Dodd Statement on Stanford Ponzi Scheme Hearing

WASHINGTON – Today Senate Banking Committee Chairman Chris Dodd (D-CT) held a hearing on the Securities and Exchange Commission's investigation and response to R. Allen Stanford's alleged Ponzi scheme. The Committee heard testimony from SEC officials about what went wrong, as well as what steps the agency is taking to prevent future financial frauds and restore investor confidence.

"In February of 2009, the SEC charged Robert Allen Stanford and several associates with orchestrating an eight billion dollar Ponzi scheme," said Chairman Dodd.

"Although the Commission examination staff found strong evidence that Stanford was likely operating a Ponzi scheme as early as 1997, the Commission did not bring charges against Mr. Stanford until 2009, only months after Bernard Madoff's own Ponzi scheme was exposed; both cases revealed deeply troubling failures by the SEC.

"The Dodd-Frank bill was one step in a long journey to righting this ship – giving the SEC more power, doubling its funding over five years, and having periodic GAO reviews – but our work is not done. The Inspector General's report also makes several thoughtful recommendations regarding bringing enforcement actions in complex cases, evaluating the performance of enforcement staff, coordination among SEC offices and divisions, staff training, and other matters.

"Investors deserve to know that there is a cop on the beat, working hard to protect them from scam artists like R. Allen Stanford and Bernard Madoff. Restoring investor confidence and certainty in the fairness of our financial system is vitally important as we recover from the economic crisis. The SEC should use all the resources at its disposal to work toward that end."

Below is Chairman Dodd's statement as prepared for delivery:

"The Committee will come to order.

"The Banking Committee today is holding a hearing on "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." Regulatory oversight is a prime responsibility that this Committee takes seriously. The Committee will review the Inspector General's Report on the Commission's failure to stop the Stanford financial fraud in a timely manner and will hear about the steps it is taking to fix the problems and to restore investor confidence.

"Last August, the Banking Committee held a field hearing on the Alleged Stanford Financial Group Fraud: Regulatory and Oversight Concerns and the Need for Reform at the request of my colleague Senator Vitter. And last year, we held two hearings surrounding the SEC's failures in regard to the Bernard Madoff fraud. Those three hearings contributed to reforms we included in the Dodd-Frank Wall Street Reform and Consumer Protection Act to better empower and equip the SEC to do its job. Today's hearing builds on those, and reflects my work with Ranking Member Shelby. The hearing looks not only to the past Commission performance, but also to the future Commission actions for improvement.

“Let me review this situation. In February of 2009, the SEC charged Robert Allen Stanford and several associates with orchestrating an eight billion dollar Ponzi scheme. According to the SEC's complaint, the defendants for almost fifteen years promised improbably high interest rates and misrepresented to purchasers of certificates of deposit that their deposits were safe, falsely claiming that the bank re-invested clients’ funds primarily in "liquid" financial instruments.

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“In March of this year, the SEC Office of the Inspector General released its report on the Commission’s response to Stanford’s scheme. The report found that a central problem was the failure of the SEC Fort Worth District Office Enforcement staff to heed the warning of the Examination staff.

“The IG report shows that the examiners at the Fort Worth District Office raised red flags about Mr. Stanford’s operation in four exams conducted over eight years, beginning in 1997, concluding in each examination that Stanford’s CDs were likely a Ponzi scheme or a similar fraudulent scheme. However, the enforcement staff disregarded the examiners’ repeated warnings, continually turning a blind eye for nearly a decade. We seem to have an instance in which one side of the agency was screaming that there was a fire, and the other side said that the fire was too hard to put out.

“The Inspector General report found that one reason that the Enforcement Division did not want to investigate Mr. Stanford was the perception that the case was difficult, novel and not the type favored by the Commission.

“The Report also raised a number of troubling facts about the former enforcement head of the Fort Worth office, who played a significant role in multiple decisions over the years to quash investigations of Mr. Stanford.

“All these pieces paint a picture of regulatory disconnects and mistakes that allowed this fraud to harm families and communities across our country. We look forward to learning to what the Commission attributes this regulatory shortcoming. Investors in Stanford’s Ponzi scheme may have lost as much as $8 billion, and the damage to investor confidence may be greater still.

“I look forward to Inspector General Kotz’s insights and discussion of his report’s findings, and I appreciate the SEC being here with us to let us know what the Commission is doing to correct what went wrong. I hope that this hearing will provide the Committee, the Senate, and the American public with a clear view of how such a large and audacious fraud was allowed to perpetuate and grow, and what is being done to fix the system and prevent similar frauds in the future.

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