



Commodity Futures Trading Commission

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Remarks

“Ponzimonium”

Remarks by Commissioner Bart Chilton of the Commodity Futures Trading Commission before the American Bar Association’s Committee on Derivatives and Futures Law Students CFTC Headquarters, Washington, D.C.

March 20, 2009

Thank you for coming to the CFTC today. It is a pleasure for me to be able to spend just a few moments with you.

In the countryside, one of the things I have never heard is, “We need more lawyers.” There are plenty of jokes at the expense of barristers, but not much call from average folks for more of them. While I understand the sentiment about an overly litigious society, I’m here to tell you, “We do need more lawyers; and we need them at the CFTC and in many other areas of government.”

Our small agency oversees a greater market capitalization—that is the value of exchanges on which contracts are traded—than the Securities and Exchange Commission (SEC), yet we do so with a staff that is about a seventh of the size. We currently have 500 employees, yet the SEC has nearly 3,500 employees. Size does matter and if we are follow our mission to monitor markets, and work to protect consumers from fraud, abuse and manipulation, we need the tools and the resources to do so. That job has become much more difficult during these troubled economic times.

We have all followed the sad saga of Bernie Madoff and his mother-of-all-Ponzi-schemes. People like Kevin Bacon and Steven Spielberg--and hundreds of others--fell victim to the scam. Did they ever think that Madoff would actually make off with the loot? He made off, but he was finally caught. And he finally traded something: his Manhattan penthouse for a jail cell.

But Madoff is just the most publicized scam. There are hundreds of others going on all the time. There is a virtual "Ponzi-Palooza" out there, with new investor money being used to pay previous investors, and consumers are being victimized all the time.

And talk about what's in a name like "Made Off," what about another large Ponzi scheme perpetrated by none other than royalty? Yep, A fifth-generation Texan with dual citizenship between the commonwealth of Antigua and Barbuda and the United States. Robert Allen Stanford was the first American to be knighted by the Governor-General. Sir Allen was a prominent financier, philanthropist, and professional sports sponsor. As the chairman and sole owner of Stanford Financial Group, earlier this year, he became the subject of several fraud investigations. A month ago there was an international man hunt for Sir Stanford. CNBC reported that he was trying to flee the country on a private jet, but that the jet company wouldn't take a credit card. Yep, the search was on and it was being covered by television and in the rest of the media. When they finally located him, about an hour south of D.C. in Fredericksburg, VA, there was no Hollywood-style SWAT team bust. They didn't cuff him and Dano didn't get to book him. Nope, he was simply "served with papers." The reason he wasn't arrested is because a criminal charge wasn't levied. You see, the SEC and the CFTC both lack authority to prosecute criminally — at least for now. In order to make a criminal charge, we have to get the Department of Justice (DOJ) or another state or local law enforcement entity to enjoin our case. I'm pleased to report that there is a bill that has some momentum in Congress that would change this. For now, however, Sir Allen is still not in jail. This makes no sense. This guy, Sir Allen, robbed people of billions of dollars, and jeopardized the economy of an island nation. Now, the SEC did charge him with fraud and multiple violations of U.S. securities laws for alleged "massive ongoing fraud" involving \$8 billion in certificates of deposits. The FBI raided three of his offices in Houston, Memphis, and Tupelo, Mississippi. On February 27, 2009, the SEC amended its complaint and described the case as a "massive Ponzi scheme." I'm sure that eventually he will be in jail, but we need to do better and financial regulators need the tools, in this case criminal authority, to do our jobs in the most efficient and effective fashion possible.

Madoff and Sir Allen are some of the higher profile cases, but as I said, there is a Ponzi-Palooza going on in this country. There is rampant Ponzimonium going on out there. We need the resources and tools to address it. As the economy continues to sag, more and more of these "house of cards" scams are beginning to fall. Earlier this week, we filed a civil complaint against a North Carolina man and his firm for allegedly running a \$40 million Ponzi scheme. They guy is actually dead—dead because once he knew folks were onto him, he committed suicide. Bruce Kramer, we allege, solicited at least \$40 million to trade leveraged foreign currency contracts and misappropriated at least \$30 million to pay for the fictitious investment gains as well as personal expenses. For over five years this forex Ponzi scam issued false account statements. At our request, a federal judge issued an order and has frozen assets and a court receiver has been appointed.

In the last several weeks alone, we have brought to light scams: we've brought cases in Pennsylvania, scamming money from Carnegie Melon University and a public pension fund, as well as in Idaho, Texas and Hawaii. The crooks used money from new investors to pay the older investors—classic Ponzi scheme. Many times the fictitious statements were sent along with professional-looking earnings portfolios. Fake phone numbers, mail drops and the like were all used to build trust and confidence among the supposed customers.

Most of the time, these crooks don't simply squirrel away the money and live a low-profile life. In fact, the opposite seems true. In many of these cases, the scam artists used the ill-gotten funds for everything from expensive cars, homes and other real estate like a horse farm or an island in Belize, lavish furniture—even an expensive teddy bear collection and—get this—an entire drag racing team!

These are just a few examples of the Ponzi schemes out there. We are investigating many more. And Ponzi, by the way, is just one type of fraud being committed, there are many others. These frauds combined harm tens of thousands of hard-working Americans many of whom thought they were properly investing to save for retirement or even their first home. As regulators, we need to do all we can to put these scamsters behind bars. And it's also a good thing that individual investors are double checking to ensure that they aren't being ripped off by fraudsters.

The bottom line is that the work we are doing to catch the bad actors is important. As I noted, we need the resources—and by that I mean staff and technology. We also need the tools—and by that I mean the legal power like criminal authority to prosecute these bottom feeders.

I commend you for your efforts to become lawyers. We need you. This work, work with financial service sector regulators is important. I'd say it is every bit as important as the work that a doctors does, a member of the clergy, or even a member of the military. It is work that will help your country and consumers alike.

Again, thank you for the opportunity to be with you today. I hope you will keep us in mind and you look to how you, in your new careers, can make a positive difference.

Thank you.