FEBRUARY 19, 2009

Madoff Case Led SEC to Intensify Stanford Probe

By GLENN R. SIMPSON, DIONNE SEARCEY and KARA SCANNELL

For years, allegations have dogged R. Allen Stanford, the Texas businessman accused this week of an $8 billion fraud.

But a lack of coordination among federal agencies -- and the difficulty of obtaining information from his bank in Antigua, where financial oversight is relatively light -- kept regulators from gaining a full picture of the situation, current and former officials said.

Points of Contrast

A look at the alleged frauds of R. Allen Stanford and Bernard Madoff:

Reuters

Associated Press

	R. Allen Stanford	Bernard Madoff
SIZE OF ALLEGED FRAUD	$8 billion, according to SEC	$50 billion, according to what Madoff told his sons
PRINCIPAL INVESTORS	Latin Americans seeking to stash cash abroad; some U.S. customers	Jewish individuals and foundations in U.S.; Europeans via 'feeder funds'
HOW HE COLLECTED MONEY	Promised investors high and steady returns on liquid investments	Claimed investors received high and steady returns
WHAT HE DID WITH THE MONEY	Unknown, but SEC believes a substantial portion was invested in illiquid assets such as real estate and private equity.	Unknown, but suspected to be Ponzi scheme in which money from new investors goes to pay off older investors
RUN-INS WITH REGULATORS	Scrutiny from multiple U.S. agencies going back to late 1980s	SEC scrutiny goes back to at least 1992
WARNINGS	Former employee warned of Ponzi scheme in 2006 lawsuit	Whistle-blower warned of Ponzi scheme starting in 1999

Sources: SEC; WSJ research

They say the matter broke open in December after Bernard Madoff allegedly told his sons that he had been operating a $50 billion fraud. That sent the Securities and Exchange Commission investigation into high gear.

Two years earlier, in October 2006, the SEC's Fort Worth, Texas, office had opened a formal investigation into Stanford's sale of certificates of deposit, which eventually led to civil charges on Tuesday against Mr. Stanford and associates by the SEC. The 2006 probe followed a lawsuit, filed earlier that year in Florida state court, in which a former Stanford executive accused the company of operating a Ponzi scheme. That suit was settled.

Mr. Stanford hasn't responded to the civil fraud charges brought by the SEC on Tuesday. No criminal charges have been filed.

In the various cases against him over the years, Mr. Stanford has always denied wrongdoing and said he cooperated with law-enforcement authorities.

Video

Non-Profits Losing Ground to Eminent Domain 2:08

Danny Pang Arrested 1:48

What Madoff Victims Can Expect 3:07

Job Listings

Senior Technical Sales Specialist
IBM

Senior IT Auditor
Rockville, MD
FINRA

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VistaPrint Reseller

More in Law

NHL, Team in Bankruptcy Showdown

Health Crisis Raises Civil Rights Issues

In response to questions about the length of the probe, an SEC spokesman noted that the agency had to address jurisdictional issues and worked to avoid impairing criminal authorities' room to maneuver.

According to the SEC's civil charges of fraud, filed in U.S. District Court in Dallas, Antigua-based Stanford International Bank attracted investors by offering above-market returns on CDs that weren't insured by the Federal Deposit Insurance Corp. The SEC said the bank put the money largely into real estate and private equity, and misrepresented its portfolio to lure more customers.

George Fleming, a Houston lawyer who with colleagues filed a suit against Stanford companies, said his office was overwhelmed with inquiries from local depositors. That suit, filed in federal court in Houston late Tuesday night, is seeking class-action status.

SEC officials said they didn't know where Mr. Stanford is. Neither he nor representatives of Stanford companies could be reached for comment. On Tuesday, a Stanford spokesman referred questions to the SEC.

One early probe into Stanford International Bank and its affiliates came in 1997 as part of a Drug Enforcement Administration probe into the laundering of narcotics proceeds by a Mexican drug cartel, DEA records show. The Stanford bank cooperated with the DEA and handed over millions of dollars, court records show. The bank wasn't charged.

