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#### REPORT OF INVESTIGATION

### UNITED STATES SECURITIES AND EXCHANGE COMMISSION OFFICE OF INSPECTOR GENERAL

Case No. OIG-526

Investigation of the SEC's Response to Concerns Regarding Robert Allen Stanford's Alleged Ponzi Scheme

Appendix, Volume III

March 31, 2010

STANFORD GROUP COMPANY 5056 Westheimer, Suite 605 Tel. No. (713) 964-8300 Houston, Texas 77056

File No. 8-48611 CRD No. 39285 Examination No. 06-D-97-037

#### EXECUTIVE SUMMARY

Rule 17a-4Failure to maintain books and records.

Rule 10b-5

Possible misrepresentation and misapplication of customer funds.

#### COMMENTS

Stanford Group operates pursuant to the (k)(2)(ii) exemption to Rule 15c3-3 and is required to maintain net capital of \$250,000. As of July 31, 1997, the firm had net capital of \$9,011,027 with excess net capital of \$8,761,027. Aggregate indebtedness totaled \$532,485.

Stanford Group conducts a general securities business through a fully disclosed clearing arrangement with Bear Stearns Securities Corp. The firm also offers two money management programs to its clients. The firm has generated \$6,101,346 in revenues from January 1, 1997 through July 31, 1997. The three primary sources of revenue include referral fees from SIB (68%), advisory fees (8%) and gains on investments (4%). The firm has five branch offices and 66 employees, of which 25 are registered representatives. The firm has approximately 2,000 (1,200 foreign) customer accounts and writes approximately 250 tickets each month.

<sup>&</sup>lt;sup>1</sup>The Master Fund Program ("MFP") offers discretionary managed accounts for those clients invested in mutual funds the Master Manager Program ("MMP") offers discretionary managed accounts by outside third-party managers.

#### EXAMINATION

The FWDO conducted a surveillance examination of Stanford Group in August 1997. Four and one half staff days were spent in the field. Three staff days were spent on the review of sales practices.

We conducted an entrant interview with chief executive officer, and b(6).(b)(7)c , operations manager. We furnished them with the FOIA and Privacy Act Notices. The signed receipt of acknowledgement is included in the work papers.

#### **FINDINGS**

#### Possible Misrepresentations - Rule 10b-5

As noted earlier, Stanford Group is affiliated through common ownership with SIB, an offshore investment bank. Stanford Group has a written agreement with SIB wherein Stanford Group refers its foreign customers to SIB. SIB pays a recurring annual 3.75% referral fee to Stanford Group on all deposits referred to SIB.2 SIB offers several types of products including the FlexCD Account which makes up 96% of all cash deposits at SIB. The FlexCD Account requires a minimum balance of \$10,000, has maturities and annual interest rates ranging from 1 month at 7.25% to 36 months at 10%, and withdrawals of up to 25% of the principal amount are allowed without penalties with a five day advance notice. July 31, 1997, Stanford Group was due referral fees of \$958,424 which is based on customer deposits at SIB of \$306,695,545 (75% of all deposits at SIB).

SIB promotes its products as being safe and secure. A brochure regarding the products offered through SIB, including the FlexCD Account, states that "[F]unds from these accounts are invested in investment-grade bonds, securities and Eurodollar and foreign currency deposits." The brochure indicates a high level of safety for customer deposits. For example: "banking services which ensure safety of assets, privacy, liquidity and high yields", "...protects its clients' money with traditional safeguards", "placing deposits only with banks which have met Stanford's rigorous credit criteria", "depository insolvency bond", "bankers' blanket bond", and "portfolio managers follow a conservative approach". Based on the amount of interest rate and referral fees paid, SIB's statements indicating these products to be safe appear to be misrepresentations.

SIB pays out in interest and referral fees between 11% and 13.75% annually. To consistently pay these returns, SIB must be

<sup>&</sup>lt;sup>2</sup>During 1996, the referral fee was 5%.

investing in products with higher risks than are indicated in its brochures and other written advertisements.

Because SIB is a foreign entity, we were unable to gain access to SIB's records.

#### Item of Interest - Addition to Capital

During 1996, Stanford made a cash contribution of \$19,000,000 to Stanford Group. We are concerned that the cash contribution may have come from funds invested by customers at SIB. We noted that SIB had loaned Stanford \$13,582,579. In addition, we noted that SFG had borrowed \$5,447,204 from SIB for a total receivable at SIB of \$19,029,783 directly and indirectly from Stanford. We contacted the general counsel for the Stanford companies regarding our concerns. The general counsel stated that the cash contribution came from personal funds and not from the above loans; however, it seems at least questionable whether Stanford has access to \$19,000,000 in personal funds.

#### Maintenance of Books and Records - Rule 17a-4

Stanford Group failed to maintain books and records as they relate to the offer and sale of SIB products. Lena Stinson ("Stinson"), senior vice president and administrative officer, stated that the firm only refers clients to SIB and receives a Stinson stated that the client is the customer of referral fee. SIB and not Stanford Group. From our discussions with Stinson, the RR informs the client of the SIB products (usually the FlexCD) and prepares an application which is sent to SIB for their Once approved, the client sends the funds directly to SIB who then confirms the deposit. Stinson stated that once the application is sent, the RR is no longer involved (other than receiving a referral fee) and all paperwork is maintained by SIB. It appears that the RR is recommending a particular product of SIB's and therefore should have a basis for making that recommendation (i.e., a new account form containing, among other things, financial information and investment objectives). addition, since the RR is recommending the purchase of a product, an order ticket, confirmation, and purchase and sales blotter should be maintained.

#### OTHER ITEMS REVIEWED

#### Customer Account Review

We reviewed the activity in 35 customer accounts for suitability, churning, and profit and loss. Our review noted no discrepancies.

#### Chinese Wall Procedures

We examined the adequacy of the firm's Chinese Wall and overall supervisory procedures to prevent and detect insider trading by accounts of the firm, employees and customers. The firm's procedures appear to be reasonably designed to prevent such misuse given the nature of the firm's business.

#### Currency and Foreign Transactions

Prior to our examination, we accessed the IRS CTR database and found no reports on file for the firm. Our on-site review of the firm's bank statements, bank reconciliations, deposit slips and checks received and delivered blotter from February 1997 through July 1997 disclosed no currency transactions. We found no foreign accounts involving the receipt/delivery of securities or currency from/to foreign locations.

#### RECOMMENDATION

We will send a deficiency letter to the firm citing their failure to maintain adequate books and records.

We will provide a copy of our report to the FWDO Division of Enforcement for their review and disposition.

Pages 8 through 12 redacted for the following reasons:
(b)(6), (b)(7)c, (b)(8)

### Securities and Exchange Commission Division of Enforcement



**Enforcement Manual** 

Office of Chief Counsel

January 13, 2010\*

<sup>\*</sup> Includes conforming revisions as of March 3, 2010.

#### 2.2.2.5 Referrals from Self-Regulatory Organizations

#### The Basics of Receiving Referrals from Self-Regulatory Organizations:

The Division's Office of Market Surveillance ("OMS") is the primary point of contact for trading-related referrals by domestic self-regulatory organizations ("SROs"). Each equity and option exchange is responsible for monitoring its own markets and enforcing exchange rules and regulations and the federal securities laws. If the SRO discovers potentially violative conduct and believes that it has jurisdiction, it will conduct its own investigation. If the SRO determines that it does not have jurisdiction, it will refer the potential violations to the SEC via the SRO Market Surveillance Referral System. OMS reviews all SRO referrals and in consultation with senior staff in Enforcement opens MUIs and distributes the cases to the appropriate staff in the regional and home offices.

#### Considerations:

- Assigned staff should discuss information received from SROs with OMS.
- Consider ongoing consultation with SROs, as appropriate.

#### Further Information:

If the referring SRO continues with a parallel investigation, please refer to the policy on parallel investigations in Section 3.1.4 of the Manual.

#### 2.3 Matters Under Inquiry ("MUIs") and Investigations

#### 2.3.1 Opening a MUI

#### Introduction:

The purpose of the procedures and policies for the review and approval of new MUIs is to help ensure efficient allocation of resources.

Opening a MUI requires that the staff assigned to a MUI (at the Assistant Director level and below) first conduct preliminary analyses to determine: 1) whether the facts underlying the MUI show that there is potential to address conduct that violates the federal securities laws; and 2) whether the assignment of a MUI to a particular office will be the best use of resources for the Division as a whole. If the preliminary analyses indicate that a MUI should be opened, then the staff should follow the procedures below for opening a MUI within the internal system and seeking approval of the assigned Associate Director or Regional Director. Prior to any other considerations, the staff should consult the Name Relationship Search Index ("NRSI") and the Hub for related investigations. If a related investigation is found, the staff assigned to that investigation should be consulted.

Prior to opening a MUI, the assigned staff (Assistant Director and below) should determine whether the known facts show that an Enforcement investigation would have the potential to address conduct that violates the federal securities laws. The Division receives information from a variety of sources that may warrant the opening of a new MUI, including newspaper articles, complaints from the public, whistleblowers, and referrals from other agencies or SROs. Assigned staff are encouraged to use their discretion and judgment in making the preliminary determination of whether it is appropriate to open a MUI. The considerations described below are suggestions only and should not discourage the opening of a MUI based on partial information. MUIs are preliminary in nature and typically involve incomplete information. The threshold determination for opening a new MUI is low because the purpose of a MUI is to gather additional facts to help evaluate whether an investigation would be an appropriate use of resources.

To determine whether to open a MUI, the staff attorney, in conjunction with the Assistant Director, should consider whether a sufficiently credible source or set of facts suggests that a MUI could lead to an enforcement action that would address a violation of the federal securities laws. Basic considerations used when making this determination may include, but are not limited to:

- · The statutes or rules potentially violated
- The egregiousness of the potential violation
- The potential magnitude of the violation
- The potential losses involved or harm to an investor or investors
- Whether the potentially harmed group is particularly vulnerable or at risk
- Whether the conduct is ongoing
- Whether the conduct can be investigated efficiently and within the statute of limitations period
- Whether other authorities, including federal or state agencies or regulators, might be better suited to investigate the conduct

After determining that a MUI has the potential to address conduct that violates the federal securities laws, the assigned staff should evaluate whether from a resources standpoint, it is reasonable for their office to handle the investigation. Basic considerations used when making this determination may include, but are not limited to:

- The location of the wrongful conduct
- The location of the potential wrongdoers

- The location of the issuer's, entity's, or SRO's headquarter
- The location of most witnesses or victims
- The resources and expertise of the office

If an office believes it has compelling reasons to handle a MUI or investigation for which another office may have a substantial nexus, it should consult with the other office to determine which office should pursue the MUI or investigation. Exceptions to the general guidance include:

- Relation to a previous investigation: If a MUI is closely related to a previous
  investigation, a determination should be made whether the office that handled the
  previous investigation should handle the new MUI, regardless of whether that
  office has a nexus to the new MUI.
- Insufficient resources to investigate: The home office may open a MUI when a
  regional office has a nexus if that regional office determines that it cannot devote
  sufficient resources to pursuing the MUI or if the regional office has other concerns
  that prevent it from pursuing the matter.

If it later becomes clear that the MUI or investigation is centered in a specific region, consideration should be given to referring the investigation to that regional office, depending on available staff in the regional office and the stage of the investigation. In some situations, such as where witnesses are dispersed or where an office has special expertise, it may make sense for staff from more than one office to work together on a matter.

#### Procedures for Opening a MUI:

If the preliminary analyses above suggest the potential to address conduct that violates the federal securities laws:

- The assigned staff should consult with the assigned Associate Director/Regional Director concerning the analyses.
- 2) The staff attorney should fill out the electronic MUI form located in the Division's internal systems, including a short narrative in the comments field indicating the nature of the case and the geographic or other nexus to the investigating office.
- The form will be submitted electronically to the assigned Associate Director/Regional Director for approval.
- 4) The Associate Director/Regional Director should review the form promptly (within two business days), and, if he or she is satisfied that the MUI has the potential to address violative conduct, he or she may approve the MUI through the electronic form.

- 5) If the MUI requires expedited approval, and the assigned Associate Director/Regional Director is not available to approve the electronic MUI form, then the staff may use the MUI form to request approval from any available Associate Director/Regional Director.
- 6) The Associate Directors, Regional Directors, and other senior officers will receive a weekly report of all MUIs opened during the prior week.

#### Considerations:

The internal system will convert a MUI to an investigation when the MUI has been open for sixty days. A reminder of the upcoming conversion is automatically generated and sent by e-mail to the primary staff member listed on the MUI form ten days prior to conversion and five days prior to conversion. Upon receiving the first reminder, and prior to the sixtieth day of the MUI, the staff should determine whether conversion to an investigation is appropriate. Staff should follow the policies and procedures for closing a MUI, or converting a MUI in Section 2.3.2 of this Manual.

#### Further Information:

For more information on filling out MUI forms, please check for instructions on the internal tracking systems or contact a Case Management Specialist.

### 2.3.2 Opening an Investigation, Converting a MUI, or Closing a MUI

#### Introduction:

Investigations are opened in two ways: 1) the investigation is opened when a MUI is converted to an investigation (which occurs automatically sixty days after the MUI is opened), or, 2) an investigation is opened independently, either prior to the sixtieth day automatic conversion of a MUI or without any history of a MUI in the case. In both cases, the opening of an investigation requires that the assigned staff (at the Assistant Director level and below) conduct an evaluation of the facts to determine the investigation's potential to address conduct that violates the federal securities laws. The analysis for whether to convert a MUI to an investigation, or open an investigation, differs from the analysis for whether to open a MUI. While a MUI can be opened on the basis of very limited information, an investigation generally should be opened after the assigned staff has done some additional information-gathering and analysis. It may also be appropriate at this time to revisit whether the office has a nexus to the MUI.

### Analysis: Will the Investigation Have the Potential to Substantively and Effectively Address Violative Conduct?

The assigned staff, in consultation with the assigned Associate Director, should evaluate the information gathered to determine whether it is an appropriate use of resources to open an investigation (either through conversion of the MUI or independent of a MUI). While the threshold analysis for opening a MUI is relatively low, determining whether the MUI should be converted to an investigation or whether to open an

investigation is typically a more detailed evaluation that is based on additional information.

The evaluation for whether to convert a MUI to an investigation (or open an investigation) turns on whether, and to what extent, the investigation has the potential to address violative conduct. Threshold issues to consider when evaluating the facts include:

- 1) Do the facts suggest a possible violation of the federal securities laws involving fraud or other serious misconduct?
- 2) If yes, is an investment of resources by the staff merited by:
  - a) the magnitude or nature of the violation,
  - b) the size of the victim group,
  - c) the amount of potential or actual losses to investors,
  - d) for potential insider trading, the amount of profits or losses avoided, or
  - e) for potential financial reporting violations, materiality?
- 3) If yes, is the conduct:
  - a) ongoing, or
  - b) within the statute of limitations period?

In addition to the threshold issues above, one way to determine whether the conduct is serious is to consider the following supplemental factors:

- Is there a need for immediate action to protect investors?
- Does the conduct undermine the fairness or liquidity of the U.S. securities markets?
- Does the case involve a recidivist?
- Has the SEC or Division designated the subject matter to be a priority?
- Does the case fulfill a programmatic goal of the SEC and the Division?
- Does the case involve a possibly widespread industry practice that should be addressed?
- Does the matter give the SEC an opportunity to be visible in a community that
  might not otherwise be familiar with the SEC or the protections afforded by the
  securities laws?
- Does the case present a good opportunity to cooperate with other civil and criminal agencies?

#### Considerations:

Assigned staff is encouraged to revisit whether the office still has a sufficient nexus under the new facts learned during the period of the MUI. If the facts have

changed, assigned staff should consider whether it is appropriate to contact another office that may be better suited to handle the investigation.

#### Procedures for Converting a MUI to an Investigation:

Sixty days after a MUI is opened, the MUI will be converted to an investigation unless the MUI is closed prior to the sixty day mark. The person listed as the primary staff on the MUI form will receive an automatic e-mail reminder ten days prior to the conversion of the MUI, and will receive a second e-mail reminder five days prior to the conversion of the MUI. Upon receiving the ten-day reminder e-mail:

- The assigned staff, in consultation with the assigned Associate Director, should
  evaluate the facts gathered during the MUI, using the factors listed above, to
  determine whether, and to what extent, the investigation will have the potential to
  address violative conduct.
- 2) If the assigned staff, in consultation with the assigned Associate Director, determine that it is appropriate to proceed with the investigation, then the conversion to an investigation will occur without further action by the staff attorney or Assistant Director.
- 3) At the time of the conversion, the assigned staff should draft and submit an Opening Narrative Form to their Case Management Specialist including a brief statement regarding the investigation's potential to address violative conduct. The information included in this form will be included in the CATS file and available for review by senior officers on a weekly basis.
- 4) If the assigned staff, in consultation with the assigned Associate Director, determine that the investigation does not have the potential to address violative conduct, or there is another reason that the investigation would be an inappropriate use of resources, then the assigned staff, in consultation with the assigned Associate Director, should close the MUI before it converts to an investigation. To close the MUI, the assigned staff should contact their Case Management Specialist, request to close the MUI, and provide an explanation for closing the MUI. Please refer to the internal system instructions for the closing MUI codes. If the MUI is not closed before its conversion to an investigation, then the investigation closing procedures must be followed (see Section 2.6 of the Manual).

#### Procedures for Opening an Investigation, Independent of a MUI:

In certain circumstances, it is appropriate to open an investigation without having opened a MUI (for example, in a case in which emergency action is necessary), or

convert a MUI to an investigation prior to the occurrence of the automatic conversion on the sixtieth day of the MUI. To open an investigation under these circumstances:

- 1) The assigned staff should consult with the assigned Associate Director concerning the analyses described above.
- The staff attorney should fill out the investigation opening form in the internal system and forward it, along with the Opening Narrative Form, to their Associate Director for approval.
- 3) The Associate Director should review the forms promptly (within two business days), and, if the Associate Director is satisfied that it is appropriate to proceed, the Associate Director may approve the opening of the investigation.
- 4) The staff attorney should forward the approved form to their Case Management Specialist for processing.
- 5) If the investigation requires expedited approval due to ongoing conduct or imminent investor harm, and the assigned Associate Director is not available to approve the investigation opening form, then the staff may request approval from any available Associate Director.
- 6) The Associate Directors, Regional Directors, and other senior officers will receive a weekly report of all investigations opened during the prior week.

#### 2.3.3 Formal Orders of Investigation

Under Rule 5(a) of the SEC's Informal and Other Procedures, the Commission "may, in its discretion, make such formal investigations and authorize the use of process as it deems necessary to determine whether any person has violated, is violating, or is about to violate any provision of the federal securities laws or the rules of a self-regulatory organization of which the person is a member or participant." 17 C.F.R. Section 202.5 (a). Once the Commission issues a Formal Order of Investigation ("Formal Order"), members of the staff designated by the Formal Order to act as officers of the Commission for the purposes of the investigation may administer oaths and compel testimony and the production of evidence, among other things. Investigations are nonpublic unless otherwise ordered by the Commission. *Id*.

#### 2.3.4 Formal Order Process

#### Introduction:

The staff cannot issue investigative subpoenas to compel testimony or the production of documents unless the Commission issues a formal order of private investigation. The Commission may issue a formal order of investigation, in its discretion, if it deems that a violation of the federal securities laws may have occurred or

may be occurring and a formal investigation is appropriate and necessary. The formal order serves two important functions. First, it generally describes the nature of the investigation that the Commission has authorized, and second, it designates specific staff members to act as officers for the purposes of the investigation and empowers them to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence, and require the production of documents and other materials. Formal investigative proceedings are nonpublic unless otherwise ordered by the Commission.

#### Basics of the Formal Order Process:

The Commission has delegated authority to issue formal orders of investigation to the Director of the Division of Enforcement from August 11, 2009 to August 11, 2010. 17 C.F.R. Section 200.30-4(a)(13). This authority was sub-delegated to senior officers effective August 12, 2009. To seek a formal order of investigation, staff should draft a memo for review by the senior officer, as well as a proposed order. If authorized by the senior officer, the formal order will be issued by the Office of the Secretary. A MUI should be converted to an investigation before or upon issuance of a formal order.

#### 2.3.4.1 Supplementing a Formal Order

Once a formal order of investigation has been issued by the Commission, the Division has authority, delegated to it from the Commission, to name staff members as officers empowered to issue subpoenas and administer oaths, among other things. 17 C.F.R. Section 200.30-4(a)(1) and (4). During the course of a formal investigation, the Division may request that the Secretary of the Commission issue a supplemental order to add or remove staff members from the list of officers named in the original formal order. A supervisor at the Assistant Director level or above may authorize the Division's request for a supplemental order.

#### 2.3.4.2 Requests for a Copy of the Formal Order

#### Basics:

Rule 7(a) of the SEC's Rules Relating to Investigations provides that a person who is compelled or requested to furnish documentary evidence or testimony at a formal investigative proceeding shall, upon request, be shown the Commission's formal order of investigation. However, a copy of the formal order shall not be furnished to that person for their retention without the express approval of a Division official at the level of an Assistant Director or District Administrator, or higher. 17 C.F.R. Section 203.7(a).

#### Procedures for Responding to a Request for a Copy of the Formal Order:

When a member of the staff receives a request for a copy of the formal order, staff should keep in mind the following procedures when determining whether the request should be granted:

- The request must be made by a person or counsel for a person who has been asked
  to furnish documents or testimony in the formal investigation for which the person
  is requesting a copy of the formal order.
- The request for a copy of the formal order must be in writing. A copy of the formal
  order may not be provided on the basis of an oral request. Therefore, staff should
  advise the person to submit their request in writing to the Assistant Director
  assigned to the investigation.
- The written request for the formal order must include representations to show that approval of the request is "consistent both with the protection of privacy of persons involved in the investigation and with the unimpeded conduct of the investigation."
   17 C.F.R. Section 203.7(a). Staff may furnish the following sample representations to be included in the written request:

The undersigned represents [client's name] in the above captioned matter. Pursuant to 17 C.F.R. §203.7 [I/we] hereby request on behalf of [my/our] client[s] to be furnished with a copy of the Commission's Formal Order of Investigation in the above matter. [I/We] warrant that the Formal Order and information contained therein will remain confidential and will not be disseminated to any person or party except [my/our] client[s] for use in connection with [my/our] representation of [him/her/it/them] in this matter.

- Only an Assistant Director or higher level Division official may approve a written
  request for a copy of a formal order. There may be circumstances that warrant
  denial of the request, such as when there is evidence that the requester intends to
  use the formal order for purposes outside the representation in the matter, or does
  not intend to keep the formal order confidential.
- Keep in mind that even if a request for a copy of the formal order is denied, a
  requesting person who is compelled or requested to furnish documentary evidence
  or testimony at a formal investigative proceeding is still entitled to review the
  formal order without retaining a copy. 17 C.F.R. Section 203.7.

#### 2.4 The Wells Process

#### The Wells Notice:

Rule 5(c) of the SEC's Rules on Informal and Other Procedures states that "[u]pon request, the staff, in its discretion, may advise such persons [involved in

FORM 1569

### U.S. SECURITIES AND EXCHANGE COMMISSION MUIS — MATTER UNDER INQUIRY



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MUI MASTER DISPLAY GPMUI-05 DATE:05/18/98 ME:17.17.19

NAME OF MATTER: STANFORD GROUP COMPANY STATE: TX MU1 FILE NO...: MFW-894 \*\* UPDATE MODE \*\*

> STATUS/DISPO...: PE ORGAN CODE....: 06033

> DATE OPENED...: 05/18/98 PRIM TRAD MKT..: DATE CLOSED....: NAT OF SECURITY:

OTH REG AREAS..: FG FW REL SEC NO..1:

CLASS OF MATTER: FD FU IA IC REL SEC NO..2: " : PO SU BD

STAFF ASSIGNED .:

. COMMENTS: CERTIFICATES OF DEPOSIT

PHONE NO....:

.

\* \* \* \* MUI MASTER RECORD ESTABLISHED ON FILE \* \* \* \*

FOR RELATED PARTIES TYPE "R": TO PRINT SCREEN ENTER "Y": TO PROCESS PRESS "ENTER" - TO EXIT PRESS "CLEAR"

Author: (b)(7)c Date:

5/18/98 11:22 AM

Priority: Normal Receipt Requested

TO: WrightH

Subject: Stamford Group - BD - Houston

----- Message Contents

I received note from (b)(6), (b)(7)c to contact examination. (b)(6), (b)(7)c - Enforcement Wash DC (b)(6), (b)(7)c explained he had received a referral from US Customs Dept regarding possible money laundering and wanted information regarding our BD examination of Stamford Group. I orally provided him info from repoort and deficiency letter. He requested a fax copy of report, deficiency letter, and response to deficiency letter. He also requested that our workpapers be sent up to him. I advised that I would check on sending info to him.

Neither you nor Spence were in so I notified Hal D. He was to followup with [b)(6), (b)(7)c. I did not mail or fax any documents. See me when you return and I'll give full details.



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102

IN REPLYING PLEASE QUOTE (b)(6), (b)(7)c

May 27, 1998

FAX: (817) 978-2700

PHONE: (817) 978-3821

#### CERTIFIED MAILIRRR P 166 771 711

(b)(6), (b)(7)c

Stanford Group Company 5056 Westheimer Suite 605 Houston, Texas 77056

Re:

Stanford Group Company (MFW-894)

Dear

o)(6), (b)(7)c

Information available to this office indicates that violations of certain provisions of the federal securities laws may have occurred in connection with certain activities and/or transactions effected by Stanford Group Company ("Stanford Group") and certain individuals associated therewith. In order to properly discharge our responsibilities under the federal securities laws, this office is conducting an inquiry and is requesting your company's voluntary assistance in this matter. Accordingly, we request that you provide the following information for the time period beginning September 1, 1995, through the date of this letter ("relevant time period"):

- A list or documents sufficient to identify the name, address, and telephone number(s) of each individual or entity referred by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, to Stanford International Bank ("Stanford Bank") during the relevant time period;
- All customer account opening documents, new account forms and correspondence (both sent and received) for all Stanford Group customers identified in response to item 1. above;
- Documents sufficient to identify all products offered by Stanford Bank that were purchased or invested in by any individual or entity identified in response to item 1. above;
- 4. Documents sufficient to identify all services rendered or performed by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, for any individual or entity identified in response to item 1. above with respect to the individual's or entity's purchase or investment in any product offered by Stanford Bank;

- All confirmations, order tickets, stock certificates (front & back), Forms 144 and attorney opinion letters for all transactions (either executed or unexecuted) in any security offered by Stanford Bank during the relevant time;
- 6. All documents reflecting the receipt, expenditure, transfer, use or allocation of funds from Stanford Bank by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, including, but not limited to, the following documents:
  - a) ledgers;
  - b) accounting books and records;
  - c) monthly account statements from any bank, money market, credit union, brokerage firm or any other similar financial institution;
  - d) canceled checks (front and back);
  - e) deposit slips;
  - f) wire transfers;
  - g) debit slips; and
  - h) credit slips.
- 7. A list or documents sufficient to identify all Stanford Group officers, directors, employees, consultants, representatives, agents or independent contractors who made referrals to Stanford Bank during the relevant time period;
- 8. A list or documents sufficient to identify all payments to any individual or entity identified in response to item 7. above in connection with any referral to Stanford Bank or for services rendered on behalf of any individual or entity that purchased or invested in any product offered by Stanford Bank. The documents should identify the date(s) and amount(s) of the payments and the payer;
- 9. All daily, weekly and periodic reports of inventory position and inventory trade blotters, equity trade journals, Regulation T reports, and cancel and rebill reports for any security offered by Stanford Bank;
- 10. Documents sufficient to identify, by name, home address and home and business telephone numbers, each officer, director, employee, consultant, representative, agent or independent contractor associated with Stanford Group during the relevant time period. The documents should identify the time period during which each individual was associated with Stanford Group;
- Copies of all contracts, agreements, and other documents written, created, dated, sent, received, or in effect during the relevant time period setting forth, or relating to, referrals to Stanford Bank;

12. Copies of all contracts, agreements, and other documents written, created, dated, sent, received, or in effect during the relevant time period setting forth, or relating to, any compensation, remuneration or fringe benefit paid or provided, by or on behalf of Stanford Group, to any officer, director, employee, representative, independent contractor, consultant or agent including, but not limited to, all employment contracts and consulting and service compensation agreements;

Documents sufficient to identify the amount of compensation and other remuneration or fringe benefit paid or provided, by or on behalf of Stanford Group, to each officer, director, employee, consultant, salesperson independent contractors or agent during the relevant time period;

- 13. Copies of all brochures, business plans, prospectuses, private placement memoranda and any other documents used to market any product offer by Stanford Bank during the relevant time period;
- 14. Copies of all Stanford Group financial statements (both audited and unaudited), and accounting records for the relevant time period;
- 15. All minutes of directors and shareholders meetings;
- All corporate resolutions, certifications of corporate resolutions and consents in lieu of meetings of the board of directors;
- 17. Documents sufficient to explain Stanford Group's organizational structure and management hierarchy, and changes thereto, for the relevant time period;
- 18. The Articles of Incorporation and by-laws of Stanford Group, including all amendments thereto;
- All Stanford Group tax returns and filings for the relevant time:
- Documents sufficient to identify all claims, lawsuits, judgments, liens or garnishments pending against Stanford Group at any time during the relevant time period; and
- 21. Copies of all Stanford Group correspondence, both sent and received, regarding, concerning, pertaining or relating to referrals to Stanford Bank, any product offered by Stanford Bank, or any entity or individual who purchased or invested in product offered by Stanford Bank.

Please produce the requested documents to the above address no later than **June 10, 1998**. Additionally, the staff requests that you voluntarily appear at the above address on Tuesday, June 23, 1998, to answer questions regarding certain Stanford Group

business transactions and activities. Please notify the undersigned, no later than June 10, 1998, if you will voluntarily appear.

This inquiry is confidential and should not be construed as an indication by the Securities and Exchange Commission (or its staff) that any violations of law have in fact occurred, or as a reflection upon the merits of any securities involved or persons effecting purchases and sales in any securities involved.

Enclosed for your review are SEC Forms 1661 and 1662, which provide important supplemental information.

Please feel free to contact the undersigned at

with any questions.

Sincerely,

Hugh M. Wright Assistant Administrator [Enforcement]

1ENIORCE 6). (b)(7)c

Enforcement Attorney

Enclosure:

As noted.

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US Postal Service

Receipt for Certified Mail

No Insurance Coverage Provided.

Do not use for International Mail (See reverse)

Stantord Group Company PUST Office Works La Par Course I Suite 605 Houston, TX ₹056 Certified Fee Special Delivery Fee Restricted Delivery Fee Return Receipt Showing to Whom & Date Delivered Return Receipt Showing to Whom Date, & Addressee's Address TOTAL Postage & Fees Postmark or Date

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٠.	MFW-894 (b)(6), (b)(7)c	5/27/98			
ADDRESS completed on the reverse side?	SENDER:  • Complete items 1 and/or 2 for additional se • Complete items 3, and 4a & b. • Print your name and address on the reverse return this card to you. • Attach this form to the front of the mailpiedoes not permit. • Write "Return Receipt Requested" on the ma • The Return Receipt will show to whom the and elivered.  3. Article Addressed to: (b)(6), (b)(7)c  Stanford Group Company 5056 Westheimer Suite 605 Houston, TX 77056	e of this form so that we can ce, or on the back if space illplece below the article number. ticle was delivered and the date  4a. Art  P 1  4b. Ser  Regi  X Certi  Expr  7. Date	Consult postmaster for fee. icle Number  66 771 711 vice Type stered	ou for using Return Receipt Service.	
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our R	5. Signature (Agent) PS Form 3811 December 1991	HS GPO: 1002-352-714 PA	OMESTIC BETLIEN DECEIDE	_	

#### SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE

#### **MEMORANDUM**

TO:

Office of Compliance Inspections and Examinations

MAIL STOP: 9-1

FROM:

Hugh M. Wright

Assistant District Administrator

Fort Worth District Office

BY:

(b)(6), (b)(7)c

DATE: July 16, 1998

SUBJECTS: Stanford Group Company

File No. 801-50374

98-F-71

Attachments:

Report of Examination, Memorandum of Comments, and Deficiency Letter for the cause examination of the above-captioned registrant conducted by (b)(6), (b)(7)c and (b)(6), (b)(7)c of this office. Also attached is a revised Year 2000 Data Management Questionnaire for the registrant.

#### Fort Worth District Office Investment Adviser Examination Report

Exam No.	98 - F - 71	File No	801-50374	Category*	С
Name	Stanford Group Company			Complex	
City	Houston	. State	Texas	Zip 7	7056
Action	Ltr	Cause Exam	Y	Custody	1
(No/Ltr/Enf/Oth	1)	(Y/N)		(Y/N)	
	* •			* *	
Examiners					
(b)(6), (b)(7)c	Field Work Start	6/1/98	Recovery	0	
(b)(6), (b)(7)c	Field Work End	7/9/98	No IC Mgd	0	
	Disposition Date	7/16/98	IC Assets \$	0.000	
	Response Date		Pvt Accounts	. 219	
	Last Inspection		Pvt Assets \$*	55	
	Hours Fld/Office	40/40	Subscribers		
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# of Deficiencie	s or Violations:			. 7	
	1. Filings & Reports		10. Portfolio Manage	ment	
- 11	2. Form ADV/Broch Dis/Del	2	11. Prohibited Transa	ections	
	3. Contracts		12. Limited Partnersl	nips	
	4. Custody		13. Conflicts of Inter	est	
	5. Books & Records		14. Brokerage/Execu	tion	
	6. Financial Condition		15. Wrap Fee Program	ms	
	7. Internal Controls	1	16. Marketing/Perfor	mance Calc.	
	8. Advisory Services		17. Compensation/Cl	ient Fees	
	9. Unregistered Entity		18. Client Referrals		
· · · · · ·			19. Litigation		
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Examiner	b)(6), (b)(7)c	Date	7/10/98		
Examiner	(b)(6), (b)(7)c	Date	7/10/98		
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Examiner	-				
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Reviewer	b)(6), (b)(7)c	Date	7/10/98		
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Approved	Hugh M. Wright	Date	7/15/98		
	<del></del>	رَ.	A Categories*		
			A=Financial Planner		
			B=Non-Discretionary	Advisory Svc	
			C= Discretionary Adv	isory Svc	
			D= Newsletter Writer		
Appendix 7B - S	tandard IA Data Sheet (iasheet.xls)		E=Inactive .		

#### Stanford Group Company File No. 801-50374 Houston, Texas 77056

#### COMMENTS

#### SUMMARY OF VIOLATIONS

The cause examination of Stanford Group Company ("SGC") (File No. 801-50374) revealed the following violations of the Investment Advisers Act of 1940 ("Advisers Act") and the rules and regulations thereunder:

Rule 204-1(b)	Form ADV was inaccurate.
Rule 204-3	Failed to deliver brochure to clients in a timely manner.
Rule 206(4)-1	Omission of certain disclosures may cause advertising materials to be misleading.
Section 206(3)	Failed to obtain consents from clients concerning effecting transactions with an affiliated bank.

#### **SCOPE**

SGC was chosen for examination from the Fort Worth District Office's ("FWDO") five year plan of examination candidates, and it had never been examined. In addition, an examination of this entity was conducted by the FWDO broker-dealer examiners in August 1997, resulting in a referral to the FWDO Division of Enforcement for their review and disposition (MFW-894).

The area of concern involves the registrant's "referral" of customers to an affiliated offshore bank for investment in "Certificates of Deposit" ("CDs") issued by that bank. The examiners sought to gather information about "referrals" of advisory clients. Based on a review of the registrant's filings and the topics discussed during the initial interview, it was also determined that the examination's focus areas should include reviewing its portfolio management.

The examination revealed that at least seventeen SGC advisory client accounts have also invested an as-yet undetermined amount in the CDs. It was also represented to the examiners that these clients are non-U.S. citizens. Based upon the amount of referral fees earned by SGC in 1997, it appears that SGC brokerage and advisory clients may have invested as much as \$250 million in the CDs. There is an outstanding request for the name, address and amount invested for each SGC advisory client who has also invested in the CDs.

### **BACKGROUND**

SGC was formed as a Texas Corporation on July 21, 1995, and became registered as an investment adviser with the Securities and Exchange Commission ("Commission") effective October 17, 1995. SGC is also registered as a broker-dealer (File No. 8-48611). SGC is 100% owned by Robert A. Stanford ("Stanford"). Stanford also owns a number of other companies including Stanford International Bank Limited ("SIB"), an offshore bank located in St. John's, Antigua, West Indies, Stanford Financial Group Building located in Houston, and Stanford Agency, Inc., an insurance company located in Louisiana. At the time of the examination, SGC operates its advisory businesses from the following five locations: Denver, Colorado; Baton Rouge, Louisiana; Houston, Texas; Miami and Bonita Springs, Florida. SGC conducts its investment activities through a division called Private Client Services ("PCS"), which is under the overall supervision of Robert B. Glen. Under the PCS division, the firm has two other individuals, whose responsibilities are mainly providing administrative and support services, and approximately eleven registered representatives ("RR"). Currently, most of SGC's clients are high net worth individuals. SGC represented that currently it does not participate in any formal soft dollar arrangement.

#### FINANCIAL CONDITION

SGC's balance sheet reflected the following:

	April 30,1998 (Unaudited)	Dec. 31, 1997 (Unaudited)
Total Assets	\$69,642,755	\$71,265,872
Total Liabilities	49,797,654	50,972,457
Capital (Net Worth)	19,845,101	20,293,415
Total Liabilities and Capital	\$ 69,642,755	\$ 71,265,872

Stanford is not involved in the day to day operations of the firm.

The Houston Business Journal's website indicated that the building, owned by Stanford Financial Group, in which SGC's offices will be located currently "is undergoing an ambitious \$15 million renovation that should be completed early next year."

SGC's income statement reflected the following:

	Four Months Ended April 30, 1998 (Unaudited)	Year Ended Dec. 31, 1997 (Unaudited)
Referral Fees <sup>3</sup>	\$3,797,739	\$9,144,560
Advisory Fees	498,053	1,006,119
Commissions	504,902	467,385
Other Income	1,885,601	3,038,511
Total Revenue	6,686,295	13,656,575
Total Operating Expenses	7,134,609	12,209,238
Net Earnings from Operations Before Income Taxes	\$(448,314)	\$ 1,447,337

SGC's independent auditor is BDO Seidman, LLP in Houston, Texas, and its legal counsel is Chan Warner P.C.

### **ADVISORY SERVICES**

As of the examination date, SGC managed approximately \$27.4 million on a discretionary basis for 104 client accounts and \$27.8 million on a non-discretionary basis for 115 client accounts, bringing the total assets under management to approximately \$55 million with 219 client accounts.

### REFERRAL FEES

According to the broker-dealer examination report ("Report"), although SGC offers a wide variety of products and services to its clients, a substantial majority of its income in 1997 was derived from the sales of CDs issued by SIB, an affiliated offshore investment bank under common ownership with Stanford, to clients. In return, SGC receives referral fees as illustrated in SGC's income statement section above. Based upon the amount of its clients' investments, SIB pays a recurring annual 3.75% referral fee to SGC on all deposits referred to SIB. The Report also indicated that SIB's brochure regarding its CDs include misrepresentations which imply that the products are safe. Such misrepresentations are based on the interest rate and referral fees paid by SIB as set out in the Report. The Report states: "SIB pays out in interest and referral fees between 11% and 13.75% annually. To consistently pay these returns, SIB must be investing in products with higher risks than are indicated in its brochures and other written advertisements."

Referral fees represent income from the sale of CDs issued by SIB.

The examination revealed that at least seventeen SGC advisory client accounts have also invested in the CDs. It was represented to the examiners that these clients are non-U.S. citizens. Based upon the amount of referral fees earned by SGC in 1997, it appears that SGC brokerage and advisory clients may have invested as much as \$250 million in the CDs. As of the date of this report, SGC has been unable to provide a complete list of the advisory clients invested in the CDs and the amount invested. 4

The accompanying deficiency letter brings these matters to SGC's attention and requests actions consistent with its fiduciary obligations. The letter also requests SGC provide, if it has not already done so in response to the examiners' telephonic requests, a complete list of SGC advisory clients who have invested in the CDs, including their name, address, and amount invested.

### **Wrap Fee Programs**

SGC offers four in-house wrap fee programs for which SGC acts as the sponsor: the Portfolio Advisors Program ("PAP"), the Mutual Fund Partners Program ("MFP"), the Consulting Services Program ("CSP"), and the Portfolio Partner Program ("PPP"). Currently, all the advisory clients utilize only the PAP or MFP options. The CSP and PPP do not have any clients. Clients receive monthly account statements from Bear Stearns Securities Corp. ("Bear Stearns") (File No. 8-43724). Bear Stearns serves as both the custodian and the clearing broker for client accounts. Clients also receive quarterly reports by SGC detailing their assets. SGC utilizes Advent as its portfolio accounting system. The advisory fees for all the wrap programs are payable quarterly in advance and the majority of the advisory fees are deducted directly from client accounts. As discussed more fully below, clients are given several fee options. A description of these programs follow.

#### PAP

PAP is offered for discretionary accounts which are managed by outside third-parties. SGC has contracted directly with these portfolio managers to provide investment advisory services for SGC's PAP clients. The following is a breakdown of SGC's outside money managers.

Manager	Style
1838 Investment Advisors	Large-Cap Blend
Congress Asset Management	Large-Cap Growth
Delaware Capital Management	Large-Cap Value
	International
Duff &Phelps Investment	Large-Cap Blend
Management	
First Fiduciary	Large-Cap Value

It was first represented to the examiners that no records were kept by SGC in relation to the client investments in the CDs. However, SGC later represented that such records do exists and is compiling a list as requested.

Independent Financial Group	Large-Cap Growth
	Mid-Cap Blend
Oak Ridge Associates	Large-Cap Growth
* 10	Small-Cap Growth
Regent Investor Advisors	Large-Cap Blend
Roger Engemann & Associates	Large-Cap Growth
Wilson/Bennett Capital	Large-Cap Value
Management	
Dean Investment Advisors	All-Cap Blend
	Small-Cap Value
EBS Asset Management	All-Cap Blend
	Mid-Cap Value
	Small-Cap Value
NM Capital Management	Mid-Cap Blend
Groh Asset Management	International

It was represented that SGC monitors and reviews the performance of the aforementioned portfolio managers. If any of the investment advisers' performance does not meet the firm's expectations, SGC might terminate its business relationship with that portfolio manager. It was represented that SGC might discontinue its business relationship with NM Capital Management due to its poor performance.

The minimum account size for PAP is \$200,000. The advisory fee is variable depending on the amount of assets under management. The advisory fee for PAP starts at 3% annually for accounts up to \$250,000 and are gradated over several asset levels until they become negotiable at \$2,000,001 and above. The fee covers the portfolio managers' fee, all commission costs, and ticket charges. Clients may elect alternate fees which are exclusive of ticket charges. Such fees range from 2% to 1%.

#### **MFP**

MFP is offered for non-discretionary managed accounts. The primary focus of MFP is to allocate assets among no-load mutual funds or load-waived funds. The first step in MFP's creation of an investment portfolio is learning pertinent information about the client. SGC's RR has the client complete a multi-page questionnaire which requests information about the client's assets, liabilities, income, tax situation, investment goals, time horizon, and risk tolerances. After the RR receives the completed questionnaire, he sends a copy of the questionnaire to the PCS division. PCS creates a client proposal depending on the client objective and sends the proposal back to the RR. The RR can only purchase mutual funds recommended by the PCS division.

The minimum account size for MFP is \$50,000. The advisory fee is variable depending on the amount of assets under management. The advisory fee for MFP starts at 2% annually for accounts up to \$250,000 and are gradated over several asset levels until they become negotiable at \$2,000,001 and above. Clients may elect alternate fees which are exclusive of ticketing charges. Such fees range from 1.5% to 1%.

#### **CSP**

CSP is similar to the PAP except that there is no contractual relationship between SGC and the outside portfolio manager. Upon request from the client, SGC will assist the client in the selection of portfolio manager. Therefore, a client utilizes the services of an independent portfolio manager of the client's choice.

The minimum account size for CSP is \$50,000, although this may vary depending upon the portfolio manager's requirements. The advisory fee for PPP starts at 2% annually for accounts up to \$250,000 and are gradated over several asset levels until they become negotiable at \$5,000,001 and above. Client may elect alternate fees which are exclusive of ticketing charges. Such fees shall be a flat rate of 1%. As mentioned previously, currently there are no clients under CSP.

#### PPP

Through PPP, SGC's RR create and manage an investment portfolio following the client's investment objectives. The minimum account size for PPP is \$50,000. SGC's advisory fee for PPP starts at 3% annually for accounts up to \$250,000 and are gradated over several asset levels until they become negotiable at \$2,000,001 and above. Client may elect alternate fees which are exclusive of ticketing charges. Such fees range from 2% to 1%. As mentioned previously, currently there are no clients under PPP.

#### Fee allocation

Through PAP, the maximum portion of the annual fee paid to each participating outside investment adviser is 1%. For the remaining portion, SGC keeps 60% and SGC's RRs keep 40%. Through MFP, SGC keeps 55% and SGC's RR receive 45% of the aggregate advisory fees as their compensation. Additionally, SGC keeps 100% of any 12b-1 fees paid by the mutual funds in which its clients invest; none is paid to SGC's Rrs.

### **Financial Planning Services**

SGC provides financial planning services that mainly involve estate, education, and asset allocation planning. Initially, fees for these type of services are based on an hourly rate of \$125. For the continuation of such services, clients will pay either an annual, semi-annual, or quarterly retainer as negotiated between the adviser and the client. Currently, there are a total of two financial planning clients who have been charged a fee. Each client was charged an agreed-upon flat fee, \$4000, for financial planning services provided by SGC.

### MARKETING

It was represented that the general business plan of SGC is to grow through acquisition of experienced brokers with established client bases from their previous firms. As a result, the majority of SGC's advisory clients are already clients of SGC's RR from their previous brokerage companies. In addition, SGC has a website, www.stanfordgroup.com, which includes general descriptions of the registrant's services and its investment strategies. SGC also has placed an "advertorial" in the *On Wall Street* issue dated March 9, 1998, which stated in part that clients are charged one annual fee paid quarterly based on the market value of their accounts. However, the advertisement does not disclose that SGC keeps 12b-1 fees paid by the mutual funds in which its clients invest. It appears that this advertisement could possibly be misleading to potential clients who may misinterpret the information as a reflection of only paying one annual fee. The accompanying deficiency letter will address this matter. SGC does not appear to advertise in any other manner.

