseco?

Mr. CANSECO. If I may just follow up with one question?

Chairman NEUGEBAUER. Sure.

Mr. CANSECO. Ms. Preuitt, was there ever any doubt in your mind that the product sold by Stanford was a security?

Ms. PREUITT. No, I never doubted at all it was a security. I would like to say Mr. Stanford liked to just misname things. Because he called it a CD didn't mean it was a CD. Because he called it a bank didn't mean it was a bank. It is sort of like, I have a doghouse in the backyard, and instead I believed it was a Ferrari. It doesn't matter how often I went out there, I would never find the ignition switch, so—

Mr. CANSECO. Why was there so much handwringing by FINRA, for years, before they actually got involved in this?

Ms. PREUITT. I have never understood it. I had written up a fair amount of information related to why I believed it was a security and shared it with the SEC. I don't know that I ever shared that information with FINRA.

But the reality was, it was not a bank. By Stanford's own admission, the bank was not behaving any banking activities. So, therefore, it would not meet the definition of a bank under the 1940 Act. I also don't think it would have qualified as a bank underneath Federal court cases that had come out that had discussed when a CD was a CD or not, and one of them was it had to be from a bank under a regulatory regime.

But the bank was not engaged in any banking activities, so it was just—I never understood. It was a play on words. He also said they didn't pay Commissions; he said it was just referral fees.

Again, it was a nonsensical statement that he was making. And why it would cause so much consternation, to me, seemed a small interest in pursuing it. It is potential, maybe, that a court would take a different view, but that should not stop you from pursuing the case.

Mr. CANSECO. Thank you very much.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the panel. It has been a great panel.

I thank the members.

And the Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

This hearing is now adjourned.
[Whereupon, at 2:20 p.m., the hearing was adjourned.]

A P P E N D I X

May 13, 2011

Stanford Hearing – Mary 13, 2011
Congressman Gregg Harper (MS-03)

Opening Statement

Thank you Mr. Chairman.

And Mr. Chairman, I also want to express my thanks to you, to Chairman Bachus and to this entire sub-committee, including your staff, for making this important hearing possible, and for the privilege to be a part of these proceedings today to address an issue that is extremely important to me and to my constituents.

Certainly my home state of Mississippi has seen its share of challenges in the last 10 years. Hurricane Katrina decimated the Mississippi Gulf Coast, the Gulf Oil Disaster took precious lives, impacted our environment, and cost hundreds of jobs in its aftermath. The stories are just now unfolding with regard to the recent tornados, and now the historic flooding along the Mississippi River. Mr. Chairman, Mississippians are resilient people.

But the Stanford Financial ponzi scheme, and the lives it shattered in my home state, stands in stark contrast to those natural disasters. For years, when this calamity was brewing, unlike Hurricane Katrina, there were no reliable forecasts by our government. When this disaster struck, and when hundreds of citizens and families' lives were changed forever, there was no government to come to their rescue. The federal agencies, charged with protecting the welfare of our citizens, failed to stand by my constituents and victims throughout this country.

Mr. Chairman, by and large, these were not wealthy investors. On the contrary, these were hardworking parents and grandparents…teachers, factory workers, coaches, middle-class Americans…they were our neighbors and our friends, looking forward to traveling, spending time with the grandchildren, and giving back to their communities. And Mr. Chairman, 80% of these victims had invested less than $500,000. Of the $7 billion in total losses, $2 billion was lost by over 5,000 victims in the United States. Of those, 125 were from my state of Mississippi alone, totaling over $64 million.

From many meetings in my office and from my staff's research, it is clear to me that on many levels there was a monumental breakdown within our regulatory and enforcement agencies. From what I have seen, the SEC's own Inspector General uncovered problems as far back as 1997 when the first examinations were conducted, and when there was only $250 million in deposits with Stanford. And yet, investors were not warned; and

investments continued until 2009 when deposits totaled $7.2 billion. I find that absolutely unbelievable.

Investors in my district and my state have asked, "How could this happen in our country?" I too echo that question and ask: "How could Allen Stanford allegedly falsify P& L and balance sheets, issue bogus marketing literature and investment strategies for so many years - taking advantage of vulnerable hard working Americans - and it go unnoticed by the SEC? Why did former SEC employees receive jobs in the Stanford company? Why did the SEC hesitate? Why weren't investors alerted years earlier? Indeed, how could this happen in America?

What now? It is my understanding that the SEC's own forensic accounting investigators determined that none of the invested funds ever went to purchase a security. Actually, much information shows that the monies invested funded the growth of the Stanford business, construction of luxury offices, and the extravagant, lavish lifestyle of the company's owner. If this is the case, and there seems to be much evidence to support this, then SIPC coverage is warranted.

It is quite clear that there is a very hyper technical dispute on whether these victims warrant coverage by the Securities Investor Protection Corporation. From what many victims and other experts have told us, no securities products were ever purchased. If this Hearing and further evidence underlines the contention that victims believed they were purchasing registered securities and in fact were not, <u>and</u> that the SEC failed to do its job to protect them, then why would these victims' investments <u>not</u> be covered by SIPC?

This hearing should not only focus on the experiences of these victims, but it should also shine light on these questions: Why would coverage not be warranted? What more do these victims need to show?

The Stanford victims in my state of Mississippi and throughout the country deserve an answer and deserve to have closure and a final resolution by the SEC and their government.

I thank the witnesses who are here today. I appreciate your time and your efforts in being a part of this Hearing. I look forward to your testimony.

Mr. Chairman, I thank you again for this opportunity, and I yield back the balance of my time.

Statement for the Record
Rep. Blaine Luetkemeyer (MO-09)
"The Stanford Ponzi Scheme: Lessons for Protecting Investors from the Next Securities Fraud"
Committee on Financial Services
Subcommittee on Oversight and Investigations
May 13, 2011

I thank the Subcommittee on Oversight and Investigations for holding this important hearing, and request that this statement be submitted for the hearing record.

One of the principle missions of the U.S. Securities and Exchange Commission (SEC) is to protect investors. Yet for more than a decade, the SEC failed in that mission by neglecting to seriously investigate the Stanford Financial Group (Stanford), a Ponzi scheme that defrauded thousands of American investors to a tune of $8 billion. The warning signs were clear and prolific, from troubling exams to evidence of money laundering to whistleblower reports from Stanford insiders. Documentation shows that the SEC was aware as early as 1997 (seven years before any action was taken) that Stanford was troubled. Despite a preponderance of evidence, it was not until 2009, twelve years after our nation's supposedly preeminent regulator of investor fraud took its first examination of Stanford, that any formal action took place.

It seems the SEC is continuing to ignore the Stanford problem. After two years, Chairman Schapiro has still not made a determination on Stanford victims' right to coverage under the Securities Investor Protection Corporation (SIPC). This is despite the fact that she has told members of Congress that a decision would be made by April of this year. Regardless of the outcome, the least the SEC could do for these victims, after twelve years of inaction, is to make a determination on SIPC coverage.

The weight of the Stanford case cannot rest on the SEC alone. The company was being investigated by numerous other regulators and law enforcement agencies. Yet the SEC's failure to synchronize both internally between the SEC's examination and enforcement offices, and externally among various state, federal, and international agencies, exposes not only the weak coordination of our regulators but also brings into question their general competence, or lack thereof.

This is a problem that is not unique to the Stanford case. But instead of repairing the broken regulatory bodies, Congress and the Administration have opted to create new agencies that will do nothing to protect investors from future threats of investment fraud. As a nation, it is time that we get serious about consumer protection. Regulating community banks, credit unions, property/casualty insurance agents, and payday lenders into oblivion will do nothing to protect consumers. Rather it will hurt consumers by forcing them out of the banking system, out of their property/casualty insurance policies, and out of the regulated alternative loan system. As a government, we should be focused on real-world solutions that will provide actual protection to consumers and responsible and effective oversight over institutions like Stanford Financial.

I thank Chairman Neugebauer and this subcommittee for holding this important hearing. I look forward to our continued discussion of and resolution on the Stanford case and encourage cooperation from the SEC and other regulatory and law enforcement bodies. It is my hope that all members can work together and with the federal regulators to identify methods for improvement and encourage a culture that promotes investor protection.

Testimony Before the

Subcommittee on Oversight and Investigations
Committee on Financial Services,
U.S. House of Representatives
"The Stanford Ponzi Scheme: Lessons for Protecting Investors from the Next Securities Fraud"
May 13, 2011

by

Robert Khuzami
Director, Division of Enforcement

and

Carlo di Florio
Director, Office of Compliance Inspections and Examinations
U.S. Securities and Exchange Commission

Chairman Neugebauer, Ranking Member Capuano, Members of the Subcommittee, thank you for the opportunity to testify today on behalf of the Securities and Exchange Commission.

The Commission commends the work of the Inspector General and his staff investigating this matter and drafting the report, *Investigations of the SEC's Response to Concerns Regarding Robert Allen Stanford's Alleged Ponzi Scheme*, OIG-526 (the "Stanford IG Report"). This extensive investigation clearly identified missed opportunities for protecting investors, and we deeply regret that the SEC failed to act more quickly to limit the tragic losses suffered by Stanford's victims.

The Stanford IG Report, which was released last year, made important recommendations identifying areas for improvement throughout the SEC and, as we will discuss today, both the Division of Enforcement and the Office of Compliance Inspections and Examinations ("OCIE") have instituted various measures to implement all of those recommendations.

In addition to the Inspector General's recommendations, each of us has, since joining the Commission within the last two years, engaged in a top to bottom review of our respective Division and Office, and implemented measures to reform our organizational processes and improve our effectiveness. We have streamlined management; put seasoned investigative attorneys back on the front lines; improved our examiners' risk-assessment techniques; revised our enforcement and examination procedures to improve coordination and information-sharing; leveraged the knowledge of third parties; instituted new initiatives to identify fraud; expanded our training programs; hired staff with new

skill sets; and revamped the way that we handle the tremendous volume of tips, complaints, and referrals that we receive annually.

Although our reform efforts are ongoing, the Inspector General's recent report, *OCIE Regional Offices' Referrals to Enforcement,* Report No. 493 ("Referral IG Report"), issued on March 30, 2011, indicates that enhanced coordination between Enforcement and OCIE is proving effective in many respects, particularly in the area of handling referrals from OCIE to Enforcement. In addition, strengthened collaboration between OCIE and Enforcement has resulted in a number of notable enforcement actions in the past two years.

Despite the many changes, more work remains. This will require commitment and creativity. We embrace the challenge and commit ourselves to enhancing investor protection and the integrity of our financial markets.

Status of the Stanford Case

In February 2009, the SEC filed an emergency civil action to halt sales of Stanford Certificates of Deposit ("CDs") and seek the return of funds to harmed investors. Shortly thereafter, the SEC filed an amended complaint against Robert Allen Stanford, James M. Davis, Stanford International Bank ("SIB"), and others alleging a massive Ponzi scheme in the sale of SIB CDs.

By the end of 2008, SIB had sold more than $7.2 billion of CDs by touting the bank's safety and security, consistent double-digit returns on the bank's investment portfolio, and high rates of return on the CDs that greatly exceeded rates offered by U.S. commercial banks. The SEC's complaint alleged that Stanford and Davis misappropriated billions of dollars of investor funds and invested funds in speculative, unprofitable private businesses controlled by Stanford. In an effort to conceal their fraudulent conduct, Stanford and Davis allegedly fabricated the performance of the bank's investment portfolio and lied to investors about the nature and performance of the portfolio. The SEC alleged that, rather than making principal redemptions and interest payments from earnings, Stanford made purported interest and redemption payments from money derived from CD sales.

Working in close coordination with the SEC, the Department of Justice, on June 19, 2009, unsealed indictments against Stanford, Davis and three other former Stanford employees, alleging that they committed securities, wire and mail fraud and obstructed the SEC's investigation. On June 30, 2009, the court ordered that Stanford be detained in jail pending his criminal trial.

In June 2009, the SEC also sued Leroy King, the former Administrator and Chief Executive Officer for the Antigua Financial Services Regulatory Commission ("AFSRC"), alleging that Stanford bribed King to help him conceal his fraud and thwart the SEC's investigation. As alleged in the SEC's complaint, while King received bribes from Stanford, he rebuffed SEC inquiries into Stanford's conduct by stating, among other

things, that further investigation of Stanford was "unwarranted," and that his bank was "fully compliant" with Antiguan bank regulations.[1] King also allegedly permitted Stanford to, in effect, "ghost write" the response by the AFSRC to the SEC, which rejected the SEC's demand for information. The alleged bribing of King permitted Stanford to keep his alleged fraud alive for years. In addition to the SEC's charges, the Department of Justice indicted King on charges, including obstruction of justice, for allegedly accepting tens of thousands of dollars in bribes to facilitate the scheme.

The SEC is vigorously pursuing its case against Stanford and the others charged in this massive Ponzi scheme. In addition, the staff's investigation into possible misconduct by others (including former employees and third parties) is ongoing.

Status of Recovery for Stanford Investors

The SEC's focus in the Stanford litigation is to hold wrongdoers accountable while working with the Receiver to trace and recover the money that investors lost in this egregious fraud. We are proceeding on several fronts.

First, after filing its civil action in February 2009, the SEC filed a motion requesting that the district court appoint a Receiver over the defendants' assets to prevent waste and dissipation of those assets to the detriment of investors. Second, to complement the Receiver's efforts, the SEC, in coordination with the DOJ, moved to freeze SIB assets held in international financial institutions. Freezing assets in international jurisdictions poses complex litigation challenges, but this step was crucial to ensure the protection of investor funds. Third, the SEC is working with the Receiver, DOJ, and securities regulators and law enforcement agencies in the United Kingdom, Switzerland, Canada, Mexico, and in several countries throughout Central and South America, to identify, secure, and repatriate for the benefit of investors over $300 million in cash and securities held in non-U.S. bank accounts.

In a status report filed February 11, 2011, the Receiver identified several categories of major assets for possible distribution to harmed investors:

- $94.7 million in cash on hand;
- $30.4 million in private equity investments already recovered and liquidated;
- $1 million in coins and bullion inventory;
- $6 million in real estate sale proceeds, with an additional $11.7 million expected from sales of other identified properties; and
- $594.9 million in pending fraudulent transfer and unjust enrichment claims.[2]

In conjunction with the SEC, the Receiver is focused on identifying and liquidating the largest possible pool of obtainable assets for distribution to harmed investors.

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[1] SEC v. Stanford International Bank Ltd. et al., No 3:09-cv-0298-N (N.D.Tex), Second Amended Complaint at ¶88.

[2] This figure includes amounts claimed in lawsuits filed or intended to be filed by the Receiver; actual recovery may vary depending on litigation outcome.

The SEC has been and will continue to closely monitor the Receiver's costs, and we have strongly urged the Receiver to stringently apply a cost-benefit analysis and to pursue only those legal claims that could generate maximum proceeds for investors while minimizing the Receiver's legal fees and expenses. We also have cautioned the Receiver that we are carefully scrutinizing all bills requesting payment for fees and expenses. In fact, on at least three occasions, the SEC has formally challenged the Receiver's bills. We will continue to do so where appropriate.

Status of SIPC Determination in Stanford

The Commission oversees the activities of the Securities Investor Protection Corporation ("SIPC"), which plays a critical role in protecting customer property when a broker-dealer enters liquidation under the Securities Investor Protection Act ("SIPA"). In the Stanford matter, SIPC has indicated that, in its view and based on the facts presented, there is no basis for SIPC to initiate a proceeding under SIPA.[3] The Commission is taking the concerns of the Stanford Victims Coalition ("SVC") members, and all other Stanford victims, very seriously, and the staff is investigating closely their status under SIPA. Commission staff has devoted substantial time and effort to analyzing the issues surrounding a potential SIPA liquidation of SGC. As part of this review, the staff has met with representatives of the SVC and other Stanford victims on multiple occasions to discuss this matter. The staff also has been reviewing documents relevant to the investigation, including account information received from the SVC. The staff is finalizing its investigation and review of the relevant facts relating to the Stanford case, and we anticipate that the Commission will make a determination regarding these issues in the near future.

Enforcement and OCIE Responses to Inspector General Recommendations

On April 16, 2010, the SEC released the report by the Inspector General concerning the investigation of the Stanford matter ("Stanford IG Report"). The report identified the need for reforms in the Division of Enforcement and in the Office of Compliance Inspections and Examinations. As described in more detail below, we have taken actions to respond to each of these recommendations, and as a result, all seven recommendations from the report have now been closed with the Office of Inspector General's concurrence.

Division of Enforcement

Stanford IG Report

The Division of Enforcement has taken action on all seven of the formal recommendations identified in the Stanford IG Report. On July 20, 2010, Enforcement submitted a closing memorandum to the Inspector General containing information that we believed fully addressed all seven recommendations. Recommendations 2, 4, 6 and 7 were closed by the Inspector General on October 8, 2010 and, following additional

[3] *See* http://www.stanfordfinancialreceivership.com/documents/SIPC_Letter.pdf

actions by Enforcement, recommendations 1, 3 and 5 were closed by the Inspector General on March 9, 2011.

First Recommendation. The Inspector General recommended that we evaluate the potential harm to investors when deciding whether to bring an enforcement action that also may involve litigation risks. The Division's Enforcement Manual,[4] developed in October 2008, provides that staff should consider several factors when determining whether to open an investigation, including: (i) the potential losses involved or harm to investors and (ii) the egregiousness of the potential violation. In addition, the Enforcement Manual also states that first among the factors the staff should consider before closing an investigation is the seriousness of the conduct and potential violations. As these Enforcement Manual provisions indicate, prior to the Stanford IG Report, the Division encouraged staff to carefully assess factors such as potential harm to investors and seriousness of potential violations when deciding whether to open or close investigations. In response to the Report, we have instituted mandatory Enforcement Manual training for all Division staff to ensure compliance.

In addition to its Enforcement Manual provisions and related training, the Division regularly files actions in federal court seeking emergency temporary restraining orders and asset freezes to prevent imminent investor harm and protect assets for the benefit of investors – actions that often present litigation risk given the exigent circumstances of the very early stages of an investigation. In fiscal year 2010, Enforcement obtained 37 emergency temporary restraining orders to halt ongoing misconduct and prevent imminent investor harm and 57 asset freezes to preserve funds for the benefit of investors.

Second Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying staff and regional office performance evaluation procedures that recognize the significance of bringing difficult cases focused on investor protection. The Enforcement Division has revised the metrics used to manage and evaluate the performance of its staff. Rather than emphasizing the number of actions filed, we place a particular focus on the programmatic priority of the case, which reflects a consideration of multiple factors, including whether the matter:

(1) presents an opportunity to send a particularly strong and effective message of deterrence, including with respect to markets, products and transactions that are newly developing, or that are long established but which by their nature present limited opportunities to detect wrongdoing and thus to deter misconduct;

(2) involves particularly egregious or extensive misconduct;

(3) involves potentially widespread and extensive harm to investors;

(4) involves misconduct by persons occupying positions of substantial authority or responsibility, or who owe fiduciary or other enhanced duties and obligations to a broad group of investors or others;

[4] *See* http://www.sec.gov/divisions/enforce/enforcementmanual.pdf

(5) involves potential wrongdoing as prohibited under newly-enacted legislation or regulatory rules;

(6) involves potential misconduct that occurred in connection with products, markets, transactions or practices that pose particularly significant risks for investors or a systemically important sector of the market;

(7) involves a substantial number of potential victims and/or particularly vulnerable victims;

(8) involves products, markets, transactions or practices that the Enforcement Division has identified as priority areas (i.e. conduct relating to the financial crisis; fraud in connection with mortgage-related securities; financial fraud involving public companies whose stock is widely held; misconduct by investment advisers; and matters involving priorities established by particular regional offices or the specialized units); and

(9) provides an opportunity to pursue priority interests shared by other law enforcement agencies on a coordinated basis.

We further consider in our evaluations the difficulty, complexity and investigative challenges of the case, as well as the efficiency of the resources used, the swiftness of the action, and the success of the outcome.

In addition, the Division now generates a national priority case report that identifies and tracks cases deemed programmatically significant to ensure that appropriate resources are devoted to these cases. Finally, the SEC's Strategic Plan for Fiscal Years 2010-2015 identifies the performance standards that it will use to gauge the success of its enforcement program. Those performance measures are not exclusively focused on the number of cases filed per fiscal year, but rather include: (i) the percentage of enforcement cases successfully resolved; (ii) the percentage of enforcement cases filed within two years, and (iii) our success in collecting and returning money to investors in a timely fashion.

Third Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying procedures regarding the significance of the presence or absence of U.S. investors in determining whether to open an investigation or bring an enforcement action that otherwise meets jurisdictional requirements. As previously described, the Division's Enforcement Manual indentifies a number of factors that the staff should consider when deciding whether to open an investigation including, but not limited to, potential losses and harm to any investor, namely: (i) the egregiousness of the potential violation; (ii) the potential magnitude of the violation; (iii) whether the potentially harmed group is particularly vulnerable or at risk; (iv) whether the conduct is ongoing; (v) the size of the victim group; and (vi) the amount of potential or actual losses to investors. As demonstrated by these provisions, prior to the Stanford IG Report, the Division encouraged its staff to assess victim losses and victim impact when deciding to open an investigation. In response to the Stanford IG Report, the Division revised the Enforcement Manual to further clarify that the presence or absence of U.S. investors

itself should not in itself control the decision whether to open a MUI, to open an investigation, or to close an investigation.

In addition, the Division is evaluating the impact of a recent Supreme Court decision, Morrison v. National Australia Bank, that placed jurisdictional limitations on securities fraud claims involving conduct and activities outside the U.S. In connection with the Inspector General's recommendation, we are working with other SEC offices to determine whether additional formal guidance should be provided to Enforcement staff. Our Office of Chief Counsel regularly consults with investigative staff on these issues.

Fourth Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying procedures regarding coordination between Enforcement and OCIE on investigations, particularly those investigations initiated by a referral to Enforcement by OCIE. As a result of various Enforcement/OCIE initiatives, there now exists a significantly increased level of collaboration between Enforcement and OCIE staff. Enforcement and OCIE, together with the other divisions, hold regular monthly meetings to, among other things, discuss issues raised in ongoing examinations. In addition, the many risk-based investigative initiatives undertaken as part of the overall restructuring of the Enforcement Division require early and frequent contact between Enforcement and OCIE to: (i) identify entities with risk profiles indicative of the need for a risk-based examination; (ii) discuss the findings of ongoing examinations; (iii) discuss the scope and nature of referrals to Enforcement for investigation; and (iv) develop analytic tools as needed. As a result of this collaboration, the following inquiries, among others, have been launched:

- **Suspicious Performance**. This inquiry focuses on suspicious performance returns posted by both registered and unregistered hedge fund advisers. Analytics have been developed to review performance data of hedge fund advisers and identify candidates for examination or investigation.

- **Bond Funds**. This inquiry focuses on disclosure and valuation issues in mutual fund bond portfolios. Based on practices identified in an exam of a significant bond fund complex, risk analytics were created that identify possible subjects for investigation and/or examination.

- **Mutual Fund Fees**. This is a set of inquiries into potential excessive fee arrangements by mutual funds, their advisers, and boards of directors. This initiative has resulted in examinations and investigations of advisers, funds and their boards focused on possible violation of the Investment Advisers Act and Investment Company Act.

- **Problem Advisers**. This is a risk-based approach to detecting problem advisers by conducting due diligence checks on certain types of advisers. As part of an ongoing prophylactic program to identify potentially problematic advisers before they cause investor harm, Enforcement and OCIE are evaluating information about hundreds of investment advisers that are believed to be high-risk advisers.

- **Investment Adviser Compliance**. This is a coordinated effort to identify and bring cases against registered investment advisers who have lacked effective compliance programs and procedures, in violation of the Advisers Act. Effective compliance programs and personnel are instrumental to protecting the investing public from investment adviser fraud.

Lastly, as part of the Chairman's initiative to improve the handling of tips, complaints and referrals ("TCRs"), Enforcement has established the Office of Market Intelligence ("OMI") and staffed it with market surveillance specialists, accountants, attorneys and other support personnel, and additional hiring is expected. OMI's mission is to ensure that we collect all TCRs in one place, combine that data with other public and confidential information on the persons or entities identified in the TCRs, and then dedicate investigative resources to the TCRs presenting the greatest threat of investor harm. OCIE's referrals to Enforcement are tracked through this new TCR system to ensure proper Enforcement staff assignment. The new TCR system allows staff across the Commission to review, analyze, archive and route TCR information from a centralized database and processing platform. The system is designed to improve the Commission's ability to obtain relevant information from the public while providing the staff with workflow tools to better correlate, prioritize, assign and track the progress of TCRs from intake through resolution.

We currently are in the midst of a procurement to build an analytics component to the TCR system that will enable us to better link data among various Commission databases and to automate based on risk characteristics the initial review of TCRs to ensure timely prioritization. Finally, we continue to strengthen our policies and training to ensure that every member of the agency understands his/her role when receiving or handling TCRs.

Fifth Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying procedures regarding when to refer a matter to state securities regulators. Prior to the Stanford IG Report, the Enforcement Manual identified factors to guide referrals to federal or state criminal authorities, SROs, the Public Company Accounting Oversight Board, or state agencies, including: (i) the egregiousness, extent and location of the conduct; (ii) the involvement of recidivists in any suspected conduct; and (iii) the potential for additional meaningful protection to investors upon referral. In response to the Stanford IG Report, we now require mandatory Enforcement Manual training for all Enforcement staff.

In addition, as indicated, Enforcement has created the Office of Market Intelligence to oversee and coordinate Enforcement's collection, analysis and distribution of TCRs. OMI staff has been directed to provide relevant information and data obtained in its initial triage of TCRs to the appropriate state or federal agencies or other regulatory partners. Additionally, we are working with SROs to update the manner in which those organizations submit referrals to the Commission in an effort to achieve uniformity in our TCR intake system. Further, in connection with our work on the Financial Fraud Enforcement Task Force, we continue to work closely with our law enforcement and

regulatory partners, including state securities regulators. These strengthened relationships facilitate effective information-sharing and provide us with clear points of contact for referrals to state securities regulators.

Sixth Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying procedures regarding training of Enforcement staff to strengthen staff understanding of the laws governing broker-dealers and investment advisers. Newly-created specialized units in the Enforcement Division, including one dedicated to asset management issues (including investment advisers) have unveiled intensive training modules in their respective specialty areas, which have been made available to all staff throughout the Division. In addition, Enforcement has strengthened training both for new hires and for existing staff, including training specifically focused on the laws governing broker-dealers and investment advisers. Enforcement also has created a new formal training unit led by a senior Enforcement official. This training unit will coordinate further training for the staff and has created a training site on our intranet to allow staff to easily find training opportunities and materials from prior training events. These formal training initiatives are complemented by Enforcement staff's efforts to take advantage of substantive expertise within other Divisions and Offices. We believe, and the Inspector General has concurred, that these initiatives address the Inspector General's recommendations related to the staff's working knowledge of the laws governing broker-dealers and investment advisers.

Seventh Recommendation. The Inspector General recommended that we consider promulgating and/or clarifying procedures regarding coordination with the Office of International Affairs ("OIA") and RiskFin, as appropriate, at the early stages of investigations where relevant documents, individuals or entities are located abroad. As indicated above, the Division has adopted new guidance concerning written investigative plans that requires the staff to identify issues appropriate for coordination with other Divisions or Offices, such as OIA or RiskFin. In addition, Enforcement has established a formal quarterly case review process to assist the staff in identifying whether and when to consult with experts in OIA and RiskFin.

Also, both OIA and RiskFin have designated Enforcement liaisons to serve as a point of contact for staff with questions requiring investigative assistance. Enforcement staff regularly consults with and seeks assistance from OIA to obtain documents and information from foreign regulators, to locate and freeze assets abroad, and to assist with other international enforcement issues. Moreover, OIA and RiskFin provide training to Enforcement staff concerning their available resources.

Office of Compliance Inspections and Examinations

Stanford IG Report

While the Stanford IG Report did not include recommendations directed to OCIE, its findings show a clear need for improved coordination between Enforcement and OCIE on investigations of potential violations of the federal securities laws, particularly those investigations initiated by a referral from OCIE to the Enforcement Division. OCIE has undertaken specific policy changes in its National Examination Program and instituted procedures to improve coordination and communication between the Enforcement Division and OCIE.

Through a number of structural and process reforms, OCIE and the Enforcement Division are working to identify misconduct earlier and to move to shut it down more rapidly. OCIE and Enforcement staff and leadership have been directed to evaluate potential referrals from the OCIE Exam staff against Enforcement's criteria (referenced above) regularly and determine the disposition of referrals. If there is disagreement on a case at the regional level, Exam staff has been instructed to escalate the matter to the attention of senior leadership in Washington. These processes ensure that concerns can be escalated in a timely manner to senior leadership of both the Exam and Enforcement programs for appropriate review and resolution.

Exam and Enforcement coordination with respect to particular matters is also the subject of periodic reviews. OCIE policy now requires that OCIE Exam staff in each office hold quarterly Exam Reviews, in which the progress and status of every exam in the office is discussed and evaluated for several factors, including evaluating any significant issues with the firm that is the subject of the exam, determining whether more staff resources are needed on the exam and deciding if the exam is a potential referral to the Enforcement Division. These reviews are an opportunity to summarize and preview findings that appear likely to trigger possible Enforcement referrals, as well as to flag any potential differences in the assessment of urgency, potential harm to investors, or other issues that can then be raised at the joint regional meetings or to OCIE senior management.

Finally, OCIE Exam staff is working closely with Enforcement's specialized units to identify key risks presented by entities registered with the SEC and key risks to the markets. As previously described, this partnership with the specialized units has already resulted in new approaches to joint efforts to identify risky firms that may warrant examination or an Enforcement investigation. In addition, OCIE recently announced the creation of several Specialized Working Groups that will focus on areas where OCIE plans to increase its specialization and market knowledge.

Recent SEC Actions Demonstrate Enhanced Enforcement-OCIE Coordination

During fiscal years 2010 and 2011, nearly 200 Enforcement investigations have been opened as a result of OCIE examination referrals. Highlighted below are some of the more significant SEC cases brought during this period based on referrals to Enforcement

from the National Exam Program or involving substantial assistance from OCIE examiners. These cases involved allegations of a wide range of illegal activities ranging from Ponzi schemes, churning, and misappropriation of funds and involved, in total, hundreds of millions of dollars. The investors injured by these cases range from wealthy individuals to pension funds, from hospitals and school endowments to investors of modest means such as municipal bus drivers.

A few of these recent cases include:

SEC v. Mitchell, Porter & Williams, Inc.: SEC action based on work of OCIE's exam staff alleging a Ponzi scheme that raised nearly $15 million from 82 investors, many of whom were retired municipal bus operators.

SEC v. Marlon Quan, et al.: SEC action against Marlon M. Quan charging him with facilitating a Ponzi scheme and funneling several hundred million dollars of investor money into the scheme. The SEC alleges that Quan and his firms invested hedge fund assets in the scheme, run by Thomas Petters, while pocketing more than $90 million in fees. According to the SEC's complaint, Quan falsely assured investors that their money would be safeguarded by "lock box accounts" to protect them against defaults. When Petters was unable to make payments on investments held by the funds that Quan managed, Quan and his firms allegedly concealed Petters's defaults from investors by concocting sham round trip transactions with Petters. In addition, the SEC successfully obtained an emergency injunction halting an attempt by Quan to divert to himself and others settlement funds intended for U.S. victims of the scheme. OCIE's National Exam Program staff assisted Enforcement in the investigation leading to this action.

SEC v. Francisco Illarramendi et al.: SEC action charging Illarramendi with engaging in a multi-year Ponzi scheme involving hundreds of millions of dollars. According to the Commission's amended complaint, Illarramendi allegedly misappropriated assets and used two hedge funds for Ponzi-like activities in which they used new investor money to pay off earlier investors. The alleged fraud was first unveiled by Commission examiners during a risk-based exam of an SEC-registered adviser with which Illarramendi was affiliated. Despite efforts by Illarramendi to allegedly obstruct the examination and mislead the staff – conduct that led to a criminal charge of obstruction of justice by the United States Attorney for the District of Connecticut – OCIE staff and their colleagues in the Enforcement Division obtained evidence of the alleged fraud.

SEC v. AXA Rosenberg: SEC action charging three AXA Rosenberg entities ("AR") with securities fraud for concealing a significant error in the computer code of the quantitative investment model that they use to manage client assets. The error caused $217 million in investor losses. AR agreed to settle the SEC's charges by paying $217 million to harmed clients plus a $25 million penalty, and hiring an independent consultant with expertise in quantitative investment techniques who will review disclosures and enhance the role of compliance

personnel. AR disclosed the error to OCIE staff in late March 2010 after being informed of an impending SEC examination.

SEC v. Tamman: SEC action against a lawyer for allegedly altering documents provided to the Commission to conceal allegedly fraudulent conduct by his client, NewPoint Financial Services, Inc. Separately, the SEC brought an enforcement action against NewPoint for the allegedly fraudulent offer and sale of over $20 million of debentures to over 100 investors. The case arose from an unannounced OCIE cause exam of NewPoint.

SEC v. Warren Nadel: SEC action charging a money manager with a fraudulent investment program inducing clients to invest tens of millions of dollars in order to generate more than $8 million in illicit commissions and fees. This case arose out of OCIE's risk-based exam program focused on advisers with unusual returns.

OCIE-Enforcement Referral IG Audit Report

On March 30, 2011, the Inspector General issued *OCIE Regional Offices' Referrals to Enforcement,* Report No. 493 ("Referral IG Report"). This audit report suggests that our efforts at improved coordination are meeting with success. The report notes that a survey of all OCIE examiners throughout the SEC's regional offices concerning their view of Enforcement responses to examination-related referrals found that "when combining the responses for 'completely satisfied' and 'somewhat satisfied' for respondents, the majority of SEC regional offices had a combined level of satisfaction ranging from 70 to 87 per cent."[5] The Report further found that where there was dissatisfaction with the referral process, the level of concern dramatically dropped over time, particularly in fiscal year 2010, with some respondents identifying Enforcement's newly created Asset Management Unit as having significantly assisted with the acceptance rate of OCIE referrals.[6] The Report also found that the large majority of examiners "do not believe that Enforcement will only take referrals that involve high dollar value amounts and can easily be brought against the violator."[7] In addition, many of the survey participants who did believe that Enforcement was particularly concerned with dollar thresholds or "stats" noted that this approach was more evident in the past, "prior to Madoff."[8]

While identifying improvements, the OIG audit also noted certain aspects of the referral process that would benefit from improvement and made certain recommendations to improve those processes. Both OCIE and Enforcement concurred with all these recommendations, and will be working diligently to implement them in the coming months.

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[5] Referral IG Report at v.
[6] *See id.*
[7] *Id.*
[8] *Id.*

Additional Significant Enforcement and OCIE Reforms

In addition to the reforms prompted by the Stanford IG Report and the recent Referral IG Report, we are engaged in a number of significant initiatives designed to enhance our performance.

Division of Enforcement

The Division is embracing a range of initiatives designed to increase our ability to identify hidden or emerging threats to the markets and act quickly to halt misconduct and minimize investor harm. As described earlier, across the Division, including through the work of new national specialized units, we are launching risk-based investigative initiatives, tapping into the expertise of our colleagues in OCIE and other SEC offices and divisions, hiring talent with particularized market expertise, and reaching out to academia, law enforcement, and the regulated community to collect data on fraud hotspots.

In addition, the completion of other organizational reforms – such as streamlining our management structure and obtaining delegated authority from the Commission to allow us to swiftly obtain formal orders and related subpoena power – has enabled our staff of attorneys and accountants to focus on investigating and stopping securities fraud. Across all our offices, our staff has responded to challenging times by concentrating on making smart investigative decisions, obtaining key evidence, tracing investor funds and aggressively pursuing wrongdoers.

To support our staff's efforts, we continue to build on our already strong working relationships with our law enforcement partners, particularly the Department of Justice and the FBI, as well as the banking regulators, other federal and state agencies, and our other partners around the world. In particular, our work as co-chair of the Securities and Commodities Fraud Working Group of the Financial Fraud Enforcement Task Force facilitates effective communication with our law enforcement partners nationwide engaged in parallel investigations alongside of our own.

Office of Compliance Inspections and Examinations

In addition to specific Exam/Enforcement coordination reforms, OCIE has instituted several recent changes to its examination program and has plans for additional strategic initiatives, all to increase the effectiveness and efficiency of the National Exam Program.

In March 2010, OCIE launched an intensive nationwide self-assessment program. We reviewed the OCIE Examination Program by looking at the five components of Strategy, Structure, People, Process and Technology. Since then we have moved quickly to implement reforms from the self-assessment. For example, our project teams are well along in implementing reforms in the following areas:

- enhancing our ability to identify high-risk firms;

- improving means of collaboration both within the SEC and with other federal and state regulators;
- strengthening the quality of information filed by regulated entities;
- expanding risk-based scoping prior to commencing examinations;
- developing a complete inventory of third-party databases and methods for gathering intelligence on potential examination issues; and
- strengthening management training and tools.

OCIE has focused its strategy to identify the areas of highest risk and deploy our examiners against these risks in order to improve compliance, prevent fraud, monitor risk and inform policy-making. We have implemented a new central Risk Analysis and Surveillance Unit to enhance our ability to target those firms and practices that present the greatest risks to investors, markets and capital formation. Once we select firms for examination, OCIE Exam staff are more rigorously reviewing information about these individual firms before sending examiners out to the field, so that we can use our limited resources more effectively and target key risk areas at those firms. We have reinforced our strategy by developing a specific set of Key Performance Indicators which we have shared with Enforcement.

We have introduced new mechanisms to drive consistency and effectiveness across our National Exam Program. Examples include a National Exam Manual that sets forth updated policies and procedures governing examinations nationwide and a standardized National Exam Workbook to strengthen nationwide consistency in the exam process. We also have redesigned our exam team structure to redeploy the expertise and experience of managers from office administration to on-site exams in the field. These changes will help ensure that managers spend additional time and attention on supervision and oversight in the field.

OCIE also has implemented a new governance structure, which is transforming our lines of communication and accountability. As mentioned above, the OCIE National Leadership Team now includes Directors of the Regional Offices, who manage both the Enforcement and Examinations programs in each Regional Office. This strengthens the OCIE/Enforcement partnership and speeds alerts, information sharing, and transitions from OCIE Exam staff to the Enforcement Division when warranted. OCIE governance also forges interrelated bonds of policy making, information sharing, and communication among staff in our Washington Home Office and our mission-critical examination teams in the 11 Regional Offices.

In addition, OCIE has outlined a new "open architecture" structure for staffing exams that will enable management to reach across disciplines and specialties to better match the skills of examination teams to the business models and risk areas of registrants. The New York Regional Office, for example, has adopted a protocol that integrates examination teams to make sure people with the right skill sets are assigned to examinations. Under the protocol, a single team of examiners, drawn from the broker-dealer and investment management units, jointly examines selected dually-registered firms to ensure that the

examination team includes those personnel relevant to the subject of the exam. In addition, the examination program has expanded opportunities for examiners to cross-train and increase coordination between broker-dealer and investment management staff on their examination plans. Finally, the examination program has begun to include a broader range of experts from other SEC divisions and offices in exams to ensure we are leveraging SEC expertise and knowledge across the exam process. For instance, we recently involved RiskFin colleagues with algorithmic model experience in exams of high frequency trading firms.

Our self-assessment concluded that we needed not only to streamline our processes and policies, but also to create an environment for our staff of open, candid communication and personal accountability for quality, in order to build on OCIE's core strengths and eliminate systemic weaknesses that could contribute to situations like the Stanford case. Accordingly, OCIE has accelerated enrollment of OCIE managers in the SEC's Successful Leaders Program and volunteered as the pilot site for many of the SEC's Office of Human Resources' new initiatives on professional development.

OCIE is placing continuous, focused attention on technology, another area that our self-assessment identified as essential to a healthy examination program. We have developed a standardized examination tool across the national exam program and are working to move the tool to a web-based platform, with a phased rollout beginning in August 2011. We are also upgrading equipment and connectivity for examiners, important capabilities that have lagged behind examiners and auditors at other regulatory agencies and in the private sector.

We also have instituted measures to improve the ability of examiners to detect fraud involving theft of assets and other types of violations. OCIE Exam staff across the country now routinely reaches out to third parties such as custodians, counterparties and customers during examinations to verify the existence and integrity of all or part of the client assets managed by the firm. The measures also include expanded use of exams of an entire entity when firms have joint or dual registrants such as affiliated broker-dealers and investment advisers.

Finally, OCIE has begun to recruit experts to expand its knowledge base and improve its ability to assess risk, and to detect and investigate wrongdoing. We have hired new Senior Specialized Examiners – and plan to bring on board more – who have specialized experience in areas such as risk management, trading, operations, portfolio management, options, valuation, new instruments and forensic accounting. We have also launched new specialty groups that will bring deep technical experience to our exam program in areas such as derivatives and structured products, hedge funds, credit rating agencies, high frequency trading and risk management. These new skill sets will complement our existing talented and dedicated staff.

Conclusion

The scope and egregiousness of Stanford's conduct and the resulting injury to investors underscores that it is essential for us to push forward with our efforts to hold the wrongdoers accountable and to work with the Receiver so that the Receivership is able to recover, as much as possible, the money that investors lost in this egregious fraud. The Stanford IG Report identified numerous areas for reform, and we have moved aggressively to implement these reforms. More remains to be done, but as demonstrated by the largely positive results of the recent Referral IG Report, we have made great strides to put in place the people and structures to prevent another occurrence of Stanford-type problems.

Finally, we note that both the SEC and the Department of Justice continue to have open investigations and ongoing litigation regarding the Stanford matter. Our efforts to bring potential wrongdoers to justice in this case are still very much ongoing, and the defendants vigorously contest our allegations. In responding to your questions today, we will be as forthcoming and candid as possible, but will identify when we are concerned that disclosure of information through an answer could compromise the Commission's ability to bring the wrongdoers to justice or to recover investor funds.

We thank you for the opportunity to appear before you today.

"DEFRAUDED IN AMERICA"

Testimony of Stan Kauffman
Victim, Stanford Financial Group Ponzi Scheme

May 13, 2011

House Financial Services Subcommittee
on Oversight and Investigations Hearing:

The Stanford Ponzi Scheme:
Lessons for Protecting Investors from the Next Securities Fraud

Testimony of Stan Kauffman

House Financial Services Subcommittee on Oversight and Investigations Hearing

May 13, 2011

Good morning ladies and gentlemen. I would like to thank Chairman Neugebauer, Vice-Chairman Fitzpatrick, Ranking Member Capuano and the honorable members of the House Financial Services Subcommittee on Oversight and Investigations for holding this hearing today and for looking deeper at what is surely one of the most inconceivable acts of financial regulatory failure in our nation's history. I thank you also for allowing me the opportunity to tell my story.

