

**Testimony Before the
Committee on Banking, Housing, and Urban Affairs
United States Senate**

**“Oversight of the SEC Inspector General’s Report on the ‘Investigation of the
SEC’s Response to Concerns Regarding Robert Allen Stanford’s Alleged Ponzi
Scheme’ and Improving SEC Performance”
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by

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and

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Chairman Dodd, Ranking Member Shelby, and members of the Committee, thank you for the opportunity to testify today on behalf of the Securities and Exchange Commission (SEC).

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 (“Inspector General Report”). The Office of the Inspector General conducted an extensive investigation that clearly identifies missed opportunities for protecting investors, and no one should evade responsibility for the SEC’s handling of the Stanford matter. We deeply regret that the SEC failed to act more quickly to limit the tragic investor losses suffered by Stanford’s victims.

The Inspector General Report makes 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 address those recommendations.

In addition to the Inspector General Report’s recommendations, as new leaders, each of us has engaged in a top to bottom review of our respective Division and Office since joining the Commission within the last year and a half and have implemented measures to reform our organizational processes and improve our effectiveness. We have vastly expanded our training programs; hired staff with new skill sets; 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; and revamped the way that we handle the tremendous volume of tips, complaints, and referrals that we receive annually.

Despite the many changes, more needs to be done. This will require commitment and creativity. We embrace the challenge and are confident that our efforts will continue to enhance 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 permitted Stanford to, in effect, "ghost write" the response by the AFSRC to the SEC, which rejected the SEC's demand for information. Bribing King permitted Stanford to keep his fraud alive for years. In addition to the SEC's charges, the Department of Justice indicted King for

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

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 matter is to hold wrongdoers accountable while providing maximum recovery to investors harmed by 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 July 1, 2010, the Receiver identified several categories of major assets for possible distribution to harmed investors:

- \$80.5 million in cash on hand;
- \$17.2 million in private equity investments already recovered and liquidated, with an additional \$7.7 million in proceeds from additional pending transactions expected;
- \$2.3 million in inventory and accounts receivable, specifically in coins and gold bullion;
- \$6.4 million in real estate sale proceeds, with an additional \$11.7 million expected from sales of other identified properties; and
- \$511 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.

The SEC is closely monitoring the Receiver's costs to ensure optimal recovery for the victims of this massive fraud. We have strongly urged the Receiver to stringently apply a

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.

cost-benefit analysis and pursue only those legal claims that could generate maximum proceeds for the benefit of 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 the customers of a broker-dealer entering 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 investigating the facts to determine whether that determination is appropriate, including meeting with the Stanford Victims' Coalition and reviewing documents provided in support of their claims. The Commission will continue to monitor the issues surrounding the Stanford matter as it relates to SIPC.

Enforcement and OCIE Responses to Inspector General Recommendations

On April 16, 2010, the SEC released a report by the Inspector General concerning the investigation of the Stanford matter. The report identified the need for reforms in the Division of Enforcement and in the Office of Compliance Inspections and Examinations.

Division of Enforcement

The Division of Enforcement has taken action on all seven of the formal recommendations identified in the Inspector General Report. On July 20, 2010, Enforcement submitted a closing memorandum to the Inspector General containing information that we believed fully addressed all seven recommendations. We are working with the Inspector General and hope to receive his concurrence on closing the recommendations as soon as possible.

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 Inspector General Report, the Division encouraged staff to carefully assess factors such as potential harm to

³ http://www.stanfordfinancialreceivership.com/documents/SIPC_Letter.pdf

⁴ <http://www.sec.gov/divisions/enforce/enforcementmanual.pdf>

investors and seriousness of potential violations when deciding whether to open or close investigations. In response to the Inspector General 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 to date, Enforcement has obtained 45 emergency temporary restraining orders to halt ongoing misconduct and prevent imminent investor harm and 56 asset freezes to preserve funds for the benefit of investors. We believe that these measures address the Inspector General’s concern that Enforcement staff should carefully consider the potential harm to investors when deciding to bring an enforcement action that may otherwise pose litigation risks.