### **COMPLIANCE OFFICERS**

(b)(6), (b)(7)c were compliance officers for SGC. (b)(6), (b)(7)c began her employment with SGC on . She was responsible for overseeing the daily operational activities of SGC which include compliance, operations and administration. Her last date of employment with SGC was on (b)(6), (b)(7)c Form U-5 indicated that the reason for termination was "Voluntary." Through examiners found a document entitled "Texas Workforce Commission Unemployment Benefit Payment Audit Form" ("TWC") which indicated that the "reason for separation" from SGC was "Asked to Resign-Differences in Management Philosophies," Examiners' discussions with SGC's officers revealed that (b)(6), (b)(7)c "was not effective in a growing firm. She needs to be in a more structured environment." Therefore, she voluntarily resigned. The examiners presented the TWC document to SGC's officers. The officers represented that they were not aware of the situation. In addition, [b](6), (b)(7)c began his , as a Compliance Manager. (b)(6), (b)(7)c last date of employment with SGC on (b)(6), (b)(7)c employment with SGC was on (b)(6), (b)(7)c

The fact that both compliance officers left the firm within a two months period, as well as and the discrepancies between Form U-5 and the TWC form, raise concerns about SGC's compliance system. The examiners' review of NRSI and CRD revealed that and officers and officers last brokerage/advisory positions were with SGC. The examiners will bring this matter to the attention of FWDO Division of Enforcement. Aside from the concerns addressed in the report, SGC's compliance system appears to be adequate.

An "advertorial" is an advertisement in which the adviser advertising its services provides On Wall Street with information which is edited by the publisher's editors who may also add editorial comment.

### **CONCLUSION**

Additional comments relating to the registrant and the violations or deficiencies noted during the examination are contained in the accompanying deficiency letter which was forwarded to the registrant concurrent with the submission of this report.

## EXHIBIT 56

### OCDEN, GIBSON, WHITE & BROOCKS, L.L.P.

RECEIVED

ATTORNEYS
2100 PENNZOIL SOUTH TOWER

1998 JUN 11 A 10: 49

711 LOUISIANA HOUSTON, TEXAS 77002

Jack D. Baffard - FWNN Direct Dial: (b)(6), (b)(7)c

TEL. (713) 844-3000 FAX (713) 844-3030

June 10, 1998

(b)(6), (b)(7)c

Via Federal Express

Enforcement Attorney Securities and Exchange Commission 801 Cherry Street, Suite 1900 Fort Worth, Texas 76102

Re: Informal Inquiry Regarding Stanford Group Company (MFW-894)

**Dear** (b)(6), (b)(7)c

This letter represents a partial response to your informal request dated May 27, 1998 to Stanford Group Company ("SGC"). Although you agreed to extend the deadline for the production of documents by SGC until later this month, SGC decided to provide some preliminary information beforehand in an effort to promptly rebut any suggestion that its activities are in violation of the federal securities laws. The information and documents provided by SGC in response to your inquiry are confidential and proprietary and, therefore, should not be provided to any person who is not involved in this matter.

Let me first address the relationship between SGC and Stanford International Bank Ltd. ("SIB"). The two companies are affiliates through common private ownership, but are separate in every other respect, including their management. The business relationship between SGC and SIB is governed by a series of agreements, all negotiated at arm's length between the principals of the two companies. For example, SGC and SIB have entered into a Joint Marketing Agreement, pursuant to which SIB makes its certificates of deposit available to customers of SGC. The referrals from SGC to SIB are limited to foreign clients.

The relationship between SGC and SIB previously has been the subject of regulatory review. In May, 1997, SGC responded to an inquiry from the Texas Securities Board addressing, among other things, its referral practices. Similarly, SGC was the subject of an examination by the Fort Worth office of the Securities and Exchange Commission in August, 1997 relating in part to those matters. Some of the documents you have requested were provided during the August examination.

s:\stanford\sec\(^{(b)(6), (b)(7)c}

June 10, 1998

Page 2

In this preliminary response, SGC has provided most of the documents you requested, whether or not provided previously. SGC has provided representative documents, at the very least, in response to each of the requests (except Request Nos. 9 and 15, for which there are no documents). SGC has carefully organized the responsive documents and, following each request set forth below, has provided a description of its response. The documents also are Bates numbered for ease of reference.

SGC will cooperate fully with the inquiry from your office. SGC is concerned, however, about the burden imposed by some of the requests in your May 27 letter. For example, in order to fully respond to Request Nos. 1 and 2, SGC will be required to incur substantial expense and loss of employee time. SGC is hopeful that, in our conference call this Thursday, we can address any questions you have about SGC's practices and attempt to make the inquiry more focused.

SGC's preliminary response to the requests are as follows:

 A list or documents sufficient to identify the name, address, and telephone number(s) of each individual or entity referred by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, to Stanford International Bank ("Stanford Bank") during the relevant time period;

Response:

SGC maintains hundreds of referral files in each of its branch offices. Because automated information is not available, responding to this request would require the copying of each of those files, which would involve considerable expense and loss of employee time. Consequently, in response to this request, SGC has provided a copy of two (2) representative referral files. The documents contained in each of those files illustrate the referral process, including communications between SGC and SIB.

 All customer account opening documents, new account forms and correspondence (both sent and received) for all Stanford Group customers identified in response to item 1 above;

Response:

SGC does not open an account for the customers it refers to SIB and, therefore, has no account opening documents or new account forms. Correspondence between SGC and SIB is contained in the referral files. Representative copies of the correspondence have been produced in response to Request No. 1 above.

3. Documents sufficient to identify all products offered by Stanford Bank that were purchased or invested in by any individual or entity identified in response to item 1 above;

June 10, 1998

Page 3

Response:

SGC has enclosed original brochures and other materials in response to this request.

4. Documents sufficient to identify all services rendered or performed by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, for any individual or entity identified in response to item 1 above with respect to the individual's or entity's purchase or investment in any product offered by Stanford Bank;

Response:

The documents provided in response to Request No. 3 also are responsive to this request. In addition, SGC has provided a copy of its marketing and referral agreements with SIB.

 All confirmations, order tickets, stock certificates (front & back), Forms 144 and attorney opinion letters for all transactions (either executed or unexecuted) in any security offered by Stanford Bank during the relevant time;

Response:

SGC has no documents of the type described. Nevertheless, SGC has provided a representative copy of correspondence between SGC and SIB in connection with transactions initiated as a result of an SGC referral. Such correspondence appears in the referral files produced in response to Request No. 1.

- 6. All documents reflecting the receipt, expenditure, transfer, use or allocation of funds from Stanford Bank by Stanford Group, or any employee, consultant, representative, agent or independent contractor thereof, including, but not limited to, the following documents:
  - a) ledgers:
  - b) accounting books and records;
  - c) monthly account statements from any bank, money market, credit union, brokerage firm or any other similar financial institution;
  - d) canceled checks (front and back);
  - e) deposit slips;
  - f) wire transfers;
  - g) debit slips; and
  - h) credit slips.

Response:

A complete response to this request would require that SGC incur substantial expense and loss of employee time. Much of the same information is provided in a report entitled Detail Of Referred Balances, which is regularly produced by SGC.



In response to this request, SGC has provided copies of the report for January through April, 1998.

 A list or documents sufficient to identify all Stanford Group officers, directors, employees, consultants, representatives, agents or independent contractors who made referrals to Stanford Bank during the relevant time period;

Response: SGC has provided a list of all such persons.

8. A list or documents sufficient to identify all payments to any individual or entity identified in response to item 7 above in connection with any referral to Stanford Bank or for services rendered on behalf of any individual or entity that purchased or invested in any product offered by Stanford Bank. The documents should identify the date(s) and amount(s) of the payments and the payer;

Response: SGC has provided an internal report describing all such payments.

 All daily, weekly and periodic reports of inventory position and inventory trade blotters, equity trade journals, Regulation T reports, and cancel and rebill reports for any security offered by Stanford Bank;

Response: SGC does not have any such documents.

10. Documents sufficient to identify, by name, home address and home and business telephone numbers, each officer, director, employee, consultant, representative, agent or independent contractor associated with Stanford Group during the relevant time period. The documents should identify the time period during which each individual, was associated with Stanford Group;

Response: SGC has provided a list containing such information.

 Copies of all contracts, agreements, and other documents written, created, dated, sent, received, or in effect during the relevant time period setting forth, or relating to, referrals to Stanford Bank;

Response: The agreements between SGC and SIB have been provided in response to Request No. 4.



June 10, 1998

Page 5

12. Copies of all contracts, agreements, and other documents written, created, dated, sent, received, or in effect during the relevant time period setting forth, or relating to, any compensation, remuneration or fringe benefit paid or provided, by or on behalf of Stanford Group, to any officer, director, employee, representative, independent contractor, consultant or agent including, but not limited to, all employment contracts and consulting and service compensation agreements;

Documents sufficient to identify the amount of compensation and other remuneration or fringe benefit paid or provided, by or on behalf of Stanford Group, to each officer, director, employee, consultant, salesperson independent contractors or agent during the relevant time period;

Response:

The agreements provided in response to Request Nos. 4 and 11 are responsive to this request. In addition, SGC has provided copies of all employment contracts for financial consultants hired since January 1, 1998.

 Copies of all brochures, business plans, prospectuses, private placement memoranda and any other documents used to market any product offer by Stanford Bank during the relevant time period;

Response:

SGC has provided copies of all such brochures in response to Request No. 3. SGC does not have any business plans, prospectuses or private placement memoranda which are responsive to this request.

14. Copies of all Stanford Group financial statements (both audited and unaudited), and accounting records for the relevant time period;

Response: SGC has provided its audited financial statements in response to this request.

15. All minutes of directors and shareholders meetings;

Response:

As described in SGC's corporate resolutions, all actions taken by the company were done with consents in lieu of such meetings. Therefore, SGC does not have any such minutes.

16. All corporate resolutions, certifications of corporate resolutions and consents in lieu of meetings of the board of directors;



b)(6), (b)(7)c

June 10, 1998

Page 6

Response:

SGC has provided copies of all such documents.

 Documents sufficient to explain Stanford Group's organizational structure and management hierarchy, and changes thereto, for the relevant time period;

Response:

SGC has provided its current organizational chart in response to this request. Only two changes have occurred during the relevant time period: (i) has resigned and been replaced by Lena Stinson, and (ii) has resigned and been replaced by bi(6), (b)(7)c has resigned and been replaced by bi(6), (b)(7)c

18. The articles of Incorporation and by-laws of Stanford Group, including all amendments thereto;

Response: SGC has provided all of the documents responsive to this request.

19. All Stanford Group tax returns and filings for the relevant time;

Response: SGC has provided all documents responsive to this request.

20. Documents sufficient to identify all claims, lawsuits, judgments, liens or garnishments pending against Stanford Group at any time during the relevant time period; and

Response: SGC has provided all documents responsive to this request.

21. Copies of all Stanford Group correspondence, both sent and received, regarding, concerning, pertaining or relating to referrals to Stanford Bank, and product offered by Stanford Bank, or any entity or individual who purchased or invested in product offered by Stanford Bank.

Response:

In order to fully comply with this request, SGC would be required to copy the referral files for hundreds of customers in each branch office referred to SIB. As described previously, such a production would involve considerable expense and loss of employee time. SGC has provided, therefore, a copy of the form letters approved and distributed to SGC's financial consultants relating to referrals to SIB. A translation of each of the letters into English also has been included.

SGC will do everything possible to address all issues raised in this inquiry. SGC has provided, well in advance of the original deadline, much of the information requested in your

b)(6), (b)(7)

June 10, 1998

Page 7

letter of May 27, 1998. SGC greatly appreciates the opportunity to discuss this matter with you on the Thursday call.

Thank you for your efforts in connection with this matter.

Very truly yours,

Jack D. Ballard

JDB Enclosures

cc: Mr. Wayne Secore
Secore & Waller
2290 One Galleria Tower
13355 Noel Road - LB 75
Dallas, Texas 75240
(with enclosures)

Via Federal Express

### EXHIBIT 57



STANFORD GROUP

RECEIVED

Clearing Agent BEAR STEARNS Securities Corp.

1998 JUL -1 P 3: 39 SEC-FWDO

June 30, 1998

(b)(6), (b)(7)

Securities and Exchange Commission 801 Cherry Street, Ste. 1900 Fort Worth, Texas 76102

Dear (b)(6), (b)(7)c

Enclosed are the copies of the referral files you requested. Should you require any additional information please feel free to contact me at [b)(6), (b)(7)c

Sincerely,

Lena M. Stinson Managing Director

Administration

CC: Wayne Secore

Jack Ballard

## EXHIBIT 58

### OCDEN, GIBSON, WHITE & BROOCKS, L.L.P.

SIOO PENNZOIL SOUTH TOWER RECEIVED

HOUSTON, TEXAS 77002 JUN 22 P 2 39

SEC-FWDO

TEL. (713) 844-3000 FAX (713) 844-3030

June 19, 1998

Jack D. Ballard

Direct Dial:

**Enforcement Attorney** U. S. Securities and Exchange Commission 801 Cherry Street **Suite 1900** Fort Worth, Texas 76102

Via Facsimile (817) 978-2700 and Regular Mail

Re: Informal Inquiry Regarding Stanford Group Company (MFW-894)

Dear

As you know, Wayne Secore and I represent Stanford Group Company ("SGC"), a registered broker-dealer and investment advisor, in connection with the informal inquiry being conducted by the Fort Worth District Office. We have had several telephone discussions with you concerning the scope of the inquiry which, as you have informed us, primarily concerns the relationship of SGC with Stanford International Bank ("SIB"), a private international bank located in Antigua, West Indies.

SIB has been in existence since 1985 and, since inception, has offered banking services to customers who are primarily citizens of Mexico, South America and other foreign countries. In early 1996, our client, SGC, commenced operations as a broker-dealer. The firm's principal office is located in Houston, Texas; however, it also maintains offices in Miami and Bonita Springs, Florida, Baton Rouge, Louisiana, and Denver, Colorado. Currently, SGC conducts a general securities business, provides asset management and other services traditionally offered by full-service brokerage firms, and makes referrals of nonresident alien customers who desire to purchase certificates of deposit issued by SIB. SGC's primary business objective, however, has been the ongoing development of its own customer base and the sale of products separate and apart from SIB, but with the certificate of deposit from SIB remaining a part of the product mix available to clients. SGC is well on its way to achieving its objective. For example, last month 49% of SGC's revenues consisted of referral fees; in 1997 such fees were 67% of SGC's revenues. SGC's objective is to

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b)(6), (b)(7)c

June 19, 1998 Page 2

reduce such revenues to between 10% to 15% of its total revenues within the next five years, with the overwhelming majority of revenues to be derived from the traditional services provided by a full-service brokerage firm.

All of the customers for whom SGC has received a referral fee from SIB are citizens of foreign countries and are not U.S. citizens or residents. The relationship of those customers with SGC began when some of SIB's marketing representatives obtained their securities licenses and joined SGC as registered representatives. As a result, the majority of SGC's and SIB's common customers have relationships of ten (10) or more years with SIB. Only 300 to 400 of the approximately 2,500 customers of both SGC and SIB are "new customers" - that is, those who did not have a relationship with SIB prior to SGC becoming registered as a broker-dealer.

SIB has never had a customer complaint since it was founded in 1985, and no client has ever lost any funds deposited with the bank. I have previously provided a copy of SIB's 1997 Annual Report, which demonstrates the financial strength of that organization. SIB is regulated by the Ministry of Finance in Antigua, which has extensive regulations applicable to SIB and the other international banks licensed by the governments of Antigua and Barbuda. In August, 1998, Antigua will adopt legislation creating one of the world's most comprehensive regulatory and anti-money laundering statutes applicable to international banks.

Since it commenced business in early 1996, SGC has had only a few minor customer complaints, which were immediately handled to the customers' satisfaction. None of the complaints involved referrals to SIB. During its existence, SGC also has been examined by the Securities and Exchange Commission ("SEC"), the National Association of Securities Dealers, Inc., the Texas Securities Board, and the securities commissions of Louisiana and Colorado.

In connection with the inquiry, SGC has serious concerns about members of the staff of the Fort Worth office possibly placing telephone calls to SIB's foreign customers who have very little or no experience with SEC procedures or the purpose of your call. English also is not their native language. Similar to private banking customers of international banks generally, these customers are usually affluent and members of the more sophisticated classes in their respective countries who can afford to maintain dollar deposits abroad. Privacy and confidentiality are absolutely crucial to them. If these customers begin receiving telephone calls from the SEC, many will believe that their confidentiality has been breached, and the likelihood of mistrust and misunderstanding will be widespread. My client is fearful that your telephone inquiries would irreparably damage SIB's relationship with those customers, and create a perception of instability at SGC or SIB. The result could be substantial account closings and/or withdrawals of funds from both companies. Therefore,

June 19, 1998 Page 3

it is of the utmost importance to the business of SGC and SIB that any contact with these customers, especially by a government agency, be handled with extreme sensitivity and caution.

This is not a hypothetical issue. One of the primary reasons the referral customers choose to do business with SGC and SIB is the expectation of confidentiality. Most of these foreign customers are deeply concerned with protecting their privacy. Unfortunately, over the years, SIB has had five (5) instances in which a depositor's family member was kidnapped and, in two of those instances, the family member was murdered. In fact, SIB maintains kidnapping and ransom insurance for employees who travel to South America on SIB business.

SGC also has a serious concern regarding the possible dissemination of its confidential client information once the SEC has reviewed its records. At the very least, SGC would request an agreement that the names, addresses, telephone number, and other personal customer information will be used only in connection with this inquiry.

On several occasions, Wayne and I have stated that SGC will cooperate fully with your inquiry, and we reiterate that position. SGC already has provided copies of documents responsive to many of your requests, has arranged for an examination of documents by you in SGC's offices tentatively scheduled to commence on June 29, 1998 and has agreed to your request to produce a representative of SGC for informal questioning in your office. SGC has carefully examined the issue of referrals to SIB and is extremely confident that the certificates of deposit in question are bank products and not securities. SGC welcomes the opportunity to address any issues or concerns you may have and, as I previously stated, firmly believes that SGC is in full compliance with all applicable statutes and regulations. If anything improper has occurred, which SGC does not believe is the case, SGC would request notification of that fact so that corrective action can be taken immediately.

Two actions on the part of your office would greatly alleviate our client's concerns. First, we request that you consider limiting your review of the SGC files to the 300 to 400 "new customers" at SIB - that is, those who have become customers of the bank since SGC commenced operations. Such a limitation would appear to provide more than an adequate sampling of customers, while at the same time limiting the possible negative impact on SGC's and SIB's business operations and clients. Second, Wayne and I believe the seriousness of SGC's concerns warrant a personal meeting with you and Harold Degenhardt to discuss those concerns raised in this letter. Wayne and I are available at any time on Tuesday, June 23 or Wednesday, June 24. Please let me know at your earliest convenience when a personal meeting with you and Mr. Degenhardt can be scheduled.

b)(6), (b)(7)

June 19, 1998 Page 4

Thank you for your attention to these matters.

Very truly yours,

Jack D. Ballard

Jack D. Ballard

JDB (b)(6), (b)(7)c

ce: Mr. Harold Degenhardt, District Administrator
U. S. Securities and Exchange Commission
801 Cherry Street
Suite 1900

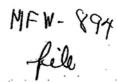
Fort Worth, Texas 76102

Via Facsimile (817) 978-2700 and Regular Mail

## EXHIBIT 59

FORM 1569

### U.S. SECURITIES AND EXCHANGE COMMISSION MUIS — MATTER UNDER INQUIRY



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MUI MASTER DISPLAY FGPMUI-05 DATE:08/06/98 TIME:14.53.40

NAME OF MATTER: STANFORD GROUP COMPANY STATE: TX

MUI FILE NO...: MFW-894 \*\* UPDATE MODE \*\*

STATUS/DISPO...: CJ ORGAN CODE....: 06033 DATE OPENED...: 05/18/98 PRIM TRAD MKT..: FRN

DATE CLOSED...: 08/06/98 NAT OF SECURITY: OT OTH REG AREAS..: FG FW REL SEC NO..1:

CLASS OF MATTER: FD FU IA IC REL SEC NO..2:

" : PO SU BD

STAFF ASSIGNED.: PHONE NO.....:

COMMENTS: CERTIFICATES OF DEPOSIT

FOR RELATED PARTIES TYPE "R":
TO PRINT SCREEN ENTER "Y":
TO PROCESS PRESS "ENTER - TO EXIT PRESS "CLEAR"

2B±FWRO A 33-2

### EXHIBIT 60



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102

IN REPLYING
PLEASE QUOTE
HFD/(b)(6), (b)(7)c
MFW-894

PHONE: (817) 978-3821 FAX: (817) 978-2700

July 24, 1998



Federal Bureau of Investigation 2500 East T.C. Jester Suite 200 Houston, TX 77008

Re:

MFW-894

Dear (b)(6), (b)(7)c

Your request, by letter dated July 9, 1998, for access to Commission files has been granted. In granting access, the Commission has relied upon your assurances that, except as set forth in your letter, your agency will:

provide such safeguards as are necessary and appropriate to protect the confidentiality of these files;

make no public use of these files or information without prior approval of our staff;

notify us of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on our behalf as we may request; and

not grant any other demand or request for the files or information without prior notice or over our objection.

The Commission makes no recommendation with respect to investigation or prosecution by your agency. In addition, until this matter is closed, the Commission continues to have an interest and will take such further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

The files to which access has been granted are being retained by the Fort Worth District Office of the Commission. Your representative should contact [b](6), (b)(7)c at [b](6), (b)(7)c

Sincerely,

Harold F. Degenhardt District Administrator

Harold 3. Degenhard





### RECEIVED 1998 JUL 20 P 2: 53

Federal Bureau of Investigation

SEC-FWDO

In Reply, Please Refer to File No.

2500 East T.C. Jester, Suite 200 Houston, Texas 77008 July 9, 1998

Harold S. Degenhardt, Esq.
District Administrator
United States Securities & Exchange Commission
Ft. Worth District Office
801 Cherry Street, Suite 1900
Ft. Worth, Texas 76102

Re: Stanford Group Company (MFW-894)

Dear Mr. Degenhardt:

On June 30, 1998, with Special Agents (FBI) and (FBI) about the referenced matter. The FBI hereby requests access to the investigative and other non-public files of the United States Securities and Exchange Commission related to the above-referenced matter. This request is made in connection with an ongoing official investigation inquiring into various alleged violations of federal criminal laws. The investigation is being conducted by the FBI.

We understand that the files in this matter contain or may contain "financial records" of "customers" as those terms are defined in the Right to Financial Privacy Act of 1978 [12 U.S.C. 3401-22]. We have reason to believe that that information is relevant to our investigation and proceedings.

We will establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of files to which access is granted and information derived therefrom. The files and information may, however, be used for the purpose of our investigation and any resulting proceedings. They also may be transferred to other criminal law enforcement authorities. We shall notify the Commission of any such transfer and use our best efforts to obtain appropriate assurances of confidentiality.

Other than as set forth in the preceding paragraph, we will:

 make no public use of these files or information without prior approval of your staff;

- (2) notify you of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on your behalf as you may request; and
- (3) not grant any other demand or request for the files or information without prior notice to and lack of objection by your staff.

We recognize that until this matter has been closed the Commission continues to have an interest and will take further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

Should you have any questions, please contact Special Agent (b)(6),(b)(7)c or Special Agent (b)(6),(b)(7)c , at 713/693-5000.

Sincerely,

(b)(6), (b)(7)c

Special Agent in Charge

### RECOMMENDATION TO GRANT ACCESS PURSUANT TO DELEGATED AUTHORITY

Case name and number Name and telephone number of Commission employee handling compliance with access request Date of request Name and title of requestor Agency Address  STANFORD GROUP COMPANY  (MFW-894)  (MFW-894)  (Di(6). (b)(7)c  JULY 9, 1998  (Di(6). (b)(7)c  DEPARTMENT OF JUSTICE
Address  : U.S. DEPARTMENT OF JUSTICE FEDERAL BUREAU OF INVESTIGATION 2500 EAST T.C. JESTER, SUITE 200 HOUSTON, TX 77008
A. The files to which access is requested are those of another division or office.
<ol> <li>The head of that division or office (or his or her delegate) concurs in the recommendation to grant access to those files.</li> </ol>
B. Requesting person is or represents:
X 1. the Department of Justice (including U.S. Attorneys' offices and the F.B.I.).
2. a federal bank regulatory authority in its capacity as a "supervisory agency" within the meaning of Section 1101(6) of the RFPA.
3. another federal government authority (including federal bank regulatory authorities in capacity other than that specified above).
4. a state or municipal authority.
5. Congress.
6. a foreign government or foreign securities authority.
7. a self-regulatory organization.
8. a receiver, special counsel or other similar person appointed in Commission litigation.
9. SIPC.
10. a trustee appointed pursuant to section 5(b) of the Securities Investor Protection Act.
11. a trustee in bankrupcy.
<ol> <li>Request is in writing and requestor occupies, or request has been ratified by a person is a sufficiently senior or supervisory position so as to make and enforce the representation in the request.</li> </ol>
<ol> <li>Request contains required language describing requestor's need for, and safekeeping ar confidential treatment of, information (see Instruction B).</li> </ol>
3. Case is open and request contains required language acknowledging Commission continued interest (see Instruction B).

D. []	1.	NO AFPA	related information has been of is expected to	o be obtained in this case.
	2.		n has been and/or is expected to be obtained in Section 1113(h) of the RFPA.	d in this case under the exception
	3	pursuant 1	related information obtained in this case was to this recommendation. Any such information egated in order to prevent inadvertent access	has been and/or will be identified
x	4.		ated information obtained in this case will be p commendation (see Instruction C).	rovided to the requestor pursuant
		(a) Cu	ustomer notice in accordance with the RFPA v	will be provided.
		X (b) Tr	ne RFPA's customer notice requirements are in	napplicable.
· ·		(c) Th	ne request contains required language regarding.	g the RFPA (see Instructions B and
. ,	,		nere have been actual and/or threatened RFPA th respect to materials subject to this access	
. , .	:		nere are special circumstances in this matter nallenge proceedings more likely due to the gr	
E. 🗌	The	ere are par	allel proceedings issues in this case (see disc	cussion in Access Manual).
F. 🗀	l-ha	ave consult	ed the Office of the General Counsel regarding	ng this recommendation.
G. X	1.	the work-	s of internal memoranda, memoranda to the Coproduct doctrine or the attorney-client or delit to the requestor except in accordance with the n D).	berative process privileges will be
	2.	The files	contain information obtained from another age	ency.
		(a) Ac	ccess will not be provided to that information.	
		(b) Th	ne other agency concurs in the recommendation	to grant access to the information.
X	3.		edures for document control contained in the ied with if access is granted (see Instruction I	
н. 🗌	A fo	ormal order	r of investigation has been issued by the Com	nmission in this case.
ı. 🗆	Add	ditional rele	evant information is attached (see Instruction E	E)
-	4%	· .		
			his request is not adverse to the Commission' rary to the public interest. I recommend that	
			المجامل والمشار ومراده والمحاور	· · · · · · · · · · · · · · · · · · ·
			Signature of Recommending Officia	al
			SPENCER C. BARASCH (ASST. DIST. A	MIN: ENFORCEMENT)
	2.		Name of Recommending Official (see Institu	
				v 3.
CONCL	JRRI	ENCE:	. *	·
			Head (or Delegate) of Other Office or Division	on
APPRO	VED	: ,	Howald & Dogwal and of	7.24.98
		-	Signature of Approving Official	Date

in thin

4

### EXHIBIT 61



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-2700

August 10, 1998

(b)(6), (b)(7)c

Internal Revenue Service 1919 Smith Street Houston, TX 77002-8049

Re:

MFW-894

Dear (b)(6), (b)(7)c

Your request, by letter dated July 30, 1998, for access to Commission files has been granted. In granting access, the Commission has relied upon your assurances that, except as set forth in your letter, your agency will:

provide such safeguards as are necessary and appropriate to protect the confidentiality of these files;

make no public use of these files or information without prior approval of our staff;

notify us of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on our behalf as we may request; and

not grant any other demand or request for the files or information without prior notice or over our objection.

The Commission makes no recommendation with respect to investigation or prosecution by your agency. In addition, until this matter is closed, the Commission continues to have an interest and will take such further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

The files to which access has been granted are being retained by the Fort Worth District Office of the Commission. Your representative should contact (b)(6), (b)(7)c at (b)(6), (b)(7)c to make arrangements to review the files. I would also appreciate it if you would inform that person in the event that your agency institutes public proceedings based upon information that you obtain as a result of this grant of access.

Sincerely,

Harold F. Degenhardt District Administrator

Harold 3. Degenhardt

### Internal Revenue Service

### Department of me Treasury

District Director 1919 Smith Street, Houston, TX 77002-8049

RECEIVED

» Harold S. Degenhardt, Esq.

1998 AUG -3 P 3:53

JUL 3 0 1998

District Administrator

United States Securities & Exchange Corfo hission WIII

Ft. Worth District Office

801 Cherry Street, Suite 1900

Ft. Worth, Texas 76102

Re:

STANFORD FINANCIAL GROUP, INC. & STANFORD INTERNATIONAL BANK

### Dear Mr. Degenhardt:

The Internal Revenue Service, Criminal Investigation Division (IRS-CID) hereby requests access to investigative and other non-public files of the Securities & Exchange Commission (SEC) pertaining to the above-referenced entities. This request is made pursuant to an ongoing investigation involving possible violation(s) of federal criminal statute(s). This investigation is being conducted by IRS-CID.

IRS-CID understands that the requested files contain or may contain "financial records" of "customers" as those terms are defined in the Right to Financial Privacy Act (12 U.S.C. 3401 - 22). IRS-CID has reason to believe that information contained in these SEC investigative and other non-public files is relevant to our criminal investigation.

IRS-CID will establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of SEC investigative and other non-public files to which access is granted and from which information is derived. However, this information may be used for purposes of IRS-CID's investigation, and any resulting proceedings. This information may also be transferred to other criminal law enforcement agencies. IRS-CID will notify SEC of any such transfer and use our best effort to obtain appropriate assurances of confidentiality.

Other than as previously set forth, IRS-CID will:

- (1) make no public use of these SEC investigative and non-public files or information without prior approval of your staff;
- (2) notify SEC of any legally enforceable demand for these investigative and non-public files prior to complying with the demand, and assert such legal exemptions or privileges on your behalf as you may request; and

(3) not grant any other demand or request for these SEC investigative and non-public files without prior notice to and lack of objection by your staff.

Sincerely

We recognize that until this matter has been closed, the SEC continues to have an interest and may take further investigatory or other steps as it deems necessary in discharge of SEC's duties and responsibilities.

If you should have any questions regarding this matter, please contact me at:

Thank you for your time and cooperation.

Sincerery,	
(b)(6), (b)(7)c	
IRS-CID	

### RECOMMENDATION TO GRANT ACCESS PURSUANT TO DELEGATED AUTHORITY

			OCC Use Only
Na Na Na Ag	ame a of Co hand acces ate of	and ommi ling ss re f req and	and number : STANFORD GROUP COMPANY (MFW-894) elephone number ssion employee compliance with quest : (b)(6), (b)(7)c
<u> </u>		The	files to which access is requested are those of another division or office.
^· _		1.	The head of that division or office (or his or her delegate) concurs in the recommendation to grant access to those files.
В.		Rec	uesting person is or represents:
		1.	the Department of Justice (including U.S. Attorneys' offices and the F.B.I.).
		2.	a federal bank regulatory authority in its capacity as a "supervisory agency" within the meaning of Section 1101(6) of the RFPA.
	×	3.	another federal government authority (including federal bank regulatory authorities in a capacity other than that specified above).
		4.	a state or municipal authority.
		5.	Congress.
		6.	a foreign government or foreign securities authority.
		7.	a self-regulatory organization.
		8.	a receiver, special counsel or other similar person appointed in Commission litigation.
		9.	SIPC.
		10.	a trustee appointed pursuant to section 5(b) of the Securities Investor Protection Act.
	$\Box$	11.	a trustee in bankrupcy.
C.	X	1.	Request is in writing and requestor occupies, or request has been ratified by a person in, a sufficiently senior or supervisory position so as to make and enforce the representations in the request.
	[x]	2.	Request contains required language describing requestor's need for, and safekeeping and confidential treatment of, information (see Instruction B).
	[X]	3.	Case is open and request contains required language acknowledging Commission's continued interest (see Instruction B).

D. []	1.	No RFI	PA-related information has been or is expected to be	obtained in this case.
	2.	Informa	ation has been and/or is expected to be obtained in the din Section 1113(h) of the RFPA.	•
	<b>3.</b> .	pursua	PA-related information obtained in this case will be not to this recommendation. Any such information has gregated in order to prevent inadvertent access (see	been and/or will be identified
	4.		elated information obtained in this case will be provid recommendation (see Instruction C).	ed to the requestor pursuant
		(a)	Customer notice in accordance with the RFPA will be	e provided.
	. j	(b)	The RFPA's customer notice requirements are inapple	icable.
	I	(c)	The request contains required language regarding the C).	RFPA (see Instructions B and
	;	(a)	There have been actual and/or threatened RFPA cus with respect to materials subject to this access requi	
	: ]	(e)	There are special circumstances in this matter that challenge proceedings more likely due to the grant of	
E. 🗌	The	re are p	parallel proceedings issues in this case (see discussion	on in Access Manual).
F. 🗌	I ha	ve cons	sulted the Office of the General Counsel regarding thi	s recommendation.
G. X	1,	the wo	pies of internal memoranda, memoranda to the Commirk-product doctrine or the attorney-client or deliberated to the requestor except in accordance with the Committee D.	ive process privileges will be
	9		es contain information obtained from another agency.	, , . ·
	1		Access will not be provided to that information.	the continue
	ו		The other agency concurs in the recommendation to gi	rant access to the information
X	3.	The pro	ocedures for document control contained in the Complied with if access is granted (see Instruction D).	
н. 🗌	A fo	rmal or	der of investigation has been issued by the Commiss	ion in this case.
ı. 🔲	Add	itional r	elevant information is attached (see Instruction E).	
	·		and programmer to the second of the second of the	
			g this request is not adverse to the Commission's ento	
•			in Cycling for I was the	N 781 1 1 1 1
		e arer	Signature of Recommending Official	tel. See See
	٠.	· · · /·.	SPENCER C. BARASCH (ASST. DIST. ADMIN Name of Recommending Official (see Instruction	
			A CONTRACTOR OF THE PROPERTY O	•
CONO	IDD'	NCE.		. 4 . 1
CONCL	HHE	INCE.	Head (or Delegate) of Other Office or Division	
			1 1120 1 14	
APPRO	VED:	:	Harold J. Degenhandt	8-10-98
		, .	Signature of Approving Official	Date



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-2700

IN REPLYING PLEASE QUOTE HFD/(b)(6), (b)(7)c

August 25, 1998

b)(6), (b)(7)c

Department of the Treasury U.S. Customs Service 4141 Northbelt E. Suite 300 Houston, TX 77032

Re:

MFW-894

Dear (b)(6), (b)(7)c

Your request, by letter, for access to Commission files has been granted. In granting access, the Commission has relied upon your assurances that, except as set forth in your letter, your agency will:

provide such safeguards as are necessary and appropriate to protect the confidentiality of these files;

make no public use of these files or information without prior approval of our staff;

notify us of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on our behalf as we may request; and

not grant any other demand or request for the files or information without prior notice or over our objection.

The Commission makes no recommendation with respect to investigation or prosecution by your agency. In addition, until this matter is closed, the Commission continues to have an interest and will take such further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

The files to which access has been granted are being retained by the Fort Worth District Office of the Commission. Your representative should contact [b](6), (b)(7)c at [b](6), (b)(7)c

Sincerely,

Harold F. Degenhardt District Administrator

Harold F. Degenhardt



#### DEPARTMENT OF THE TREASURY

### U.S. CUSTOMS SERVICE RECEIVEDHOUSTON, TEXAS

1998 AUG 17 P 3: 14.

SEC-FWDO

Case Number: HO02BR96HO0007

#### By Telefax (817-978-2700) & Mail

Harold S. Degenhardt, Esq.
District Administrator
United States Security and Exchange Commission
Fort Worth District Office
801 Cherry Street, Suite 1900
Fort Worth, Texas 76102

Re: STANFORD GROUP INC. (MFW-894)

Dear Mr. Degenhardt:

The United States Customs Service, Office of the Special Agent in Charge, Houston, Texas hereby requests access to the investigative and other non-public files of the United States Securities and Exchange Commission related to the above referenced matter. This request is made in connection with an ongoing official investigation inquiring into various allegations of Federal criminal laws. The investigation is being conducted by the United States Customs Service as the lead agency in an Organized Crime Drug Enforcement Task Force (OCDETF) case also involving the Drug Enforcement Administration, the Federal Bureau of Investigation, the Internal Revenue Service Criminal Investigation Division and the United States Attorney's Office for the Southern District of Texas.

We understand that the file in this matter contain or may contain "financial records" of "customers", as those terms are defined in the Right to Financial Privacy Act of 1978 [12 U.S.C. § 3401-22]. We have reason to believe that this information is relevant to our investigation and proceedings.

We will establish and maintain such safeguard as are necessary and appropriate to protect the confidentiality of files to which access is granted and information derived therefrom. The files and information may, however, be used for the purpose of our investigation and/or proceeding, and any resulting proceedings. They may also be transferred to other criminal law enforcement authorities. We shall notify the Commission of any such transfer and use our best efforts to obtain appropriate assurances of confidentiality.

Other than as set forth in the preceding paragraph, we will:

- 1) make no public use of these files or information without prior approval of your staff;
- 2) notify you of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on your behalf as you may request; and
- 3) not grant any other demand or request for the files or information without prior notice to and lack of objection by your staff.

We recognize that until this matter has been closed, the Commission continues to have an interest and will take further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

Should you have any questions, please contact Supervisory Special Agent or Special Agent or Special Agent at (b)(6), (b)(7)c at (b)(6), (b)(7)c

Sincerely,

Special Agent in Charge



DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE
OFFICE OF INVESTIGATIONS

SPECIAL AGENT

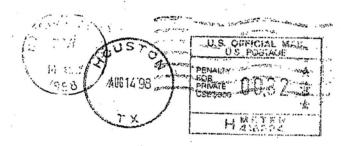
4141 N. SAM HOUSTON PKWY EAST, SUITE 300 HOUSTON, TEXAS 77032

### DEPARTMENT OF THE TREASURY

### U.S. CUSTOMS SERVICE

OFFICE OF INVESTIGATIONS 4141 N. SAM HOUSTON PKY E. HOUSTON, TEXAS 77032

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300



Harold S. Degenhardt District Administrator United States Security and Exchange Commission Fort Worth District Office 801 Cherry Street, Suite 1900 Fort Worth, Texas 76102

Buildland Hambild Haladan Hiladal

### RECOMMENDATION TO GRANT ACCESS PURSUANT TO DELEGATED AUTHORITY

·			OCC Use Only	:						
Case name and number Name and telephone number	STANDARD GROUP CO	MPANY (MFW-894)	Oilly [							
of Commission employee			*							
handling compliance with access request	(b)(6), (b)(7)c	(b)(6), (b)(7)c								
Date of request	•									
Name and title of requesto Agency	(b)(6), (b)(7)c	JPERVISORY SPECIA	L AGENT							
Address	DEPARTMENT OF THE		1							
	U.S. CUSTOMS SERV 4141 NORTHBELT E.									
	SUITE 300									
	HOUSTON, TX 7703	2								
A. The files to which a	ccess is requested are the	ose of another division	on or office.							
1. The head of the to grant access	at division or office (or his to those files.	or her delegate) con	curs in the re	ecommendation						
B. Requesting person	is or represents:		•							
1. the Department	of Justice (including U.S.	. Attorneys' offices ar	nd the F.B.I.)							
	regulatory authority in its		ervisory age	ncy" within the						
	government authority (in than that specified above).		regulatory a	authorities in a						
4. a state or mun	cipal authority.									
5. Congress.	,	,								
6. a foreign gover	nment or foreign securities	s authority.								
7. a self-regulator	organization.									
8. a receiver, spec	cial counsel or other simila	ar person appointed	in Commissi	on litigation.						
9. SIPC.										
10. a trustee appoi	nted pursuant to section 5	5(b) of the Securities	Investor Pro	tection Act.						
11. a trustee in bar	nkrupcy.									
	riting and requestor occup nior or supervisory position									
	ns required language descritment of, information (see		ed for, and s	afekeeping and						
	and request contains re est (see Instruction B).	quired language ac	knowledging	Commission's						

D. X	1. No RFPA-related information has been or is expected to be obtained in this case.
	<ol><li>Information has been and/or is expected to be obtained in this case under the exception contained in Section 1113(h) of the RFPA.</li></ol>
	<ol> <li>No RFPA-related information obtained in this case will be provided to the requestor pursuant to this recommendation. Any such information has been and/or will be identified and segregated in order to prevent inadvertent access (see Instruction C).</li> </ol>
	4. RFPA-related information obtained in this case will be provided to the requestor pursuant to this recommendation (see Instruction C).
	(a) Customer notice in accordance with the RFPA will be provided.
	(b) The RFPA's customer notice requirements are inapplicable.
·	(c) The request contains required language regarding the RFPA (see Instructions B and C).
	(d) There have been actual and/or threatened RFPA customer challenge proceedings with respect to materials subject to this access request.
	(e) There are special circumstances in this matter that make future RFPA customer challenge proceedings more likely due to the grant of this access request.
E. [	There are parallel proceedings issues in this case (see discussion in Access Manual).
F. [	I have consulted the Office of the General Counsel regarding this recommendation.
G.X	<ol> <li>No copies of internal memoranda, memoranda to the Commission, or materials subject to the work-product doctrine or the attorney-client or deliberative process privileges will be provided to the requestor except in accordance with the Commission's Access Manual (see Instruction D).</li> </ol>
	2. The files contain information obtained from another agency.
	(a) Access will not be provided to that information.
	(b) The other agency concurs in the recommendation to grant access to the information.
X	<ol> <li>The procedures for document control contained in the Commission's Access Manual will be complied with if access is granted (see Instruction D).</li> </ol>
н. 🗌	A formal order of investigation has been issued by the Commission in this case.
<u>.                                    </u>	Additional relevant information is attached (see Instruction E).
	Granting this request is not adverse to the Commission's enforcement efforts or contrary to the public interest. V recommend that access be granted.
	Signature of Recommending Official
;	SPENCER C. BARASCH (ASST. DIST. ADMIN. ENFORCEMENT)  Name of Recommending Official (see Instruction F)
CONCL	Head (or Delegate) of Other Office or Division
APPRO	VED: Signature of Approving Official Date



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102

FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-2700 IN REPLYING
PLEASE QUOTE
HFD/(b)(6), (b)(7)c
MFW-894

October 20, 1998

(b)(6), (b)(7)c

U.S. Department of Justice United States Attorney 910 Travis St., #1500 P.O. Box 61129 Houston, TX 77208

Re:

MFW-894

Dear (b)(6), (b)(7)c

Your request, by letter dated September 21, 1998, for access to Commission files has been granted. In granting access, the Commission has relied upon your assurances that, except as set forth in your letter, your agency will:

provide such safeguards as are necessary and appropriate to protect the confidentiality of these files;

make no public use of these files or information without prior approval of our staff;

notify us of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on our behalf as we may request; and

not grant any other demand or request for the files or information without prior notice or over our objection.

The Commission makes no recommendation with respect to investigation or prosecution by your agency. In addition, until this matter is closed, the Commission continues to have an interest and will take such further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

The files to which access has been granted are being retained by the Fort Worth District Office of the Commission. Your representative should contact (b)(6), (b)(7) = at (b)(6), (b)(7)

Sincerely,

Harold F. Degenhardt

Harold F. Degenhardt District Administrator



### U.S. Departmen of Justice

United States Attorney Southern District of Texas

### RECEIVED

1998 SEP 28 P 4: 39

SEC-FWDO

910 Travis Street, # 1500 Post Office Box 61129 Houston, Texas 77208 Phone (713) 567-9000 Fax (713) 718-3307

September 21, 1998

Harold S. Degenhardt, Esq.
District Administrator
United States Securities & Exchange Commission
Fort Worth District Office
801 Cherry Street, Suite 1900
Fort Worth, Texas 76102

Re: Stanford Group Company (MFW-894)

Dear Mr. Degenhardt:

I hereby request access to the investigative and other non-public files of the United States Securities and Exchange Commission related to the above-referenced matter. This request is made in connection with an ongoing official investigation inquiring into various alleged violations of federal criminal laws. The investigation is being conducted by the FBI, IRS with the assistance of the United States Attorney's Office.

I understand that the files in this matter contain or may contain "financial records" of "customers" as those terms are defined in the Right to Financial Privacy Act of 1978 [12 U.S.C. 3401-22]. I have reason to believe that that information is relevant to our investigation and proceedings.

I will establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of files to which access is granted and information derived therefrom. The files and information may, however, be used for the purpose of our investigation and/or prosecution, and any resulting proceedings. They also may be transferred to other criminal law enforcement authorities. I shall notify the Commission of any such transfer and use my best efforts to obtain appropriate assurances of confidentiality.

Mr.Degenhardt September 21, 1998 Page 2.

Other than as set forth in the preceding paragraph, I will:

- (1) make no public use of these files or information without prior approval of your staff;
- (2) notify you of any legally enforceable demand for the files or information prior to complying with the demand, and assert such legal exemptions or privileges on your behalf as you may request; ;and
- (3) not grant any other demand or request for the files or information without prior notice to and lack of objection by your staff.

I recognize that until this matter has been closed the Commission continues to have an interest and will take further investigatory or other steps as it considers necessary in the discharge of its duties and responsibilities.