My name is Stan Kauffman. I live in Blue Bell, Pennsylvania, a suburb of Philadelphia. I am 63 years old. In 2005, I retired from the Philadelphia public school system where I taught science for 31 years. I'm very proud of the work I did with disadvantaged children and would like to think I made a difference in their lives. I worked a second job all 31 years, and when I retired, I withdrew my retirement from the Pennsylvania Public School Employee's Retirement System and sought a safe, conservative investment to protect my savings.

My widowed mother-in-law introduced us to a Stanford Group Company broker dealer/financial advisor. He came highly recommended to her through a mutual friend, who had worked with him for 20 years before he joined the Stanford Group. She was very pleased with how effectively he managed her small retirement. My wife, Linda, and I looked into the Stanford Group and saw that it was an SEC-registered broker dealer and a member of FINRA and SIPC. We looked into his background and saw that he had worked for Prudential Securities, EF Hutton, Shearson Lehman Hutton, Smith Barney, Legg Mason and UBS Financial and had 30+ years of experience. Linda and I and were impressed with his knowledge of the financial markets and the various securities products available. We explained that we did not want to take big risks and wanted a safe place for

my teacher's retirement as well as our life savings. He told us about Stanford's signature product—a Certificate of Deposit at Stanford International Bank. He explained that Stanford International Bank was part of the Stanford Financial Group of Companies, which had offices throughout the world and in the U.S. He explained the bank was heavily regulated and that the deposits were insured by Lloyd's of London. Despite sensationalized reports of high rates of return, there were no double-digit interest rates on the CDs. The rate we were offered was 8%--a mere 2% higher than other banks at the time. He explained that Stanford was able to offer the higher return because the bank did not have the expense of a brick and mortar presence in the US. It was all very well presented in glossy marketing brochures, which we knew were approved by FINRA. He also explained the Stanford CDs were safer than other banks due to the conservative nature of the underlying investment portfolio and that the CDs were an all-around "safe" choice for us. Ultimately, we invested our savings of $500K in these safe CDs, including my teacher's retirement.

I am the first to admit that I do not claim to be a savvy investor and I absolutely relied on the professional expertise of a FINRA-licensed and SEC-registered representative, who according to U.S. securities laws had a fiduciary duty to recommend the most appropriate investment for my needs. When he explained Stanford International Bank was based in Antigua, I admit that I was a bit nervous. Then he explained to me that the Stanford Financial Group was based in Houston, Texas. Furthermore, I was told the bank's owner was a U.S. citizen, and that all of the company's operations were managed from the U.S. Any concern I had was reassured by the company's stellar reputation, his credibility and the documentation materials we were provided. I also thought a certificate of deposit was a very conservative approach to safeguarding our retirement funds. The fact Stanford's operations were managed in the U.S. and subject to U.S. laws made me comfortable with my decision. At the end of the day, I had to trust the professional. We live in a service-based society and when I have medical needs, I go to the Dr. When my car is broken, I go to the mechanic. When my plumbing is

broken, I call the plumber. So when it came to investing our savings, I went to an SEC and FINRA regulated broker.

That's how I ended up with Stanford Group Company and investing in bogus Certificates of Deposit in Stanford International Bank. From 2005-2009, my wife and I continued to invest with the Stanford Financial Group and watched as the company grew by leaps and bounds, opening a total of about 30 offices in the US. We saw Stanford International Bank grow by billions of dollars in deposits. We saw photos of our Senators and Congressmen with Allen Stanford and we saw the Stanford Financial Group draw unquestionably credible Advisory Board Members like former House Financial Services Committee Chairman Michael Oxley, the former President of Switzerland, and a former assistant Secretary of State and Ambassador to Ecuador just to name a few. I would like to mention one other source of reassurance we were given along the way. In February 2008, a copy of a card from President George W. Bush applauding the Stanford Financial Group accompanied the Stanford newsletter. We had ZERO reason to doubt the stability of any Stanford company. But we did not know what the Government regulators knew.

On February 17, 2009, our world was turned upside down when we learned that Allen Stanford and the Stanford Financial Group of Companies had been accused of "Massive, Ongoing Fraud." Massive ONGOING Fraud. We thought, "How could this be?" We watched the news coverage in shock and appall as we realized our government regulators failed us in an unprecedented manner and that our life savings were gone.

As media stories broke, we learned the SEC's knowledge of Stanford's wrongdoing went back many years. We learned about dozens of FINRA arbitration cases in which Stanford employees alleged fraudulent business practices, yet FINRA sided with Stanford in every single case. In April 2010, the SEC's Inspector General

reported the SEC had suspected Stanford was operating a Ponzi scheme for 12 years before they took any effort to protect investors. How is this possible our government regulators can do this and not only get away with it, but then the "fix" has been to give them more power, more money and more people? According to the Inspector General, the SEC's failure to stop Stanford had nothing to do with a lack of resources and everything to do with the SEC's culture.

I'd like to share with you what my wife and I have faced in the last 2 years. Very shortly before the SEC filed suit against Stanford, my wife lost the job she'd had for over 11 years when the company she worked for downsized as a result of the economic downturn. We were forced to put our house up for sale. I had to go back to work.

After losing our life savings, my wife losing her job, being forced out of retirement and back into the workforce, and having to put our home up for sale, then we got the bad news. In 2009, my wife and I were both diagnosed with cancer and had to undergo multiple surgeries. Fortunately, we're survivors, but the stress of Stanford has taken its toll. The devastating reality that our government regulators failed us and won't even "really" cooperate to fix it, has taken its toll.

Ladies and gentlemen I'm not here today to just tell you my story but I am also here to speak on behalf of the thousands of other Americans devastated by this horrendous Ponzi scheme. Victims like Lisa and Anthony Tehti of Florida. Anthony was a New York Police Department detective who risked his life to protect the citizens of New York. Anthony's mother Theresa, a widow in her 70's, also invested her life savings. There are others like Pat and Jerry Raeder from St. Louis, Missouri. Jerry served in the U.S. Air Force and is a proud veteran of the Vietnam War. He spent his professional career as an architect. Pat, a breast cancer survivor, was a dedicated special education teacher who was recognized as

a Teacher of the Year in St. Louis in 1998. Pat and Jerry have been forced to sell their home and at age 68, Jerry is back to working.

Then there are Richard and Donna Cochran from Baton Rouge, Louisiana. Colonel Cochran is a 78-year-old Korean War veteran who worked for almost 50 years in the construction business. He worked 12 + hour days and 80+ hour weeks. During his career he built schools, hospitals, office buildings and even worked on construction at Cape Canaveral. Along with working full time he pursued a college education in night school. Donna spent her nursing career in Louisiana hospitals.

The Stanford Ponzi scheme was pervasive and there are thousands of victims like myself and the others I've mentioned here. These are not wealthy people but were hardworking, honest, law abiding citizens. These are everyday, middle-class Americans who were preyed upon by a criminal enterprise with a sales force of 200 of the most qualified professionals in the industry. These are people who were looking for a place to protect their savings. These are the people who should have been protected by the SEC and FINRA. They should be enjoying their golden years instead of fighting the SEC and a Receiver they've put in place who has charged more in professional fees than he's collected for the victims.

The insult added to injury here is the reality we've been victimized a second time as the SEC has seemingly gone out of its way to not order the protection we feel we legally qualify for from the Securities Investor Protection Corporation (SIPC). Aside from being sold securities that never even existed, the Receiver's forensic accountant (chosen by the SEC) has testified in the District Court that our money did not even go to Stanford International Bank and that it certainly didn't go to purchase the CDs we were sold. Our money sat in US bank accounts regulated by the FDIC and then was used to pay previous investors and for bankrolling the Stanford Financial Group's expansion. SIPC is mandated to protect investors from a broker dealer stealing its customer's funds. The SEC has accused Stanford, et al, of stealing our funds in a "massive Ponzi scheme." When it comes to repairing the damage of the SEC's aborted attempts to protect us in the first place, we are being told our money was stolen the <u>wrong</u> way. How can SIPC and the SEC now

take the side of Allen Stanford by taking the position that we received a "legitimate expectation" from Stanford International Bank so SIPC's responsibility is absolved? There was nothing "legitimate" about Stanford International Bank and the SEC has alleged as much in their lawsuit against Stanford.

If Stanford Group Company customers do not have the right to make a claim with SIPC for their retirement savings that were stolen in a Ponzi scheme, then SIPC helped Stanford create a false sense of confidence that helped defraud citizens like me from across the country.

How can this all be fixed? Can it ever be turned around? I don't have the answers and hopefully we'll learn more today, but I do know we are not on the right track. What I've seen over the past 2 years is something Congress should be VERY concerned about, and the SEC and FINRA should be ashamed of. We've watched over the last 2 years as SEC and FINRA officials told Congress and the American people about a "reformed SEC" and a "tougher FINRA." This is nothing more than lip service.

In the aftermath of the collapse of Stanford, FINRA has chosen to protect its members by not pursuing numerous rule violations, but also not disclosing to the public their members' involvement in the Stanford Ponzi scheme. Additionally, the SEC has shown how little regard the agency has for those who've suffered from their years of failure. In more than 2 years, we've never had any formal communication from the SEC about what has happened in the Stanford case, what is going to happen, or even if anything is going to happen. The U.S. government regulators have abandoned thousands of America's seniors who have been struggling to get by as they wait month in and month out for the SEC to finally respond to an 18-month old request to initiate a SIPC liquidation of Stanford Group Company. In that time, more than 150 signatures from Members of Congress have appeared on letters urging the SEC to finally make a decision.

Chairman Schapiro has testified saying, "We're looking for every way possible" to provide SIPC compensation to Stanford Group Company customers. This simply isn't true and it appears the SEC is looking for every way out of ordering such coverage despite caselaw supporting such action. They've turned a very simple case for SIPC action and made it extremely complicated—and they've put the burden on the investors to produce documentation only the SEC has access to.

Chairman Neugebauer, Vice-Chairman Fitzpatrick, Ranking Member Capuano and honorable members of the subcommittee, please do not allow the SEC, FINRA and now SIPC to get away with what has transpired in this case. This is not the way American taxpayers should be treated. We need help, your help to get our lives back. Stanford stole our savings, but the SEC and FINRA held the door wide open. Please don't stand for that door to now be slammed shut in our faces.

Thank you for your time and your attention.

Testimony of

Richard G. Ketchum
Chairman and CEO
Financial Industry Regulatory Authority

Before the Subcommittee on Oversight and Investigations
Committee on Financial Services

U.S. House of Representatives

May 13, 2011

Chairman Neugebauer, Ranking Member Capuano and Members of the Subcommittee:

I am Richard Ketchum, Chairman and CEO of the Financial Industry Regulatory Authority, or FINRA. On behalf of FINRA, I would like to thank you for the opportunity to testify today.

Unfortunately, we are here today because of a massive fraud that has had tragic results for many investors. No regulator can feel good about its performance regarding Stanford. Notwithstanding the jurisdictional limits that confronted us, FINRA clearly could have done better and we deeply regret we did not. In the wake of Stanford, FINRA stepped back and took a hard look at our regulatory programs and approaches, and searched for ways to more effectively uncover misconduct, especially fraud, and enhance our programs to better protect investors.

In early 2009 the FINRA Board of Governors established a Special Review Committee to conduct a review of FINRA's examination program as it related to the detection of fraud and Ponzi schemes, including the one R. Allen Stanford is charged with perpetrating. The Special Review Committee, chaired by former U.S. Comptroller General Charles A. Bowsher, concluded its review in September 2009 and presented its full findings to Congress, the Securities and Exchange Commission (SEC) and the public. We are grateful to Chairman Bowsher and the other distinguished members of the Special Review Committee for the time and effort they dedicated to helping us identify areas where our regulatory programs could be enhanced.

The report made a number of important recommendations to FINRA staff focused on improving our regulatory procedures. First, the report identified a number of internal reforms designed to better safeguard investors and the broader financial system. Second, the report called attention to the many regulatory challenges related to jurisdictional issues and product definitions. Finally, the review pointed to the urgent need for reforms that ensure comprehensive oversight, reduce jurisdictional confusion, streamline enforcement and improve coordination and communication among all regulators.

FINRA staff moved swiftly to implement the recommendations in the report. FINRA has either fully implemented or is implementing all the recommendations that did not require action by the SEC or Congress.

First and foremost, we centralized fraud detection in a single unit, while focusing our examination program on finding fraud. FINRA created the Office of the Whistleblower in early 2009 and, later that year, built upon that model by establishing the Office of Fraud Detection and Market Intelligence (OFDMI). This office provides a heightened review of incoming allegations of serious frauds, functions as a centralized point of contact internally and externally on fraud issues and consolidates recognized expertise in expedited fraud detection and investigation. We have also enhanced our examination programs and procedures to improve our ability to identify conduct indicative of fraud and conducted training programs for examiners aimed at fraud detection. I will provide more detail on these efforts later in my testimony.

Each of the initiatives undertaken by FINRA contributes to our broader mission to protect investors by making sure the securities industry operates fairly and honestly, both in its dealings with individuals and through the operation of the systems and technologies that underpin today's markets.

FINRA

FINRA is the largest independent regulator for all securities firms doing business in the United States. FINRA provides the first line of oversight for broker-dealers, and, through its comprehensive regulatory oversight programs, regulates both the firms and professionals that sell securities in the United States and the U.S. securities markets. FINRA oversees approximately 4,600 brokerage firms, 163,000 branch offices and 631,000 registered securities representatives. FINRA touches virtually every aspect of the securities business—from registering and educating industry participants to examining securities firms; writing rules and enforcing those rules and the federal securities laws; informing and educating the investing public; providing trade reporting and other industry utilities and administering the largest dispute resolution forum for investors and registered firms.

In 2010, FINRA brought 1,310 disciplinary actions, levied fines totaling $41.1 million and ordered the payment of almost $8 million in restitution to harmed investors. FINRA expelled 14 firms from the securities industry, barred 288 individuals and suspended 428 from association with FINRA-regulated firms. Last year, FINRA conducted approximately 2,600 cycle examinations and 7,300 cause examinations.

FINRA's activities are overseen by the SEC, which approves all FINRA rules and has oversight authority over FINRA operations.

The Special Review Committee

On April 13, 2009, the Board of Governors of FINRA established a Special Review Committee to review FINRA's examination program, with particular emphasis on the examinations of FINRA member firms associated with R. Allen Stanford and Bernard L. Madoff. The Special Committee included: former U.S. Comptroller General Charles A. Bowsher, who chaired the Committee; former Maryland Securities Commissioner Ellyn L. Brown; former SEC

Commissioner Harvey J. Goldschmid; and, Joel Seligman, President of the University of Rochester.

The Board was particularly concerned with the significant harm to investors caused by Stanford and Madoff. Pursuant to a resolution approved by the Board, the Special Committee was asked to "recommend . . . changes in the examination program, where appropriate, to improve member oversight and FINRA's fraud detection capability," and to consider management's "monitoring [of] compliance with examination program policies." Today, per your request, I will focus on the Special Committee's findings relating to Stanford.

The Special Committee reviewed relevant examination files from 2003 to 2009 of the principal firms associated with Stanford. Interviews were conducted with the examiners, supervisors and managers still employed by FINRA who were involved in the examinations. Numerous headquarters staff and senior management were interviewed as well to enable the Special Committee to develop factual findings and recommendations. In total, 60 interviews of FINRA staff were conducted.

The Stanford Case

Between 2003 and 2005, the National Association of Securities Dealers—FINRA's predecessor entity—received information from at least five sources claiming that the Stanford CDs were a potential fraud. The most significant was a July 2005 five-page referral letter from the SEC's Fort Worth office that explained in detail why the purported investment strategy of the offshore bank could not have produced the consistently high returns being paid by the CDs. According to this letter, "as of October 2004, [the Stanford firm's] customers held approximately $1.5 billion of CDs." Despite the existence of this "red flag" and others described in the body of the Special Review Committee's report, FINRA did not launch an investigation of whether the Stanford CD program was a fraud until January 2008.

FINRA missed a number of opportunities to investigate the Stanford firm's role in the CD scheme. First, FINRA's Dallas office staff curtailed a 2005 investigation prompted by the SEC referral letter because of a concern that the offshore CDs were not "securities" regulated under federal securities laws. Facts surrounding the decision not to pursue the fraud investigation indicated that certain of FINRA's examination staff at the time were unsure of the full scope of the organization's investigative authority, were reluctant to pursue investigations where jurisdictional questions arose and were not adequately trained to identify alternate bases of jurisdiction.

Second, FINRA procedures at the time did not set forth criteria for escalation of a matter to senior management or the use of specially trained investigators based on the gravity and substance of the fraud allegations. Additionally, the Dallas staff did not provide the SEC referral letter to FINRA senior management in Washington, D.C., until December 2008. As I will highlight later in my testimony, FINRA has since implemented a comprehensive prioritization system that ensures such matters will be immediately brought to the attention of senior staff and investigators.

Third, FINRA's Dallas staff did not adequately document communications with the SEC, or discussions within FINRA itself, regarding the CD program.

Finally, during this period, FINRA did not have a centralized database that gave examiners direct, electronic access to all relevant complaints and referrals associated with a firm. As a result, no single FINRA staff member was ever aware of all of the "red flags" related to the Stanford firm that are discussed in the report.

Recommendations

Following its review, the Special Committee made a series of recommendations intended to enhance the effectiveness of FINRA's examination program by increasing its ability to detect fraud and improve its investor protection functions. The Special Committee's recommendations sought to achieve the following strategic objectives: (i) greater emphasis should be placed on the detection of fraud; (ii) potential fraud situations and other situations presenting serious potential risk to investors should be escalated promptly and properly; (iii) examination staff should be diligent in pursuing potentially serious issues, exercising an appropriate degree of skepticism; (iv) all FINRA operating units should closely coordinate and communicate in carrying out the examination program; and (v) FINRA should provide additional resources to strengthen its cause examination program.

The Special Committee recommended that FINRA's examination program be revamped to ensure that fraud detection and prevention are core elements. Allegations of the magnitude and gravity of those in the Stanford case should be given the highest priority, immediately escalated to FINRA senior management, and vigorously pursued by well-trained FINRA staff with all necessary investigative tools and techniques. In this connection, the Special Committee agreed with and supported the plan of FINRA senior management to create a dedicated fraud detection unit.

FINRA Response to the Recommendations of the Special Review Committee

FINRA management and staff approached the Special Committee's recommendations with the utmost seriousness and immediately instituted a plan to implement each of its recommendations. As previously stated, FINRA has either fully implemented or is in the process of implementing all the recommendations that did not require action by the SEC or Congress.

Office of Fraud Detection and Market Intelligence

As noted, one of the first initiatives FINRA undertook to implement the Special Committee's recommendations was the creation of the OFDMI in October 2009. This group houses the Central Review Group, Office of the Whistleblower and the Insider Trading and Fraud Surveillance teams, and is responsible for the centralized intake and triage of regulatory filings and investor complaints. This centralization enables an expedited regulatory response to high-level matters, including senior level review. OFDMI combines regulatory intelligence throughout

the organization and aggressively pursues matters as far as it is able and refers cases that fall outside of FINRA's scope to the appropriate authorities. In 2010, OFDMI referred more than 550 matters involving potential fraudulent or illegal conduct to the SEC or other federal law enforcement agencies for further investigation. These matters involved a wide range of issues, including insider trading, microcap fraud and Ponzi schemes.

One such case involved Joseph Mazella, the founder and President of the Great Atlantic Group, Inc., a Staten Island-based real estate and financial consulting company. Mr. Mazella was charged last month with securities fraud, wire fraud and money laundering arising out of his alleged operation of a $12 million Ponzi scheme from 2007 to 2010. This action was a result of a referral from FINRA's OFDMI to the Federal Bureau of Investigation.

Another case involved a former registered representative named Kenneth Wayne McLeod. McLeod, a dually registered investment adviser and registered representative, conducted a 20-year, multimillion dollar Ponzi scheme through his advisory business that victimized mostly federal law enforcement agents. During 2010 this matter was identified by an analyst in FINRA's OFDMI during a routine review of a regulatory filing. It was then escalated to senior management and, because the fraud occurred through the firm's advisory business, was ultimately referred to the SEC for investigation and prosecution within about 30 days of discovery.

Through the Central Review Group unit, we have centralized the receipt, analysis and distribution of tips, complaints and referrals from the public and other regulators, and are now better able to manage and track these matters. In tandem with this change, we have implemented a more comprehensive prioritization system that is used across all regulatory operations. This operational enhancement means that serious matters are escalated and investigated more quickly.

FINRA's Office of the Whistleblower, first established in March 2009, continues to receive and process, on an expedited basis, a significant amount of incoming information. In 2010, it received and triaged over 170 substantive calls to its hotline, and another 220 reviews were initiated from emails received via a dedicated email address. The office made 28 formal referrals and permanently barred three registered representatives, with one investigation taking only 28 days from the receipt of the tip to the imposition of the bar.

The Fraud Surveillance unit of OFDMI referred 266 matters to the SEC in 2010. The referrals include matters involving issuer fraud, pump-and-dump schemes, market manipulation and account intrusions. The Insider Trading Surveillance unit made 259 insider trading referrals to the SEC in 2010, the highest in FINRA's history. The referrals included suspicious trading ahead of material news announcement by hedge funds, institutional investors, private equity funds and retail investors.

Examination Program Enhancements

FINRA also enhanced its examination programs and procedures in a variety of ways intended to help us better detect conduct that could be indicative of fraud. It is our goal that exam teams focus most on those areas at firms that pose a real risk to investors. While not an exhaustive

list, I would like to highlight for you a number of the enhancements we have made to our examination program.

Focusing Resources on Highest-Priority Matters
An overarching theme of the Special Review Committee's report was the prioritization of regulatory resources. In response to those concerns, FINRA staff created an "Urgent" designation for those regulatory matters posing the greatest potential for substantial risk to the investing public. Urgent matters are expedited, and then reviewed to make certain that the right level of resources and expertise are assigned to them, as well as to ensure there is coordination and information sharing across departments at FINRA.

The Special Committee also identified that the lack of a formal mechanism for the escalation of policy issues created risk within the organization. FINRA issued a new policy designed to enhance the process for the escalation and documentation of complex legal and policy issues. This enhancement ensures that senior management is apprised of significant, complex and novel legal issues arising in the course of examinations and investigations; expediting the formulation of an organizational position on such issues; ensuring issues and decisions are appropriately documented by staff; and allowing regulatory staff access to these decisions through a company-wide, centralized searchable database.

Enhanced Expertise of Regulatory Staff
FINRA has increased the number of staff in its district offices who are tasked with in-depth and ongoing understanding of specific firms, including increased real-time monitoring of business and financial changes occurring at a firm. This expansion has enhanced our staff's ability to evaluate available regulatory information and to target examinations based on that information. We have added 35 new positions specifically dedicated to this surveillance function.

We have also redesigned an existing program to identify FINRA staff with expertise in specific subject matters who will lend their expertise to examinations, investigations and litigation, and assist with the training and development of staff. In addition, these individuals may be called upon to participate in the risk assessment process for individual firms with an active business in their area of expertise.

In addition, FINRA designed and conducted training for examination staff focused on fraud detection and established a framework for regulatory operations staff to complete continuing education instruction in selected topics. The continuing education requirement is part of the broader regulatory operations training program, and is intended to complement existing programs and serve as a mechanism by which we can ensure that staff is kept current on topics that are core to our regulatory programs and relevant in the current regulatory landscape.

Enhanced Use of Third-Party and Other Information
FINRA has enhanced its use of third-party and other external information to inform our regulatory programs. We have established procedures for third-party verification of firm-provided information, particularly as it relates to customer assets. FINRA passed a rule to ensure that it can independently verify assets maintained by a FINRA-regulated firm at a non-FINRA-regulated institution. The rule provides that a FINRA-regulated firm may not custody assets at a non-FINRA-regulated institution that fails promptly to provide FINRA with written

verification of assets. We are also working with third parties to test available data sources that may be incorporated into our programs.

FINRA also now requires high-risk firms to submit financial data on a more frequent basis. As part of our effort to obtain more timely regulatory information, FINRA now requires all firms assessed as high risk to submit financial data, including income statements, on a monthly, as opposed to a quarterly, basis.

In addition, in 2009, FINRA instituted a process to review all employer-employee related statements of claim filed with FINRA Dispute Resolution, in addition to customer-related statements of claim that FINRA had previously reviewed and continues to review. FINRA then expanded that process to include review of all amended claims and additional claims related to arbitration matters. These include counter claims, cross claims, answers to employer-employee related matters and third-party claims.

Multi-Year Technology Enhancement Plan

A number of the initiatives FINRA is undertaking to strengthen its programs and make them more investigative are technology-based. One of those initiatives was the development of an enterprise search tool, which allows FINRA staff to access internal regulatory intelligence by conducting searches for information and documents regarding firms, individuals, products or other significant regulatory topics from across FINRA's regulatory areas.

Longer term, we are in the midst of an initiative that will overhaul existing applications and tools used to conduct examinations and reviews by FINRA regulatory staff. The project will create a new integrated examination platform, and introduce new and expanded tools and services that will provide FINRA regulatory staff greater capability and flexibility to collect, access and share data, information and regulatory intelligence across the organization.

Coordination With the SEC

In addition to the initiatives listed above, FINRA has increased communication and coordination with the SEC relative to our respective programs. FINRA and SEC staffs meet routinely to share details about strategic design and tactical delivery of information to our respective regulatory programs. FINRA and the SEC also meet periodically to discuss risk assessment, including models to measure characteristics of risk of broker-dealers, branch offices and registered representatives.

Risk-Focused and Risk-Defined Exams

FINRA continues to reshape its exam program, and I would like to highlight a few of the ways we will be transforming our program in the months ahead. In late 2010 we created a new Office of Risk to begin the process of strengthening our ability to identify high-risk firms, branch offices, brokers, activities and products through broader data collection and more comprehensive analysis. FINRA will require more information to help us better understand firms' business models, including information about business activities, product mix and customer base. This information will be used to better understand the risks that exist for individual firms and to tailor regulatory responses to those risks.

Investor Education

FINRA believes that investor education is a critical component of investor protection and FINRA is uniquely positioned to provide valuable investor education primers and tools. FINRA sponsors numerous investor forums and outreach programs, and our website is a rich source of such material, including investor alerts, unbiased primers on investing and interactive financial planning tools. In addition to the investor education activities of FINRA itself, the FINRA Investor Education Foundation is the largest foundation in the United States dedicated to investor education.

Relative to the issues we are discussing today, FINRA has produced investor alerts and conducted seminars across the country that clearly explain the characteristics of the most commonly used securities frauds, including Ponzi and pyramid schemes, pump-and-dumps and offshore scams. Drawing on ground-breaking research supported by the FINRA Investor Education Foundation, the seminars expose the psychological persuasion tactics used by fraudsters to lure in their victims—tactics that are constant across a wide variety of frauds. The FINRA Foundation's award-winning documentary, *Trick$ of the Trade: Outsmarting Investment Fraud*, has aired on more than 95 public television stations in 24 states to date.

Conclusion

The Special Review Committee's report and recommendations provided an important roadmap for FINRA to become a more effective regulator, especially in terms of enhancing our ability to quickly identify and investigate conduct that could indicate fraud or other serious customer harm. In implementing the Special Committee's recommendations, FINRA has strengthened and increased the scope of its regulation, changing the way it deploys resources to monitor and examine securities firms.

I assure this Subcommittee that I am fully committed to continue making the necessary changes to strengthen our programs and raise the level of protection for all investors. We look forward to continuing to work closely with this Subcommittee and the SEC as we move forward with initiatives to make FINRA an even more effective regulator.

Again, I appreciate the opportunity to testify today. I would be happy to answer any questions you may have.

Written Testimony of H. David Kotz
Inspector General of the
Securities and Exchange Commission

Before the Oversight and Investigations Subcommittee of
the Committee on Financial Services,
U.S. House of Representatives

Friday May 13, 2011
10:00 a.m.

Introduction

Thank you for the opportunity to testify before this Committee on the subject of "The Stanford Ponzi Scheme: Lessons for Protecting Investors from the Next Securities Fraud." I appreciate the interest of the Chairman, the Ranking Member, and the other members of the Subcommittee, in the Securities and Exchange Commission (SEC or Commission) and the Office of Inspector General (OIG). In my testimony, I am representing the OIG, and the views that I express are those of my Office, and do not necessarily reflect the views of the Commission or any Commissioners.

I would like to begin my remarks by briefly discussing the role of my Office and the oversight efforts we have undertaken during the past few years. The mission of the OIG is to promote the integrity, efficiency and effectiveness of the critical programs and operations of the SEC. The SEC OIG includes the positions of the Inspector General, Deputy Inspector General, Counsel to the Inspector General, and has staff in two major areas: Audits and Investigations.

Our audit unit conducts, coordinates and supervises independent audits and evaluations related to the Commission's internal programs and operations. The primary purpose of conducting an audit is to review past events with a view toward ensuring compliance with applicable laws, rules, and regulations and improving future performance. Upon completion of an audit or evaluation, the OIG issues an independent report that identifies any deficiencies in Commission operations, programs, activities, or functions and makes recommendations for improvements in existing controls and procedures.

The Office's investigations unit responds to allegations of violations of statutes, rules, and regulations, and other misconduct by Commission staff and contractors. We carefully review and analyze the complaints we receive and, if warranted, conduct a preliminary inquiry or full investigation into a matter. The misconduct investigated ranges from fraud and other types of criminal conduct to violations of Commission rules and policies and the Government-wide conduct standards. The investigations unit conducts thorough and independent investigations in accordance with the applicable Quality Standards for Investigations. Where allegations of criminal conduct are involved, we notify and work with the Department of Justice and the Federal Bureau of Investigation as appropriate.

Audit Reports

Over the past three years since I became the Inspector General of the SEC, our audit unit has issued numerous reports involving matters critical to SEC programs and operations and the investing public. These reports have included an examination of the Commission's oversight of Bear Stearns and the factors that led to its collapse, an audit of the Division of Enforcement's (Enforcement) practices related to naked short selling complaints and referrals, a review of the SEC's bounty program for whistleblowers, an analysis of the SEC's oversight of credit rating agencies, and audits of the SEC's real property and leasing procurement process, compliance with Homeland Security Presidential Directive 12, and oversight of the Securities Investment Protection Corporation's activities. In addition, following the OIG's investigative report related to the Madoff Ponzi scheme described below, we performed three comprehensive reviews providing the SEC with 69 specific and concrete recommendations to improve the

operations of both Enforcement and the SEC's Office of Compliance Inspections and Examinations (OCIE).

Investigative Reports

The Office's investigations unit has also conducted numerous comprehensive investigations into significant failures by the SEC in accomplishing its regulatory mission, as well as investigations of allegations of violations of statutes, rules, and regulations, and other misconduct by Commission staff members and contractors. Several of these investigations involved senior-level Commission staff and represent matters of great concern to the Commission, Members of Congress, and the general public. Where appropriate, we have reported evidence of improper conduct and made recommendations for disciplinary actions, including removal of employees from the federal service, as well as recommendations for improvements in agency policies, procedures, and practices.

Specifically, we have issued investigative reports regarding a myriad of allegations, including claims of failures by Enforcement to pursue investigations vigorously or in a timely manner, improper securities trading by Commission employees, conflicts of interest by Commission staff members, post-employment violations, unauthorized disclosure of nonpublic information, procurement violations, preferential treatment given to prominent persons, retaliatory termination, perjury by supervisory Commission attorneys, failure of SEC attorneys to maintain active bar status, falsification of federal documents and compensatory time for travel, abusive conduct and the misuse of official position and government resources.

As noted above, in August 2009, we issued a 457-page report of investigation analyzing the reasons why the SEC failed to uncover Bernard Madoff's $50 billion Ponzi scheme. In March 2010, we issued a thorough and comprehensive report of investigation regarding the history of the SEC's examinations and investigations of Robert Allen Stanford's (Stanford) $8 billion alleged Ponzi scheme.

Commencement of the OIG's Stanford Investigation

On October 13, 2009, we opened an investigation into the handling of the SEC's investigation into Robert Allen Stanford and his various companies, including the history and conduct of all the SEC's investigations and examinations regarding Stanford. Between October 13, 2009 and February 16, 2010, our investigative team made numerous requests to the SEC's Office of Information Technology (OIT) for the e-mails of current and former SEC employees for various periods of time pertinent to the investigation. The e-mails were received, loaded onto computers with specialized search tools, and searched on a continuous basis throughout the course of our investigation.

In all, OIT provided e-mails for a total of 42 current and former SEC employees for various time periods pertinent to the investigation, ranging from 1997 to 2009. We estimate that we obtained and searched over 2.7 million e-mails during the course of the investigation.

On October 27, 2009, we sent comprehensive document requests to both Enforcement and OCIE specifying the documents and records we required to be produced for the investigation. We carefully reviewed and analyzed the information we received as a result of our document production requests. These documents included all records relating to the Fort Worth examinations in 1997 of Stanford Group Company's Broker-

Dealer, in 1998 of Stanford Group Company's Investment Advisor, in 2002 of Stanford Group Company's Investment Advisor, and in 2004 of Stanford Group Company's Broker-Dealer. These also included investigative records relating to the Fort Worth Office's 1998 inquiry regarding Stanford Group Company and its Enforcement investigation of Stanford Group Company, which was opened in 2006.

We also sought and reviewed documents from the Financial Industry Regulatory Authority (FINRA), including documents concerning communications between FINRA or its predecessor, the National Association of Securities Dealers (NASD), and the SEC concerning Stanford, and FINRA documents concerning the SEC's examinations and inquiries regarding Stanford.

Testimony and Interviews

The OIG conducted 51 testimonies and interviews of 48 individuals with knowledge of facts or circumstances surrounding the SEC's examinations and/or investigations of Stanford and his firms. I personally led the questioning in the testimony and interviews of all the witnesses in this investigation.

Specifically, we conducted on-the-record and under oath testimony of 28 individuals, including all the relevant examiners and investigators who worked on SEC matters relating to Stanford. We also conducted interviews of 20 other witnesses, including former SEC employees, whistleblowers, victims of the alleged Ponzi scheme, and officials from the Texas State Securities Board.

Issuance of Comprehensive Report of Investigation

On March 31, 2010, we issued to the Chairman of the SEC a comprehensive report of our investigation in the Stanford matter containing over 150 pages of analysis

and 200 exhibits. The report of investigation detailed all of the SEC's examinations and investigations of Stanford from 1997 through 2009 and the agency's response to all complaints it received regarding the activities of Stanford's companies, tracing the path of these complaints through the Commission from their inception and reviewing what, if any, investigative or examination work was conducted with respect to the allegations in the complaints.

Results of the OIG's Stanford Investigation

The OIG's investigation determined that the SEC's Fort Worth Office was aware since 1997 that Robert Allen Stanford was likely operating a Ponzi scheme, having come to that conclusion a mere two years after Stanford Group Company, Stanford's investment adviser, registered with the SEC in 1995. We found that over the next eight years, the SEC's Fort Worth Examination group conducted four examinations of Stanford's operations, finding in each examination that the certificates of deposit (CDs) Stanford was promoting could not have been "legitimate," and that it was "highly unlikely" that the returns Stanford claimed to generate could have been achieved with the purported conservative investment approach utilized. The SEC's Fort Worth examiners conducted examinations of Stanford in 1997, 1998, 2002, and 2004, concluding in each instance that Stanford's CDs were likely a Ponzi scheme or similar fraudulent scheme. The only significant difference in the examination group's findings over the years was that the potential fraud was growing exponentially, from $250 million to $1.5 billion.

The first SEC examination occurred in 1997, just two years after Stanford Group Company began operations. After reviewing Stanford Group Company's annual audited financial statements in 1997, SEC examiner Julie Preuitt, who is a witness in this hearing,

stated that, based simply on her review of the financial statements, she "became very concerned" about the "extraordinary revenue" from the CDs and immediately suspected the CD sales were fraudulent. In August 1997, after just six days of field work in an examination of Stanford, Ms. Preuitt and the examination team concluded that Stanford International Bank's statements promoting the CDs appeared to be misrepresentations. They noted that while the CD products were promoted as being safe and secure, with investments in "investment-grade bonds," the interest rate, combined with referral fees of between 11% and 13.75% annually, was simply too high to be achieved through the purported low-risk investments.

Ms. Preuitt concluded after the 1997 examination was finished that the CDs' declared above-market returns were "absolutely ludicrous," and that the high referral fees paid for selling the CDs indicated that they were not "legitimate CDs." The Assistant District Administrator for the Fort Worth Examination program concurred, noting that there were "red flags" about Stanford's operations that caused her to believe Stanford Group Company was operating a Ponzi scheme, specifically noting the fact that the interest being paid on these CDs "was significantly higher than what you could get on a CD in the United States." She further concluded that it was "highly unlikely" that the returns Stanford claimed to generate could be achieved with the conservative investment approach Stanford claimed to be using.

In the SEC's internal tracking database for examinations, the Fort Worth Broker-Dealer Examination group characterized its conclusion from the 1997 examination of Stanford Group Company as "Possible misrepresentations. Possible Ponzi scheme." We found in our investigation that the Examination staff determined in 1997, as a result of

their findings, that an investigation of Stanford by the Enforcement group was warranted, and referred a copy of their examination report to the Enforcement group for review and disposition. In fact, when the former Assistant District Administrator for the Fort Worth Examination program retired in 1997, her "parting words" to Ms. Preuitt were to "keep your eye on these people [referring to Stanford] because this looks like a Ponzi scheme to me and some day it's going to blow up."

We also found that in June 1998, the Investment Adviser Examination group in Fort Worth began another examination of Stanford Group Company. This investment adviser examination came to the same conclusions as the broker-dealer examination, finding very suspicious Stanford's "extremely high interest rates and extremely generous compensation" in the form of annual recurring referral fees, and the fact that Stanford Group Company was so "extremely dependent upon that compensation to conduct its day-to-day operations."

In November 2002, the Investment Adviser Examination group conducted yet another examination of Stanford Group Company. In this examination, the staff identified the same red flags that had been noted in the previous two examinations, including the fact that "the consistent, above-market reported returns" were "very unlikely" to be able to be achieved with Stanford's investments.

The investment adviser examiners also found that the list of investors provided by Stanford Group Company was inaccurate, as the list they received of the CD holders did not match up with the total CDs outstanding based upon referral fees. The examiners noted that although they did follow up with Stanford Group Company about this discrepancy, they never obtained "a satisfactory response, and a full list of investors."

After the examiners began this third examination of Stanford, the SEC received multiple complaints from outside entities reinforcing and bolstering the examiners' suspicions about Stanford's operations. However, the SEC failed to follow up on these complaints or take any action to investigate them. On December 5, 2002, the SEC received a complaint from a citizen of Mexico, who raised the same concerns the Examination staff had raised. While the examiners characterized the concerns expressed in this complaint as "legitimate," we found that the SEC did not respond to the complaint and did not take any action to investigate the claims in the complaint.

In 2003, the SEC Enforcement staff received two new complaints that Stanford was a Ponzi scheme, but we found that nothing was done to pursue either of them. On August 4, 2003, the SEC was forwarded a letter that discussed several similarities between a known Ponzi scheme and Stanford's operations. Then, on October 10, 2003, the NASD forwarded a letter dated September 1, 2003, from an anonymous Stanford insider to the SEC's Office of Investor Education and Assistance (OIEA), which stated, in pertinent part:

> STANFORD FINANCIAL IS THE SUBJECT OF A LINGERING CORPORATE FRAUD SCANDAL PERPETUATED AS A "MASSIVE PONZI SCHEME" THAT WILL DESTROY THE LIFE SAVINGS OF MANY; DAMAGE THE REPUTATION OF ALL ASSOCIATED PARTIES, RIDICULE SECURITIES AND BANKING AUTHORITIES, AND SHAME THE UNITED STATES OF AMERICA.

Our investigation found that while this letter was minimally reviewed by various Enforcement staff, the Enforcement group decided not to open an investigation or even an inquiry. The Enforcement branch chief responsible for the decision explained his rationale as follows:

> [R]ather than spend a lot of resources on something that could end up being something that we could not bring, the decision was made to – to not go forward at that time, or at least to – to not spend the significant resources and – and wait and see if something else would come up.

In October 2004, the Examination staff conducted its fourth examination of Stanford Group Company. The examiners once again analyzed the CD returns using data about the past performance of the equity markets and concluded that Stanford Group Company's sales of the CDs violated numerous federal securities laws.

While the Fort Worth Examination group, and particularly Ms. Preuitt, made multiple efforts after each examination to convince the Enforcement group to open and conduct an investigation of Stanford, we found that no meaningful effort was made by the Enforcement group to investigate the potential fraud until late 2005. In 1998, the Enforcement group opened a brief inquiry, but then closed it after only three months, when Stanford failed to produce documents evidencing fraud in response to a voluntary document request. In 2002, no investigation was opened even after the examiners specifically identified in an examination report multiple violations of securities laws by Stanford. In 2003, after receiving the three separate complaints about Stanford's operations, the Enforcement group decided not to open up an investigation or even an inquiry, and did not follow up to obtain more information about the complaints.

In late 2005, after a change in leadership in the Enforcement group and in response to the continuing pleas by Ms. Preuitt and the Fort Worth Examination group, who had been watching the potential fraud grow in examination after examination, the Enforcement group finally agreed to seek a formal order from the Commission to investigate Stanford. However, even at that time, the Enforcement group missed an

opportunity to bring an action against Stanford Group Company for its admitted failure to conduct any due diligence regarding Stanford's investment portfolio, which could have potentially completely stopped the sales of the Stanford International Bank CDs through the Stanford Group Company investment adviser, and would have provided investors and prospective investors with notice that the SEC considered Stanford Group Company's sales of the CDs to be fraudulent. We found that this particular action was not considered, partially because the new head of the Enforcement group in Fort Worth was not aware of the findings in the investment advisers' examinations in 1998 and 2002, or even that Stanford Group Company had registered as an investment adviser, a fact she learned for the first time in the course of our investigation in January 2010.

We did not find that the reluctance on the part of the SEC's Fort Worth Enforcement group to investigate Stanford was related to any improper professional, social, or financial relationship on the part of any current or former SEC employee. We found evidence, however, that SEC-wide institutional influence within the Enforcement group did factor into its repeated decisions not to undertake a full and thorough investigation of Stanford, notwithstanding staff awareness that the potential fraud was growing. We found that senior Fort Worth officials perceived that they were being judged on the numbers of cases they brought, so-called "stats," and communicated to the Enforcement staff that novel or complex cases were disfavored. Specific testimonial evidence obtained in our investigation showed that, as a result of this emphasis on "stats," cases that were not considered "quick-hit" or slam-dunk" cases were discouraged. The OIG investigation concluded that because Stanford "was not going to be a quick hit," it was not considered to be as high a priority as other, easier cases.

