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Supreme Court Rules Allen Stanford Ponzi Victims Can Sue Third Parties

Stanford Serving 110-Year Prison Sentence After 2012 Conviction for Defrauding Investors

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By BRENT KENDALL CONNECT

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R. Allen Stanford, center, leaves a federal courthouse in Houston after a jury found him guilty in March 2012.
Reuters

WASHINGTON—Victims of R. Allen Stanford's $7 billion Ponzi scheme can sue law firms and other third parties on allegations they aided the fraud, the U.S. Supreme Court ruled Wednesday.

The court, in a 7-2 ruling written by Justice Stephen Breyer, said the victims' class-action lawsuits were allowed even though a 1998 federal law largely prohibits state-law class-action claims for securities fraud. The ruling gives Stanford victims a chance to recover more of their losses. But it likely doesn't open the floodgates for a wave of securities litigation since the holding is limited to products sometimes sold in Ponzi schemes that aren't considered securities.

The court in a 19-page opinion underscored it wasn't making changes to the federal law. Instead, it said the law's text leaves room for investors to take legal action when they are deceived with bogus private offerings like Mr. Stanford's. The ruling "will permit victims of this (and similar) frauds to recover damages under state law," Justice Breyer wrote.

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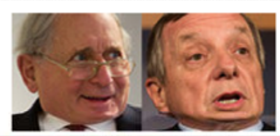

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Mr. Stanford is serving a 110-year prison sentence after being convicted in 2012 of defrauding investors on a grand scale. U.S. authorities alleged Mr. Stanford sold investors bogus certificates of deposit in his Antigua-based bank, using new CD proceeds to pay other customers and funnel money into his own businesses.

In the fraud's aftermath, multiple investor groups brought lawsuits based on state law in Louisiana and Texas against law firms and financial services companies that had relationships with the Stanford operations. They alleged SEI Investments Co. SEIC -0.73% and insurance brokers, including subsidiaries of Willis Group Holdings PLC, WSH -2.62% misrepresented the CDs as safe investments. They also brought claims against law firms Proskauer Rose LLP and Chadbourne & Parke LLP, alleging the firms helped Mr. Stanford's Antigua-based bank evade regulatory oversight.

The law firms have said they didn't make misrepresentations to investors. SEI said it merely provided a Stanford affiliate with back-office services, while Willis Group said it helped Mr. Stanford's bank purchase ordinary insurance policies.

The defendants said the investors targeted third parties with deep pockets because Mr. Stanford's operations are insolvent.

The Supreme Court said the federal law's restrictions on state-law securities lawsuits didn't apply because Mr. Stanford's bogus CD offerings weren't real securities traded on national markets. The court also said it didn't matter that Stanford's bank claimed that it would use investors' money to buy securities.

The Supreme Court's ruling affirmed a decision by the Fifth U.S. Circuit Court of Appeals in New Orleans which allowed the lawsuits to proceed.

"We're very happy the victims of this fraud will finally get their day in court," said Thomas C. Goldstein of Goldstein & Russell PC, a lawyer for the investors.

A spokesman for Chadbourne & Parke said the firm disagreed with the court's ruling "but it is important to remember the court only considered one narrow procedural issue." The firm said it still was raising other arguments on why the lawsuit should be dismissed.

The other defendants didn't immediately respond to requests for comment.

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