Should you have any questions, please contact me at

Sincerely,

James H. DeAtley United States Attorney

(b), (D)(1)C

Assistant United States Attorney

### RECOMMENDATION TO GRANT ACCESS PURSUANT TO DELEGATED AUTHORITY

	OCC Use
Name and of Comm handling access re Date of rec	
A. The	e files to which access is requested are those of another division or office.
☐ 1.	The head of that division or office (or his or her delegate) concurs in the recommendation to grant access to those files.
B. Red	questing person is or represents:
<b>X</b> 1.	the Department of Justice (including U.S. Attorneys' offices and the F.B.I.).
2.	a federal bank regulatory authority in its capacity as a 'supervisory agency' within the meaning of Section 1101(6) of the RFPA.
з.	another federal government authority (including federal bank regulatory authorities in a capacity other than that specified above).
<b>4</b> .	a state or municipal authority.
<u> </u>	Congress.
<b>6.</b>	a foreign government or foreign securities authority.
7.	a self-regulatory organization.
<b>8.</b>	a receiver, special counsel or other similar person appointed in Commission litigation.
9.	SIPC.
<b>1</b> 0.	a trustee appointed pursuant to section 5(b) of the Securities Investor Protection Act.
□ 11.	a trustee in bankrupcy.
C. X 1.	Request is in writing and requestor occupies, or request has been ratified by a person in, a sufficiently senior or supervisory position so as to make and enforce the representations in the request.
X 2.	Request contains required language describing requestor's need for, and safekeeping and confidential treatment of, information (see Instruction B).
X 3.	Case is open and request contains required language acknowledging Commission's continued interest (see Instruction B).

D. X	1. NO HEPA	-related information has been or is expect	led to be obtained in this case.
		on has been and/or is expected to be obtain Section 1113(h) of the RFPA.	ained in this case under the exception
	pursuant	A-related information obtained in this cast to this recommendation. Any such information and the commendation in advertent according to the commendation of the commendation and the commendation and the commendation are considered in the commendation and the commendation are considered in the commendation and the commendation are considered in the commendation and the commendation are commendation.	ation has been and/or will be identified
		ated information obtained in this case will commendation (see Instruction C).	be provided to the requestor pursuant
	(a) C	ustomer notice in accordance with the RF	PA will be provided.
	(b) Th	ne RFPA's customer notice requirements a	are inapplicable.
	(c) Tr	ne request contains required language rega ).	arding the RFPA (see Instructions B and
		nere have been actual and/or threatened Fith respect to materials subject to this acc	
		nere are special circumstances in this manallenge proceedings more likely due to the	
E. 🗌	There are par	allel proceedings issues in this case (see	discussion in Access Manual).
F. [_]	I have consult	ted the Office of the General Counsel reg	arding this recommendation.
G. 🗓	the work-	s of internal memoranda, memoranda to the product doctrine or the attorney-client or to the requestor except in accordance with n D).	deliberative process privileges will be
	2. The files	contain information obtained from another	agency.
	(a) Ac	ccess will not be provided to that informat	tion.
	(b) Th	ne other agency concurs in the recommend	ation to grant access to the information.
X		edures for document control contained in ied with if access is granted (see Instruction	
н. 🗀	A formal order	r of investigation has been issued by the	Commission in this case.
1.	Additional rele	evant information is attached (see Instructi	on E).
		his request is not adverse to the Commistrary to the public interest. I recommend to	
. 7	. * . * .	Signature of Recommending O	Official
У.		SPENCER C. BARASCH (ASST. DIST.	ADMIN. ENFORCEMENT)
		Name of Recommending Official (see	
		a francisco de la companyo	. 5 - 15. 1
CONCU	RRENCE:		
		Head (or Delegate) of Other Office or D	ivision
APPRO	VED:	Harold J. Degulant	1020-98
AL FAU		Signature of Approving Official	Date

· ·	
(b)(6), (b)(7)c	* * * * * * * * * * * * * * * * * * *
From: (b)(6), (b)(7)c  Sent: Monday, March 22, 2010 10:06 AM  To: (b)(6), (b)(7)c  Subject: OIG Request	
(b)(6), (b)(7)c	
In response to the request from International Enforcement checked OIA's record states two relevant files listed on that index: Stanford Group, Co File 279-F. OIA's Program Analyst obtained both files on an econtents of those two files and found no items to be for materials indicating any outreach from the FWI Stanford matter. However, I did find an OIA responsand proper" request dated November 9, 1999 from of Ecuador. I mentioned that correspondence to you copies of that correspondence and OIA's related March 18, 2010.	xpedited basis. I reviewed all the pe responsive to your Office's request RO to OIA from 1997 to 2004 about the use dated December 3, 1999 to a "fit the Supertintendencia de Companias ou and you requested copies. I gave
I also had an intern review the labels on all the har block of the labels on all the har for Enforcement matters to see if there were any files labeled Stanford. The all the contents of that file and found the following Office's request for materials indicating any outres to 2004: Emails and notes from December 29, 2004 and Victoria Prescott of FWRO related explore the possibility that a Stanford entity may be told me that your Office was aware of that communication of those the emails and notes.	, had left at OIA. The intern checked intern found one such file. I reviewed items to be responsive to your ach from the FWRO to OIA from 1997 through January 11, 2005 between ing to FWRO's inquiry to OIA to be using an audit firm in the UK. You
With your Office's approval, I also called staff attorney, to determine whether either of them FWRO to OIA from 1997 to 2004 about the Stanford separate phone conversations with only remembers working on the Stanford matter so not recall the aforementioned Ms. Prescott's outre me that he only remembered working on the matter Analysts also checked OIA's 'former employee' file were any emails or documents from of that search.	d matter. On March 17, 2010, I had d (b)(6), (b)(7)c
As you further requested, I also reviewed my emai	ls about (b)(5), (b)(7)a

gave you copies of those emails on Thursday March 18, 2010.

Regards,

(b)(6), (b)(7)c

b)(6), (b)(7)c , Enforcement Matters

Office of International Affairs

U.S. Securities and Exchange Commission

direct dial

PRIVILEGED & CONFIDENTIAL: This e-mail message (and any attachments) from the United States Securities and Exchange Commission is for the exclusive use of the intended recipient(s) and may contain confidential and privileged information. If you are not the intended recipient, please do not read, distribute, or take action in reliance upon this message. If you have received this email in error, please notify the sender immediately by return e-mail and promptly delete this message and its attachments from your computer system. Be advised that no privileges are waived by the transmission of this message.

### OCDEN, GIBSON, WHITE & BROOCKS, L.L.P.

SIOO PENNZOIL SOUTH TOWER RECEIVED

1998 JUN 22 P 2 39 711 LOUISIANA HOUSTON, TEXAS 77

Jack D. Ballard Direct Dial: (b)(6), (b)(7) SEC-FWDO

TEL. (713) 844-3000 FAX (713) 844-3030

June 19, 1998

o)(6), (b)(7)d

**Enforcement Attorney** U. S. Securities and Exchange Commission 801 Cherry Street **Suite 1900** Fort Worth, Texas 76102

Via Facsimile (817) 978-2700 and Regular Mail

Re: Informal Inquiry Regarding Stanford Group Company (MFW-894)

Dear

As you know, Wayne Secore and I represent Stanford Group Company ("SGC"), a registered broker-dealer and investment advisor, in connection with the informal inquiry being conducted by the Fort Worth District Office. We have had several telephone discussions with you concerning the scope of the inquiry which, as you have informed us, primarily concerns the relationship of SGC with Stanford International Bank ("SIB"), a private international bank located in Antigua, West Indies.

SIB has been in existence since 1985 and, since inception, has offered banking services to customers who are primarily citizens of Mexico, South America and other foreign countries. In early 1996, our client, SGC, commenced operations as a broker-dealer. The firm's principal office is located in Houston, Texas; however, it also maintains offices in Miami and Bonita Springs, Florida, Baton Rouge, Louisiana, and Denver, Colorado. Currently, SGC conducts a general securities business, provides asset management and other services traditionally offered by full-service brokerage firms, and makes referrals of nonresident alien customers who desire to purchase certificates of deposit issued by SIB. SGC's primary business objective, however, has been the ongoing development of its own customer base and the sale of products separate and apart from SIB, but with the certificate of deposit from SIB remaining a part of the product mix available to clients. SGC is well on its way to achieving its objective. For example, last month 49% of SGC's revenues consisted of referral fees; in 1997 such fees were 67% of SGC's revenues. SGC's objective is to

s:\stanford

June 19, 1998 Page 2

reduce such revenues to between 10% to 15% of its total revenues within the next five years, with the overwhelming majority of revenues to be derived from the traditional services provided by a full-service brokerage firm.

All of the customers for whom SGC has received a referral fee from SIB are citizens of foreign countries and are not U.S. citizens or residents. The relationship of those customers with SGC began when some of SIB's marketing representatives obtained their securities licenses and joined SGC as registered representatives. As a result, the majority of SGC's and SIB's common customers have relationships of ten (10) or more years with SIB. Only 300 to 400 of the approximately 2,500 customers of both SGC and SIB are "new customers" - that is, those who did not have a relationship with SIB prior to SGC becoming registered as a broker-dealer.

SIB has never had a customer complaint since it was founded in 1985, and no client has ever lost any funds deposited with the bank. I have previously provided a copy of SIB's 1997 Annual Report, which demonstrates the financial strength of that organization. SIB is regulated by the Ministry of Finance in Antigua, which has extensive regulations applicable to SIB and the other international banks licensed by the governments of Antigua and Barbuda. In August, 1998, Antigua will adopt legislation creating one of the world's most comprehensive regulatory and anti-money laundering statutes applicable to international banks.

Since it commenced business in early 1996, SGC has had only a few minor customer complaints, which were immediately handled to the customers' satisfaction. None of the complaints involved referrals to SIB. During its existence, SGC also has been examined by the Securities and Exchange Commission ("SEC"), the National Association of Securities Dealers, Inc., the Texas Securities Board, and the securities commissions of Louisiana and Colorado.

In connection with the inquiry, SGC has serious concerns about members of the staff of the Fort Worth office possibly placing telephone calls to SIB's foreign customers who have very little or no experience with SEC procedures or the purpose of your call. English also is not their native language. Similar to private banking customers of international banks generally, these customers are usually affluent and members of the more sophisticated classes in their respective countries who can afford to maintain dollar deposits abroad. Privacy and confidentiality are absolutely crucial to them. If these customers begin receiving telephone calls from the SEC, many will believe that their confidentiality has been breached, and the likelihood of mistrust and misunderstanding will be widespread. My client is fearful that your telephone inquiries would irreparably damage SIB's relationship with those customers, and create a perception of instability at SGC or SIB. The result could be substantial account closings and/or withdrawals of funds from both companies. Therefore,

(b)(6), (b)(7)c

June 19, 1998 Page 3

it is of the utmost importance to the business of SGC and SIB that any contact with these customers, especially by a government agency, be handled with extreme sensitivity and caution.

This is not a hypothetical issue. One of the primary reasons the referral customers choose to do business with SGC and SIB is the expectation of confidentiality. Most of these foreign customers are deeply concerned with protecting their privacy. Unfortunately, over the years, SIB has had five (5) instances in which a depositor's family member was kidnapped and, in two of those instances, the family member was murdered. In fact, SIB maintains kidnapping and ransom insurance for employees who travel to South America on SIB business.

SGC also has a serious concern regarding the possible dissemination of its confidential client information once the SEC has reviewed its records. At the very least, SGC would request an agreement that the names, addresses, telephone number, and other personal customer information will be used only in connection with this inquiry.

On several occasions, Wayne and I have stated that SGC will cooperate fully with your inquiry, and we reiterate that position. SGC already has provided copies of documents responsive to many of your requests, has arranged for an examination of documents by you in SGC's offices tentatively scheduled to commence on June 29, 1998 and has agreed to your request to produce a representative of SGC for informal questioning in your office. SGC has carefully examined the issue of referrals to SIB and is extremely confident that the certificates of deposit in question are bank products and not securities. SGC welcomes the opportunity to address any issues or concerns you may have and, as I previously stated, firmly believes that SGC is in full compliance with all applicable statutes and regulations. If anything improper has occurred, which SGC does not believe is the case, SGC would request notification of that fact so that corrective action can be taken immediately.

Two actions on the part of your office would greatly alleviate our client's concerns. First, we request that you consider limiting your review of the SGC files to the 300 to 400 "new customers" at SIB - that is, those who have become customers of the bank since SGC commenced operations. Such a limitation would appear to provide more than an adequate sampling of customers, while at the same time limiting the possible negative impact on SGC's and SIB's business operations and clients. Second, Wayne and I believe the seriousness of SGC's concerns warrant a personal meeting with you and Harold Degenhardt to discuss those concerns raised in this letter. Wayne and I are available at any time on Tuesday, June 23 or Wednesday, June 24. Please let me know at your earliest convenience when a personal meeting with you and Mr. Degenhardt can be scheduled.

(b)(6), (b)(7)c

June 19, 1998 Page 4

Thank you for your attention to these matters.

Very truly yours,

ack D. Ballard

Jack D. Ballard

JDB (b)(6), (b)(7)

ce: Mr. Harold Degenhardt, District Administrator U. S. Securities and Exchange Commission

801 Cherry Street

**Suite 1900** 

Fort Worth, Texas 76102

Via Facsimile (817) 978-2700 and Regular Mail

From:

Sent:

Thursday, February 28, 2002 5:08 PM

To:

Alvarado, Mauricio

Cc: Subject:

Legal, Settlement and Recruitment Fees since inception - SGC

Attachments:

Legal fees project 2002.xls

Here is the revised worksheet. We included legal exenses coded to Corporate which are not charged to any specific broker. Please let me know if you have any questions.



Legal fees project 2002.xls

(b)(6), (b)(7)c

*														
1998	(b)(6), (b)(7)c	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
LEGAL FEES														
BATON ROUGE - H. MILLS														
NASD-ARBITRATION #98-03520 G.WILLIAMS VS SGC & H MILLS	_												400.00	400.00
BATON ROUGE			19,701.98											19,701.98
WATSON, BLANCHE, WILSON & POSNER LLP LOCKE PURNELL RAIN HARRELL- FILE #852		7	1,677.80							<del></del>			<del> </del>	1,677.80
HOUSTON - M. MALVAEZ			1,077.00											
GREENBERG-LEGAL SERVICES M. MALVAEZ	<del></del>			128.25										128.25
HOUSTON - T PEREZ														0.00
GREENBERG-LEGAL SERVICES M. MALVAEZ				128.25						-				128.25
HOUSTON - G DOER											700.00		-	700.00
NASD-SGC VS DOER OGDEN, GIBSON-GOLDEBERG & DOERR VS SGC & SFG CASE #98-48255								<del>                                     </del>			700.00	522.00		522.00
OGDEN-SGC VS DOERR CASE#98-03711												377.39		377.39
OGDEN-GOLDBERG VS. DOERR					,								1,331.03	1,331.03
HOUSTON - J GOLDBERG				7.7										
NASD-SGC VS. GOLDBERG											1,150.00			1,150.00
OGDEN-GOLDBERG VS. DOERR CASE## 98-48255	_											522.00		522.00 411.83
OGDEN-SGC VS. GOLDBERG CASE/198-03705 OGDEN-GOLDBERG & DOERR VS SGC & SFG												411.83	1,331.02	1,331.02
HOUSTON - J. YOUNG								-					1,551.02	.,551.52
IRELAN & ASSOCIATES-) YOUNG/MERRILL LYNCH											8,334.54	1,314.27	190.14	9,838.95
HOUSTON														
IRELAN & ASSOCIATES/PRUDENTIAL SEC VS. G DOERR #98-05975					610.85	212.25								610.85
IRELAN & ASSOCIATES/PRUDENTIAL SEC VS. G DOERR #98-05975	_					312.29						1		312.29 246.74
IRELAN & ASSOCIATES/PRUDENTIAL SEC VS. G DOERR #98-05975 MIAMI - P PENZINI				-		246.74								240.74
PRUDENTIAL SECURITIES INC MATTER					461.00									461.00
GREENBERG-LEGAL SVCS-PENZINI H-1B					89.00									89.00
GREENBERG-LEGAL SVCS-PENZINI									142.50					142.50
GREENBERG-LEGAL SVCS-PENZINI	_						·					2,678.38		2,678.38
GREENBERG-LEGAL SVCS-PENZINI							ļ			<del> </del>			1,237.10	1,237.10
MIAMI GREENBERG-LEGAL SVCS-12/31/97			1,672.50							<del></del>			<b> </b>	1,672.50
GREENBERG-PEDRO PENZINI H-1B			.,5.2.20	1,186.26	-									1,186.26
DONALD RETT-COUNSEL FOR BONITA SPRINGS				2,500.00										2,500.00
LOCKE PURNELL RAIN HARRELL - GENERAL COUNSEL FILE# 85248/64388	_					1,052.89								1,052.89
BAKER & HOSTETLER-PROF SVCS/SYLVIA GONZALEZ			-						1,283.71					1,283.71
CORPORATE  IDELAN & ASSOCIATES M PATTON			-									1,200.00	189.24	1,389.24
IRELAN & ASSOCIATES-M PATTON OGDEN-SEC INVESTIGATION								12,052.50	749.94		736.56	<del></del>	65.00	13,604.00
SECORE & WALLER-SEC AUDIT								17,316.20						17,316.20
SECORE & WALLER-US SECURITIES & EXCHANGE COMMISSION									8,561.14		1,622.09			10,183.23
OGDEN & ASSOCIATES-SEC INVESTIGATION										1,768.51			249.54	2,018.05
OGDEN & ASSOCIATES-GOLDBERG & DOERR VS. SGC & SFG.	_									<del> </del>			5,281.92 2,138.57	5,281.92 2,138.57
OGDEN & ASSOCIATES-G WILLIAMS VS SGC & H MILLS IRELAN & ASSOCIATION-PRUD SEC INV VS G. DOERR			<del> </del>	5,106.39		-				<del>  </del>		<del> </del>	2,130.37	5,106.39
DELEON-CREATION OF TX LOCAL RECORDING AGENCY				3,964.00										3,964.00
GREENBERG-STOCK OPTION PLAN						4,090.40								4,090.40
CHAN WARNER P.C		12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00			144,000.00
GREENBERG-LEGAL SVCS THROUGH 10/31/98			611.66	122.70				2 270 21		5 660 40	6 226 04	2,898.43		2,898.43 15,017.17
WARNER & ASSOCIATES SECORE & WALLER-US SEC & EXCHANGE COMM INQUIRY			511.64	132.70				2,378.31		5,668.48 20,730.50	6,326.04			20,730.50
SECORE & WALLER-US SEC & EXCHANGE COMM INQUIRY OGDEN-INVESTMENT ADVISOR INQUIRY										16,971.89				16,971.89
OGDEN-WILLIAMS													1,441.19	
GREENBERG-BASTIDA MATTER													7,024.39	
IRELAN-GENERAL MATTERS													4,200.00	
BREAZEALE-SVCS THROUGH 10/31/98												····	1,483.74	1,483.74
RAYMOND KERR-MEDIATION FEE-SGC VS DOERR			<b> </b>										800.00 8,551.11	800.00 8,551.11
GREENBERG-LEGAL SVCS THROUGH 7/31 GREENBERG-LEGAL SVCS THROUGH 5/31								<del>                                     </del>		<del> </del>			4,298.91	4,298.91
BAKER & HOSTETLER-FILE# 9426/057193/000001				1,182.25									1,270.71	1,182.25
			6											

											* *		
								(A)					
*		*											
								×					
OCKE PURNELL RAIN HARRELL - GENERAL MATTER	(b)(6), (b)(7)c		561.30	/							<u> </u>		
REAZEALE-SVCS 1/31/98 HIBERNIA INVESTMENT SECURITIES	S	5,220											5,226.00
TOTAL		12,000.00 40,789	89.92 26,889.40	13,160.85	17,702.32	12,000.00	43,747.01	22,737.29	57,139.38	30,869.23	21,924.30	52,212.90	350,611.30
									· '			<u> </u>	
SETTLEMENT FEES					<u> </u>	·'	<u>'</u>	<u> </u>	<u> </u>			<u></u> '	
R RECRUITING						· '	<u> </u>	1	<u> </u>			<u> </u>	
SERRILL LYNCH-M PATTON					<u>'</u>	·	4'	<u>'</u>	<del></del>	46,500.00	·	<u> </u>	46,500.00
IOUSTON - J YOUNG				4	<b></b> '	ر	4	<del></del> '	<del></del> '	<b></b> '	4'	<del></del> '	<del></del>
IERRILL LYNCH/J YOUNG-SETTLEMENT					<b></b> '	<u></u> '	<u> </u>	4	<del></del> '	<del></del> '	4	75,768.24	
POTAL		0.00	0.00 0.00	0.00	0.00	0.00	0.00	0.00	0.00	46,500.00	0.00	75,768.24	122,268.24
						'	'	1					
PLACEMENT FEE				,				[ '				(	
ENVER BROKER RECRUITING - LEROY MATTICKS	š											( · · · · · ·	
SALES CONSULTANTS OF CORAL GABLES								17,425.65				,	17,425.65

From:

Preuitt, Julie A.

Sent:

Tuesday, December 15, 2009 5:02 PM

To:

Kotz, David; (b)(6), (b)(7)c

Subject:

time lines

It may not matter, but I checked a couple of dates that I was unsure of during testimony.

Social event in New Orleans with (b)(6), (b)(7)c

, and Spence Barasch – July 30-Aug 1, 2009

Testimony in Houma La with (b)(6), (b)(7)c

- Oct. 21 and 22, 2009.

Julie

Assistant Regional Director

### ORIGINAL

IN THE UNITED STATES DISTRICT COURTORTHERN DISTRICT OF TEXAS

FOR THE NORTHERN DISTRICT OF TEXAS

DALLAS DIVISION

U.S. DISTRICT COURT

U.S. DISTRICT COURT

FILED

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SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

STANFORD INTERNATIONAL BANK, LTD., STANFORD GROUP COMPANY, STANFORD CAPITAL MANAGEMENT, LLC, R. ALLEN STANFORD, JAMES M. DAVIS, and LAURA PENDERGEST-HOLT,

Defendants.

FEB 1 7 2009

CLERK, U.S. DISTRICT COURT

By

Deputy

Case No.:

3-09CV0298-L

### MEMORANDUM OF LAW IN SUPPORT OF MOTION FOR EX PARTE TEMPORARY RESTRAINING ORDER, PRELIMINARY INJUNCTION AND OTHER EMERGENCY RELIEF

### I. PRELIMINARY STATEMENT

Plaintiff Securities and Exchange Commission submits this Memorandum of Law in Support of its Motion for *Ex Parte* Temporary Restraining Order, Preliminary Injunction and Other Emergency Relief to halt a massive, ongoing fraud orchestrated by Robert Allen Stanford and James M. Davis and executed through companies they control, Antiguan-based Stanford International Bank, Ltd. ("SIB"), and its affiliated Houston-based investment advisers, Stanford Group Company ("SGC") and Stanford Capital Management ("SCM").

#### Certificates of Deposit

Acting through a network of SGC financial advisers, SIB has sold approximately \$8 billion of so-called "certificates of deposit" to investors by promising high interest rates. SIB claims that it offers high yields because of its unique investment strategy, which has purportedly

enabled the bank to achieve double-digit returns on its investments over for past 15 years. As further described below, the bank's claims are improbable and unsubstantiated.

Further, SIB and its advisers have misrepresented to CD purchasers that their deposits are safe because the bank: (i) re-invests client funds primarily in "liquid" financial instruments (the "portfolio"); (ii) monitors the portfolio through a team of 20-plus analysts; and (iii) is subject to yearly audits by Antiguan regulators. Recently, as the market absorbed the news of Bernard Madoff's massive Ponzi scheme, SIB told investors that the bank had no "direct or indirect" exposure to Madoff's scheme.

These assurances are false. SIB's investment portfolio was not invested in liquid financial instruments or allocated in the manner described in its promotional material and public reports. Instead, a substantial portion of the bank's portfolio was invested in illiquid investments, such as private equity and real estate. Further, the vast majority SIB's multi-billion dollar investment portfolio was not monitored by a team of analysts, but rather by two people – Allen Stanford and James Davis. And contrary to SIB's representations, the Antiguan regulator responsible for oversight of the bank's portfolio, the Financial Services Regulatory Commission, does not audit SIB's portfolio or verify the assets SIB claims in its financial statements. Finally, SIB has exposure to losses from the Madoff fraud scheme despite the bank's public assurances to the contrary.

SGC has also failed to disclose material facts to its advisery clients. In December 2008, SGC's clearing broker advised SGC that it would no longer facilitate wire transfer requests to SIB on behalf of existing clients who desire to purchase SIB CDs. The clearing broker decided to stop transferring money to the bank because of suspicions about the bank's purported investment returns and the overall lack of "transparency" into the bank's portfolio of

Filed 02/17/2009

investments. SGC never disclosed to clients that Pershing refused to transfer client funds to SIB.

During the past several weeks, the Securities and Exchange Commission subpoenaed SIB bank records and witnesses in an effort to account for the \$8 billion of investor funds held by the bank. Among others, the SEC issued subpoenas to Stanford, Davis, and O.Y. Goswick, a SIB board member residing in Texas, who is purportedly responsible for "investments." None of these witnesses appeared for testimony or produced a single document. Further, SIB represented that Juan Rodriquez, SIB's president who resides in Antigua, would voluntarily appear in the United States to give sworn testimony to the SEC and account for investor funds. Mr. Rodriguez failed to appear for testimony. The SEC did, however, take sworn testimony from Stanford Financial Group's Chief Investment Officer and SIB investment committee member (Laura Pendergest-Holt) and a former Senior Investment Officer (the "SIO"). Neither Ms. Pendergest-Holt nor the SIO could account for the \$8 billion entrusted to the bank by its clients. In fact, Pendergest-Holt and the former SIO could only identify Stanford and Davis as people having knowledge and access to the vast majority of SIB's portfolio.

#### Stanford Allocation Strategy

Stanford's fraudulent conduct is not limited to the sale of CDs. Since 2005, SGC advisers have sold more than \$1 billion of a proprietary mutual fund wrap program called Stanford Allocation Strategy ("SAS"), using materially false and misleading historical performance data. The false data has helped SGC grow the SAS program from less than \$10 million in around 2004 to over \$1 billion, generating fees for SGC/SCM (and ultimately Stanford) in excess of \$25 million. And the fraudulent SAS performance was used to recruit

registered financial advisers with significant books of business, who were then heavily incentivized to re-allocate their clients' assets to SIB's CD program.<sup>1</sup>

### **Emergency Relief Is Appropriate**

The SEC has learned that Allen Stanford, on or about February 6, 2009, imposed a "two-month moratorium" on CD redemptions, and instructed SGC advisers that the bank would not honor redemption requests from clients. Moreover, at least one SGC financial adviser misrepresented to a client that the Commission had frozen CD-related accounts for two months. [App. 672-73, 1118]. Finally, last week, SIB's counsel notified the Commission that he was withdrawing as counsel. [App. 1121]. In so doing, SIB's counsel advised the Commission that he and his law firm "disaffirm all prior oral and written representations" regarding Stanford Financial Group and its affiliates. [App. 1122].

The fraudulent scheme is ongoing. SIB is continuing to sell CDs. And SGC/SCM is continuing to sell SAS. Moreover, the vast majority of investor funds have not been accounted for and remain under the control of the Defendants. Investor funds and bank assets need to be located, secured and marshaled by a Receiver for the benefit of investors. Emergency relief is, therefore, necessary and appropriate in this matter.

To protect investors and to halt this fraudulent scheme, the Commission seeks: (1) an ex parte temporary restraining order and preliminary injunction against future violations by Defendants; (2) an immediate freeze of all assets of Defendants; (3) an order requiring Defendants to provide an immediate accounting; (4) a repatriation order; (5) an order that Stanford and Davis surrender their passports; (6) an order prohibiting the destruction of records;

In addition to the antifraud violations described above, SIB, SGC and SCM violated Section 7(d) of the Investment Company Act, which prohibits foreign investment companies and their underwriters from selling securities in the U.S. without registering with the Commission. Had SIB complied with the law and registered as an investment company, SIB would have been subject to examination by the Commission.

Filed 02/17/2909

(7) an order expediting discovery; and (8) the appointment of a Receiver to take control of the assets of the Defendants to marshal and preserve assets for the benefit of the investors defrauded by the Defendants.

#### II. **DEFENDANTS**

Stanford International Bank, Ltd. purports to be private international bank domiciled in St. John's, Antigua, West Indies. [App. 527, 859, 887]. SIB claims to serve 30,000 clients in 131 countries and holds \$7.2 billion in assets under management. [App. 538]. SIB's multibillion portfolio of investments is managed by the SFG's chief financial officer in Memphis, Tennessee. [App. 058, 388, 936]. Unlike a commercial bank, SIB does not loan money. [App. 50, 668, 862, 1011, 1017]. SIB sells the CD to U.S. investors through SGC, its affiliated investment adviser. [App 668].

Stanford Group Company, a Houston-based corporation, is registered with the Commission as a broker-dealer and investment adviser. [App. 585]. SGC has offices located throughout the U.S., including Dallas, Texas. [App. 928, 945]. SGC's principal business consists of sales of SIB-issued securities, marketed as "certificates of deposit." [App. 590, 668]. SGC is a wholly owned subsidiary of Stanford Group Holdings, Inc., which in turn is owned by Robert Allen Stanford ("Stanford"). [App. 46, 586, 942].

Stanford Capital Management, a registered investment adviser [App. 585], took over the management of the SAS program (formerly Mutual Fund Partners) from SGC in early 2007. Stanford Capital Management markets the SAS program through SGC. [App. 679].

Robert Allen Stanford, a U.S. citizen, is the Chairman of the Board and sole shareholder of SIB and the sole director of SGC's parent company. [App. 46, 76, 586, 881-82].

SIB's Annual Report for 2007 states that SIB has 50,000 clients [App. 859].

James M. Davis, a U.S. citizen and resident of Baldwin, Mississippi and who offices in Memphis, Tennessee and Tupelo, Mississippi, is a director and chief financial officer of SFG and SIB. [App. 80, 881-82].

Laura Pendergest-Holt is the Chief Investment Officer of SIB-affiliate Stanford Financial Group and a member of SIB's investment committee. [App. 31, 74-75, 524]. She supervises a group of analysts in Memphis, Tupelo, and St. Croix who "oversee" performance of SIB's "Tier II" assets. [App. 80-81].

#### III. STATEMENT OF FACTS

#### A. The Stanford Empire

Allen Stanford has created a web of affiliated companies that exist and operate under the brand Stanford Financial Group ("SFG"). [App. 926-37]. According to the company's website, SFG is a privately-held group of companies that has in excess of \$50 billion "under advisement." [www.stanfordfinancial.com].

SIB, one of SFG's affiliates, is a private, offshore bank that purports to have an independent Board of Directors, an Investment Committee, a Chief Investment Officer and a team of research analysts. [App. 524, 882, 895]. While SIB is domiciled in Antigua, a small group of SFG employees who maintain offices in Memphis, Tennessee, and Tupelo, Mississippi, purportedly monitor the bank's assets. [App. 80-81, 388].

SIB is operated by a close-nit circle of Stanford's family, friend and their confidants. For example, Davis was Stanford's college classmate at Baylor University in the 1970s. SIB's Board of Directors includes Davis, Stanford, Stanford's father James A. Stanford, and O.Y. Goswick, a Stanford family friend from Mexia, Texas, whose business experience includes cattle-ranching and car sales. [App. 882, 899]. SIB's investment committee, which is purportedly responsible

for the management of the bank's multi-billion dollar portfolio of assets, is comprised of Stanford, Stanford's father, Davis, Goswick and Laura Pendergest-Holt. [App. 524]. Pendergest-Holt, who became acquainted with Davis at their church in Baldwin, Mississippi, joined SFG in 1997, after graduating from Mississippi State University with a master's degree in mathematics. [App. 73]. Prior to joining SFG, Pendergest-Holt had no experience in the financial services or securities industries. [App. 73].<sup>3</sup> Based on these relationships, and the fact that Stanford is the sole shareholder of SIB and SGC, it appears that Stanford is subject to little or no independent oversight.

# **B.** Stanford International Bank

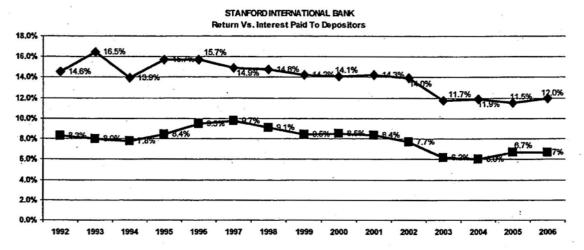
As of November 28, 2008, SIB reported \$8.6 billion in total assets. [App. 541]. SIB's primary product is the CD. [App. 74, 403, 590, 668-70]. SIB aggregates customer deposits, and then purportedly re-invests those funds in a "globally diversified portfolio" of assets.

For almost fifteen years, SIB represented that it has experienced consistently high returns on its investment of deposits (ranging from 11.5% in 2005 to 16.5% in 1993):

Further, Ken Weeden holds the title of Managing Director-Research and Investments. He supervises a group of "analysts" that work in Memphis and Tupelo. Weeden reports to Pedergest-Holt, who is Weeden's sister-in-law. [App. 588]. Davis' son, and at least one of his college classmates, are research analysts whose responsibilities include, in part, oversight of a small portion of SIB's portfolio of assets.

SIB sold more than \$1 billion in CDs per year between 2005 and 2007, including sales to U.S. investors. The bank's deposits increased from \$3.8 billion in 2005, to \$5 billion in 2006, and \$6.7 billion in 2007. [App. 856]. SIB markets CDs to investors in the United States exclusively through SGC advisers pursuant to a Regulation D private placement. In connection with the private placement, SIB filed a Form D with the Commission. [App. 668, 906-12].

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[App. 345, 670, 1030].

Since 1994, SIB claims that it has never failed to hit targeted investment returns in excess of 10%. [App 407, 590]. And, SIB claims that its "diversified portfolio of investments" lost only \$110 million or 1.3% in 2008. [App. 541]. During the same time period, the S&P 500 lost 39% and the Dow Jones STOXX Europe 500 Fund lost 41%. Id.

SIB's historical returns are improbable, if not impossible. After reviewing SIB's returns on investment over ten years, a performance reporting consultant hired by Stanford characterized SIB's performance as "not possible – almost statistically impossible." [App. 159-150]. Further, in 1995 and 1996, SIB reported identical returns of 15.71%, a remarkable achievement considering the bank's "diversified investment portfolio." [App. 345, 670] Pendergest-Holt, it is "improbable" that SIB could have managed a "globally diversified" portfolio of investments so that it returned identical results in consecutive years. [App. 106]. Likewise, the above-referenced performance reporting consultant believes that it is "impossible" to achieve identical results on a diversified investment portfolio in consecutive years. [App.

151]. Nonetheless, SIB continues to promote its CDs using these improbable/implausible returns. [App 345, 590, 670].

SIB's consistently high returns of investment have enabled the bank to pay a significantly higher rate on its CD than conventional banks. [App. 531, 533]. For example, SIB offered 7.45% as of June 1, 2005, and 7.878% as of March 20, 2006, for a fixed rate CD based on an investment of \$100,000. [App. 668]. On November 28, 2008, SIB quoted 5.375% on a 3-year Flex CD, while comparable U.S. Banks' CDs paid under 3.2%. [App. 541].

SIB's extraordinary returns have also enabled the bank to pay disproportionately large commissions to SGC for the sale of SIB CDs. [App. 591, 669]. SGC receives a 3% fee from SIB on sales of CDs by SGC advisers. [App. 591]. Financial advisers receive a 1% commission upon the sale of the CDs, and are eligible to receive as much as a 1% trailing commission throughout the term of the CD. [App. 591, 669]. SGC promoted this generous commission structure in its effort to recruit established financial advisers to the firm. [App. 669]. The commission structure also provided a powerful incentive for SGC financial advisers to aggressively sell CDs to United States investors, and aggressively expanded its number of financial advisers in the United States. Id.

SIB purportedly managed the investment portfolio from Memphis and Tupelo. SIB's investment portfolio, at least internally, was segregated into three tiers: (a) cash and cash equivalents ("Tier 1"), (b) investments with "outside portfolio managers (25+)" that are monitored by the Analysts ("Tier 2"), and (c) unknown assets under the apparent control of Stanford and Davis ("Tier 3"). [App. 31, 586]. As of December 2008, Tier 1 represented approximately 9% (\$800 million) of the bank's portfolio. [App. 586]. Tier 2, prior to the bank's

In 2007, SIB paid to SGC and affiliates more than \$291 million in management fees and commissions from CD sales, up from \$211 million in 2006. [App. 869-870].

586].

decision to liquidate \$250 million of investments in late 2008, represented approximately 10% of the portfolio. [App. 586]. And Tier 3 represented 80% of the bank's investment portfolio. [App.

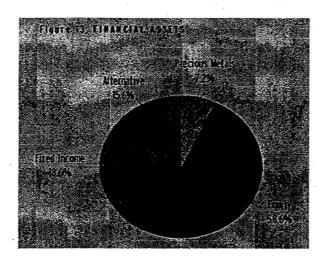
# C. SIB's Fraudulent Sale of CDs

1. SIB Misrepresented that Its Investment Portfolio is Invested Primarily in "Liquid" Financial Instruments.

In selling the CD, SIB touts the liquidity of its investment portfolio. [App. 85, 352]. For example, in its CD brochure, SIB emphasizes the importance of liquidity, stating, under the heading "Depositor Security," that the bank focuses on "maintaining the highest degree of liquidity as a protective factor for our depositors" and that the bank's assets are "invested in a well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." [App. 528].

In its 2007 annual report, which was signed and approved by Stanford and Davis [App. 881], SIB represented that its portfolio was allocated in the following manner: 58.6% equity, 18.6% fixed income, 7.2% precious metals and 15.6% alternative investments. [App. 871]. These allocations were depicted in a pie chart [App. 871], which was approved by Stanford and Davis. [App. 881].

Likewise, the bank trained SGC advisers that "liquidity/marketability of SIB's invested assets" was the "most important factor to provide security to SIB clients." [App. 1040].



[App. 871]

SIB's investment portfolio is not, however, invested in a "well-diversified portfolio of highly marketable securities issued by stable governments, strong multinational companies and major international banks." Instead, a significant portion of the bank's portfolio is invested in illiquid investments – namely private equity and real estate. [App. 97, 588]. In fact, in 2008, the bank's portfolio included at least 23% private equity. [App. 1123-24]. The bank never disclosed in its financial statements its exposure to private equity and real estate investments. [App. 504, 871].

Further, on December 15, 2008, Pendergest-Holt met with her team of analysts by teleconference following the bank's decision to liquidate more than 30% of its Tier 2 investments (approximately \$250 million). [App. 587-88]. During the meeting, at least one analyst expressed concern about the amount of liquidations in Tier 2, asking why it was necessary to liquidate Tier 2, rather than Tier 3 assets, to increase SIB's liquidity. *Id.* 

One of the bank's analysts candidly admitted that including private equity and real estate in the Equity allocation "does not make sense." [App. 589].

Pendergest-Holt told the analyst that Tier 3 was primarily invested in private equity and real estate and that Tier 2 was "more liquid" than Tier 3.8 [App. 97, 587-88].

# 2. SIB Misrepresented that Its Multi-Billion Dollar Investment Portfolio is Monitored By a Team of Analysts

Prior to making their investment decision, prospective investors routinely asked how SIB safeguarded and monitored its assets. [App. 37]. In fact, investors frequently inquired whether Allen Stanford could "run off with the [investor's] money." *Id.* In response to this question, at least during 2006 and much of 2007, the SIO told investors that SIB had sufficient controls and safeguards in place to protect assets. *Id.* In particular, the SIO was trained by Pendergest-Holt to tell investors that the bank's multi-billion portfolio was "monitored" by the analyst team in Memphis. *Id.* In communicating with investors, the SIO followed Pendergest-Holt's instructions, misrepresenting that a team of 20-plus analysts monitored the bank's investment portfolio. *Id.* In so doing, the SIO never disclosed to investors that the team of analysts only monitor approximately 10% of SIB's money. *Id.* In fact, Pendergest-Holt trained the SIO "not to divulge too much" about oversight of the bank's portfolio because that information "wouldn't leave an investor with a lot of confidence." *Id.* Likewise, Davis instructed the SIO to "steer" potential CD investors away from information about SIB's portfolio. [App. 37, 43].

Contrary to the bank's representation that responsibility for SIB's multi-billion portfolio was "spread out" among 20-plus people, even Pendergest-Holt and the SIO did not know the whereabouts of the vast majority of SIB's investment portfolio. [App. 356]. In fact, the only people that Pendergest and the SIO could identify as knowing the whereabouts of the bulk of SIB's portfolio were Stanford and Davis. [App. 31, 98, 588]. According to Pendergest-Holt, she

Pendergest-Holt also stated that Tier 3 always included real estate. [App. 588]. Pendergest-Holt's statements contradict what she had previously stated to SIB's senior investment adviser. [App. 40, 45].

and her team of analysts have never been privy to Tier 1 or Tier 3 investments. [App. 86, 586]. Similarly, the SIO did not have access to the bank's records relating to Tier 3, even though he was responsible, as the bank's Senior Investment Officer, for "closing" deals with large investors, "overseeing the bank's investment portfolio" and "ensuring that the investment side is compliant with the various banking regulatory authorities." [App. 32, 359]. In fact, in preparing the bank's periodic reports (quarterly newsletters, month reports, mid-year reports and annual reports), Pendergest and one of the analysts send to Davis the performance results for Tier 2 investments. [App. 64]. And Davis calculates the investment returns for the aggregated portfolio of assets. Id.

> 3. SIB Misrepresented that its Investment Portfolio is Overseen by a Regulatory Authority in Antigua that Conducts a Yearly Audit of the Fund's Financial Statements.

SIB told investors that their deposits were safe because the Antiguan regulator responsible for oversight of the bank's investment portfolio, the Financial Services Regulatory Commission (the "FSRC"), audited its financial statements. [App. 391] But, contrary to the bank's representations to investors, the FSRC does not audit or verify the assets SIB claims in its financial statements. [App. 675]. Instead, SIB's accountant, C.A.S. Hewlett & Co., a small local accounting firm in Antigua is responsible for auditing the multi-billion dollar SIB's investment portfolio. [App. 675, 512, 881]

> 4. SIB Misrepresented that Its Investment Portfolio is Without "Direct or Indirect" Exposure to Fraud Perpetrated by Bernard Madoff.

In a December 18, 2008, letter to investors and a December 2008 Monthly Report, the bank told CD investors that their money was safe because SIB "had no direct or indirect exposure to any of [Bernard] Madoff's investments." But, contrary to this statement, at least

The Commission attempted several times to contact Hewlett by telephone. No one ever answered the phone.

\$400,000 in Tier 2 was invested in Meridian, a New York-based hedge fund that used Tremont Partners as its asset manager. Tremont invested approximately 6-8% of the SIB assets they indirectly managed with Madoff's investment firm. [App. 1110]. Pendergest-Holt, Davis and Stanford knew about this Madoff exposure. Pendergest-Holt and an analyst were personally notified by Meridian of the Madoff exposure. [App. 1122-1124]. On December 15, 2008, the analyst confirmed the Madoff exposure through a weekly report (entitled "Laura Report") that

was typically sent to Pendergest-Holt, Davis and Stanford. The report estimated "a loss of \$400k

# 5. Pershing Transparency

... based on the indirect exposure" to Madoff. [App. 1125-1126].

On or about December 12, 2008, Pershing, citing suspicions about the bank's investment returns and its inability to get from SIB "a reasonable level of transparency" into its investment portfolio, informed SGC that it would no longer process wire transfers from SGC to SIB for the purchase of the CD. [App. 675]. Since the spring of 2008, Pershing tried unsuccessfully to get an independent report regarding SIB's financials condition. Id. On November 28, 2008, SGC's President, Danny Bogar, informed Pershing that "obtaining the independent report was not a priority." Id. Between 2006 and December 12, 2008, Pershing sent to SIB 1,635 wire transfers, totaling approximately \$517 million, from approximately 1,199 customer accounts. Id.

# C. SGC and SCM Misrepresented SAS Performance Results.

From 2004 through 2009, SGC and SCM induced clients, including non-accredited, retail investors, to invest in excess of \$1 billion in its SAS program by touting its track record of "historical performance." [App. 679]. SCM highlighted the purported SAS track record in thousands of client presentation books ("pitch books"). [App. 679-681]. For example, the following chart from a 2006 pitch book presented clients with the false impression that SAS accounts, from 2000 through 2005, outperformed the S&P 500 by an average of approximately 13 percentage points [App. 757]:

	2005	2004	2003	2002	2001	2000		
SAS Growth	12.09%	16.15%	32.84%	-3.33%	4.32%	18.04%		
S&P 500	4.91%	10.88%	28.68%	-22_10%	-11.88%	-9.11%		

SCM used these impressive, but fictitious, performance results to grow the SAS program to over \$1 billion in 2008. [App. 679].<sup>10</sup>

The SAS performance results used in the pitch books from 2005 through 2009 were fictional and/or inflated. Specifically, SCM misrepresented that SAS performance results, for 1999 through 2004, reflected "historical performance" when, in fact, those results were fictional, or "back-tested", numbers that do not reflect results of actual trading. [App. 9-12; App. 682-685]. Instead, SCM, with the benefit of hindsight, picked mutual funds that performed extremely well during years 1999 through 2004, and presented the performance of those top-performing funds to potential clients as if they were actual returns earned by the SAS program.<sup>11</sup> [App. 10-

SGC also used the SAS track record to recruit financial advisers away from legitimate advisory firms who had significant books of business. [App. 594; 681] After arriving at Stanford, the newly-hired financial advisors were encouraged and highly incentivized to put their clients' assets in the SIB CD. [App. 669-670].

On occasion, the pitch books included disclaimers describing the back-tested performance as hypothetical. These disclaimers were wholly insufficient because they (i) appeared in only some of the pitch books, (ii) were buried in small text at the back of the document, and (iii) did not adequately dispel the misleading suggestion that the advertised performance represented actual trading. [App. 800-801]

11]. Similarly, SCM used "actual" model SAS performance results for years 2005 through 2006 that were inflated by as much as 4%. <sup>12</sup> [App. 577-582; 681-684; 757].