The OIG also found that the former head of Enforcement in Fort Worth who played a significant role in multiple decisions over the years to quash investigations of Stanford, sought to represent Stanford on three separate occasions after he left the Commission, and in fact, represented Stanford briefly in 2006 before he was informed by the SEC Ethics Office that it was improper for him to do so.

This individual while working at the SEC was responsible for decisions: (1) in 1998 to close an inquiry opened regarding Stanford after the 1997 examination; (2) in 2002, in lieu of responding to a complaint or investigating the issues it raised, to forward it to the Texas State Securities Board; (3) also in 2002, not to act on the Examination staff's referral of Stanford for investigation after its investment adviser examination; (4) in 2003, not to investigate Stanford after a complaint was received comparing Stanford's operations to a known fraud; (5) in 2003, not to investigate Stanford after receiving a complaint from an anonymous insider alleging that Stanford was engaged in a "massive Ponzi scheme;" and (6) in 2005, to bluntly inform senior Examination staff after a presentation was made on Stanford at a quarterly summit meeting that Stanford was not a matter the Enforcement group planned to investigate.

Yet, in June 2005, a mere two months after leaving the SEC, this former head of the Enforcement group in Fort Worth e-mailed the SEC Ethics Office that he had been "approached about representing [Stanford] . . . in connection with (what appears to be) a preliminary inquiry by the Fort Worth office." He further stated, "I am not aware of any conflicts and I do not remember any matters pending on Stanford while I was at the Commission."

After the SEC Ethics Office denied the former head of Enforcement in Fort Worth's June 2005 request, in September 2006, Stanford retained this individual to assist with inquiries Stanford was receiving from regulatory authorities, including the SEC. The former head of Enforcement in Fort Worth met with Stanford Financial Group's General Counsel in Stanford's Miami office and billed Stanford for his time on this representation. In late November 2006, he called his former subordinate, the Assistant Director working on the Stanford matter in Fort Worth, who asked him during the conversation, "[C]an you work on this?" and in fact told him, "I'm not sure you're able to work on this." After this call, the former head of Enforcement in Fort Worth belatedly sought permission from the SEC's Ethics Office to represent Stanford. The SEC Ethics Office replied that he could not represent Stanford for the same reasons given a year earlier, and he discontinued his representation.

In February 2009, immediately after the SEC sued Stanford, this same former head of Enforcement in Fort Worth contacted the SEC Ethics Office a third time about representing Stanford in connection with the SEC matter – this time to defend Stanford against the lawsuit filed by the SEC. An SEC Ethics official testified that he could not recall another occasion on which a former SEC employee contacted the Ethics Office on three separate occasions trying to represent a client in the same matter. After the SEC Ethics Office informed the former head of Enforcement in Fort Worth for a third time that he could not represent Stanford, he became upset with the decision, arguing that the matter pending in 2009 "was new and was different and unrelated to the matter that had occurred before he left." When asked during our investigation why he was so insistent on

representing Stanford, he replied, "Every lawyer in Texas and beyond is going to get rich over this case. Okay? And I hated being on the sidelines."

Thus, our investigation found that the former head of Enforcement in Fort Worth's representation of Stanford appeared to violate state bar rules that prohibit a former government employee from working on matters in which that individual participated as a government employee.

Recommendations of the OIG's Stanford Report of Investigation

We provided our Report of Investigation on Stanford to the Chairman of the SEC with the recommendation that the Chairman carefully review its findings and share with Enforcement management the portions of the report that related to the performance failures by those employees who still work at the SEC, so that appropriate action (which may include performance-based action, if applicable) would be taken, on an employee-by-employee basis, to ensure that future decisions about when to open an investigation and when to recommend that the Commission take action are made in a more appropriate and timely manner.

We also made numerous recommendations to improve the operations of several divisions and offices within the SEC. Specifically, we recommended that:

(1) Enforcement ensure that the potential harm to investors if no action is taken is considered as a factor when deciding whether to bring an Enforcement action, including consideration of whether this factor, in certain situations, outweighs other factors such as litigation risk;

(2) Enforcement emphasize the significance of bringing cases that are difficult, but important to the protection of investors, in evaluating the performance of an Enforcement staff member or a regional office;

(3) Enforcement consider the significance of the presence or absence of United States investors in determining whether to open an investigation or bring an enforcement action that otherwise meets jurisdictional requirements;

(4) there be improved coordination between the Enforcement and OCIE on investigations, particularly those investigations initiated by an OCIE referral to Enforcement;

(5) Enforcement re-evaluate the factors utilized to determine when referral of a matter to state securities regulators, in lieu of an SEC investigation, is appropriate;

(6) there be additional training of Enforcement staff to strengthen their understanding of the laws governing broker-dealers and investment advisers; and

(7) Enforcement emphasize the need to coordinate with the Office of International Affairs and the Division of Risk, Strategy, and Financial Innovation, as appropriate, early in the course of investigations.

We also referred our Report of Investigation to the Commission's Ethics Counsel for referral to the Bar Counsel offices in the two states in which the former head of Enforcement in Fort Worth was admitted to practice law.

OIG Follow-up Efforts and Subsequent Audit

We have followed up with Enforcement and OCIE regarding the recommendations to improve operations that we made in our Stanford report. All of these recommendations have been implemented and closed to our satisfaction.

In addition, in response to the request of former Chairman of the Senate Banking Committee, the Honorable Christopher Dodd (D - Connecticut), we recently completed an audit of the process by which OCIE refers examination results to Enforcement in all of the SEC's regional offices to determine if the concerns about the Fort Worth Regional Office found in the Stanford report also existed in other SEC regional offices.

Our audit found that examiners across the SEC regional offices are generally satisfied with their Enforcement attorney counterparts. For example, we found through a survey of all OCIE examiners throughout the SEC's regional offices that most survey respondents indicated that they are either "completely satisfied" or "somewhat satisfied" with actions taken by Enforcement in response to examination-related referrals. We further found that where there was dissatisfaction with the referral process, the level of concern dramatically dropped over time and particularly in fiscal year 2010, with some respondents identifying the newly-created Asset Management Unit in Enforcement as having significantly assisted with the acceptance rate of OCIE referrals. We also found that the large majority of examiners do not believe that Enforcement will only take referrals that involve high dollar value amounts and cases that can easily be brought against the violator. In addition, many of the survey participants who indicated that they did believe that Enforcement was particularly concerned with dollar thresholds or "stats" noted that this approach was more evident in the past, i.e., "prior to Madoff."

Our audit did find that certain aspects of the referral process that could be improved. We found that OCIE sometimes presented referrals informally to Enforcement prior to proceeding with the formal referral process. As a result, there was a concern that not all referral-worthy matters may be recorded and tracked. We also found that internal

concerns over incentives and metrics with regard to the percentage of OCIE referrals being accepted by Enforcement may have led OCIE senior officials to request that a particular referral not be recorded in the Tips, Complaints, and Referrals (TCR) system to avoid the risk of having large numbers of outstanding referrals. Additionally, we noted that the level of communication between OCIE and Enforcement after a referral is not always consistent in the regional offices. We made seven additional recommendations to address the areas of improvement identified and are currently following up to ensure that these recommendations are implemented.

Results of an Investigation of Retaliatory Personnel Actions

In September 2009, we completed another investigation involving the SEC's Fort Worth office and Ms. Preuitt. In this investigation, we found that Ms. Preuitt and a former colleague in the SEC's Fort Worth office voiced their differences about programmatic issues at a planning meeting concerning management's initiative to begin conducting a certain type of examination. Shortly thereafter, Ms. Preuitt's supervisor called her into several meetings and admonished Ms. Preuitt for her opposition to the office's examination initiative. A few months later, Ms. Preuitt's supervisor issued her a letter of reprimand for, among other things, her efforts to undermine management's authority and frustrate the implementation of the new examination initiative. Shortly thereafter, Ms. Preuitt was involuntarily transferred to non-supervisory duties.

Ms. Preuitt's former colleague, who also voiced opposition to the new examination initiative, complained to senior management at SEC headquarters about the new initiative and about the treatment of Ms. Preuitt. Shortly after he sent his complaint, he was issued a performance counseling memorandum for, among other things, being

openly adversarial toward key examination goals. Less than a month later, the colleague was issued a letter of reprimand, for, among other things, discussing purported "unfounded and inaccurate allegations" with SEC senior management.

Our investigation concluded that the complaints made both by Ms. Preuitt and her colleague improperly led to actions being taken against them. We found that it was improper for Fort Worth management to take action against employees for voicing opposition to a program initiative and for bringing complaints to senior SEC management. Based upon our investigative findings, we recommended the consideration of performance-based or disciplinary action against two Fort Worth senior management officials.

Conclusion

In conclusion, I appreciate the interest of the Chairman, the Ranking Member, and the Subcommittee in the SEC and my Office and, in particular, in the facts and circumstances pertinent to our Stanford report. I believe that the Subcommittee's and Congress's continued involvement with the SEC is helpful to strengthen the accountability and effectiveness of the Commission. Thank you.

Introduction

Thank you for the opportunity to testify before this subcommittee with respect to my work for the Securities & Exchange Commission (SEC or Commission) as it relates to R. Allen Stanford and his affiliated companies as well as my experience as a whistleblower within the Commission. Since 1992 I have been employed by the Commission in its Fort Worth office. In my testimony I am stating my personal views which do not necessarily reflect the views of Commission staff, the Commission, or its Commissioners.

My Role with the Commission

I would like to begin my testimony by explaining my role at the Commission. Starting as a staff accountant my duties were to conduct examinations of registered broker-dealers and transfer agents. The examinations were designed to determine the registrants' compliance with the Securities Act of 1933 and the Securities Exchange Act of 1934, with particular emphasis on the anti-fraud provisions. I became a first line supervisor (branch chief) in 1997, where I became deeply involved in making many of the decisions regarding the direction of the Fort Worth broker-dealer examination program. In 2003 I was promoted to an assistant director position where I became responsible for running the broker-dealer program. In that role two first line supervisors as well as nine examination staff and one support person reported to me.

The Stanford Examinations

First, I would like to note that I am just a representative of the many highly experienced and skilled examiners who have done their best to protect all investors including those defrauded by Stanford. I know this may not provide comfort and certainly doesn't lessen the Stanford victims' losses in any way, but I and the examination staff truly care about being an advocate for the investor. Behind the public, impersonal face of a large institution like the SEC are many individuals that truly mourn your loss.

The intertwining of my career with Stanford started simply enough. In August 1997, I had just been promoted to the position of first line supervisor. One of my responsibilities was to select broker-dealers in the Fort Worth Region for examination. In an effort to familiarize myself with the registrants and to target high risk firms for examination, I began by reviewing the annual filings required by all registered broker-dealers. Stanford's filings immediately stood out in the review process because the firm was generating millions of dollars in revenue although it had only been in existence for two years. Furthermore, the firm had generated all of the revenue by engaging in a business model which typically offered very little revenue – selling certificates of deposit (CDs). In a more typical situation at the time, a broker-dealer would receive perhaps $50 to $100 for the sale or referral of a CD.

In August 1997, I assigned an experienced and highly skilled examiner to go to Houston to analyze Stanford's revenue stream, its methods of product distribution, and its sales practices. In only a week the examiner was able to collect enough evidence to suggest that Stanford was engaged in a fraudulent scheme – most likely a Ponzi scheme. Our conclusion was based on a significant capital infusion of funds into the broker-dealer, the source of which appeared to be investor funds. We also noted apparent

misrepresentations regarding the safety and security of the investments. It was highly unlikely that the high returns being paid to investors from the CDs along with the high recurring referral fees being paid to Stanford's broker-dealer could be generated without engaging in significant risk.

Before the end of September 1997, we reported our findings to enforcement in the Fort Worth office. Although the examiner, the associate regional director and I were anxious to get enforcement to act on our concerns, we were met with little enthusiasm. By January of 1998, when the associate regional director retired, we had yet to persuade enforcement to open an investigation. However, before the associate regional director left the Commission, she repeatedly reiterated her concerns to both the examination and enforcement staff. She also encouraged me to keep fighting for the Stanford investors.

In May 1998, after receiving an inquiry from another agency regarding Stanford's activities, enforcement decided to open a preliminary investigation. Then, in June of that same year, Fort Worth's investment advisory examination group started an examination of Stanford to, in part, follow up on the broker-dealer examination findings. By the beginning of July the investment advisory group also had substantial concerns regarding Stanford's business model.

In July of 1998, I was summoned to the office of the associate director for enforcement for a meeting. I recall that he discussed some of the reasons why a decision had been made to close the investigation, but I don't recall what any of those reasons were. Unfortunately, my clearest memory of that meeting is leaving his office feeling absolutely heartsick.

In November of 2002, the investment advisory examination group again conducted an examination of Stanford. The group found significant problems at the firm including failing to meet its fiduciary duty to clients. As I had in 1998, I was involved in multiple discussions with the investment advisory lead examiner about how obvious the fraudulent scheme seemed to be, but how difficult it seemed to get action from enforcement regarding this particular set of circumstances. In fact, rather than opening an investigation, enforcement advised the investment advisory examination group that it would be referring their findings to the Texas State Securities Board. I was disappointed in enforcement's decision. It made no sense to me that enforcement would refer such a complicated scheme to an agency which had a far more limited jurisdictional reach.

In approximately September of 2004, the associate director for examinations asked me to make Stanford an examination priority. This was the same associate director for examinations who was in place at the time of the 2002 examination program and he was gravely concerned about Stanford's activities. I considered this assignment to be a tremendous challenge. I had no doubt that we would find numerous indicia of fraud, but I was extremely concerned about how I could convince the same associate director of enforcement, who had declined to investigate Stanford three times earlier, that there was any reason to pursue an investigation this time? However, we both concluded that my concerns were trivial compared to our mission to protect the investing public.

In October 2004, two examiners who I considered to be some of the best in the Commission went to Houston and began another examination. Meanwhile, an attorney advisor assigned to the examination staff and I began to develop alternate strategies to pursuing the investigation so that we could

overcome any previous objections raised by enforcement staff. Since we could not gain access to financial records held in a foreign country, we worked with examiners to develop objective analytical methods to demonstrate what we believed to be the impossibility of Stanford's purported returns.

In March of 2005, as we were nearing completion of the examination, a summary of our findings and conclusions were presented at a regional regulators' meeting. The immediate reaction from both the Fort Worth regional director and the associate director for enforcement was decidedly negative.

Around the time of this fourth unofficial declination to pursue an enforcement investigation, the associate director for enforcement announced his imminent departure from the Commission. I decided that the best course of action was to wait until he departed the Commission to officially refer our findings.

Opening the Stanford Investigation

Within two or three weeks of the just mentioned meeting, when the associate director for enforcement departed, I referred the examination to an assistant director in enforcement who I believed would be more likely to tackle an investigation into Stanford. The assistant director immediately responded to the referral; however, he too, was also soon departing the Commission so it was referred to another assistant director in enforcement. The new assistant director initially reacted with great enthusiasm and even considered filing an emergency court action which would halt the apparent fraud immediately. However, he soon took on a much more negative view of the facts and circumstances. Eventually, enforcement asked us to refer the case to the self-regulatory organization FINRA. Although we complied with the request, we remained undaunted in our determination to move Stanford forward into an SEC investigation. Just as in the case of the referral to the Texas State Securities Board, it seemed difficult to imagine that an agency with a smaller jurisdictional net could be as well-equipped as the SEC to tackle such a significant investigation. We continued to work on developing legal theories and case strategies. Despite our efforts, in approximately October of 2005, the assistant director announced his decision to close what had been up to now only an informal, or preliminary, investigation.

I did not accept his decision. I implored the new acting regional director of the Fort Worth office as well as the new head of enforcement to keep the investigation open and moving forward. It was agreed that I and the assistant director of enforcement would each prepare a memo explaining our opposing viewpoints and discuss them at a meeting. I'd like to believe that I wrote a very compelling memo and that is why it was ultimately decided to keep the case open, but the truth is that where there are that many indications of fraud, it is easy to be persuasive.

It should be noted that despite the decision to move forward with the investigation, it took another eleven months with little activity occurring on the investigation before a formal investigation was finally opened.

Institutional Influences Affecting the Stanford Investigation

Before I discuss my views on the causes for the long delay of the Stanford investigation I want to take a moment to express my personal admiration for the enforcement staff members who were able to overcome significant obstacles and obtain the critical evidence necessary to bring an action against R. Allen Stanford and his companies. Their hard work has continued in both the current litigation and in efforts to build cases against others involved in the Stanford fraud. It would be difficult to imagine a more talented or dedicated group of professionals. I believe that the public is well-served by having such individuals devote their life's work to investor protection.

Much has been made of the former SEC-wide institutional influence that created an institutional bias against matters that were resource intensive and whose outcome was less than certain. Stanford was such a matter. There is no question that during the early Stanford timeframe, the Fort Worth office's management firmly believed that the office's success was measured strictly by the number of cases filed each year. Additionally, In Fort Worth, "beating" other offices by filing a greater number of cases was the highest goal. That is not to say that the Fort Worth staff did not bring meaningful cases; they did, and they should be credited for doing so. A prime example is the office's 2002 case against a Houston energy company, Dynegy Inc., for accounting improprieties involving special-purpose entities and "round-trip" or "wash" trades. Another example is the office's 2004 enforcement action against foreign-based oil companies Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, p.l.c., in connection with their overstatement of 4.47 billion barrels of hydrocarbon reserves. The companies paid a $120 million penalty.

The good news is that things are changing. In that regard, I want to commend Mr. Khuzami's recognition that the evaluation of an office's performance should include factors such as the quality, difficulty and programmatic significance of cases; the consideration of "quantity" has been placed in proper perspective. This can only encourage management decisions to be aligned with the public good.

I also want to express my appreciation to Mr. Khuzami for publicly acknowledging that the Commission could have taken a more imaginative approach to investigating Stanford. I urge Mr. Khuzami to carry that sentiment forward in the Commission's approach to investigating other novel situations. A culture that has greater appreciation for thinking "outside the box" will well serve the interests of investors.

Raising Concerns about a "Quick-Hit" Mentality in Examinations

Unfortunately, the mentality that motivated managers in Fort Worth to sometimes ignore the best interests of the public in favor of a race for numbers has not been limited to the enforcement program.

In Mid-2006, after nearly nine years of on-again off-again battling with enforcement regarding Stanford, a new Associate Director for Examinations was hired. In short order it became clear that the new Associate Director wanted to create a culture within the examination program that mirrored enforcement's emphasis on generating numbers. I feared the consequences of shifting from focusing on high risk examinations such as Stanford, to competing with other regional offices for statistical superiority. I expressed my concerns regarding this new approach, but my concerns were dismissed.

In the fall of 2007, the associate director for examinations announced her plan to have us conduct a new type of broker-dealer examination which would consist of interviewing a few senior personnel at brokerage firms over the course of a half day while reviewing limited, if any documentation. I found that plan to be nothing short of a subversion of the core mission of the examination program.

I had always focused Fort Worth's regional broker-dealer examination program on the primary goal of protecting investors by rooting out fraud and other serious issues. This approach was based on the same tried and true core principles espoused by Director di Florio, recommended by the SEC's Inspector General in the wake of the Madoff Ponzi scheme, and exemplified by the Fort Worth examination program's work on Stanford. For example, during my tenure in management in Fort Worth: Examinations were selected based on high risk brokerage practices;

- Examinations were staffed by capable, well-qualified examiners;
- There was meaningful interaction and coordination with the investment advisory examination group;
- There was regular and consistent communication with enforcement staff;
- There was frequent coordination with other regulatory agencies; and
- Examinations were completed in a timely, efficient, and well-documented manner.

These practices quickly identified concerns about Stanford and they were key in developing other significant cases. For example, in 2006, the broker-dealer and investment advisory examination teams along with input from FINRA's enforcement division devoted significant resources to the review of the sales practices and the investment products being sold to military members. We were successful in helping to bring not only an enforcement action against one of the largest brokerage firms selling to military members, but also our findings were instrumental in Congress's 2006 decision to enact the Military Personnel Financial Services Protection Act which prohibited future sales of periodic payment plans.

I, and one of the first line supervisors who worked at my direction, Joel Sauer, explained why these mini-examinations would offer no discernable value to the broker-dealer program. We already had extensive information on each firm through past examinations, through quarterly filings, and through the information provided by FINRA which conducted routine examinations on a regular, frequent schedule. Furthermore, such examinations would be at the expense of meaningful program priorities. The Associate Director stated that she wanted a significant increase in numbers and this is how we would do it. The Regional Director concurred with the Associate Director.

Since local management refused to even discuss our concerns, I contacted headquarters, about the Associate Director's examination proposal. Despite protracted resistance from the Associate Director, OCIE ultimately quashed the mini broker-dealer examinations for some of the same reasons that Mr. Sauer and I had initially expressed.

I paid a heavy price for complaining. First I received a Letter of Reprimand for not being supportive of the Associate Director's "program initiatives" and for contacting OCIE regarding the Associate Director's failure to follow OCIE guidelines. Two months later, in June 2008, I was transferred to a new position.

Mr. Sauer complained to the then Chairman, Executive Director and the Director for OCIE for the mistreatment I received. In response he received a Letter of Counseling, daily monitoring, and a Letter of Reprimand for complaining about the Regional Director and the Associate Director. The associate director and regional director made the situation so antagonistic that Mr. Sauer was eventually left the Commission. Only the year before Mr. Sauer had received an award for examination excellence, submitted by these same individuals.

I believe my new position was truly an attempt to drive me out of the Commission. I was assigned to report to the Regional Director (who retired last month) who would at times go weeks or even months intentionally avoiding any contact with me. At times I was not only ignored, but was actively rebuffed in my attempts to perform at a fully functioning level. My responsibilities and duties have generally been undefined and those that have been assigned are generally not commensurate with my pay grade and salary. I have been excluded from training and participation in management meetings or decisions.

Despite these limitations, I have done my best to be productive and effective as well as taking every advantage to learn and grow. I have become more involved in the enforcement investigative process. I have developed relationships with the public affairs office and become more extensively involved in investor education. I have organized training sessions for local staff and other regulators in the region on oil and gas fraud. I took advantage of the opportunity to lead or be involved in four examinations, two of which were with examiners in other regional offices. I'm proud to say that all four resulted in enforcement referrals and the respondents are in the process of settling charges with the Commission or are being actively investigated. There is no doubt in my mind, though, that my situation has diminished my ability to serve the investing public.

The Inspector General released a report in September, 2009 which recommended potential discipline for the associate Director and the regional director (who has since retired), for retaliating against Mr. Sauer and myself. The Commission has failed to discipline any one, at least not visibly, nor has there been any effort made to restore me to a position with similar duties and responsibilities to the one held before.

My situation should not be viewed in isolation. It is part of a cultural problem which continues to impact the Commission's effectiveness. As Mr. di Florio pointed out in his testimony before the Senate's Committee on Banking, Housing and Urban Affairs in September of 2010, in a self-assessment of OCIE it was concluded there was a need to create an environment for the staff to have open, candid communication and personal accountability for quality. I urge you to seek the trust of the staff by acting on those situations, such as the one in Fort Worth, where management has not fostered the desired environment.

I believe I have been very successful in serving the investing public. I have spearheaded many examinations that resulted in significant findings of fraud and monies recovered for investors. The types of cases I've worked on have varied from misconduct on the part of municipal officials, market manipulation, late trading in mutual funds, churning variable annuities, theft, selling inappropriate mutual fund share classes, issuer fraud in private securities, Ponzi schemes and misrepresentations and

omissions in the sale of securities to name just a few. I'm proud to say that I have worked on cases where I helped stop fraud against the elderly, military members, municipalities and public institutions, affinity groups and hard-working blue-collar and professional individuals.

Many have asked me why I haven't left the Commission over the course of the last several years. My answer has always been the same. I believe passionately in the mission of the SEC. I am proud to have devoted most of my professional life to the service of the investing public. I have tried to serve with honor and integrity. I am grateful for the many strong relationships I have developed with managers and staff throughout the Commission, which have kept me going through this difficult period. I am proud of the many accomplishments of the examiners and managers with whom I have worked all of these years. I hope I am fortunate enough to spend the remaining part of my career in the service of the Commission.

Charles W. Rawl
Stanford Financial Group Whistleblower

Written Testimony
House Financial Services Subcommittee On Oversight & Investigations Hearing

"The Stanford Ponzi Scheme:
Lessons for Protecting Investors from the Next Securities Fraud"

May 13, 2011

Chairman Neugebauer, Vice Chairman Fitzpatrick, Ranking Member Capuano and members of the Subcommittee, it is an honor and a privilege to appear before you today to speak about my experience as a Stanford Financial Group advisor, and my experience with the SEC and FINRA as a "whistleblower." Thank you for inviting me to testify.

My name is Charlie Rawl and in December 2007, my business partner, Mark Tidwell, and I resigned from Stanford Financial Group (hereinafter referred to as "Stanford") because of the company's unethical and illegal business practices. We fought an incredibly difficult fifteen-month battle against Stanford and were labeled by Stanford as "disgruntled employees" as management attempted to discredit the very serious allegations we made when we left the firm and filed a lawsuit. Once the SEC filed its civil suit against Stanford alleging "massive, ongoing fraud," we became known as the "whistleblowers." Our testimony and evidence were used to support the SEC's civil lawsuit against Stanford to take a global network of companies into receivership on February 17, 2009. Mark and I believe that Stanford would still be operating today if we had not come forward to the SEC and FINRA.

I would not be here today if we had relied solely upon the present regulatory rules and procedures. I am in business today thanks to a strong business partner, Mark Tidwell, and an important third partner, my friend, client and our attorney, Mike O'Brien. It took the three of us to survive the past few years.

Shortly after we resigned from Stanford in mid-December 2007, Stanford sued Mark and me in FINRA arbitration. Our worst fears became reality as we quickly learned the FINRA arbitration process was in Stanford's favor. We later learned that almost 30 other FINRA arbitrations had taken place with other former Stanford employees—all alleging fraudulent business practices. FINRA had sided with Stanford in every single one of those cases, including at least one case in which a former employee alleged Stanford International Bank was a Ponzi scheme. It is an understatement to say the regulatory process failed us.

After realizing we would likely be crushed by Stanford in arbitration, we accelerated our efforts to ask other regulators and law enforcement for help. We came to the SEC first. The allegations we brought to the SEC's attention did not appear to be a high priority and nothing really happened until after Madoff confessed in December 2008. Then the SEC had a sudden sense of urgency for taking action against Stanford. We proceeded to work closely with the SEC, providing testimony and evidence that was crucial to the SEC's suit against Stanford. We helped the SEC craft its legal tactic to implicate the U.S. Broker-Dealer, Stanford Group Company, in the Stanford International Bank fraud. Despite the significant contributions we made to the SEC's fight against Stanford, the SEC failed to deliver on its many promises to protect us as we were ultimately sued by the receiver the SEC put in place to administer the Stanford estate. The regulatory process failed us a second time.

It is very important to note that while we learned of many "red flags" and collected evidence of unethical and illegal business practices while working at Stanford Group, we did not know that Stanford was a "Ponzi scheme" when we resigned. It was only after an FBI agent told me he thought Stanford was a Ponzi scheme in August 2008 that I considered that that might be true. We just knew there was fraud and that investors were not being protected. We never imagined the magnitude of the fraud, or the level of devastation that resulted—that could have been prevented.

Background: Discovering Fraudulent Business Practices at Stanford

My business partner and fellow "whistleblower," Mark Tidwell, joined Stanford Group Company (SGC) in 2004 upon leaving Merrill Lynch. I moved my practice to Stanford from UBS in 2005. We were both well-established financial advisors and planners with many years of experience in the industry. We both had prior experience in banking and degrees in Finance.

During the course of our employment at Stanford, we began to uncover various "red flags" and symptoms of serious problems at the firm. When we uncovered problems, we brought them to the attention of management. Management dismissed, denied and/or covered up the issues. Once we began to realize the extent of corruption within the firm and the quantity and magnitude of the unethical and likely illegal business practices, we decided we had to leave to protect our clients. Mark and I both resigned in December 2007. At the request of my manager, I detailed the reasons for my resignation in writing. Once this letter was in Stanford Group's hands, the battle of our lifetimes began.

All we wanted to do was leave quietly so that we could protect our clients. Unfortunately, Stanford chose to make an example of us to show the rapidly growing Stanford Group sales force it would be extremely difficult to leave the firm. We have been told that Stanford spent over $1 million in legal fees in 2008 in their efforts to discredit us.

Fighting Back Against Stanford and Becoming Whistleblowers

In early 2008, Stanford filed for a FINRA arbitration proceeding against us. Our FINRA arbitration attorney assured us that our very serious allegations against Stanford would be taken seriously by FINRA and the arbitration panel.[1] This did not happen and it became very clear the FINRA arbitration process would favor Stanford, as it had always protected the firm in the past.[2]

We decided to file a lawsuit against Stanford in Texas State Court in late January 2008. Unfortunately—for us and the defrauded Stanford investors—our lawsuit did not proceed in court and was instead sent back to the FINRA arbitration Stanford initiated. Today, our suit has been put on hold by the Stanford receiver and has yet to be heard.

We contacted the SEC in early January 2008 to determine if the SEC was investigating Stanford. Contrary to the company line at Stanford, an SEC investigation initiated in 2005 was continuing. We informed the SEC we had resigned and had valuable information. We contacted the SEC again in April and May 2008. We also contacted the Texas State Securities Board and the Louisiana Attorney General's office as well. I personally met with the Attorney General of Louisiana on May 14, 2008. It is important to note that while the State of Louisiana may have been lax with the regulation of the sole state-chartered trust company in Louisiana, Stanford Trust Company (STC) in Baton Rouge, it immediately began investigating STC after my visit. In late summer 2008, the Louisiana Office of Financial Institutions took action against STC by stopping the sale of Stanford International Bank (SIB) CDs in Individual Retirement Accounts (IRAs). Importantly, the state ordered STC to remove the CDs from IRAs.

The primary function of the STC was to act as custodian for the SIB CDs in IRAs. Most custodians would not have allowed such investments in IRAs. We have spoken to IRA holders who attempted to place more money in the CDs in the latter half of 2008, but could not because the Louisiana OFI would not allow it because of the allegations we brought to their attention.

In June 2008, we learned that Louisiana Attorney General Investigators had met with the SEC, the FBI and the DOJ. Also at that time, we asked the SEC to

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[1] At an August 2009 Senate Banking Committee Field Hearing in Baton Rouge, La., a FINRA spokesperson testified that the whistleblower complaints were not pursued because there was no policy or procedure to handle complaints from registered representatives. Subsequently, an "Office of the Whistleblower" was established at FINRA.

[2] Stanford had a regular practice of hiring former regulatory and law enforcement employees, including former FINRA Regional Director Bernerd Young who was Stanford Group Company's Chief Compliance Officer at this time. Stanford also hired the former head of the Texas State Securities Board, the head of the Miami DEA office and many other former government employees. Stanford's long-time counsel representing the broker dealer in its response to the SEC's inquiries was Wayne Secore, the former Director of the SEC's Fort Worth office.

subpoena us so that we could properly provide the documents in our possession. Mark and I personally delivered our subpoenaed documents to the Fort Worth SEC office on July 11, 2008. We were mortified when the SEC told us there were delays in their investigation of Stanford because the firm was "non-cooperative with the SEC." We were told that other Federal authorities would contact us, as the SEC had asked for assistance because of Stanford's "non-cooperation."

On August 6, 2008, I was interviewed by the SEC, the DOJ, the Postmaster Inspector General's office and the FBI for approximately seven hours. A few days later, my attorney was contacted and told that I was the SEC's man and would make an excellent witness. They "would be in touch soon." "Soon" felt like an eternity. The SEC Inspector General later confirmed this was about the time that the DOJ asked the SEC to "stand down" in its investigation of Stanford.

The SEC was awakened when news of the Madoff Ponzi scheme broke in December 2008. Within days of Madoff's arrest, the SEC contacted us in a panic, wanting to meet immediately after many months of silence. The SEC was so anxious at this point, they asked to meet over the Christmas weekend. We met with the SEC the first week of January 2009. At this point, the SEC expressed its concerns about lacking jurisdiction over the Antigua-based bank. We helped the SEC design the legal strategy to implicate the domestic U.S. broker-dealer in the offshore bank fraud. Again, we turned over documents and our work-product developed in our own legal battle against Stanford. I had developed a list of 42 Stanford employees whose depositions would be critical evidence in our suit. It included names and the subject matter for questioning. I provided this list to the SEC, which they named "Rawl's Famous 42."

In mid-January 2009, FINRA and the SEC quietly "raided" seven Stanford offices simultaneously. They confiscated many of the computers on the "Famous 42" list, as well as about 20 others. They interviewed most of the 42 and many others. We met with the SEC in a hotel room as they gathered "intel" from the investigators camped out in the Stanford offices. Stanford management continued its habitual lies and deceit and we worked closely with the SEC attorneys to discredit the answers being given by Stanford management and other employees. By February 2009, the SEC told us that Stanford was far worse than we all imagined and things went very quiet. We knew that an SEC action against Stanford was imminent, but never dreamed the entire global Stanford empire would be shut down on one day—February 17, 2009.

Rawl and Tidwell to be protected by the SEC

Beginning with our earliest meetings with the SEC, we expressed our concern about Stanford's malicious attacks against us. At every meeting, we were assured by the SEC that it would do everything within its power to protect us as we were important witnesses who were instrumental in developing their case against Stanford. We were told that we would be protected by our whistleblower status. Regretfully, we never asked for these guarantees in writing.

From the time we left Stanford in December 2007 until the SEC filed its suit against Stanford in February 2009, Mark and I feared for our lives and spent our life's savings fighting Stanford—all while working countless hours handing the SEC part of its case on a silver platter. While we did not know the full extent of the fraud and did not know that Stanford was a massive Ponzi scheme, we gave the SEC extensive details and evidence of multiple frauds and wrongdoing. We were instrumental in designing the SEC's case against Stanford. In essence, we gave the SEC the keys to open SGC's and SIB's doors along with a roadmap of what computers to seize, who to interrogate, and what questions to ask. Throughout all of this, we were promised protection. We were told we would be protected as whistleblowers.

Discovering We Are Not Protected by the SEC after All

Throughout 2009 and into 2010, we continued to assist the SEC. We continued to work with the Louisiana Attorney General's investigators. While doing so, and obviously much to our dismay, in March 2010, Mark and I were sued by the Stanford receiver—sued by the receiver the SEC put in place!

The lawsuit, which seeks the return of compensation received while working at Stanford, unfairly lumped us in with 330+ former Stanford employees, many of whom were aware of—and even complicit in—the fraud and went down with the ship. Together we are being sued for over $1.75 million—money we earned years ago (and I didn't receive any material compensation from selling the SIB CDs as I sold few of them.)

In mid-March 2010, we called the SEC and explained our predicament. The SEC attorneys said they would immediately contact the receiver and ask for our removal from the lawsuit. We did not hear back from the SEC until a few weeks later when we were told the SEC could not help us because "the SEC does not control the receiver." This excuse was about as shocking as being sued in the first place. Nine months later, we are still seeking the SEC's promised protection.

Observations about the status of the investigations into Stanford

- I was told by both the SEC and the DOJ over 1 ½ years ago that charges were soon to come against others in Stanford management. It took many people to perpetrate the multiple frauds at Stanford, and no action has been taken against most these people. Many of these people continue to work in our industry and Rawl's "Famous 42" have not been accused of any wrongdoing.

- In extreme cases like Stanford, I believe that investors and financial advisors should be able to learn if a broker-dealer or investment management firm is the subject of prolonged and repeated investigations

by regulatory authorities and/or law enforcement. The Stanford scandal would not have caused such devastating losses if prospective advisors and investors were made aware that the SEC was investigating Stanford for so many years.

- FINRA's arbitration process should be thoroughly re-evaluated. I believe that all arbitrations should be public. At a bare minimum, arbitrations between broker-dealers and registered representatives should be made public. Stanford was an expert in using the system to quash all complaints from former employees.

- The industry should ban the use of long-term employment contracts, and particularly the common practice of extending "Employee Forgivable Loans" or "EFLs," to lock financial advisors down. These "deals" which are commonly used when advisors are recruited from firm to firm create a significant conflict of interest for the advisor. We knew we would have a difficult fight over our employment agreements, but we chose to take on this fight to protect our clients and do the right thing. Most of the advisors at Stanford Group Company were not willing to take on this fight.

Conclusion

The Stanford Financial Group scandal has left an enormous footprint in this country. The devastation it has caused has ruined lives. I've met victims who are literally on their death beds, who've lost their homes, and who can't afford their medical care. By and large, these are middle-class people who needed the protection of this country's regulators. The SEC and FINRA have failed them and they continue to fail them.

Chairman Neugebauer and Members of the Subcommittee, I thank you for the attention you're giving the very serious regulatory issues that have come to light in the Stanford Financial Group fraud and I urge you to continue digging in. "Massive, ongoing fraud" deserves "massive, ongoing investigation."

From: David Smith <723sphc@att.net>
Subject: Stanford fraud's effect on my family

My name is David Smith and I live with my wife of 48 years (soon to be 49), Joanne, in a retirement community in Pearland, Texas, in Representative Olson's District. I am 74 years old and Joanne is 70.

We have lived in Texas for 37 years. Both our parents emmigrated from Eastern Europe during the Great Depression and knew the value of saving for the future, a lesson we learned well. We raised 3 children, never purchased what we could not afford, and always saved for our retirement by investing part of my paycheck for the future. Over time, we amassed enough money to feel secure and be generous to our children, one of which has a bi-polar disorder and is in need of continuous financial support.

In late 2001, after the 9/11 tragedy, financial advisers from the Stanford Group visited us and many of my fellow retirees to sell their services. Their main financial vehicles were Variable Annuities with major insurance companies, like Met Life and ING, which promised higher returns than bank CDs with little or no risk. Many of us bought in, and were successful in meeting goals. In 2005, however, our SGC advisers shifted their recommendations to the Stanford International Bank (SIB) CDs in Antigua Bank with the promise of insured, safe investments; their effort intensified in 2007 as we were advised to sell our annuities and invest the proceeds completely in the Antigua Bank, even paying a substantial penalty for early maturity of the annuities. The arrangement, we thought, worked well (on paper) until February 2009, when the SEC shut SGC down for fraud in running a Ponzi scheme. Our investment at that time with SGC was about $500,000, and we were destroyed; our retirement nest-egg was gone.

Our first reaction was disbelief, then despair; we could not eat or sleep. We canceled vacations, ceased all donations (our list to schools, charities, hospitals, religious groups,

etc. numbered close to 20) and cut support to our afflicted daughter (she went on Disability). As time passed, and we learned that our advisers were paid substantial bonuses for selling "insured" SIB securities, that the SEC was forewarned by whistle-blowers of the fraud but that the SEC ignored the warnings, that Stanford had been fined by the SEC earlier but none of the clients or general public had been notified, our anger at the SEC and SIPC grew. We attended a town hall meeting about the Stanford fraud, conducted by Senator David Vitter in Baton Rouge and heard weak excuses from the SEC and SPIC as to why their oversight failed despite the warnings, and that the Maddof scandal had drained their coffers.

Our standard of living has sharply declined; we now cut coupons, purchase only sale items and buy dented cans to stretch our SS payments. Some of our neighbors, in their 70's and 80's, have been forced to find employment as greeters and clerks; one couple we know have taken a janitorial job in a trailer complex, and sadly, several have passed away

We request that the Congress support the efforts of the Stanford Victims Coalition (SVC) to make good our financial losses sustained by the inaction of the SEC to shut down the Stanford Ponzi scheme, despite repeated reporting of the Ponzi scheme to the SEC dating back to 1995. A detailed description of the SEC's dereliction of duty is contained in the report from the Inspector General that was issued several months ago, which chronicles the SEC's inaction in stopping the Stanford fraud for the many years they were notified of it occurring.

The anguish experienced by us and many others could have and should have been avoided.

Cordially,

David & Joanne Smith

723 W. Peach Hollow Cir.

Pearland, TX 77584

713/436-9892

Dear Congressmen Cassidy and Harper,

My name is Anne Mayall and I am 89 years old. I have survived a lot in my lifetime – the Great Depression, World War II, and the Cold War. Nothing really prepared me for the shock to learn that ALL my hard-earned savings had been stolen in the Stanford Ponzi scheme.

My late husband and I saved and saved so as not to become a burden to our only child when we retired. We were looking forward to a stressless retirement, free of financial worry. Now, I am sad to say, I am a burden to my child. Because all my money was stolen by Stanford I now find that I must rely on my daughter for everything.

This was not supposed to happen. I bought the CDs from a licensed US broker who was a member of all the proper regulatory agencies. I felt secure making this investment. I worked out my financial future and was pleased to find out that I would not need any support from my daughter to live in a retirement community with my WW II Veteran husband. Now, everything we worked our lifetime for is gone. All the scrimping and saving for years and years was all for naught and gone in an instant.

Now I even see that my government knew about this scheme years and years ago and did nothing to prevent people from investing with Stanford. Shame on them. I am really disappointed that the taxes I paid all these years supported such incompetence.

My only hope now is that my government will help me as they have helped the Madoff investors (and the rest of the world). With Stanford being a member of all the proper

regulatory agencies that were to remedy malfeasance by the financial firm, they should stand and deliver. Why do these agencies exist if not to help specifically in this situation?

Sincerely

Anne M. Mayall
5600 Cypresswood Blvd.
Apartment 232
Spring, TX 77379
Congressman: Michael McCaul
Texas Congressional District 10

May 10, 2011

Dear Congressmen Cassidy and Harper,

Thank you very much for your interest in the plight of the Stanford victims.

I am a 63 year old retired insurance agent in Little Rock, AR. Not being a sophisticated investor, I relied on my broker at Stanford Group Company to direct my investments. In 2008, I inherited some money from my deceased Mother that I wanted to invest very conservatively and he advised buying CDs from SIB. I was told it was a multi-billion dollar bank with no questionable mortgage loans and very sound financially. The matter of whether the CDs were insured did not come up. The rates of return were higher than I could get from my regular bank but not so high that they were just "too good to be true."The check I sent to my broker was endorsed by Stanford Group Company. About a year later I was informed that Stanford was running a Ponzi scheme and that my money was in jeopardy. Now, I learn that the SEC knew that Stanford was likely operating a Ponzi scheme 10 years before I invested. It is heartbreaking to lose the money but it sickens me to think that it should have all been avoided. I was under the impression that the SEC's mission was to protect the investor. Not only have they not protected us, they are trying every way they know to keep us from getting due recourse. I have become very disillusioned with this agency and it is very clear to me that Congress is our only salvation.

Thank you again for helping us.

Richard M. Henry, Jr.