Shortly thereafter, the State Department began sounding the alarm about potential money laundering in Antigua by the Russian mafia and other criminal syndicates.

In April 1999, the Treasury Department issued a special advisory warning U.S. banks to give scrutiny to Antigua transactions. The Treasury said in a statement at the time it had concerns that the financial companies being regulated by an Antiguan regulator were in fact controlling the regulator. That statement was a reference to Stanford International Bank, among others, former U.S. officials said.

Related Documents

Two of the key sources for the SEC in its probe of alleged fraud at Stanford International Bank were former employees **Mark Tidwell** and **Charles Rawl**, court records show. The two men have declined to be interviewed and their attorney has not returned numerous calls. But these two declarations filed in U.S. District Court in Dallas articulate much of what they saw at Stanford and many of their concerns about the bank's activities.

Mark Tidwell | Charles Rawl

The regulatory situation was "very strange," said former State Department official Jonathan Winer in an interview Wednesday. "It was an obvious conflict of interest and we objected to it."

Antiguan officials at that time dismissed those allegations and said that they were implementing world-class money-laundering regulations.

In 2005, two Venezuelans alleged in U.S. District Court in Florida that Stanford International Bank "knowingly aided and abetted ... a classic Ponzi scheme" targeting current and former residents of Venezuela. The case was settled out of court by the bank.

In 2006, former Stanford employee Lawrence J. DeMaria filed suit against Stanford in Florida state court. He alleged that the firm "was operating a 'Ponzi' or pyramid scheme, taking new money to its offshore bank, laundering the money and using the money to finance its growing brokerage business, which did not have any profits of its own."

The suit was settled, said Mr. DeMaria's lawyer, who declined to comment further.

Scattered complaints about Mr. Stanford's financial practices began reaching U.S. regulators in 2001, according to records of the Financial Industry Regulatory Authority, Wall Street's self-policing body, and Finra's predecessor body. Finra didn't take action until April 2007, when it issued the first of four fines totaling $70,000.

In November 2007, Finra homed in on the CDs, fining a Stanford group company $10,000 for what the regulator called "misleading, unfair and unbalanced information" in its marketing. Stanford settled without admitting or denying wrongdoing. A Finra spokesman declined to comment.

Problems began to intensify for Stanford International Bank at the end of 2007 when two top executives, Mark Tidwell and Charles Rawl, quit the bank due to concerns that Stanford was falsifying returns and lying to investors, according to sworn court statements in federal court in Dallas. In early 2008, they filed suit in Texas state court against Stanford, alleging fraud.

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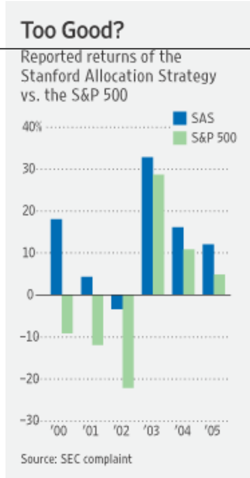

Then, on Dec. 11, the Madoff scandal broke. On Dec. 12, Pershing LLC, a U.S. firm that had acted as clearing agent for Stanford and processed money transfers to Antigua, stopped doing that business. According to the SEC complaint, Pershing acted after months of seeking and failing to get answers to questions about the Stanford bank's CDs.

A Pershing spokeswoman, Barbara Gallow, said on Tuesday: "As part of our day-to-day interactions with our customers, we do due diligence and we have a robust compliance engine."

By Dec. 15, the Stanford bank liquidated $250 million in assets from one of its portfolios, according to the SEC. In a court filing, the SEC said it feared the "dissipation" of the bank's funds.

By January, the SEC was interviewing key Stanford employees, according to investigators. On Feb. 14, three days before the charges were filed, the lawyer for Mr. Stanford, Thomas Sjoblom of Proskauer Rose LLP, resigned from representing him and his companies. He sent a note to the SEC in which he said, "I disaffirm all prior oral and written representations made by me and my associates to the SEC staff regarding Stanford Financial Group and its affiliates."

Mr. Sjoblom didn't respond to a request for comment.

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