SCM's management knew that the advertised SAS performance results were misleading and inflated. [e.g., App. 10-13]. From the beginning, SGC/SCM management knew that the pre2005 track record was purely hypothetical. [Id.]. And, as early as November 2006, SCM investment advisers began to question why their actual clients were not receiving the returns advertised in pitch books. [App. 12-15; 597]. In response to these questions, SCM hired an outside performance reporting expert, to review certain of its SAS performance results. [App. 111]. In late 2006 and early 2007, the expert informed SCM that its performance results for the twelve months ended September 30, 2006 were inflated by as much as 3.4 percentage points. [App. 122-126]. Moreover, the expert informed SCM managers that the inflated performance results included unexplained "bad math" that consistently inflated the SAS performance results over actual client performance. [App. 123, 152]. Finally, in March 2008, the expert informed SCM managers that the SAS performance results for 2005 were also inflated by as much as 3.25 percentage points. [App. 140-145].

SCM told investors that SAS has positive returns for periods in which actual SAS clients lost substantial amounts. [App. 682-683]. For example, in 2000, actual SAS client returns ranged from negative 7.5% to positive 1.1%. In 2001, actual SAS client returns ranged from negative 10.7% to negative 2.1%. [Id.]. And, in 2002, actual SAS client returns ranged from negative 26.6% to negative 8.7%. [Id.] These return figures are all gross of SCM advisory fees ranging from 1% to 2.75%. [App. 842] Thus, Stanford's claims of substantial market out performance were blatantly false. (e.g., a claimed return of 18.04% in 2000, when actual SAS investors lost as much as 7.5%). [App. 682-683].

During sworn testimony, the expert characterized this "bad math" problem as "fishy," and could not provide any innocent explanation as to why the supposed mathematical errors worked consistently to the favor of the SAS models. [App. 123].

Despite being informed in early 2007 that its 2006 performance results were materially inflated, SCM continued using inflated results for 2005 until in early 2008 it received irrefutable evidence of the inflated 2005 results. SCM did not inquire into the accuracy of the pre-2005 numbers until the SEC exam staff in early 2009 asked SCM management pointed questions about pre-2005 performance. [App. 131; 681; 684].

Despite their knowledge of the inflated SAS returns, SCM management continued using the pre-2005 track record and never asked the performance expert to audit the pre-2005 performance. [App. 131; 577-582; 681; 684]. In fact, in 2008 pitch books, SCM presented the back-tested pre-2005 performance data under the heading "Historical Performance" and "Manager Performance" along side the audited 2005 through 2008 figures. [App. 794]. SCM's outside consultant testified that it was "misleading" to present audited performance figures along side back-tested figures. [App. 154].

Finally, SCM compounded the deceptive nature of the SAS track record by blending the back-tested performance with audited composite performance to create annualized 5 and 7 year performance figures that bore no relation to actual SAS client performance. [App. 682; 794]. A sample of this misleading disclosure used in 2008 and 2009 follows:

				r Year F March 2						
	YTD	2007	2006	2005	2004	2003	2002	2001	2000	1999
SAS Growth	-7.44%	12.40%	14.68%	8.82%	16.15%	3284%	-3.33%	432%	18.D#%	22.58%
S&P 500	-9.4t%	5.49%	15.79%	491%	10.89%	28.63%	-22.10%	-11.88%	-911%	21.04%
			A	ized Pa						

	(not	annualized if	less than 1	year)			
	YTD	1 year	3 years	5 years	7 years	Since Inception	
SAS Growth	-7.44X	0.80%	9.38%	15.31%	11.03%	12.30%	
S&P 500	-9.44%	-5.08%	5.85%	11.32%	3.70%	2.45%	

Other than the fees paid by SIB to SGC/SCM for the sale of the CD, SAS was the second most significant source of revenue for the firm. In 2007 and 2008, SGC/SCM received approximately \$25 million in fees from the marketing of SAS. [App. 680].

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#### IV. LEGAL DISCUSSION AND ARGUMENT

Because the Commission is "not ... an ordinary litigant, but ... a statutory guardian charged with safeguarding the public interest in enforcing the securities laws," its burden to secure temporary or preliminary relief is less than that of a private party. SEC v. Management Dynamics, Inc., 515 F.2d 801, 808 (2nd Cir. 1975). "[When 'the public interest is involved in a proceeding of this nature, [the district court's] equitable powers assume an even broader and more flexible character than when only a private controversy is at stake." FSLIC v. Sahni, 868 F.2d 1096, 1097 (9th Cir. 1989), citing FTC v. H.N. Singer, Inc., 668 F.2d 1107, 1112 (9th Cir. 1982). For example, the Commission does not need to show irreparable injury or a balance of equities in its favor. Id.; see also SEC v. Unifund SAL, 910 F.2d 1028, 1035 (2nd Cir. 1990). Nor does the Commission need to demonstrate the lack of an adequate remedy at law, as private litigants must. See SEC v. Cavanagh, 155 F.3d 129, 132 (2nd Cir. 1998); SEC v. Scott, 565 F. Supp. 1513, 1536 (S.D.N.Y. 1983), aff'd sub nom., SEC v. Cayman Islands Reins. Corp., 734 F.2d 118 (2<sup>nd</sup> Cir. 1984).

Moreover, the ancillary remedy of a freeze order requires a lesser showing than that needed to obtain injunctive relief. See SEC v. Gonzalez de Castilla, 145 F. Supp. 2d 402, 415 (S.D.N.Y. 2001) ("courts may order a freeze even where the SEC has failed to meet the standard necessary to enjoin future violations"). For example, to obtain an asset freeze, the Commission need not show a reasonable likelihood of future violations. CFTC v. Muller, 570 F.2d 1296, 1300 (5th Cir. 1978). Instead, when there are concerns that defendants might dissipate assets, a freeze order requires only that the court find some basis for inferring a violation of the federal securities laws. Unifund Sal, 910 F.2d at 1041. Similarly, it is well-established that the Court has the authority to grant any form of ancillary relief where necessary and proper to effectuate

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the purposes of the federal securities laws. SEC v. Materia, 745 F.2d 197, 200 (2d Cir. 1984), cert. denied, 471 U.S. 1053 (1985). Included in the court's equitable powers is the authority to appoint receivers. See, e.g., SEC v. First Fin. Group, 645 F.2d 429, 439 (5th Cir. 1981).

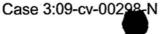
### A. The Defendants Violated the Antifraud Provisions of the Securities Act and Exchange Act.

1. Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 Thereunder.

Section 17(a) of the Securities Act prohibits the employment of a fraudulent scheme or the making of material misrepresentations and omissions in the offer or sale of a security. Section 10(b) of the Exchange Act and Rule 10b-5 thereunder prohibit the same conduct, if committed in connection with the purchase or sale of securities.15 A violation of these provisions occurs if the alleged misrepresentations or omitted facts were material. Information is material if there is a substantial likelihood that the omitted facts would have assumed significance in the investment deliberations of a reasonable investor. Basic, Inc. v. Levinson, 485 U.S. 224 (1988).

Establishing violations of Section 17(a)(1) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder requires a showing of scienter. Aaron v. SEC, 446 U.S. 680 (1980). However, actions pursuant to Sections 17(a)(2) and (3) of the Securities Act do not require such a showing. Id. Scienter is the "mental state embracing intent to deceive, manipulate or defraud." Ernst & Ernst v. Hochfelder, 425 U.S. 185, 193 (1976). Scienter is established by a showing that the defendants acted intentionally or with severe recklessness. See Broad v. Rockwell Int'l Corp., 642 F. 2d 929 (5th Cir.) en banc, cert. denied 454 U.S. 965

Even if the investments offered do not exist, the antifraud provisions of the federal securities laws still apply. SEC v. Lauer, 52 F.3d 667, 670 (7th Cir. 1995).



(1981). Stanford, Davis, Pendergest-Holt, and the Stanford corporate defendants violated these antifraud provisions.16

#### 2. Defendants' Fraud Was in Connection with Offer or Sale of Security.

There is little doubt here that the defendants fraud was in connection with the offer, sale or purchase of securities.

# a. Defendants' Clients Sold Other Securities in Order to Purchase CDs.

First, even the "scratch the surface" level of evidence able to be compiled in advance of this emergency motion confirms that defendants fraudulent behavior, statements and omissions concerning SIB's CD program coincided with significant – and successful – efforts to lure investors to convert (i.e. sell) their existing securities holdings into investments in SIB's CDs. From August 2008 through December 2008 alone, approximately 50 SGC clients liquidated approximately \$10.7 million in stocks, bonds, and other similar securities and invested that money in SIB's CDs. [App. 593]. This sampling, particularly when viewed in light of the heavy incentives SGC gave to its advisers to push SIB's CDs, strongly suggests that the fraudulent behavior outlined above coincided directly with the selling of, at least, millions of dollars in investments that are quintessential securities, such as stock. Accordingly, there can be no serious dispute that Defendants fraudulent conduct was in connection with the offer or sell of securities. See SEC v. Zandford, 535 U.S. 813, 825 (2002) (holding that the "in connection with" element is satisfied by "a fraudulent scheme in which the securities transactions and breaches of fiduciary duty coincide").

To the extent the Court concludes that Stanford, Davis and Pendergest-Holt should not be held directly liable for violating Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, the evidence demonstrates that they are liable for aiding abetting violations of those provisions.

# b. The CD is a security.

In addition to fraud in connection with the *selling* of securities, the defendants' fraud was also in connection with the purchase of securities, i.e., SIB's CDs. In fact, SIB itself admits that "[b]y making this offering to Accredited Investors in the United States, SIBL and its officers are subject to certain laws of the United States, including the anti-fraud provisions of the U.S. federal securities laws and similar state laws." [App. 888]

The Supreme Court has emphasized that all notes – including products such as the "certificate of deposits" sold in this case – are presumed to be securities. *Reves*, 494 U.S. at 64. This presumption may be rebutted only by a showing that the note bears a strong resemblance to certain enumerated non-securities such as "the note delivered in consumer financing, the note secured by a mortgage on a home, the short term note secured by a lien on a small business or some of its assets, the note evidencing a "character" loan to a bank customer, short-term notes secured by an assignment of accounts receivable, or a note which simply formalizes an open-account debt incurred in the ordinary course of business. *Reves*, 494 U.S. at 65. To determine whether such resemblance exists, the Supreme Court has applied a "family resemblance test," instructing that it is necessary to analyze the following four factors: (1) the motivation of the parties; (2) the plan of distribution; (3) the reasonable expectations of the investing public; and (4) the existence of factors which would reduce the risk of the instrument. *Id.* Notably, no one factor by itself is dispositive. *Id.* 

A comparison of the instruments deemed to be securities in *Reves* to the current CDs demonstrates that there should "be little difficulty in concluding that the notes at issue here are 'securities:" *Reves*, 494 U.S. at 67.

Motivation

Plan of description

Public's lexpectation

## Reves

SIB

Motivation of Parties "the Co-Op sold the notes in an effort to raise capital for its general business operations and purchasers bought them in order to earn a profit in the form of

in order to earn a profit in the form of interest." Reves, 494 U.S. at 67-68.

SIB sold the notes in an effort to raise capital for its general business operations and purchasers buy them in order to earn a profit in the form of interest.

Plan of distribution

Factor

Notes were "offered and sold to a broad segment of the public, and that is all we have held necessary to establish the requisite 'common trading' in an instrument." Notes were offered to a broad segment of the public.

Public's Reasonable Expectation "Advertisements for the notes characterized them as 'investments' ... and there were no countervailing factors that would have led a reasonable person to question this characterization." Reves, 494 U.S. at 68-69.

SIB provides to its U.S. investors, among other things, a document titled "Disclosure Statement U.S. Accredited Investor Certificate of Deposit Program. This document prominently features a page labeled, "SECURITIES INVESTMENT STATEMENT," and refers to the purchase as "an investment decision."

Whether some factor such as the existence of another regulatory scheme "significantly reduces the risk of the instrument, thereby rendering application of the Securities Acts unnecessary."

"notes here would escape federal regulation entirely if the [Securities] Acts were held not to apply." *Reves*, 494 U.S. at 69.

Absent securities laws, no federal regulation over fraudulent statements and omissions made in sale of CDs appears to apply.

Importantly, the *Reves* Court held that if the seller's purpose is to finance substantial investments and the buyer is interested primarily in the profit the instrument is likely to generate, the instrument is likely to be a security. *Id.* at 66. That is precisely the situation here. Likewise, when the issuer solicits individuals, as compared to solicitations of sophisticated institutions, that indicates "common trading" and weighs in favor of finding the instrument a security. Again, that is the case here, where SIB, acting through its affiliated investment adviser and broker-dealer routinely solicits individuals via retail investments. [App. 593, 668]. Third, the public would reasonably view these instruments as securities investments, particularly where SIB itself

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describes them repeatedly as investments and advises clients that the offering of the CDs is subject to the antifraud provisions of the federal securities laws. Importantly, in *Stoiber v. SEC*, 161 F.3d 745, 750 (D.C. Cir. 1998), the D.C. Circuit Court held that courts should consider instruments to be securities on the basis of public expectations, "even where an economic analysis of the circumstances of the particular transaction might suggest that the instruments are not securities as used in that transaction." 17

The only factor that arguably weighs against the conclusion that the CDs are securities concerns the existence of some other risk-reducing system, given that SIB is subject to some regulatory oversight by the Financial Services Regulatory Commission of Antigua. To put it simply, this putative oversight is irrelevant.<sup>18</sup>

First, unlike some earlier lower court decisions, in *Reves*, the United States Supreme Court made it clear that its fourth factor considered the existence of alternate *federal* regulatory system, such as FDIC protection. 494 U.S. at 69. (citation omitted and emphasis added). For example, in evaluating this factor after *Reves*, the Tenth Circuit noted that regulation by a state is not enough. See *also Holloway v. Peat, Marwick, Mitchell & Co.*, 900 F.2d. 1485, 1488 (10th Cir. 1990), *cert. denied*, 498 U.S. 958 (1990) (holding that the Supreme Court in *Reves* clearly required an alternative *federal* regulatory system); *see also Bradford v. Moench*, 809 F. Supp.

In Stoiber, the D.C. Circuit Court noted that the Supreme Court in Reves described this factor as "a one-way ratchet" that "allows notes that would not be deemed securities under a balancing of the other three factors nonetheless to be treated as securities if the public has been led to believe they are. It does not, however, allow notes which under the other factors would be deemed securities to escape the reach of regulatory laws." 151 F.2d at 751.

The Commission has noted elsewhere certain facets of the FSRC's regulatory role. The question is not whether the FSRC carries out those prescribed responsibilities, but whether that oversight — as designed — "virtually guarantees" the full recovery of deposits. In evaluating that question, it is worth noting how the administrator and chief executive of the FSCR was quoted late last week in the press, when he described his agency's new approach to overseeing SIB's activities: "it's not a Friday afternoon cocktail anymore ...." (emphasis added).

1473, 1483 (D. Utah 1992) (following *Holloway* decision and holding Utah regulatory system cannot serve as risk reducing factor).<sup>19</sup>

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As the Supreme Court made clear in *Marine Bank*, a certificate of deposit does not invariably fall outside the definition of a 'security' and "each transaction must be analyzed and evaluated on the basis of the content of the instruments in question, the purposes intended to be served, and the factual setting as a whole." *Marine Bank*, 455 U.S. 551 n.11 (1982). Here, the factual setting weighs strongly in favor of subjecting SIB's CDs to the federal securities laws. There simply is nothing here suggesting that the regulatory oversight provided by Antigua comes close to providing the "virtual guarantee" of repayment the holder of the particular CD at issue in *Marine Bank* or *Wolf* had, in contrast to an ordinary long-term debt holder who assumed the risk of the borrower's insolvency. Here, SIB's CDs have no FDIC protection, or any insurance protection from any Antiguan regulatory or government authority.<sup>20</sup>

Indeed, SIB itself admits in various offering documents that its customers assume the risk of SIB's insolvency, stating in substance that "the ability of SIB to repay principal and interest

The Commission recognizes that several circuits, including the Fifth Circuit, have concluded – prior to Reves and under significantly different circumstances – that certain certificates of deposit should not be considered "securities" under the Securities Act and Exchange Act. See Wolf v. Banco Nacional de Mexico, S.A., 739, F.2d 1458 (9th Cir. 1984), cert. denied, 469 U.S. 1108 (1985); Callejo v. Bancomer, S.A., 764 F.2d 1101 (5th Cir. 1985); Tafflin v. Levitt, 865 F.2d 595 (4th Cir. 1989), aff'd on other grounds, 493 U.S. 455 (1990 (Pre-Reves)) (holding that certificates of deposit which were regulated by the banking system of Mexico or a state in the United States were not securities.). Due to the emergency nature of this request and because, regardless of how the Court applies Reves to SIB's CDs, it is clear that defendants fraudulent conduct was, as discussed above, in connection with the selling of securities, the Commission has not extensively addressed why those pre-Reves cases do not control here. Likewise, we have not addressed here the question of whether SIB's products could be considered "investment contracts" covered by the federal securities laws. Should the Court wish additional briefing on that issue, the Commission is prepared to provide it.

It should be noted, however, that the Commission – the primary agency responsible for determining whether the securities laws cover certain instruments – has applied the Securities Act to instruments the offering party claimed were similar to certificates of deposits, despite the existence of certain oversight by a foreign regulator. See In the Matter of State Bank of Pakistan, Admin Proc. File No. 3-7727, 1992 SEC Lexis 1041 (May 6, 1992)

This lack of refund guarantee is only exacerbated by SIB's attempts to lull investors with various claims of "insurance" that do not provide protection to the investor.

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on the CD Deposits is dependent on our ability to successfully operate by continuing to make consistently profitable investment decisions" and "you may lose your entire investment." [App. 890]. This is precisely the sort of risks the antifraud provisions and other protections of the federal securities laws were designed to address.

# 3. Defendants Misrepresentations and Omissions Were Material.

The misrepresentations to and information withheld from investors in this case concern, among other things, the disposition of offering proceeds, the security of investment principal, the returns associated with the investment, and the liquidity of the investment. These issues go to the core of an individual's investment decision. There is a substantial likelihood that these false representations and omissions would have assumed actual significance in the investment deliberations of a reasonable investor. They are therefore material. See SEC v. Research Automation Corp., 585 F.2d 31, 35-36 (2d Cir. 1978) (misleading statements and omissions concerning the use of money raised from investors were material as matter of law); see also United States v. Siegel, 717 F.2d 9, 14-15 (2d Cir. 1983) (holding that failure to disclose the misappropriation of more than \$100,000 was a fact which would be important to a stockholder in his decision making).

# 4. The Defendants Acted With Scienter

In making their material misstatements and omissions, the Defendants acted with scienter, which is a mental state embracing intent to deceive, manipulate, or defraud. Ernst & Ernst v. Hochfelder, et al., 425 U.S. 185, 193 (1976).21 Here, the misrepresentations go to the core of the investment model marketed to investors. Selling investments marketed as highly

<sup>21</sup> A violation of Section 17(a)(1) of the Securities Act also requires a showing of scienter. However, the U.S. Supreme Court has held that scienter need not be shown in order to establish violations of Sections 17(a)(2) and (3) of the Securities Act. Aaron v. SEC, 446 U.S. 680, 696-97 (1980).

liquid, but which were in fact heavily invested in illiquid private equity and real estate, while knowing that only two people actually knew the portfolio allocation and kept that information under lock and key is, at a minimum, severely reckless. Indeed, this action speaks of a high degree of *scienter*. Moreover, the actions of controlling individuals, and therefore their *scienter*, are attributable to the controlled company. *See SEC v. Manor Nursing Centers, Inc.*, 458 F.2d 1082, 1094 (2d Cir. 1971).

# B. Stanford, SGC and SCM Violated, and Davis and Pendergest-Holt Aided and Abetted Violations of, the Antifraud Provisions of the Investment Advisers Act of 1940.

Through their deceitful and fraudulent conduct in selling the CDs and SAS, Defendants violated the antifraud provisions of the Investment Advisers Act. This is true, even if the Court, for the sake of argument, determines that the defendants' fraud was not in connection with the offer, sale or purchase of securities for purposes of Section 17(a) of the Securities Act or Section 10(b) of the Exchange Act.

# 1. Section 206 Imposes a Fiduciary Duty on Defendants Prohibiting Defendants Fraudulent Conduct

Sections 206(1) and 206(2) of the Advisers Act (15 U.S.C. §§ 80b-6(1) & 80b-6(2)), prohibit an investment adviser from defrauding any client or prospective client by, directly or indirectly, employing any device, scheme, or artifice to defraud or engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client. While scienter is required to establish a violation of Section 206(1), negligence alone is sufficient to establish fraud liability under Section 206(2). SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180, 195 (1963); Steadman v. SEC, 603 F.2d 1126, 1134 (5th Cir. 1979), aff'd on other grounds, 450 U.S. 91 (1981). Unlike the antifraud provisions of the Securities Act and the Exchange Act, Sections 206(1) and 206(2) of the Advisers Act do not require that the

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activity be "in the offer or sale of any securities" or "in connection with the purchase or sale of any security." SEC v. Lauer, 2008 WL 4372896, \*24 (S.D. Fla. September 24, 2008); Advisers Act Release No. 1092, 6 Fed. Sec. L. Rep. (CCH) ¶ 56,156E, at 44,057-7 to 44,058 (Oct. 8, 1987).

Instead, Section 206 establishes federal fiduciary standards to govern the conduct of investment advisers. Transamerica Mortgage Advisers, Inc. v. Lewis, 444 U.S. 11, 17 (1979). The fiduciary duties of investment advisers to their clients include the duty to act for the benefit of their clients, the duty to exercise the utmost good faith in dealing with clients, the duty to disclose all material facts, and the duty to employ reasonable care to avoid misleading clients. SEC v. Capital Gains Research Bureau, Inc. et al., 375 U.S. 180, 194 (1983). An adviser has "an affirmative obligation to employ reasonable care to avoid misleading [his or her] clients." Id. Scienter is required to establish a violation of Section 206(1) but is not a required element of Section 206(2). SEC v. Steadman, 967 F.2d 636, 643 fn.5 (D.C. Cir. 1992) (Section 206(2) violation only requires proof of negligence, not scienter).

# 2. Stanford, SGC and SCM are Investment Advisers Subject to Heightened Fiduciary Duties.

The definition of an investment adviser in Section 202(a)(11) of the Advisers Act, 15 U.S.C. § 80b-2(a)(11), includes "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities." SGC/SCM do exactly that on a daily basis. Likewise, Stanford, as control person of both of those entities, satisfies the statutory definition of an investment adviser. See In re Jay Deforest Moore, et al., Investment Advisers Act Rel. No 1548 (Jan. 19, 1996), 61 SEC Docket 544, 545 (charging individual with

direct violations of Sections 206(1) and (2) of the Advisers Act because he "exercised exclusive control over" the firm and, therefore, was the firm's alter ego).

Likewise, Davis and Pendergest-Holt aided and abetted the Adviser Act violations. Aiding and abetting liability requires a showing of: (1) a primary violation; (2) knowledge or a general awareness of the aider and abettor of having played a role in an overall activity that was improper; and (3) knowing and substantial assistance by the secondary violator of the conduct that constitutes the violation. Woodward v. Metro Bank of Dallas, 522 F.2d 84, 94-95 (5th Cir. 1975); In the Matter of Glen Copeland, (CCH) ¶83,903, at 87,732 (July 5, 1985); Investors Research Corp. v. SEC, 628 F.2d 168, 178 (D.C. Cir.), cert. denied, 449 U.S. 919 (1980). Recklessness satisfies the knowledge requirement, especially as to fiduciaries. See In the Matter of Kemper Financial Services, Inc., Investment Company Act Rel. No. 21113 (June 6, 1995); SEC v. Washington County Utility District, 676 F.2d 218, 226 (6th Cir. 1982); Rolf v. Blyth, Eastman Dillon & Co., Inc., 570 F.2d 38, 44-47 (2d Cir. 1978), cert. denied, 439 U.S. 1039.

Both Davis and Pendergest-Holt knew of the representations made to clients as to the securities that would be purchased to support their CD investment, and in fact, actually trained them to mislead investors. There is no doubt both Davis and Pendergest-Holt knowingly provided substantial assistance to the fraud violations of SBI, SCM and Stanford.

#### 3. Each of the Defendants Acted with Scienter

As described in detail above, the defendants intentionally misled their clients. example, knowing the importance to which investors would assign to the issue of exposure to the Madoff fund, the defendants voluntarily undertook to assure investors that SIB "had no direct or indirect exposure" to any Madoff investments. Pendergest-Holt, Davis and Stanford knew when this statement was made that it was false. In the market environment of December 2008, it is

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hard to imagine a more material breach of an investment adviser's heightened duty of care owed to clients.

# C. SIB and SGC Failure to Register as an Investment Company Violated Section 7(d) of the Investment Company Act of 1940.

Section 7(d) of the Investment Company Act of 1940 prohibits investment companies organized under the laws of foreign jurisdictions from making a public offering of securities in the United States, except by entry of an order from the Commission permitting registration. See Investment Funds Institute of Canada (1996 SEC No. Act. Lexis 334 (March 4, 1996). Both SIB and SGC (acting as SIB's underwriter) were bound by this requirement and failed to register, which was intended to, and had the effect of, shielding SIB's CD program from Commission oversight.

SIB qualifies as an "investment company" under either a "traditional" or an "inadvertent" investment company analysis. The "traditional" investment company is defined by ICA Section 3(a)(1)(A) as any issuer that holds itself out as primarily engaged, or proposes to be primarily engaged, in the business of investing, reinvesting or trading in securities. SIB's primary business is to manage the deposits of its customers, not any commercial banking activity. Moreover, these customer deposits are invested primarily in securities. <sup>22</sup> [App. 867].

Likewise ICA Section 7(d), in addition to prohibiting SIB's offering, prohibits SGC's activities as an underwriter for SIB. SGC acted as an underwriter pursuant to ICA Section 2(40) because of its activities in connection with the sale of SIB's CDs.

Alternatively, SIB also qualifies as an "inadvertent" investment company pursuant to ICA Section 3(a)(1)(C)'s definition of "any issuer which is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposed to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis." In every year since 2004, equity investments have accounted for at least 48 percent of SIB's total assets.

# V. <u>APPROPRIATE RELIEF</u>

# A. Injunctive Relief

In analyzing the need for injunctive relief, courts focus on whether there is a reasonable likelihood that the defendant, if not enjoined, will engage in future illegal conduct. See, e.g., SEC v. Comserv Corp., 908 F.2d 1407, 1412 (8th Cir. 1990); SEC v. Bonastia, 614 F.2d 908 (3d Cir. 1980); SEC v. Commonwealth Chem. Sec., Inc., 574 F.2d 90, 100-101 (2d Cir. 1978). In determining the likelihood of future violations, the totality of the circumstances is to be considered. Murphy, 626 F.2d at 655. In granting or denying injunctive relief, courts have considered the following factors: (1) the egregious nature of the defendant's actions; (2) the isolated or recurrent nature of the violations; (3) the degree of scienter involved; (4) the sincerity of the defendant's assurances, if any, against future violations; (5) the defendant's recognition of the wrongful nature of his conduct; and (6) the likelihood that the defendant's occupation will present opportunities (or lack thereof) for future violations. Additionally, other courts consider the defendant's age and health. See SEC v. Youmans, 729 F.2d 413 (6th Cir. 1984); SEC v. Wash. County Util. Dist., 676 F.2d 218, 227 n.19 (6th Cir. 1982); SEC v. Universal Major Indus. Corp., 546 F.2d 1044, 1048 (2d Cir. 1976), cert. denied, 434 U.S. 834 (1977).

Preliminary and permanent injunctive relief against Defendants are appropriate. Their violations were not merely technical in nature, but, rather, lie at the very heart of the remedial statutes.

This consideration is limited in other circuits by SEC v. First City Fin. Corp., 890 F.2d 1215, 1219 (D.C. Cir. 1989), in which the Court of Appeals said that the "lack of remorse' is relevant only where defendants have previously violated court orders, see SEC v. Koenig, 469 F.2d 198, 202 (2d Cir. 1972), or otherwise indicate that they do not feel bound by the law, see SEC v. Savoy Indus., 587 F.2d 1149, 1168 (D.C. Cir. 1978)."

See SEC v. Carriba Air, Inc., 681 F.2d 1318, 1322 (11th Cir. 1982); see also, SEC v. Bonastia, 614 F.2d 908, 912 (3d Cir. 1980); SEC v. Commonwealth Chemical Securities, Inc., 574 F.2d 90, 100-101 (2d Cir. 1978).

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Moreover, Section 20(a) of the Securities Act and Section 21(d)(1) of the Exchange Act authorize the Commission to seek emergency relief when it appears that a person is engaged or is about to engage in acts or practices in violation of the federal securities laws. 15 U.S.C. § 77t(a), 15 U.S.C. § 78u(d)(1). Defendants fraud is ongoing. A temporary restraining order is appropriate under the circumstances.

#### В. **Ancillary Relief**

#### 1. Asset Freeze

An order freezing assets is appropriate to ensure that sufficient funds are available to satisfy any final judgment the Court might enter against the Defendants and to ensure a fair distribution to investors. See, e.g., Manor Nursing Ctrs., 458 F.2d at 1106 (freeze of assets pending transfer to trustee); Unifund, SAL, 910 F.2d at 1041-42. An asset freeze as to each defendant's assets is appropriate to assure satisfaction of whatever equitable relief the court ultimately may order and to preserve investor funds. Id.; CFTC v. Muller, 570 F.2d 1296, 1300 (5th Cir. 1978). Additionally, an asset freeze "facilitate(s) enforcement of any disgorgement remedy that might be ordered" and may be granted "even in circumstances where the elements required to support a traditional SEC injunction have not been established." See SEC v. Unifund Sal, 910 F.2d 1028, 1041 (2d Cir.) reh'g. denied, 917 F.2d 98 (1990). It is well recognized that an asset freeze is sometimes necessary to ensure that a future disgorgement order will not be rendered meaningless. See, e.g., United States. v. Cannistraro, 694 F. Supp. 62, 71 (D.N.J. 1988), modified, 871 F.2d 1210 (3d Cir. 1989); SEC v. Vaskevitch, 657 F. Supp. 312, 315 (S.D.N.Y. 1987); SEC v. R.J. Allen & Assocs., Inc., 386 F. Supp. 866, 881 (S.D. Fla. 1974).

The ancillary remedy of a freeze order requires a lesser showing than that needed to obtain injunctive relief. See SEC v. Gonzalez de Castilla, 145 F. Supp. 2d 402, 415 (S.D.N.Y. 2001) ("courts may order a freeze even where the SEC has failed to meet the standard necessary to enjoin future violations"). For example, to obtain an asset freeze, the Commission need not show a reasonable likelihood of future violations. CFTC v. Muller, 570 F.2d at 1300. This lower standard results from the recognition that injunctive relief raises the possibility of future liability for contempt; an asset freeze only preserves the status quo. Unifund Sal, 910 F.2d at 1039. Accordingly, when there are concerns that defendants might dissipate assets, a freeze order requires only that the court find some basis for inferring a violation of the federal securities laws. Unifund Sal, 910 F.2d at 1041.

Here, there is a clear basis for fearing dissipation of funds. It appears that \$250 million has been liquidated from Tier 2 since December 2008, and the Commission has learned of significant attempts to liquidate the portfolio within the last week. Moreover, not only is there "some basis for inferring a violation of the federal securities laws," for the reasons set out above, the Commission is more than likely to succeed on the merits of its case for antifraud violations.

#### 2. Defendants Should Be Ordered to Preserve Relevant Evidence.

The Commission seeks an order prohibiting the movement, alteration, and destruction of books and records and an order expediting discovery. Such orders are appropriate to prevent the destruction of key documents and to ascertain what additional expedited relief may be necessary.

#### 3. Expedited Discovery Is Appropriate.

The Federal Rules of Civil Procedure give District Courts discretion to permit expedited discovery. Defendants are usually given until at least 45 days after the service of a summons and complaint to respond to document requests, Fed. R. Civ. P. 34(b), and 30 days after such service to appear for a deposition, Fed. R. Civ. P. 30(a) or respond to interrogatories, Fed. R. Civ. P. 33(a). But each of these Rules provides that the Court, in its discretion, may shorten these

periods. See also Gibson v. Bagas Restaurants, Inc., 30 Fed. R. Serv. 2d 792, 87 F.R.D 60 (W.D. Mo. 1980) (accelerated discovery is allowable within the discretion of the Court). Moreover, where urgent relief is sought and expedited discovery is needed to accomplish that result, a court may grant accelerated discovery. See Notaro v. Koch, 35 Fed. R. Serv. 2d 580, 95 F.R.D. 403 (S.D.N.Y 1982). Expedited discovery is required in this case to enable the Commission more fully to develop the evidence prior to the conduct of a preliminary injunction hearing. The Commission should have the opportunity to supplement a complete evidentiary

record prior to the preliminary injunction hearing. Also, expedited discovery is vital to

determining the scope of the fraud and the whereabouts of investor funds. Accordingly, the

Commission requests depositions on notice of 3 days, with notice provided as noted below.<sup>25</sup>

## 4. Alternative Service and Notice Provisions

Rule 4(f)(3) of the Federal Rules of Civil Procedure provides that the Court may authorize alternative means for service of process in foreign countries. The Commission respectfully requests that the Court authorize service upon the defendants by serving them, in the manner described in the Commission's proposed order, by providing notice and service of process on each Defendant by e-mail transmission and by facsimile.

### 5. Accounting

The Commission seeks an order requiring Defendants and Relief Defendants to make an immediate accounting. An accounting will enable the Commission to determine more accurately the scope of the fraud and disposition of investor funds. It will help ensure the proper distribution of the assets. See SEC v. Int'l Swiss Invs. Corp., 895 F.2d 1272, 1276 (9th Cir. 1990); Manor Nursing Ctrs., 458 F.2d at 1105-06. An accounting is particularly justified

This is particularly important here because Defendants have not produced any documents during the investigation, and have failed to comply with lawfully issued subpoenas.

because of Tyler's use of investor funds and the Relief Defendants' receipt of property traceable to Tyler's illicit conduct and to investor funds.

# 6. Appointment of a Receiver

As noted above, the defendants in this case have made every effort to deny access to the records and data necessary to enforce the federal securities laws. In addition, many of the funds appear to be easily transferrable outside the United States. A receiver is necessary here to marshal, liquidate and distribute assets to the victims of the defendants' scheme and especially warranted in light of the Defendants' efforts to shield relevant financial data and other key documents from independent review, the recent effort to remove operations from the United States, and recent large liquidations and lying to investors seeking to redeem their CDs.

# 7. An Order For Passport Surrender Are Appropriate.

An order for repatriation of funds and records sent offshore and still under the control of the defendants is appropriate. There is evidence that funds and records have been transferred overseas. In addition, based on the defendants' frequent foreign travel, the fact that Stanford maintains vast holdings (including residential real estate) in foreign locales, and Stanford's self-proclaimed dual residency, the Commission seeks an order requiring the defendants to surrender their passports to the court. These orders will ensure the efficacy of whatever equitable relief might ultimately be granted. See R.J. Allen & Assocs., Inc., 386 F. Supp. at 881.

# 8. A Repatriation Order is Necessary.

The Commission also seeks a repatriation order requiring the Defendants to return to identified accounts in the United States, all trading proceeds that may be located outside this Court's jurisdiction. Such equitable relief is appropriate where the Commission is seeking disgorgement in its prayer for relief. SEC v. R.J. Allen & Assoc., Inc., 386 F. Supp. 866, 880-

881 (S.D. Fla. 1974).

Respectfully submitted,

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# EXHIBIT 69



# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900 FORT WORTH, TEXAS 76102

FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-2809



July 16, 1998

Mr. Robert B. Glen Executive Vice President Private Client Services Stanford Group Company 5065 Westheimer Houston, Texas 77056

Re:

Stanford Group Company

File No. 801-50374

Dear Mr. Glen:

The examination of the books and records of Stanford Group Company ("SGC"), conducted pursuant to Section 204 of the Investment Advisers Act of 1940 ("Advisers Act"), disclosed the following:

# REGISTRATION

Rule 204-1(b) of the Advisers Act sets forth certain guidelines as to when amendments must be made to Form ADV. The rule requires that if the information contained in response to certain items of Part I of any application for registration as an investment adviser, or in any amendment thereto, becomes inaccurate for any reason or if the information contained in response to any question in Items 9 and 10 of Part I and all of Part II (except Item 14), and all of Schedule H of any application for registration as an investment adviser, or in any amendment thereto, becomes inaccurate in a material manner, the investment adviser will promptly file an amendment on Form ADV correcting such information. For non-material changes, an amendment may be filed within 90 days of the end of the adviser's fiscal year end. The examination disclosed that certain of your responses on Form ADV and Schedule H were either inaccurate or incomplete. You are requested to review the following Form ADV and Schedule H items for the registrant and pursuant to Rule 204-1 file an amendment reflecting the necessary changes.

# FORM ADV

Item 21 of Part I requests that the registrant indicate whether it has recommended securities to clients during its last fiscal year in which it acted as an underwriter, general or managing partner, or offeree representative, or had any ownership or sales of interest. You responded in the affirmative to this item; however, it was represented to the examiners that there is no such arrangement. Please review your response to this item to assure that it is accurate.

You should respond to Part I, Item 3 to indicate that some books and records required to be maintained are in offices other than the firm's indicated principal place of business in Houston.

# SCHEDULE H

Please revise Schedule H:

- to clearly set forth the specific information requested by Item 7(f), a description of the nature of any fees that the client may pay in addition to the wrap fee and the circumstances under which these fees may be paid (including, if applicable, mutual fund expenses and mark-ups, mark-downs or spreads paid to market makers from whom securities were obtained by the wrap fee broker);
- to more fully explain, in response to Item 7(g), how the program's portfolio managers are selected and reviewed, the basis upon which portfolio managers are recommended or chosen for particular clients, and the circumstances under which the sponsor will replace or recommend the replacement of the portfolio manager;
- to more fully respond to Item 7(h) which requires, if applicable, a statement to the effect that portfolio manager performance information is not reviewed by the sponsor or a third party and/or that performance information is not calculated on a uniform and consistent basis; if performance information is reviewed to determine its accuracy, the name of the party who reviews the information and a brief description of the nature of the review; and a reference to any standards (i.e., industry standards or standards used solely by the sponsor) under which performance information may be calculated;
- to disclose, as required by Item 7(j), any restrictions on the ability of clients to contact and consult with portfolio managers; and
- to include a reference to the "Potential Conflicts of Interest" section at the end of the fifth paragraph on page 2 (regarding the registrant executing client transactions for compensation); and after the seventh paragraph on page 3 (regarding the client's ability to obtain lower fees).

With regard to the section entitled "Potential Conflicts of Interest . . ." on Schedule H, please make the following revisions:

- Expand the disclosure to acknowledge the registrant's duty under Section 206(3) of the Act to disclose in writing and obtain the client's consent prior to each principal transaction effected through the registrant; and
- Include disclosure about "distribution fees" mentioned here in the fee discussion for each applicable investment program.

It is suggested that clients be made aware of the conflict existing between clients and the investment advisers participating in the Portfolio Partners Program. Because the investment advisers may, to some extent, wish to obtain additional clients from the efforts of the registrant and its registered representatives, the investment advisers may be disinclined to execute client trades through another broker-dealer. Enclosed for your information is a copy of the Mark Bailey & Co. administrative proceeding which outlines disclosures made to prevent misleading clients with regard to directed trading practices.

# FIDUCIARY OBLIGATION

An adviser has a fiduciary relationship with clients and owes them undivided loyalty. Even though there may be some conflicts of interest which can be addressed with appropriate disclosure, the clients' interests should be foremost. Unlike a party to an arm's length transaction, an investment adviser has an affirmative duty of utmost good faith, and full and fair disclosure of all material facts, as well as an affirmative obligation to employ reasonable care to avoid misleading clients. Any departure from this fiduciary standard may constitute fraud upon clients under Section 206 of the Advisers Act.

During the examination, it was learned that representatives of SGC recommend to broker-dealer and advisory clients investments in a "certificate of deposit" ("CDs") issued by an affiliated bank domiciled in St. John's, Antigua, West Indies, Stanford International Bank Limited ("SIB"). It was represented that although SGC does not actually receive investor money invested in the CDs, neither in its capacity as a registered broker-dealer or investment adviser, SGC does receive from SIB on a monthly basis a "referral fee" equal to an annual rate of 3.75% of the total funds invested in the CDs by SGC clients. At least seventeen SGC's advisory client accounts have also invested in the CDs. This was apparently only determined after a great deal of effort on the part of SGC's compliance department as it was represented that no one at SGC maintained a record of all investors in the CDs or a record of all advisory clients who invested in the CDs. Further, since these transactions are not recorded on the books of the broker-dealer, but rather investor funds are somehow directly invested with SIB, the examiners were unable to confirm these transactions. SGC's compliance officer explained that there was no need to maintain such a record since the referral of these clients to SIB had nothing to do with SGC's brokerage or advisory operations, despite the fact that the SIB referral fees represented two-thirds of SGC's total revenue in 1997, totaling \$9.14 million.

These facts suggest that SGC may be under a mistaken understanding that, although it does not effect these transactions on behalf of its advisory clients and it does not charge its advisory fee on these investments, somehow these investment recommendations, or "referrals," fall outside the purview of the Advisers Act and SGC's duties thereunder. Please be advised that the examiners do not take this position, but rather construe the adviser's duty of utmost good faith to apply to any and all dealings between SGC and its advisory clients to whom it owes a fiduciary duty. In addition, Section 206(3) of the Advisers Act places a strict prohibition on self-dealing between an adviser, or its affiliate, and a client absent the prescribed written disclosure to, and consent from, the client. Further Sections 206(1) and (2) forbid fraud and deceit by an adviser in dealing with its clients without regard to whether a security is involved.

Please respond by explaining what action you plan to take to alleviate the conflicts of interest and self-dealing involved. In addition, the examiners have requested additional complete information about all advisory clients who have invested in the CDs including their names, address, and amount invested.

# WRITTEN DISCLOSURE STATEMENTS

It was noted during the examination that you have not been in compliance with the provisions of Rule 204-3 of the Advisers Act which requires an investment adviser to provide its clients or prospective clients with a written disclosure document which complies with Rule 204-1(b) under the Advisers Act containing, at a minimum, the information contained in Part II of Form ADV. The written disclosure statement must be delivered to a prospective client at least 48 hours in advance of entering into any contract. Or, if it is delivered at the time of entering into the contract, the client must be given five business days to terminate the contract without penalty. The written disclosure statement appears not have been provided to clients at the time of entering into the contract.

# MARKETING

An advertisement in the March 9, 1998, issue of the *On Wall Street*, stated in the fourth paragraph, "Stanford Group firmly supports the development of fee-based client relationships. The Master Asset Program (MAP) lets investors buy and sell a full range of securities without paying commissions or loads. Clients are charged one annual fee paid quarterly based on the market value of their account."

See, SEC v. Capital Gains Research Bureau, 375 U.S. 180 (1963).

Clariden Asset Management (New York) Inc. et al., Advisers Act Rel. No. 1504, 59 SEC Docket 2410 (July 10, 1995) (on consent) (hereafter "Clariden"); Credit Suisse Asset Management, Inc., Advisers Act Rel. No. 1452, 58 SEC Docket 38 (Nov. 16, 1994) (on consent) (hereafter "CSAM"); In re Piper Capital Management, Inc., Advisers Act Rel. No. 1435, 57 SEC Docket 1008 (Aug. 11, 1994) (on consent) (hereafter "Piper"); Hartzmark & Co., Inc., SEC No-Action Letter [1973 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 79,563 (Oct. 13, 1973). See also Section 208(d) of the Advisers Act (prohibiting an investment adviser from doing indirectly any act which it would be prohibited from doing directly under the Advisers Act).

The examination indicated that through the activities of your brokerage and advisory services, you earn 12b-1 fees in addition to brokerage or advisory fees. However, the advertisement does not disclose that SGC receives 12b-1 fees. Without this disclosure in paragraph four, this advertisement could possibly be misleading to a potential client. As a result, the registrant's advertisement would not be in compliance with Rule 206(4)-1(a)(5) which prohibits any investment adviser from publishing, circulating, or distributing any advertisement which contains any untrue statement of a material fact, or which is otherwise false or misleading. Please discontinue the use of such material without proper disclosure

# **CLOSING**

The deficiencies and/or violations of law described above are brought to your attention for immediate corrective action without regard to any other action(s) that the Commission may take or require to be taken as a result of the examination. In addition, the fact that this letter does not comment on other aspects of the Registrants' activities should not be construed to mean that such activities comply with the federal securities laws.

Please respond in writing within thirty days of the date of this letter describing the steps you have taken or intend to take with respect to each of these matters. Before responding to this letter or any other communication from this office regarding our recent examination, please refer to SEC Form 1661 provided at the start of our examination. Your response should be directed to the following person:

(b)(6), (b)(7)c

Fort Worth District Office 801 Cherry Street, 19th Floor Fort Worth, Texas 76102

In addition, a copy of your reply, together with copies of any enclosures, should be sent to the following person:

(b)(6), (b)(7)c

Office of Compliance Inspections and Examinations Mail Stop 9-1 U.S. Securities and Exchange Commission 450 Fifth St., N.W. Washington, D.C. 20549

Sincerely,

HUGH M. WRIGHT

# ASST. DISTRICT ADMINISTRATOR

BY: (b)(6), (b)(7)c

Securities Compliance Examiner

Enclosure: Mark Bailey & Co. administrative proceeding dated February 24, 1988

(b)(6), (b)(7)c

#### INSTRUCTIONS

Please complete each question. If you believe a question is inapplicable, you should answer "not applicable" (na). If the registrant doesn't know, you should answer "doesn't know" (dk).

For further guidance on the terms used or questions asked, please see the e-mail from October 9, 1997 on "Year 2000 Issues during Inspections.".