5405 Centerwood Road

Little Rock, AR 72207

501-413-9020

rhenry@hoffmanhenry.com

My wife and I are fraud victims of the Stanford Financial Group. Our entire life savings from 44 years of hard work, and our monthly retirement income, have been frozen by a court-appointed receiver since February 16, 2009, alleging a Ponzi scheme.

As a result of the above, we have gone from a dignified retirement to broke, with no income other than Social Security. We have had to break our lease and move to a tiny apartment. In the process, we have been forced to sell what possessions we can, and give away what we can't sell, as there is no room for much of our furnishings and belongings in our new small apartment, and we can't afford outside storage. We can no longer travel to see our children and grandchildren, and we don't have space to put up anyone who might visit us;

I am on Medicare and as a veteran also receive VA medical care. But my wife was still three years away from being Medicare eligible when this occurred. Because we could no longer afford the premiums on her health insurance we had to cancel her coverage.

We have been told that the SEC and FBI knew about irregularities at Stanford as far back as 1999, and between 2001 and 2008 Stanford employees filed complaints with FINRA alleging fraudulent business practices. Apparently the SEC had launched an

investigation into those allegations but in 2006 was ordered by an undisclosed government agency to stand-down.

Investors were never given any warning that Stanford investment products, especially their CDs, were suspect. Had this information been made known, we, and thousands of others like us, would not have made those investments.

While the government has so far blocked information about the source of the stand-down order, we are being told that it was most likely the DEA, and possibly another enforcement or intelligence agency as well. Supposedly, the stand-down order was to protect an on-going investigation concerning drug trafficking and/or drug money laundering.

We greatly respect and support our law enforcement and intelligence gathering agencies, and appreciate what they do. But we don't accept that our money is some kind of collateral damage in furtherance of a government investigation. And to the extent that the agencies involved could not have anticipated that our - meaning the 30,000 collective "our" - money could be lost in the process, the government needs to own-up now.

The bottom line is that thousands of now-broke Stanford investors must try dealing with the might and resources of the U.S. government. The government has lawyers galore, and we can no longer afford a single one. We now are living on our Social Security checks. Even with no frills we worry that we can run out of money between checks, and we are only one medical or dental emergency, or one car repair away from complete catastrophe.

We were hard working people who began with no special advantages, and everything we had we earned. Forty-four years has been reduced to almost nothing.

On a final point, we understand and accept that investment also means risk. We accept that risk. But the risk that we accept is that an investment or asset may not

perform well, and indeed could lose all or some of its value in the process. But we don't accept that "risk" means that the SEC can quietly drop an investigation into wrong doing without determining the veracity of the claim, and without warning investors. We also don't accept that our life savings can be forfeited as though it were some kind of imminent domain needed to further an unrelated criminal investigation.

We were hard working people who played by the rules. We never asked for favors or special treatment from anyone. We invested our money with a real company, with real offices and real people. And this company was supposed to be regulated and scrutinized by a government agency that was mandated and fully funded to that task. We are already victims of Stanford. Please do let us become victims of government malfeasance as well.

Thank you,

Barry and Carol Bassin
1637 Oak Street, #9
Sarasota, FL 34236
941-313-9713
barrybassin@yahoo.com

William C. Dawson
40174 Dove Estates Ct
Gonzales, La 70737

Representative Cassidy,

In 2004 I retired from ExxonMobil after working there for 30 years. I was 55 years old at the time and planned on investing my savings and retirement (lump sum distribution) while I continued to work for a few years.

Prior to my retirement I knew approximately how much money I would receive upon retirement and I went to several "investment houses" to investigate what each had to offer. I had little experience investing as almost all of my wife and I's savings were in ExxonMobil's savings plan. I had appointments with Edward Jones, Meryl Lynch, AG

Edwards, Hibernia Bank, and E Federal Credit Union. I asked each to outline how they would invest my distribution based on my objective of working a few years then retiring. I asked each to give me specifics about how they assessed fees to include fees that were paid not directly by me but as a result of them buying securities or other instruments. During this process I was talking to a former co-worker from Exxon who had retired several years ago and he asked me if I had talked with the Stanford Company. I had never heard of them, but I got the number and the name of the person he used at Stanford. Within the next few weeks I met with financial advisors, Grady Layfied and Gary Haindel from the Stanford Group. I gave them the same proposal as I had given to the other persons. One thing that was very interesting to me was that Mr. Layfield was also a CPA and he offered to help me set up my company so that I could start consulting. After a few weeks I had heard back from Stanford and the rest of the investment advisors. The proposals varied greatly with fees ranging from .75% to almost 3.0%. After reviewing all of the proposal I decided to use the Stanford Group because they had the lowest fees and because of the fact that Mr. Layfield could help me with setting up my company. During these initial meetings they told me about the International CD's, but this was not a major factor in my decision to use Stanford as the rates quoted to me were not that high. As I remember the CD's were paying between 5 and 6 per cent. My original investment with Stanford included about one-half in the International CD's. During all of my conversations with these advisors I was under the impression that these CD's were covered by SIPC. As a matter of fact within a few months of my original investment I reduced the amount of my investment in the CD's in order to by below the level covered by SIPC. Also, even though I specifically asked the Stanford financial advisors I was never told they received a "kick back" from each CD they sold.

I think it was 2006, but during about this time I reviewed my accounts with Stanford and the lowest performing asset that I had was the International CD. At this point I talked to Mr. Layfield about this performance and he took over my account and removed Mr. Haindel from my account.

On or about in 2008 my mother who was a widow and about 80 at that time decided with my advice to move all of her investments to Stanford from AG Edwards.

In my annual review with Mr. Layfield in January of 2009 I told him I thought the market was going to recover and I was thinking about withdrawing my CD in order to invest in the stock market. I will never forget this, but he told me "that would be very risky!"

In March of 2009 I heard on the radio about the crash of Stanford. I immediately called Mr. Layfield and he told me it was just a misunderstanding and it would soon be straightened out.

The next year or so was probably the worst of my life. Our government froze all of my assets and froze all of the assets of my mother. Even though my mother did not have any investments in the International CD's, a Federal Judge in Texas froze all of her savings. She worried about this constantly and told me she was praying that God would quickly help her by taking this burden. My wife and I had income since I was working. However, all of our Exxon stock and other savings that were not invested in the CD's were frozen. Then to make matters worse the appointed Receiver sued me! He claimed I owed more than I had in addition to what I had already lost in the CD. Because I had moved money in and out of CD's over the years he added the sum of all of my redemptions and said I owed this amount to him. The money and stock that my wife and I had worked for and saved over a period of 30 years this person had removed from us without a day in court or even as much as a letter or any communication. We were supposed to find out by going to a Web site. Try and tell an 80 year old to go a Web site

to see where your money is! He held my mother's savings for about 3 months and my wife and mine for about 6 months. In September of 2009 my mother died. I am still mad that the last few months of her life was spent worrying about the lifetime savings which she and my father had spent accumulating. Her savings were abducted by this federal judge with no communications with my mother, no day in court and no apology afterward. He should be in jail with Stanford.

As a result of all of this I am still working and missed many nights sleep thinking about how I had let down my family by losing not only my wife and my savings, but also my mother's.

Garrison Boyce
11111 Biscayne Blvd. PH_B
Miami, Florida
33181
305-981-3740
bolael@yahoo.com

May 9, 2011

Statement for Congressional Records

Re: Stanford Ponzi scheme Victim

I was introduced to Stanford Financial through my account, a person who I have trusted as a financial adviser for 36 years. I have only invested in CD's, as I have been leary of the stock market after a brief introduction in the late 80's left me untrusting of it. The Stanford Agent told me that Stanford CD's where a sound investment with slightly higher yields that the US market at that time. I did some research to see the Stanford offshore bank with 9 Billion in assets. I did see Allen Stanford listed as one of the top Fortune 500 people in the US. But most of all I followed my friend who had handled my

finances for 36 years. Initially I deposited one sum then after some time I invested the rest of my life savings.

To say the news on the TV that horrible Feb day was devastating is a huge understatement!!!!! My retirement and life has forever been changed. The depression in the weeks that followed even lead to thoughts of suicide but my religious beliefs helped me through that. Do to the economy down turn my business was closed two years ago leaving me more stranded. My hopes of a glorious retirement are now totally on hold. I am in my 60's and am attempting to go back to work. So far not so much luck on that front. This has also effected my parents as I am at the point where I must help them and I am not in a position to do that which tears my heart apart and adds to the current need to get some help from our government NOW to address this situation! That is also one of the things that is really upsetting about this whole mess. There are check and balances set forth in the United States broker/investors laws to protect US citizens from getting into this situation and they were ignored by my government. The SEC needs to act NOW and right this wrong!!!!

PLEASE help me, another victim of Stanford Group Customers.

Sincerely,
Garrison Boyce
A taxpayer of the United States for over 45 years

LYNN WIGGINS
10752 THISTLEWOOD DRIVE
BATON ROUGE, LA 70810
(225) 768-7275 - HOME
(225) 772-9211 - CELL

My name is Lynn Wiggins, and I am 60 years old. I have worked in the mental health field for the last thirty years. I am currently in private practice as a social worker. I invested my entire IRA savings and funds inherited from my parents in the Stanford International Bank (SIB) CD's. The total amount that I invested over the years is $322,564.63. My advisor with Stanford, Mr. Hank Mills, met with me on a regular basis over the course of time that I was invested in the SIB CD's and reassured me consistently and convincingly that the CD's were extremely safe. He talked with me frequently about the huge cash reserves that Mr. Allen Stanford had in SIB, which Mr. Mills stated proved how safe the CD's were. Each time I walked into Mr. Mills' office in downtown Baton Rouge, I saw the SIPC logo on their door, which reassured me as well.

I now know that the SEC has been investigating SIB for several years. I personally heard a female whistleblower, who was an advisor employed by SIB, give her account of how she called the SEC several times over the course of 2-3 years to voice her concerns regarding the validity of the SIB CD's. She stated she got no response from the SEC. The SEC apparently had knowledge about the problems with the SIB CD's for years and had NEVER INFORMED INVESTORS NOR DID THEY FREEZE ASSETS TO PROTECT INVESTORS!

When articles appeared in our local newspapers, indicating that SIB was in trouble and fraudulent activity was suspected, I called Mr. Mills and expressed my concerns. I asked him to personally meet with me to discuss the possibility of withdrawing my funds at that time. We met at Starbucks Coffee Shop the next morning, and for an hour, Mr. Mills

reviewed a lengthy document with me that the SIB had sent to their advisors to reassure investors of the safety of their investments. The document was "Fact" after "Fact" about the history of the bank, its safety, liquidity, and legitimacy. Mr. Mills is a very convincing man. He said that he had been through several audits by the SEC and nothing had ever been reported as a problem. I asked Mr. Mills if I could have the document that he had quoted from during our meeting, and he gave it to me. Ironically, a few days later the bank was closed down.

These investments were my retirement funds. It has been devastating to lose it all. Most especially upsetting is losing the inherited money my parents left to me. They were hard-working, middle-class people who were so proud to leave this money to me and my sister. Thank God they are not here to witness this travesty.

The emotional and financial toll has been enormous. I have become very depressed, and have been taking anti-depressant medication for the past two years. I continue to work and will probably be working for the rest of my life, as social workers in general do not make much money.

I am sickened by people like Mr. Allen Stanford and Mr. Hank Mills. I am also very disturbed that the SEC has done NOTHING to help me and all other victims get SIPC coverage. I am sickened by Ms. Mary Shapiro, who has delayed a response to the Stanford Victims Coalition group's consistent requests to approve SIPC coverage so that at least a portion of lost investments can be recovered.

This has been one of the greatest blows to me in my life, and it has altered the course of the plans I have made for the rest of my life. I would never have imagined I would be dealing with this problem at 60 years of age. I have not lived my life perfectly, but I have always tried to do the right thing (with integrity and moral fortitude). I am asking you to do the same and hold the agencies responsible for protecting investors who have been

robbed by a Ponzi scheme. Please restore my belief in our government. I am sadly disillusioned by the lack of action on the part of the agencies in the federal government, who have the job of protecting investors when Ponzi schemes occur.

I am asking you to help all of us as victims of this Ponzi scheme.

I am asking you to do the right thing.

And I thank you for your time and attention to this matter.

Sincerely,

Lynn Wiggins

We were introduced to Stanford and his company by Eric Gildhorn, a licensed FINRA broker from Stanford Group Company out of Houston. Eric was a former tennis player who attended our Tennis Academy in New Braunfels, Texas. We gave him a scholarship to attend our Academy and New Braunfels High School for 4 years (grades 9 - 12 in 1993 - 1997). Eric then went to the University of South Florida on a tennis scholarship and we lost touch with him. In the spring of 2004, Eric contacted us and asked if he could give us a presentation on bank CDs offered by the company he was working for, Stanford Financial Group. After his presentation and our due diligence of Stanford we decided that it was a safe way to bank and save our money. A large part of this decision was based on the fact that we knew Eric and trusted him and that he told us he and his entire family had deposited their savings in the CDs. His reassurance that these CDs were 100% safe, were insured by SIPC (up to $500,000) and Lloyd's of London making them safer than FDIC was a significant factor in our decision to deposit our life's savings and preserve our capital. We did not wish to put our money in the stock market with its potential 15 - 30% gains, since we did not wish to be greedy. This

appeared to be a very safe way to save for our children's college educations who were 9 and 11 years of age at this time.

We first bought a CD with $50,000 of savings representing 20 years of hard work in July 2004. We gave Stanford sales materials and information to our Chase Bank VP and our accountant, who in turn sent the information to his company, H.D. Vest, to look over. Not one person suggested that we not invest with Stanford International Bank. We continued to add to this amount over the next 4 years with our latest addition of $80,000 in August 2008.

Hence, both our children's college education and our retirement funds representing our entire life savings were deposited in these so called "safe" CDs. We received 7.75% interest on one 5 year flex CD and 8.275% on our second CD which was a 5 year fixed CD. These were not unreasonably higher rates than banks offered on their CD's in 2004. We paid taxes on unrealized profits each year and have now lost everything.

I believe that our teenage children (who were 13 & 15 in February 2009) will be part of a new generation that includes children of victims from Madoff, Enron and many other financial disasters that were allowed to happen right under the government's nose, and they will not have any faith whatsoever in government, politicians, or our financial system if this is not made right. You hear about children from the Depression of the 1930's growing up to be adults with an eye toward the future and always saving for a rainy day because they learned first hand, that things can go bad when you least expect it. Well, the children who have grown up dealing with these financial scandals will grow up as cynical, distrustful adults and the backlash to our financial system and government will be massive. If this is not made right by the government agencies that we pay to protect

us, our children will not invest, they will stuff their mattresses with cash, or worse, invest in foreign governments. Our own children now are preparing for the fact that even though their parents saved diligently to avoid the situation, they will be leaving college with massive debt due to the government's inability to protect or warn us - even though several government agencies were investigating Mr. Stanford and his bank.

We continually searched for information about Stanford and never found anything indicating that we were contributing to a non-trustworthy bank. Had we known the SEC had been alerted to the Stanford Ponzi scheme as far back as 1997, there is zero chance that we would have deposited even $1 in his bank. We scoured the internet looking for any negative information regarding Stanford and found only glowing reports from everyone including President Bush, numerous Senators and Representatives, St. Jude Hospital, PGA, ATP, International Cricket, CNBC, IMG, Tiger Woods Foundation, etc. We were flabbergasted when we learned what the SEC, FBI and DOJ knew about Stanford prior to shutting him down in February 2009. Further reading of the OIG report makes us very angry and disillusioned. It is beyond belief that the SEC does not want to recognize our SIPC insurance after all their actions. It is now over 2 years since the SEC shut down Stanford's Ponzi Scheme and our oldest child is 18 and going to college next fall. Our youngest child is 16 years old and will be a junior in high school next fall and still we are in financial limbo. We are very anxious to hear what our financial situation will be this time next year because it will affect our children's futures so much. Will they be able to go to college without incurring crippling debt? I am already back at work for the past year and my husband has delayed his retirement indefinitely.

We also hear that whatever money is found will first go towards paying Mr. Stanford's back taxes owed in the U.S. Next, we will pay the receivers and their staff - and there are 2 sets of those - one American and one British. We hear that both sets of

receivers are living large and incurring enormous expenses while they hunt for assets and quibble over jurisdiction. Next on the list will be salaries of employees and then outstanding bills will be paid. Finally, people like us will get whatever is left. Wow.

This has definitely been the most distressing, challenging and emotionally devastating time of our lives. To know that it didn't have to happen if only the various government agencies involved had done their jobs makes this episode in our lives that much more unbearable. It is a dark place to be in when one loses faith in one's entire system of government..... that is where we are right now. Here's fervently hoping that the powers that be can set this right for us with regard to our insurance.

Thank you for you assistance.

Sincerely yours,

Jeremy & Debbi Fieldsend
359 Crown Ridge
New Braunfels, TX 78132

830.620.6104 home
830.625.9105 work

10-May-11

John D. Naquin
107 Ramblewood Dr.
Lafayette, LA 70508
(337) 981-1647

Re: My Story as an Allen Stanford Investor

Gentlemen,

I am indeed a fortunate American citizen who has lived the dream . . . but more recently was awakened to a nightmare. I was raised in Lafayette, lived at home and put myself through college, made a decent living, put 3 children thru college, and managed to sock away enough savings to make for comfortable retirement, and maybe help grandchildren thru college.

In 2002, I retired, then unfortunately, had the misfortune to invest my IRA and retirement funds in Stanford CDs thru a broker whom I had trusted for many years. This broker worked for Merrill Lynch when he began handling our investment funds, and later when he changed over to the Stanford Group, we were happy to move our investments along with him, after all, we could trust him – we thought. Of the money invested, I am able to recover nothing since the collapse of the institution, and the prospects for future recovery in my lifetime are uncertain at best. I wish I were the only soul in these dire straits, but there are thousands more who undoubtedly share my pain and misfortune.
After the 2009 collapse of Stanford's house of cards, I was again fortunate to have stumbled on a job in my field and I am able to sustain my wife and myself in what I hope will be a short-lived interim until recovery from the SIPC or the court appointed (paid by the victims recovered funds I might add) attorney settles matters.
We think it odd (if not suspicious) there are so many excuses for the delay of resolutions by the SEC, and the trial of Sir Allen Stanford based on some trumped up claim he became addicted to drugs while incarcerated, and now finds himself in comfortable accommodations . . . while the victims are very uncomfortable!
We now find ourselves looking forward to the next stage of "retirement" with dread. If (make that "when") my health or the business climate causes a job loss, it will surely be followed by dramatic changes in lifestyle.

I am only one, but the group of victims is large. We place our trust for resolution and justice for others and ourselves in the hands of those who are willing to responsibly represent us, and all Americans who could become victims as easily as we have.

I appreciate the support you have shown to the Stanford Victims in the past, but there remains some unfinished business to resolve with the groups efforts to have the SEC rule on the outcome of investigations. Please continue to press for a resolution in favor of the victims.

Respectfully,

John D. Naquin

My name is Craig Nelson and I am 57 years old. I am a long time resident of Alabama and currently resident at 13913 Isle of Pines, Magnolia Springs, Alabama. I have been married for 33 years to Cynthia Nelson. We have 2 children, a son Jonathan age 29, an Auburn University graduate, and a daughter Erin age 26, a University of Alabama graduate. Both children are now married.

I attended The University of South Alabama from 1972 to 1976, graduating with a degree in accounting. I am the first in my Dad's family to attend college and receive a degree. To earn this degree I commuted 55+ miles each day for four years. To pay for my education I worked 25 to 30 hours a week while in college.

Upon graduation I joined Morrison Restaurants, headquartered in Mobile, as a staff accountant. I have worked 35 years in a number of different financial positions, 24 years for Morrison Restaurants and Ruby Tuesday Restaurants, 6 years with Inchcape Shipping, 3 years with the Grand Hotel in Point Clear, Alabama and am now employed by a private company in Mobile, Alabama.

During our marriage my wife and I made many financial sacrifices and we saved and were able pay for our 2 children's college educations and their weddings.

In 2006, while employed by Inchcape Shipping, the company was sold. I owned a small equity position in the company and received my share of the sales proceeds which amounted to $1,000,000.

Prior to the Inchcape Shipping proceeds we had invested wisely but still were not in a position of financial security. That changed when I received the Inchcape Shipping proceeds. At that time we were in position to support ourselves in retirement.

Or so we thought!

In the spring of 2006 I had become increasingly concerned about the volatility of the stock market. Because of this concern I took "all" of my money out of the stock market in the middle of 2006. Subsequent to this removal I began an evaluation of what investment types provided the most safety and liquidity. During this 15 month period I evaluated a number of investment alternatives. My evaluation revealed the safest and most liquid investment type was Certificates of Deposits (CDs).

In the past I had been introduced to my brokers by a friend or business acquaintance. In this instance of the Stanford broker I was introduced to Norman Blake by a co-worker of my son.

Mr. Blake is a third generation financial advisor. He spent 25 years with Merrill Lynch and was a senior vice president when he left Merrill Lynch to join Stanford Group Company in February 2006. His bio indicated he was a member of the Merrill Lynch Chairman's Club, Winn Smith Fellows and Circle of Excellence. He was an arbitrator for the New York Stock Exchange. He holds Series 3,7,63 and 65 certificates. He had completed business training at the Wharton School of Business. He was on a number of boards including the company where my son worked and the Memphis Area Special Olympics. When he left Merrill Lynch his team came with him. Mr. Blake was

knowledgeable and articulate about his profession, Stanford Group Company and the CD product.

Mr. Blake and I spent over six months in a dialogue discussing the merits of the Stanford CD product and the Stanford Group Company itself. He told me told Stanford Group Company was a member of NASD/FINRA and SPIC. I have documents which supported this. He shared with me that the Stanford Group Company was under the regulatory oversight of the Securities and Exchange Commission and FINRA. The documents I reviewed supported this. I read the CD Disclosure Statement and the associated Subscription Investor Questionnaire.

During our many discussions Mr. Blake repeatedly shared that the investments were exceptionally safe and that my funds could be accessed anytime with 3 days notice. He discussed the Tier I, Tier II and Tier III portfolios and their composition which further supported the CD product as a safe investment.

The financial returns, relative to other options, made sense. There was a relatively small "brick and mortar" present as compared to other larger banks. I viewed this bank as a boutique bank, catering to a specific clientele through its presence in the United States with over 20 offices, principally in the gulf coast states. Mr. Blake shared that it was a United States bank which just happened to be incorporated in Antigua for income tax purposes.

I had a close friend who also invested in the Stanford CDs. He conducted an extensive evaluation as well including traveling to Antigua and meeting with senior members of Stanford Group Company. Included in this group was Laura Penderglass- Holt, the chief investment officer. I have now met many other investors who conducted similar or even greater due diligence prior to investing.

So, based on my review and knowing the SEC and FINRA would not let a Bank operate in the U.S. that was not legitimate, I ultimately bought 2 CD's totaling $1.0 Million.

To say I was shocked when Stanford was accused of running a Ponzi scheme would be an understatement.

But what has shocked me the most is the fact that the SEC had been investigating Stanford Group Company for over 12 years. During this period there were 29 complaints to FINRA and 7 whistle blowers who came forward, the earliest whistle blower being a Mexico accountant in 2001.

Did Allen Stanford steal from me, absolutely!

Did the SEC allow this to happen, absolutely!

The United States regulatory agencies, especially the SEC, had numerous instances and opportunities to take actions which would have avoided this ever occurring.

The SEC's inaction, incompetence, has robbed me of the American dream … get an education, work hard, do the right things and you will be rewarded.

It is my belief that the SEC is legally, ethically and morally obligated to provide full restitution to me and all the United States Stanford investors!

Craig Nelson

1st Congressional District

640 River Route

Magnolia Springs, AL 36555

251.604.3488

ccjene@gulftel.com

After working for 30 years, I retired from Texaco in 2000 with a lump sum retirement fund. Although information was scarce, Stanford appeared to be a sound investment company for my family's future. A representative from Stanford presented me with options that appeared promising. Stanford seemed strong and the advisor was very convincing and seemed equally competent. I was told the CD investments were US approved and secure. Unfortunately, I believed him. To our alarm , Stanford headquarters in Houston was raided without any hint of existing problems being listed on the internet or other news sources . We are 65, our savings are gone, and without any opportunity to rebuild our investment. This fact has dramatically altered our life style and any plans for a financially secure future without help from the SIPC. I am unhappy with the SEC and it's apparent desire to let the Stanford issue disappear without resolve.

John B Turbeville, Jr.

Texas Congressional District 9
Al Green Representative
Financial Services Committee

Mr. & Mrs. Cornelius L. Shaw, Jr.

4943 Tealwood Court

Baton Rouge, Louisiana 70809

225-295-0995

I am a paper/print salesman. In 2002, while visiting with my top customer, Mr. Bob Potter President of Area Wholesale Tires, I mentioned that my wife and I were unhappy with our current financial advisor and asked if he could make a recommendation. He was a top businessman in Baton Rouge and often interviewed by the newspaper for his business acumen. He pulled out a business card of Hank Mills, Vice President/Financial

Consultant with the Stanford Group Company, member NASD/SIPC and said, "this man will do what he says and I use him as my advisor". That is how our relationship started. We met with Hank Mills at 445 North Boulevard, 8th Floor here in Baton Rouge and walked through the door with SIPC prominently displayed. We first moved our brokerage account to Stanford and then were told about the CD program. Hank knew that our primary goal was for a safe investment to provide an income for retirement since neither of us had any type of pension plan. Before Stanford we each had 401-K's, CD's and savings in stocks and rental property.

Over the next 6 years, we were presented with enough evidence to feel very secure in gradually turning all of our hard earned money over to The Stanford Group Company. This included monies inherited from both of our parents, our 401-K's into The Stanford Trust, the sale of rental property and two lifetimes of hard work and savings. All of this was our advisors plan to prepare us for retirement. We lived very frugally, had no debt and strived to be self sufficient and safe in our old age.

Every March my company has an annual sales meeting. In 2008 I was preparing to retire after the March meeting. The month prior to my retirement, our entire life's work and security was stolen from us. The SEC had been investigating the Stanford Group for years and had enough evidence to think that the CDs were a Ponzi scheme, but we were never given any indication that there were any questions about the legitimacy and solvency of Stanford.

Currently, I am 65 years old and still working full time with no end in sight. My wife quit her career over 10 years ago to take care of her parents, and then her mother lived with us for almost 5 years with Alzheimer's. Our plan to retire and travel and enjoy our senior years has been devastated and our future is in peril.

The knowledge that all of the work, savings and planning and the hard work and sacrifice of our parents was stolen has taken an extreme toll, emotionally, physically and financially.

Dear Congressman,

Two years ago on February 17, the SEC closed the Stanford Group Company, a SIPC member Broker Dealer. The SEC accused the Stanford Group of stealing from investors in a massive Ponzi Scheme. The SEC's Inspector General uncovered that the SEC (from inside the agency itself) was well aware of this scheme for 12 years before they stopped it. Had the SEC taken action when whistle blowers warned, billions of dollars would not have been stolen from retirement accounts in 46 states.

The forensic accountant appointed by the SEC has shown that my money was stolen. It was not used to purchase the Certficate of Deposits I thought I had. It went directly to pay off earlier investors (classic Ponzi), to pay extraordinary commissions to brokers who sold these fictitious securities, and to fund the Broker Dealer expenses. The Madoff victims had a SIPC liquidation and protection within two weeks.

It has been two years for me and my family. We wait and wait and wait. We lost one million dollars in the scheme. We purchased two $500,000.00 CD's. One CD was purchased in January 2008 and the other in July of 2008 after the sale of our company. Our financial advisors recommended that we diversify our investments to protect ourselves. We had resisted investing in Stanford for many years, but after hearing from our financial advisors that the SEC had investigated the suspicious claims by former employees and had not found any problems with Stanford, we finally made the decision to purchase the 2 CDs. We were assured that our investment was

safe. Thank the Lord the amount we invested was not all we had received for the purchase of our company. It is, however, money that was earned with many long hours of stress, hard work and personal sacrifice for my family. When the numbers of years my husband worked building the company is divided into the amount of the sale, this million dollar loss equates to approximately 6 years. In other words, Stanford robbed us of 6 years earnings. To think that not even a year later our money had somehow disapeared was unbelievable and devastating to our family and our retirement plans!

We appreciate the support you have shown the Stanford Victims through the last two years. Please help us again by contacting the SEC and demanding that they place the Stanford Group in SIPC liquidation. It is the very least they can do.

Respectfully,

Rhett and Vicki Anderson

321 Sharp Rd.

Baton Rouge, LA 70815

225-272-2668

vickija@cox.net

May 7, 2011

Dear Congressman Cassidy:

Thank you for allowing us to provide input for the Congressional Record and for your help in this endeavor.

We are Kelly and Janelle Harris, a retired couple who have lost our life savings to the Ponzi scheme of Allen Stanford. We were led to Stanford Group in 1999-2000 when our financial advisor left employment with another investment firm and accepted

employment with Stanford Financial. He, being a trusted family friend, advised us to transfer our savings to Stanford Financial, which we did. A few years later he also left Stanford. A new financial advisor, Charles Jantzi, was assigned our account.

Charles Jantzi suggested we use our money to purchase safe CDs that were approved by the SEC and had SIPC coverage. Since safety was our main concern he assured us this was the safest way to invest. We had no idea that our money was being invested "out of the country." We had no reports or information or knowledge of suspicious activity to indicate any reason not to trust Stanford Financial. Our first indication of fraud was in a news report on February 17, 2009 (10 years after our original investment).

At age 70 my husband and I lost all of our money that we had saved for retirement. My husband is now suffering from hepatitis C and heart disease and is disabled. We have extensive medical bills and I will be facing his final expenses as well. We have been forced to do a reverse mortgage on our home to provide a place for us to live. We had originally planned to use our investment in Stanford Financial to pay off our home, but now all that has changed. Our 2 children will now have to face the ever increasing debt for the reverse mortgage.

My husband and I each worked over 35 years to save for retirement. We thought we had saved enough to provide for our old age and not be a burden on our children. Now it seems we will be dependent on them because of the greed of Allen Stanford.

Thank you,

Kelly B. and Janelle S. Harris

8661 Wyeth Drive

Denham Springs, Louisiana 70706

225-664-6205 (home) -- 225-931-1964 (cell)

kbhjr1@cox.net

Our names are Susan and John Wilson. I am 64 years old and my husband is 67 and retired. Our association with The Stanford Group began as a result of our following our financial investment manager from Wachovia to Stanford in December 2005. We had had an association with this advisor for several years. He did a good job of managing our fairly modest retirement portfolio, and my husband contributed his time and energies to the on-going management, as well. They would confer and come to agreement. However, my husband was diagnosed with leukemia in February, 2006. His energy was low, and at that point we decided that he could entrust the management totally to our advisor, and that my husband then would not have to use his energies to follow the market. Not knowing how long my husband would live, we explained to our financial advisor at Stanford, that it was important for me, Susan, to be able to rely on him alone. In March – April 2006 the advisor presented the option of investing in the Stanford CD's. He explained that he had invested in them himself. The CD's were bringing in an 8+% return, and we were assured that they were a safe investment with a consistent and reasonable return. Our advisor explained that they had been in existence for 10 years and had passed scrutiny by the SEC more than once, and that the complaints resulting in the SEC investigations were only the result of "disgruntled ex-employees" at Stanford. Then, one unforgettable day, my brother called and said that he had seen something about bogus Stanford CD's in the Wall Street Journal, and he said that "he hoped to God this wasn't 'our' Stanford." Well it was. The SEC raided and closed the Stanford offices. Our funds were taken over by the receiver and our lives have pretty much changed forever. We have a home that we have lived in for 33years, but with a mortgage. We have wonderful friends and a church family that is very important to us. What do we

NOT have? We do not have any financial security or even know if we have enough money to make it for the rest of our lives.

We try to live off of social security and an additional $1500 a month. It is not enough for minimal living expenses, car payment, and the mortgage. So, my husband has gotten a part-time job at $15.00 per hour. I can let go of all of the "things" that we used to have, but I really resent that my husband, with his debilitating leukemia, feels he has to take this job, which further drains him of his energies. He has a master's degree in finance.....worked and held a responsible job all of his life, and now is reduced to collecting bills for an employer for $15.00 an hour. I feel embarrassed and sad for him. And all he thinks and worries about is how he can leave me in a better financial position. The most frustrating part of this whole Stanford debacle is that it didn't need to have happened. If the SEC had only done its job we would be able to think "How we can enjoy the remainder of our time together" rather than "How can we get by together?"

John and Susan Wilson

385 Waverly Hall Drive

Roswell, GA 30075

Tel: 770-993-8307

E-Mail: sjw385@att.net

Maria Pastor
8332 Oak Creek Drive
Baton Rouge, La 70810
(225-761-0324
opastor@bellsouth.net

Dear Congressman Cassidy:

Two years ago, my life was turned upside down by the announcement of the SEC to shut down Stanford Group Company. It was a complete shock to learn that the company I had entrusted my life savings to was nothing but a Ponzi scheme. But the greatest shock of all was learning that the SEC knew about this at least three years before I invested with SGC in 2000. During the time I researched SGC, there was never an indication that the company was under the watchful eye of the SEC nor were there any red flags warning me that I should be cautious. On the contrary, their lavish offices in Houston gave the sense of a strong and stable company, with SIPC protection visibly displayed everywhere, a brochure of Allen Stanford hobnobbing with senators and congressmen from various states.

I explained to my financial advisor that I wanted to invest with caution. I did not want to be aggressive with the only money I had. I wanted my money to grow slowly in preparation for my retirement. For 4 years, my investments experienced the ups and downs of a shaky market, so in 2004, my financial advisor suggested that I might be better off putting my money in a CD. He said that Allen Stanford had a bank in Antigua that had rates on CDs starting at 7%. He suggested putting 80% of my money in a CD and leaving the rest in the stock market. He went on to assure me that this was the safest route considering the volatility of the stock market. He said that with the CD, I would get a steady interest income versus the ups and downs of the stock market. But there was a catch. Not everybody could invest in SIB – you had to be worth a million dollars to be eligible. I knew perfectly well that I was not worth a million dollars, but since I had

recently married, my financial advisor said that he would combine our assets, prepare a financial statement for me and only if our net worth was over a million dollars would we qualify to invest at SIB. Little did I know then that this was just a glorified sales pitch to make me feel like I was part of an "elite" group of investors. I was somewhat surprised when my financial advisor called to tell me that I had met their "eligibility" requirements. I was immediately sent the necessary forms to sign so my funds could be transferred to SIB - - and the rest is history.

I now find myself with nothing to account towards my retirement. I had to seek medical help for depression. I have health issues and have no way of covering costs should my condition worsen. Thoughts of suicide have often crossed my mind as I lay awake night after night thinking of what my options are. Being a burden to my children or even worse, my government, is something I will not do. As each day passes and I see the SEC dragging their feet and having total disregard for prolonging the agony they are inflicting upon us is beyond my comprehension. Two years of not wanting to take responsibility for their actions – AND THEY ARE GUILTY – I have to ask myself: "who are they trying to protect?"

I am tired of being given the runaround, the wait is too agonizing. What more proof does the SEC want? The OIG Report says it all. The SEC has to take responsibility for their non-actions. They failed us!!! They were supposed to protect us, warn us – instead, they destroyed 28,000 lives with their negligence. I find it extremely hard to believe that for 12 years one crook managed to deceive an entire organization of intelligent men and women who were trained and paid to protect us!!! Is this a conspiracy as stated by one of the whistleblowers in an interview on CNBC? Am I to believe that my government would take me down as collateral damage to protect one of their own? Where is the justice? This only happens in third-world countries . . . . or so I thought.

Make a decision now! We do not want to wait anymore. We deserve better from our government.

Congressman Cassidy, please help us

Statement of Paul "Blaine" and Carolyn Bass Smith

The SEC single-handedly wrecked and ruined our lives by failing to prevent Stanford Group Companies from registering as a broker dealer having knowledge of Allen Stanford's involvement in money laundering and drug trafficking. Also, in that the SEC was aware of the fact that SGC had been in financial difficulty for 10 years. The SEC failed to follow the SIPA statute which states that " If the Commission is aware of facts that lead it to believe that any broker-dealer is approaching financial difficulty, the Commission "MUST" immediately notify SIPC. " SGC was NOT "approaching" financial difficulty; it WAS in financial difficulty and had been reporting that information to the SEC for the last 10 years and the SEC did nothing to protect investors, as is their sole purpose for their existence as stated 19 times on their website. Also, the fact that over 12 years the SEC performed 4 formal investigations (97, 98, 02 and 2004) and concluded from those investigations that Stanford was running a Ponzi Scheme, "BROKER THEFT "(stealing from one investor's account to give to another and/or in this case stealing investors money to purchase items unrelated to what has been promised or using the money to pay the broker's bills) and they did absolutely nothing to stop SGC. The SEC is solely responsible for the financial destruction of my family's lives.

With that said, my wife and I both grew up in large families; I am one of eight children. Coincidentally, both of our fathers were truck drivers and neither of our mothers

worked. It doesn't take to a lot to figure out that we were poor as children to say the least.

Neither one of us completed college for lack of financial support. We had no choice but to work and build our lives together. I started working at 11 years old for a tackle company down my street from where I lived. Later I worked in restaurants and health clubs until I finally got a job as a lab technician at Exxon where I worked for 20 years. While I was working at Exxon my wife worked for the State of Louisiana (37 years now) and at the same time we built over 34 homes most of which we personally moved in and out of until we sold them. In addition we owned and ran a TCBY yogurt store. We did all of this because we knew we had no one to fall back on for financial help, we wanted to retire relatively young and leave something for our child so that he would not have to go through what we did.

I also became a stock broker with 3 registrations; a Series 7, 63 and 65 during early 2002. Although I did not practice I knew the fiduciary responsibility my broker had in putting me in any investment and the due diligence he was obligated to perform on and investments he marketed. I asked all the right questions one should ask his or her broker and his supervisors about the security of my investments. Of course, they lied because the SEC enabled them to do so. We specifically asked that our funds be put in the safest investment that they sold because we had slaved to put away this money for a rainy day or retirement.

My broker would have never been able to sell us fictitious CDs if it weren't for the SEC. Now because of the SEC negligence we are worse off than we ever were in our entire lives. The SEC knew that SGC's marketing materials for SIB made false statements about the CDs. The SEC failed to even slap SGC on the hand. Instead they let SGC use the SEC absence of disciplinary action as a "bill of clean health" to potential investors. Unfortunately, we were one of those investors lied to.

At nearly 60 years old we both have to work until we die unless Congress or SIPC kicks in to right this wrong. We can never make up the theft of our life's savings. Instead of being self reliant because of the SEC we will eventually have to become a burden on the taxpayers in our old age. But, for now our lives are nothing but pain and misery. We have lost the home we built as our own dream home. Nearly every penny we saved was stolen by SGC while the SEC did nothing. Our son is in college and we are taking out of what little money we had left for him to complete school and get married this May. We have not been to a nice restaurant, taken a vacation or visited relatives that live out of state because of the lack of funds since this occurred. Holidays only bring sorrow because we don't have the money to buy gifts for giving anymore all because of the SEC. But, the SEC Chairman and the employees of the agency who were watching porn on the internet when they should have been doing their jobs have not been affected whatsoever. Their lives go on like nothing happened as a result of their failures.

When this happened in February of 2009 I was only working to preserve what we thought was our life's savings at SGC. Shortly after SGC was shut down I lost my job because construction slowed down, my son was almost killed in an accident in which his neck was broken in two places and his back in one. According to her doctor all the stress related to this Stanford ordeal caused my wife to contract a disease known as Trigeminal Neuralgia which is tagged the Suicide Disease because it is so painful that it causes some victims to commit suicide. But, even with this debilitating disease she has had to continue to work her job of 37 years because her retirement pay is not enough money for us to live on.

We literally cried for at least 360 days of the first year after this happened. Some days we can hardly put one foot in front of the other to go to work. I found another job in

construction in which some days I am shoveling gravel, picking up trash or digging trenches.

In my worst nightmare I could have never imagined going through this hell. We went from being self made millionaires to being poorer than we were at 17 years old all because of the failures of the very government we paid our taxes to for nearly 50 years of our lives.

When my Mother died it was horrible, but at least we know that she is in a better place and I don't have to worry about her everyday like do for my wife and son. With what has happened to us there seems to never be an end to the effect of the SEC's mistakes and failures. Every single minute of our life is consumed by the "why didn't they stop it?" question. And, the "What Ifs". Mainly, the "What if" the SEC would have just done their job? The answer always is; we would never have put one penny of our money with SGC because we did not know of SGC until 2001.

Unless you have walked in our shoes you cannot understand the crosses we bear as a result of the SEC's negligence and mistakes.

Worst of all is now that the SEC's negligence and broker theft has been proven by the OIG's report, KVT declaration and many other documented facts that they were the primary cause of our losses they are doing everything within their power to deny us the only relief that we could possibly get which is SIPC. One would think that the guilt of their failures would be so overwhelming that they would go beyond the call of duty to provide us victims with SIPC coverage. Instead, we are spending what little life and money we have to fight our own government for what is rightfully ours. We actually should be made whole. For some of us SIPC coverage would only replace a small percentage of what was stolen from us. Anyone else would be held accountable delay.

Congress MUST force the SEC to fix this because we are not the guilty party here, the SEC is and the law is on our side. Chairman Schapiro must not be allowed to use us as pawns as she has been doing in order to force congress to increase her budget which is exactly what has happened here. No more splitting hairs over SIPC coverage. Broker theft is broker theft no matter how you disguise it.

Here is a picture of the house my wife grew up in that her mother still lives in. We were going to use some of our savings to repair the leaky roof and re do the bathroom floor with the hole in it. Thanks SEC! For Nothing! Her recently widowed Mom who has cancer and is living off of her husband's small military pension is on the left with the baby. But, we can't help her because of the SEC! Congress please make this happen.

STATEMENT

Attention: Congressman Bill Cassidy, Louisiana, Congressman Gregg Harper, Mississippi, Congressman Spencer Bachus, Alabama

Subject: Hearing in the U.S. House Committee on Financial Services regarding Stanford Group Victims, May 2011

Statement made by: Kenneth and Celia Musick, age 62, residents of Baton Rouge, LA

My wife Celia and I are victims of the Stanford Group Company crimes and were robbed of $473,000 of our life savings. It has been over two years now since the SEC closed down the Stanford Group and placed the business in receivership. So far we victims have received zero...not a cent...as the high powered receiver has liquidated assets and used the courts to file suit on entities. No one has gotten any money besides his lawyers and accountants. We are in our 60's and had planned to retire by now but these stolen savings were a substantial part of our investments and retirement is not possible now. This was a crime and an oversight by the regulators. This was not a "bad investment". SPIC liquidation should come into play.