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 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;
- (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 – as circulated for public comment – 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. We believe that these new procedures and metrics address the issues raised in the Inspector General Report regarding the role that metrics played in the Stanford matter and the need for an enhanced qualitative assessment of staff performance.

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 identifies 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; (vi) the size of the victim group; and (vii) the amount of potential or actual losses to investors. As demonstrated by these provisions, prior to the Inspector General Report, the Division encouraged its staff to assess victim losses and victim impact when deciding to open an investigation. Moreover, in response to the Inspector General Report, the Division instituted mandatory Enforcement Manual training to ensure full compliance.

In addition, the Division currently is evaluating 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 light of certain Dodd-Frank Wall Street Recovery and Reform Act of 2010 (Dodd-Frank Act) provisions concerning the territorial scope of the federal securities laws. In connection with the Inspector General's recommendation, we are assessing the impact of that decision and the related Dodd-Frank Act provisions, and currently are working with other SEC offices to determine whether any additional guidance should be provided to Enforcement staff. We

continue to work with the Inspector General to address his concern that staff should evaluate the presence or absence of U.S. investors when deciding to open an investigation.

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 hold regular meetings to 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) jointly develop risk metrics; (ii) identify entities with risk profiles indicative of the need for a risk-based examination; (iii) discuss the findings of ongoing examinations; and (iv) discuss the scope and nature of referrals to Enforcement for investigation.

In November 2006, Enforcement and OCIE established a process to facilitate the tracking of examination referrals, and ensure that there is a record of all OCIE referrals that are both accepted and declined by Enforcement (or are accepted and later closed), and the reasons why. This process includes referral committees at both the regional and headquarters office. To ensure ongoing coordination with OCIE where appropriate, Enforcement's new guidance for written investigative plans encourages staff to carefully evaluate and re-evaluate issues throughout an investigation to minimize the risk that investigative steps are overlooked, and to better identify issues that require consultation with OCIE or other Divisions or Offices.

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 those 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. We believe that these measures will address the issues identified in the Inspector General Report regarding poor coordination between Enforcement and OCIE.

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 Inspector General 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 Inspector General Report, we now require mandatory Enforcement Manual training for all Enforcement staff.

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 Inspector General Report, Enforcement had strong working relationships with our law enforcement and regulatory partners, including state securities regulators. Moreover, the Enforcement Manual identifies 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 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. 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. We continue to work to address the Inspector General's concern related to the appropriate and timely referral of relevant investigative information 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 that these initiatives address the Inspector General's concerns 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 the Division of Risk, Strategy, and Financial Innovation (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. We believe that these measures address the Inspector General's concern that staff properly consult with other SEC Divisions and Offices to further their investigations.

Office of Compliance Inspections and Examinations

The Inspector General Report made several recommendations relating to 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 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 hold quarterly Exam Reviews, in which the progress and status of every exam in the Regional 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 the Specialized Units created recently within the Enforcement Division to identify key risks presented by entities registered with the SEC and key risks to the markets. 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.

Additional Significant Enforcement and OCIE Reforms

In addition to the reforms prompted by the Inspector General 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. Across the Division, 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.

One example of this new approach is our new national specialized units, which were formally staffed and fully launched in May 2010. These units are focused on the key areas of Structured and New Products, Market Abuse, Municipal Securities and Public Pensions, Asset Management, and violations of the Foreign Corrupt Practices Act. The creation of these units further demonstrates the Division's emphasis on the programmatic significance – rather than the quantity – of cases. To assist them in their investigative efforts, the units are hiring industry experts to work directly with our teams of experienced attorneys and accountants to ensure that we stay on the cutting edge of industry trends for the benefit of investors.