Exam Number 98-F-71

Registrant's Name Stanford Group Company

Registrant's File Number 801-50374

1.	Is registrant relying entirel	y on a thi	rd party	or third par	rties to ensure th	he Year 2000 d	compliance
	of its critical systems?						-
	[yes/no] No						

If yes, please identify the third party or parties \_\_\_\_\_

- Does the registrant have a written plan to address the Year 2000 Problem? [yes/no/na/dk] Yes
- Has registrant made an inventory of all computer systems affected by the Year 2000 Problem? [yes/no/na/dk] Yes
- 4. Is registrant taking steps to ensure that the Year 2000 problems identified in the inventory are being corrected? [yes/no/na/dk] Yes
- What is the expected date for completion of the correction process?
   [ddmmyyyy/na/dk] 01/01/99
- 6. Does registrant intend to test its internal systems for Year 2000 compliance? [yes/no/na/dk] Yes
- 7. What is the expected date for completion of internal testing? [ddmmyyyy/na/dk] 01/01/99
- 8. Does registrant intend to participate in testing with outside parties, such as DTC, Streetwide Testing, or others?
  [yes/no/na/dk] No
- What is the expected date for completion of such testing? [ddmmyyyy/na/dk] NA

# EXHIBIT 70

# SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE

#### MEMORANDUM

TO:

(b)(6), (b)(7)c

Office of Compliance Inspections and Examinations

MAIL STOP: 0901

cc:

FROM:

Hugh M. Wright

Ass't Administrator - Regulation, FWDO

By:

(b)(6), (b)(7)

RE:

Stanford Group Company

File No.

801-50374

Exam No.

IA2003FWDO-012

DATE:

December 19, 2002

#### Attachments:

Report of Examination, Memorandum of Comments, and Deficiency Letter for the routine examination of the above-captioned Registrant conducted by of the Fort Worth District Office.

The issue concerning the possible unregistered public offering of the CDs has been referred to the FWDO's Enforcement Division, which has decided to refer the matter to the Texas State Securities Board.

# Fort Worth District Office Investment Adviser Examination Report

	Exam No. IA 2003 FWDO 012	File No	801 - 50374	Category	
٠.,	Name Stanford Group Company			: Complex	
	City Houston	State TX	Zip 77056	Risk (1/2/3)	1H-
	Contact & Ph # Jane E. Bates, Chief Compliance O	fficer, (b)(6), (b)(7)c			
	Action Ltr/Enf	Cause Exam	N	Custody	N
	(No/Ltr/Conf/Enf/Oth)	(Y/N)		(Y/N)	
	Lead Examiner:	BD#	8-48611	IARD#	
o)(6), (b)(7)c	@sec.gov				
5.	Examiners: Field Work Star	t 11/12/2002	Recovery		,
o)(6), (b)(7)c	Dsec.gov Field Work En	d 12/10/2002	No IC Mgd		
•	Disposition Dat	e 12/19/2002	IC Assets \$*		
	Response Dat	e	Pvt Clients	1,166	
	Last Inspection	n 7/15/1998	Pvt Assets \$*		
	Hours Fld/Office		Subscribers		
	Hours Managemen		* \$ in Millions		
	# of Deficiencies or Violations:	. ,			
	1. Filings & Reports		10. Portfolio Mana	gement	
	6 2. Form ADV/Broch Dis/Del	15	11. Prohibited Tra		,
	3. Contracts		12. Limited Partne		* .
	4. Custody		13. Conflicts of Int		
	2 5. Books & Records		14. Brokerage/Exe		
	6. Financial Condition		15. Wrap Fee Prog		
	2 7. Internal Controls		16. Marketing/Per		
	8. Advisory Services		17. Compensation		
	1 9. Unregistered Entity		18. Client Referral		
			19. Litigation		
			->-		
	Examiner (b)(6), (b)(7)c	Date	12/13/2002		
		7(	127, 207, 2002	. *	4. 1
· .	<b>Examiner</b> (b)(6), (b)(7)c	Date	12/13/2002		÷
		J[	,,,		
	Examiner	Date			
	<b>Reviewer</b> (b)(6), (b)(7)c	Date	12/18/2002	:	
		][	12/ 20/ 1002		
	Approved Hugh M. Wright	Date	12/19/2002		
	in provide a pro		IA Categories**		
			A= Financial Plann	er	
٠.			B= Non-Discretion		
	·		C= Discretionary A		
. "	*		D= Newsletter Wri		
			E= Inactive	•	
			O= Other		
. )	Standard IA Data Sheet (IA Sheet.dot)		P= Pension Consul	tant	

# FORT WORTH DISTRICT OFFICE REPORT OF EXAMINATION

# Stanford Group Company 801-50374 Houston, TX

# **SUMMARY OF VIOLATIONS**

Section/Rule	Comment	
Section 206 Rule 206(3)-2	Registrant engaged in principal transactions and agency cross transactions (which may in fact be principal transactions as well) without providing the required disclosure to the participating clients.	
	Registrant failed to document adequate due diligence with respect to its clients' investments in its affiliated offshore bank's certificates of deposit.	
Securities Act, Section 5	Registrant-affiliated websites posts information about a private offering of the Registrant's affiliated offshore bank's certificates of deposit that may represent a general solicitation, or public offering, to United States investors without registration.	
Form ADV and Wrap Brochure	Registrant failed to adequately disclose     Material facts concerning its offering of its affiliated offshore bank's certificates of deposit, including:	
	<ul> <li>If true, that the Registrant did not recommend the client invest in the certificates of deposit;</li> </ul>	
/	<ul> <li>The actual "referral fee" the Registrant receives annually from the sale of the certificates of deposit;</li> </ul>	
	<ul> <li>Registrant's overwhelming financial reliance on referral fees on these sales for its financial success; and</li> </ul>	
	<ul> <li>That any investments in the certificates of deposit will not be considered assets under management for purposes of fee calculation.</li> <li>The additional compensation earned on the Registrant's clearing agent's money market sweep account on Form</li> </ul>	

Section/Rule	Comment
	ADV, Schedule F, Item 13.A., not Item 13.B.
	Form ADV, Part II, Item 1.C. (6) indicates SGC receives     "other compensation," but Part 1A, Item 5.E. (7) does not.
	<ul> <li>The information required by Schedule H, item 7(k) regarding the background information of the individuals providing advice on behalf of the Registrant.</li> </ul>
	<ul> <li>The range of sub-advisory fees it pays to outside money managers as required by Schedule H, Item 7. (c).</li> </ul>
	Information required by Schedule H, Item 7. (d).
	<ul> <li>Information required by Schedule H, Item 7. (g) concerning its policies with regard to monitoring the sub-advisers.</li> </ul>
	The information required by Schedule H, Item 8. (cross-reference.)
	The Registrant's policies with regard to bunched or blocked trading for its clients.
	Its policy with regard to pricing securities.

#### **EXECUTIVE SUMMARY**

The staff of the Fort Worth District Office ("FWDO") conducted an examination of Stanford Group Company ("SGC") beginning November 12, 2002. This was SGC's second examination, having been examined in July 1998. The FWDO broker-dealer examination staff examined SGC in August 1997, resulting in a referral to the FWDO Division of Enforcement for their review and disposition (MFW-894). This inquiry was closed with no action.

The area of concern in the prior examination involved the Registrant's "referral" of customers to an affiliated offshore bank for investment in "certificates of deposit" ("CDs") issued by that bank. The examiners sought to gather information about "referrals" of advisory clients. In the end, it was determined that there was insufficient information to support an enforcement action. At that time, at least 17 SGC advisory client accounts had also invested in the CDs. It was also represented to the examiners at that time that these clients were non-U.S. citizens.

Examination No. 98-F-71.

Based upon the amount of referral fees earned by SGC in 1997, it appeared that SGC brokerage and advisory clients may have invested as much as \$250 million in the CDs. At the time of the current examination, the amount of referral fees received by SGC would be indicative of \$640 million in CDs outstanding primarily through SGC's efforts. The FWDO recently received a complaint letter from a Mexican resident concerning SGC's apparent sale of a CD to her 75 year-old mother in Mexico.

#### BACKGROUND

SGC was formed as a Texas Corporation on July 21, 1995, and became registered as an investment adviser with the Securities and Exchange Commission ("Commission") effective October 17, 1995. SGC is also registered as a broker-dealer (File No. 8-48611). SGC is 100% owned by Robert A. Stanford ("Stanford"). Stanford also owns a number of other companies, generally referred to as the Stanford Financial Group of Companies, including Stanford International Bank Limited ("SIB"), an offshore bank open to persons outside Antigua, located in St. John's, Antigua, West Indies; Bank of Antigua, an Antigua bank serving Antigua resident client accounts only, also located in Antigua; Stanford Trust Company Limited, a trust company in St. Jon's, Antigua; Stanford Financial Group Building which owns and operates SGC's headquarters office located in Houston; Stanford Trust Company ("STC"), a Louisiana state chartered trust company; and **Stanford Agency**, **Inc.**, an insurance company located in Louisiana. At the time of the examination, SGC operated its advisory businesses from Houston, Texas, having recently moved its advisory operations from Denver as part of a downsizing of the Denver office. SGC's co-presidents are (b)(6), (b)(7)c ; its chief operating officer is Lena Stinson ("Stinson"); and its chief financial officer is

using a Schedule H brochure as its disclosure document. SGC recently terminated Robert B. Glen, the former head of its advisory division, after disappointing results and a perception of wasted spending on his part. Its only active management product in which it actually provides direct portfolio management is the Stanford Asset Management ("SAM") program that offers fixed income management, with a special focus of Latin American bonds. This special focus, according to SGC, is due to the desires of its primarily Latin American clients. Jane Bates ("Bates") serves as SGC's overall compliance officer, reporting directly to Stanford, assisted by coverall compliance officer, reporting directly to Stanford, assisted by coverall services to SGC is directly to Stanford International Fixed Income Group ("SIFIG"), providing discretionary asset management services to SAM clients and non-discretionary advisory services to SGC registered representatives ("RRs") in the international fixed income area. (i) (i) (i) (ii) (iii) is now in charge of the mutual fund allocation and portfolio manager referral products discussed below.

Currently, most of SGC's clients are high net worth individuals. SGC clears its clients' securities transactions through its clearing arrangement with Bear Stearns.

#### **EXAMINATION SCOPE**

Generally, in order to use Fort Worth District Office ("FWDO") examination resources in the most efficient and cost-effective manner, examinations are conducted with a focus on the areas of highest perceived risk. Various books, records, and other documents are requested and reviewed in order to identify patterns of transactions or activities that might violate regulatory requirements.

However, the scope and focus of this examination were also based on a review and analysis of the control environment maintained by the Registrant, as well as specific control measures used in strategic risk areas. The methodology used to identify and evaluate control procedures was that established under the Strategic Risk – Control Evaluation Matrix ("SR-CEM") program. Under the SR-CEM program, if the control procedures used by a registrant in a strategic risk area are determined to be highly effective, examiners have the option of not reviewing and conducting test checking of individual transactions recorded in the traditional books and records that document activities in that area. The concept underlying this approach is that when a registrant maintains effective control procedures, problems are identified and corrected as they arise and there is a substantially lower likelihood of there being unidentified, on-going major problem or fraudulent activities that could harm advisory clients or fund shareholders. As a result, inspection resources are focused on those activities in which control processes are found to be weak and ineffective.

Due to the nature of SGC's operations, many of the control measures contemplated by the SR-CEM program were inapplicable or nonexistent. As SGC does not manage a mutual fund, some of the items were clearly inapplicable. Further, since SGC is a dual registrant and custodies with, and executes trades through, its own clearing arrangement with Bear Stearns, many of the best execution controls were not present. As discussed later in this report, violations involving principal transactions and agency cross transactions were identified and cited to the Registrant. Given SGC's operations, the level of control measures did not appear unreasonable except in the area of principal and agency cross trades and pricing hard-to-price foreign, thinly traded fixed income securities.

At the commencement of the examination, the examiners conducted an initial interview with Bates, SGC's compliance officer. This discussion, and later discussions with [D(G), (D)(7)], Stinson, and [D(G), (D)(7)], an Associate Vice President, provided the examiners with insight into SGC's current business activities, future plans, investment strategy and philosophy, and policies and procedures in place. The

examiners used such information to further shape and define the scope of the examination.

#### FOCUS / SPECIAL REVIEW AREAS

During the examination, focus areas with respect to Regulations S-P, performance, best execution, suitability of recommendations and appropriate sales practices, Form ADV, Part II disclosures, hedge funds and disaster related policies and procedures were reviewed. Among other things, this report addresses SGC's failure to adopt suitability policies and procedures, and inadequate Form ADV, Part II disclosures. All other focus areas were either properly addressed or did not apply. It was further noted that the Registrant had adopted adequate polices and procedures with regard to Regulation S-P.

# Disaster Recovery

It appeared to examiners that the Registrant's contingency planning process was adequate in light of the services it provides. Accordingly, no mention was made in the accompanying deficiency letter concerning disaster recovery or contingency planning.

## Money Laundering Prevention

SGC had substantial written procedures to detect and prevent money laundering. While these procedures appeared on their face to be reasonably adequate, the examiners only reviewed a small number of client files of which only a few were those of foreign nationals.

# Valuation of Portfolio Securities

SGC failed to adequately document its pricing of hard-to-price foreign fixed income securities. (See "SECURITIES PRICING.")

# Adviser Performance Advertising

This area was not applicable, as this registrant does not advertise performance.

#### Form ADV Part II

This area was of particular concern. (See the discussion below under "FORM ADV AND WRAP BROCHURE" for further details.)

# Best Execution, Soft Dollar Abuses or Undisclosed Client Referral Payments

SGC's clients execute all transactions (except transactions in the CDs) through SGC's clearing broker, Bear Stearns. SGC has in the past reviewed information to assess Bear Stearn's execution quality.

## Hedge Fund or Other Private Equity Fund

SGC RRs offer CDs to their clients and receive "referral fees" in return. See discussion in report for more details.

## Funds of Hedge Funds

Not applicable as this Registrant does not recommend or manage a "fund of hedge funds."

## Adequate Control Procedures to Ensure Proper Disclosures (Funds)

This area was not applicable, as this examination did not involve a fund.

#### Exit Interview

An exit interview was held with and Bates (via teleconference at SGC's office) at the completion of the onsite fieldwork on November 21, to discuss the preliminary examination findings. Further items were discussed with telephone after the on-site fieldwork ended. All items mentioned in the attached deficiency letter were discussed in these meetings.

#### STRATEGIC RISK - CONTROL EVALUATION MATRIX

As SGC had more than \$100 million under management and more than 50 employees, the FWDO examiners, per OCIE policy, were required to perform the Strategic Risk – Control Evaluation Matrix ("SR-CEM"). Due to the time needed to perform the SR-CEM, examiners had to limit their normal review of the Registrant's activities and were required to extend the fieldwork in the Registrant's office. In addition, the conduct of the examination was delayed due to the need for the Registrant's compliance employees to search for, provide and explain information responsive to the SR-CEM request.

Based on both interviews with the compliance officers, CFO, and portfolio managers, and a review of control-related documents, it was determined that control procedures in applicable strategic control areas were "okay," with the exception of the areas of securities pricing and client order allocation procedures, which were considered

"ineffective." See the discussions on these topics later in this report. Because of examiners' assessment of SGC's control procedures, more detailed test checking was conducted in certain of these areas. Some areas were not perceived to be of a high risk for this particular Registrant due to the nature of its operations (e.g., performance information disseminated to clients.)

### **FINANCIAL CONDITION**

# SGC's balance sheet reflected the following:

	Nine Months Ended September 30, 2002 (Unaudited)	December 31, 2001 (Audited)	December 31, 1997 (Unaudited) (1998 Exam)
Total Assets	23,237,147	24,217,109	\$71,265,872
Liabilities	4,246,554	6,046,730	
Subordinated Note	4,000,000	4,000,000	
to Affiliate			4 4
Total Liabilities	8,246,554	10,046,730	50,972,457
Capital (Net Worth)	14,990,593	14,170,379	20,293,415

# SGC's income statement reflected the following:

	September 30, 2002	December 31, 2001	Year Ended	
	(Unaudited)	(Audited)	Dec. 31, 1997	
	H		(Unaudited)	
			* ***	
Referral Fees <sup>2</sup>	19,416,444	19,180,966	\$9,144,560	
Commissions and	6,174,488	11,588,723	4,512,015	
Advisory Fees				
Other Income	2,880,402	3,467,455		
Total Revenue	28,471,334	34,237,144	13,656,575	
Total Operating	27,651,110	38,646,660	12,209,238	
Expenses				
Net Earnings (Loss)	820,224	(4,409,516)	\$ 1,447,337	

SGC's independent auditor is BDO Seidman, LLP in Houston, Texas, and its legal counsel is Chan Warner P.C.

Referral fees represent income from the sale of CDs issued by SIB and, to a small degree, referral fees from STC, SGC's affiliated trust company. SGC receives a three percent annual trail commission from SIB for convincing clients to invest in SIB's CDs.

#### **ADVISORY SERVICES**

As of October 31, 2002, SGC managed approximately \$102.9 million on a discretionary basis for 514 client accounts and \$105.6 million on a non-discretionary basis for 652 client accounts, bringing the total assets under management to approximately \$208.5 million with 1,166 client accounts. SGC manages client accounts through four different advisory programs, one of which can be either discretionary or non-discretionary, through wrap programs as follows:

Program	No. of Accounts	Market Value at
	1.4	10/31/2002
Portfolio Advisors Program ("PAP")	278	\$76,402,496
Portfolio Partners Program ("PPP")	120	14,692,453
Mutual Fund Partners Program ("MFP")	54	5,496,416
Mutual Fund Partners Plus Program ("MFPP")	56	4,136,420
Master Asset Program ("MAP") (Discretionary)	6	2,090,260
		· ·
Total Discretionary Assets	514	\$102,818,045
MAP (Nondiscretionary)	652	105,568,912
Total Assets	1,166	\$208,386,957

In all the programs, SGC offers its services for an all-inclusive asset based fee that includes all transaction costs other than those costs incurred by executing a trade away from SGC, which rarely if ever occurs.

In the PAP program, SGC recommends one of several sub-advisors to its clients, including its own proprietary SAM fixed income discretionary management program, which accounts for \$51.3 million of the total assets managed under PAP. None of the other 16 sub-advisers has more than \$4.6 million under management. (b)(6), (b)(7) who is no longer with SGC, was primarily responsible for SGC's sub-adviser due diligence. (b)(6), (b)(7) has recently been given this duty. SGC's asset-based fee begins at 3% on the first \$250,000 and declines to 2% of the amount over \$1 million, with the fee on assets over \$2 million being described as "negotiable." The wrap brochure discloses that SGC may pay a maximum of 1% to the sub-advisers.

SAM offers four different fixed income management products within PAP, the SAM Income Portfolios, the SAM the Stanford Income Plus Portfolios, the Latin American Income Portfolio, and the Global Income Portfolio. In all four strategies,

SGC also offers a Consulting Services Program ("CSP") that is essentially the same as PAP except the client can select any third party adviser to manage its account at SGC. SGC charges a lower fee for this service (since the client will presumably be paying an advisory fee to the third party adviser). At the time of the examination, there were no client accounts in CSP.

"certificates of deposit" are included as possible investment recommendations. SAM charges fees on the SAM Income Portfolios of 1.25% on the first \$500,000 which decline to 0.85% on amounts over \$1 million. The other strategies require a higher fee, ranging from 1.75% on the first \$500,000 down to 1.25% on amounts over \$1 million. In all cases, fees on amounts above \$2 million are negotiable.

Clients selecting PPP are electing to have their SGC account managed, on a discretionary basis, by one of three RRs located in SGC's Houston office — , and 
The MFP program is a mutual fund allocation program using no load and load-waived fund shares, requiring a minimum account size of \$25,000. An MFP account can be either discretionary or non-discretionary. SGC discloses in its brochure that its RRs may receive more compensation on a MFP account than in other SGC investment programs. It also discloses that SGC may receive 12b-1 fees in addition to its advisory fees.

The MFPP program is similar to MFP except that it provides for only limited discretion for the client's portfolio to be automatically rebalanced whenever any allocation becomes more than 5% more or less than the original allocation. The fees for the MFP and MFPP programs are the same, starting at 2% on the first \$250,000 and declining ratably until they are negotiable for assets of more than \$2 million. Both programs also have a minimum account size of \$25,000. MFPP program has the same disclosure as described above about RRs' conflicts and 12b-1 fees.

#### PROHIBITED TRANSACTIONS

In response to the Examination Staff's initial document request, SGC produced a schedule reflecting what it believed to be agency cross transactions. After review, it was determined that one of SGC's affiliates, the Bank of Antigua, was also an advisory client and was participating in the cross trades, generally being the selling client in the trades. SGC did not appear to recognize that, since the Bank of Antigua was under common control with SGC, these represented principal transactions with their other advisory clients. Bates acknowledged that SGC had failed to comply with either Rule 206(3)-2 or Section 206(3) with respect to these trades. Bates indicated that, because all

the trades were effected through one or more SGC proprietary trading accounts at Bear Stearns, it was possible that all the trades were actually principal transactions, even those not involving the Bank of Antigua account.

After review of the trades, it appeared that SGC had not made a commission or mark-up or mark-down, on these trades. Further, it could not be determined whether the Bank of Antigua was favored in these trades, particularly since the portfolio manager had not documented the prevailing market prices for the securities involved in the trades.

During the course of the fieldwork portion of the examination, Bates provided the Examination Staff with documentation indicating that if the clients elected to rescind the transactions as the result of SGC's notice of the trading irregularities, SGC might incur losses on behalf of its clients of slightly more than \$100,000. In addition, Bates informed the Examination Staff that the clients were likely to terminate their relationship with SGC if they became aware of the inappropriate transactions, even if SGC made the clients whole.

The attached deficiency letter notes the inappropriate transactions and asks SGC to explain what action it will take to remedy the violations. The deficiency letter also requests that SGC adopt and follow procedures reasonably designed to assure compliance with Rule 206(3)-2 and Section 206(3) as appropriate.

#### REFERRALS TO AFFILIATED BANK FOR CERTIFICATE OF DEPOSITS

A review of SGC's "due diligence" files for the SIB certificates of deposit ("CDs") revealed that SGC had little more than the most recent SIB financial statements (year end 2001) and the private offering memoranda and subscription documents. There was no indication that anyone at SGC knew how its clients' money was being used by SIB or how SIB was generating sufficient income to support the above-market interest rates paid and the substantial annual three percent trailer commissions paid to SGC. Discussions with Bates indicated that SGC and SIB do did not believe the CDs are securities; however, SGC has filed Forms D with the Commission. In its transmittal letters to the Commission, SGC disclaims that the CDs are securities under the federal securities laws, but states that it is filing Form D in an abundance of caution. In addition, Bates maintained that SGC was not recommending the CDs to advisory clients, merely referring them to SIB for consideration.

According to the last Form D filed with the Commission on January 29, 2002, SIB claimed to have sold \$37.2 million (of \$150 million offered) in CDs to an undisclosed number of U.S. resident accredited investors. This amount reflects additional deposits of \$22.3 million to U.S. investors since February 24, 2000, the date of the previous Form D, when SIB reported total sales of \$14.9 million (of a total \$50 million offered.) The

letter transmitting the most recent Form D, as previous transmittal letters, states, "[SIB] believes that these [CDs] are not a 'security' as defined under U. S. Securities laws, but are [sic] nevertheless offering this product solely to accredited investors in the United States." According to data provided by SGC during the examination, SGC has 49 advisory client investments in CDs totaling \$15.6 million. One client has three accounts with investments totaling \$9.2 million. As noted above, for calendar 2001, SGC received SIB referral fees of \$19.2 million. Based upon this fee revenue, the CD sales attributable to SGC could be estimated as approximately \$640 million (less the amount attributable to the sales efforts of its affiliated Venezuelan investment adviser discussed below.) SIB's financial statements for the year ended December 31, 2001, discussed in more detail below, indicated total "certificates of deposit" of \$1.1 billion.

The examiners obtained copies of the disclosure documents given to U.S. accredited investors and it appeared that the document provided extensive disclosure that SIB was not a U.S. bank and that the CDs were not protected by FDIC or other federal guarantees, or by SIPC. It further claimed that the CDs were not securities, not subject to U.S. securities regulation, and had not been registered for sale in the U.S. However, the document provides no disclosure of specifically how the money will be used by the issuer.

Examiners also obtained the latest interest rates offered by SIB. The interest rates generally depend on the type of CD, the amount deposited, and the maturity term. The current rate offered on the FixedCD is 3.65% on a deposit of \$10,000 to \$49,999 for a one-month term. This rate increases to a high of 8.150% on a deposit of between \$2 million to \$3.9 million for a 60-month term. On deposits of \$250,000 or more, the interest rate will go up if SIB's base rates increase. The current U.S. treasury rate on a three-month bill is 1.18%, with a yield of 1.20%, and the rate on a 5-year note is 3.00% with a yield of 3.05%. The rates on the FlexCD, which is essentially the same as the FixedCD except the client may withdraw his money in 25% increments with five banking days notice up to four times annually, are slightly lower. The "guaranteed rate" on the IndexLinkedCD is 3.90% on maturities of three, four, and five years.

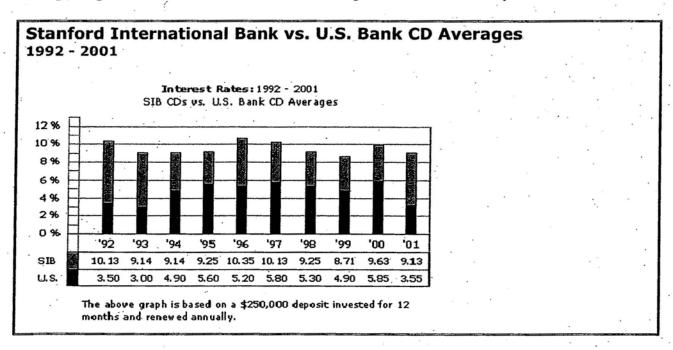
SGC has established internal procedures that require a RR to obtain the disclosure document and subscription agreement from SGC's "operations department," which maintains a log of investors provided the documents. Therefore SGC should have a record of all persons to whom the U.S. CD private offering has been made. A request for a list of all CD holdings resulting from SGC CD sales, both in the U.S. offering and offered to non-U.S. residents, is pending at the date of this report.

It was explained to examiners that, in addition to receiving referral fees from SIB for CD sales of SGC RRs, SGC also receives referral fees paid on sales by representatives

of an affiliated investment adviser in Venezuela. It was explained that the Venezuelan company could not accept referral fees from SIB without being considered engaged in the banking business under Venezuelan law. Therefore, SGC receives all referral fees earned by the Venezuelan affiliate and its agents, retains a portion of the fees (10%) and forwards the rest to the Venezuelan affiliate. All this is pursuant to a written agreement between SGC and the Venezuelan affiliate.

SGC provided examiners SIB's Annual Report for 2001, which reflected total assets of \$1.2 billion, of which \$1.1 billion were described on the face of the balance sheet as "investments." Total liabilities were reflected as \$1.1 billion, leaving a total stockholder's equity, or net worth, of slightly more than \$75 million. SIB's income statement reflected gross interest and non-interest income of \$140 million, which, after deduction of interest paid and "service fee activities," produced net revenue of \$19.2 million. After expenses of slightly more than \$7 million, SIB reported an "operating profit" of \$12.2 million.

Information about the CDs, and other SGC-affiliated business operations can be accessed via the Internet at <a href="www.stanfordeagle.com">www.stanfordgroup.com</a>, and <a href="www.stanfordinternational.com">www.stanfordinternational.com</a>. Including on the former website is the following chart comparing SIB's CD interest rates to the average CD rates offered by U.S. banks:



Stanford Group Venezuela Asesores de Inversión, C.A., Avenida Tamanaco, Torre Empresarial El Rosal, Piso 3, El Rosal-Chacao Caracas, Venezuela (011 (58212) 953-2595).

The notes to the financial statements described the "investments" as listed securities in "equities" of \$626 million and "treasury bonds, notes, corporate bonds" of \$443 million.

The website also provides all the terms and conditions of the various types of CDs and other accounts offered by SIB (e.g., the FixedCD, the FlexCD, and the Index-LinkedCD.) A person accessing the website can easily get information about how to contact SGC representatives, either by telephone or by email. As a result, the website information appears to represent a general solicitation, or public offering, of the CDs to U.S. persons.

The attached deficiency letter requests SGC conduct additional due diligence to support its recommendation of its affiliated bank's CDs. It also requests that, if true, the disclosure in its brochure clearly disclose that it is not recommending clients invest in SIB CDs and that their referral to the affiliated bank does not indicate approval or recommendation of the CD by SGC to the client. It also requests that the brochure disclose that any client investments in the CDs will not be considered assets under management for fee calculation purposes. Finally the letter cautions SGC that the website information about the CD offer may be a public offering, jeopardizing SIB's claimed Rule 506 private offering exemption.

#### FORM ADV AND WRAP BROCHURE

In addition to other deficiencies discussed in more detail elsewhere in the report, SGC's Form ADV and wrap brochure required revisions in the areas noted below.

#### Form ADV

- The response concerning additional compensation earned on the Registrant's clearing agents money market sweep account should be disclosed on Schedule F, Item 13.A., not Item 13.B.
- Part II, Item 1.C. (6) indicated SGC receives "other compensation," but Part 1A, Item 5.E. (7) is not marked.

### Wrap Brochure

• The discussion of SIB on page 42 under "Affiliations" should disclose the amount of referral fees (3% of funds invested) and the fact this amount is paid annually, not just at the initial investment. The discussion should also mention that, as explained to the examiners, SGC does not recommend the investment to its advisory clients, but merely refers them to SIB. (It should be noted that this contradicts the Registrant's disclosure on Schedule F to Part II, Item 9.D., disclosing that SGC "Recommends Related Investment Products," including the SIB CDs.) In this regard, it is recommended that SGC disclose that it may nonetheless bear some responsibility for the advisory client's investment in the SIB CDs. It is also recommended that SGC disclose that it relies upon referral fees from SIB for the vast majority of its revenues. This same or similar

disclosure should also appear in the Registrant's response on Schedule F to Part II, Item 9.D. regarding SIB.

- The brochure should include the information called for by Part II, Item 6 as required by Item 7(k) of Schedule H regarding all individuals providing investment advice on SGC's behalf or their supervisors if more than five, including the registered representatives offering advice under PPP.
- The brochure should be amended to provide the range of sub-advisory fees paid by SGC to the sub-advisers for their services as required by Schedule H, Item 7.
   (c).
- The brochure should be expanded to provide a full response to Schedule H, Item 7. (d).
- The brochure should be expanded to more completely describe SGC's policies regarding sub-advisers as required by Schedule H, Item 7. (g).
- The cross reference required by Schedule H, Item 8. should be completed.

#### **BROCHURE DELIVERY**

SGC only makes an annual offer of its own wrap brochure to clients. Its contract with the third party sub-advisers provides that SGC is to provide a new client with the sub-adviser's brochure, but is silent with respect to the annual offer of the sub-adviser's brochure. SGC personnel indicated that it was likely that no one was making the sub-adviser annual offer. The attached deficiency letter requests SGC establish procedures that assure clients receive the annual offer of the sub-advisers' brochure.

#### **CUSTODY**

Registrant effects bunched or block trades for the benefit of its advisory clients, including affiliated client accounts (e.g., The Bank of Antigua) through the use of a omnibus account held in the Registrant's name at its clearing firm. The use of such an account may create a risk to the client's funds or securities while the transactions are being effected since the adviser my have access to the funds or securities held in such an account. The attached deficiency letter requests that SGC assure the staff that the Registrant's omnibus trading accounts meet the requirements of the *Owen T. Wilkinson* no action letter, providing documentation supporting the explanation.

The staff also considered questioning whether SGC had indirect custody of its clients' funds or securities through their investments in SIB CDs. However, based upon existing no action guidance, it did not appear that the Examination Staff could claim

SGC had such custody.<sup>6</sup> Therefore, no mention of this is made in the attached deficiency letter.

#### BOOKS AND RECORDS

SGC did not create and maintain the required order memorandum. In addition, it did not follow, or did not adequately document its following, proper procedures with regard to bunched trading. The attached deficiency letter asks SGC to establish appropriate policies and procedures, with appropriate disclosure and documentation, to assure the fair treatment of its clients in bunched trades.

#### SECURITIES PRICING

In several instances, SGC was required to price foreign fixed income securities not priced by its clearing firm, Bear Stearns. The portfolio manager, was involved in the pricing process, obtaining quotes from brokers on the price. However, this process was not adequately documented, including any indication of review by compliance. The attached deficiency letter requests that SGC disclose its pricing policies and establish procedures that will produce documentation of these pricing irregularities.

#### **BUNCHED OR BLOCK TRADING FOR CLIENT ACCOUNTS**

As described earlier in discussing the cross transactions effected by SGC, on a routine basis SGC executes bunched or block trades on behalf of its clients, including affiliated accounts. In operation, the practices seemed reasonable. However, SGC did not adequately document the process, including producing and maintaining the appropriate order memoranda as mentioned elsewhere, to establish compliance with its procedures and the fair treatment of clients. The attached deficiency letter requests SGC disclose its bunched trading policy in its Form ADV and wrap brochure and establish procedures to document these clients trades.

#### CONCLUSION

At the conclusion of the on-site fieldwork portion of the examination, Examiner conducted an exit interview with Bates and [b](6), (b)(7)c. Other issues were addressed through telephone conversations with [b](6), (b)(7)c. During the interview and subsequent telephone conversations details of the examiners' concerns, which are set forth in more detail above, were presented. Further comments relating to SGC and the violations or

The Division of Investment Management has indicated that if an advisory business is separate under the five factor test set out in the *Crocker Investment Management Corp.* (April 4, 1978) no action letter, the sole fact that an adviser has custody of client funds in another line of business would not require the adviser to comply with the custody rule. *Volunteer Corporate Credit Union* (May 28, 1993.)

deficiencies noted during the examination are contained in the accompanying deficiency letter, which Examiners forwarded to the Registrant concurrent with the submission of this report. Prior to sending the deficiency letter, the Examination Staff discussed its content with Registrant.

OCIE assigned SGC an "adviser ranking" of "182". Based upon the results of this examination, the FWDO has assigned a "risk rating" of "1," the highest risk rating possible, primarily due to SGC's sales of the CDs.

The issue concerning the possible unregistered public offering of the CDs has been referred to the FWDO's Enforcement Division, which has decided to refer the matter to the Texas State Securities Board.<sup>7</sup>

(b)(6), (b)(7)c mother was apparently approached by a SGC representative in Mexico, where she resides, to invest in the SIB CDs. The FWDO Enforcement Division has forwarded the complaint to the Texas State Securities Board.

After the completion of the fieldwork portion of the examination, but prior to the completion of this report, the FWDO received a letter from (b)(6), (b)(7)c

# EXHIBIT 71

# **RE: Stanford Group Company**

3/20/2003 9:07:33 AM

From: (b)(6), (b)(7)c

To: (b)(6), (b)(7)c

@SEC.GOV]

Yes, Jane is still resisting. I'm not sure how much good would come out of sending them another letter. They also sent us a list of CD investors. The list seems awfully short. They didn't include addresses - however, just looking at the names the majority appear to be US citizens (in fact, I suspect one is a [b](6), (b)(7)c.

We don't know what to make of the Stein case. I'm a little puzzled by their opinion...

I'll be in H-town next week - see you on the 24th.

(b)(6), (b)(7)c

----Original Message----

From: (b)(6), (b)(7)c

Sent: Wednesday, March 19, 2003 7:47 PM

To: (b)(6), (b)(7)c

Subject: RE: Stanford Group Company

(b)(6), (b)(7)c

I take it Jane is still resisting the rescission offer. I think we have to consider whether we should consider enforcement referral to put some pressure on them.

On the Stanford Bank issue, I am not sure what to do. If they have the information they gathered on these visits to Antigua, why didn't they give it to us when we asked for it? I guess we should ask for it again.

I will continue to think about it. I am currently considering the Stein case. I am satisfied with the outcome, although the Commission's opinion on his status as an "investment adviser" individually. Let me kno what the scuttlebutt is in the office on that, if any!!

See you next week. (b)(7)c and I are trying to figure what the heck our registrant is up to here in Austin. They only think they are an adviser!!

(b)(6), (b)(7)c

----Original Message----

From: (b)(6), (b)(7)c

Sent: 3/19/2003 5:01 PM

Subject: Stanford Group Company

(b)(6), (b)(7)c

I reviewed the latest Stanford response and placed it on your chair. Here are my thoughts:

\* Jane stresses throughout the response that clients were not harmed by the cross transactions. Even it this is true, this does not



mean that clients will not be harmed when they are faced with the situation where they have to sell or otherwise dispose of small odd-lots of securities. With this in mind, I think they (the clients) should be given the option to rescind the transactions. In addition, there are no exceptions in the Securities Laws that allow Stanford (or any adviser) to break the rules in situations where clients are "not harmed."

During the fieldwork of the examination, I got the definite impression that the Registrant's staff was trying to "wash their hands" of the offshore bank and downplay the activities of the bank in their office. We were told that once a client was referred to the bank the adviser's personnel no longer took an active role in managing that portion of the client's assets. Now Jane claims that Stanford's COO and Chief Compliance Officer regularly visit the offshore bank, participate in quarterly calls with the CFO of the bank, and receive quarterly information regarding the bank's portfolio allocations (by sector and percentage of bonds/equity, etc.), investment strategies, and top five equity and bond holdings. Jane also says that such information will now be included in its due diligence files. I believe this to be a mistake by Jane and others at Stanford - this response should come in handy when the bank collapses and everyone there plays dumb. Also, if this information is included in the due diligence file, we should have access to it now (i.e, based upon her response I believe we could argue that the CDs are now assets under the supervision of the Registrant). Perhaps we should drop by unannounced and ask to look at it.

In addition, b)(7)c has become very interested with this Registrant - with b)(7)c approval, I provided him a copy of the report and letter.

Take care and go easy on the NorthPark cookies,



# EXHIBIT 72

# **RE: Stanford International Bank**

5/22/2003 11:24:10 AM

From: (b)(6), (b)(7)c

To: (b)(6), (b)(7)c

@sec.gov]

All Hal wanted to do is make sure we had done all we could do in alerting the banking authorities of our concerns and getting them on the line about what to do (or not do) about the situation. I don't see us having to go back to look at anything. I was thinking about going back to confirm with Jane that we had a full list of CD holders that bought through SGC. The totals from the list she gave us do not exactly match up with the total CDs outstanding that should be out there based upon the referral fees SGC received in 2001 (unless that Venezuelan outfit sold a whole bunch!!)



----Original Message---From: (b)(6). (b)(7)c

Sent: Thursday, May 22, 2003 11:20 AM

To: (b)(6), (b)(7)c

Subject: FW: Stanford International Bank

(b)(6), (b)(7)c

Did you get this e-mail? My OWA cut out as I was sending it. Did Hal say what kind of role we (regulation) were going to play in investigating this further? Do we have to go back out there?



----Original Message---From: (b)(6), (b)(7)c

Sent: Thursday, May 22, 2003 10:28 AM

To: (b)(6), (b)(7)c

Subject: FW: Stanford International Bank

(b)(6), (b)(7)c

I have not heard a peep from b(r). Here is the last e-mail I sent her.

(b)(6), (b)(7)c

-----Original Message-----From: (b)(6), (b)(7)c

Sent: Wednesday, February 12, 2003 11:36 AM

To: (b)(6), (b)(7)c pfrb.gov'
Cc: (b)(6), (b)(7)c

Subject: FW: Stanford International Bank



Is anyone at your office interested in pursuing this matter? What is the current status?

Thanks,



----Original Message----

From: (b)(6), (b)(7)c

Sent: Monday, December 16, 2002 11:29 AM

To: (b)(6), (b)(7)c @frb.gov

Subject: Stanford International Bank

(b)(6), (b)(7)c

Thanks for your help! Here are the names of the entities involved, each of which appear to be owned by Mr. Robert A. Stanford, originally of Mexia, Texas, and now a dual citizen of Antigua and the United States:

Stanford Group Company (this is the entity registered with us - it is a dual Investment Adviser/Broker-Dealer)

5050 Westheimer

Houston, Texas 77056

Our contact person is Ms. Jane Bates,



Stanford International Bank Ltd. (this is the international bank offering the CDs. I misinformed you on the phone - the Bank of Antigua is actually the local bank for residents of Antigua only)

4000 Airport Boulevard St. John's, Antigua, West Indies (268) 480-3700 (268) 480-3740 (fax)

Judging by the amount of referral fees received by Stanford Group Company (SGC), we believe that approximately \$640 million in CDs are currently outstanding from SGC's sales efforts (SGC receives a 3% annual commission from Stanford International Bank for referring clients). We are currently trying to get a list of names and dollar amounts invested. The CDs pay a higher than market rate of interest, currently ranging from 3.65% on a deposit of \$10,000 to \$49,999 for a one-month fixed term to 8.15% (with a yield of 10.06%) on a deposit of \$2,000,000 for a 60 month fixed term. The bank also offers flexible rate CDs at a slightly lower rate. The financial statements of the international bank indicate approximately \$1,116,454,586 in outstanding customer deposits as of 12/31/2001. The financial statements are vague as to the investment portfolio of the bank (approximately 59% is invested in "equities", while 41% is invested in "treasury bonds, notes, corporate bonds"). Information about the CDs, and other Stanford Group Company-affiliated business operations can be accessed via the Internet at www.stanfordeagle.com, www.stanfordgroup.com and www.stanfordinternational.com. After you get a chance to review everything, please call me and tell me what you think.

**Thanks** 



# EXHIBIT 73

12/19/2002 8:46:26 PM

(b)(6), (b)(7)c

On the one hand, I don't want to limit our request. On other hand, if we aren't going to investigate the thing I don't see that it matters. Unless it might help the Federal Reserve (what's the status on that?)

I don't recall having asked specifically for the investors' addresses or indicating that I only wanted the list of initial purchasers, but a list of all the holders and the amount they had invested. I say to tell bland we want everything, but don't try and rush to get it here - a couple or three weeks will be fine. Go ahead and tell him to get the addresses, if possible, and there is no particular rush. If he can get some of it earlier and follow up with the other information, that is fine. We would like to have some idea of who has invested and where they're from.

I am glad the LA trust company is regulated by somebody (that way they are not an "unregistered IA".)

Thanks. Let me know if you need anything else.



----Original Message----From: (b)(6), (b)(7)c
To: (b)(6), (b)(7)c

Sent: 12/18/2002 5:02 PM

Subject: Stanford



The Stanford report is coming along fine. has already reviewed it and sent it to Hugh. I only had to make minor revisions.

I called bi(1) a little while ago - he told me that they are working on the list of investors. He also said that the trust company in Baton Rouge is regulated by LA state authorities bi(1).

I have a couple of quick questions:

- \* b)(7)c would like to know if he can limit the list of CD investors to one year, which would substantially cut down on the amount of work they would have to do. I gave him an indication that you would probably want more than a year to reconcile back to the financials (actually so we can get as much information as we can, but he doesn't have to know that).
- \* (b)(f): would like to know if you also asked for the investors' addresses. (b)(f): didn't indicate whether the list would include addresses or not however, he did say that the list won't include subsequent purchases of CDs by the same investor, which is evidently kept on a different system.

Let me know either way. I'll call tomorrow if I don't hear from you - (6). (5)(7)(7)(7)(8) is leaving on Friday so he said that if we would like to shorten the list to let him know before then.



# EXHIBIT 74



#### **UNITED STATES**

#### SECURITIES AND EXCHANGE COMMISSION

FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900, UNIT 18

FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-4944 IN REPLYING
PLEASE QUOTE
(b)(6), (b)(7)c

AUTHOR'S DIRECT LINE
(b)(6), (b)(7)c

December 19, 2002

Ms. Jane Bates, Chief Compliance Officer Stanford Group Company 5050 Westheimer Houston, Texas 77056

RE: Stanford Group Company

FILE NO. 801-50374

Dear Ms. Bates:

The examination of the books and records of **Stanford Group Company** ("**SGC**" or "**Registrant**"), conducted pursuant to Section 204 of the Investment Advisers Act of 1940 ("Advisers Act"), disclosed the following:

#### FORM ADV AND THE WRAP BROCHURE

Rule 204-1 of the Advisers Act has recently been amended requiring investment advisers annually to electronically file a completed Part 1A of Form ADV with the Investment Adviser Registration Depository (IARD) within 90 days after fiscal year end. You are not required to file with the Securities and Exchange Commission ("Commission") a copy of Part II of Form ADV if you maintain a copy of your Part II (and any brochure you deliver to clients) in your files. The copy maintained in your files is considered filed with the Commission.<sup>1</sup>

In addition to an annual updating requirement, registered advisers must amend Form ADV if the information contained in response to Items 1, 3, 9, or 11 of Part 1A become inaccurate for any reason. Further, if the information contained in response to Items 4, 8, or 10 of Part 1A, or if the information provided in a brochure becomes materially inaccurate, the investment adviser shall promptly file an amended Form ADV correcting such information.<sup>2</sup>

Please note that there is need for substantial revision to the Registrant's Form ADV. Please review the following comments and respond by revising the items consistent with the comment:

The Commission is not requiring advisers to submit Part II of Form ADV until IARD is ready to accept (new)
Part II brochures.

Please note that under the new IARD system, Part 1B must be completed only by certain state-only registered advisers.

#### Form ADV

- The response concerning additional compensation earned on the Registrant's clearing agents money market sweep account should be disclosed on Schedule F, Item 13.A., not Item 13.B.
- Part II, Item 1.C. (6) indicated SGC receives "other compensation," but Part 1A, Item 5.E. (7) is not marked.

## Wrap Brochure

- The discussion of SIB on page 42 under "Affiliations" should disclose the amount of referral fees (3% of funds invested) and the fact this amount is paid annually, not just at the initial investment. The discussion should also mention that, as explained to the examiners, SGC does not recommend the investment to its advisory clients, but merely refers them to SIB. (It should be noted that this contradicts the Registrant's disclosure on Schedule F to Part II, Item 9.D., disclosing that SGC "Recommends Related Investment Products," including the SIB CDs.) In this regard, it is recommended that SGC disclose that it may nonetheless bear some responsibility for the advisory client's investment in the SIB CDs. It is also recommended that SGC disclose that it relies upon referral fees from SIB for the vast majority of its revenues. This same or similar disclosure should also appear in the Registrant's response on Schedule F to Part II, Item 9.D. regarding SIB.
- The brochure should include the information called for by Part II, Item 6 as required by Item 7(k) of Schedule H regarding all individuals providing investment advice on SGC's behalf or their supervisors if more than five, including the registered representatives offering advice under PPP.
- The brochure should be amended to provide the range of sub-advisory fees paid by SGC to the sub-advisers for their services as required by Schedule H, Item 7.
   (c).
- The brochure should be expanded to provide a full response to Schedule H, Item
   7. (d).
- The brochure should be expanded to more completely describe SGC's policies regarding sub-advisers as required by Schedule H, Item 7. (g).
- The cross reference required by Schedule H, Item 8. should be completed.