The SEC regulators failed us here, in a big way, and evidence points to neglect by the SEC. Evidence also points to the possibly of inappropriate relationships with Stanford by inspectors in the Dallas SEC office.

Release of the SEC Office of the Inspector General's report was intentionally veiled from public scrutiny by cleverly revealing it to the public under the fog of massive same-day press releases about the SEC pursuing the chairman of Goldman-Sachs. This OIG report clearly demonstrated the SEC had knowledge of Stanford's Ponzi scheme as early as 1997. Had the SEC acted on that evidence, no U.S. citizens would have been exposed to the crime. Our tax dollars funded the SEC for all those years. The SEC ignored repeated

evidence of Stanford's fraud. Shouldn't we at least be able to get a portion of those funds back?

Should SIPC liquidation be denied, I petition congress to use IRS tax provisions to at least provide a means to deduct funds that were stolen from Stanford tax-deferred IRAs. More than half my stolen savings were in IRA funds at Stanford Bank. These retirement savings accounts were rollover of a 401-K from 25 years of employment. There is presently no means for relief for those IRS related losses.

Sent Via e-mail to: Stanford.Vicitims@mail.house.gov

Richard and Nancy Tenhet
5804 North Shiloh Road
Corinth, Mississippi 38834
662-287-9277
rgtenhet@netzero.net

May 9, 2011

Dear Congressman Bill Cassidy and Congressman Greg Harper:

My wife, Nancy, and I along with thousands of other United States citizens are victims of the Stanford Financial Group Ponzi scheme. You are well aware that the magnitude of this fraud is in excess of $7 billion and has forever changed all victims' lives by this devastating financial loss.

Nancy and I lost over sixty percent (60%) of our life's savings in this scheme. The affect will be that our dreams of providing educational assistance to our four grandchildren,

traveling The Holy Land, funding an endowed scholarship at a Christian college and supporting other philanthropic endeavors are no longer possible.

This story of the loss of a lifetime of savings and near financial ruin is repeated thousands of times by those victimized by Allen Stanford. But it didn't have to happen.

I now understand that Stanford's fraud had gone on for years before we got involved with the Stanford Financial Group in 2006. The SEC was inept in carrying out its oversight duties including the investigation of numerous credible reports of malfeasance. Furthermore, Stanford's legitimacy was enhanced by his close alliance with many influential congressmen and senators.

Letter to Congressmen Cassidy and Harper
Re: Stanford Ponzi Scheme
Page 2

We and all Stanford victims are pleading with you to demand that the SEC grant coverage under the Securities Investor Protection Act (SIPA). The Inspector General's investigation of the SEC's role in this travesty clearly brings to light the failure of a government agency established to protect the financial security of its citizens. Such a revelation should compel SEC Chairperson Mary Schapiro to rightfully grant coverage to those investors who were victimized.

Thank you for your efforts in bringing justice and restitution in this matter.

Sincerely,

Richard and Nancy Tenhet

5/10/2011
Stanford.victims@mail.house.gov
Dear Sirs:
We became a customer of Stanford Group Company's Houston office in 2006. Our financial advisor (FA) was the brother of our son-in-law. He was licensed, listed by FINRA and his business card indicated he was a member of NASD and SIPC. He was a very experienced professional whom we depended on to invest our retirement funds. He had not worked at Stanford very long, but had been aggressively recruited by Stanford from his previous brokerage house.

We had worked all our lives, constantly saving and scrimping for the day we could retire and enjoy our grandchildren and provide Cindy's aging mother with assistance in her golden years. We had evaluated our financial situation and decided we could live our dream, so Tommy retired in 2007 and Cindy in 2008. Two weeks before the US Marshalls raided Stanford; we invested our final $700,000 in the SIB CD's with much assurance from our FA that it was a safe investment. This made a total of $2,100,000 invested in CD's. We were told that Stanford Group Company and Stanford International Bank were owned by Allen Stanford and were part of the Stanford Financial Group of Companies. Our total life plan was taken from us. All the hours we worked to earn this money was stolen from us. Many years of our planning, saving and scrimping suddenly erased. Now we simply do are too old to be able to save enough money (again) to ever reach our goal of a comfortable retirement – our future is most uncertain. As anyone knows as we age, no one knows if our health will continue to allow us to work to support ourselves, much less allow us to save for any sort of retirement.

Cindy retired in April 2008 after working 36 years for a major corporation and moved her lump sum retirement and 401K to Stanford just as the market was in decline in mid 2008. The SIB CD's were marketed to us as a "safer alternative" to the market at this volatile time. Stanford was touted as a "wealth management" firm, having first and foremost the

goal of "principal preservation" for its clients. We were given all the same marketing stories detailed in the SEC complaint against Stanford to entice us to put our money in the SIB CD's. Having been conservative all our working lives, this was just what we needed to hear to help make us comfortable – especially in the market climate that existed in the last half of 2008. The CD's were explained to be invested in assets managed by a top notch group of analysts overseen by Pendergest-Holt in Memphis. In addition to the analysts in Memphis, we were told Stanford went out to different institutions and "hired" their best person that for example handled foreign currency exchanges and Stanford would give that person X$'s to invest/trade and that person's results were overseen by Pendergest-Holt and ongoing decisions made as to whether to retain that person's services or go on to someone else- and of course these profits were part of the SIB's overall operations/profits. We were told the SIB CD's were fully insured by Lloyds of London – then when we further questioned – our FA eventually came back with an explanation of another insurance for the actual transactions at the bank and said Lloyds of London insured the assets making up the investments owned by the SIB. The investments were touted to be diversified across products – foreign currency exchanges, mutual funds, bonds, equities, real-estate and other investment opportunities that were brought before the investment committee at Stanford on a routine basis. The information showed that the investments were diversified across sectors as well. We were told that Allen Stanford touted the "5 minute rule" – if he did not understand the deal in 5 minutes – he didn't want any part of it – did not want to be involved in complex or paper deals like "Enron" was involved in that unraveled the Enron empire. We were told that in December 2008 Stanford came to Houston to talk to the FA's to let them know that the bank was solid, strong as ever. We had "googled" Stanford International Bank and Stanford Group Company many times during the period leading up to our

investments as late as December 2008 and nothing suspicious was linked with the company on our searches. We did find a recent SEC audit that resulted in a small fine. We had asked our FA about SEC audits and were told that they had recently been audited by the SEC and fined, about $40,000. Stanford advisors used this as a selling point. Our FA told us: "the SEC audited and only found some sloppy accounting and fined us for that because they have to find something". And this audit was utilized to provide further proof that "all was well with the financial soundness of Stanford Group." They used this audit to say they were found to be sound by the SEC and gave us confidence in Stanford Group and the products they sold. Now we know the SEC did find all kinds of problems with Stanford and chose to not alert anyone. Now that the Inspector General Report on the SEC's handling of Stanford has been released, it appears there may actually have been fraudulent actions by some SEC employees as well as the obvious incompetence associated with SEC's handling of the Stanford issues. Someone is hiding something. Someone kept the public from being warned of the discrepancies at Stanford. If the SEC's information had of been made public when they knew – far before February 2009, certainly the Gentry's would have been saved from this disaster.

We have had to give up our retirement years and go back to work as contractors – which as you know has no sick leave or vacation benefits. Cindy gets paid only for the time she works and is putting in 50 to 60 hours a week to try to maximize her pay. In fact, for the first time in Cindy's 38+ year career, she has had to accept an assignment for work in Europe on a rotation basis – as a contractor who now needs to work, she cannot turn down assignments. Tom works in sales on 100% commissions. Cindy is a breast cancer survivor whose health is not that good – since the Stanford theft, her prescription drugs have had to be increased and she has become a Type 2 Diabetic. Tommy's health had always been excellent and he is now experiencing challenging health issues as well. Our

Grandson has serious developmental issues requiring one-on-one professional therapy every day and additional home therapy. Our daughter has had to quit work to take our Grandson to his many doctor appointments and daily therapy sessions as well as provide the additional home therapy. This is especially frustrating, when our retirement plan would have allowed us to take him to therapy and doctors appointments. So this Stanford tragedy has also affected the next two generations of our family, financially and health wise. Cindy is an only child with an elderly mother living 400 miles from us and we cannot visit routinely to help her and do not know what we will do when she can no longer live alone, there is no longer money available to make necessary arrangements. Our inquiry with the SEC last year resulted in a letter from them saying that could not comment on an ongoing investigation. We have always had faith in government and government agencies, and are very disillusioned that the SEC sat and watched as innocent citizens put their life savings in Stanford Financial. The SEC has no idea where Stanford hid billions of dollars while they watched. The SEC, SIPC and FINRA are all responsible for monitoring the investment industry. None of these agencies did the job we, as tax payers, paid them to do. Only after Madoff was exposed did they close in on the Stanford operation.

We are asking for your help in getting us the truth on why Stanford was allowed to operate this scam for years after the FED's were alerted by the State of Texas as well as Whistleblowers at Stanford. I would like an understanding of why we do not qualify for SIPC coverage after all the investigations failed to stop the fraud by Stanford in time to save thousands of innocent people from losing their life savings.

Tom and Cindy Gentry
13510 Shurlin Place
Cypress, TX 77429
281.304.0278

cc: Congressman McCaul (district 10)

TO WHOM IT MAY CONCERN:

Reese and I (Darla) married almost 48 years ago. Reese was in college and I worked so he could get his degree. We had no phone, TV or health insurance and welcomed vegetables from our parents' gardens. Reese completed his education and found employment. Reese rarely ate out for lunch but rather took his lunch from home, many times tucking that brown bag in his briefcase to be used for the next day's lunch. Again, to save a bit of money. Upon Reese going to work, we immediately began a savings account for our future. Later we had three children whom we raised and then (I) Darla returned to work to help put them through college. All during this time, we continued to contribute to our savings so we would never have to depend on the Government during our retirement years.

As we approached our retirement years, we began to meet with Financial Advisors and visited several institutions gathering info that would give us security and diversity of our funds. We met our FA when he was with another company and we began a level of trust. Later, he went to work for Stanford and since we had established a good working relationship and level of trust, we stayed with him.

Also, any correspondence/statements that our FA gave or sent us indicate Stanford was a Member of NASD/SIPC. When Reese retired, his entire 401K was transferred to Stanford to be diversely invested. We were with Stanford for nine years before the "crash" in February, 2009. NEVER during that time were we told or heard or were contacted by ANYONE that Stanford was being investigated for anything or that several of Stanford employees were reporting questionable practices by Stanford. (Why was everything kept hidden behind a veil of secrecy by more than one Department??) In early

June, 2009, our FA strongly encouraged us to transfer a large sum of our monies to a CD to protect our retirement as the market appeared to be starting a definite downward turn of which we were also aware. However, we never received a Certificate of Deposit nor did we ever receive a statement from Stanford International Bank. When we asked our FA "Where is our money?", he said in "The Bank". Little did we know our FA was receiving large "commissions" for every CD he could secure. (He is now being sued by the Receiver.)

Reese will be 71 this summer and I will be 69 this coming winter. How do you start over at our age?? We sold our home in Houston and moved to the country upon Reese's retirement. How many jobs do you think are available for a 71 year-old in the country?? So Reese does odd jobs for minimal pay. I do part-time work at a Gift Shop for minimum wages. Our Social Security only covers our taxes. We have health insurance but the premiums are not free and we expect the premiums to rise. My health is not the best and I curtailed doctor visits, trying to get by with the minimum. We don't plan many "get-way" weekends because gas is so expensive but those "get-always" would be so beneficial for my health. All of this turmoil and the loss of security of not knowing how we will pay for future needs has not helped my well-being. Each day is a struggle. The only way to describe the way we both feel is that we have been raped.

Darla and Reese Schmidt
3107 FM 954
Fayetteville, TX
Ph.# 979-249-5907
e-mail reedar@cvctx.com
Stanford Victims in District 25

Hi

My name is Caroline Travis and my husband's name is Jerry Travis. My husband had to draw out 80 thousand dollars of his retirement because the plant . he works for sold. We had this money invested with State Farm for several years in a CD that was secure, then a fellow he works with kept telling him about the "Millionaire's Club." He kept telling him how much he was getting in returns on his money that he had drawn out at the same time my husband drew his out. So finally after about a year of him telling me about this I told him well go ahead and and roll yours over if you are sure it is safe. So in Dec 2007 he went to the Stanford Office in Zachary, La. Jerry questioned Michael Word about the CD's and he told him they were safe and that you couldn't get anything safer than a CD. He went on to tell him they were backed up by the Lords of London and they were governed by the SEC. This money was suppose to go towards my husband's retirement. May 2008 I fell off of a deck landing on my head in which I was very lucky to have not broke my neck but instead I broke my L1 and L2 vertebrae. I had to retire in which I had enough time to retire with the State of La. I had planned on going back to work part time to help put money away for our retirement since ours was stolen by Stanford. I am no longer able to perform the duties of a nurse with the way my back has ended up. It did not heal properly and ended up with a hypnosis in the lower thoracic area of my spine. Then right after hurricane Katrina my husband was putting a new roof on the house due to the hurricane blowing off the shingles on our home. My husband fell off the roof and broke his L1 and L2 and his Lt. ankle. He was taken to surgery for his ankle and thank God his back healed faster than mine without any deficits. He went back to work using a walker . So this may tell you we have been hard working and self sufficient all our lives. We have payed our taxes diligently and are very honest people whom may trust more

than we should. America should not be this way. The SEC was told about Stanford well before we even invested our money. As I said I can no longer work to help towards our retirement but would appreciate any help on this Stanford mess that you can provide to all the victims. I have heard alot about what Sen. Cassidy has done for us but please help the SEC to see how wrong this went. Thank you

Caroline and Jerry Travis

US House Committee on Financial Services

Fred R. Demarest
5822 Lake Shadow Drive
Baton Rouge, Louisiana 70817
225-756-8948
FredRD@aol.com
May 10, 2011

My wife Barbara and I have been retired since January, 2004. I was an engineer and worked for ExxonMobil in several refineries for thirty six and one half years. During this time I saved for what I had hoped would be a comfortable retirement. After investigating a number of investment firms to handle our retirement savings, we selected the Stanford Group based on what we believed were honest, religious representatives and the recommendations of a number of fellow retired ExxonMobil employees.

We placed all our ExxonMobil retirement funds—both lump sum and thrift fund—with the Stanford Group. Individual investments were developed by our Stanford Financial Planners with a goal of Wealth Maintenance and holding even with inflation. We received monthly reports on all our assets and received in-person reviews annually. Stanford paid us a fixed sum each month with which we paid our monthly living expenses. This was our only source of income other than Social Security.

Stanford Group advisors initially invested our retirement money in: 60% stock, 15% bonds and 25% Stanford CD's. After a year Stanford investment advisors recommended placing the 15% bond money into Stanford CD's.

In the fall of 2008 we met with our Stanford representative because we were concerned that banks were having problems with bad mortgages. We were assured by our Stanford advisor that Stanford Bank had no mortgage exposure. We asked what our potential risk was, and our agent advised that in a complete economy collapse we would only risk losing one or two months of interest. Our principle was safe because the CD's were only invested in "Wealth Maintenance" assets.

We met again with our advisor in January 2009 because we had a Stanford Bank CD come to term. Our agent advised us that it was totally safe and we should roll it over, which we did. At that point because the Stock Market was dropping, 50% of our assets were in the Stanford Bank accounts. Stanford interest rates were initially 7.9%, but with the rollover the rate dropped to 5.9%.

Four weeks later in mid-February, 2009, we read in the newspaper that the SEC had closed the Stanford Group down. We were unable to contact any Stanford advisors and the local office was immediately closed. We were informed by SEC internet postings that all of our money was frozen. Further postings by SEC Receiver Ralph Janvey confirmed that all our assets were unavailable to us and no time frame was provided for when they might become available to us. We had no money to live on. We had to borrow money from our local bank for food, medications and utilities.

Both my wife and I suffered extreme stress and anxiety and were treated medically and placed on medication for these conditions.

We received 43% of our retirement funds back after five months. Next we were sued by the Receiver to attempt to "clawback".7% of our retirement funds. This only added to

our anxiety and presented us with legal costs to defend our good name. Eventually, after nine months, we received the last 7% of our retirement funds from the receiver. We lost half of our retirement assets

We now live on half the retirement income we had before the Stanford shutdown. We live from day to day with a greatly reduced standard of living. Being older, we have no way to return to work to replace what was stolen from us.

As the SEC's forensic accountant has proven, the money set aside by the Stanford advisors was stolen and never used to purchase CD's; in fact, the money never left the United States.

SIPC protection would help to restore a somewhat reduced but better lifestyle that I worked so hard for for thirty six and a half years in ExxonMobil refineries.

Sirs
My name is Kenneth G. Wilkewitz.

I worked 33 years and saved to have a good retirement for my wife and then to have two thirds of it stold by people you trusted to invest it for you.

Ithink everything Stanford and the agents have should be sold and the investers paied back

there investment. If there is anything left pay the attry. who are helping the investers.

Iam 63 sick and on one wants a perso

May 10, 2011

Yolanda Lorie & Ramon J. Iglesias
4885 State Rd. 11
De Leon Springs, FL 32130

RE: STANFORD FINANCIAL GROUP

Dear Congressman Cassidy and Congressman Harper and the members of the US House Committee on Financial Services,

At the ebb of our lives, after having worked and saved all our lives for our well-deserved retirement, tragedy struck. Now after having given up my medical license and having no other means of supporting ourselves, in February 2009, we lost our lives savings approximately $1.8 million that was invested through Stanford Group of Companies operating in the US under SEC and FINRA oversight.

Prior to the SEC giving the Stanford Group of Companies permission to sell Regulation D securities in the form of certificates of deposit at US citizen-owned Stanford International Bank - Antigua starting in 2001, numerous US government agencies had knowledge of fraudulent activities involving Stanford. The FBI, DEA and the IRS all had previous investigations in to Stanford's international operations, all pointing to fraud. Investors were never warned. FINRA, a self-regulating organization operating under the SEC, fined Stanford for misleading investors about the safety of the CDs and for not maintaining a minimum capital level in 2007 and 2008. Investors were still not warned. Dozens of Stanford employees came forward reporting suspicions of fraud between 2001 and 2009. Depositors were still not warned. The SEC had warning from the Texas Securities Commission in 1999 that the activities of the Stanford Group of Companies, including SIB Antigua, were likely fraudulent. Again, investors were not warned. An SEC Inspector General audit report in March 2009 stated that the 20,000 annual SEC

Regulation D offerings representing $609 billion were not properly monitored, citing several instances of misuse, non-compliance, and illegal acts regarding the Regulation D exemptions. In this instance, citizens were not warned until it was too late.□□

Despite regulatory negligence and inadequate inter-government communications, SIPC insurance has thus far been denied to Stanford victims. Stanford Group was an active SIPC member and the CDs were sold as SIPC insured. The SIPC logo was on Stanford Group broker business cards, marketing materials and other documents the SEC and FINRA monitored.

We are honest Americans who have spent a lifetime working and saving for our retirement.

Sincerely,

Yolanda Lorie & Ramon J. Iglesias

May 11, 2011

My wife Pat and I have been victimized by Allen Stanford's Ponzi scheme which has cost investors like ourselves over $7.2 billion in total. We have petitioned the SEC to mandate SIPC to compensate us, the victims of Stanford's Ponzi scheme. The SEC has been aware of Allen Stanford's illegal activities since 1997 and has done nothing to shut him down. My wife and I invested $500,000, the majority of our retirement funds, to buy Stanford International CDs from Stanford International Bank. The CDs were never purchased; Stanford and his confidants used these funds to keep the Stanford Group company from becoming insolvent.

I have written SEC chairman Mary Schapiro on this situation, describing how severe the financial consequences are for my family and the other Stanford victims (Stanford Victims Coalition) if SIPC and the SEC don't decide to solve this problem. Many Senators and Congressmen have stepped forward in their written and vocal support in meetings and correspondence to Mary Schapiro, but the SEC has done nothing. Schapiro and the SEC have known about Stanford since 1997 as I previously mentioned. And we victims have been held hostage for 2 ½ years after the SEC shut down Stanford's brokerage business and has done nothing to recompense the victims. I am 67, my wife is 68 with no job and my job is very low paying. The interest earned on the Stanford International CDs (which were never purchased) was to make the principal, interest, taxes and insurance payment on our home. Not having that interest has put our personal cash flow in a crippling situation and filing a personal bankruptcy is a negative possibility. Pat and I are sincerely asking you to demonstrate your influence and pressure the SEC to do what is only fair and the right thing so we and the rest of the Stanford victims recover our collective financial futures. I am not asking your help for a cause that is not real to the American people and this group of us who have $7.2 Billion at stake. Washington DC has kept this out of thepublic eye, but our case is not dissimilar to the Bernie Madoff Ponzi scheme, which everyone heard about.

If I can help provide more detail, please call me at 501/352-6401 or my business email is bcoker@dpath.com.

My mailing address is 5309 Edgewood Road, Little Rock, Arkansas 72207.

Sincerely, William Thomas Coker

2nd Congressional District Arkansas -- Tim Griffin

Sent by: Patricia Caughey Coker golfncook2@aol.com

5309 Edgewood Road

Little Rock, AR 7220

501/352-6401 cell

501/614-7275 home

My name is Jorge Diaz and I am a 72 year-old Stanford victim. I am an accountant who retired a couple of years ago. A friend mentioned me about Stanford Group Company(SGC) and the interest rate (at that moment was 1.3 higher that my bank was offering me). I went to the Miami office locate at 201 South Biscayne Boulevard, 21st Floor and met the personal banking representative. I checked and asked and all I got were excellent reviews about SGC /SIB; and that they were a solid and trustful institution with strong investment programs and that was the reason that they can offer a better percentage rate to be competitive in the financial market era where every bank was given money and making loans. I made my decision and I purchased a certificate of deposit with my whole life savings to have a secure nest for my wife and me in the years to come. Everywhere I looked and every correspondence that I received stated that SGC was a member of the National Association of Securities Dealers and of The Securities Investor Protection Corporation (SIPC). I lived the American Dream, I got a job that I liked, I got a beautiful and modest apartment on the beach, and we only had to worry to spoil our grandkids. Unfortunately, my wife was diagnosticed with breast cancer and had to go through strong chemotherapy sessions. I started to work part time then and thanks to my son financial help and my savings and did not have to lose sleep about the money. Sadly, everything was gone in five minutes one morning of February 2009. I saw how all my life work and sacrifice was robbed from me and my family.

With the coming days after that, everything went worse. My son lost his job and could not help us anymore. I had to go back to work full time for less money instead of thinking in complete retirement. I could not afford to pay my mortgage these days because everything is increasing –maintenance fee, insurances, special assessments due the amount of foreclosures in the building, utility bills, etc-. And since my son cannot come up with the money for help us any longer, I will soon face a foreclosure process. We are an old couple of American citizens who believe in an institution that promise to us security and respect. We do not go to another country to hide our savings, we went to a bank in United States territory. We constructed a safety nest for our golden years that due the lack of government warnings and actions, it turns out a terrible nightmare in just minutes. Waiting to hear from you,

Jorge Diaz

Congresswoman Ileana Ros-Lehtinen (18th District – Florida)

May 11, 2011
Stanford Financial Ponzi Scheme Experience
My husband Jon Bell and I invested in a 1-year Stanford International Bank CD on February 23, 2008. At the time there was growing concern over the health of many U.S. Banks and several friends and Stanford customers recommended we consider investing in the Stanford CD. After researching the Stanford International Bank online, it appeared from all information available that this was a stable bank of substance. There was no information available stating that the bank was being watched for suspicious activity for many years.

When we invested in the bank, we wired our funds using the wiring instructions provided by SIB, which detailed the various banks that our money would flow through before reaching the Stanford International Bank. The current information indicates that our money never reached SIB at all. The funds were stolen from day one. All the while

however, we received statements both through the mail and online at the SIB website indicating the continual growth of our CD funds. Our CD was expected to mature in February 2009. However, within two weeks of the maturity date, on February 17th, SIB was closed down and the bank's suspected fraudulent activity was finally publicly exposed.

My husband and I, as well as many Stanford victims chose to invest in the Stanford CD's because they appeared to be a safe investment. We do not have a large amount of money behind us for retirement, and the money we invested in Stanford was a significant portion of our total worth. Losing this money greatly affects our future. My husband and I do not have children or pensions, which makes it even more important to be able to ensure our future livelihood. We are dependent on those funds to support ourselves.

We were dismayed upon discovering that the S.E.C. has known about the suspected fraudulent activity of Robert Stanford for many years, but provided no warning to American investors – the exact group they are supposed to protect from this kind of harm. As a result of Stanford's fraudulent CD's and the lack of warning to American investors, many of us are now in perilous condition in terms of our financial health. Our only hope is that we can be reimbursed for our funds through the S.E.C. We do hope that this organization takes responsibility for not warning American investors of this suspected fraud, which they knew about years earlier.

Sincerely,
Joan G. Frank and Jon A. Bell

Honorable Representative Dr Bill Cassidy

Thank you and all your co-workers for your efforts to seek justice for us and all the other victims of the Stanford Financial Group. Upon my retirement from Exxon Mobil in 1999 I put my entire retirement settlement (cash in the form of a lump sum annuity payment and considerable shares of Exxon stock). In 2007 we also invested insurance proceeds

from a Mississippi home we lost as a result of Hurricane Katrina. We were saving this to rebuild. Since then the crisis of Feb 2009 occurred and we have learned of the lack of oversight by the SEC. The SEC was aware of wrongdoings since the early 1990's. Had the SEC acted promptly we would never invested with The Stanford Financial Group and not have suffered this great financial and traumatic loss.I am now 73 and my wife is 70 and we now face our retirement years with not enough funds to see us through our expected life span—all due to The Stanford Financial Group and the failure of the SEC to do their job. We hope you are successful in your efforts to obtain fair and just treatment for us and others.

Your Fellow Louisianans,

Gail and Numa Marquette

2282 Eliza Beaumont Ln

Baton Rouge, La 70808

225-387-0519

nlmarquette@bellsouth.net

Congressman Bill Cassidy (La.)
Congressman Greg Harper (Ms.)
United States House of Representatives
Washington, D.C.

Dear Congressmen-

My husband and I owned and operated our own small business in Dallas, TX for over 25 years. We worked long hours, seven(7) days a week to provide service to the multi-family industry of Texas. As you may know, there were many years between 1970-1996 that were very "lean" for the industry nationwide including the Resolution Trust Years of the mid to late 1980's.

When businesses were being shut down by the hundreds we persevered through hard work, ridiculous hours and bankrupt clients. We kept 30-50 employees working and sometimes paid them even when we couldn't pay ourselves. We gave them benefits including insurance and paid vacations when we couldn't afford them for ourselves. Our goal was to survive and succeed through any adversity in order to achieve financial security and independence for ourselves. We paid taxes-a lot of taxes- during those years. We did so knowing that they would help support government institutions put into place to look out for our best interests when we know longer had a business income to rely upon.

We were fortunate enough to sell our business in 1996. Our hard work and dedication had paid off and we would not have to worry about our financial security in the future and we could enjoy the rewards of our success after surviving so many pitfalls and obstacles. This country had been good to us and we had ask nothing but the opportunity it afforded for entrepreneurs like ourselves.Now we find ourselves in the uncomfortable position of needing our government to step up and give us the protection we paid for through all of the preceding years.

The proceeds we received from the sale of our company were invested with financial institutions that were registered brokers with the SEC. The peace of mind afforded by the SEC logo was our assurance that our money and future were protected. Our financial advisor - the only advisor we have had since 1996-was employed by and worked for ONLY companies registered with the SEC. We felt secure that a financial services company being monitored by Securities Exchange Commission could not be unethical or fraudulent. If they were found to be in non-compliance, the SEC would "sound the alarm" to potential investors and shut down the operation.

After years of trust, service and performance, we kept our retirement funds with our

financial planner when he joined the Stanford Financial Group in 2007. He joined the company only after performing his due diligence with regard to the company's stability and reputation with the SEC. There were no red flags or warnings made public at that time by any government watchdog agency. Then-in February, 2009-investors like ourselves had their life savings, retirement security and financial independence put in jeopardy because the SEC did not do its job.

The examination staff at the SEC's district office in Fort Worth, Texas reviewed the Stanford Group's operations in 1997, concluded that its sale of certificates of deposit likely constituted a Ponzi scheme, and referred the matter to SEC enforcement staff. Mr. Stanford kept on selling his seemingly too-good-to-be-true CDs, so SEC examiners investigated again in 1998, 2002 and 2004. Each time, they concluded that the Stanford operation was a probable Ponzi scheme and urged SEC action. Each time, the enforcement staff failed to act.

If we had been aware of these findings, we certainly would not have moved our financial security into the leaking vaults of the Stanford Group. As a matter of fact, if the SEC had performed and acted responsibly THERE WOULD NOT HAVE BEEN A STANFORD FINANCIAL GROUP IN 2007. We are 75 and 67 years of age. Our financial and physical health have been seriously jeopardized because the agencies put in place to protect us did not do their job. Hopefully, our elected representatives, such as yourselves, will actively intervene on our behalf.

We cannot thank you enough for being the "standard bearer" for our cause. We have always relied on ourselves and each other to provide for the future. But now we must rely on you and others like you to "do the right thing".

Sincerely,

Diana Smith

Don Barker

Texas Congressional District #24

Steven Graham
8733 Siegen Lane #371
Baton Rouge, LA 70810

T 225-907-3444

destinfun@aol.com

May 11, 2011

Congressman Cassidy

Stanford.Victims@mail.house.gov

Dear Congressman Cassidy,

I am writing at your request to describe my life surrounding and since becoming a victim of the Stanford Ponzi scheme. It has not been pretty.... Since I had been approaching retirement and did not want to risk my life's savings in the equity markets, I agreed, in 2003, to invest as advised by those at the Baton Rouge office of the Stanford Group in what was held out to be SAFE and LIQUID investment instruments, aka Certificates of Deposit .... I had had a relationship with the Stanford people as early as the late 90's and these folks were very carefully researched and selected to be my SIPC / FINRA investment advisors after an exhaustive review process... I believe that if one hires an investment group for their advice then one should in fact avail oneself of it.... and since my investment experience prior to the CD's had been predominantly positive, I had no reason to believe this advice would be any different..... I wanted to protect what I had ..plain and simple!!! I invested in these CD's in 2003 fully 6 years after the SEC, according to reports since, knew that Stanford was most likely a Ponzi scheme!!

Had I been warned or any news at all would have been forthcoming regarding them I of course NEVER WOULD HAVE INVESTED IN THEM!!! 6 YEARS LATER!!! 6 YEARS!!! But then I digress...

After the USG moved in and closed Stanford, all my money was frozen and additional assets I had purchased through them and stored as a convenience to me at the local Stanford office vaults had been confiscated ... it took nearly a year for anyone associated with the USG / Receivership to even ACKNOWLEDGE its existence... I have had to sell off everything including these assets just to live.... I have reached the end of these assets now and in the last two years have been in and out of the hospital with failing health and failing eyesight.... By summer's end I will have lost my home and will have no place to go... My credit score, which was in the 700's prior to 2-19-09 has been RUINED!!! I will not be able to rent or buy anything in the future to live in or otherwise because everything now is UNFAIRLY tied to credit ratings... even finding a JOB if there were one to find!!! All of this in the worst economic environment in my lifetime.... I have no other place to turn and will soon be a ward of the federal government for handouts or programs to take care of just my most basic needs.... Today one can't even be HOMELESS without risking life and limb!!!

I implore those in elected and appointed decision making roles of our government to provide us the help that we so sorely need .....

Wednesday, May 11, 2011

Jorge and Ana Pereiro

(18th Congressional District)

501 Malaga Avenue

Coral Gables, FL 33134

305-446-3003

anapereiro@bellsouth.net

To Whom It May Concern:

My wife and I are victims of the "Stanford Ponzi Scheme". We are 66 and 69 years old, respectively, so this fraudulent event has had a significant impact in our lives.
My wife and I have worked very hard all our lives to save the $300,000.00 dollars we invested with The Stanford Group. We have two children we raised in this great country who are both professionals (my son is an attorney and engineer, and my daughter a teacher). We brought up are children with the values and principles this country was based on: Hard work, honesty, sacrifice, responsibility, and a willingness to fight for your rights. My wife and I have only driven used cars. Cars we rode until the wheels were ready to fall off. We worked hard, and were conservative with what we earned, so we'd never be a burden to our children or our government. We planned not only for our future, but our children's as well. We did what we were so suppose to do to live 'The American Dream'

We invested our money with Stanford because we were aware that Stanford had been in business in the United States for over 25 years, and had offices across the this great Nation. Our grief is immense. We cannot believe that the SIPC will not provide relief for this atrocious mishandling of our funds, especially after finding-out that Stanford has

been under investigation for massive, ongoing fraud for many years by the SEC, SIPC, and other agencies of The United States. We were never even issued a warning. The purpose for the SIPC is to provide relief to victims whose money has been stolen by unscrupulous brokers. Is there any question, that this is in fact, the case with Stanford? We didn't give our money over to someone who didn't have any history or record, of providing financial investment vehicles that were not sanctioned by The United States. We went to 'Stanford', a well-known name in the financial industry, respected across the US.

My wife and I have been working for over 40 years with never a complaint. We believe in earning what we're paid. Sacrifice and hard work doesn't scare us. But, we MUST complain NOW. We must continue to fight for our rights.

My wife and I demand that the SEC publish a transparent record from the Inspector General's investigation of the SEC's inability to stop the Stanford fraud for so many years.

We hope this letter finds you well. And, I hope my plea will not fall on deaf ears.

We have always put our faith in this great country. Please don't let us down now, in our moment of need. The government of the United States of America is our only hope.

Sincerely,

Jorge and Ana Pereiro

(18th Congressional District)

501 Malaga Avenue

Coral Gables, Fl 33134

305-446-3003

anapereiro@bellsouth.net

Al Pleasants: P.O. Box 4053; Tupelo, MS 38803-4053; (662)680-4803

Losing my life savings hurt my family and just about assures me of not retiring anytime soon. I have been taught all of my life that business is primarily based upon trust. We became customers Stanford through our financial advisor of whom we trusted and did business with for approximately ten years. We were introduced to the Stanford CDs by liquidating our Hartford Leaders Outlook Variable Annuity based upon our broker's recommendation. In July 2007 our IRA life savings was moved to a CD with Stanford Trust Company (STC). Our advisor assured us that our investment was safe, backed by Stanford's billons. In fact our life savings never went any place except to Alan Stanford. He stole our life savings and provided us with a torrent of reports showing us how great the fund was progressing. I received a final check of $112.00 closing my IRA account. This is all of the monies I ever received from my IRA (STC – SIB CD). A life time of working, saving and planning only to find we were funding Stanford's lavish life style and generous habits. And what is so pathetic is our own law enforcement officials watched the festivities Stanford had with our money and did nothing. We trusted the scrutiny of our government oversight, too late coming to the realization they knew about Stanford's corruption as far back as 1997; way before we became a victim of his theft and deception.

In 2009, my wife and I filed a request with the SEC/FINRA for SIPC insurance coverage but were quickly denied. Also, we have contacted all of our representatives and senators for support and changes in the laws hoping for SIPC coverage and recover some of our losses via immediate IRS theft loss deductions as both were granted to Madoff victims.

These benefits would tremendously help victims like me who have been delivered a devastating blow by our federal government regulators.

My wife and I are blessed that we can work and pay our bills but we are at retirement age. My retirement is gone, and working to replace the money that has taken us a life-time to save is futile. We are praying God will intervene and help the thousands of victims like us who can only hope our government/SEC will do the right thing for the very people they are sworn to protect.

Pamela Reed and Bob Gibbins
1503 Harbor View
Austin, TX 78746
512-327-0083
21st District of Texas

Our trusted financial advisor of 18 years was recruited by Stanford in 2007. After doing some due diligence we joined him at his new office. We transferred all of our investments.... securities, bonds etc....from Smith Barney to the Stanford office in Austin, TX. The CD product was introduced to us shortly thereafter. We were assured that the SIPC would cover any potential losses and that these CD'slike

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May 12, 2011

Dear Sir or Madam:

My name is Maria Diaz. I reside at 725 Pinewood Road Union, NJ 07083 and my phone number is (908) 687-7579. I am a 72 year old female that came to this country in 1960 from Cuba and obtained my US Citizenship that same year. Since arriving in this country, I have always worked. After my divorce in the 1990's, I began working two jobs in order to save for my retirement.

I first became aware of the Stanford Group in the early 2000. I began transferring my IRA SEP, regular IRA, and regular accounts into their CD programs. These monetary

investments were purchased at the Stanford office in Miami, Florida USA territory. I was told that these CD's were safe, secure, and fully liquid, if necessary. Stanford was a member of FINRA, SIPC, as well as being authorized by the state of Florida and the US government. In fact, their brochure contained a letter from former president George W. Bush exclaiming how fantastic the Stanford Group was.

Now, at the present time with a heart condition, diabetic and other medical problems, I am still working two jobs, in order to survive. My life savings has evaporated. I have suffered severe depression and I have no idea how I will be surviving in the future, if I have to stop working. I fail to understand how the Stanford Group could possibly escape the yearly audits, etc. by the SEC and other government agencies allowed Stanford in order to operate an ongoing Ponzi/fraud scheme since the middle to late 90's. After researching prior to investing my monies, I could not find anything negative about the Stanford Group. All these alleged allegations and suits were all kept secret from the investing public.

I hope myself and all the Stanford victims will receive some type of compensation.

Thank you in advance and please feel free to contact me at the above address and phone number as well as my email mariadiaz22@aol.com .

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Sincerely,

Maria I. Diaz

STATEMENT OF BURL L. "WALT" WALTON

My name is Burl L. "Walt" Walton. My address is 1260 Winwood Cove, Tupelo, Mississippi and my telephone number is: (662) 844-8012.

I am 76 years old and was retired prior to the loss of my retirement account which was invested in Stanford International Bank CD's. After Stanford lost my retirement funds I was forced to go back to work to support me and my wife. My wife is in bad health and I was her caregiver. It has been expensive to employ people to take care of my wife while I work.

I worked hard and saved enough money to give me and my wife financial security in our retirement years.

Neal Clement was an officer and a financial advisor for Stanford Financial in Tupelo, Mississippi. I placed my trust and confidence in him. My retirement funds had been invested in an annuity with a life insurance company. Mr. Clement advised me to invest in Stanford International Bank CD's which were insured, safe and had a high interest rate. I reminded him that this money would have to fund my retirement. Neal Clement assured me that the CD's were "safe", "guaranteed" and "insured" by "a major insurance company".

Since I placed trust and confidence in Mr. Clement and knew he was knowledgeable regarding investments, I purchased Stanford International Bank CD's. I am not knowledgeable about investments.

In January of 2009, I made a written request that the money (supposedly invested in the SIB CD's) be transferred to another account. I was told by Mr. Clement that the funds had been transferred into another account at Pershing Bank, but he had not received confirmation from Pershing. After the SEC took control of Stanford and the Tupelo, Mississippi office was closed, I contacted Pershing. They advised me there had been no

activity in my account and no funds had been transferred. Subsequently, I received an account statement showing I had a $0.00 balance. My life savings of $430, 000.00 was lost. As a result of the Stanford Ponzi scheme and the advice of my broker, my life has changed. It is extremely difficult to get up at 4:00 a.m. or 5:00 a.m. and drive to Arkansas or Tennessee to work. I have to come home at night because of my wife's bad health.

The loss of financial security, returning to work at 76 years old, paying people to take care of my wife while I work and other financial stress have taken a toll on me and my wife.

I have done everything within my power to recover the money that I lost as a result of the actions of the Stanford Group and my former financial advisor. I filed a Complaint against my former Stanford financial advisor in Mississippi state court. The Mississippi Supreme Court ruled that I could not pursue my claim against my Mississippi Stanford financial advisor because he is protected by an Order of the Federal Court in Texas in the Receivership action. I have been denied due process of law and any remedy for my loss.

I cannot understand how the various government agencies that were responsible for monitoring and overseeing the Stanford Group failed to perform their duties and allowed this to happen when they had been repeatedly warned about Stanford's illegal activities.

Our Stanford financial advisors and the Stanford Group failed us, various government agencies failed us and the Courts have failed us. We hope that Congress does not fail us. If Congress can do anything to aide the Stanford victims in recovering our money it would be greatly appreciated.

May 11, 2011

Gentlemen,

Robert Allen Stanford, along with my financial advisor and his worldwide network, stole my Individual Retirement Account which I accumulated over the course of forty years. This type of theft was ongoing long before I joined the Stanford Group with full knowledge of the responsible federal regulatory agency located right here in my own backyard! Their failure to intercede has now forced me into a financial hardship during my retirement years from which I will never be able to recover. Of course with your assistance, if I were to receive any remuneration, the US Treasury would collect roughly 25 cents of on every dollar I recovered.

Cogitate on that for a moment!

Meanwhile, I'll be driving my 20 year old car down to the old folks Medicaid home.