In addition to investigative work, the specialized units are engaged in a number of initiatives with our colleagues in OCIE and other Divisions to develop risk analytics that proactively identify red flags for further examination and investigation. To take but one of numerous examples, Enforcement, OCIE and RiskFin developed metrics and risk analytics for an Aberrational Performance Inquiry to identify those investment advisers whose operations shared characteristics of those of a Ponzi or other illegal scheme. Specifically, working with RiskFin's computer platform, we applied performance and volatility benchmarks to thousands of hedge fund advisers, and those that emerged from that analysis as outliers (e.g., those with above-market returns coupled with an absence of expected volatility) are being subject to further examination or investigation. This kind of proactive, risk-based investigative approach is being duplicated across the Division.

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 what they do best, investigate and stop securities fraud. Across the Regional Offices and throughout the Home Office, 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.

Finally, we are rapidly integrating the new authority and responsibility granted to us under the Dodd-Frank Act. The Act authorizes the creation of a Whistleblower Program, which will be housed in our Office of Market Intelligence, and provides us with numerous measures to further our investigations, including: nationwide service of process; the ability to seek civil penalties in cease-and-desist proceedings; the ability to seek penalties against aiders and abettors under the Investment Advisers Act of 1940; and the ability to charge aiding and abetting violations under the Securities Act of 1933 and the Investment Company Act of 1940, among other initiatives. We are grateful that Congress included these legislative initiatives in the Dodd-Frank Act, and we are now focused on using these new tools to enhance our mission of investor protection.

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 significant additional strategic initiatives, all to increase the effectiveness and efficiency of the National Exam Program.

Recent Changes at OCIE

OCIE has instituted significant reforms to sharpen its focus on a risk-based examination process that also provides clear data for coordination and decision-making with Enforcement. OCIE is improving its risk assessment procedures and techniques, to better identify areas of risk to investors and more effectively allocate limited resources to their highest and best use. For instance, OCIE is enhancing the information that financial firms submit and is improving techniques to better identify those particular firms that represent the highest risk profiles and therefore warrant a closer look. Once we select firms for examination using a risk-focused methodology, 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 with the greatest overall risk profiles.

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, counter-parties 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.

OCIE also has been hiring new staff with diverse skill sets to expand its knowledge base and improve its ability to assess risk, conduct examinations, detect and investigate wrongdoing, and focus our priorities. We have hired new Senior Specialized Examiners— and will bring on board more — who have specialized experience in areas such as risk management, trading, operations, portfolio management, options, compliance, valuation, new instruments and portfolio strategies, and forensic accounting. We also have been hiring additional staff with expertise in financial products and techniques — such as derivatives, structured products and hedge fund activities. This will permit other staffers to tap into that expertise to help them identify emerging issues and understand the ways the industry is changing. Such expertise can also be helpful in efforts to improve the techniques used in examinations and the collection and analysis of data.

In addition, OCIE has instituted several measures to integrate the activities of the broker-dealer and investment adviser examination programs. 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 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.

OCIE's Ongoing Strategic Initiatives

In March, OCIE launched an intensive nation-wide self assessment program. We reviewed the OCIE Examination Program by looking at the five components of Strategy, Structure, People, Process and Technology. Since July, we have moved quickly to implement additional reforms from the nation-wide self-assessment.

OCIE has focused our 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 reinforced our strategy by developing a highly specific set of Key Performance Indicators (KPIs) which we have shared with Enforcement, and on which we plan to report periodically.

OCIE also has already 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 hand offs, 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. OCIE is also redesigning 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 on exams of registrants.

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 repetition of the systemic flaws that may 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 hiring and professional development.

Finally, 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 and are about to test a standardized examination tool across the national exam program. We are also upgrading equipment and connectivity for examiners to match that available to examiners and auditors at other regulatory agencies and in the private sector.

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 seek maximum investor recovery. The Inspector General Report identified numerous areas for reform, and we have moved aggressively to implement these reforms. There is much more work that remains to be done, but we are

confident that we are putting in place the people and structures to prevent another occurrence of Stanford-type problems.

Finally, we would note that both the SEC and the Department of Justice continue to have open investigations into 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 intend to be as forthcoming and candid as possible and 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 provide maximum recovery for investors.

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