#### **BROCHURE DELIVERY**

You have not been in compliance, or at least cannot document compliance, with Rule 204-3 which requires an investment adviser to provide its clients or prospective clients with a written disclosure document which complies with Rule 204-1(b) under the Advisers Act containing, at a minimum, the information contained in Part II of Form ADV. The written disclosure statement must be delivered to a prospective client at least 48 hours in advance of entering into any contract. Alternatively, if it is delivered at the time of entering into the contract, the client must be given five business days to

terminate the contract without penalty. The rule also requires that an adviser must annually offer, in writing, to deliver without charge a current disclosure statement to each client.<sup>3</sup>

SGC only makes an annual offer of its own wrap brochure to clients. Its contract with the third party sub-advisers provides that SGC is to provide a new client with the sub-adviser's brochure, but is silent with respect to the annual offer of the sub-adviser's brochure. SGC personnel indicated that it was likely that no one was making the sub-adviser annual offer. It is recommended that SGC establish procedures that assure clients receive the annual offer of the sub-advisers' brochure.

#### PROHIBITED TRANSACTIONS

Section 206(3) of the Advisers Act states that it shall be unlawful for any investment adviser, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly acting as principal for his own account, knowingly to sell any security to or purchase any security from a client, or acting as broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction.<sup>4</sup>

Rule 206(3)-2, adopted under Section 206(3), deems an investment adviser or broker-dealer controlling, controlled by, or under common control with an investment adviser, to be in compliance with the that section's provisions in effecting an agency cross transaction for an advisory client, if:

- (1) The advisory client has executed a written consent prospectively authorizing the investment adviser, or any other person relying on this rule, to effect agency cross transactions for such advisory client, provided that such written consent is obtained after full written disclosure that with respect to agency cross transactions the investment adviser or such other person will act as broker for, receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to such transactions;
- (2) The investment adviser, or any other person relying on this rule, sends to each such client a written confirmation at or before the completion of each such transaction, which confirmation includes (i) a statement of the nature of such transaction, (ii) the date such transaction took place, (iii) an offer to furnish upon request, the time when such transaction took place, and (iv) the source and amount of any other remuneration received or to be received by the investment adviser and any other person relying on this rule in connection with the transaction,

In addition, Rule 204-2(a)(14) requires, among other things, a record of the dates documenting the initial delivery of the written disclosure statement.

Investment Adviser Release No. 1732 dated July 17, 1998, which is enclosed for your view, specifically states "completion of the transaction" occurs after execution but before settlement of a principal transaction.

Provided, however, That if, in the case of a purchase, neither the investment adviser nor any other person relying on this rule was participating in a distribution, or in the case of a sale, neither the investment adviser nor any other person relying on this rule was participating in a tender offer, the written confirmation may state whether any other remuneration has been or will be received and that the source and amount of such other remuneration will be furnished upon written request of such customer;

- (3) The investment adviser, or any other person relying in this rule, sends to each client, at least annually, and with or as part of any written statement or summary of such account from the investment adviser or such other person, a written disclosure statement identifying the total number of such transactions during the period since the date of the last such statement or summary, and the total amount of all commissions or other remuneration received or to be received by the investment adviser or any other person relying on this rule in connection with such transactions during such period;
- (4) Each written disclosure and confirmation required by this rule includes a conspicuous statement that the written consent referred to in paragraph (a)(1) of this section may be revoked at any time by written notice to the investment adviser, or to any other person relying on this rule, from the advisory client; and
- (5) No such transaction is effected in which the same investment adviser or an investment adviser and any person controlling, controlled by or under common control with such investment adviser recommended the transaction to both any seller and any purchaser.

Subsection (b) defines the term "agency cross transaction for an advisory client" as a transaction in which a person acts as an investment adviser in relation to a transaction in which such investment adviser, or any person controlling, controlled by, or under common control with such investment adviser, acts as broker for both such advisory client and for another person on the other side of the transaction.

As discussed during the examination, Registrant appears to have engaged in either agency cross trades or direct or indirect principal trades with advisory clients as discussed more fully below. The Registrant appears to have failed to comply with either the requirements with respect to principal trades or agency cross trades as may be applicable. In addition, SGC appears to have also failed to abide by its own disclosure in its wrap brochure that it would not effect such transactions without complying with Section 206(3).

# **Principal Trades**

A review of schedules provided to examiners shows that SGC has effected cross transactions between an account for the Bank of Antigua, a company under common control with SGC, and other SGC clients. As explained during the examination, as Bank of Antigua is an affiliate of SGC and Section 208 forbids an adviser from doing indirectly what it cannot do directly, these trades are in fact considered principal transactions governed by Section 206(3). A review of SGC's records indicated that the

clients on the other side of these trades did not receive the required disclosure in a timely manner in order presume informed consent to the transactions. Please advise what actions the Registrant will take to assure compliance with the requirements of Section 206(3).

# **Agency Cross Transactions**

In addition, those trades not involving the Bank of Antigua account appear to have been agency cross transactions effected between SGC advisory clients in which SGC acted as adviser and exercised discretionary authority in effecting both the client purchase and sale of the subject securities. The requirement of Rule 206(3)-2 was not met. Please advise what actions the Registrant will take to assure compliance with the requirements of Section 206(3).<sup>5</sup>

#### **CUSTODY**

You should be aware that an investment adviser has custody of client funds or securities if the adviser directly or indirectly holds these funds or securities, has the authority to obtain or possess the funds or securities, or has the ability to appropriate the funds or securities. If an investment adviser has custody or possession of client funds or securities, it must comply with the requirements of Rule 206(4)-2 under the Advisers Act. Rule 206(4)-2 of the Advisers Act establishes certain procedural requirements for investment advisers who have custody or possession of clients' funds or securities. This rule describes the manner in which clients' funds and securities must be maintained. It also describes certain additional required reports to clients and the Commission. This rule also requires that the funds and securities in the investment adviser's custody or possession be subject, at least once during each calendar year, to a surprise verification by an independent public accountant who must promptly file with the Commission a certificate of examination attached to a completed Form ADV-E. In addition, Rule 204-2(b) establishes the additional books and records that must be kept by an adviser that has custody or possession of clients' funds or securities. Finally, Rule 204-1(a)(2), in relevant part, requires that an audited balance sheet as required by Item 14 of Part II of Form ADV be filed within 90 days of the end of the investment adviser's fiscal year. Item 14 requires an investment adviser who has custody of client funds or securities or who requires prepayment of more than \$500 in fees per client six or more months in advance to provide an audited balance sheet for the most recent fiscal year.

# **Omnibus Trading Account**

Registrant effects bunched or block trades for the benefit of its advisory clients, including affiliated client accounts (e.g., The Bank of Antigua) through the use of a omnibus account held in the Registrant's name at its clearing firm. The use of such an account may create a risk to the client's funds or securities while the transactions are being effected since the adviser my have access to the funds or securities held in such an

As was discussed during the examination, the manner in which these trades were effected may have rendered them principal transactions between SGC and both the buying and selling advisory clients. In any event, the requirements of Section 206(3) were not met as well with respect to these trades.

account. The Division of Investment Management has indicated in a no action letter that an adviser need not comply with Rule 206(4)-2 if the following conditions are met:

- All arrangements for aggregation of transactions within the omnibus account are fully disclosed;
- No account is favored over another, with each receiving an average share price;
   all transaction costs shared on a pro-rata basis;
- · Only advisory clients' trades are aggregated within the omnibus account;
- · Omnibus account must be in name of custodian bank;
- Client funds and securities must be maintained by custodian bank in the name of their respective owners;
- Participating custodian banks will pay brokers only against delivery of securities and deliver securities to brokers only against payment.<sup>6</sup>

Please assure the staff that the Registrant's omnibus trading accounts meet the requirements of the no action letter, providing documentation supporting the assurance.

#### **BOOKS & RECORDS**

Section 204 of the Advisers Act requires that every investment adviser, other than one specifically exempted from registration, to maintain such records as the Commission, by rule, may prescribe as necessary. Rule 204-2, promulgated thereunder, sets forth the books and records to be maintained by investment advisers. Paragraph (a) of the Rule contains the books and records that every investment adviser must keep. Paragraph (b) of the Rule establishes the additional books and records that must be kept by an adviser that has custody or possession of clients' funds or securities. Paragraph (c) concerns the additional books and records advisers rendering any investment supervisory or management service to any client must maintain with respect to the portfolios being supervised or managed. The examination disclosed that you were not in compliance with certain provisions of Rule 204-2. Please implement procedures to establish and accurately maintain the following required books and records.

Rule 204-2(a)(3) requires a memorandum of each order given by the investment adviser for the purchase or sale of any security, of any instruction received by the investment adviser from the client concerning the purchase, sale, receipt or delivery of a particular security, and of any modification or cancellation of any such order or instruction. Such memoranda shall show the terms and conditions of the order, instruction, modification or cancellation; shall identify the person connected with the investment adviser who recommended the transaction to the client and the person who placed such order; and shall show the account for which entered, the date of entry, and

Owen T. Wilkinson & Associates, Inc. (Dec 30, 1987.)

the bank, broker or dealer, by or through whom executed where appropriate. Orders entered pursuant to the exercise of discretionary power shall be so designated. At present, your procedures do not meet the requirements of this rule in that your order tickets fail to indicate whether the order was entered pursuant to the exercise of discretionary power. In addition, Registrant engages in bunched or block trades for its clients, including certain affiliated client accounts. In a number of respects, the Registrants policies and procedures, and disclosures, do not comport with the Commission's statements about an adviser's duty to assure that these type trades are effected in a fair manner with respect to all advisory clients. (See SMC Capital, Inc. (Sept. 5, 1995), attached.)

#### SECURITIES PRICING

In several instances, SGC was required to price foreign fixed income securities not priced by its clearing firm, Bear Stearns. The portfolio manager, was involved in the pricing process, obtaining quotes from brokers on the price. However, this process was not adequately documented, including any indication of review by compliance. It is requested that SGC disclose its pricing policies in its wrap brochure and establish procedures that will produce documentation of these pricing irregularities.

#### FIDUCIARY OBLIGATION

An adviser has a fiduciary relationship with clients and owes them undivided loyalty. Even though there may be some conflicts of interest that can be addressed with appropriate disclosure, the clients' interests should be foremost. As an adviser, you have the duty to exercise a high degree of care to insure that adequate and accurate representations and information about securities and other investments are presented to clients. Unlike a party to an arm's length transaction, an investment adviser has an affirmative duty of utmost good faith, and full and fair disclosure of all material facts, as well as an affirmative obligation to employ reasonable care to avoid misleading clients. For example, you may not recommend to your clients that they enter into a transaction in which you have an interest or from which you will derive compensation, either directly or indirectly, without affirmatively disclosing to your clients your interest and/or compensation. Any conflict of interest that might incline you, consciously or unconsciously, to render advice that is not disinterested, must be avoided. Any departure from this fiduciary standard may constitute fraud upon your clients under Section 206 of the Advisers Act and subject you to administrative, civil and/or criminal sanctions.7

The Examination Staff's review of SGC's due diligence file with respect to its clients' investments in the certificates of deposit ("CDs") issued by an international offshore bank under common control with SGC, Stanford International Bank ("SIB"), indicated that SGC did not have adequate information upon which to base a recommendation to a client. (See discussion below concerning this offering.) It was learned from the compliance staff that SGC considered itself to be merely "referring"

<sup>&</sup>lt;sup>7</sup> Securities and Exchange Commission v. Capital Gains Research Bureau, Inc., 375 U.S. 180 (1963).

clients to SIB for consideration of the CDs, not actually "recommending" that its advisory clients purchase the CDs. (As mentioned above, this is not consistent with SGC's previous Form ADV disclosures.)

The latest interest rates were obtained during the examination. The rates generally depend on the type of CD, the amount deposited, and the maturity term. The current rate offered on the FixedCD is 3.65% on a deposit of \$10,000 to \$49,999 for a one-month term. This rate increases to a high of 8.150% on a deposit of between \$2 million to \$3.9 million for a 60-month term. On deposits of \$250,000 or more, the interest rate will go up if SIB's rates increase. The current U.S. treasury rate on a three-month treasury bill is 1.18%, with a yield of 1.20%, and the rate on a 5-year treasury note is 3.00% with a yield of 3.05%. The rates on the FlexCD, which is essentially the same as the FixedCD except the client may withdraw his money in 25% increments with five banking days notice up to four times annually, are slightly lower. The "guaranteed rate" on the IndexLinkedCD is 3.90% on maturities of three, four, and five years. The rates offered by the CDs, as compared with current treasury rates, would indicate that the risk involved in the CDs may be great.

It is requested that SGC perform and document substantial additional due diligence to determine whether the use of proceeds by the issuer would indicate that he investment is suitable for its advisory clients.

### POSSIBLE UNREGISTERED PUBLIC OFFERING – STANFORD INTERNATIONAL BANK CERTIFICATES OF DEPOSITS OFFERED IN THE UNITED STATES

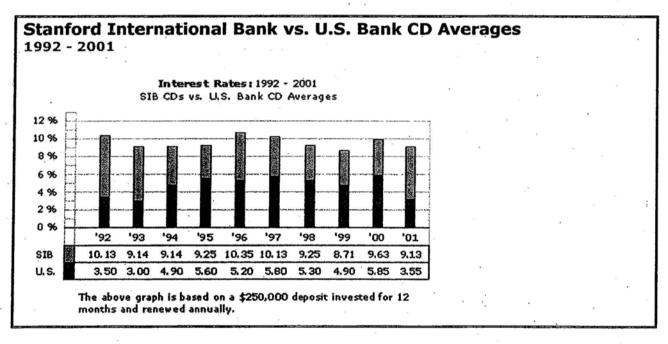
Section 5 of the Securities Act of 1933 ("Securities Act") generally requires the registration of all securities offered in the United States, unless an exemption provided in the Securities Act, or in rules or regulations issued by the Commission thereunder, is available. One such exemption, as apparently applicable to the situation described below, is Rule 506 under Regulation D, which allows an unlimited dollar amount of securities to be offered to an unlimited number of accredited investors and no more than 35 non-accredited, but sophisticated, investors. One key requirement of Rule 506 is that the offer must not involve a general solicitation or public offering.

The Commission has, on a previous occasion, addressed the issue of whether information posted on a website may represent a general solicitation. In its interpretive letter to *Lamp Technologies*, *Inc.* (publicly available May 29, 1997), which is enclosed for your review, the Commission stated that, absent certain precautions, the posting of private fund information on a website may constitute a "general solicitation" within the meaning of Regulation D. It may also represent a public offering within the meaning of Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 ("IC Act"). The precautions detailed in the Lamp letter included providing that access to the website (or at least the information relevant to the private offering) is password-protected and accessible only to subscribers who are predetermined to be accredited investors.

SGC Registered representatives ("RRs") refer both brokerage and advisory clients to SGC's affiliated offshore bank, SIB located in Antigua, for purchase of CDs issued by SIB. The CDs are issued in the U.S. pursuant to the "U.S. Accredited Investor Certificate of Deposit Program" in a purported private offering. In return, SGC receives

a negotiated annual "referral fee" from SIB, generally 3% of the amount invested. These referral fees totaled \$19 million in 2001 and \$19 million for the partial year ended September 30, 2002. For both periods, and prior periods, it appears that these referral fees represented the vast majority of SGC's operating revenues. SIB has filed Forms D with the Commission to claim an exemption from registration under Regulation D, Rule 506. According SIB's latest Form D, filed on or about January 29, 2002, SGC has sold in the United States to U.S. accredited investors \$37.2 million in CDs. It is also understood that SGC RRs, including its foreign associates residing and operating outside the U.S., have sold additional CDs to non-U.S. residents for which SGC has also received referral fees. In both cases, SGC shares this 3% referral fee with the selling RRs.

Information about the CDs, and other SGC-affiliated business operations can be accessed via the Internet at <a href="www.stanfordeagle.com">www.stanfordgroup.com</a>, and <a href="www.stanfordinternational.com">www.stanfordinternational.com</a>. Included on the former website is the following chart comparing SIB's CD interest rates to the average CD rates offered by U.S. banks:



The website also provides all the terms and conditions of the various types of CDs and other accounts offered by SIB (e.g., the FixedCD, the FlexCD, the Index-LinkedCD.)<sup>10</sup> A person accessing the website can easily get information about how to contact SGC representatives, either by telephone or by email. As a result, the website information appears to represent a general solicitation, or public offering, of the CDs to U.S. persons.

It is understood that some portion of these referral fees relate to sales efforts by SGC's affiliated adviser in Venezuela, Stanford Group Venezuela Asesores de Inversión, C.A.

It is noted that SGC appears to dispute that the CDs are securities under federal securities laws. It appears to the Examination Staff that, since the CDs are issued by a bank that is not subject to regulatory oversight by any United States bank regulatory authority, the CDs are securities. However, even if they are not securities, SGC's fiduciary duty to its clients still applies.

See Appendix A.

Consequently, as previously indicated, it appears that the dissemination of information concerning the CDs through SGC's affiliated, publicly available website may be deemed a "general solicitation" or "general advertisement" within the meaning of Regulation D; or a public offering within the meaning of Sections 3(c)(1) or 3(c)(7) of the IC Act. Accordingly, it is requested that in your reply to this letter you indicate any actions you intend to take with respect to these comments.

#### **CLOSING**

We are bringing the deficiencies and/or violations of law described above to your attention for immediate corrective action, without regard to any other action(s) that may result from the examination. You should not assume that the Registrant's activities not discussed in this letter are in full compliance with the federal securities laws or other applicable rules and regulations. The above findings are based on the staff's examination and are not findings or conclusions of the Commission.

Please respond in writing within thirty days of the date of this letter describing the steps you have taken or intend to take with respect to each of these matters. Before responding to this letter or any other communication from this office regarding our recent examination, please refer to SEC Form 1661 provided at the start of our examination. Your response should be directed to the following person:

(b)(6), (b)(7)

U.S. Securities and Exchange Commission Fort Worth District Office 801 Cherry Street, Suite 1900, Unit 18 Fort Worth, Texas 76102

### Ms. Jane Bates, Chief Compliance Officer Stanford Group Company

In addition, a copy of your reply, together with copies of any enclosures, should be sent to the following person:

Office of Compliance Inspections and Examinations U.S. Securities and Exchange Commission 450 Fifth St., NW Washington, D.C. 20549-0901

Sincerely,

Hugh M. Wright Asst. District Administrator

**Attorney** 

### Attachments:11

Owen T. Wilkinson & Associates, Inc. (Dec 30, 1987.) SMC Capital, Inc. (Sept. 5, 1995) Lamp Technologies, Inc. (publicly available May 29, 1997) Appendix A

You may wish to visit our website at <a href="http://www.sec.gov/divisions/investment/iard.shtml">http://www.sec.gov/divisions/investment/iard.shtml</a>, <a href="http://www.sec.gov/divisions/ocie/advltr.htm">http://www.sec.gov/divisions/ocie/advltr.htm</a> for further information concerning the regulation of investment advisers. Such web pages include links to, among other things, the Advisers Act and the Rules thereunder, a summary discussion of the pertinent provisions of the Adviser Act and Rules, and Form ADV.



RCVD SEC FW MAR14'03 10:18

JANE E. BATES Chief Compliance Officer

March 13, 2003

(b)(6), (b)(7)

U.S. Securities and Exchange Commission Fort Worth District Office 801 Cherry Street, Suite 1900, Unit 18 Fort Worth, Texas 76102

RE: Stanford Group Company, SEC File No. 801-50374

Dear (b)(6), (b)(7)c :

This letter is in response to the Examination Staff's follow-up letter dated February 13, 2003, regarding Stanford Group Company's ("SGC") January 29, 2003 reply to the Comment Letter issued as a result of an examination of the books and records of SGC. Outlined below is the additional information requested.

A. <u>Staff Comment.</u> [Prohibited Transactions] Principal cross transactions involving Bank of Antigua and revised policies & procedures involving cross transactions between unaffiliated advisory accounts.

Response. SGC has conducted an extensive review of each principal cross transaction between Bank of Antigua ("BOA"), an affiliate advisory account, and other advisory accounts. Although the listing of cross trades originally given to the Staff did not indicate the dealers who provided the prevailing market prices, the firm did note the best price and dealer on the master cross ledger which is completed at the time of the transaction. An example of this documentation is attached. (Exhibit "A"). Prior to any cross transaction, the portfolio manager reviews the various trading screens and notes the best bid/offer and dealer. This information is entered in the master cross ledger.

The cost basis and profit/loss was reviewed for each transaction involving BOA. As SGC previously discussed with the Staff, no mark-ups, transaction charges, etc. were assessed to the clients. Although there was a profit to BOA on some

MEMBER NASD/SIPC





(b)(6), (b)(7)

March 13, 2003 Page Two

transactions, the cost to purchase the bonds for our advisory accounts from an outside dealer would have been substantially higher due to the additional costs associated with purchasing odd-lots as was discussed in our January 29<sup>th</sup> letter and is stated again below.

"SGC also conducted a sampling of situations that demonstrate the additional costs associated with buying or selling odd-lot U.S. and foreign fixed income securities in the market place. This sampling analyzed the bid/offer spreads for \$100,000, \$25,000, and \$5,000 pieces of various types of fixed income securities. On average, the bid/offer spread for \$100,000 was \$3.95 per bond. For a \$25,000 piece, the bid/offer spread ranged from \$6.80/bond to \$30.00/bond. For a \$5,000 piece, the bid/offer spread ranged from \$10.05/bond to \$40.00/bond. On some \$25,000 and \$5,000 pieces, no bid or offer could be found at that time."

For documented investment reasons, our portfolio manager sold bonds from the BOA account and placed certain bonds in advisory accounts subject to investment restrictions and cash available. We believe these transactions to be in the best interests of the clients but recognize the regulatory issues. Thus, as previously stated, we are not currently effecting principal cross transactions with BOA accounts and will not do so in the future.

Another factor reviewed was the current market price of the bonds compared to the cost basis for the advisory accounts. As of March 6, 2003, all but three transactions had a market value higher than the original cost. This cost factor would have increased if the bonds were purchased from the street. Of these three transactions, two did not result in a profit to BOA when the cross transactions were done. For the only cross transaction showing a current loss which resulted in a profit for BOA, the facts indicate that BOA originally purchased 50 bonds and made a profit of \$112.50 when 15 bonds were moved to another advisory account. BOA still holds the remaining 35 bonds showing a market loss.

There were 55 actual cross transactions from the BOA advisory account to other SGC advisory accounts in which 1,335 bonds were crossed. As of March 6, the total profit for BOA on all 55 trades was \$5,002.02 or \$3.75/bond. The total market value increase for the advisory accounts resulting from the cross trades was \$26,921.34 or \$20.16/bond. Due to market conditions, 52 of the 55 trades are higher in market value as of March 6. The three exceptions are discussed in the paragraph above. SGC believes that no harm has been done to our clients. We do recognize the regulatory issues, will not effect any further cross transactions with BOA, and are revising our policies and procedures for other



(b)(6), (b)(7)c

March 13, 2003 Page Three

unaffiliated cross transactions to procedures that will be acceptable to the Staff. However, we do not believe there is a need to rescind these 55 transactions because there has been no material harm to our clients.

The Staff discussed providing a client with additional information that is sufficient to inform the client of the advisor's conflicts of interest in order for the client to make an informed decision. The Staff specifically referred to the "cost" of the security to be sold and the "price" at which the security could be resold if purchased from a client. As stated by the Staff, the Commission took the position in a subsequent release that whether specific items identified in Release No. 40 must be disclosed depends upon their materiality to a particular transaction, and the extent to which the client is relying on the adviser concerning that transaction.

Pursuant to the Staff's comments, SGC will include the "cost" of the security to be sold on the pre-notification to the client purchasing the bonds and the "price" at which the security can be resold on the pre-notification to the client selling the bonds in the cross transaction. Our amended policies and procedures are as follows.

- 1. Send a pending trade pre-notification to the client prior to the completion of the trade indicating that we are acting as principal, include information about price and SGC's cost basis to the purchaser and potential resale price to the seller, and inform the client of his ability to seek execution of recommended transactions through other broker/dealers. We would also disclose that we are not charging commissions or transaction charges. Such notification would provide both sufficient information and the opportunity for the client to consent or object to the transaction. SGC bears the market risk of the pending transaction. Our pricing procedures would require three dealer quotes for each transaction.
- 2. Prior to settlement, a final confirmation of the trade would be sent to the client.
- 3. Our procedures and potential conflicts of interest related to cross transactions would be disclosed in our client agreement and brochure and the client would be required to consent upon opening the account. Thereafter, on an annual basis, we would again disclose our cross transactions procedures to our clients and seek continued approval.



March 13, 2003 Page Four

We will not execute any such cross transactions for any clients who have not so previously agreed.

 We do not intend to execute any cross transactions between any affiliate advisory accounts, i.e., the Bank of Antigua, and any nonaffiliated advisory accounts.

### B. Staff Comment. [Fiduciary Obligations]

Response. As our records indicate, we provided the Staff with a list of all CD holdings with owners resulting from SGC advisory referrals. However, I am attaching another copy for your convenience (Exhibit "B").

We do exercise proactive due diligence with respect to Stanford International Bank ("SIB") activities, and perhaps we did not thoroughly address our efforts in this area. Onsite visits are conducted by SGC's Chief Operating Officer and Chief Compliance Officer averaging once a quarter. SGC participates in SIB quarterly conference calls with the Office of the Chief Financial Officer of the Bank where information is given regarding the current investment allocations of the bank portfolio and adjustments. We receive information on the current portfolio allocations (percentage of bonds, cash, equity), allocations by sector (financials, energy, utilities, services, cyclicals, durables, staples, health, etc.), and currency allocations. Investment strategies, changes in allocations, and top five equity and bond holdings are disclosed, and a market recap and outlook are discussed. Such documentation will be included in our due diligence file. We receive and review SIB's Anti-Money Laundering Policies and Procedures as well as the bank's "Know Your Customer" Policies and Procedures. These policies and procedures are in compliance with all U.S. standards including but not limited to the U.S. Patriot Act. Said policies are included in our due diligence file.

SIB's CD products are marketed in the United States to "accredited investors" as defined in Rule 501(a) of Regulation D under the Securities Act as evidenced by the Form D notifications sent to the SEC. These filings were given to the Staff during our examination. We also file the required notice filings with state jurisdictions when necessary. The "certificates of deposit" are not offered under U.S. banking laws and regulations and SIB does not have an office or location in the United States.



b)(6), (b)(7)c

March 13, 2003 Page Five

We believe that we have addressed each of the issues discussed in your letter and should you need additional information or clarification, please call me at [b](6), (b)(7)c.

Sincerely,

Jane E. Bates

Attachments (2)

Exhibit "A" - Master Cross Ledger

Exhibit "B" - List of CD Holders/Investment Advisor Referrals

(b)(6), (b)(7)c

cc:

Office of Compliance Inspections and Examinations U.S. Securities and Exchange Commission 450 Fifth St., NW Washington, DC 20549-0901

2002 4rd QUARTER
DATE
10/7/02 16 BUY TO CUSIP 187-44249 191241AB40 Beds/Offers - Dealew

COMMENTS 111 sell odd lot PU Yield

SAM CROSS TRANSACTIONS 2002

DATE	TOTAL PAR	SELL FROM	BUY TO	CUSIP	DESC	PRICE	COMMENTS	1323	BID	DEALER	OFFER	DEALER
7/24/02	60.00	187-69200	187-44225	P30752AA0	Conproca	119.75	reduce position		119.75			standard
7/24/02	135.00	187-69200	187-44225	31392P2K0	FHR 2458		extend duration, pu yield - credit, gov	363	100.25			costal
-			187-44240	31392P2K0	FHR 2458		extend duration, pu yield - credit, gov	0.5	100.25			costal
7/25/02	240.00	187-69200	805-43642	441812GD0	HI	101.87	reduce overweight to finance		101,375			Bonds dir
			187-44205	441812GD0	HI	101.87	reduce overweight to finance		101,375			Bonds dir
			187-44216	441812GD0	Н		reduce overweight to finance		101,375			Bonds dir
			187-44217	441812GD0	HI		reduce overweight to finance		101,375			Bonds dir
			187-44222	441812GD0	HI	.101.87	reduce overweight to finance	49	101,375			Bonds dir.
			187-44223	441812GDD	н	101.87	reduce overweight to finance	100	101,375			Bonds dir
			187-44227	441812GD0	Н	101.87	reduce overweight to finance	375	101,375			Bonds dir
			187-44228	441812GD0	HI	101.87	reduce overweight to finance	198	101.375			Bonds dir
			187-44231	441812GD0	. HI	101,87	Freduce overweight to finance	58	101.375			Bonds dir
			187-44233	441812GD0	Н		reduce overweight to finance	100	101.375			Bonds dir
			187-44235	441812GD0	HI	101,87	reduce overweight to finance	(表	101,375			Bonds dir
			187-44236	441812GD0	HI		reduce overweight to finance	<b>***</b>	101.375	boa		Bonds dir
			187-44238	441812GD0	HI .	101,87	reduce overweight to finance	277	101.375	boa	102,325	Bonds dir
			187-44240	441812GD0	· HI	101,87	reduce overweight to finance	20	101.375			Bonds dir
			187-44241	441812GD0	HI	101.87	reduce overweight to finance	133	101.375	boa ·	102,325	Bonds dir
			187-44243	441812GD0	HI	101.87	reduce overweight to finance	25	101.375			Bonds dir
			187:44245	441812GD0	HI		reduce overweight to finance	al.	101.375			Bonds dir
			187-44248	441812GD0	HI		reduce overweight to finance	180	101,375	boa	102,325	Bonds dir
8/15/02	80.00	187-44200	187-44225	31358TPX1	FNR 93-10	· 10	3 pu yield for sell- block up size and credit, gov	等	103	costal	on offers	none
8/15/02	70.00	187-44222	187-44225	3128H9CE6	FRG W069	10	pu yield for sell- block up size and credit, gov	25	101	costal	on offers	none
		187-44223		3128H9CE6	FRG W069		I pu yield for sell- block up size and credit, gov	(銀)	101	costal	on offers	กดกอ
8/15/02	150.00	187-44222	187-44225	31392ANU3	. FNR 2002-7	10	l extend duration, pu yield - credit, gov	器	101	costal	on offers	none
8/15/02		187-69200	187-44225	31392ANUB	FNR 2001-50		2 extend duration, pu yield - credit, gov	100	102	costal	on offers	none
8/15/02	100.00	187-44208	187-44225	31358U2A3	FNR 93-50	100.2	6 extend duration, pu yield - credit, gov	100	100.25	costal	on offers	none
		187-44235		31358U2A3	FNR 93-50	100.2	5 extend duration, pu yield - credit, gov	10%	100.25	costal	on offers	none
9/13/02	50.00	187-44200	187-44225	805564EF4	Saxon	10	2 client needed to raise money	- 18	100.25	costal	on offers	none
9/11/02	50.00	187-44200	187-44225	382550AG6	GT		8 client needed to raise money	<b>A</b>	97.5	edi	98.5	semco
-			187-44232	382550AG6	GT .	9	8 client needed to raise money	22	97.5	edi	98.5	samco
			187-44260	382550AG6	GT ·	9	Biclient needed to raise money	総	97.5	edi .	98.5	samco
			187-44288	382550AG6	GT	9	8 client needed to raise money.	23	97.5	edi	98.8	samco
9/11/02	50,00	187-44200	187-44263	00817YAAS	AETNA		4 client needed to raise money	一副	104	bank one	104	advest
			187-44233	00817YAAS	AETNA	10	4 client needed to raise money	37	104	bank one	10-	advest
			187-44228	00817YAAS	AETNA		4 client needed to raise money	150		bank one		advest
			187-44202	00817YAAS	AETNA		4 client needed to raise money	23		bank one		advest
			187-44243	00817YAAS	AETNA		4 client needed to raise money	. 22		bank one		advest
9/11/02	80.00	187-44200	187-44225	23383VAC4	DCX Trust		1 client needed to raise money	. 82			none	none
5,11,02		101-11200	187-44281	23383VAC4	DCX Trust		1 client needed to raise money	120			none	none
9/11/02	40.00	187-44200	187-44225	76182KAE5	RJR		4 client needed to raise money	105		ingalis		morgan st
9/11/02	40.00	107-44200	187-44231	76182KAE5	RJR		4 client needed to raise money	12.00 (2.00		ingalls		morgan st
			187-44231	432848AQ2	Hilton	10	AIGHRI HEATON IO TAISE HIDHEY			slk		Dadvest

EXHIBIT "B"



November 1, 2002

Quen quen andilos our caper

(0)(0), (0)(1)(0

RE: Notification of Affiliate Referral Fees

#### Dear Customer:

Please be advised that, if your future needs warrant such action, Stanford Group Company, ("the Company") may refer to various other companies which are affiliated with Stanford Group. The Company may receive referral fees by virtue of referring you to such affiliates, including, but not limited to referral fees from Stanford International Bank

This is a notification only and does not require any response or action from you. If you should have any objections to the Company's possible receipt of a referral fee from an affiliate, please notify us in writing at the address listed below. No response by you to this notification shall be deemed by the Company to reflect your consent to its receipt of such fees.

We appreciate your continuing confidence in Stanford Group Company.

Stanford Group Company Corporate Operations Department 5050 Westheimer, 3rd Floor Houston, Texas 77056

### Broker Client Account List - MAP

Broker Numb	or Account	Client Name	 Open Date	initiai investment	Disclosure Date
011	b)(6), (b)(7)c	(b)(6), (b)(7)c	05/21/2001	\$300,000.00	05/24/2001
011			11/24/1998	\$100,000.00	01/13/1999
011			08/14/2000	\$100,000.00	09/08/2000
011			11/13/1998	\$300,000.00	01/13/1999
014			12/16/1998	\$200,000.00	01/13/1999
018			03/12/2001	\$100,000.00	03/13/2001
020			10/18/2001	\$390,000.00	10/26/2001
020			12/18/2001	\$50,000.00	12/21/2001
020			01/07/2002	\$50,000.00	01/08/2002
020			07/17/2001	\$200,000.00	07/25/2001
020			08/06/2002	\$100,000.00	09/13/2002
.020			02/15/2002	\$100,000.00	04/05/2002
<b>0</b> 30			04/02/2002	\$360,000.00	04/05/2002
030			11/16/2001	\$25,000.00	11/27/2001
030			05/07/2002	\$35,000.00	05/08/2002
.030			10/13/2000	\$10,000.00	12/28/2000
030			03/20/2002	\$50,000.00	04/05/2002
030			05/22/2002	\$35,000.00	06/11/2002
030		•	05/29/2002	\$150,000.00	06/11/2002
030			10/03/2002	\$110,000.00	10/18/2002
040			01/22/1999	\$1,000.00	04/20/1999
050			09/18/2001	\$185,000.00	09/24/2001
050			08/31/2001	\$150,000.00	09/17/2001
050			06/07/2001	\$50,000.00	06/18/2001
050			09/24/2002	\$50,000.00	10/04/2002
050			06/13/2001	\$100,000.00	06/18/2001
050			06/21/2001	\$100,000.00	06/25/2001
050			09/13/2002	\$52,000.00	09/20/2002
	* 10 *				

Broker Number	Account	Client Name		Open Date	initial investment	Disclosure Date
050 (b)(6)	i, (b)(7)c	(b)(6), (b)(7)c		11/05/2001	\$100,000.00	11/06/2001
050				01/10/2000	\$100,000.00	05/06/2002
050				10/29/2002	\$175,000.00	11/01/2002
050			¥	04/17/2002	\$80,000.00	04/30/2002
068				10/29/2002	\$50,000.00	11/01/2002
083				09/24/2002	\$50,000.00	10/04/2002
087				07/03/2001	\$50,000.00	07/17/2001
101				04/16/2002	\$100,000.00	04/30/2002
101			2. , :	02/06/2002	\$150,000.00	02/07/2002
101			8	07/03/2001	\$125,000.00	07/17/2001
101	8			08/28/2001	\$150,000.00	09/17/2001
101				03/01/2002	\$150,000.00	03/13/2002
174				07/10/2000	\$100,000.00	07/12/2000
297				10/27/2002	\$1,000,000.00	11/01/2002
	•					

### IAG BANK REFERRALS

FC	ACCOUNT	CLIENT	OPEN DATE	INITIAL INVESTMENT	DISC DATE
11	(b)(6), (b)(7)c	(b)(6), (b)(7)c	12/10/1998	75000	1/13/1999
20		<mark>√</mark>	9/26/2001	150000	10/26/2001
30			8/23/2000	100000	12/11/2001
30			9/4/2002	4370000	9/20/2002
30			9/4/2002	4250000	9/20/2002
. 30			9/4/2002	580000	9/20/2002
115			8/21/2000	250000	9/8/2000

o)(6), (b)(7)c

28 of October of 2002

SEC Complaint Center Securities and Exchange Commission 450 Fifth Street, NW Washington, D.C. 20549-0213 United States of America

Attention: Client Protection Department

RECEIVE

DEC - 5 2001

Securities & c.....ang. \_\_\_

I am writing this letter to the SEC Washington and in Dallas Fort Worth because the Commission of National Banking in Mexico said this is the authority that controls investment companies and banks in the United States. I am a preoccupied client of Stanford Financial Group in Houston, Texas and this bank never gives me answers that are satisfactory.

My mother is an old woman with more than 75 years of age and she has all her money my father inherited to her for his life work in CDs of Stanford Bank. This is the only money my mother has, and it is necessary for my mother, my sisters and me for living. My mother put it in the United States because of the bad situation in Mexico and because the most important thing is to look for security. A good friend of my mother recommended Stanford and the representative that visits to Mexico talks in Spanish and my mother does not speaks in English.

I am an accountant by profession and work for a large bank in Mexico. I know some banking regulations of my country that are very different from practices in Stanford Bank and for that reason I am very nervous. Please look at this bank and investigate if everything is honest and correct. There are many investors from Mexico in this bank.

My questions and doubts are listed here.

- Stanford says the CDs have insurance. My mother receives two statements of accounts. One from Stanford bank in Antigua with the CDs and an other one from Stanford and Bear Stearns in New York. I know Bear Stearns is a very good company, but the statement of Bear Stearns only has cash that my mother uses to take out checks. This cash is the interest that the CD pays. Is the bank in Antigua truly covered by insurance of the United States Government?
- 2. The CD has a higher than 9% interest and I know other big banks like Citibank pay interest of 4%. Is this possible and secure?

- 3. The assets of the bank are invested in things like foreign currencies and stocks that the Mexican laws do not let the banks of Mexico invest with client deposits. Are the laws of the United States different so banks can invest the client deposits in the stock exchange and in no dollar investments?
- 4. In December of 1999 the bank had a lot of investments in foreign currencies and in stocks. In all the world many stocks and foreign currencies came down in 2000. If a lot of money was in investments that came down, how did the bank make money to pay the interest and all of the very high expenses I imagine it has. I am sending you a copy of the financial statement of Stanford that is in the year book.
- 5. The accounting company that makes the audit (C.A.S. Hewlett & Co) is in Antigua and any body knows. I saw the case of ENRON with bad accounting and I am preoccupied with an other case of fraud accounting. Why is the auditor a company of Antigua that any body knows and not a good United States accounting company?

I know some investors that lost money in a United States company named Inverworld in San Antonio. Please review very well Stanford to make sure that many investors do not get cheated. These investors are simple people of Mexico and maybe many other places and have their faith in the United States financial system.

Very truly yours, /

cc. Harold F. Degenhardt
Securities and Exchange Commission
District Administrator
801 Cherry Street, 19<sup>th</sup> Floor
Fort Worth, Texas 76102

2/5/2002 5:26:03 PM

FW: Antigua

From: (b)(6), (b)(7)c

To: Barasch, Spencer C.(b)(6), (b)(7)c @SEC.GOV]

Spence: Due to the nature of the times, I am dispensing with the usual referral formalities.

[b](6),(b)(7)c had an open MUI re: this company for a short time a couple of years ago. An offshore agent outlines some conduct which smacks of an Enron-style offshore debt write-off. This could be significant. I thought you would want to see this ASAP.

(b)(6), (b)(7)c

----Original Message----

From: ENFORCEMENT

Sent: Tuesday, February 05, 2002 10:04 AM

To: OIE INTERNET ENFORCEMENT

Subject: FW: Antigua

---- BEGIN SEC HEADER ----

Received: from secfw2.sec.gov ([162.138.246.3]) by opc-sec-mt1.SEC.GOV with SMTP (Microsoft Exchange Internet Mail Service Version 5.5.2650.21)

id CJBV2NCJ; Tue, 5 Feb 2002 09:25:13 -0500

Received: by secfw2.sec.gov; id JAA13788; Tue, 5 Feb 2002 09:25:10 -0500

Received: from (b)(6), (b)(7)c by secfw2.sec.gov via smap

id xma013689; Tue, 5 Feb 02 09:24:43 -0500

Received: from (b)(6), (b)(7)(

by mail5.svr.pol.co.uk with smtp (Exim 3.13 #0)

id 16Y6WX-0000mm-00

for enforcement@sec.gov; Tue, 05 Feb 2002 14:24:42 +0000

From: (b)(6), (b)(7)c

To: <enforcement@sec.gov>

Subject: Antigua

Date: Wed, 5 Feb 2003 14:25:03 -0000

Message-ID: <MABBKECFLGGENBHICGGLOEIMCCAA

MIME-Version: 1.0
Content-Type: text/plain;

charset="iso-8859-1"

Content-Transfer-Encoding: 7bit

X-Priority: 3 (Normal) X-MSMail-Priority: Normal

X-Mailer: Microsoft Outlook IMO, Build 9.0.2416 (9.0.2910.0)

Importance: Normal

X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2615.200

---- END SEC HEADER ----

Dear Sirs

I am currently providing consultancy services to an Antigua company and have

become very concerned about the unusual activities of the Stanford Financial Group, a Texas based organisation, operating though subsidiaries on the Island.

Antigua is in much-publicised decline, desperate financial difficulties, and has a dismal record of debt repayment and infrastructure project management.

However, I note that the Stanford Financial Group has extensive local commitments, which include the Airport lease, Caribbean Star Airline, Bank of Antigua, Overseas Stanford Bank, local hospital financing (currently under investigation), online casino, Port Authority & Antigua Sun newspaper. The latter declares the company principal, R Allen Stanford, comparable to the IMF and World Bank. I also understand that the principal is head of the Financial Regulation Supervisory body, which would seem to be unusual for a well-regulated jurisdiction.

The Company has recently written off a significant, overdue interest payment as "a gift to the people of Antigua" to enable the Government to pay its public employees and has announced that it will make now make a further substantial loans.

I draw this to your attention as these curious strategic decisions may not be reaching the shareholders of the Group and may ultimately be placing their investments at risk.

I would be pleased to forward further information upon request.

Yours faithfully

(b)(6), (b)(7)

Fw: S	Stanford	Complai	int Letter	Response
-------	----------	---------	------------	----------

12/12/2002 10:31:03 AM

From: (b)(6), (b)(7) c

To: (b)(6), (b)(7) c

@SEC.GOV]

Cc: (b)(6), (b)(7) c

@SEC.GOV]; (b)(6), (b)(7) c

@SEC.GOV]; Wright, Hugh M. (b)(6), (b)(7) c

@SEC.GOV]

Attachments: ComplaintResponse.doc



Would you look this over for any comments or additions you may have.

Thx,
(b)(6),
(b)(7)c

----Original Message-----From: Wright, Hugh M.

Sent: Wednesday, December 11, 2002 1:45 PM

To: (b)(6), (b)(7)c

Subject: FW: Stanford Complaint Letter Response

fyi

----Original Message-----From: (b)(6), (b)(7)c

Sent: Wednesday, December 11, 2002 11:32 AM

To: Wright, Hugh M. Cc: (b)(6), (b)(7)c

Subject: Stanford Complaint Letter Response

Hugh and I have come up with this draft response to the lady in Mexico. It should at least get the ball rolling on responding. Let us know what you want us to do.



ComplaintResponse.doc

<<...>>



### UNITED STATES

### SECURITIES AND EXCHANGE COMMISSION

FORT WORTH DISTRICT OFFICE 801 CHERRY STREET SUITE 1900, UNIT 18

### FORT WORTH, TEXAS 76102

PHONE: (817) 978-3821 FAX: (817) 978-4944



December \_\_\_\_, 2002

b)(6), (b)(7)c			

RE: STANFORD INTERNATIONAL BANK YOUR LETTER OF OCTOBER 28, 2002

Dear (b)(6), (b)(7)c

Thank you for your letter, which this office received only on December 5, 2002. The subject matter of your letter is of great concern to this office. However, much of what you are concerned about may be, legally and practically speaking, outside our ability to help you. This letter will attempt to address the questions in your letter and will ask for further information that may help clarify the issues involved and perhaps aid us in assisting you and your mother. To the extent individuals are soliciting investors for investments in the United States, or persons registered with firms engaged in the securities business in the United States are doing so anywhere, we have some regulatory authority to look into their actions.

Based upon your letter, it appears that your mother and her family reside in Mexico. While your letter is not specific, it would appear that someone approached your mother in Mexico about the **certificates of deposit** ("**CDs**") offered by the **Stanford International Bank** ("**SIB**"). Please advise who this individual was and whether he or she was an employee or representative of SIB or of **Stanford Group Company** ("**SGC**") in Houston. Also, please identify the "good friend" that recommended SIB or SGC to your mother. As we understand it, SIB is a bank domiciled in the country of Antigua and, therefore, is subject to the banking laws and regulations of that country, not those of the United States.

If the person who sold the CD to your mother is a registered representative of SGC, a registered broker dealer and investment adviser in the United States, there may be some aid we can provide. [5](5),(5)(7)a

If you wish

your letter to be considered a complaint with regard to this registered representative's actions, we will forward your letter to SGC and ask that they respond to you and to this office to explain why such an investment was suitable for your 75-year old mother. That response might be enlightening to all of us. Please advise of your wishes in this regard.