Sincerely,

David Hardesty

5810 Trail Lake Dr.

Arlington, TX 76016-1509

davehardesty@tx.rr.com

817-451-1597

Texas 6th Congressional District

May 11, 2011

Robert & Georgia Ann Holt
2829 Hwy 121
Otis, LA 71466

Ph# (318)793-8354 email - aholt46492@aol.com

To: To Whom It May Concern:

I, Robert Holt and my wife, Georgia Ann Holt are victims of the Stanford Financial Ponzi scheme. I have been a self-employed Masonry Contractor for the past 35 years in Louisiana, working outside in construction and being a bricklayer in not easy work in Louisiana. My wife and I worked in the business together, she was my secretary and accountant and I ran the masonry business. We have always saved our money for our retirement, hoping one day we would be able to live a comfortable life and enjoy ourselves in our old age. We were told we should hire a financial advisor to help us with our investments, which we did. Originally our advisor worked with Merrill Lynch and we put our trust in him and believed that he was looking out for our best interest. He then moved to Bear Stearns, and we stayed with him, and then he decided to go to work for The Stanford Group. Each time he moved with another company we went with him, because we trusted him, and he seemed to be doing a good job.We thought we were doing everything right, by investing two- thirds of our money in cash, which at my age, now 61, was the right balance, with the rest of our money in stocks. Every time I invested in a CD, I would always ask my advisor how safe the CD's were and he assured me they were safe and that the SEC came every year to audit Stanford Group and there was never any problems. In 2008 I thought I would be able to retire, since my parents were having health problems. My Father had 3 strokes and in 2004 my Mother was diagnosed with Alzheimers. By this time she was considerably worse and I wanted to be able to take her to California to visit her family and to New Mexico to visit her daughter

while she still knew them. During this same time my brother was diagnosed with stage 4 throat cancer and he needed me to take him to his chemotherapy and radiation treatments. That was the main reason I wanted to retire at that time, so I would have time to be able to help them, and I thought I would be able to afford to, even though I was not old enough to draw my Social Security, I had enough money saved up to take care of myself. You would think after working for 35 years in your own business and always saving and planning for the future that you could retire. But no, someone comes along and steals your money and turns your life upside down. Almost immediately after I made the decision to retire and let my son take over my masonry business, we got the news that all our assets were frozen and we could not touch anything for several months. Eventually our stocks were given back to us, because we had never drew anything out of our investments, including our CD's. But of course, our CD's were gone and they were the main part of our retirement. Still, I was very Blessed to be able to take care of my mother until she passed away in May 2009, and then my brother passed away in June 2009, one month later. I thank God for allowing me the time with them, I would not have changed that for anything and am thankful for it. But after that reality set in, and I had to regroup and go back to work laying brick, which is not easy at my age. My son also put my wife back to work helping out in his business.We were very disgusted and disappointed when Allen Stanford's trial was delayed because of his health problems. All of the allegations and complications pertaining to him seems to me to be self inflicted by him or intentionally done by whomever was supposed to be taking care of him, after all he is in prison. He needs to be treated like the criminal he is ,to to trial and hopefully we will be able to get some part of our money back and go on with our life. We, the victims nesomeone to stand up for us and fight for our rights, because whoever the government officials were that was supposed to be checking and auditing Stanford's

books, were not doing their job and need to be held accountable. Evidently this had been going on for years, and people were told or paid to look the other way, for whatever reason. I assume it was because that what they were doing was illegal and had to be covered up. There definitely needs to be better rules and regulations concerning investing, because it is to easy for criminals to scam people out of their life savings. Something drastic needs to be done to set an example in the future for people who thinks it is so easy to ruin families lives, by stealing what is not theirs. Thanking you in advance for any help or information that you can give us.

Sincerely,

Robert S. & Georgia Ann Holt

May 12, 2011

To: The Honorable Congressman Bill Cassidy

The Honorable Congressman Gregg Harper

My name is Phil Wilkinson. On February 16, 2009, my wife, Cassie, and I had just returned home from a short trip, our grandchildren were coming for dinner, and we were thrilled to see them. Later that night we chatted about trading in Cassie's car, going a summer trip we had planned to New Mexico with friends and other small talk that is common between two people whom had been married for 40 years. We had no way of knowing that what would happen the next day, February 17, 2009, would change the course of our lives and our retirement forever. Like approximately 5000 other American investors we awoke to the news that offices of Stanford Group Company had been raided by Federal Marshalls, closed by the SEC and the financial security that we had so carefully planned had been stolen without a hint, warning or word by Allen Stanford, his

financial advisors at Stanford Group Company (SFG) and 13 years of gross negligence by the SEC…

We had known our Stanford financial advisor, Doug Shaw, since 1997, when my wife and her business partners selected him manage their company 401k plan. We began investing small amounts with Doug after that; but I had been employed by Saudi Aramco for 28 year so most of our money was in my 401k and future retirement plan. We met with Doug to for a pre- retirement consultation in 2002. It was then that he became aware of our financials. At that time he was with Wachovia.

When I retired Doug was still with Wachovia. Looking back I realized that he was planning his move.

When Doug moved to Stanford, we moved with him. Our investments were doing well. Of course the market was doing well. In 2007, Doug called to say that he had an opportunity to offer us that had not been available before to his IRA investors. He thought that we should take $500,000 out of a Kemper annuity and roll in into a Stanford "Trust" CD. We did not know until well after the closing of the Stanford Companies that the Trust Company had been in business since 1999. I remember my wife, Cassie, asking why we should pull money out of the market when the interest rate on the CDs (8.25%) was much less than we were making in the market. His reply was that a CD was the safest investment you could make and it would protect us from the fluctuations from the market. We trusted him. After years of working with him, he had become a friend. Stanford Group Company was becoming very well known, and furthermore, our money was going to be held in trust at Stanford Trust Company, in Baton Rouge LA. We felt as if we had made a very wise investment.

In mid-November, 2007, Cassie's former business partner, who is also a Stanford investor, called to tell us that she had heard that there had been a run on the Stanford

Bank in Antigua, no one could cash out their CDs and that the SEC was investigating them. I immediately called the SGC Houston offices in Houston to speak to Doug Shaw. After telling him what I had heard, he confirmed that there had been a run on the bank and that Mr. Stanford had put a "temporary" hold on redeeming CDs to protect all the investors. There was anger in his voice. He went on to say that the SEC was making a example out of Stanford because they messed up on the Madoff case so badly. He said Stanford had put $1B of his own money into the Bank to shore it up so that there was nothing to worry about. We made a verbal decision then that we would start taking interest out of the account, which we had not done before, and when the temporary hold was lifted we would redeem the CD. We completed the paperwork to start the withdrawal of interest, but by that time it was too late.

What followed has been a nightmare. Cassie and I are educated professionals but we know nothing about investing. Stanford Group Company was a SIPC insured brokerage, the CD's were sold as securities and registered as such with the SEC and Doug Shaw was FINRA registered financial advisor. We knew enough to look for those things. It never, ever occurred to us that the SEC was not doing their job and that for 13 years investor's money was being stolen while the SEC watched. Cassie and I should have never lost our money because we didn't invest until 2007. There was no excuse for our loss, yet we had $500,000.

Our retirement is ruined. We have been forced to put our house on the market to sell. In the beginning of the horrible mess when the receiver had all of our assets frozen for 4 months, we were forced to drop the price of an investment property by $50,000 in order to sell it quickly because we needed the money we had invested in it. We are beaten up, too old to ever earn that much money again and struggling with the resentment we feel

toward the SEC for allowing this to happen in the first place and then turning their back on us and treating us as if we should just suck it up and shut up.

The receiver, Ralph Janvey, has spent more money than he has found. He and the his lawyer Kevin Sadler, Baker Botts, have become rich men at the expense of the Stanford investors, but our only hope for any kind of recovery is through SIPC coverage.

My prayer is that the SEC will do what is right and finally put the Stanford estate into SIPA liquidation. It is our only hope to retire with financial dignity.

Sincerely,

Phil Wilkinson

6001 Travis Woods Cove

Austin, Texas 78734

512-963-4062

District #21

Mr. & Mrs. Cornelius L. Shaw, Jr.

4943 Tealwood Court

Baton Rouge, Louisiana 70809

225-295-0995

I am a paper/print salesman. In 2002, while visiting with my top customer, Mr. Bob Potter President of Area Wholesale Tires, I mentioned that my wife and I were unhappy with our current financial advisor and asked if he could make a recommendation. He was a top businessman in Baton Rouge and often interviewed by the newspaper for his business acumen. He pulled out a business card of Hank Mills, Vice President/Financial Consultant with the Stanford Group Company, member NASD/SIPC and said, "this man will do what he says and I use him as my advisor". That is how our relationship started. We met with Hank Mills at 445 North Boulevard, 8th Floor here in Baton Rouge and walked through the door with SIPC prominently displayed. We first moved our

brokerage account to Stanford and then were told about the CD program. Hank knew that our primary goal was for a safe investment to provide an income for retirement since neither of us had any type of pension plan. Before Stanford we each had 401-K's, CD's and savings in stocks and rental property.

Over the next 6 years, we were presented with enough evidence to feel very secure in gradually turning all of our hard earned money over to The Stanford Group Company. This included monies inherited from both of our parents, our 401-K's into The Stanford Trust, the sale of rental property and two lifetimes of hard work and savings. All of this was our advisors plan to prepare us for retirement. We lived very frugally, had no debt and strived to be self sufficient and safe in our old age.

Every March my company has an annual sales meeting. In 2008 I was preparing to retire after the March meeting. The month prior to my retirement, our entire life's work and security was stolen from us. The SEC had been investigating the Stanford Group for years and had enough evidence to think that the CDs were a Ponzi scheme, but we were never given any indication that there were any questions about the legitimacy and solvency of Stanford.

Currently, I am 65 years old and still working full time with no end in sight. My wife quit her career over 10 years ago to take care of her parents, and then her mother lived with us for almost 5 years with Alzheimer's. Our plan to retire and travel and enjoy our senior years has been devastated and our future is in peril.

The knowledge that all of the work, savings and planning and the hard work and sacrifice of our parents was stolen has taken an extreme toll, emotionally, physically and financially.

Dear Members of Congress,

My name is Elizabeth Soileau, and I'm a Stanford fraud victim.

Here is my story…

I was a single parent for many years. No college degree, but worked hard, always held multiple jobs at the same time. Saved, saved, saved. Paid off my home mortgage in full in 12 years, by ALWAYS paying extra each month. Always drove my car for at least 10-12 years before getting another one. Sewed my own clothes, etc.

The dream was to save up enough to live frugally and be able to work part time when my grandkids came along, so I could help out with childcare, etc.

In April of 2008, I sold my house in order to downsize. I rented a small cottage, until I decided where my next home would be, and put the entire proceeds from the sale into safe CDs at Stanford, $150,000. Over the next few months, I also invested all of my other savings, earned with extra jobs and a small profit from renovating an old building (real sweat equity!!!). The total amount I invested in SAFE Stanford CDs was $408,000 (principal), from May 2008 to January 2009.

In February of 2009:

02-04-09 Celebrated my birthday with my family, felt blessed to be surrounded by such loving folks.

02-07-09 My daughter announced she was pregnant with my first grandchild! Such Joy!!!

02-17-09 The news about the Stanford fraud breaks… I feel like I had been literally punched in the stomach. This just can't be true. It's all GONE!

I had to tell my daughter I couldn't help with childcare.

Losing my life savings hurts my family and just about assures me of not retiring. Business is based upon trust. We trusted our advisor and did business with him for approximately ten years. He assured us that our investment was safe, backed by Stanford's billons. Also we trusted the scrutiny of our government oversight, too late coming to the realization they knew about Stanford's corruption way back before we became a victim of his theft and deception.

My wife and I filed a request with the SEC/FINRA for SIPC insurance coverage but were quickly denied. Also, we have contacted all of our representatives and senators for support and changes in the laws; hoping for SIPC coverage and recover some of our losses via immediate IRS theft loss deductions as both were granted to Madoff victims. These benefits would tremendously help victims like me who have been delivered a devastating blow by our state and federal government regulators. My hope is our congress and SIPC will come through for the Stanford investors who have lost all.

My retirement is gone, and it is too late to replace money that has taken us a life-time to save unless God intervenes. My wife and I are blessed that we can work and pay our bills but we are at retirement age; 57 and 63. There are thousands who can't even do this. The only course of action that I recognize is for the SEC to do the right thing, grant the insurance coverage.

Al Pleasants

1308 Michael Circle

Tupelo, MS 38801

(662) 680-4803

President Barack Obama

The White House

1600 Pennsylvania Avenue NW

Washington, DC 20500

Dear President Obama,

My name is Mark Shapley and I live in Mississippi with my wife of 25 years and like you, I have two beautiful girls that I had hoped would benefit from my life's hard work. I pray that this letter arrives in your hands as I have exhausted all other options for help and I believe that when you are made aware of this injustice, you will be compelled to assist.

Nearly two ago, my life and the lives of nearly 5, ooo other Americans were turned upside down when our life's saving where taken from us by Allen Stanford of Stanford Investments. I, like many others, invested with Mr. Stanford because I was tired of the corruption of Wall Street and I just wanted some security in my retirement years. My due diligence on Mr. Stanford and his company was very extensive and for the most part, he was heralded as a great American and was proudly depicted in photos with many congressional members and President Bush himself. His company literature proudly displayed the badges of our governments overseeing agencies but as it turned out, I had entrusted my savings to the greatest of all scam artist and in a matter of moments, my life's savings had disappeared.

While that in itself was difficult to accept, it has come to light in the recent report of the Inspector General's, that our government was aware if not complicant in aiding Mr. Stanford in his deceit. For nearly thirteen years, reports of Stanford's questionable

practices were ignored within the office of SEC which eventually led to our total loss. It is well documented that for over a decade, our government had numerous opportunities to stop Stanford's business practices but set idly by while good, hard working citizens poured their savings into a bottomless pit.

I, like most Americans, wanted to believe that while there is corruption pervasive in our business would, we could count on the government, which we fund, to do what was right for us and America. It has truly been disheartening to realize that I was apparently mistaken. While I have tried not to become a conspiracy theorist, it is very difficult to understand why our government would stand by and not take action in correcting their blatant oversights. Several government agencies are mentioned in the report that should have and could have stopped this travesty but did not and to this day will not accept responsibility for their inaction.

Mr. President, I implore you to dedicate someone to research this matter for your better understanding as the evidence is vast and overwhelming. I recommend you start with our own government report of the Inspector General which clearly states that the SEC had no fewer than four different occasions to stop the fraud and did nothing. Since that report, it has also come to light that several of the SEC employees that testified to the investigation, are now themselves, being investigated for lying to the Inspector General. Someone for some reason doesn't want the truth to come out and we as regular citizens are catching the full brunt of their deceit. We also understand that there is a new report, to be released soon, from the Inspector General Office that sheds even more disturbing light as to the deceit of the SEC and other government agencies.

I could write pages on the evidence available and of the trails we have been through, but I trust you will find out for yourself what we have faced for the past two years. Mr.

President, please help us regain our lives and our future as well as our respect for our government we once held in high esteem.

Sincerely,

Mark Shapley

markshap@aol.com

125 Woodmont Way

Ridgeland, MS 39157

601-853-0514

William L. Lewis
7003 Gardner Pond Ct.
Charlotte, NC 28270
704-364-6020
9th Congressional District

May 10, 2011

Dear Congressmen Harper and Cassidy,

My name is William Lewis and I am one of those victims of the Stanford Ponzi scheme. I invested 40% or $200,000 of my retirement IRA into the Stanford CD's because I was told by my Stanford Financial Advisor in Charlotte NC that they were safe and paying a slightly higher return than other choices. Little did I know about the internal incentives being given within Stanford Financial.

This sounds pretty simple as I have been directed and been doing this for many years as I have tried to grow my retirement fund. I am now going to turn 68 this summer and I cannot retire and still take care of myself and wife.

To make the fact that I was misdirected by a U.S. domestic brokerage office and cheated/defrauded of 40% of my IRA Retirement Fund much worse is the fact that my own U.S. Government is leaving me and other Stanford victims out on the street like yesterday's garbage. My faith in my Government has been crushed by the SEC and others who say that my fraud is different from Madoff's and that my advisor told me the truth and simply sold me a bad investment that went to zero value. Why is Stanford in jail?

Thank you for all your efforts on my behalf and thank you for making the SEC stand up and be accountable and correct in giving us coverage.

Very truly yours,

William L. Lewis
cblewisnc@yahoo.com

9th Congressional District

CC: Representative Myrick
Senator Burr
Senator Hagan

To Whom it may concern:

I am Terence Beven. I am a Stanford victim. I reside in the Sixth Congressional District of Louisiana. I was introduced to Standford Investments by my financial advisor who left Merrill-Lynch in 2005 and solicited the transfer of my investments to his new employer (Stanford). I had been working with him for ten years and after careful consideration, my wife and I decided to transfer the account. Before this I had done what I thought was due diligence and was not able to find any negative reference to Stanford. In 2006 in preparation for my retirement and in the context of poor market performance my financial advisor recommended Stanford CD's as an alternative to bonds, stressing their safety, secured by Lloyd's of London and the vast personal wealth of Allen Stanford. Between 2006 and the end of 2008 we continued to purchase CD's. These were maintained as a result of continued poor market performance. On 12/31/08 I retired from medical practice. On February 17, 2009 I received the news of the seizure of Stanford assets by the SEC appointed receiver. On that day I lost 80% of my life savings. The residual non-CD holdings were frozen by the receiver. We survived on cash-on-hand for the next 8 months, when part of the residual account was released by the receiver. Survival required great ingenuity and lifestyle alteration.We managed to pay our bills, carry out of family and professional obligations, and when the rest of the account was finally released we re-established another, much smaller, brokerage account in late 2009. The only restitution that has occurred in over two years was from filing for fraud-loss income tax relief. This amounted to only 6% of the investment loss. Additional

restitution from the receiver or legal action appears unlikely at this point. Although we have survived we will never have the opportunity to enjoy the type of retirement we thought we had earned, nor will our children and grandchildren benefit from any significant inheritance.

Terence Beven
3855 Floyd Drive
Baton Rouge, LA 70808

May 10, 2011

U. S. House Committee on Financial Services

ATTN: Congressman Bill Cassidy and Congressman Gregg Harper:

re: Stanford Financial Group ponzi scheme

My original intention had been to retire in Sept., 2001. However, after "9-11", I don't need to tell you what my portfolio looked like. Therefore, I continued working, after investing my "rollover retirement monies" into a diversified account. My Stanford advisor had me invested in the stock market (apx. $246,000.00) and around $150,000.00 in a Stanford CD. (After questioning the lack of FDIC coverage, I was assured SIPCA coverage was the equivalent). My stock investments didn't do very well over the next seven years; yet my Stanford CD's continued to increase in value. In 2008, after the "market" took another down turn, I made the decision (after talking with my Stanford advisor), to invest my total portfolio into Stanford CDS, until the market turned around.

In January, 2009, I retired with my Stanford account at $567,000.00. I received my first investment (interest) check from Stanford on or about Feb. 5, 2009. Together with my monthly Social Security payment, I felt I was set to live a comfortable RETIRED life. Little did I know that on the 16th of February, 2009 (after apparently YEARS of speculations), the SEC would decide to shut down the Stanford Financial Group, sending myself and thousands of others into a

Lynn Gildersleeve
2337 Myrtle Avenue
Baton Rouge, Louisiana 70806

225-485-2683

lynn@rvgildersleeve.com

May 10, 2011

Congressman Bill Cassidy
Sixth District Louisiana
5555 Hilton Avenue, Suite 100
Baton Rouge, Louisiana 70808

Via e-mail: Stanford.Victims@mail.house.gov

Re: Stanford Ponzi scheme

Dear Congressman Cassidy;

It is with deep sadness that I find myself writing this letter. I never thought I would find myself in such a situation at my age. First of all I would like to thank you in advance for the efforts put forth on my behalf and the other Stanford victims; now for the difficult part.

Our family has owned and operated a small business since 1956 located in Baton Rouge. My father who has been deceased since 2000 began the business after returning from World War II and finishing his engineering degree at Manhattan College in New York. He worked his entire life until he was stricken with lung cancer in 1999 and was very proud of his efforts paying off for his family. He was the first member of his family to finish college and to own a house. After many years of hard work he became fortunate enough to begin investing for retirement. He began with Merrill Lynch but was convinced to follow his investment advisor when he moved to Stanford at their very beginning. When doing so he brought along others who put their trust in his and his

advisors judgment. The company 401K plan was put with Stanford. Upon his death I was appointed as the adminstatrix for his estate. I contacted his financial advisor and was assured that he would continue to look after my Fathers accounts so that my Mother would be protected. Upon the advice of Stanford her funds were moved to CD's. My Mother was courted by her advisor to the point of him helping selling and purchasing automobiles, where to put her funds and at one point he was attempting to get her to sell her home using a buddy as the real estate agent and move in to a condo so that she could invest that money as well.

In the meantime I was working for our Company and have been since the age of 23. I am a single Mother of two children. Their father and I divorced when they were ages 1 and 3 respectively. He refused to pay child support and then died suddenly in 2002. I struggled and saved as much as possible. I paid for them to have a home and go to good schools. I was using the same investment advisor as my Father had and felt I was going to perhaps one day be able to retire. In 2005 Katrina handed a significant blow to our family. The family home had been cut in half by a tree. My Mother felt she was too old to deal with the problem so she put the responsibility on me. We received some insurance money and a grant; not nearly enough to repair the place. The funds were put with our Stanford advisor as he assured me this was the safest place for them to assure they would be there when needed. I began work on the home. In June 2007 my Mother passed away. Which is a blessing in disguise as if she had lived she would have no income due to Stanford. In December 2007 I met with my advisor, there were three CD's maturing. He told me the very safest thing to do was to roll them over in to a new CD that way I could not loose the money. We all know what happened in February of the next year. At that point I had two children in college, was in the middle of a contract to rebuild our home and dealing with the downturn in the economy which was and still is

affecting our business. I was forced to take out a loan to finish paying the contractor and have depleted most of the small amount of savings I had left to keep things going. I am now 53 years old and have no idea how long I will be able to hold on. I fear loosing my home, my business and not being able to complete my children's education. I dealt with a Baton Rouge, Louisiana investment dealer located in the United States with SIPC stamped all over their literature. I feel that I have failed not only my self but my family and employees. Each night I lie awake, unable to sleep dreading what may happen the next day. When finally I am able to sleep I then awake in a sweat with my heart pounding. I fear I will loose my health due to the stress this is causing and not be around for my children. They have no other parent or Grandparents, they need me. I worked missing a big portion of their young lives so that we could enjoy the future, were my efforts all for nothing? Everything I hoped for and dreamed about is lost or at risk.

I find it difficult to believe our country, the best country in the world, the USA will not protect hard working citizens. Why are we being ignored? It has been over two years and still no response. I plead with you to offer assistance.

Respectfully,

Lynn Gildersleeve

Allen Stanford has stolen about 40% of our retirement savings. Together, my husband and I lost the proceeds from over 60 years combined pension (paid to us by our employer at retirement). We are not fat cats. We are blue-collar workers who worked and saved for many, many years.

My husband retired in 2001 and I in 2003. We talked with many financial advisors before choosing Stanford Financial Group (SFG). We felt safe with our Stanford advisors. They

seemed legitimate and there at the bottom of their stationary was MEMBER NASD/SIPC. If we'd only known what the SEC knew, we would have made very different decisions. Now, we just hope that someday we can be retired again.

Our lives changed forever the day the SEC slammed the doors on SFG. Imagine having no money. No way to pay for groceries, doctors, medicine, gasoline. By closing Stanford in such an abrupt manner, the SEC left many of us in that position. We had nothing to fall back on during those long six months when the SEC appointed receiver, Ralph Janvey, had our stock and non-SIB (Stanford International Bank) accounts frozen. We had enough cash to survive about 3 months—we were three months away from bankruptcy. If my husband had not been working a temporary job at that time, we would have lost everything—our home, our good credit, our health insurance—and been dependent on the government and/or our children. That is very hard to take when you've always paid your bills on time. Many other Stanford victims were not so fortunate.

I spent many months crying whenever I thought about this ordeal. Even today, two years later, I cry when I think about receiving notice the receiver was suing us. This happened during the six months (with all accounts frozen) when we were worried about every penny. We are law-abiding citizens; we've never been sued. Here we are trying to piece our lives back together and the SEC is suing us because Stanford stole our money? And we have to hire a lawyer? It was just too much.

We are beyond angry with Allen Stanford. He is a greedy, loathsome man. And the way things are going he may never stand trial.

We are even angrier at the government agencies that were supposed to protect and defend us. We question why Allen Stanford was allowed to stay in business when agencies knew something was not right. We wonder why those agencies allowed this fraud to continue

FOR YEARS. We thought we were safe. It said MEMBER NASD/SIPC right on the stationary. So where is NASD/SIPC now?

My husband has been working out of state for over two years. He is 68 years old. He's tired of living away from home. But without his job, we might be forced to sell (at a loss) the home we built in 2008. So we continue on and are very thankful to have a job. We would like to be retired again someday. Getting SIPC coverage would go a long way towards allowing that to happen.

Thank you for your consideration. And may God bless you.

Miami, 05/09/2011

Congressman David Rivera
12851 SW 42 St Suite 131
Miami, Fl. 33175

Dear Congressman Rivera:

My name is Judith Ochea. I am almost 65 years old, with no family in this Country. Like many people my age, I have some serious health problems. I am almost completely deaf. I have been suffering with serious problems in my spine, including osteoarthritis, cervical spondylosis with myelopathy, reduction of the spaces intervertebrals, some hernias in the neck and in the lumbar spine and somedays with terrible pain. I do not have money to pay medical insurance, I cannot afford to go to the Doctor. I also cannot go to surgery for my neck, etc. because I lost all my life savings with Stanford.

Like many of your constituents, I migrated here from Venezuela. I had property in this Country from the 1980's. I decided to immigrate to Miami for several reasons.

I came from a middle class background. I worked very hard as a Medical Doctor in Venezuela for many years .Suddenly I completely lost the hearing in my left side (stress).

My hearing is also reduced in the right side. Because this could have been a stroke located in the artery, I needed access to medical care. I also was seeking a quiet life, far away from the chaos in my native country. I therefore decided to come here. Hugo Chavez was there unfortunately establishing a dictatorship. I sold all of my property in Venezuela, including my home. I then took all my savings and came to Miami, looking for freedom, peace, justice and security .

Here, originally I placed the money in Wachovia Bank and Washington Mutual. I then was referred to Mrs. Maria Villanueva, VIP Senior from Stanford International Bank in Miami by a friend of mine. Mrs Villanueva was a registered broker dealer and a member of SIPC. She suggested that I place my money in Certificates of Deposit (CD's). She called me several times to sell me these securities. She insisted that the Stanford CD's were protected by Lloyd's of London and the Bank only made low risk investments . She convinced me that I was buying SEC registered, low risk securities.

On January 31, 2008 I deposited my life savings with Stanford in a visit with my friend. I had done my research before I took this step. I searched on the Internet before making my deposit. I found nothing but positive information in relation to Stanford International. Unknown to me, Stanford International had been under investigation by the SEC for more than ten years at that time.

Unfortunately, I moved my money to Stanford. The American government decided to close the Stanford International operations in February 2009. Suddenly I found out that I had lost the entire principal of almost $500,000.

Stanford was permitted to operate for years with impunity, giving the impression of a legitimate financial organization regulated by the SEC. Like many people, I did not know anything about Banks and investments and I believed in this people for the reason they stated:

This Bank is here in USA and has to abide by the rules of the Banking System of this Country."

I chose to invest here in the United States rather than in my original Country because I thought investments here would be safe and I would avoid problems of corruption.

Now , I am almost 65 years old. I do not have money to live, I do not have work and I have not found work. Additionally, I lost a property I had for investment in Short Sale because I could not make the mortgage payments. Currently, I am trying to keep the property where I live: I have been forced to rent 2 bedrooms in my Condo in order to pay the mortgage.

This situation during these 2 years is affecting my health and I do not have Insurance nor money to visit a Doctor.

From November 2009 I began to feel very intense pain in all my body specially in my arms, back and legs and for that I cannot sleep well and walk well, taking a lot of painkillers because I do not have a way to go to a Doctor. I waited for 2 months for an appointment in the Jackson Hospital. Each visit I had to pay $50-60 plus a lot of bills I began to received for some rehabilitation-physical therapy, mammogram and laboratory. In total I had to pay $1,000 and I do not have the money. In the spine clinic if I did not improve with the therapies they offered "a C4-C5 anterior cervical diskectomy and fusion". I did not have time to evaluate my low back because I do not have money, but I feel pain in the right side, in occasions very intense, with drowsy, cramp, lost of the strength in my right leg plus my problem in my neck.

I did an arrangement with a debt Collection Company to pay the bills, but at the same time I cancelled all the rest of appointments. Now my Doctor is God and the painkillers.

I applied for food stamps and they gave me the help, but after 9 months they considered if was I was paying the mortgage of the property where I live, I did not needed.

I am well educated. I have a Master in Radiology and also a Bachelor's Degree in Business Administration I tried to find financial aid for studying for Nurse, Ultrasound or something in Business Administration in relation with health care. Since I have Master and Bachelor Degrees FAFSA denied the help. I cannot do anything with my medical degree in this Country, also I cannot work with them here and I cannot study anything because I do not have the money and I do not qualify for financial help.

I am alone in this Country and it is impossible to help my daughter and grandchildren in Venezuela for my situation. On the contrary, sometimes my daughter tries to help me when she can. You know the political situation in my original Country Venezuela. I can not visit my family and they cannot come to see me now.

I cannot apply for the citizenship because I do not have the money how to pay for that, and less for a lawyer.

I am really depressed and desperate. What I have to do? Because without family, any kind of help, health and no money how to find solution the life does not deserve to live. Two years with this suffering!!

I worked the better part of my life in a honest way to save this money and it was taken away from me by a fraud.

People said USA is the land of opportunity, but unfortunately it has not been so for me, I did not make money here but I am losing everything here and, I do not know where I can go if I lose my property!! It is the last thing I have. Please, make justice for the simple people like us. Help us!!!! Help me!!!

If the rules and laws were applied correctly, a situation like this did not have to happen. I and other victims of the Stanford fraud demand that the SEC publish a "transparent report" from the Inspector General's investigation of the SEC's inability to stop the Stanford fraud for many years, so we can learn for ourselves what allowed Stanford to

operate for so many years with no oversight. If I had known that Stanford had been under investigation by the United States Government I would have never given them my life savings.

And it was not only Alan Stanford. Many people were involved in this fraud and made off with our money.

Most people affected by this situation are retired, in the "golden years". Our hope is that the SEC does the right thing and orders the SIPC to cover Stanford Victims for up to $500K in losses.

I hope the Government, the Congress, our politicians, our Congress people from Florida, our Representatives and my representative David Rivera, really take interest in the affected people such as myself.

I am sending this letter because I (we) need your help, your support, your voice in this case. I believe that you can understand this situation better because of your own background and experience.

I ask that you help us with the SEC. The SEC has been investigating Stanford since 1997 but did absolutely nothing to warm the investing public of this heinous ponzi sheme.

If the SEC would order a SIPA liquidation, Stanford Victims can be placed under the Security Investor Protection Corporation and the majority of us would be made whole.

Please, help us get justice.

Sincerely,

Judith Ochea
5225 NW 112 Ave. #102
Doral, Fl. 33178.
Ph: 305-904-0670
e-mail: judithochea@yahoo.com

May 8, 2011
Congressman Bill Cassidy

Dear Congressman Cassidy,

Thank you so much for trying to help us recover our retirement funds. It is obvious to us from the reports by the Inspector General's office that the SEC had knowledge of this Ponzie scheme at least four years before I invested with Stanford. Had they shut him down in that four years, I would not been able to invest in this firm and unless the market changed, my investments would have been ok. I realize that investments are somewhat risky, but the brokerage house being crooked and being covered up by the SEC never entered my mind. This lack of protection by a federal agency makes us feel unsecure about many things.

My wife and I invested in the Stanford bank when I retired in August of 2004. Even though we didn't put all of our money in this investment, it was our largest amount of cash. We have had to back off any plans we had for retirement such as travel, helping our grandchildren, replacing our car (110,000miles), etc. We are just barely hanging on with our present funds. We have been under so much strain over this we are worried we might not make it. We have had to enter into lawsuits to try and recover our funds. We still have a house note, care note, and same expenses we had before all this happened. We are now worried that if we become disabled, how we will pay for our care in a nursing home. This might seem trivial to some, but to people who are 70 years old, it is critical.

Thank you again for your support,

Robert and Carolyn Smith

Congressman Cassidy,

I am writing in hope that some good will come out of this message.

My wife and I, in 2004, invested our life savings into the Stanford Trust Company. My wife put her savings from Bellsouth Company in the amount of $312500.00 and I invested $125000.00 into STC IRA account.

The broker, with Stanford, took the money and invested with Stanford. He indicated that the money would be in an IRA account and purchase CD's through Stanford. However; no paper certificate were ever issued.

All of this action was the latter part of 2004.

The broker (Stanford) did not advise me or my wife that this company was under investigation by the SEC, FBI, IRS and the Treasury Department. If at this time had known this information I would, along with thousands of others, not have invested with this company.

In 2006 the SEC took action to close/seize Stanford assets. My comments were indescribable that this watchdog government agency could let this happen!

Now my wife and I must make do on Social Security for main support. We have not had to rely on our family for income and help.

My hope is that the SEC will grant each of us SIPC coverage so that we can get our principal returned.

In closing a statement that I made at a meeting called by Senator Vitter in Baton Rouge, LA. If the representatives from the SEC were the best that this government agency had to offer, we (the people) were in serious trouble.

I am hoping that the SEC/SIPC will give the Stanford victims the same respect that was shown to the Madof people.

Charles & Frances Landrem

5208 Waterford Drive

Zachary, Louisiana

225-654-4849

Fcl965@bellsouth.net

TO WHOM IT MAY CONCERN:

We are in our late 60's and 70's and lost 63% of our retirement (IRAs) and investment portfolio We had IRAs with Stanford Group and understood they were insured by SIPC. WE WOULD HAVE NEVER INVESTED IN SIB HAD THIS NOT BEEN COVERED BY SIPC! SIPC's logo was on Stanford Group's brochures and literature. When we questioned our broker about CDs, he insured us that Stanford Bank was part of the Stanford Group and SIPC coverage would apply to any and all investments we had. We were sorely misled!

Our lives have dramatically changed after this event. We both have had to go back to work. We have had unbelievable amounts of financial stress in our lives. Our life has been on hold hoping to find a resolution to this financial nightmare. At our age we realize the days are numbered. It is horrific to endure the loss of years of savings and hard work.

We are also writing on behalf of Mona R Hunter (mother) at the age of 94 has lost much of her life savings. She is homebound and requires round the clock care. Without these monies her life and care is in jeopardy.

The bottom line is we would have never risked our IRAs and other moneys if they were not covered by SIPC. The SEC had years of whistleblowers crying "PONZI Scheme". We had no knowledge of suspicious activity. We were told countless times by

our broker and other people at Stanford Group that everything was fine. We are devastated!!

Diane S Hunter, age 66

Raymond K Hunter, age 71

Mona R Hunter, age 94

Louisiana Residents

Sixth Congressional District

6810 Jefferson Hwy #4104

Baton Rouge, La 70806

225.572.5182

225.927.0292

Rhunt207@gmail.com

John L. & Patricia A. Carey
3240 Lake Pointe Boulevard, Apt. #211, Sarasota, FL 34231 941-923-8282
careysrq@comcast.net

May 9, 2011

Congressman Bill Cassidy
Congressman Greg Harper

Re: Stanford Ponzi Scheme
Gentlemen:
We have been asked to submit our story about the devastating fraud which has radically changed our lives. Our story is as follows.

From the beginning of our retirement some twenty years ago we have relied on a broker here in Sarasota who we have total confidence in. When he was approached by the Stanford organization we discussed the possibilities of changing to that organization. It was SEC approved and seemed to be a well managed investment group. In November of 2004 we moved our investments to the Stanford Group Company. Everything was very

professionally handled and we were very pleased. In April of 2005 we invested in the Stanford International Bank CDs.

In February of 2009 we heard on the news that Stanford was a fraud. A receiver was appointed and he immediately froze everything we owned. We had no income and were panic stricken that we would be unable to pay our rent in the retirement home where we live and would be on the street. Our lives have been radically changed since that time. We are elderly with health issues and we were forced to make major changes to accommodate the loss of income. We had to down size our apartment and change to a smaller car. Our income just barely covers our expenses at this time and we are fearful of the future. We have no reserve to cover potential serious debilitating health issues that we see coming. Our golden years have turned to brass.

The most disheartening thing is that the SEC knew of this fraud years before we even moved to Stanford and did nothing to stop it. Our government totally failed us.

We sincerely hope that through your efforts we will be able to recover our losses through SIPC coverage.

Thank you for your help.

John L. & Patricia A. Carey
Sarasota, FL
Florida Congressional District 13

Hello,

I'm retired widow living off the income of my investments. These included several Standford International Bank CD's. My income has dropped substantially since the takeover of SIB. It is bad enough that Allen Standford is a crook, but I was devastated to find out that the SEC had known about the Ponzi scheme had been in place since 1997 and had done nothing to stop it. It is frustrating to know that the SEC is still trying to

cover up the fraud to keep from having to pay us our money. The SEC allowed the president of a US brokerage firm to steal my money, and now they are trying to keep the SIPC from covering our losses.

sincerely and praying for your help,

Geraldine Copeland

Dear Members of Congress,

We thank you for giving us the opportunity to let our tragic story be heard. I was born and raised in New York City and my husband is a U.S. citizen born in Cuba, like all Cubans he came to this country looking for the "American Dream" arrived from the Guantanamo base as a rafter in 1994 with just a pair of shorts, sandals and a Dream. We both had the desire to succeed in life and embrace all the opportunity our great country had to offer. Shortly after we got married in 1996 we opened our first business with ten thousand dollars given to us by my mother as a wedding gift, we bought six plastic chairs from Home Depot, two desks that were given to us, and with our own hands painted and set up a small Insurance office. We worked hard seven days a week. In our second year in business we became one of the top 40 agency in South Florida for many of our underwriters. In our third year the business was very prosperous and we decided to sell it in order to continue growing within the insurance industry. With this in mind we had the opportunity to sell the Agency and opened a Title Insurance company. Our office was so beautiful, so elegant we were very proud of ourselves and our accomplishments, again with our hard work and devotion we became one of the top 10 agencies in South Florida for six consecutive years out of the ten we were in business for our underwriter Fidelity National title Insurance Company. During these thirteen years of hard work, we

sacrificed our time, we worked long hours, while everyone was having fun, we work diligently, and we did not take any vacations, in order to reach our goal of economic security, not for us but for our premature baby daughter's future. (That's another sentimental story). During all these years we saved over three million dollars which were invested in Stanford CD's. We were recommended to Stanford financial group by financial agents of Smith Barney's, they offered us investments in the Stock Market, but since we did not understand the aspects of the Market we felt uncomfortable doing so, we wanted something more secure, that's when they told us to look into Stanford financial that they offered a very good CD product, which was more like what we were looking for. Claudia Martinez became our financial Advisor in Stanford Group, in the year 2004 we invested our first Million in the Stanford CD's, later in the same year we withdrew our money. In the year 2005 she insisted and insisted for us to reinvest our money in the CD's she advised us that the CD's were approved and regulated by the Securities Exchange Commission and that she was a registered FINRA agent through Stanford Group, that the product was very safe and insured by SIPC. We did all our due diligent search, to find if there was anything negative about the Stanford Group, we searched through the SEC's website, through the clerk of courts records both in Houston and Florida, but found nothing negative about Stanford on the contrary we only found positive news about him and his company. Claudia Martinez, would always tell us that Stanford only hires top quality professional and retired professional from many U.S. Government agencies in order to make sure his business is in compliance to all the banking and security regulations, that he was a law abiding citizen, inclusively she forward us a letter from our own President in which Stanford was being congratulated for his business and professional services provided to the American Families. So with all this information, we felt very secured and comfortable, that we opened two other CD's in

the year 2006 and the last CD in 2007 investing all of our hard earned money. As the housing market crashed our business suffered tremendously, but we were at ease because we did what were supposed to do, we saved; we had a nest egg, for our future and our generation to come. In December 2008 we decided to close our offices and finally retire. We were sad and at the same time very joyous we had reached our American Dream, we had a nice home, our daughter's economic well being was secured, if anything was to happen to us we knew she would be economically safe. We could not believe that we were finally going to enjoy our life, retire at a young age, rekindle all the precious time lost of our daughters first years, but it was all worth it. She just started school, and I was going to be able to participate in all her school activities. Little did we know that our happiness would only last a month. On February 16, 2009 our life's were shattered, all of our dreams, all our hard work, all our sacrifices torn to pieces, these past two years have been a complete nightmare, everything we worked for, is gone, our cars were reposed, we are losing our home in foreclosure, every day we wake up not knowing if the sheriff will be knocking our doors and giving us a 30 day notice to vacate, where would we go? We have no money to rent or buy another home, we have no health insurance, if our daughter gets sick how can we pay for health care?, all our credit cards are maxed out, we are in so much debt because we had to use the credit cards in order to provide food and the basic necessities for us and our daughter, letters from creditors arriving every day, judgments being filed against us, for non payments of credit cards. We've sold everything in our possession to be able to survive, our jewelry, our watches, my husband's fishing gear. It's just so hard to describe what we are going thru in words, it's devastating to see how my husband is consuming himself, he's lost over 80 lbs, , we have socially withdrawn, we don't sleep, thinking what's going to happen to us, how can this be happening to us, why did it happen to us, so many unanswered questions, and then to top it all off, we find

out that our own government agency SEC knew since 1997 that Stanford was operating a Ponzi Scheme, and did nothing to alert the investors, it just adds insult to injury, and now once again our future lies on the SEC's hands. We feel that the SEC has given their backs to us, they are protecting other interest and not what they are meant to protect, we feel betrayed, and neglected, our pain and suffering apparently means nothing to them.

Yet despite all our hardships and depression, with the carry back we received from the IRS we manage to open a small butcher shop and deli, in cutler bay, fl. It has been hard on us and specially our daughter, she doesn't comprehend why she can't be with mommy like before, many times she cries herself to sleep saying to me "I want my old mommy back, why can't it be like before, you don't have time for me anymore, you don't care about me and my school" this really breaks my heart, everything you worked for, wished for and planned for gone.

We have not lost our hopes, whatever happens, we are firm believers in our Governmental Institutions, in our Representatives and Senators, we trust that sooner or later justice will prevail, we are proud to be citizens of this great Country, and in our heart & minds the America Dream is still alive

Jorge and Katherine Garcia

Cutler Bay, Fl 33157

District 18

Thank you for submitting a request for assistance with a federal agency to the office of U.S. Rep. DeGette. You request has been received, and a member of her staff will contact you soon regarding your request.

Please note that the Privacy Act of 1974 requires U.S. Rep. DeGette to obtain a signed release form in order to make inquiries with a federal agency on your behalf. Not all

casework requests will require a privacy release, but submitting the form now may help expedite your request. If you prefer, you may wait until a caseworker contacts you to see if the privacy act will be necessary in your specific situation.