(b)(5), (b)(7)a

With respect to the interest rate being paid, we share your concerns about whether it is possible to pay such a high interest rate in the current economic environment. As I am sure you are aware, the general principal is that the higher the interest rate offered, the more risk is being taken in the investment. [5](5), (5)(7)a

If your mother has concerns about the CD, she should consider not renewing the CD at its next maturity date, or perhaps consider early withdrawal depending upon the severity of any associated early withdrawal penalty.

SIB's auditor, C.A.S. Hewlett & Co. as mentioned in your letter, is not a United States accounting firm and is apparently auditing SIB's financial statements according to the requirements of Antigua. The Commission has no information with regard to the firm or any authority over it.

Thank you for your inquiry. We look forward to hearing from you regarding whether you wish this office to forward your complaint to SGC and the additional information requested above. Also, if possible, with your next letter, please provide copies of any documentation SGC or anyone else has given your mother with regard to the CDs.

Sincerely,

Hugh M. Wright Asst. District Administrator

By:

(b)(6), (b)(7)

Attorney

### **RE: Stanford Complaint Letter Response**

12/12/2002 11:09:52 AM

From: (b)(6), (b)(7) c

To: (b)(6), (b)(7) c

@SEC.GOV]; (b)(6), (b)(7) c

@SEC.GOV]; Wright, Hugh M. (b)(6), (b)(7) c

SEC.GOV]

I want to spend some time with it, but I am going to be tied up this morning and maybe into the afternoon in settlement talks. It may make sense, after we look at everything, that the letter should come from the enforcement attorney. But we still have time to discuss all of that. I will get to it by the end of the day. Thanks.

(b)(6), (b)(7)c

----Original Message----

Sent: Thursday, December 12, 2002 9:31 AM

To: (b)(6), (b)(7)c

Cc: (b)(6), (b)(7)c Wright, Hugh M.

Subject: FW: Stanford Complaint Letter Response

(b)(6), (b)(7)c

Would you look this over for any comments or additions you may have.

Thx,

(b)(6), (b)(7)c

----Original Message-----From: Wright, Hugh M.

Sent: Wednesday, December 11, 2002 1:45 PM

To: (b)(6), (b)(7)c

Subject: FW: Stanford Complaint Letter Response

fyi

----Original Message-----

From: (b)(6), (b)(7)c

Sent: Wednesday, December 11, 2002 11:32 AM

To: Wright, Hugh M.

Cc: (b)(6), (b)(7)c

Subject: Stanford Complaint Letter Response

Hugh-bi(7)c and I have come up with this draft response to the lady in Mexico. It should at least get the ball rolling on responding. Let us know what you want us to do.



ComplaintResponse.doc

Preliminary Inquir	ies
Nimot .	STANFORD FINANCIAL GROUP
vilitore:	
Film Folatel Impa	HOUSTON SEDE TX ZDE
a distriction (Admitting)	(b)(6), (b)(7)c TO DC COMPLAINT CENTER TO (b)(6), (b)(7)c TO BARASCH, SPENCE
Sancal Robrello Gongillile Detaal Robrello Gongillile G	12/05/2002
. Яуло́рзју.	CONCERNS ABOUT INVESTMENT HER ELDERLY MOTHER HAS WITH STANFORD; BANK NEVER GIVES SATISFACTORY ANSWERS; CD'S HAVE HIGHER RATE OF INTEREST THAN OTHER BANKS; BANK ASSETS ARE INVESTED IN FOREIGN CURRENCIES; AUDIT ACCOUNTING COMPANY IS IN ANTIGUA
Assignation Shows	BARASCH PREINQ; PER BARASCH; REFERRED TO (b)(6), (b)(7)c

12/13/02 T/e wy Complaint letter sent to TSSB
on 12/10/02. (6)(6), (6)(7)c

(b)(6), (b)(7)c

From:

Preuitt, Julie A.

Sent:

Tuesday, February 23, 2010 12:14 PM

To:

o)(6), (b)(7)c

Subject:

TSSB Referral

I don't believe that there is any evidence of a referral. The electronic search for documents has been thorough so I do not believe that there was a document saved on the shared drives. In terms of a search for a hard copy of a referral, the most significant discussion I had was with significant d

Julie

Assistant Regional Director

(b)(6), (b)(7)c

#### **RE: Stanford International Bank**

12/16/2002 1:24:25 PM

From: Wright, Hugh M.

To: (b)(6), (b)(7)c

Cc: (b)(6), (b)(7)c

@SEC.GOV]; (b)(6), (b)(7)c

@SEC.GOV]

It would be interesting to see "us" execute a warrant in Antigua!

----Original Message-----From: (b)(6), (b)(7)©

Sent: Monday, December 16, 2002 12:17 PM

Γο:<sup>(b)(6), (b)(7)c</sup> ; Wright, Hugh M.; (t

Subject: FW: Stanford International Bank

Here's the latest on status with ENF. Looks like TSSB will handle the matter. I can't wait to see Texas execute a warrant in Antigua!!

(b)(6), (b)(7)c

----Original Message----

To: (b)(6), (b)(7)c

Cc: (b)(6), (b)(7)c ; Barasch, Spencer C.

Sent: 12/16/2002 1:12 PM

Subject: RE: Stanford International Bank

(b)(6), (b)(7)c

You should be aware that, before you brought this matter to my attention, Spence had already referred it to the TSSB based on a complaint. Neither you nor I knew about this referral. I have since conferred with Spence about it. We decided to let the state continue to pursue the case. When you are finished with your report, however, I would like to read it. At that time, I will reevaluate our interest in the matter. Thanks.

(b)(6), (b)(7)c

----Original Message----

From: (b)(6), (b)(7)c

Sent: Monday, December 16, 2002 12:06 PM

To: (b)(6), (b)(7)c
Cc: (b)(6), (b)(7)c

Subject: RE: Stanford International Bank

(b)(6), (b)(7)c

The www.stanfordinternational.com website is a new one on me. You may need to revise the report (and letter) to mention this website as well.

offering of the "CDs". We are contacting the representative of the Federal Reserve (b)(5), (b)(7)a

Thanks.

(b)(6), (b)(7)c

----Original Message---From: (b)(6), (b)(7)c

To: (c)(6), (b)(7)c

Cc: (b)(6), (b)(7)c

Sent: 12/16/2002 12:28 PM Subject: Stanford International Bank

(b)(6), (b)(7)c

Thanks for your help! Here are the names of the entities involved, each of which appear to be owned by Mr. Robert A. Stanford, originally of Mexia, Texas, and now a dual citizen of Antigua and the United States:

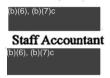
Stanford Group Company (this is the entity registered with us - it is a dual Investment Adviser/Broker-Dealer)
5050 Westheimer
Houston, Texas 77056
Our contact person is Ms. Jane Bates, (b)(6), (b)(7)c

Stanford International Bank Ltd. (this is the international bank offering the CDs. I misinformed you on the phone - the Bank of Antigua is actually the local bank for residents of Antigua only) 4000 Airport Boulevard
St. John's, Antigua, West Indies (268) 480-3700 (268) 480-3740 (fax)

Judging by the amount of referral fees received by Stanford Group Company (SGC), we believe that approximately \$640 million in CDs are currently outstanding from SGC's sales efforts (SGC receives a 3% annual commission from Stanford International Bank for referring clients). We are currently trying to get a list of names and dollar amounts invested. The CDs pay a higher than market rate of interest, currently ranging from 3.65% on a deposit of \$10,000 to \$49,999 for a one-month fixed term to 8.15% (with a yield of 10.06%) on a deposit of \$2,000,000 for a 60 month fixed term. The bank also offers flexible rate CDs at a slightly lower rate. The financial statements of the international bank indicate approximately \$1,116,454,586 in outstanding customer deposits as of 12/31/2001. The financial statements are vague as to the investment portfolio of the bank (approximately 59% is invested in "equities", while 41% is invested in "treasury bonds, notes, corporate bonds").

Information about the CDs, and other Stanford Group Company-affiliated business operations can be accessed via the Internet at www.stanfordeagle.com, www.stanfordgroup.com and www.stanfordinternational.com. After you get a chance to review everything, please call me and tell me what you think.

#### Thanks



### RE: Stanford Group Company (Examination Number IA2003FWDO-12)(9/2002 11:19:45 AM

From: (b)(6), (b)(7)c

To: Barasch, Spencer C. (b)(6), (b)(7)c

Cc: (b)(6), (b)(7)c

Will do.

----Original Message---From: Barasch, Spencer C.
Sent: Thursday, December 19, 2002 9:52 AM
To: (b)(6), (b)(7)c
Cc: Subject: FW: Stanford Group Company (Examination Number IA2003FWDO-12)

at your convenience, i.e., no rush, let me know what you think.

----Original Message
---From: (b)(6), (b)(7)c

Sent: Thursday, December 19, 2002 9:09 AM

To: (b)(6), (b)(7)c

Cc: Wright, Hugh M.; (b)(6), (b)(7)c

Barasch, Spencer C.; (b)(6), (b)(7)c

Subject: Stanford Group Company (Examination Number IA2003FWDO-12)

Stanford Group Company File No. 801-50374 Exam No. IA2003FWDO012

Attached is the Report of Examination, Memorandum of Comments, and Deficiency Letter for the routine examination of the above-captioned Registrant conducted by by the Fort Worth District Office.

The issue concerning the possible unregistered public offering of the CDs has been referred to the FWDO's Enforcement Division, which has decided to refer the matter to the Texas State Securities Board.

<< File: StanfordGC03.doc >>

### **RE: Stanford International Bank**

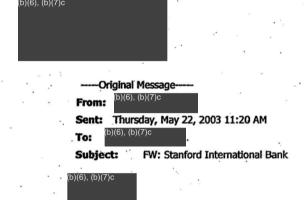
5/22/2003 11:24:10 AM

From: (b)(6), (b)(7)c

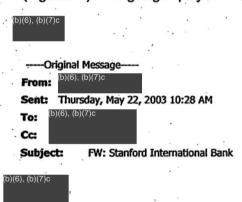
To: (b)(6), (b)(7)c

Dsec.gov]

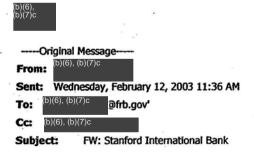
All Hal wanted to do is make sure we had done all we could do in alerting the banking authorities of our concerns and getting them on the line about what to do (or not do) about the situation. I don't see us having to go back to look at anything. I was thinking about going back to confirm with Jane that we had a full list of CD holders that bought through SGC. The totals from the list she gave us do not exactly match up with the total CDs outstanding that should be out there based upon the referral fees SGC received in 2001 (unless that Venezuelan outfit sold a whole bunch!!)



Did you get this e-mail? My OWA cut out as I was sending it. Did Hal say what kind of role we (regulation) were going to play in investigating this further? Do we have to go back out there?



I have not heard a peep from here is the last e-mail I sent her.





Is anyone at your office interested in pursuing this matter? What is the current status?

Thanks.



-----Original Message---From: (b)(6), (b)(7)c

Sent: Monday, December 16, 2002 11:29 AM

(b)(6), (b)(7)c

(p)frb.qov'

Subject:

Cc:

Stanford International Bank



Thanks for your help! Here are the names of the entities involved, each of which appear to be owned by Mr. Robert A. Stanford, originally of Mexia, Texas, and now a dual citizen of Antigua and the United States:

Stanford Group Company (this is the entity registered with us - it is a dual Investment Adviser/Broker-Dealer)

5050 Westheimer

Houston, Texas 77056

Our contact person is Ms. Jane Bates,



Stanford International Bank Ltd. (this is the international bank offering the CDs. I misinformed you on the phone - the Bank of Antigua is actually the local bank for residents of Antigua only)

4000 Airport Boulevard St. John's, Antigua, West Indies (268) 480-3700 (268) 480-3740 (fax)

Judging by the amount of referral fees received by Stanford Group Company (SGC), we believe that approximately \$640 million in CDs are currently outstanding from SGC's sales efforts (SGC receives a 3% annual commission from Stanford International Bank for referring clients). We are currently trying to get a list of names and dollar amounts invested. The CDs pay a higher than market rate of interest, currently ranging from 3.65% on a deposit of \$10,000 to \$49,999 for a one-month fixed term to 8.15% (with a yield of 10.06%) on a deposit of \$2,000,000 for a 60 month fixed term. The bank also offers flexible rate CDs at a slightly lower rate. The financial statements of the international bank indicate approximately \$1,116,454,586 in outstanding customer deposits as of 12/31/2001. The financial statements are vague as to the investment portfolio of the bank (approximately 59% is invested in "equities", while 41% is invested in "treasury bonds, notes, corporate bonds"). Information about the CDs, and other Stanford Group Company-affiliated business operations can be accessed via the Internet at www.stanfordeagle.com, www.stanfordgroup.com and www.stanfordinternational.com. After you get a chance to review everything, please call me and tell me what you think.

**Thanks** 



Stanford - Update

5/21/2003 11:20:30 AM

and I saw Hal in the hallway this morning shortly after our Stanford meeting. Hal made the mistake of asking what I was up to and I made the mistake of telling the truth. He now is concerned that we need to pursue the Stanford Bank CD issue through OCIE with the Federal Reserve. He believes that there needs to be a high-level dialog on this between the SEC and Fed. wanted to know what we had done with the Fed and I sent him the first email you sent to the lady at the Fed. I could not find your follow-up to her that you sent later. I suppose I am correct in assuming you haven't received anything further from the Fed?

See you later.



### **RE: Stanford Group - Stanford International Bank CDs**

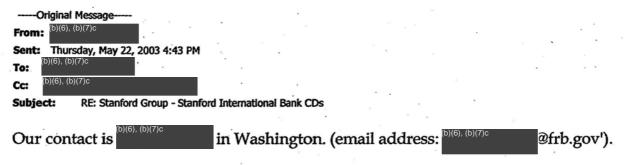
5/23/2003 7:11:58 AM

From: (b)(6), (b)(7)c

To: (b)(6), (b)(7)c

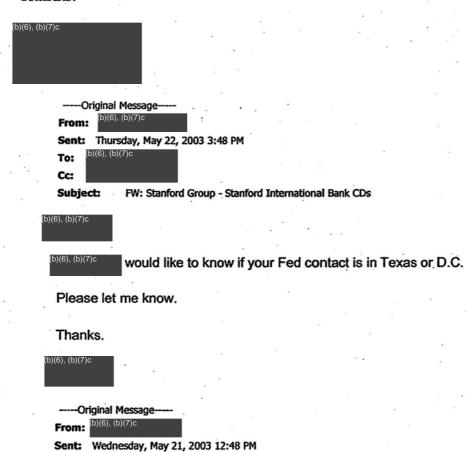
p.s.: block eagle. Isn't it swell that they are expanding their operations - I guess they need more (and new) money for their "bank".





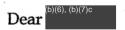
Thanks.

Cc:



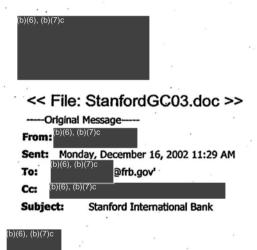
.; Wright, Hugh M.;

Subject: Stanford Group - Stanford International Bank CDs



Our district administrator, Hal Degenhardt, has expressed an interest in our having a "high level" dialogue with the Federal Reserve regarding the "CDs" discussed in our examination report on the Stanford Group examination. (IA2003-FWDO012). He is concerned about the ability of Stanford International Bank (SIB) to offer these CDs in the US without being a bank officially subject to US banking regulation. SIB, an affiliate of our registrant, is offering these CDs both offshore and in the US. The US offering is pursuant to a Reg D exemption. I have included a copy of our email to the Federal Reserve giving the essential details. We have as yet received no reply from the Federal Reserve

Please advise what assistance OCIE might provide in dealing with banking regulators such as the Federal Reserve. Please contact me if you have any further information. I have also attached the examination reprort and letter as well. Thanks.



Thanks for your help! Here are the names of the entities involved, each of which appear to be owned by Mr. Robert A. Stanford, originally of Mexia, Texas, and now a dual citizen of Antigua and the United States:

Stanford Group Company (this is the entity registered with us - it is a dual Investment Adviser/Broker-Dealer)
5050 Westheimer
Houston, Texas 77056
Our contact person is Ms. Jane Bates,

Stanford International Bank Ltd. (this is the international bank offering the CDs. I misinformed you on the phone - the Bank of Antigua is actually the local bank for residents of Antigua only)

4000 Airport Boulevard St. John's, Antigua, West Indies (268) 480-3700 (268) 480-3740 (fax)

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Thanks



# RE: Stanford - Call to Federal Reserve

6/4/2003 10:22:14 AM

To: Wright, Hugh M. (5)(6),

@SEC.GOV1

Hugh-

We did get that one complaint from the lady in Mexico.



-Original Message-From: Wright, Hugh M.

Sent: Wednesday, June 04, 2003 10:20 AM

To: Degenhardt, Harold F.

Cc: (b)(6), (b)(7)

Barasch

Spencer C.

Subject: RE: Stanford - Call to Federal Reserve

The decision not to go after it has been made in Enforcement some time back, who then referred ti to Texas. As mentioned below, the Fed referred the matter to the FBI (b)(5), (b)(7)a (b)(7)a (b)(7)a (c)(7)a . Nothing has changed since we referred it to Enforcement several months ago to suggest that it would be an easier case now than before. After our exam a couple of years ago, Stanford started filing Form Ds relying on Rule 506, although they did so under protest. This would seem to make it difficult to work a case for selling unregistered securities. If we can't go on that basis, then we would have to prove that they are operating a Ponzi scheme which would be very difficult, if not impossible, considering that, as far as I am aware, there have never been any complaints by investors, and all of the bank records and sales records are maintained offshore in Antigua. In my opinion, there is nothing further for us to do at this point.

--Original Message-From: Degenhardt, Harold F.

Sent: Tuesday, June 03, 2003 4:14 PM

To: Wright, Hugh M.

Cc:

Barasch,

Spencer C.

Subject: Re: Stanford - Call to Federal Reserve

This all great, but what does it mean? Is this something that we ought to go after or not?

Original Message— From: Wright, Hugh M. @SEC.GOV>

To: Degenhardt, Harold F. @SEC.GOV>

CC: (b)(6), (b)(7)c @SEC.GOV

@SEC.GOV>

Sent: Tue Jun 03 11:46:40 2003

Subject: FW: Stanford - Call to Federal Reserve

Hal:								
(b)(5), (b)(7)a						·		
			7					
Original Me	ssage							
From: (b)(6), (b)(7)c						*8 .		
Sent: Tuesday, J	June 03, 2003 9:12 AM					of a		
To: Wright, Ht								•
	ford - Call to Federal Reserve		. ,	*				
Subject. Stan	nord - Can to rederal Reserve							
				,				
Hugh-						9		
(b)(5), (b)(7)a								
(1)(E) (1)(E)	11 (1) (1) (1) (1) (1)	. 11 1		1.0		\(\alpha\) \(\alpha\)	and a	
(b)(5), (b)(7)a	As you will recall, (b)(6), (b)(7)c who referred him to (b)(6), (b)(7)c	talked to our p	previous Feder	rai Reserve	contact,	)(6), (b)(7)c	at the	
rederal Reserve v	vno reierred nim to say, say, s				_			
							, .	
(b)(5), (b)(7)a								

Let me know what else you wish to do. You may want to forward this on to Hal so he knows we are working on it and where we stand.



DENISE VOIGT CRAWFORD SECURITIES COMMISSIONER

JOHN R. MORGAN DEPUTY SECURITIES COMMISSIONER

> Mail: P.O. BOX 13167 AUSTIN, TEXAS 78711-3167

Phone: (512) 305-8300 Facsimile: (512) 305-8310



Texas State Securities Board

208 E. 10th Sireet, 5th Floor Austin, Texas 78701-2407 www.ssb.atate.bx.us

August 4, 2003

JOSÉ ADAN TREVINO

NICHOLAS C. TAYLOR MEMBER

KENNETH W. ANDERSON, JR. MEMBER

JACK D. LADD

BRYAN K. BROWN:

Spencer Barasch
Assistant District Administrator
Securities and Exchange Commission
801 Cherry Street, Suite 1900
Ft. Worth, Texas 76102

RE: Stanford Group

Dear Spencer:

Pursuant to the Rules and Regulations of the Texas State Securities Board, we are enclosing confidential investigative information regarding the above company. It is our understanding that this will be treated as confidential investigative material by the United States Securities & Exchange Commission.

Very truly yours,

DENISE VOIGT CRAWFORD Securities Commissioner



**Enforcement Division** 

(b)(6), (b)(7)c

Enclosures

(b)(6), (b)(7)c

(b)(6), (b)(7)c

(b)(6), (b)(7)

Texas State Securities Board 606 North Carancahua, # 803 West Corpus Christi, Texas 78486

Dear (b)(6), (b)(7)c

STATE SECURITIES BOARD

It was a pleasure speaking to you today about the similarities between of Houston, TX. I have (5)(6), (5)(7)0

and the Stanford Group

coverage in consideration of the damage it inflicted upon the depositors from Mexico, many of which were retirees.

was highly effective at avoiding regulatory oversight, through a Byzantine corporate structure where the funds from deposits were held in offshore entities, and the US entities only provided "administrative services" to the offshore entities. Furthermore, the people that solicited the deposits were promoters employed by yet another corporate entity, and these promoters were provided little information about the financial wherewithal of the companies accepting deposits. The bottom depositors who thought they were investing in money markets and CD instruments were told that their money was placed in conservative interest-bearing instruments, and unbeknownst to them, their deposits were used to fund speculative investments that the perpetrator, bottom of the deposit of the promoters in the four offices in Mexico.

As illustrated in the table below, there are many striking similarities between and the Stanford Group.

		(b)(6), (b)(7)c
	Stanford	Ţ
Raises money from Mexican citizens seeking fixed income investments denominated in US dollars.	1	1
Expensive US headquarters that provide imagery of financial success and US regulatory oversight.	√.	1
Offer interest rates that are higher than US banks, but much lower than a typical Ponzi scheme.	1	1
Expenses in US are not commensurate with income earning ability of US operations.  [b)(6), (b)(7)c expenses were \$20 million/year.	1	٧
Use of a network of promoters that have relationships with Mexican investors, but that do not have the sophistication to understand the risk.	possible	1
Money used on speculative investments where principle keeps the upside and investors keep the risk.	possible	1
The organization appears to be regulated US registered broker dealer US registered investor advisor	1	1
while the largest amounts are in unregulated entities.	1	1
that loan to or support the US overhead.	possible	1

Texas State Securities Board July 31, 2003 Page 2

I am told by people who deal with former bank personnel from banks such as IBC that cater to Mexican nationals. It would appear that Stanford wants to capitalize on the former banker's familiarity with large depositors. People familiar with the situation are telling me that Stanford has been aggressively marketing new deposits.

Unfortunately, organizations like (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals. At that time, the potential recovery to investors is greatly impaired. In the case of (b)(6), (b)(7)c continue until they reach a point of illiquidity so severe that they can no longer honor client withdrawals.

I am more than happy to speak to you or any members of your staff regarding (b)(6), (b)(7)c

Very truly yours,

Stanford's ADV states \$221 million under management with less than 500 clients supported by 51-250 employees and solicited by 11-50 employees. It is doubtful that an average 1% advisory fee of \$2.2 million would support the expenses of the 5050 Westheimer building. Furthermore, if Stanford is like (5)(6), (b)(7)c an onsite visit will probably find a lot more employees than can be supported by the managed asset fees from \$221 million.

Pages 244 through 252 redacted for the following reasons:
(b)(6), (b)(7)c

StanfordGC03.doc From (b)(6), (b)(7)c To: (b)(6), (b)(7)c Attachments: StanfordGC03.doc

9/16/2003 11:31:23 AM

@SEC.GOV]

<<...>>

StanfordGC03.doc

# SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE

#### MEMORANDUM

TO:

(b)(6), (b)(7)c

Office of Compliance Inspections and Examinations

MAIL STOP: 0901

CC:

(b)(6), (b)(7

FROM:

Hugh M. Wright

Ass't Administrator - Regulation, FWDO

By:

(6), (b)(7)c

RE:

Stanford Group Company

File No.

801-50374

Exam No.

IA2003FWDO-012

DATE:

December 19, 2002

#### Attachments:

Report of Examination, Memorandum of Comments, and Deficiency Letter for the routine examination of the above-captioned Registrant conducted by and of the Fort Worth District Office.

The issue concerning the possible unregistered public offering of the CDs has been referred to the FWDO's Enforcement Division, which has decided to refer the matter to the Texas State Securities Board.

## Fort Worth District Office Investment Adviser Examination Report

	Exam No.	Exam No. IA 2003 FWDO 012 File No 801 - 50374		Category**	
		Name Stanford Group Company		Complex	
	City	Houston	State TX	Zip 77056	Risk (1/2/3) 1H
		Ph # Jane E. Bates, Chief Compliance Off			
		Ltr/Enf	Cause Exam	N	Custody N
	•	o/Ltr/Conf/Enf/Oth)	(Y/N)		(Y/N)
(b)(6) (l	Lead Examine		BD#	8-48611	IARD#
(b)(6), (l	wsec.g			1 !	
(b)(6), (b	Examiners:	Field Work Start		Recovery	
(5)(6), (1	@sec			No IC Mgd	
		Disposition Date		IC Assets \$*	
		Response Date		Pvt Clients	
		Last Inspection		Pvt Assets \$*	
		Hours Fld/Office		Subscribers	
	L	Hours Management	24	* \$ in Millions	
	# of Deficience	es or Violations:			
		1. Filings & Reports		10. Portfolio Man	0
	6	2. Form ADV/Broch Dis/Del	15	11. Prohibited Tra	
		3. Contracts		12. Limited Partn	
		4. Custody		13. Conflicts of In	
	2	5. Books & Records		14. Brokerage/Ex	•
		6. Financial Condition	-5	15. Wrap Fee Prog	
100	2 .	7. Internal Controls		16. Marketing/Pe	
	1	8. Advisory Services		<ol> <li>Compensatior</li> <li>Client Referra</li> </ol>	
	1	9. Unregistered Entity		19. Litigation	is
		!		19. Lingation	* 9
	Examiner	(b)(6), (b)(7)c	Date	12/13/2002	
	Examiner	(b)(6), (b)(7)c	Date	12/13/2002	
	Examiner		Date		
		(b)(6), (b)(7)c			
	Reviewer		Date	12/18/2002	
	Approved	Hugh M. Wright	Date	12/19/2002	
	ripproved	22081122112811	Dute	IA Categories**	
				A= Financial Plan	ner
					nary Advisory Svc
		×		C= Discretionary	
				D= Newsletter Wi	
	,			E= Inactive	
				O= Other	
	Standard IA D	ata Sheet (IA Sheet.dot)		P= Pension Consu	ltant

# FORT WORTH DISTRICT OFFICE REPORT OF EXAMINATION

## Stanford Group Company 801-50374 Houston, TX

### **SUMMARY OF VIOLATIONS**

Section/Rule	Comment		
Section 206 Rule 206(3)-2	Registrant engaged in principal transactions and agency cross transactions (which may in fact be principal transactions as well) without providing the required disclosure to the participating clients.		
	Registrant failed to document adequate due diligence with respect to its clients' investments in its affiliated offshore bank's certificates of deposit.		
Securities Act, Section 5	Registrant-affiliated websites posts information about a private offering of the Registrant's affiliated offshore bank's certificates of deposit that may represent a general solicitation, or public offering, to United States investors without registration.		
Form ADV and Wrap Brochure	Registrant failed to adequately disclose  • Material facts concerning its offering of its affiliated offshore bank's certificates of deposit, including:		
	<ul> <li>If true, that the Registrant did not recommend the client invest in the certificates of deposit;</li> </ul>		
	The actual "referral fee" the Registrant receives annually from the sale of the certificates of deposit;		
	<ul> <li>Registrant's overwhelming financial reliance on referral fees on these sales for its financial success; and</li> </ul>		
	<ul> <li>That any investments in the certificates of deposit will not be considered assets under management for purposes of fee calculation.</li> <li>The additional compensation earned on the Registrant's clearing agent's money market sweep account on Form</li> </ul>		

Section/Rule	Comment			
	ADV, Schedule F, Item 13.A., not Item 13.B.			
	Form ADV, Part II, Item 1.C. (6) indicates SGC receives     "other compensation," but Part 1A, Item 5.E. (7) does not.			
	<ul> <li>The information required by Schedule H, item 7(k) regarding the background information of the individuals providing advice on behalf of the Registrant.</li> </ul>			
	The range of sub-advisory fees it pays to outside money managers as required by Schedule H, Item 7. (c).			
	Information required by Schedule H, Item 7. (d).			
	<ul> <li>Information required by Schedule H, Item 7. (g) concerning its policies with regard to monitoring the sub-advisers.</li> </ul>			
	The information required by Schedule H, Item 8. (cross-reference.)			
	The Registrant's policies with regard to bunched or blocked trading for its clients.			
	Its policy with regard to pricing securities.			

#### **EXECUTIVE SUMMARY**

The staff of the Fort Worth District Office ("FWDO") conducted an examination of **Stanford Group Company** ("SGC") beginning November 12, 2002. This was SGC's second examination, having been examined in July 1998. The FWDO broker-dealer examination staff examined SGC in August 1997, resulting in a referral to the FWDO Division of Enforcement for their review and disposition (MFW-894). This inquiry was closed with no action.

The area of concern in the prior examination involved the Registrant's "referral" of customers to an affiliated offshore bank for investment in "certificates of deposit" ("CDs") issued by that bank. The examiners sought to gather information about "referrals" of advisory clients. In the end, it was determined that there was insufficient information to support an enforcement action. At that time, at least 17 SGC advisory client accounts had also invested in the CDs. It was also represented to the examiners at that time that these clients were non-U.S. citizens.

Examination No. 98-F-71.

Based upon the amount of referral fees earned by SGC in 1997, it appeared that SGC brokerage and advisory clients may have invested as much as \$250 million in the CDs. At the time of the current examination, the amount of referral fees received by SGC would be indicative of \$640 million in CDs outstanding primarily through SGC's efforts. The FWDO recently received a complaint letter from a Mexican resident concerning SGC's apparent sale of a CD to her 75 year-old mother in Mexico.

#### BACKGROUND

SGC was formed as a Texas Corporation on July 21, 1995, and became registered as an investment adviser with the Securities and Exchange Commission ("Commission") effective October 17, 1995. SGC is also registered as a broker-dealer (File No. 8-48611). SGC is 100% owned by Robert A. Stanford ("Stanford"). Stanford also owns a number of other companies, generally referred to as the Stanford Financial Group of Companies, including Stanford International Bank Limited ("SIB"), an offshore bank open to persons outside Antigua, located in St. John's, Antigua, West Indies; Bank of Antigua, an Antigua bank serving Antigua resident client accounts only, also located in Antigua; Stanford Trust Company Limited, a trust company in St. Jon's, Antigua; Stanford Financial Group Building which owns and operates SGC's headquarters office located in Houston; Stanford Trust Company ("STC"), a Louisiana state chartered trust company; and Stanford Agency, Inc., an insurance company located in Louisiana. At the time of the examination, SGC operated its advisory businesses from Houston, Texas, having recently moved its advisory operations from Denver as part of a downsizing of the Denver office. SGC's co-presidents are (b)(6), (b)(7)(c) and ; its chief operating officer is Lena Stinson ("Stinson"); and its chief financial officer is

SGC conducts its investment activities through a series of "wrap programs" using a Schedule H brochure as its disclosure document. SGC recently terminated Robert B. Glen, the former head of its advisory division, after disappointing results and a perception of wasted spending on his part. Its only active management product in which it actually provides direct portfolio management is the Stanford Asset Management ("SAM") program that offers fixed income management, with a special focus of Latin American bonds. This special focus, according to SGC, is due to the desires of its primarily Latin American clients. Jane Bates ("Bates") serves as SGC's overall compliance officer, reporting directly to Stanford, assisted by [b](6), (b)(7) ) and (b)(6), (b)(7)c represent SGC's Stanford International Fixed Income Group ("SIFIG"), providing discretionary asset management services to SAM clients and non-discretionary advisory services to SGC registered representatives ("RRs") in the international fixed income area. ) is now in charge of the mutual fund allocation and portfolio manager referral products discussed below.

Currently, most of SGC's clients are high net worth individuals. SGC clears its clients' securities transactions through its clearing arrangement with Bear Stearns.

#### **EXAMINATION SCOPE**

Generally, in order to use Fort Worth District Office ("FWDO") examination resources in the most efficient and cost-effective manner, examinations are conducted with a focus on the areas of highest perceived risk. Various books, records, and other documents are requested and reviewed in order to identify patterns of transactions or activities that might violate regulatory requirements.

However, the scope and focus of this examination were also based on a review and analysis of the control environment maintained by the Registrant, as well as specific control measures used in strategic risk areas. The methodology used to identify and evaluate control procedures was that established under the Strategic Risk – Control Evaluation Matrix ("SR-CEM") program. Under the SR-CEM program, if the control procedures used by a registrant in a strategic risk area are determined to be highly effective, examiners have the option of not reviewing and conducting test checking of individual transactions recorded in the traditional books and records that document activities in that area. The concept underlying this approach is that when a registrant maintains effective control procedures, problems are identified and corrected as they arise and there is a substantially lower likelihood of there being unidentified, on-going major problem or fraudulent activities that could harm advisory clients or fund shareholders. As a result, inspection resources are focused on those activities in which control processes are found to be weak and ineffective.

Due to the nature of SGC's operations, many of the control measures contemplated by the SR-CEM program were inapplicable or nonexistent. As SGC does not manage a mutual fund, some of the items were clearly inapplicable. Further, since SGC is a dual registrant and custodies with, and executes trades through, its own clearing arrangement with Bear Stearns, many of the best execution controls were not present. As discussed later in this report, violations involving principal transactions and agency cross transactions were identified and cited to the Registrant. Given SGC's operations, the level of control measures did not appear unreasonable except in the area of principal and agency cross trades and pricing hard-to-price foreign, thinly traded fixed income securities.

At the commencement of the examination, the examiners conducted an initial interview with Bates, SGC's compliance officer. This discussion, and later discussions with [D(G), (D)(T)], Stinson, and [D(G), (D)(T)], an Associate Vice President, provided the examiners with insight into SGC's current business activities, future plans, investment strategy and philosophy, and policies and procedures in place. The

examiners used such information to further shape and define the scope of the examination.

#### FOCUS / SPECIAL REVIEW AREAS

During the examination, focus areas with respect to Regulations S-P, performance, best execution, suitability of recommendations and appropriate sales practices, Form ADV, Part II disclosures, hedge funds and disaster related policies and procedures were reviewed. Among other things, this report addresses SGC's failure to adopt suitability policies and procedures, and inadequate Form ADV, Part II disclosures. All other focus areas were either properly addressed or did not apply. It was further noted that the Registrant had adopted adequate polices and procedures with regard to Regulation S-P.

### Disaster Recovery

It appeared to examiners that the Registrant's contingency planning process was adequate in light of the services it provides. Accordingly, no mention was made in the accompanying deficiency letter concerning disaster recovery or contingency planning.

### Money Laundering Prevention

SGC had substantial written procedures to detect and prevent money laundering. While these procedures appeared on their face to be reasonably adequate, the examiners only reviewed a small number of client files of which only a few were those of foreign nationals.

### Valuation of Portfolio Securities

SGC failed to adequately document its pricing of hard-to-price foreign fixed income securities. (See "SECURITIES PRICING.")

## Adviser Performance Advertising

This area was not applicable, as this registrant does not advertise performance.

#### Form ADV Part II

This area was of particular concern. (See the discussion below under "FORM ADV AND WRAP BROCHURE" for further details.)

### Best Execution, Soft Dollar Abuses or Undisclosed Client Referral Payments

SGC's clients execute all transactions (except transactions in the CDs) through SGC's clearing broker, Bear Stearns. SGC has in the past reviewed information to assess Bear Stearn's execution quality.

### Hedge Fund or Other Private Equity Fund

SGC RRs offer CDs to their clients and receive "referral fees" in return. See discussion in report for more details.

### Funds of Hedge Funds

Not applicable as this Registrant does not recommend or manage a "fund of hedge funds."

### Adequate Control Procedures to Ensure Proper Disclosures (Funds)

This area was not applicable, as this examination did not involve a fund.

#### Exit Interview

An exit interview was held with and Bates (via teleconference at SGC's office) at the completion of the onsite fieldwork on November 21, to discuss the preliminary examination findings. Further items were discussed with via telephone after the on-site fieldwork ended. All items mentioned in the attached deficiency letter were discussed in these meetings.

#### STRATEGIC RISK - CONTROL EVALUATION MATRIX

As SGC had more than \$100 million under management and more than 50 employees, the FWDO examiners, per OCIE policy, were required to perform the Strategic Risk – Control Evaluation Matrix ("SR-CEM"). Due to the time needed to perform the SR-CEM, examiners had to limit their normal review of the Registrant's activities and were required to extend the fieldwork in the Registrant's office. In addition, the conduct of the examination was delayed due to the need for the Registrant's compliance employees to search for, provide and explain information responsive to the SR-CEM request.

Based on both interviews with the compliance officers, CFO, and portfolio managers, and a review of control-related documents, it was determined that control procedures in applicable strategic control areas were "okay," with the exception of the areas of securities pricing and client order allocation procedures, which were considered

"ineffective." See the discussions on these topics later in this report. Because of examiners' assessment of SGC's control procedures, more detailed test checking was conducted in certain of these areas. Some areas were not perceived to be of a high risk for this particular Registrant due to the nature of its operations (e.g., performance information disseminated to clients.)

#### **FINANCIAL CONDITION**

SGC's balance sheet reflected the following:

	Nine Months Ended September 30, 2002 (Unaudited)	December 31, 2001 (Audited)	December 31, 1997 (Unaudited) (1998 Exam)
Total Assets	23,237,147	24,217,109	\$71,265,872
Liabilities	4,246,554	6,046,730	
Subordinated Note to Affiliate	4,000,000	4,000,000	
Total Liabilities	8,246,554	10,046,730	50,972,457
Capital (Net Worth)	14,990,593	14,170,379	20,293,415

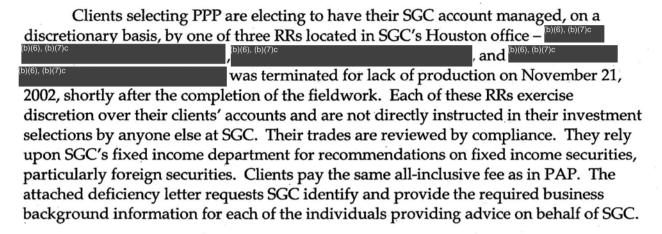
SGC's income statement reflected the following:

	September 30, 2002 (Unaudited)	December 31, 2001 (Audited)	Year Ended Dec. 31, 1997 (Unaudited)
Referral Fees <sup>2</sup>	19,416,444	19,180,966	\$9,144,560
Commissions and	6,174,488	11,588,723	4,512,015
Advisory Fees			
Other Income	2,880,402	3,467,455	
Total Revenue	28,471,334	34,237,144	13,656,575
Total Operating	27,651,110	38,646,660	12,209,238
Expenses	•		* .
Net Earnings (Loss)	820,224	(4,409,516)	\$ 1,447,337

SGC's independent auditor is BDO Seidman, LLP in Houston, Texas, and its legal counsel is Chan Warner P.C.

Referral fees represent income from the sale of CDs issued by SIB and, to a small degree, referral fees from STC, SGC's affiliated trust company. SGC receives a three percent annual trail commission from SIB for convincing clients to invest in SIB's CDs.

"certificates of deposit" are included as possible investment recommendations. SAM charges fees on the SAM Income Portfolios of 1.25% on the first \$500,000 which decline to 0.85% on amounts over \$1 million. The other strategies require a higher fee, ranging from 1.75% on the first \$500,000 down to 1.25% on amounts over \$1 million. In all cases, fees on amounts above \$2 million are negotiable.



The MFP program is a mutual fund allocation program using no load and load-waived fund shares, requiring a minimum account size of \$25,000. An MFP account can be either discretionary or non-discretionary. SGC discloses in its brochure that its RRs may receive more compensation on a MFP account than in other SGC investment programs. It also discloses that SGC may receive 12b-1 fees in addition to its advisory fees.

The MFPP program is similar to MFP except that it provides for only limited discretion for the client's portfolio to be automatically rebalanced whenever any allocation becomes more than 5% more or less than the original allocation. The fees for the MFP and MFPP programs are the same, starting at 2% on the first \$250,000 and declining ratably until they are negotiable for assets of more than \$2 million. Both programs also have a minimum account size of \$25,000. MFPP program has the same disclosure as described above about RRs' conflicts and 12b-1 fees.

#### PROHIBITED TRANSACTIONS

In response to the Examination Staff's initial document request, SGC produced a schedule reflecting what it believed to be agency cross transactions. After review, it was determined that one of SGC's affiliates, the Bank of Antigua, was also an advisory client and was participating in the cross trades, generally being the selling client in the trades. SGC did not appear to recognize that, since the Bank of Antigua was under common control with SGC, these represented principal transactions with their other advisory clients. Bates acknowledged that SGC had failed to comply with either Rule 206(3)-2 or Section 206(3) with respect to these trades. Bates indicated that, because all

the trades were effected through one or more SGC proprietary trading accounts at Bear Stearns, it was possible that all the trades were actually principal transactions, even those not involving the Bank of Antigua account.

After review of the trades, it appeared that SGC had not made a commission or mark-up or mark-down, on these trades. Further, it could not be determined whether the Bank of Antigua was favored in these trades, particularly since the portfolio manager had not documented the prevailing market prices for the securities involved in the trades.

During the course of the fieldwork portion of the examination, Bates provided the Examination Staff with documentation indicating that if the clients elected to rescind the transactions as the result of SGC's notice of the trading irregularities, SGC might incur losses on behalf of its clients of slightly more than \$100,000. In addition, Bates informed the Examination Staff that the clients were likely to terminate their relationship with SGC if they became aware of the inappropriate transactions, even if SGC made the clients whole.

The attached deficiency letter notes the inappropriate transactions and asks SGC to explain what action it will take to remedy the violations. The deficiency letter also requests that SGC adopt and follow procedures reasonably designed to assure compliance with Rule 206(3)-2 and Section 206(3) as appropriate.

# REFERRALS TO AFFILIATED BANK FOR CERTIFICATE OF DEPOSITS

A review of SGC's "due diligence" files for the SIB certificates of deposit ("CDs") revealed that SGC had little more than the most recent SIB financial statements (year end 2001) and the private offering memoranda and subscription documents. There was no indication that anyone at SGC knew how its clients' money was being used by SIB or how SIB was generating sufficient income to support the above-market interest rates paid and the substantial annual three percent trailer commissions paid to SGC. Discussions with Bates indicated that SGC and SIB do did not believe the CDs are securities; however, SGC has filed Forms D with the Commission. In its transmittal letters to the Commission, SGC disclaims that the CDs are securities under the federal securities laws, but states that it is filing Form D in an abundance of caution. In addition, Bates maintained that SGC was not recommending the CDs to advisory clients, merely referring them to SIB for consideration.

According to the last Form D filed with the Commission on January 29, 2002, SIB claimed to have sold \$37.2 million (of \$150 million offered) in CDs to an undisclosed number of U.S. resident accredited investors. This amount reflects additional deposits of \$22.3 million to U.S. investors since February 24, 2000, the date of the previous Form D, when SIB reported total sales of \$14.9 million (of a total \$50 million offered.) The

letter transmitting the most recent Form D, as previous transmittal letters, states, "[SIB] believes that these [CDs] are not a 'security' as defined under U. S. Securities laws, but are [sic] nevertheless offering this product solely to accredited investors in the United States." According to data provided by SGC during the examination, SGC has 49 advisory client investments in CDs totaling \$15.6 million. One client has three accounts with investments totaling \$9.2 million. As noted above, for calendar 2001, SGC received SIB referral fees of \$19.2 million. Based upon this fee revenue, the CD sales attributable to SGC could be estimated as approximately \$640 million (less the amount attributable to the sales efforts of its affiliated Venezuelan investment adviser discussed below.) SIB's financial statements for the year ended December 31, 2001, discussed in more detail below, indicated total "certificates of deposit" of \$1.1 billion.

The examiners obtained copies of the disclosure documents given to U.S. accredited investors and it appeared that the document provided extensive disclosure that SIB was not a U.S. bank and that the CDs were not protected by FDIC or other federal guarantees, or by SIPC. It further claimed that the CDs were not securities, not subject to U.S. securities regulation, and had not been registered for sale in the U.S. However, the document provides no disclosure of specifically how the money will be used by the issuer.

Examiners also obtained the latest interest rates offered by SIB. The interest rates generally depend on the type of CD, the amount deposited, and the maturity term. The current rate offered on the FixedCD is 3.65% on a deposit of \$10,000 to \$49,999 for a one-month term. This rate increases to a high of 8.150% on a deposit of between \$2 million to \$3.9 million for a 60-month term. On deposits of \$250,000 or more, the interest rate will go up if SIB's base rates increase. The current U.S. treasury rate on a three-month bill is 1.18%, with a yield of 1.20%, and the rate on a 5-year note is 3.00% with a yield of 3.05%. The rates on the FlexCD, which is essentially the same as the FixedCD except the client may withdraw his money in 25% increments with five banking days notice up to four times annually, are slightly lower. The "guaranteed rate" on the IndexLinkedCD is 3.90% on maturities of three, four, and five years.

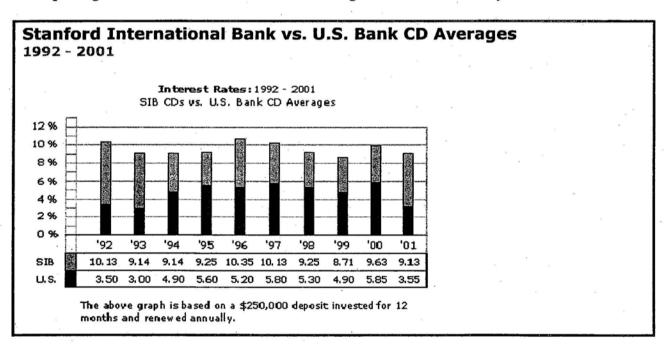
SGC has established internal procedures that require a RR to obtain the disclosure document and subscription agreement from SGC's "operations department," which maintains a log of investors provided the documents. Therefore SGC should have a record of all persons to whom the U.S. CD private offering has been made. A request for a list of all CD holdings resulting from SGC CD sales, both in the U.S. offering and offered to non-U.S. residents, is pending at the date of this report.