Office of Congresswoman Diana DeGette

Constituent Consent and Information Form

Agency involved: Securities & Exchange Commission

Name: Mr. Manuel D Aquino,

Street Address: 8501 E. Alameda Ave.#624

City, State, Zip Code: Denver, Co 80230

Telephone #: 720-934 4537

Telephone #: 303 523 4046

I, Mr. Manuel D Aquino,, in keeping with the restrictions of the Privacy Act of 1974 authorize U.S. Rep. Diana DeGette and her staff to request and have access to all records and reports pertinent to my request for her assistance in the following matter:

Nature of Problem: Dear Congresswoman Diana DeGuette:. I wrote to you on Feb 7,2011 asking for your help, requesting your signature on a letter attached Congressman McCaul was sending to Financial Committee Chairman Bachus, asking for a hearing to look into the shocking revelations made in the SEC Office of the Inspector General's report on the Commission's handling the Stanford case. There will be a hearing in the U.S. House Committee on Financial Services next week specifically focusing on the Stanford Financial Ponzi scheme. The purpose of the hearing is to allow Members of Congress and the public to hear from the Stanford victims and question the government officials who were supposed to safeguard them. My case started in 1999 when I met a person at the Citi Bank in Miami who later on was hired by Stanford Group,came to talk to me and offered so much safety with our money for retirement that we simple believed her.She was a VP

and my financial advisor.Told us that they were SIPC member,that there were ties with Stanford University and also mentioned they were insured by the Lloyd of London. We lost all our savings which changed our lives. We always paid taxes for the interests we got and now help from you is needed.The experience with Stanford had been devastating.They lied to all of us and robbed our money,something that the SEC knew was happening for a long time before the situation was totally exposed. I do not want to make my story longer because as I said,in February of this year I sent a full account of the issues to your attention by certified mail. I would veery much appreciate anything you can do on my behalf.Could you in any way participate in the May 13 House Financial Services Subcommittee on Oversight hearing? Please Ms DeGuette, do something,it is very important.All Stanford Victims Coalition (SVC) are contacting their congressman/woman very urgently. Thank you in advanced. Manuel D. Aquino SVC member E-mail:madjavill_40@hotmail.com Phone:720 934 4537 8501 E. Alameda Ave. #624 Denver,Co. 80230

Social Security Number:_____xxxxx5226_____

Case, claim, or account number:_____

Signature: ____Manuel Aquino_____ Date:__5-9-2011_____

Please print and then mail or fax your request to Congresswoman Diana DeGette at the following address:

U.S. Rep. Diana DeGette
Attn: Caseworker
600 Grant Street Suite 202
Denver, CO 80203
Fax:(303) 844-4996

Just in case I sent a copy of this letter to Diana DeGette to her congressional office in Denver.
It was duly signed and SS number included.

My name is Walter J. Eldredge. I reside at 12124 North Oak Hills Parkway, Baton Rouge, Louisiana, 70810.

Upon my retirement form ExxonMobil in July 2007 I engaged an affiliate of the Stanford Group to manage finances. In 2008 my Stanford advisor recommended placing about 20% of my assets in CDs from the Stanford International Bank. The promised interest rate was slightly higher than US CDs at the time – the return was attractive but not spectacular. For about one year I received quarterly statements showing the payment of interest as expected. I withdrew no interest or principal.

In May of 2009 I was informed by the receiver that all of my funds with Stanford were frozen. I could not access them and there was no procedure by which I could gain access to them. In effect my assets were seized without any due process, even though I was not suspected of any wrongdoing.
Several months later, after an arduous process of proving that I had not received any funds from Stanford International Bank, I was allowed to transfer my funds to another investment manager. Because my funds were frozen, I was unable to buy or sell securities as planned, reducing my return on the frozen assets to essentially zero. I was also forced to sell assets at a very poor price in order to transfer them to the new manager. My estimated losses due to the receiver's peremptory actions were about $250,000.
Fortunately I had taken employment with another firm after retirement, and this provided enough income to meet immediate needs. However, I incurred additional debt to pay for a

wedding and for college tuition for my children, because of the theft of my funds by Stanford and because of the receiver's arbitrary and deleterious actions in denying me access to my other assets.

Walter J. Eldredge

Statement for the Record by Barney Hallman

The Stanford Ponzi scheme: Lessons for Protecting Investors from the Next Securities Fraud

Hearing by

The Oversight and Investigations Subcommittee of the House Committee on Financial Services

May 13, 2011

Introduction:

I am just one of the tens of thousands of people world-wide, who have lost billions and billions of their life's savings in the alleged Stanford Ponzi scheme. Not only am I directly affected, but so too is my spouse. The loss of the bulk of my life's savings also indirectly affected several other members of my family. If I am representative of the other victims, then there are over 100,000 people who have been needlessly ruined by this scheme.

I say needlessly because since the moment the SEC got up on stage before the cameras, thumped their chests and proclaimed they had brought an action against Allen Stanford

on February 17, 2009, I have learned that it was their negligence and corruption that allowed Stanford's scheme to grow unchecked for 12 long years. I was even more disheartened when I later learned that they gave themselves an award for their efforts in allowing this securities crime to reach a staggering loss of over $7 billion for the investors they were created to protect!

The overview of my story is not a lot different than many of the other victims. I volunteered for military service during time of war, served honorably, and then went to school. I worked nearly 30 years for the same company. I poured myself into my work, arriving early and staying late, and traveled to wherever I was needed. But I was fortunate to work on things that made a difference to our way of life; I was a member of the team that created the first laptop, I had a personal hand in making the fingerprint technology used in our airports and embassies work, and helped to develop the high-end servers that were the building blocks for a multitude of supercomputers that simulated thermonuclear detonations, decoded the human genome, or instantly retrieved information from vast amounts of stored data (such as fingerprints).

During those years my wife and I lived modestly, within our means, and prioritized our savings for retirement. When something around the house needed to be fixed, we did it ourselves. We didn't splurge on luxuries, not even for cable TV. Yes, we may have worn sweaters in the winter and ran fans in the summer, but we also continued to make charitable donations to those in need. When I retired in early 2007 I took a lump sum payment instead of a pension from my employer thinking after we had passed on, the funds would grow in a trust to help others in the family.

How I became a Stanford Investor:

A few months after I retired I was introduced to a financial advisor (FA) at Stanford Group Company (SGC), which was a registered broker-dealer and investment advisor.

SGC was also a SIPC member. The polished marble floors and mahogany furnishings of SGC did not dissuade me from doing my due diligence. I went to the SEC's and FINRA's websites and checked the history of the FA as well as the history of Stanford Group Company. Both websites reported no allegations, no fines, and no discernable problems with either. I then looked for new stories on the web; all I found were positive business reports about Allen Stanford. BDO Steadman was SGC's auditor, a well-known accounting firm. My friend, who introduced me to the FA, had only positive remarks about their relationship.

Too many years have now passed to clearly recall what was said during our first meeting with the FA, but the consequence was that I moved my life's savings from my employer's 401K plan to SGC. At that time I had no idea that the SEC had been investigating SGC for 10 years (since 1997), nor did I know that the Fort Worth Regional Office (per the OIG's Investigative Report 526) clearly believed that SGC was part of Stanford's Ponzi scheme. I also didn't know that for over a decade the SEC knew investors who used their website (and FINRA's) to base their critical decisions, would lose their money with certainty! It troubles me that the SEC shows no remorse for letting the investors they were created to protect lose everything. The SEC also knows they cannot be held accountable because of the FTCA and have little incentive to prevent this from occurring again.

Eventually, the idea of investing in Stanford's bank CDs was presented to me. My FA told me that the bank was focused on value investing and had never missed a payment in 17 years. The bank had very low overhead and was not located in a taxable jurisdiction, and hence, could afford to pay more on a 5 year CD than a local bank with many branches, which had all of the various state and federal tax obligations. Again, I attempted to do my due diligence. I looked at the bank's quarterly reports, not knowing

that the reported investment mix and rates of returns were all fabrications. Nor was it ever explained to me that my funds would be co-mingled with the funds of other investors; so I never understood that the term "bank" was also a misnomer, as it was actually operating as a hedge fund. What I heard were the things that appealed to me: prudent investments, consistently profitable, and the security and stability implied in the term "CD".

The CDs were also appealing to me as I had lived through several market boom and bust cycles and did not want to expose my life's savings to such volatility again. Also, just before I retired, I developed two residential properties in the hopes of making some extra income. I got absolutely nothing for the many hours of back-breaking work I expended and took a small loss to close the last project. With this background, I concluded the bank CDs would have the least risk, and would allow me to finally relax and enjoy some of my interests, for which I had deferred a life-time to pursue. Little did I know in late 2007, that amid the light hearted banter with my FA, I was signing away the bulk of everything I had worked so long and so hard to accumulate… but the SEC knew.

What happened after I invested in the CDs:

I waited until January 2008 to begin drawing some of the interest earned from the CDs. There was just enough income to allow my wife and me to live conservatively. But towards the end of the year, the storm clouds from Madoff blew up, and from the market turmoil, I heard the bank was losing money. In mid-January 2009 I emailed my FA telling him I wanted to withdraw a small amount of money from my CDs, even if I had to pay a penalty to do so. In our conference call the next day my FA talked me out of withdrawing my funds. It was not until much later that I learned there had been a run on Stanford's bank, and as of October 2008, only select people could withdraw funds from the bank. My FA did not mention that during our January 2009 conference call.

In February 2009, I started to see stories about Stanford's bank failing to meet some of its investment obligations, which renewed my apprehensions, but by then it was too late for me (and everyone else too). My income stream from the CDs immediately stopped after the SEC brought its action against Stanford. Life got harder when the court appointed Receiver froze all of our assets in the other Stanford accounts. After the freeze was lifted I began to invest my remaining assets; for some months my returns were pretty good. But then in early 2010 the market wiped out another chunk of our assets; there is too little left for a recovery. Now, we have our home up for sale. I've been studying to qualify for a new career. Without SIPC coverage I am doomed to work until I drop, or face living at the subsistent level afforded by social security. So, I have been forced to file an administrative claim against the SEC in a last ditch effort to protect myself.

9 Personal Observations about the SEC:

1. During the past 2 years I have read much of what has been written about the Stanford case. It is difficult to accept the SEC's assertion that doing nothing about Stanford may be the highest and best use of its resources, because few of the security crimes of the past 12 years (except for Madoff) was more important than Stanford, which cost investors more than Congress' total appropriations for the SEC for all 12 years that the SEC knew about Stanford.

2. It is hard to understand how the SEC could be so phenomenally negligent and not be held liable in the courts when it is clear that the intentions of Congress was for investors to depend on the SEC and for the SEC to protect investors. However, the courts do not see it this way. Congress could correct this blatant abuse and waive the SEC's immunity for discretionary and regulatory function exemption to allow the investors it wantonly hurt to recover their losses.

3. It appears the SEC's assertion that the case against Stanford was complex is fallacious, and was in reality a "slam dunk", as all the evidence needed to stop SGC from operating in the US was obtained from the 1998 Investment Advisor examination (which was the basis for their action against Stanford 11 years later in 2009). It also appears the SEC's argument that they could not obtain the necessary evidence about Stanford's bank operations is also fallacious, as the requisite information could be obtained by talking to the bank's Memphis operations center.

4. The SEC does not seem to be candid with Congress. When Senator Vitter held his Louisiana field hearing, the head of the Fort Worth Regional Office misled him, under oath, about how long the SEC had known about Stanford. Her testimony was reviewed by the Chairman's office. When Senator Grassley wanted to interview a SEC consultant about his findings at the FWRO, the SEC told the consultant not to talk to the Senator, and the SEC's General Counsel told the Consultant not to put his findings in writing. On three separate occasions, 41, 49 and 53 US Legislators jointly wrote to ask the SEC Chairman to help Stanford victims obtain SIPC coverage. On approximately 10 other occasions, individual legislators have written a similar message to the Chairman. Even after a face-to-face meeting with 6 US Senators, the SEC Chairman has failed to respond to a similar request.

5. The SEC cannot be candid with investors. Congress must allow regulators to publicize when a suspected wrong-doer does not provide the requested information, so that the issue becomes public. Else suspected wrong-doers will use a failed attempt by a regulator as a means to claim a "clean bill of health". Regulators should also publish a disclaimer on their websites; i.e., information about an on-going investigation is usually not updated or posted on their websites.

6. The revolving door between the SEC and industry is backwards. The SEC must draft veterans from industry to head up its examination and enforcement teams to get the skills it needs. Congress can enact provisions for a 2 year term (renewable for another term), and protect the positions of these experts with their employers (similar to military duty). In other words a tour with the SEC should be the crowning achievement of a successful career, not the beginning.

7. If the SEC were granted self-funding authorization it should expect to be made accountable to investors for its most egregious regulatory failures, such as the Stanford case. In such cases, Congress should require the SEC to establish a settlement fund so that tax-payers do not bear the costs of subsequent FTCA cases. Anticipating that accountability may be imposed on its conduct, the SEC may wish to comment about how long a time is too long and how big a loss is too big before the SEC will lose its discretionary/regulatory exemptions for failing to resolve a suspected securities crime. Clearly, 12 years is too long and more than $7 billion is too big.

8. It appears to me that the genesis of the SEC's failure to prosecute the alleged Stanford Ponzi scheme was intentionally brought about by the SEC itself. Per the OIG's Investigative Report 526, Richard Walker, former Director of Enforcement, told Harold Degenhardt, former head of Enforcement at the FWRO, to stop working Ponzi schemes and turn them over to the states, immediately after Degenhardt told him the states couldn't do the job, leaving no one to prosecute Ponzi schemes. Not prosecuting an entire class of crimes was a unilaterally decision made in secret in direct contravention to Congress' intent as expressed in multiple statutes.

9. It seems to me a Special Prosecutor may be warranted.

- Walker's decision not to prosecute an entire class of securities crimes may have been unlawful, not just in the absence of any statutes that allows the SEC to unilaterally reduce the scope of its enforcement mandate, but because the statutes explicitly require the SEC to make provisions to prevent such frauds.

- Barasch, the former head of enforcement at the FWRO quashed a number of initiatives against SGC during his tenure. He too had been told by a SEC executive not to prosecute Ponzi schemes. Barasch's repeated failure not to act on any of the 4 examination reports about SGC, allowed the Ponzi scheme to grow exponentially, unchecked, damaging the nation's financial system and international reputation, again in contravention to explicit requirements to prevent such frauds.

- Rose Romero, former head of the FWRO, gave testimony about the SEC's knowledge of the Stanford Ponzi scheme which appears to be in direct contradiction of the OIG Report: i.e., the FWRO's examination and enforcement teams knew Stanford was operating a Ponzi scheme. Barasch's predecessor said so in his OIG testimony, and Barasch's successor said in her OIG testimony that she over-ruled her enforcement staff and ordered the action against Stanford as a means to bring balance back to what enforcement is all about.

- David Becker, former General Counsel for the SEC, made decisions against SIPC coverage for Stanford victims (knowing that he could be subject to Madoff claw-backs by the SIPC trustee), which appears to be a conflict of interest.

Concluding Remarks:

Thank you for the opportunity to write and submit this Statement for the Record.

Barney Hallman

1810 N. 7th St.

Alpine, TX 79830

23rd District of Texas

May 9, 2011

To: Congressman William Cassidy

Congressman Gregory Harper

House Financial Services Subcommittee On Oversight

From: Mr. & Mrs.Paul L. Nightingale

8504 Crosswind Drive

Fort Worth, Texas 76179

12Th Congressional District Texas

Subject: SIPC Coverage For Stanford "Ponzi Scheme" Victims

Dear Congressmen Cassidy and Harper,

My wife, Carolyn, and I are senior citizens who are each sixty-seven years of age. After working for the Burlington Northern Santa Fe Railway for thirty-four years, I retired in 1999. Prior to my retirement, the Company had Morgan Stanley financial advisors, Lawrence Messina and John Campanello; make a presentation on retirement financial planning. After retirement, Carolyn and I decided to use Lawrence Messina and his Company, Morgan Stanley, to manage our funds so that we would have a secure retirement.

In October of 2007, Lawrence left Morgan Stanley and moved to another Company, Stanford Group Company's. We trusted Lawrence and moved our assets with him.

Lawrence told us that Stanford offered a variety of investments with better returns than those available to us at Morgan Stanley. Lawrence's Stanford business card indicated that Stanford was a member of SIPC. He indicated that Stanford was a firm that had been in business for seventy years and that our funds would be safe. Subsequently, Carolyn and I purchased $500 thousand worth of Stanford International Bank CD's in 2007 and 2008. We were never warned by the SEC that they suspected that Stanford was running a Ponzi Scheme that went on as far back as 1997! We were told that our funds would be invested in a diversified portfolio of securities including mutual funds, bonds, etc. Our Financial Advisor told us that the CD's were a safe investment, and that he was invested in them as well. He also indicated that his Father invested one million dollars in these CD's. Our Financial Advisor also told us that the Stanford CD's were the best investment in our portfolio, and that Alan Stanford invested five hundred million of his own funds in them! On February 17, 2009, Carolyn and I were appalled to find out that all of our assets were frozen, and that the majority of the funds were stolen. We were and still are absolutely devastated! Those stolen funds were retirement savings ($557,000)! I am a disabled Army veteran (Vietnam) who has multiple medical conditions as a result of heavy exposure to Agent Orange. I was a helicopter pilot (platoon leader) with the 190th Assault Helicopter Company. My wife has Parkinson's disease and is gradually losing her motor functions. We did not insure ourselves with long-term care insurance because we thought that our retirement savings would pay for the costs associated with nursing homes. With our existing medical conditions, neither of us would now qualify for long-term care insurance. Our retirement savings for nursing homes is gone! What savings are left is certainly not sufficient to handle any type of long-term care. The agreement that we signed with Stanford indicated that Stanford Group Company's was an SIPC member, and so did Lawrence Messina's business card. We are now being told that we may not

eligible for SIPC coverage. The SEC is not treating us in the same way that Madoff victims, who received SIPC coverage, were treated. To deny Stanford victims SIPC coverage on a dubious technicality is reprehensible!

The Office of Inspector General's Report, dated March 31, 2010, indicates that the Fort Worth SEC's Examination staff suspected that Stanford was a "ponzi scheme" as early as 1997. This Examination staff recommended that the Enforcement staff pursue an investigation in 1997, in 1998, in 2002, and in 2004 to no avail. With each of these recommendations, the Examination staff suspected fraud. Sadly, the Enforcement staff took no action.

The Inspector General's report also cites a whistle blower who made the SEC aware of the Stanford "Ponzi Scheme" in 2003. The letter from an anonymous Stanford insider dated September 1, 2003 to the SEC's Office of Investor Education and Assistance, stated "Stanford Financial is the subject of a lingering corporate fraud scandal perpetrated as a ""Massive Ponzi Scheme" that will destroy the life savings of many; damage the reputation of all associated parties, ridicule securities and banking authorities, and shame the United States of America." Why didn't the SEC warn potential investors? If Carolyn and I had known that Stanford was being investigated, we never ever would have risked our retirement savings by investing with Stanford Group Company's. Like it or not, the SEC's lack of oversight, and not making potential Stanford customers aware of their Stanford examinations and strong "Ponzi Scheme" scheme conclusions, caused thousands, like us, to lose their retirement savings. The handing of this case with no warnings to potential investors and then denial of SIPC coverage leaves victims totally holding the bag. The SEC could easily have prevented this atrocity! The Inspector General report, which coincidentally, was released on the same day that "Goldman Sachs" was announced, is damning to the SEC. In the aftermath, there ought to be

another Inspector General examination of SEC's mishandling of victimized investors as a direct result of their failure to provide SIPC coverage.

We are being told that the SEC will be making a final decision on whether to provide SIPC coverage to Stanford victims soon. A large number of US Stanford victims are residents of Texas. Carolyn and I have written Senators Cornin and Huchison, and Congresswoman Kay Granger requesting their support. Carolyn and I are asking that House Financial Services Subcommittee do everything that it can do to ensure that we receive SIPC coverage. A letter, a phone call, and any pressure that can be put on Mary Shapiro would be of great help. Thanks for your assistance.

Sincerely,

Paul & Carolyn Nightingale

8504 Crosswind Drive

Fort Worth, Texas 76179

12Th Congressional District Texas

Phone: (817) 236-3104

Email: nightinga44@yahoo.com

Dear Sir,

My name is John Hutcherson. I live in the 22nd District of Texas. My wife, Ginger and I are victims of Stanford Financial Group's Ponzi scheme. Ginger and I have been married for 35 years and have always lived a modest, conservative life in Houston. I worked for 32 years at the same chemical plant in Deer Park with a dream of being able to retire and enjoy my retirement with my wife. Stanford Financial group has not only ruined those plans but has ruined our lives as we knew them. I retired from my job after

those 32 years and had always looked forward to getting the lump sum retirement that my company offered so I could invest that money in a safe investment and not have to worry about our financial future. I had a friend that was a financial advisor at Stanford and knew I could trust him to invest our money wisely because he knew how conservative my wife and I are in regards to our money. I trusted him to invest my 32 years of retirement in 2008 when I retired. Obviously, that investment has been a disaster for my wife and I. Since then, I've gone back to work and had to take a job that paid much less than the job that I retired from. My wife was planning to retire because her health has been declining over the last few years and she was ready to enjoy a stress free life of retirement. She's had to change those plans and continue working and her health is worse partly because of the stress that Stanford has caused. We've both lived on the Gulf Coast for our entire lives so we had a dream to build a house in the Hill Country when we retired so we bought a piece of property with hopes of building that retirement home in a few years. We had to sell that property for far less than we paid due to the financial crunch that Stanford has put on us. We're trusting our congressmen and senators are our only hope to ever recover any of our investment. Please take the time to help us. We are still patriotic Americans that take time to vote every election and believe that our representatives are working to fight for the rights of good hard working Americans.

Sincerely,

John and Ginger Hutcherson
1305 Comanche
Deer Park, TX 77536
281-476-5487

CONGRESSMAN CASSIDY,

MY WIFE AND I ARE VICTIMS OF STANFORD PONZI SCHEME.

MY PERSONAL STORY IS THAT ON 2/16/09 ALL MY MONEY WAS FROZEN BY GOVERNMENT. MONIES WERE RELEASED IN DECEMBER 09 AFTER COURT DECLARED NET LOSERS COULD NOT BE CLAWBACKED.

DOING THIS TIME WE HAD NO MONEY TO LIVE. COULD NOT PAY OUR EXPENSES INCLUDING HOUSENOTES. WE BORROWED MONEY FROM FAMILY AND FRIENDS TO SURVIVE. STILL OWE THAT MONEY.

ALSO, IN NOVEMBER 08, I STARTED A NEW BUSINESS. I HAD TO DEFAULT ON BUSINESS IN MAY 09 BECAUSE I RAN OUT OF FUNDS AND HAD NO WHERE TO TURN.

I AM 69 YEARS OLD DOWN TO ONE CAR GIVEN TO US. CANNOT REFINANCE OUR HOME BECAUSE LENDING INSTITUTIONS SAY MONEY I HAVE LEFT CANNOT BE QUALIFIED AS INCOME. ONLY OUR SOCIAL SECURITY INCOME.

WE BOTH TOOK JOBS THROUGH 09. AT THIS TIME WE ARE NOT WORKING.

I WANT TO THANK YOU AND ALL OTHER FOR YOUR EFFORTS.

JOSEPH R. BECKER
40197 RIVER WINDS COURT
GONZALES, LA. 70737
225/257-4116
BECKER31@COX.NET

My mother passed away in January of 2011 from early onset alzheimers at the age of 59. Four years prior her Financial Consultant with Stanford in Arlington, Texas, a young man by the name of Michael Mansur convinced her to invest $300,000 in guaranteed, fdic insured, certificates of deposit renewing in a ladder format from year 3-7. Today she has

passed to a better place and most of her life savings has been stolen and no one in our government is capable of rectifying this injustice. This is money that she worked hard for all her life. As one of eight children, raised on a farm in Michigan, she was the first in her family to graduate from college, Michigan State University. A single mother, she worked 80 hours a week at a hospital and Abbott Pharmaceuticals to make ends meet. She was a conservative investor and we lived very frugal. Her goal to retire in her sixties, continue to volunteer at her church, our local city government (Euless, Texas), and for meals on wheels. She wanted nothing more than to put her 5 grandchildren through college to ensure they accomplished her same dreams.

Now, all of her years of hard work are gone. Stolen. And the most disappointing thing I have learned throughout this entire process is that Stanford was thought to be conducting a ponzi scheme and allowed to continue selling fake CD's to new clients so the SEC could build their case? How stupid is that! Shall we continue to let serial killers continue to murder until we have more evidence?

I ask that someone please do what is right and provide a solution to the families of all those affected. Do what is right.

Jason Matzke

May 12, 2011

U.S. House Committee on Financial Services Washington, D.C.

RE: Krause Victim Story from Stanford Ponzi Scheme For Congressional Record

Dear Representatives,

On February 17, 2009, my family became one of the thousands of innocent middle-class US investors who discovered they were victims of the Stanford Financial Group Ponzi scheme – one of the most massive and inconceivable acts of financial fraud ever carried out in the United States. We have learned that our $575,000 in retirement funds that we worked for decades to build have completely vanished, and the chances of recovery through the court-appointed receiver are essentially non-existent. We have also come to understand something that is perhaps even more devastating; our own government contributed to our losses by not adequately regulating the SEC-registered and FINRA-licensed broker dealer who sold us fictitious securities in the form of Certificates of Deposit (CDs), and by ignoring numerous "red flags" and whistle blowers that should have alerted regulators that Stanford was a fraud.

This crime has devastated my family. This was our life savings that was intended to send six children to college, provide help to our aging parents, and support my wife and me in our old age. In addition, our two youngest children adopted from China are in need of advanced medical care.

We are ordinary tax-paying citizens whose government has failed to protect us and we haven't had one dime of recovery. The court-appointed Receiver has less money on hand today for the investors than the day Stanford was taken into Receivership – and he's spent tens of millions of dollars collecting less than he's spending. The recovery from the estate will not be more than a few pennies on the dollar. As if this isn't shocking enough, according to the SEC Inspector General, the SEC knew for 12 years that Stanford was operating a Ponzi scheme, yet took no action to protect innocent Americans like us.

Stanford CD holders who were sold the CDs by Stanford Group Company, an SIPC member, have thus far been denied SIPC coverage, our only realistic hope of recovery.

We beg your assistance in helping our family recover at least a portion of our retirement funds, through supporting SIPC coverage to SGC CD holders. This very protection was afforded to Madoff Ponzi scheme victims. There is no reason to treat Stanford victims differently or to discriminate against us.

We Stanford investors are mostly middle-class retirees from 46 states who were targeted by an entire network of licensed brokers operating in more than 30 locations in the US as SIPC Members. There is no fair reading of the SIPA statute that would justify paying compensation to Madoff victims and ignoring the plight of Stanford's defrauded investors.

Any help you can offer will be deeply appreciated. God bless you.

Very Respectfully,

Joseph and Anne Krause

Stanford Victims Arizona District CD-08 (Giffords) & Nebraska District NE-1 (Fortenberry)

Joe_Krause@Prodigy.Net

See this Link:

http://www.stanfordvictimscoalition.blogspot.com/

Attachment:

Stanford Fraud Fact Sheet

STANFORD FINANCIAL GROUP FRAUD
FACT SHEET
STANFORD GROUP OF COMPANIES: BACKGROUND
• STANFORD GROUP COMPANY (SGC) WAS AN SEC-REGISTERED BROKER DEALER AND A MEMBER OF FINRA AND SIPC.

• THERE WERE 30+ SGC OFFICES IN THE US WITH 250+ FINRA-REGISTERED REPS.

• SGC'S REGISTERED REPS SOLD $2.2 BILLION WORTH OF FICTITIOUS STANFORD INTERNATIONAL BANK (SIB) CDS TO 5,000 US INVESTORS IN 46 STATES.

• THE CDS WERE SOLD AS SIPC-INSURED SECURITIES DISCLOSED TO THE SEC UNDER A REGULATION D FILING, WHICH WAS FILED ANNUALLY WITH SEC.

• MIDDLE-CLASS, RETIREMENT-AGE INVESTORS WERE TARGETED TO INVEST BROKERAGE ACCOUNT HOLDINGS, INCLUDING IRAS AND PENSION PLANS, IN THE CDS.

• FUNDS TO PURCHASE THE CDS WERE NEVER SENT TO SIB. FUNDS WERE LAUNDERED THROUGH US BANKS THEN USED TO PAY EARLIER INVESTORS AND SGC'S EXPENSES.

• THE CDS WERE FICTITIOUS, WHICH SIPC HAS PROTECTED HISTORICALLY.

• AFTER 2 YEARS, THE SEC HAS STILL NOT MADE A DETERMINATION ON SGC CUSTOMERS' RIGHT TO SIPC PROTECTION.

• THE SEC WAS AWARE IN 1997 THAT SGC CUSTOMER FUNDS WERE IN JEOPARDY OF BEING STOLEN IN A PONZI SCHEME. NO PROTECTIVE ACTION WAS TAKEN.

• THE RECEIVER HAS RECOVERED LESS MONEY THAN HE HAS BEEN BILLED TO THE ESTATE. LESS THAN ONE CENT ON THE DOLLAR IS AVAILABLE TO RETURN TO VICTIMS.

• MILLIONS OF DOLLARS IN FEES HAVE BEEN PAID BY THE ESTATE FOR ASSISTING THE US GOVERNMENT WITH ITS INVESTIGATIONS.

REGULATORY PROBLEMS
• STANFORD WAS BEING INVESTIGATED BY NUMEROUS REGULATORS AND LAW ENFORCEMENT AGENCIES IN THE US, UK, LATIN AMERICA AND THE CARIBBEAN FOR MORE THAN 20 YEARS – INCLUDING DEA, FBI, US ATTORNEY'S OFFICE, TREASURY, FEDERAL RESERVE AND SCOTLAND YARD.

• IN 1989, WHEN THE FBI AND TREASURY PRESENTED EVIDENCE OF MONEY LAUNDERING FOR DRUG CARTELS, THE GOVERNMENT OF MONTSERRAT REVOKED STANFORD'S BANK LICENSE, SO HE MOVED ON TO ANTIGUA.

• IN 1999, THE DEA FOUND MONEY LINKED TO DRUG CARTEL OPERATIVES IN ACCOUNTS AT SIB.

• THE US TREASURY ISSUED AN ADVISORY TO BANKS IN 1999 WARNING THEM TO SCRUTINIZE TRANSACTIONS TO/FROM ANTIGUA BECAUSE OF STANFORD'S ROLE AS THE HEAD OF THE REGULATOR OVER HIS OWN BANK.

• THE SEC COMPLETED 4 SEPARATE EXAMS BETWEEN 1997-2004. EACH CONCLUDED STANFORD WAS LIKELY OPERATING A PONZI SCHEME. THE SIZE OF THE FRAUD, IN EACH INSTANCE, WAS BIGGER THAN THE SEC'S ENTIRE BUDGET. NO ACTION WAS TAKEN.

• ONCE THE SEC FINALLY DID OPEN AN INVESTIGATION IN 2005, IT TOOK THEM 4 YEARS TO COMPLETE IT.

• MOST OF SGC'S US CUSTOMERS DID NOT PURCHASED SIB CDS UNTIL 2007 AND LATER.

• THE LONGER THE SEC TOOK TO ACT, THE MORE LEGITIMACY THE SIB CDS HAD.

• THE SEC BLAMES THE 4-YEAR INVESTIGATION DELAY ON STANFORD'S LACK OF COOPERATION AND THE GOVERNMENT OF ANTIGUA'S BANKING REGULATOR'S OBSTRUCTION.

• THE US STATE DEPARTMENT WAS PROVIDING THE COMPUTER EQUIPMENT USED BY THE ANTIGUAN REGULATOR. THE SEC NEVER ASKED STATE FOR INFORMATION FROM THOSE COMPUTERS.

• IN 2001, THE STATE OF TEXAS HAD EXECUTED AN INFORMATION SHARING AGREEMENT WITH THE ANTIGUAN GOVERNMENT THAT ALLOWED FOR REGULATORS TO EXAMINE THE BOOKS AND RECORDS OF A FINANCIAL INSTITUTION IN ANTIGUA. THE SEC NEVER ASKED TEXAS FOR INFORMATION.

• SGC'S FINANCIAL STATEMENTS FILED WITH THE SEC AND FINRA SHOWED ITS DEPENDENCE ON REVENUE RECEIVED FROM SELLING SIB BANK CDS AND LARGE CASH CONTRIBUTIONS FROM ALLEN STANFORD (DIRECTLY TRACED TO LOANS FROM SIB). SGC SHOWED AN OPERATING LOSS EVERY YEAR OF ITS EXISTENCE.

• DOZENS OF STANFORD EMPLOYEES CAME FORWARD TO FINRA ALLEGING FRAUDULENT PRACTICES AT SGC.

• THE SEC HAD EVERY REASON AND EVERY RESOURCE TO ACT, BUT CHOSE NOT TO FOR 12 YEARS.

To: Congressman Bill Cassidy

From: James H. Stegall and Carol Anne Stegall
10843 Baton Rouge, La 70810
225-767-7485

We are victims of the Stanford Group Company (SGC) fraud. We have been married for 47 years and are both 72 years old. After working for more than 45 years, we planned to have a comfortable retirement. Also, we wanted to help with the cost of college education for our four grandchildren currently attending Louisiana colleges. Due to failing health, we cannot work to earn additional monies.

On February 17, 2009, our world turned upside down when we learned about the Stanford fraud. All of our money was frozen and the Receiver filed a law suit to claw back what little money was invested here in the United States. For about six months, the only money we had was Social Security until the receiver was forced to release the small amount of money Stanford had invested in the US Stock Market. Stanford convinced us to invest in the Stanford International Bank Certificates of Deposit. We estimate our total losses to be over $1,000,000 including the initial investment in the CD's, loss of income and legal fees.

Emotionally we felt devastated, frustrated, scared, betrayed, frightened and ashamed. If one of us had died, we did not have money for a funeral. We did not want to tell anyone at first because we were ashamed that people would think we were foolish to have chosen SGC to invest all of our retirement money.

My (James) health has suffered from the stress. Our money was frozen on February 17,

2009, two days later on February 19, 2009, I went to the emergency room with severe heart atrifibulation.

On November 3, 2009, I had a serious heart attack and required shocking to restore my heart beat. Three stents were installed and on March 3, 2010, an additional stent was required. The medical treatment and medicine costs have been a severe blow to our reduced income. These costs will continue for the rest of my life.

We have learned that the SEC had known about the Ponzi scheme since 1997, which was the year we invested with Stanford. The SEC did nothing until 2009 and during those 12 years we would have withdrawn our money if there had been any mention of an investigation. Now the SEC is refusing to give us refund coverage through the SIPC. Stanford told us that our money was safe, the investments were fully insured and we had full confidence in our government agencies. If some money is not returned to us, then the rest of our retirement life we will not have adequate income due to the rising cost of inflation, the devaluing of the US dollar and NO Social Security cost of living increases.

Please do everything within your means to convince the SEC to give SIPC coverage to the Stanford victims. The Madoff Ponzi victims are receiving SIPC coverage and the Stanford Ponzi fraud is the same. This is a small amount of money compared to the money used for less deserving needs.

Thanks for your efforts and please attend the "House Financial Services Subcommittee on Oversight" hearing and represent us in the most important decision to provide SIPC coverage for the Stanford victims.

5271 Courtyard Drive
Gonzales
LA 70737

May 9, 2011
Dear Congressman Bill Cassidy, Congressman Greg Harper:

Subject: Losses in Stanford Group / Stanford Trust Collapse

In early 2006, my wife and I became customers of Stanford Group Company (SGC), a SEC-registered Broker-Dealer and Investment Advisor. As a member of Stanford Financial Group of Companies, SGC was A member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). At that time, we were advised by SGC Registered Advisor Gary Haindel to put most of our retirement savings in Certificates of Deposit (CDs) with Stanford International Bank (SIB). We did this in full belief that SGC was a reputable firm, having found no adverse reports on the company on FINRA's website, and that our investment was protected from fraud by the SIPC.

In June 2008, we placed the proceeds from the sale of our tree farm in Clinton, LA in similar short-term CDs until we decided where to settle for our retirement. Based on our appraisal of the real estate market at that time, this money would have allowed us to have a very small mortgage during our retirement. As a result of the loss of this money we had to withdraw a significant part of our remaining savings to make a small down payment on a home for our retirement.

My wife and I are both over 65 and have little prospect of going back to work. Over sixty per cent (60%) of our life's savings were in SIB CD's. Because of our apparent losses,

we will not be able to do the things we had hoped to do in our retirement. All the years of hard work and saving have been brought to little or nothing because of the illegal acts of Allen Stanford and the malfeasance of the SEC regulators who were to be the fail-safe to prevent such activity. The SEC's own Office of Inspector General found that the SEC violated its legal mandate to enforce U. S. securities laws, rules and regulations. The SEC's continued failure to address the issues of SIPC applicability and its internal accountability are inexcusable.

It is fervently to be hoped that pressure from our elected Representatives, such as yourselves, can bring this matter to a satisfactory conclusion in the near future

Respectfully,

Lindsey T. Cooper, III & Martha M. Cooper

My name is Alejandro Diaz and I am an American citizen, a father, a husband and a contributor to this country. I used to be a business owner that I created it following the American dream. I sold my profitable company to open a new and bigger business. I even asked for a line of credit putting my already paid house as collateral to have more money available to grow in my new investment. While I was working on marketing reports and other studies, my only daughter was born. Unfortunately she was born with a lipomyelomeningocele -a type of spinal bifida- and had to have a surgery and medical treatment. Therefore, I placed everything on hold for almost two years to be with my family. I deposited our money in a bank in United States soil; I did not go overseas or made a transfer to another country. I went to a bank just right there in Miami downtown business district among other financial institutions just on Biscayne Blvd. Stanford International Bank (SIB) was offering a very competitive percent on certificate deposits and a friend told me about it. I made my homework, and SIB was a very recognized and

respectful institution that its name was everywhere. I saw their name at the American Airlines Arena all the time on the Heat games, on the papers, on the news and the reviews were excellent wherever you looked out. Their offices were right there in the center of Miami, with other offices around the country, the broker had a US license –used to work for Citi Bank- and he told us and everywhere was written in their office that the money was cover by SIPC like you see in all banks up to 250,000 and later was changed to 500,000.

During those couple of years everything was OK with SIB, our representative was always available and we felt OK too. I even placed the loan money of my house in a CD in Stanford to have all my money together so when I need to make a transfer or a payment all should be come from only one bank. Then, suddenly, one morning I woke up to see everything disappear in just minutes. When I heard the news I run to the bank and no one was able to answer anything and they closed the doors just right in my face. No one was available; phones were not answered, there was not a place to look for an response or to know where my money was. All my family savings were gone in just one hour. My house was in jeopardy in one second, and it went from being paid to be completed owned by the bank for the double value that I bought it almost ten years ago and not even spend that money. The frustration was horrible. And even worse while days came on and find out that my government was "doubting" and "investigating" Stanford International Bank for several years, that the government even had testimonies from former employees about irregular activities and not even prevent American citizens about it. The lack of government action that would have save my family from a financial disaster is unbelievable and horrendous and even more embarrassing the indifference that the SEC shows now to respond to us after the disaster. I went to be a business owner to unemployed to partial employed, my wife suffers a deep depression to see that all our

dreams were ripped off in just one morning. Our credit had been damaged are not being able to paid the balance of our debts. We are losing our house; our family home is already in foreclosure. We had to take the prepaid money plan of my daughter studies to pay the daily bills.

I would like to go in person and explained the committee how can you go from one point to another in just one hour for something that could be prevented, but unfortunately we do not count with the time or the financial resources to travel.

Hoping that my family is heard through this letter and something is done about this disaster situation and give us some relief,

Alejandro Diaz - A Stanford Victim -
18th District of Florida – Congresswoman Ileana Ros-Lehtinen.

STATEMENT FOR HEARING in the U. S. HOUSE COMMITTEE ON FINANCIAL SERVICES

The purpose of this statement is to let the reader(s) know how the Stanford debacle along with the gross oversight on the part of the SEC has impacted our lives. We want these things to be especially clear to you:

1. We, Louis Mier, Jr. and Kathleen Sonnier Mier rolled over both of our retirement accounts into Stanford Bank/Stanford Trust in 2007 and 2008 respectively.
2. We lost over $240,000 which was over half of our retirement.
3. We have NEVER drawn any of our Stanford interest out.
4. We are terribly disappointed that the persons in the SEC who were being paid by us, the taxpayers, were not doing their jobs and watching our money.

5. Even in our distress over the loss of our hard-earned money, we can put our heads down on our pillows with clear consciences. We know that Allen Stanford and his associates and all those people with the SEC who turned their backs on us can not!

We have worked HARD all of our lives. Louis is the son of mom-and-pop grocery store parents and Kathleen (Kathy) is the daughter of share croppers. We say this to impress upon you that we have NEVER received any help from the government; all of the money that we've ever earned in our lives (including 41 years as a married couple!) was with many, many hours of hard work (including lots of overtime). Louis retired with thirty years at Georgia Pacific and Kathy with twenty-eight years as a teacher with East Baton Rouge Parish.

Our greatest accomplishment has been to rear and college educate our five children into productive and happy citizens of our family, our state and our country. They would all tell you - if they could today - that their mom and dad lead very, very frugal lives. We do NOT have to have the best of everything! On the contrary, we are now driving a car that we bought (used) in 2000. We love our home, but it is by no means a show place. We sub-contracted the building and did most of the interior work in our home in 1978. We did everything we could to save money for our retirement nest egg.

In the early 2000's, we began to look at retirement. Our "baby" was now in college. As Louis began to develop some health problems (vertigo and heart), we decided that it was time to begin some serious planning. Most of our friends boasted that they had financial planners. When we inquired, someone at the Bank of Zachary (the bank with which we had banked since our marriage in 1970) pointed us to a young broker, Michael Word, whose office was INSIDE the bank. Before our official retirements,

Michael invested some of the money we had saved into some IRA accounts. After Louis retired in 2006, we were advised to rollover all of his retirement 401 K into a Stanford CD IRA – approximately $148,000. We were told that this investment had "minimal" risk, and Mr. Word pulled out brochure after brochure about the almighty Stanford Bank with statistics to "prove" his point. But, for us, his credibility lay mainly in the fact that he was sitting in the oldest bank in the area – on main street Zachary. Michael was young, very personable and professional and had a good rapport with some members of the bank staff and with the community.

In 2007, I, Kathy, retired and had eleven months to decide what to do with my DROP money. IN AUGUST OF 2008, I rolled over all of my DROP money – approximately $72,000 - into a Stanford CD. Before 2008, Louis's CD account statements came from Antigua. Later, when I rolled my money over, both of our statements came from the Stanford Trust Company in Baton Rouge.

We cannot start to explain what we felt when we heard about the SEC takeover in February, 2009. We felt so alone and confused and ashamed and most of all SCARED ABOUT OUR FUTURE!!! WE DID NOT EVER WANT TO RELY ON OUR GOVERNMENT OR OUR CHILDREN AS WE FACED OLD AGE. At first, we didn't know where to turn. The first person to whom we talked was Bill Gaines, our CPA (as well as Michael Word's CPA) who immediately told us to "get a lawyer" which we eventually did. We contacted the FBI, Governor Jindal, our Congressmen (Mr. Cassidy, Mr. Vitter and Ms. Landrieu) and the Louisiana Attorney General. I, Kathy, testified in the Louisiana House where some Stanford Investors successfully helped to pass a law that would punish brokers who were convicted of fraud in the state in the future. We started to attend meetings and talk to other Stanford investors. Our aloneness turned soon turned into ANGER. It seems that hundreds and hundreds of investors in the

Zachary and Baton areas were in the same boat. Some of our new "Stanford" friends had even received phone calls from Michael Word who was advising them to "move their money." We never got that phone call; we were probably not as high on the totem pole (pecking order?) of investor value as some of the others. We continued to attend meeting after meeting, even one in the state capitol of Jackson, Mississippi. Everywhere, we heard the same stories of trust in the Stanford brokers, of the terrible financial and emotional stress put on investors and their families, and of disbelief that someone, somewhere had not known what was going on. We, Louis and Kathy, decided to "go public" which was not an easy thing to do in this small town of Zachary where it seems that everyone knows everyone else. We began to talk openly about what had happened to us – to anyone who would listen. We made statements to the *Zachary Plainsman* as well as the *Morning Advocate*. We wanted (and still want) to get to the truth of what happened at all levels: local, state and national. Finally, we successful moved our non - CD IRA's to another firm with another broker. He said he would have been beating at our doors if he had known that we were with Stanford!

In conclusion, we understand now that as early as 1997, some members of the SEC knew about this alleged Ponzi scheme. We understand that some members of the SEC in Enforcement decided that Mr. Allen Stanford might be too big to tackle so they turned the other way to work on more, easier-to-prove cases. That would look better, right? If the SEC would have done its job EARLY ON, then certainly Louis and I (along with hundreds of other innocent investors) would never have lost our money in 2009.

Today, we beg you, to please convince Ms. Schapiro that we are the ones who were wronged. Please insist that we get the SIPC coverage that supposedly blanketed our accounts. Please help us to restore our confidence in our government.

We thank you for all you have done to help us. We look forward to the day when we can be whole again.

Sincerely,

Louis, Jr., and Kathleen S. Mier
8813 East Vernon Road
Zachary, LA 70791

225 654-8525
225-938-7578

louisjrmier@bellsouth.net

Dear Representative Cassidy:

The message I want the members of Congress to hear is that the SEC knew about, but failed to close down, a Ponzi Scheme run by the Stanford Group Company for 13 years. By not taking prompt action to close this company, the SEC allowed honest citizens to have most, if not all, of their retirement funds stolen.

In August of 1997 my husband, Jack a. Pace, retired from ExxonMobil. He entrusted to and invested in the Stanford Group Company. Stanford Group Company sold him fictitious Certificates of Deposit from Stanford International Bank, LTD in Antigua. The sum of these CDs was $1,466,743.62.

My husband worked for Exxon 38 years and worked hard for his money. He died in October 2008. Four months later, in February 2009, the Stanford Group Company was closed down by the SEC for committing fraud and running a Ponzi Scheme. Again, this was a scheme the SEC knew about for years but still failed to close. This is shameful. After ignoring their obligation to close this illegal operation, the SEC seized all funds invested in the Stanford Group Co., froze every cent of any remaining money I had invested with them and kept all of my ExxonMobil stock certificates, leaving me in dire straits. After several months, the ExxonMobil stock certificates were finally released.

The culprit in this matter - R. Allen Stanford - has still not been brought to trial. Any remaining money that could be refunded to the people it rightfully belongs to is being used instead to pay lawyer's fees, thereby reducing any recoverable funds greatly.
I want to take this opportunity to publicly say I want my legal right to this money honored and every penny of it invested in the fraudulent Certificates of Deposits returned to me.
On February 11, 2011, I submitted a claim form, #OMB1105-0008, to the Office of the General Counsel asking that my claim be put in line for payment. The body of this claim is as follows:

Pursuant to the Federal tort Claims Act, 28 U.S.C.~2671 et seq. ("FTCA"), I submit this administrative claim ("claim") for payment of damages suffered in the amount of $1,466,743.62 as a result of the Securities and Exchange Commission's ("SEC") negligent acts associated with the Stanford Financial Group ("SFG") Ponzi scheme. I expressly reserve the right to Supplement and/or amend this claim in the future for any reason.

In August 1997, I became a customer of Stanford Group Company ("SGC"), and SEC-registered Broker-Dealer and Investment Advisor. As part of the Stanford Financial Group of companies, SGC was also a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SI{C"). SGC Registered Representatives Jason Green and Grady Layfield sold me fictitious Certificates of Deposit from Stanford International Bank, Ltd. ("SIB") in Antigua.

Prior to February 17, 2009, I was unaware of my losses or that SGC and SIB were a part of a "massive, ongoing fraud" as accused by the SEC in its civil complaint against Stanford International Bank, et at.

Upon the public release of the SEC Office of the Inspector General's Report on Investigation on April 16, 2010, I became aware of the impermissible and nondiscretionary acts and omissions giving rise to this administrative claim. The basis for this claim is as follows:

SEC employees in the Fort Worth Regional Office ("FWRO"), the Denver Regional Office and in Washington, D.C. brazenly, and with no regard for investors, engaged in repeated negligent acts and material omissions that directly contributed to SFG's exponential growth from 1996-2009 as well as SIB's legitimacy and safety. The SEC staff abandoned its federal mandate to protect investors as they knowingly watched from the sidelines as the size of the Stanford Ponzi scheme grew by an average of $1 billion a year from 2001 through 2007 and by $2 billion – primarily from U.S. investors – in 2008.

SEC employees in the fort Worth, Denver and in Washington, D.C. violated the commission's legal mandate to enforce U.S securities laws as well as other applicable rules and regulations, including those related to the agency's oversight of and plenary authority over FINRA and SIPC.

The SEC violated its mandate under Section 15 of the Securities Act of 1934 by allowing SGC to hold active Broker Dealer and Investment Advisor licenses with no restrictions despite known foreign financial regulatory violations, including revocation of license and practicing without a license.

The SEC violated its mandate under section 7 of the Investment Company Act of 1940 by allowing SGC to sell SIB CDs without registration.

The SEC has no discretion not to act when it becomes aware of a fraudulent or illegal securities scheme being perpetrated in the United States, and the SEC's refusal to

act in eh Stanford case contravened the very purpose for which the SEC was established: investor protection.

Furthermore, the SEC violated its mandate established by Section 78eee(a)(1) of the Securities Investor Protection Act of 1970 ("SIPA") when the SEC failed to alert SPIC when it became aware SGC was in financial difficulty (if not totally insolvent) as early as 2004.

I hereby request the SEC consider, ascertain, adjust, and determine the claim set forth herein and pay damages in the total amount of $1,466,743.62.

Signed

_____ _____

Linda R. Pace
220 Knox Hill Drive
Baton Rouge, LA 70810
E mail: hefa1@aol.com

Date:February 11, 2011

AS BENEFICIAL OWNER OF: STANFORD INTERNATIONAL BANK, LTS.
ACCOUNT NUMBERS: #149835, #157898, #183276, #132734

Representative Cassidy, please do your best to bring this tragic situation to light and help all of us involved in this travesty receive justice.

If I can be of any further assistance, please do not hesitate to get in touch with me at 225/767-4644 or at the E mail address above.

Very truly yours,

Linda R. Pace

I forwarded my statement to Rep. Cassidy (Stanford Victims Group at Stanford.Victims@mail.house.gov.) on Sunday 5/8/11). However it did not conform to

the formatting you requested. (double spacing) Sorry. However, I hope my input will help us all get recognized by the committee in Washington.

Linda Pace, hefa1@aol.com.

May 7, 201

For Honorable Congressman Bill Cassidy// Financial Services Subcommittee Meeting

Our names are Donald E. and Ervin Faye Carey and we live in Baton Rouge, Louisiana (7447 Sevenoaks Avenue, Zip 70806); our phone number is 225-927-9814.

We are both retired State of Louisiana employees (schoolteacher and DOTD employee). We have lost ALL of our retirement savings acquired through Donald's State Employees' "Drop" program and "Deferred Compensation Plan" (401 plan). We had thought that by putting what took years to save ($250,000) into a Stanford CD, we would be able to do the things we had looked forward to in our retirement years with our children and grandchildren. Our decision to invest in the Stanford CD was made with the assistance of our Stanford Group Company (SGC) adviser and was based upon performance data that we were shown. Needless to say, we were not told the truth by Stanford Group Company regarding this performance data before they took our retirement funds for the CD. As we have recently come to learn, the Securities and Exchange Commission (SEC) could have helped us know about the untruthful CD performance data before our 2008 investment. Such an SEC action could have saved our retirement funds. However, the SEC failed us and now we "get by" month-to-month on our Louisiana Retirement pensions FOR WHICH WE ARE VERY THANKFUL!! But – Stanford Group Company and the SEC have destroyed our retirement dreams. We honestly feel that we have been wrongfully harmed by intentional fraud (Stanford Group Company) and also by intentional indifference (the SEC).

We hope and pray that something RIGHT can be done to help us become less harmed.

May 8, 2011

To: Congressman Bill Cassidy & Congressman Greg Harper
Gordon & Alice Zothner Victim of Stanford Financial Group Ponzi scheme

We met Donald R. Miller CFP at a dinner in 2004 he invited us to discuss financial planning. He worked at Prudential at that time. He had a good background and seemed very knowledgeable when we talked to him and we wound up transferring our IRA and other accounts for him to manage at Prudential. During 2005 he called and said he had moved to Stanford Financial Group and he presented Stanford as a solid prestigious company in Houston. Based on the relationship, that we had established with Donald Miller and his high recommendation, we moved our accounts to Stanford Financial Group. He was our account representative and made many recommendations related to Stanford Group Companies Management Group. Later on in 2005 he suggested Stanford International Bank CD's. I was a little concerned about this investment but he had nothing but praise for this institution. His words were "you do not have to worry about that bank; they have been in business for twenty years and have never lost a dime". Based on his high recommendation we put some of our IRA's and one non IRA account that was proceeds from one of our rent houses that we sold. He also recommended a fee managed account that Stanford Group Companies had and had always done exceptional and consistently outperformed the S&P500. I later found out that the numbers that were being reported were not accurate and this fund was not outperforming the S&P500. Everything seemed to be going along smoothly. As the markets fluctuated on many occasions I questioned Donald Miller again about Stanford International Bank CD's. His response was always that you do not have to worry about that bank, they are doing great.

In late January or early February there was something on the local stations in Houston about Stanford Group companies being investigated by the SEC. I talked to Don Miller at this time and he stated that it was really nothing; it was a couple of disgruntled employees. It still made me nervous and I had asked him about withdrawing my funds from Stanford International Bank and they had temporarily frozen withdrawals from this bank to prevent a run on the bank because of this bad publicity and he thought this was a good idea. Then in February the official news hit that the SEC had taken over Stanford Group Companies and frozen all assets. The SEC immediately froze all accounts even those that were not associated with Stanford International Bank CD's.

This was our entire financial worth which we were not able to do anything with for the better part of a year. I had many conversations with the SEC which were to no avail. Finally I was able to transfer funds that were not associated with Stanford International Bank CD's to an account I now manage myself. I will never trust an account rep at any brokerage house again. I may not be the best person to manage investments but I know who to blame if they don't do well. We lost over $250,000.00 with Donald R. Miller CFP and Stanford Group Companies. This was a significant portion of the money that we have worked all our lives to accumulate to supplement our social security and provide us with enough to live on.

Since then we have had to downsize our residence and cut back on our living expenses due to the loss of this money and what it meant to our future. We felt it was a disgrace when we found out the SEC allegedly knew about this years before and did nothing. This has gone on now for over 2 years and we have heard nothing of what is happening from the receiver. We certainly feel that we have been let down by our government. We hope that out of your committee hearings something positive may come.

Sincerely,

Gordon and Alice Zothner

13307 Orchard Harvest Drive

Richmond, TX 77407

281-242-6860

Email: gordonzothner@windstream.net

We are in Congressman's Pete Olson District and have asked him for his support on this matter also.

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http://blogs.wsj.com/corruption-currents/2011/05/09/stanford-prosecutor-headed-to-mintz-levin/?mod=WSJBlog

Stanford Prosecutor Headed To Mintz Levin

By Joe Palazzolo

The Justice Department lost one of its top fraud prosecutors last week to the Washington office of Mintz Levin Cohn Ferris Glovsky and Popeo PC, the firm said.

Friday marked Paul Pelletier's last day as principal deputy chief of litigation in the department's criminal fraud section, where he supervised foreign bribery cases and had a hand in a number of the largest corporate fraud cases in the past decade, including investigations of AIG, Enron and Qwest.

Pelletier, who joined the fraud section in 2002 and ran it for a stint as acting chief, had also been working on the Justice Department's case against R. Allen Stanford, accused of operating a $7 billion fraud.

At Mintz Levin, Pelletier said he expects to keep busy with a mix of Foreign Corrupt Practices Act, health-care fraud and securities fraud cases.

Pelletier enters private practice as the criminal defense bar and business lobby are increasingly attacking the Justice Department's methods in foreign bribery cases and calling for amendments to the FCPA. (Not coincidentally, the criticism has escalated in lockstep with a spike in enforcement of the FCPA, which accounted for $1 billion in fines in fiscal 2010, about half of Criminal Division's total haul.)

Pelletier declined to weigh in on the criticism, saying as a defense lawyer he's "just working the other side of the coin."

"I want to bring the experiences that I've had here to the client," he said. "It's an insight that not a lot of people have."

The intersection of the health-care industry and the FCPA, the U.S. foreign bribery law, is a sweet spot for Pelletier, who helped establish the department's successful health-care fraud strike force teams.

Under his watch, the fraud section launched a probe of major drug companies suspected of paying bribes overseas. That probe began with a series of letters from the department voluntarily requesting information from the targets, a practice critics say smacks of a dragnet.

Pelletier defended the use of letters in cases where there is evidence of foul play across an industry.

"When you have credible information that a type of activity is going on in an industry, letters are a responsible way of dealing with that," he said. "A grand jury subpoena creates all kinds of notice and reporting requirements. It's just a different level of the investigation."

Justice Department officials have long preached that companies should self-disclose potential FCPA violations, no matter how small. When asked whether he, as a defense lawyer, would advocate for self-disclosure in all cases, Pelletier said: "It's one of many factors that you analyze in going forward."

But he added: "It's not a decision that you as a defense attorney make."

At Mintz Levin, Pelletier will be part of the firm's litigation section and a member of the white-collar defense, health-care enforcement defense and FCPA practice groups.

My wife and I, an architect and an interior designer with one daughter, first heard of Stanford from our broker at Merrill Lynch who was recruited and moved to Stanford when it opened an office in Memphis, TN. The broker we dealt with had been a friend of our family for over fifty years and when he asked us to move our account to Stanford, we saw no harm. We are not wealthy, have never made large incomes and do not have families with money. All that we had invested at Merrill Lynch was from years of doing what we had always believed was necessary, to save, be responsible for caring for ourselves and not end up a burden on our families or community. Our savings, principally in IRAs, had been generated from 25 years of living within our means and saving for our future. We had never been active in the market and only spoke to our broker several times a year to make adjustments we felt were appropriate.

In 2007, we became concerned about the market and asked our broker to decrease our position in the equities market and increase the amount we had in cash. He recommended CDs as a cash equivalent. Our request was never for a "high yield"

investment but simply for a more secure position for our retirement savings. The broker assured us the CDs were safe and institutionally rated as very secure. The end result of the catastrophe was that we lost half of our retirement savings. At 59 and 56 years old, this is not a setback we can recover from, with the result being that our life is now forever changed.

Understanding that this all could have been prevented if the institutions organized to protect us had not somehow lost their way, is a bitter lesson. My wife and I have lost the trust we previously held in institutions, both private and governmental, and understand that objectives stated and actions that follow may bear no relationship to each other.

Arthur and Jenny Yeates

556 Cherry Road

Memphis, TN 38117

9th district, represented by The Honorable Steve Cohen .

STANFORD FRAUD VICTIMS

Our names are Byron S. and Linda L. Landry, legally married in the State of Louisiana, but we are now legal residents of South Dakota. Congresswoman Kristi Noem is our SD representative. We recently retired and got involved at the very end of Stanford's fraud. In less than 90 days our monies evaporated. We worked all of our lives with the dream to travel upon retirement. We have invested our monies in bank CDs, bank savings accounts, credit union accounts, 401(k) accounts, 403(b) accounts, stocks and mutual fund accounts. We did not invest in commodities or puts and calls. We were considered extremely conservative investors. We were customers of Stanford Group Company

(SGC) in Baton Rouge, LA. Our joint account number with SGC was NMW-033318.Chronological order of our CD investment starts with our two CFP. Since the first quarter of 2004, they operated Premier Financial in Baton Rouge. We decided to follow them when they notified us they were going to join SGC in November 2007. They sent us information on SGC to read and see if we wanted to transfer our assets to SGC when they moved. We did our due diligence by reading what was in the public domain on SGC, which included searching the Internet and local libraries for several days. Our search showed that SGC was respected, were involved in charitable events and well known in the financial markets for some years. We found absolutely no negative reporting by any magazine, newspaper, SEC findings or publicfinancial reports. No hint of any problems with SGC. The decision to go to SGC was based on our long term relationship with our current CFPs, the SGC information given to us by them and our own due diligent investigations in the public domain. After our accounts were transferred to SGC from Premier Financial, market fluctuations had taken place during our travels that showed our investments dropped to the point that we were uncomfortable with our current investment returns. We purposely came back to Louisiana to talk with our CFPs to see what could be done to stem this market loss. They had been at SGC for about one year. We had sold our LA house in 2007 and wanted to safeguard the sales proceeds for reasons told below in this letter. During this meeting on October 21, 2008, they presented a strategy to take a large portion of our retirement monies and put it into safe, practically risk free CD's at the Stanford International Bank, Ltd. (SIBL) located in Antigua, West Indies. We were informed that it had to be a minimum investment of $250,000.00 for a term of 5 years with a hefty withdrawal penalty before maturity. We questioned both financial advisors about the safety of the CDs. We were sold these CDs as safe, conservative and insured accounts by SGC and Lloyds of London. The CD

monies were obtained by advice of our financial advisors to sell under performing securities and in combination with the house sales proceeds; we would have the minimum required amount. We decided to go with the low risk CDs to try to stem our investment losses, have monetary security, to safeguard the LA house sales proceeds and ultimately for medical reasons. We were not informed at the time of that 2008 meeting that the CFPs were going to get a referral or incentive fee from SIBL, if they referred SGC clients to SIBL. That may have been the incentive to recommend investment in the CDs, but this is pure speculation on our part. We realized shortly that our monies had evaporated when national news reported a Ponzi scheme by Allen Stanford, owner of SGC and the subsequent SEC seizure of all of our retirement monies held by Stanford's broker, Pershing, LLC. We were shocked that nothing had been made public in the recent past by any regulatory government entity. We had not been warned of any wrongdoings by SGC or SIBL by any American regulatory agency. The SEC failed us and seized our retirement monies all because we had CDs in SIBL. The SEC never charged Allen Stanford with any criminal wrong doings at this point, but, in our opinion, unlawfully seized our assets leaving little monies to continue travel. We were not permitted to manipulate our accounts to try to stem market losses. We had no access to our seized assets and our CPFs told us they were under a gag order not to contact us or converse with us, so we suffered untold market losses due to the asset seizure. We never received any earnings from the CDs as we had just purchased them and had given instructions that all earnings be re-invested back into the CDs.

We request the US government to include our losses under the powers of the SIPC (Securities Investor Protection Corporation) because of the knowledge now gained through our news media's investigative reporting that our financial regulatory agencies knew of improprieties by SGC and SIBL since 1989 and did not act or warn investors of

their findings and allowed these Stanford companies to perpetuate the fraud on the investors for years, resulting in huge losses to us.

We are suffering undue hardships because of this Stanford fraud and by the lack of oversight by government financial regulatory agencies. We can only live in our motor home as the monies to buy another house has evaporated due to this fraud. The ultimate indignity and hardship to us is that THE CDs WERE PRIMARILY PURCHASED TO HELP PAY BYRON'S MEDICAL BILLS FOR HIS DIAGNOSED CANCER LUEKEMIA. My survival chances are now greatly diminished without those monies and knowing the facts that we can not buy another house nor pay my medical bills has become a tremendous hardship on us, both mentally and physically. We are now elderly and can not work anymore due to age and medical conditions.This should not have been allowed to happen, not to American investors, not in America, but it has.When will justice be done for us? We certify that these statements are true to the best of our knowledge, dated this day of May 10, 2011.

Respectfully,
Byron S. Landry
504-289-6268 cell E-mail: byoslandry@hotmail.com

Linda L. Landry
504-452-6589 cell E-mail: linlan13@hotmail.com

Preferred Mailing Address:
P.O. Box 1664
Gretna, LA 70054

Legal Address:
3700 S. Westport Ave. PMB 4028
Sioux Falls, SD 57106-6360

Our SD representative is Congresswoman Kristi Noem

Cc: file

May 8, 2011

Dear Congressman Richmond,

It has been over 2 years since the Stanford Financial Group was closed by the SEC on Feb. 17, 2009.Every penny of our savings was frozen without warning. The SEC had for 12 years been investigating this company and knew they were operating a Ponzi scheme but issued no warning about investing with them. Why, Why, Why? Is not the SEC there to safeguard us? Faith in our government officials and in the safety of our American investment firms has been shaken.

My husband, Angelo, and I invested our life savings with Stanford. A lifetime of hard work and prudent saving was invested with this American Brokerage firm. No one ever gave us anything. We were married for over 50 years and both worked hard at many jobs and invested in our own businesses working tirelessly to earn and save for our future. Angelo retired in 2000 and after checking out several firms our decision was to invest with this American firm that had a fine reputation. No warning from the SEC.

Jason Green, the advisor we started with at Stanford, diversified our investments and part was placed in the CD's at SIB. We were told that this was the safest part of our investments. There the steady, sure interest would balance other investments that had risk involved and at our age this was the best way of investing.

Angelo was a former sergeant in the US Marine Corp. He was a man who always tried to provide for and to protect his family. When every penny we had in Stanford was frozen he became very anxious and urged me not to let this loss make me ill. The stress was overwhelming on us as well as all the others in this terrible predicament. On March 5, 2009 we attended a meeting with other victims trying to figure a way to get our savings released. On March 6, 2009 he suffered a stroke. On March 22, 2009 he died. There is no proof that the stress caused his stroke but I certainly do feel that is was reason I lost

my husband at this particular time. My life will never be the same. I cannot get my husband back but please do whatever you can to insure that we receive the SIPC coverage that would restore a large portion of my life savings that was lost. The SEC was woefully negligent by not stopping this Ponzi scheme. Please help make this right. In America we really do depend on our government representatives to protect us.

Thank you for your help,

Mary Ann Paternostro

Ref: Stanford International Bank CD

Dear Sir,

We are US Citizens. I am retired and my wife is home taking care of our 8 year old son.

We have been living on Social Security and savings that I had accumulated from 38 years of working for local bank. All of our incomes from all bank accounts have been reported properly to IRS and we have never under reported our income by a penny.

On January 21st 2009 we were sold a Certificate of Deposit from Stanford International Bank thru a Mr. Faran Kassam in Pembroke Pines Florida. The Certificate is for BP 167003.00 being equal to $230,000.00 at 7.5% interest maturing on Jan 21st 2010. We were told that British pound was cheaper and that was advantageous to us. Now we hear from press that this bank was a fraud. Our attempted contacts with the bank have gone unanswered. Right after SEC had shut down the Stanford, the fellow who sold us this fake certificate of deposit left US and now lives in UK and refuses to answer any of our calls. The report who investigated SEC involvement this whole fiasco now states that

SEC had known for past 12 years about Stanford doing this massive fraud did not inform any one about it and thus kept the fraud to continue on Americans like me and my wife.

These represent all of our savings from past 38 year of sweat and labor. MY health have denigrated significantly. I have had a major stroke 4 months ago. We have son who is only 10 years old now and these funds were to see him thru his education and now we are having difficult times even meeting our mortgage payments. We hear that Madoff victims will be covered by FINRA SPIC program whine no such coverage exit s for me and my wife. Although SENATER BILL NELSON of Florida, whom I have written to, is sympathetic, but not has been able to explain why such coverage is not provided to us.

Sincerely,

Anwer a. and Maria C. Perbtani

1293 NW 163rd Terrace

Pembroke Pines Florida

Phone # 954 432 9433

Congressman Bill Cassidy May 8, 2011

Re: Stanford Financial Group Fraud

Dear Congressman Cassidy:

I am writing to formally request your support in the upcoming US House Committee meeting on Financial Services. My wife and I are trusting that this meeting will be a favorable step in the process of recovering our life savings that was invested with Stanford Financial Group. It appears the lack of action by the state of Louisiana and Texas, the SEC and FINRA have jeopardized our entire financial future. My family, along with thousands of others who placed their savings in state and FINRA licensed brokers' hands, now face absolute financial ruin simply because our government and government-appointed regulators did not perform their jobs of protecting us. These savings include retirement accounts, trusts for chronically ill family members, college funds and pension plans.

We continue to be extremely frustrated that the SEC/SIPC is dragging their feet on any effort to help the victims through financial restitution.

Our lives have been turned upside down and inside out as a result of this "fraud". We had our retirement all planned until February 2009 (Stanford taken into receivership). We have held on for over two years hoping and praying that something would be done to allow us to recover a portion of our losses. We are simply too far along in our careers to start over. I am working part time and my wife works full time.

I was introduced to our Stanford Group Financial Advisor in 2002 or early 2003 by a business associate who had used Stanford services for several years and was very pleased with those services. We went through several months of deliberating and investigation before we decided to invest. We were presented with numerous documents/pamphlets, etc. which indicated that Stanford was a member of FINRA and SIPC. We believed our money was as safe as with any other financial services company or bank.

My wife and I have worked our entire lives to achieve the American dream. We are

honest, hard-working citizens who invested with a company that appeared to be performing at a very high level with a very public profile. Based on Stanford Group financial projections, we had planned on retiring in the spring or summer of 2009. My wife had already turned in her notice that she would be retiring in May, 2009. We were very fortunate that her company allowed her to continue working. Our medical insurance is provided through her employment with this company.

We have been living in the same house in Baton Rouge since 1971, saving our money to one day build our retirement home. We purchased land five years ago and were 40% complete on the construction of our retirement home when the SEC took receivership of the Stanford Financial Group. As a result we were forced to stop construction in February, 2009 with an outstanding construction loan balance of a little over $280,000. The bank tells us the best thing to do is to pay off the loan, but this is going to be extremely difficult not knowing if or when we will be able to recover any of our losses. The bank also said if we do pay off the Construction Loan and manage to sell a 40% complete house, the buyer will probably not be able to get a construction loan, since the house is already under construction. We have tried to sell the house but have had no success. Fortunately, the bank has extended the construction loan three times. The loan will mature again on September 1, 2011. I am not sure how we are going to handle the loan balance once it matures. The bank has said they will not renew it again. We are facing the possibility of losing it all if we can't recover some of the money that was stolen from us by The Stanford Group.

We have lived the past (27) months, hoping and praying every day that justice would be done and we would be able to recover a portion of our losses. It's been virtually impossible for us to plan or set goals for our future. To even continue dreaming of the things we had planned for in our retirement years seems useless. It's very difficult to

forget and to get past the fact that we placed our trust in people that we believed to be honest and with moral integrity. We hope one day we will again be able to trust and believe there are people who care and possess Christian morals, which is exactly what this country was built on.

The SEC/SIPC has ignored your request as well as requests from others to move ahead with a decision for financial restitution and are now ignoring the damaging report from the Inspector General. Countless pages of documents have been provided to the SEC in of support coverage for the Stanford victims.

How can the SEC/SIPC possibly feel they have no liability and can take the position of "no accountability" for their "no action"? The fact that they failed to inform the investors of possible fraud and as a matter of fact told the Stanford Advisors it was OK to continue selling the CD's is wrong.

The information that has been provided clearly states that the SEC did not do their job regarding the Stanford fraud dating back to 1997. The SEC and five other Federal agencies failed to do their job from 1997 to 2009.

Prior to the SEC's Feb. 16, 2009, complaint against Stanford Group, which led to the collapse of Stanford Financial Group and Stanford International Banks in multiple countries, media reports show suspicion of Stanford fraud dating back at least 10 years. In 1999, the Texas Senate Finance Committee handed off the Stanford alleged fraud case to the SEC and the FBI because of jurisdictional issues. Virtually no investigation is documented from that time until 2006, when a routine exam by the SEC pointed to fraudulent activity. Apparently the state of Louisiana Financial Regulatory Commission stood by during all this and did nothing to notify Stanford investors that there was suspicion of fraudulent activity. At this point, the SEC was directed by another un-named federal entity to "stand down." Had this investigation been completed at this time, many

of us would not currently have our investments in jeopardy. I know I personally would not have invested our life savings in Stanford International Bank certificates of deposit Additionally, the Texas Department of Banking had a formal agreement with the country of Antigua that gave them the authority to supervise/audit Stanford International Bank-Antigua. In the aftermath of the SEC case, Texas has claimed they had no jurisdiction to have helped any of its residents. This agreement clearly states they did have that ability and did not follow through to protect us. This agreement is currently available on the TDB website.

We were not greedy or gullible investors. We did extensive due diligence prior to making our investments. Unfortunately, the only information available to us at the time did not include full Louisiana or Texas government, FINRA and/or SEC disclosure of Stanford investigations. We were blatantly misled with false reports and marketing materials, which FINRA fined Stanford for using in 2007, but did nothing to warn investors or stop the practices. In 2008, FINRA fined Stanford for not having enough capital, and again did nothing to warn investors. We assumed the U.S. government upheld their regulatory rules with all licensed securities dealers operating in our country and that they would have been required to report any violations to investors. Similarly, the SEC did not report any wrongdoings or complaints against Stanford or any of its Advisors despite numerous investigations dating back at least a decade.

It appears the Stanford Group's alleged fraud will take years to unravel, with investors left in "limbo" with no financial means of survival. I hope you will support the innocent investors like me who will suffer dramatically if recovery is not provided very soon. As the home state of Stanford Financial Group's international headquarters and the fact that 70% of the CD's sold in the US were sold in the Louisiana, Lafayette and surrounding areas, Louisiana and Texas leaders should step up to fight for justice and see that

investors are compensated for their losses. Please help us get our stateside brokerage accounts released and recover our investment losses in the International Bank.

Sincerely,

Byron & Ann Ratliff

Louisiana's Sixth District

9634 Glennsade Ave.

Baton Rouge, Louisiana 70814

Phone: 225-405-6878

Members of Congress:

I came to this great country in 1961, got married in 1966, my wife and I worked very hard, sometimes 16 hour days to educate our children and be able to save money to retire one day, well we transfer our IRA'S accounts to Stanford Bank in 2005, we checked, double checked and tripled check to find out it was an approved financial bank to operate in tbe USA, September 24, 2008 I received a letter from Doris Savage, Financial Examiner Analyst with The Office of Financial Regulation, in the letter it said, The Office of Financial Regulation is dedicated to safeguarding the private financial interest of the public by regulating financial service companies and The Office is conducting an examination of Stanford Group Companies and according to their records I was an account holder and they would like to speak to me, I called immediately and spoke to Doris Savage, I asked should I be concerned, she said not this is a routine examination we do this to all financial companies, I did not worry, well we lost our life savings.

It seems that the Office of Financial Regulation as well as the SEC are protecting the financial companies and not the public, The SEC was aware of Stanford Ponze schem since 1997, the public was not informed, what are we suppose to do, I am 66 years old, my wife is 65, The members of Congress are elected by the People and for the People, we need you to get to work and get us back our money.

Sincerely.

Luis and Miriam Raton

May 4, 2009

Dear SVC Advocate,

My wife and I have both retired for 11 years. We were living on the income that was produced by 3 SIB taxable CD's. In addition, we had 5 IRA CD's, which were accumulating interest within the accounts. We have **NO** source of income other than my monthly Social Security benefits. We have sold **ALL** of our semi-liquid possessions at great financial and personal loss just to pay daily expenses until our brokerage accounts are unfrozen. The bills are mounting. We are trying to find employment, which will be difficult in this tough job market. We worked our entire lives to accumulate our hard earned money. In addition to our ages, 67 and 56 respectively, we have been out of the job market for 11 years, which compounds this nightmare even further. We are both under doctor's care as a result of the Receiver's actions. We have 2 brokerage accounts. One is a taxable account that was receiving interest payments from SIB, which was the source of our living expenses. The other is an IRA account that has **never** received income from SIB. The only reason that I can suspect this account is still frozen is because the two accounts are linked by SS #'s.

I hope that these accounts are not going to be used to claw back previous

To Whom it May Concern,

My wife and I are victims of the Allan Stanford Ponzi scheme. We have been lifelong savers since starting work 38 years ago - putting 10% of our earnings into our retirement investment funds. Three years ago, our long time financial counselor came to us with a proposal to move our funds into safer investments, since we would be retiring in ~5 years. After several months of discussion, we decided to go with our counsel's recommendation to use our retirement funds to purchase Stanford International Bank CD's. We were told that SIBL had a very high Basal rating and that the investment would be safe with only the interest rate possibly at risk.

As we all know now, SIBL had bribed the bank examiners and all the information we received was not true. We have lost our retirement savings and the possibility of retirement has been eliminated. Recently we relocated to Ohio from North Carolina to maximize our earnings.

My mother (Marjorie Richardson) was also a client of the same Stanford Financial Group broker. Luckily her investments were diversified. Even with this, she lost 35% of her savings. She also had to go through the extended, and very anxious, period of having her non-SIBL investments frozen by the receiver and not knowing what was going to happen with the remainder of her retirement savings.

Thank you for your time and consideration.

Sincerely,

Pete and Jill Richardson

315 5th Street
Marietta, Ohio 45750
740-350-0886

Formerly,
2810 Warlick Drive
Wilmington, NC. 28409

TO WHOM IT MAY CONCERN:

Reese and I (Darla) married almost 48 years ago. Reese was in college and I worked so he could get his degree. We had no phone, TV or health insurance and welcomed vegetables from our parents' gardens. Reese completed his education and found employment. Reese rarely ate out for lunch but rather took his lunch from home, many times tucking that brown bag in his briefcase to be used for the next day's lunch. Again, to save a bit of money. Upon Reese going to work, we immediately began a savings account for our future. Later we had three children whom we raised and then (I) Darla returned to work to help put them through college. All during this time, we continued to contribute to our savings so we would never have to depend on the Government during our retirement years.

As we approached our retirement years, we began to meet with Financial Advisors and visited several institutions gathering info that would give us security and diversity of our funds. We met our FA when he was with another company and we began a level of trust. Later, he went to work for Stanford and since we had established a good working relationship and level of trust, we stayed with him. Also, any correspondence/statements that our FA gave or sent us indicate Stanford was a Member of NASD/SIPC. When Reese retired, his entire 401K was transferred to Stanford to be diversely invested. We were with Stanford for nine years before the "crash" in February, 2009. NEVER during that time were we told or heard or were contacted by ANYONE that Stanford was being investigated for anything or that several of Stanford employees were reporting questionable practices by Stanford. (Why was everything kept hidden behind a veil of

secrecy by more than one Department??) In early June, 2009, our FA strongly encouraged us to transfer a large sum of our monies to a CD to protect our retirement as the market appeared to be starting a definite downward turn of which we were also aware. However, we never received a Certificate of Deposit nor did we ever receive a statement from Stanford International Bank. When we asked our FA "Where is our money?", he said in "The Bank". Little did we know our FA was receiving large "commissions" for every CD he could secure. (He is now being sued by the Receiver.) Reese will be 71 this summer and I will be 69 this coming winter. How do you start over at our age?? We sold our home in Houston and moved to the country upon Reese's retirement. How many jobs do you think are available for a 71 year-old in the country?? So Reese does odd jobs for minimal pay. I do part-time work at a Gift Shop for minimum wages. Our Social Security only covers our taxes. We have health insurance but the premiums are not free and we expect the premiums to rise. My health is not the best and I curtailed doctor visits, trying to get by with the minimum. We don't plan many "get-way" weekends because gas is so expensive but those "get-always" would be so beneficial for my health. All of this turmoil and the loss of security of not knowing how we will pay for future needs has not helped my well-being. Each day is a struggle. The only way to describe the way we both feel is that we have been raped!

Darla and Reese Schmidt
3107 FM 954
Fayetteville, TX
Ph.# 979-249-5907
e-mail reedar@cvctx.com
Stanford Victims in District 25

Mark Shapley
Testimonial for Mississippi Secretary of State Stanford Financial Fraud Hearing
October 5, 2009

My name is Mark Shapley and I am a resident of Ridgeland, Mississippi. Like many of you here today, I am a victim of the Stanford Financial Group fraud. I have spent the last several months wondering and worrying along with all of you about whether or not I will ever see my savings again and how something like this could have happened in the first place.

Doing the right thing has always been something I aspire to and something I hold in high regard. My Mom and Dad taught me your name and reputation were the only things in life we could control or that truly mattered so in everything I've done, I've strived to maintain integrity and honor. When I was 25, my wife, Mary, and I started Shapley's Restaurant in Ridgeland, Mississippi, with a small business loan. For 13 years, we worked long hours to manage and operate the restaurant. The restaurant became very successful and we decided to sell it in 1997 so we could spend more time with our two daughters.

Over the last 12 years since we sold the restaurant, I started and invested in many businesses – some successful and some not. But I always operated with the belief that my success or failure depended on me and my willingness to be honest and work hard. Through investing, I have made a lot and lost a lot of money and I have encountered numerous dishonest people. But the one standard I thought I could ALWAYS rely on was the integrity of my government to protect people like me who had paid their taxes and followed all the rules. And boy was I wrong.

Like most other Stanford victims I have met or read about, I invested in the Stanford International Bank certificates of deposit because I was tired of losing money to

dishonest Wall Street executives we read about in the news every day. Their level of greed and dishonesty was more than I could bear but it pales in comparison to the apathy and self serving attitude of the government agencies that over saw the investment empire of Stanford and Madoff.

I had no doubts the type of investment that was advertised as extremely safe with a secure, fixed return and that carried the endorsement and backing of US government agencies had to be legitimate. Despite the naysayers that smugly offer there, 'I told you so' advise, everything was reviewed by either FINRA or the SEC so why would I doubt it to be accurate? After all, this guy had operated for over 20 years with our government's approval.

After spending most of my adult life taking considerable risks in private ventures that required my time and money, I decided enough was enough. It was time to sit back and enjoy my family and I thought this "safe" investment was going to allow me to do that. I didn't think I needed to wonder if my government was doing its job policing crime and enforcing financial regulations – or how and why my government would allow someone who had filed for bankruptcy open a multi-billion dollar financial institution that sold billions of dollars of a product they are now saying was under scrutiny for many years yet never making any of this information public.

It is unimaginable that multiple US government agencies let an accused money launderer operate without adequate regulation for over 20 years – all while stealing the retirement funds of innocent people not only in the US, but around the world. And this company didn't just operate under the radar. The US government seemed to openly endorse Stanford Financial Group.

We've learned in the FINRA report that was released last week that the agency didn't act on critical red flags that could have led to uncovering this fraud many years ago – not

only before I personally invested, but before a majority of US investors invested with Stanford. FINRA has admitted it dropped the ball – many times. But what does that mean? Is it acceptable for them to just admit to not acting on serious allegations yet accept no responsibility or face no consequences?

I've learned that FINRA is a "self regulating agency" our government, via the SEC, gives the authority and responsibility to enforce regulatory compliance rules for financial advisors. How does our government relegate such a huge responsibility to someone who governs themselves and doesn't seem to have to answer to anyone? This "self regulating organization" is funded by the financial advisors, yet it claims to represent the investors. It seems this is a huge conflict of interest. This is a recipe for disaster that just boiled over. And it cost Stanford investors in the US at least $1.5 billion.

In addition to being mislead by my financial advisor, the SEC Office of the Inspector General report that was released in July confirms the SEC had enough information about the Stanford fraud to file a civil complaint against Stanford in April 2008, but they were given a "stand down" order by the Department of Justice, which was doing its own criminal investigation. So from April 2008 until February of 2009, innocent investors who had no clue about this, behind the scenes knowledge of fraud, were moving their life savings to the CDs. Approximately a billion dollars went in to Stanford International Bank after this stand down order, including a majority of the money that my family had invested. Nearly a 1,000 other US investors who were looking to protect their life savings while the financial markets were imploding were affected during this time frame. The SEC and the DOJ knew investors would lose potentially everything that went to SIB after April, yet innocent investors were sacrificed for the sake of a criminal investigation that didn't result in any indictments until four months after the SEC eventually filed their civil complaint in February. My question is how this is fair and how can our government

sit back and watch while innocent people put their retirement funds in a product they knew was fraudulent for the sake of a criminal investigation? It appears we were viewed as nothing more than 'collateral damage' while our government agencies went about building their case. In a time when every mismanaged, unprofitable industry is getting tax payer bailout money, our government will not assist honest; hard working tax payers keep their own savings. It just doesn't make sense.

And as if not being protected by our government and my life's savings being sacrificed wasn't enough harm, we've been told we do not qualify for the insurance backing of another "self regulating organization" – SIPC. SIPC is funded by the broker dealer companies and when investors like us request coverage, we are denied on a technicality. Another conflict of interest where the broker dealers are funding an organization, but their sole purpose is to protect the clients of the broker dealers. We have been told we don't qualify for SIPC coverage even though the wealthier, more politically connected Madoff investors were granted the coverage.

The bottom line is, I and thousands of others like me are victims of one of most inconceivable displays of corruption and greed in our country's history and it could have all been prevented if our regulators and law enforcement had been communicating and doing their jobs. Now they are in a position to help the victims in Mississippi and around the country by extending SIPC coverage. My challenge to them is, 'do the right thing?' We believe we have a strong legal and ethical position for this coverage, but we also need political support to make sure the issue is acted on. I ask everyone who has any influence with our Congressional leaders and our regulators, to support our rights to, at a minimum, get SIPC coverage extended. I also ask that this information presented by the victims today is used to reform the regulatory system that failed us in such an unbelievable way. Thank you.

Mark Shapley

Travis F. Bedsole
514 Ellen Drive
Brookhaven, MS 39601
tfjsbed@bellsouth.net
Congressman: Gregg Harper

My wife and I retired in January, 2007 and placed all of our retirement funds with Stanford. Within a year or so our broker persuaded us to put $400,000 of our life savings in Stanford CD's. Within a year our money was gone. Not only did this event destroy our 40 plus years of "retirement dreams", it has also impacted all areas of our lives. Our son is married with two children. He is a construction worker in the home building business. This business has been hit very hard by the economy. We are not able to help him. Our daughter is a recently divorced mother of two. We cannot help her through this difficult time. Our plans to be involved in our Church ministries have been greatly diminished.

Alan Stanford made this happen, but my government allowed it to happen. I am sure you are aware of the facts. So how can you right this wrong? By being a rare breed in Washington, that is, a Congressman who does the right thing for the right reason. My government failed me and my wife, along with 6,000other Stanford victims. This wrong can be made right for most of us if my government will simply award us the insurance that my government set up in case my government failed to stop an Alan Stanford.

Your heart knows what you need to do.

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