It was explained to examiners that, in addition to receiving referral fees from SIB for CD sales of SGC RRs, SGC also receives referral fees paid on sales by representatives

of an affiliated investment adviser in Venezuela. It was explained that the Venezuelan company could not accept referral fees from SIB without being considered engaged in the banking business under Venezuelan law. Therefore, SGC receives all referral fees earned by the Venezuelan affiliate and its agents, retains a portion of the fees (10%) and forwards the rest to the Venezuelan affiliate. All this is pursuant to a written agreement between SGC and the Venezuelan affiliate.

SGC provided examiners SIB's Annual Report for 2001, which reflected total assets of \$1.2 billion, of which \$1.1 billion were described on the face of the balance sheet as "investments." Total liabilities were reflected as \$1.1 billion, leaving a total stockholder's equity, or net worth, of slightly more than \$75 million. SIB's income statement reflected gross interest and non-interest income of \$140 million, which, after deduction of interest paid and "service fee activities," produced net revenue of \$19.2 million. After expenses of slightly more than \$7 million, SIB reported an "operating profit" of \$12.2 million.

Information about the CDs, and other SGC-affiliated business operations can be accessed via the Internet at <a href="www.stanfordeagle.com">www.stanfordgroup.com</a>, and <a href="www.stanfordinternational.com">www.stanfordinternational.com</a>. Including on the former website is the following chart comparing SIB's CD interest rates to the average CD rates offered by U.S. banks:



Stanford Group Venezuela Asesores de Inversión, C.A., Avenida Tamanaco, Torre Empresarial El Rosal, Piso 3, El Rosal-Chacao Caracas, Venezuela (011 (58212) 953-2595).

The notes to the financial statements described the "investments" as listed securities in "equities" of \$626 million and "treasury bonds, notes, corporate bonds" of \$443 million.

The website also provides all the terms and conditions of the various types of CDs and other accounts offered by SIB (e.g., the FixedCD, the FlexCD, and the Index-LinkedCD.) A person accessing the website can easily get information about how to contact SGC representatives, either by telephone or by email. As a result, the website information appears to represent a general solicitation, or public offering, of the CDs to U.S. persons.

The attached deficiency letter requests SGC conduct additional due diligence to support its recommendation of its affiliated bank's CDs. It also requests that, if true, the disclosure in its brochure clearly disclose that it is not recommending clients invest in SIB CDs and that their referral to the affiliated bank does not indicate approval or recommendation of the CD by SGC to the client. It also requests that the brochure disclose that any client investments in the CDs will not be considered assets under management for fee calculation purposes. Finally the letter cautions SGC that the website information about the CD offer may be a public offering, jeopardizing SIB's claimed Rule 506 private offering exemption.

## FORM ADV AND WRAP BROCHURE

In addition to other deficiencies discussed in more detail elsewhere in the report, SGC's Form ADV and wrap brochure required revisions in the areas noted below.

## Form ADV

- The response concerning additional compensation earned on the Registrant's clearing agents money market sweep account should be disclosed on Schedule F, Item 13.A., not Item 13.B.
- Part II, Item 1.C. (6) indicated SGC receives "other compensation," but Part 1A, Item 5.E. (7) is not marked.

# Wrap Brochure

• The discussion of SIB on page 42 under "Affiliations" should disclose the amount of referral fees (3% of funds invested) and the fact this amount is paid annually, not just at the initial investment. The discussion should also mention that, as explained to the examiners, SGC does not recommend the investment to its advisory clients, but merely refers them to SIB. (It should be noted that this contradicts the Registrant's disclosure on Schedule F to Part II, Item 9.D., disclosing that SGC "Recommends Related Investment Products," including the SIB CDs.) In this regard, it is recommended that SGC disclose that it may nonetheless bear some responsibility for the advisory client's investment in the SIB CDs. It is also recommended that SGC disclose that it relies upon referral fees from SIB for the vast majority of its revenues. This same or similar

disclosure should also appear in the Registrant's response on Schedule F to Part II, Item 9.D. regarding SIB.

- The brochure should include the information called for by Part II, Item 6 as required by Item 7(k) of Schedule H regarding all individuals providing investment advice on SGC's behalf or their supervisors if more than five, including the registered representatives offering advice under PPP.
- The brochure should be amended to provide the range of sub-advisory fees paid by SGC to the sub-advisers for their services as required by Schedule H, Item 7.
   (c).
- The brochure should be expanded to provide a full response to Schedule H, Item
   7. (d).
- The brochure should be expanded to more completely describe SGC's policies regarding sub-advisers as required by Schedule H, Item 7. (g).
- The cross reference required by Schedule H, Item 8. should be completed.

# **BROCHURE DELIVERY**

SGC only makes an annual offer of its own wrap brochure to clients. Its contract with the third party sub-advisers provides that SGC is to provide a new client with the sub-adviser's brochure, but is silent with respect to the annual offer of the sub-adviser's brochure. SGC personnel indicated that it was likely that no one was making the sub-adviser annual offer. The attached deficiency letter requests SGC establish procedures that assure clients receive the annual offer of the sub-advisers' brochure.

# CUSTODY

Registrant effects bunched or block trades for the benefit of its advisory clients, including affiliated client accounts (e.g., The Bank of Antigua) through the use of a omnibus account held in the Registrant's name at its clearing firm. The use of such an account may create a risk to the client's funds or securities while the transactions are being effected since the adviser my have access to the funds or securities held in such an account. The attached deficiency letter requests that SGC assure the staff that the Registrant's omnibus trading accounts meet the requirements of the *Owen T. Wilkinson* no action letter, providing documentation supporting the explanation.

The staff also considered questioning whether SGC had indirect custody of its clients' funds or securities through their investments in SIB CDs. However, based upon existing no action guidance, it did not appear that the Examination Staff could claim

SGC had such custody.<sup>6</sup> Therefore, no mention of this is made in the attached deficiency letter.

## **BOOKS AND RECORDS**

SGC did not create and maintain the required order memorandum. In addition, it did not follow, or did not adequately document its following, proper procedures with regard to bunched trading. The attached deficiency letter asks SGC to establish appropriate policies and procedures, with appropriate disclosure and documentation, to assure the fair treatment of its clients in bunched trades.

# SECURITIES PRICING

In several instances, SGC was required to price foreign fixed income securities not priced by its clearing firm, Bear Stearns. The portfolio manager, was involved in the pricing process, obtaining quotes from brokers on the price. However, this process was not adequately documented, including any indication of review by compliance. The attached deficiency letter requests that SGC disclose its pricing policies and establish procedures that will produce documentation of these pricing irregularities.

# **BUNCHED OR BLOCK TRADING FOR CLIENT ACCOUNTS**

As described earlier in discussing the cross transactions effected by SGC, on a routine basis SGC executes bunched or block trades on behalf of its clients, including affiliated accounts. In operation, the practices seemed reasonable. However, SGC did not adequately document the process, including producing and maintaining the appropriate order memoranda as mentioned elsewhere, to establish compliance with its procedures and the fair treatment of clients. The attached deficiency letter requests SGC disclose its bunched trading policy in its Form ADV and wrap brochure and establish procedures to document these clients trades.

#### CONCLUSION

At the conclusion of the on-site fieldwork portion of the examination, Examiner conducted an exit interview with Bates and Other issues were addressed through telephone conversations with Other issues were addressed. During the interview and subsequent telephone conversations details of the examiners' concerns, which are set forth in more detail above, were presented. Further comments relating to SGC and the violations or

The Division of Investment Management has indicated that if an advisory business is separate under the five factor test set out in the *Crocker Investment Management Corp*. (April 4, 1978) no action letter, the sole fact that an adviser has custody of client funds in another line of business would not require the adviser to comply with the custody rule. *Volunteer Corporate Credit Union* (May 28, 1993.)

deficiencies noted during the examination are contained in the accompanying deficiency letter, which Examiners forwarded to the Registrant concurrent with the submission of this report. Prior to sending the deficiency letter, the Examination Staff discussed its content with Registrant.

OCIE assigned SGC an "adviser ranking" of "182". Based upon the results of this examination, the FWDO has assigned a "risk rating" of "1," the highest risk rating possible, primarily due to SGC's sales of the CDs.

The issue concerning the possible unregistered public offering of the CDs has been referred to the FWDO's Enforcement Division, which has decided to refer the matter to the Texas State Securities Board.<sup>7</sup>

After the completion of the fieldwork portion of the examination, but prior to the completion of this report, the FWDO received a letter from (b)(6), (b)(7)c (b)(6), (b)(7)c (c)(6), (b)(7)c (c)(7)c 


# UNITED STATES SECURITIES AND EXCHANGE COMMISSION FORT WORTH DISTRICT OFFICE

801 CHERRY STREET SUITE 1900, UNIT 18

## FORT WORTH, TEXAS 76102 PHONE: (817) 978-3821 FAX: (817) 978-4944



December 19, 2002

Ms. Jane Bates, Chief Compliance Officer Stanford Group Company 5050 Westheimer Houston, Texas 77056

RE: Stanford Group Company FILE NO. 801-50374

Dear Ms. Bates:

The examination of the books and records of **Stanford Group Company** ("SGC" or "Registrant"), conducted pursuant to Section 204 of the Investment Advisers Act of 1940 ("Advisers Act"), disclosed the following:

#### FORM ADV AND THE WRAP BROCHURE

Rule 204-1 of the Advisers Act has recently been amended requiring investment advisers annually to electronically file a completed Part 1A of Form ADV with the Investment Adviser Registration Depository (IARD) within 90 days after fiscal year end. You are not required to file with the Securities and Exchange Commission ("Commission") a copy of Part II of Form ADV if you maintain a copy of your Part II (and any brochure you deliver to clients) in your files. The copy maintained in your files is considered filed with the Commission.<sup>1</sup>

In addition to an annual updating requirement, registered advisers must amend Form ADV if the information contained in response to Items 1, 3, 9, or 11 of Part 1A become inaccurate for any reason. Further, if the information contained in response to Items 4, 8, or 10 of Part 1A, or if the information provided in a brochure becomes materially inaccurate, the investment adviser shall promptly file an amended Form ADV correcting such information.<sup>2</sup>

The Commission is not requiring advisers to submit Part II of Form ADV until IARD is ready to accept (new) Part II brochures.

Please note that under the new IARD system, Part 1B must be completed only by certain state-only registered advisers.

Please note that there is need for substantial revision to the Registrant's Form ADV. Please review the following comments and respond by revising the items consistent with the comment:

# Form ADV

- The response concerning additional compensation earned on the Registrant's clearing agents money market sweep account should be disclosed on Schedule F, Item 13.A., not Item 13.B.
- Part II, Item 1.C. (6) indicated SGC receives "other compensation," but Part 1A, Item 5.E. (7) is not marked.

# Wrap Brochure

- The discussion of SIB on page 42 under "Affiliations" should disclose the amount of referral fees (3% of funds invested) and the fact this amount is paid *annually*, not just at the initial investment. The discussion should also mention that, as explained to the examiners, SGC does not recommend the investment to its advisory clients, but merely refers them to SIB. (It should be noted that this contradicts the Registrant's disclosure on Schedule F to Part II, Item 9.D., disclosing that SGC "Recommends Related Investment Products," including the SIB CDs.) In this regard, it is recommended that SGC disclose that it may nonetheless bear some responsibility for the advisory client's investment in the SIB CDs. It is also recommended that SGC disclose that it relies upon referral fees from SIB for the vast majority of its revenues. This same or similar disclosure should also appear in the Registrant's response on Schedule F to Part II, Item 9.D. regarding SIB.
- The brochure should include the information called for by Part II, Item 6 as required by Item 7(k) of Schedule H regarding all individuals providing investment advice on SGC's behalf or their supervisors if more than five, including the registered representatives offering advice under PPP.
- The brochure should be amended to provide the range of sub-advisory fees paid by SGC to the sub-advisers for their services as required by Schedule H, Item 7.
   (c).
- The brochure should be expanded to provide a full response to Schedule H, Item 7. (d).
- The brochure should be expanded to more completely describe SGC's policies regarding sub-advisers as required by Schedule H, Item 7. (g).
- The cross reference required by Schedule H, Item 8. should be completed.

#### **BROCHURE DELIVERY**

You have not been in compliance, or at least cannot document compliance, with Rule 204-3 which requires an investment adviser to provide its clients or prospective clients with a written disclosure document which complies with Rule 204-1(b) under the Advisers Act containing, at a minimum, the information contained in Part II of Form ADV. The written disclosure statement must be delivered to a prospective client at least 48 hours in advance of entering into any contract. Alternatively, if it is delivered at the time of entering into the contract, the client must be given five business days to terminate the contract without penalty. The rule also requires that an adviser must annually offer, in writing, to deliver without charge a current disclosure statement to each client.<sup>3</sup>

SGC only makes an annual offer of its own wrap brochure to clients. Its contract with the third party sub-advisers provides that SGC is to provide a new client with the sub-adviser's brochure, but is silent with respect to the annual offer of the sub-adviser's brochure. SGC personnel indicated that it was likely that no one was making the sub-adviser annual offer. It is recommended that SGC establish procedures that assure clients receive the annual offer of the sub-advisers' brochure.

# PROHIBITED TRANSACTIONS

Section 206(3) of the Advisers Act states that it shall be unlawful for any investment adviser, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly acting as principal for his own account, knowingly to sell any security to or purchase any security from a client, or acting as broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction.<sup>4</sup>

Rule 206(3)-2, adopted under Section 206(3), deems an investment adviser or broker-dealer controlling, controlled by, or under common control with an investment adviser, to be in compliance with the that section's provisions in effecting an agency cross transaction for an advisory client, if:

(1) The advisory client has executed a written consent prospectively authorizing the investment adviser, or any other person relying on this

In addition, Rule 204-2(a)(14) requires, among other things, a record of the dates documenting the initial delivery of the written disclosure statement.

Investment Adviser Release No. 1732 dated July 17, 1998, which is enclosed for your view, specifically states "completion of the transaction" occurs after execution but before settlement of a principal transaction.

rule, to effect agency cross transactions for such advisory client, provided that such written consent is obtained after full written disclosure that with respect to agency cross transactions the investment adviser or such other person will act as broker for, receive commissions from, and have a potentially conflicting division of loyalties and responsibilities regarding, both parties to such transactions;

- (2)The investment adviser, or any other person relying on this rule, sends to each such client a written confirmation at or before the completion of each such transaction, which confirmation includes (i) a statement of the nature of such transaction, (ii) the date such transaction took place, (iii) an offer to furnish upon request, the time when such transaction took place, and (iv) the source and amount of any other remuneration received or to be received by the investment adviser and any other person relying on this rule in connection with the transaction, Provided, however, That if, in the case of a purchase, neither the investment adviser nor any other person relying on this rule was participating in a distribution, or in the case of a sale, neither the investment adviser nor any other person relying on this rule was participating in a tender offer, the written confirmation may state whether any other remuneration has been or will be received and that the source and amount of such other remuneration will be furnished upon written request of such customer;
- (3) The investment adviser, or any other person relying in this rule, sends to each client, at least annually, and with or as part of any written statement or summary of such account from the investment adviser or such other person, a written disclosure statement identifying the total number of such transactions during the period since the date of the last such statement or summary, and the total amount of all commissions or other remuneration received or to be received by the investment adviser or any other person relying on this rule in connection with such transactions during such period;
- (4) Each written disclosure and confirmation required by this rule includes a conspicuous statement that the written consent referred to in paragraph (a)(1) of this section may be revoked at any time by written notice to the investment adviser, or to any other person relying on this rule, from the advisory client; and
- (5) No such transaction is effected in which the same investment adviser or an investment adviser and any person controlling, controlled by or under common control with such investment adviser recommended the transaction to both any seller and any purchaser.

Subsection (b) defines the term "agency cross transaction for an advisory client" as a transaction in which a person acts as an investment adviser in relation to a transaction in which such investment adviser, or any person controlling, controlled by, or under common control with such investment adviser, acts as broker for both such advisory client and for another person on the other side of the transaction.

As discussed during the examination, Registrant appears to have engaged in either agency cross trades or direct or indirect principal trades with advisory clients as discussed more fully below. The Registrant appears to have failed to comply with either the requirements with respect to principal trades or agency cross trades as may be applicable. In addition, SGC appears to have also failed to abide by its own disclosure in its wrap brochure that it would not effect such transactions without complying with Section 206(3).

# **Principal Trades**

A review of schedules provided to examiners shows that SGC has effected cross transactions between an account for the Bank of Antigua, a company under common control with SGC, and other SGC clients. As explained during the examination, as Bank of Antigua is an affiliate of SGC and Section 208 forbids an adviser from doing indirectly what it cannot do directly, these trades are in fact considered principal transactions governed by Section 206(3). A review of SGC's records indicated that the clients on the other side of these trades did not receive the required disclosure in a timely manner in order presume informed consent to the transactions. Please advise what actions the Registrant will take to assure compliance with the requirements of Section 206(3).

# **Agency Cross Transactions**

In addition, those trades not involving the Bank of Antigua account appear to have been agency cross transactions effected between SGC advisory clients in which SGC acted as adviser and exercised discretionary authority in effecting both the client purchase and sale of the subject securities. The requirement of Rule 206(3)-2 was not met. Please advise what actions the Registrant will take to assure compliance with the requirements of Section 206(3). <sup>5</sup>

#### **CUSTODY**

You should be aware that an investment adviser has custody of client funds or securities if the adviser directly or indirectly holds these funds or securities, has the

As was discussed during the examination, the manner in which these trades were effected may have rendered them principal transactions between SGC and both the buying and selling advisory clients. In any event, the requirements of Section 206(3) were not met as well with respect to these trades.

authority to obtain or possess the funds or securities, or has the ability to appropriate the funds or securities. If an investment adviser has custody or possession of client funds or securities, it must comply with the requirements of Rule 206(4)-2 under the Advisers Act. Rule 206(4)-2 of the Advisers Act establishes certain procedural requirements for investment advisers who have custody or possession of clients' funds or securities. This rule describes the manner in which clients' funds and securities must be maintained. It also describes certain additional required reports to clients and the Commission. This rule also requires that the funds and securities in the investment adviser's custody or possession be subject, at least once during each calendar year, to a surprise verification by an independent public accountant who must promptly file with the Commission a certificate of examination attached to a completed Form ADV-E. In addition, Rule 204-2(b) establishes the additional books and records that must be kept by an adviser that has custody or possession of clients' funds or securities. Finally, Rule 204-1(a)(2), in relevant part, requires that an audited balance sheet as required by Item 14 of Part II of Form ADV be filed within 90 days of the end of the investment adviser's fiscal year. Item 14 requires an investment adviser who has custody of client funds or securities or who requires prepayment of more than \$500 in fees per client six or more months in advance to provide an audited balance sheet for the most recent fiscal year.

# **Omnibus Trading Account**

Registrant effects bunched or block trades for the benefit of its advisory clients, including affiliated client accounts (e.g., The Bank of Antigua) through the use of a omnibus account held in the Registrant's name at its clearing firm. The use of such an account may create a risk to the client's funds or securities while the transactions are being effected since the adviser my have access to the funds or securities held in such an account. The Division of Investment Management has indicated in a no action letter that an adviser need not comply with Rule 206(4)-2 if the following conditions are met:

- All arrangements for aggregation of transactions within the omnibus account are fully disclosed;
- No account is favored over another, with each receiving an average share price;
   all transaction costs shared on a pro-rata basis;
- Only advisory clients' trades are aggregated within the omnibus account;
- Omnibus account must be in name of custodian bank;
- Client funds and securities must be maintained by custodian bank in the name of their respective owners;

 Participating custodian banks will pay brokers only against delivery of securities and deliver securities to brokers only against payment.<sup>6</sup>

Please assure the staff that the Registrant's omnibus trading accounts meet the requirements of the no action letter, providing documentation supporting the assurance.

# **BOOKS & RECORDS**

Section 204 of the Advisers Act requires that every investment adviser, other than one specifically exempted from registration, to maintain such records as the Commission, by rule, may prescribe as necessary. Rule 204-2, promulgated thereunder, sets forth the books and records to be maintained by investment advisers. Paragraph (a) of the Rule contains the books and records that every investment adviser must keep. Paragraph (b) of the Rule establishes the additional books and records that must be kept by an adviser that has custody or possession of clients' funds or securities. Paragraph (c) concerns the additional books and records advisers rendering any investment supervisory or management service to any client must maintain with respect to the portfolios being supervised or managed. The examination disclosed that you were not in compliance with certain provisions of Rule 204-2. Please implement procedures to establish and accurately maintain the following required books and records.

Rule 204-2(a)(3) requires a memorandum of each order given by the investment adviser for the purchase or sale of any security, of any instruction received by the investment adviser from the client concerning the purchase, sale, receipt or delivery of a particular security, and of any modification or cancellation of any such order or instruction. Such memoranda shall show the terms and conditions of the order, instruction, modification or cancellation; shall identify the person connected with the investment adviser who recommended the transaction to the client and the person who placed such order; and shall show the account for which entered, the date of entry, and the bank, broker or dealer, by or through whom executed where appropriate. Orders entered pursuant to the exercise of discretionary power shall be so designated. At present, your procedures do not meet the requirements of this rule in that your order tickets fail to indicate whether the order was entered pursuant to the exercise of discretionary power. In addition, Registrant engages in bunched or block trades for its clients, including certain affiliated client accounts. In a number of respects, the Registrants policies and procedures, and disclosures, do not comport with the Commission's statements about an adviser's duty to assure that these type trades are effected in a fair manner with respect to all advisory clients. (See SMC Capital, Inc. (Sept. 5, 1995), attached.)

Owen T. Wilkinson & Associates, Inc. (Dec 30, 1987.)

## SECURITIES PRICING

In several instances, SGC was required to price foreign fixed income securities not priced by its clearing firm, Bear Stearns. The portfolio manager, Willard, was involved in the pricing process, obtaining quotes from brokers on the price. However, this process was not adequately documented, including any indication of review by compliance. It is requested that SGC disclose its pricing policies in its wrap brochure and establish procedures that will produce documentation of these pricing irregularities.

# FIDUCIARY OBLIGATION

An adviser has a fiduciary relationship with clients and owes them undivided loyalty. Even though there may be some conflicts of interest that can be addressed with appropriate disclosure, the clients' interests should be foremost. As an adviser, you have the duty to exercise a high degree of care to insure that adequate and accurate representations and information about securities and other investments are presented to clients. Unlike a party to an arm's length transaction, an investment adviser has an affirmative duty of utmost good faith, and full and fair disclosure of all material facts, as well as an affirmative obligation to employ reasonable care to avoid misleading clients. For example, you may not recommend to your clients that they enter into a transaction in which you have an interest or from which you will derive compensation, either directly or indirectly, without affirmatively disclosing to your clients your interest and/or compensation. Any conflict of interest that might incline you, consciously or unconsciously, to render advice that is not disinterested, must be avoided. Any departure from this fiduciary standard may constitute fraud upon your clients under Section 206 of the Advisers Act and subject you to administrative, civil and/or criminal sanctions.7

The Examination Staff's review of SGC's due diligence file with respect to its clients' investments in the certificates of deposit ("CDs") issued by an international offshore bank under common control with SGC, Stanford International Bank ("SIB"), indicated that SGC did not have adequate information upon which to base a recommendation to a client. (See discussion below concerning this offering.) It was learned from the compliance staff that SGC considered itself to be merely "referring" clients to SIB for consideration of the CDs, not actually "recommending" that its advisory clients purchase the CDs. (As mentioned above, this is not consistent with SGC's previous Form ADV disclosures.)

The latest interest rates were obtained during the examination. The rates generally depend on the type of CD, the amount deposited, and the maturity term. The

<sup>&</sup>lt;sup>7</sup> Securities and Exchange Commission v. Capital Gains Research Bureau, Inc., 375 U.S. 180 (1963).

current rate offered on the FixedCD is 3.65% on a deposit of \$10,000 to \$49,999 for a one-month term. This rate increases to a high of 8.150% on a deposit of between \$2 million to \$3.9 million for a 60-month term. On deposits of \$250,000 or more, the interest rate will go up if SIB's rates increase. The current U.S. treasury rate on a three-month treasury bill is 1.18%, with a yield of 1.20%, and the rate on a 5-year treasury note is 3.00% with a yield of 3.05%. The rates on the FlexCD, which is essentially the same as the FixedCD except the client may withdraw his money in 25% increments with five banking days notice up to four times annually, are slightly lower. The "guaranteed rate" on the IndexLinkedCD is 3.90% on maturities of three, four, and five years. The rates offered by the CDs, as compared with current treasury rates, would indicate that the risk involved in the CDs may be great.

It is requested that SGC perform and document substantial additional due diligence to determine whether the use of proceeds by the issuer would indicate that he investment is suitable for its advisory clients.

# POSSIBLE UNREGISTERED PUBLIC OFFERING – STANFORD INTERNATIONAL BANK CERTIFICATES OF DEPOSITS OFFERED IN THE UNITED STATES

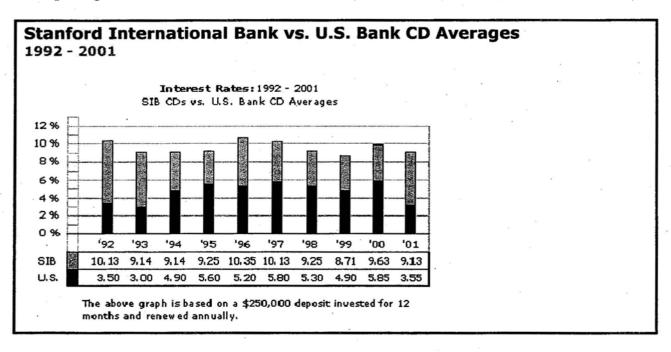
Section 5 of the Securities Act of 1933 ("Securities Act") generally requires the registration of all securities offered in the United States, unless an exemption provided in the Securities Act, or in rules or regulations issued by the Commission thereunder, is available. One such exemption, as apparently applicable to the situation described below, is Rule 506 under Regulation D, which allows an unlimited dollar amount of securities to be offered to an unlimited number of accredited investors and no more than 35 non-accredited, but sophisticated, investors. One key requirement of Rule 506 is that the offer must not involve a general solicitation or public offering.

The Commission has, on a previous occasion, addressed the issue of whether information posted on a website may represent a general solicitation. In its interpretive letter to *Lamp Technologies*, *Inc.* (publicly available May 29, 1997), which is enclosed for your review, the Commission stated that, absent certain precautions, the posting of private fund information on a website may constitute a "general solicitation" within the meaning of Regulation D. It may also represent a public offering within the meaning of Sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 ("IC Act"). The precautions detailed in the Lamp letter included providing that access to the website (or at least the information relevant to the private offering) is password-protected and accessible only to subscribers who are predetermined to be accredited investors.

SGC Registered representatives ("RRs") refer both brokerage and advisory clients to SGC's affiliated offshore bank, SIB located in Antigua, for purchase of CDs issued by SIB. The CDs are issued in the U.S. pursuant to the "U.S. Accredited Investor Certificate of Deposit Program" in a purported private offering. In return, SGC receives a negotiated annual "referral fee" from SIB, generally 3% of the amount invested. These

referral fees totaled \$19 million in 2001 and \$19 million for the partial year ended September 30, 2002. For both periods, and prior periods, it appears that these referral fees represented the vast majority of SGC's operating revenues. SIB has filed Forms D with the Commission to claim an exemption from registration under Regulation D, Rule 506. According SIB's latest Form D, filed on or about January 29, 2002, SGC has sold in the United States to U.S. accredited investors \$37.2 million in CDs. It is also understood that SGC RRs, including its foreign associates residing and operating outside the U.S., have sold additional CDs to non-U.S. residents for which SGC has also received referral fees. In both cases, SGC shares this 3% referral fee with the selling RRs.

Information about the CDs, and other SGC-affiliated business operations can be accessed via the Internet at <a href="www.stanfordeagle.com">www.stanfordgroup.com</a>, and <a href="www.stanfordinternational.com">www.stanfordinternational.com</a>. Included on the former website is the following chart comparing SIB's CD interest rates to the average CD rates offered by U.S. banks:



The website also provides all the terms and conditions of the various types of CDs and other accounts offered by SIB (*e.g.*, the FixedCD, the FlexCD, the Index-LinkedCD.)<sup>10</sup> A person accessing the website can easily get information about how to contact SGC

It is understood that some portion of these referral fees relate to sales efforts by SGC's affiliated adviser in Venezuela, Stanford Group Venezuela Asesores de Inversión, C.A.

It is noted that SGC appears to dispute that the CDs are securities under federal securities laws. It appears to the Examination Staff that, since the CDs are issued by a bank that is not subject to regulatory oversight by any United States bank regulatory authority, the CDs are securities. However, even if they are not securities, SGC's fiduciary duty to its clients still applies.

See Appendix A.

representatives, either by telephone or by email. As a result, the website information appears to represent a general solicitation, or public offering, of the CDs to U.S. persons.

Consequently, as previously indicated, it appears that the dissemination of information concerning the CDs through SGC's affiliated, publicly available website may be deemed a "general solicitation" or "general advertisement" within the meaning of Regulation D; or a public offering within the meaning of Sections 3(c)(1) or 3(c)(7) of the IC Act. Accordingly, it is requested that in your reply to this letter you indicate any actions you intend to take with respect to these comments.

## **CLOSING**

We are bringing the deficiencies and/or violations of law described above to your attention for immediate corrective action, without regard to any other action(s) that may result from the examination. You should not assume that the Registrant's activities not discussed in this letter are in full compliance with the federal securities laws or other applicable rules and regulations. The above findings are based on the staff's examination and are not findings or conclusions of the Commission.

Please respond in writing within thirty days of the date of this letter describing the steps you have taken or intend to take with respect to each of these matters. Before responding to this letter or any other communication from this office regarding our recent examination, please refer to SEC Form 1661 provided at the start of our examination. Your response should be directed to the following person:

(b)(6), (b)(7)c

U.S. Securities and Exchange Commission Fort Worth District Office 801 Cherry Street, Suite 1900, Unit 18 Fort Worth, Texas 76102

# Ms. Jane Bates, Chief Compliance Officer Stanford Group Company

In addition, a copy of your reply, together with copies of any enclosures, should be sent to the following person:

b)(6), (b)(7)

Office of Compliance Inspections and Examinations U.S. Securities and Exchange Commission 450 Fifth St., NW Washington, D.C. 20549-0901

Sincerely,

Hugh M. Wright Asst. District Administrator

By:

o)(6), (b)(7)c

Attorney

# Attachments:11

Owen T. Wilkinson & Associates, Inc. (Dec 30, 1987.) SMC Capital, Inc. (Sept. 5, 1995) Lamp Technologies, Inc. (publicly available May 29, 1997) Appendix A

You may wish to visit our website at <a href="http://www.sec.gov/divisions/investment/iard.shtml">http://www.sec.gov/info/advisers.shtml</a>, and <a href="http://www.sec.gov/divisions/ocie/advltr.htm">http://www.sec.gov/info/advisers.shtml</a>, and <a href="http://www.sec.gov/divisions/ocie/advltr.htm">http://www.sec.gov/divisions/ocie/advltr.htm</a> for further information concerning the regulation of investment advisers. Such web pages include links to, among other things, the Advisers Act and the Rules thereunder, a summary discussion of the pertinent provisions of the Adviser Act and Rules, and Form ADV.

# Appendix A

# EXHIBIT 92

10/30/2003 6:45:42 PM

# RE: Anonymous-SMR035142

From: (b)(6), (b)(7)c

To: Barasch, Spencer C.

(b)(6), (b)(7)c@**SEC.GOV**]

Looks like the same one we received before. I have checking into it. He and I will be speaking with Reg.

----Original Message----From: Barasch, Spencer C.

Sent: Thursday, October 30, 2003 4:16 PM

To:(b)(6), (b)(7)

Subject: FW: Anonymous-SMR035142

----Original Message----

From: OIEA

Sent: Monday, October 27, 2003 1:34 PM

To: Barasch, Spencer C.

Subject: FW: Anonymous-SMR035142

HO 947534

Mr. Barasch:

Below find a referral from the NASD concerning Stanford Financial Group. I am sedning it to your office for its consideration. There is nothing in NRSI for Stanford Financial Group or Allen Stanford. The firm's website is <a href="http://www.stanfordeagle.com/">http://www.stanfordeagle.com/</a>. The anonymous tipper claims to be an insider with the firm.

SIncerely,

(b)(6), (b)(7)c

Investor Assistance Specialist
U.S. Securities and Exchange Commission
Office of Investor Education and Assistance

----Original Message----

From: Investor Complaints Processing [mailto:InvCmplntProc@NASD.com]

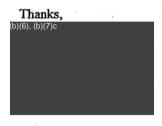
Sent: Monday, October 20, 2003 2:10 PM

To: 'help@sec.gov'

Subject: Anonymous-SMR035142

Attached you will find a customer complaint submitted to NASD. After review, it was determined the products in question are not NASD-registered. We are forwarding this complaint to the SEC for review.

This complaint is on the same person as NASD file # SMR034866. If you have any questions, please let me know.



<< Anonymous-SMR035142.PDF>>

# EXHIBIT 93

# Re: Referral of Anonymous tip- contains a pdf file

10/12/2003 4:45:46 PM

From: Barasch, Spencer C.

To: (b)(6), (b)(7)c @SEC.GOV]

Cc: Cohen, Jeffrey A. (b)(6), (b)(7)c @sec.gov]

Thanks, (b)(6),

How did the ny trip go?

Sent from my BlackBerry Wireless Handheld

----Original Message----

To: Barasch, Spencer C. (b)(6), (b)(7)c @SEC.GOV> CC: Cohen, Jeffrey A. < @SEC.GOV>

Sent: Sun Oct 12 17:10:32 2003

Subject: RE: Referral of Anonymous tip-contains a pdf file

I have the previous referral from b(6), (b)(7)c . It didn't provide much solid information about securities violations. I also spoke with b(6), (b)(7)c , who did the most recent exam. b(6), (b)(7)c gave me a copy of his report. I have not reviewed it thoroughly yet. The main problem appears to be that the actual solicitations are made from representatives of an offshore bank (to purchase a CD from that bank), and NOT from Stanford reps (though Stanford reps refer investors to the offshore bank - not sure if there's a referral fee). I'll read the attached referral and let you know what I find.

----Original Message----

From: Barasch, Spencer C.

Sent: Friday, October 10, 2003 3:21 PM

To: (b)(6), (b)(7)c Cc: Cohen, Jeffrey A.

Subject: FW: Referral of Anonymous tip- contains a pdf file

Let me know what you think of this situation. Recall, I previously sent you another rferral on this outfit.

----Original Message-----

From: Help

Sent: Friday, October 10, 2003 2:52 PM

To: Barasch, Spencer C.

Subject: FW: Referral of Anonymous tip- contains a pdf file

Mr. Barasch,

Below please find a referral from NASD concerning Stanford Financial Group. I am sending it to your office for its consideration. There is nothing in NRSI for Stanford Financial Group or Allen Stanford. The firm's website is <a href="http://www.stanfordeagle.com/">http://www.stanfordeagle.com/</a> The anonymous tipper claims to be an insider with the firm.

(b)(6), (b)(7)c

Special Counsel

U.S. Securities and Exchange Commission

Office of Investor Education and Assistance

----Original Message----

From: Investor Complaints Processing [mailto:InvCmplntProc@NASD.com]

Sent: Friday, October 10, 2003 11:00 AM

To: 'help@sec.gov'

Subject: Referral of Anonymous tip-contains a pdf file

SEC:

We are referring anonymous tip to your attention, since the parties mentioned are outside of our jurisdiction. Thank you and if you have any questions feel free to give me a call @ [b)(6). (b)(7)c

Thank you,

(b)(6), (b)(7)

**FEC Analyst** 

<< Anonymous tip- SMR034700.PDF>>

# EXHIBIT 94

September 1, 2003

NASD Complaint Center 1735 K Street NW Washington, D.C. 20000-1500



RE: Stanford Financial Group Case of Corporate Fraud

Since business scandals like those of ENRON and WORLDCOM became public, it is the duty of all Americans to speak up and denounce any wrongdoing of Corporate America for the sake of justice to many impoverished innocent people. This letter discloses another possible case of "Corporate Fraud" being perpetuated by the Stanford Financial Group and its owner, banking and real estate mogul Mr. Allen Stanford.

STANFORD FINANCIAL IS THE SUBJECT OF A LINGERING CORPORATE FRAUD SCANDAL PERPETUATED AS A "MASSIVE PONZI SCHEME" THAT WILL DESTROY THE LIFE SAVINGS OF MANY, DAMAGE THE REPUTATION OF ALL ASSOCIATED PARTIES, RIDICULE SECURITIES AND BANKING AUTHORITIES, AND SHAME THE UNITED STATES OF AMERICA.

The Stanford Financial Group of Houston, Texas has been selling to people of the United States and of Latin America, offshore certificates of deposit issued by Stanford International Bank, a wholly owned unregulated subsidiary. With the mask of a regulated US Corporation and by association with Wall Street giant Bear Stearns, investors are led to believe these CD's are absolutely safe investments. Not withstanding this promise, investor proceeds are being directed into speculative investments like stocks, options, futures, currencies, real estate, and unsecured loans.

For the past seventeen years or so, Stanford International Bank has reported to clients in perfect format and beautifully printed material of the highest quality, consistent high returns on the bank's portfolio, with never a down year, regardless of the volatile nature of the investments. By showing these unbelievable returns, Stanford has justified the expense spent on luxury, lavish styles of management, high bonuses, and generous contributions to all sorts of causes.

The questionable activities of the bank have been covered up by an apparent clean operation of a US Broker-Dealer affiliate with offices in Houston, Miami, and other cities that clears through Bear Stearns Securities Corporation. Registered Representatives of the firm, as well as many unregistered representatives that office within the B-D, are unreasonably pressured into selling the CD's. Solicitation of these high risk offshore securities occurs from the United States and investors are misled about the true nature of the securities.

The offshore bank has never been audited by a large reputable accounting firm, and Stanford has never shown verifiable portfolio appraisals. The banks portfolio is invested primarily in high risk securities, which is not congruent with the nature of safe CD investments promised to clients.

For reference purposes, attached are copies of financial statements of the bank for the years 2000 and 2001 taken from the annual reports. These reports indicate some very untimely investment decisions, extremely high risk profiles, elevated expenses, and no disclosure about the investment portfolio.

Stanford has been in the past the subject of numerous investigations and press articles that have focused on the dubious activities and deals of Mr. Allen Stanford, who recently became a citizen of Antigua. These investigations have focused on issues like, bribery of the Government of Antigua, illegal selling of offshore securities and money laundering, but have missed the point of truly unveiling the value of the bank's portfolio, which has been covered up by the bank's non-jurisdictional nature. Unbelievable returns of the portfolio, non verifiable portfolio appraisals, non prudent investment strategies, information from insiders, and lavish expense management styles, suggest the portfolio is deeply underwater. If true, returns and expenses are being paid out of clients' monies and by the size of the portfolio, this would be one of the largest Ponzi Schemes ever discovered.

This letter is being written by an insider who does not wish to remain silent, but also fears for his own personal safety and that of his family. The issue is being referred for investigation to the proper authorities, related parties, and persons whose mission is to inform the general public. The key point to focus on is the real market value of Stanford International Bank's investment portfolio, which is believed to be significantly below the bank's obligations to clients. Overlooking these issues and not thoroughly investigating them is becoming an accomplice to any wrongdoing.

Sincerely yours,

#### INSIDER

cc:

Bear Stearns Securities Corporation

The Securities and Exchange Commission

The US Senate Committee

The Office of the Comptroller of the Currency

The National Association of Securities Dealers

The Wall Street Journal

The Miami Herald

The Washington Post

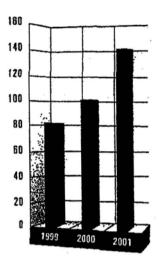
# Profit and Loss Statement For the Year Ended 31 December 2001

(Expressed in United States dollars)

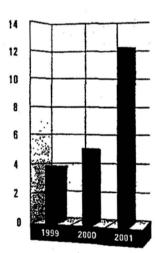
	* , ,		2001		2000
NOTE					
	OPERATING INCOME		•		
2	Interest and Non-Interest Income (see Figure III)	\$ 1	40,393,788	\$10	2,653,540
17	Less: Interest Paid		82,605,329	6	1,967,000
3	Service Fee Activities		38,561,898	2	29,616,365
	Net Interest and Non-Interest Income		,		
	before Operating Expenses	\$	19,226,561	\$ .	11,070,175
	OPERATING EXPENSES				
4	Salaries and Other Staff Costs	. \$	1,231,183	\$	976,959
5	Directors' Emoluments		90,000		90,000
	Bank Charges		127,897		124,798
6	Professional Fees		807,655		302,224
7	Office and General Expenses		803,477		708,546
	Electricity and Water Charges		94,673		161,865
	Telephone, Telex and Fax	,	263,193		222,042
8	Insurance		299,981		299,982
	Licences and Permits		44,418		30,601
9	Rent		502,410		500,000
10	Depreciation		405,148	٠.	408,689
	Repairs and Maintenance		198,232		214,668
11	Advertising and Promotion		1,158,105		1,125,930
12	Travel and Accommodations		892,223		872,109
	Subscriptions and Donations		146,969		18,797
	TOTAL OPERATING EXPENSES	· , , , \$	7,065,564	\$	6,057,210
	OPERATING PROFIT (see Figure IV)	\$	12,160,997	\$	5,012,965

The accompanying notes are an integral part of the financial statements.

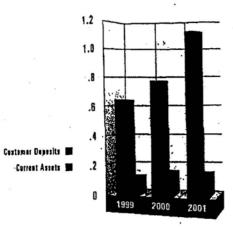
Figure III: INTEREST AND NON-INTEREST INCOME Dallers (le millious)



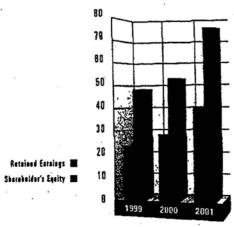
Pigure IV: OPERATING PROFIT Delters (to millions)



Pigure V: CUSTOMER DEPOSITS AND CURRENT ASSETS Deliare (to billions)



Pigure VI:
RETAINED EARNINGS AND
SHAREHOLDER'S EQUITY
Dellars (In millines)



# Balance Sheet As at 31 December 2001

(Expressed in United States dollars)

		2001	2000
NOTE			
	ASSETS		
13	Cash and Deposits with Other Banks	\$ 99,560,847	\$123,910,227
14	Advances to Customers and Other Accounts	24,484,421	24,533,559
	Current Assets (see Figure V)	124,045,268	148,443,786
15	Investments	1,068,944,607	678,274,398
16	Fixed Assets	4,840,417	3,985,020
	TOTAL ASSETS	\$ 1,197,830,292	\$830,703,204
	Financed By:		
٠	LIABILITIES AND SHAREHOLDER'S EQUITY		
17	Customer Deposits (see Figure V)	\$ 1,116,454,586	\$ 772,261,025
18	Accounts Payable and Accruals	6,374,798	5,602,268
	TOTAL LIABILITIES	\$ 1,122,829,384	\$ 777,863,293
19	Share Capital	\$ 10,000,000	\$ 10,000,000
20	Share Premium Account	25,000,000	15,000,000
21	Retained Earnings (see Figure VI)	40,000,908	27,839,911
	TOTAL SHAREHOLDER'S EQUITY (see Figure VI)	\$ 75,000,908	\$ 52,839,911
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$1,197,830,292	\$ 830,703,204

Approved on behalf of the Board:

Januar Dani

James M. Davis

Director and Chief Financial Officer

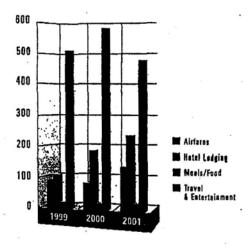
(b)(6), (b)(7)c

Director

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		ľ		
		r	,	,

NOTES TO T	HE FINANCIAL STATEMENTS, CONTINUED		
		2001	2000
NOTE 12	TRAVEL AND ACCOMMODATIONS (see Figure XIII)		
	Airfares	\$ 136,282	\$ 84,381
	Hotel/Lodging	235,811	182,203
	Meals/Food	35,454	18,519
	Travel and Entertainment	484,676	587,006
		\$ 892,223	\$ 872,109
NOTE 13	CASH POSITIONS		
	The Table below shows positions at 31 December 2001 translated into U.S. dollars.		
	Terms extend from current to beyond 90 days.		
	Currency:		
	Australian Dollar	\$ _	\$ 2,115,738
	Canadian Dollar	 190,463	9,007,189
	Deutsche Mark	0	14,002,833
	East Caribbean Dollar	22,122	12,095
	Euro	. 0	16,659,730
	Finnish Markka	. 0	341,009
	French Franc	0	3,809,200
	Irish Punt	0,	78,445
	Italian Lira	 0	997,205
	Japanese Yen	0	8,372,231
	Mexican Peso	. 0	569,330
	Netherlands Guilder	0	391,125
	New Zealand Dollar	0	553,022
	Norwegian Krone	0	477,328
	Pound Sterling	. 0	8,902,839
	Russian Rouble	0	25,790
	Singapore Dollar	0	811,123
	South African Rand	0	847,733
	Spanish Peseta	. 0	1,222,877
	Swiss Franc	. 0	13,757,263
	Swedish Krona	0	222,118
	United States Dollar	99,348,262	40,734,004
		\$ 99,560,847	\$123,910,227

Figure XIII:
TRAVEL AND ACCOMMODATIONS
Delicre (le theospace)



# **CASH POSITION**

The currency distribution of cash positions reflects a shift to the U.S. dollar during the period from 31 December 2000 to 31 December 2001.

There were three main reasons for this movement. First, the move was due to the European Twelve Nations officially converting to the euro as of February 2002.

As far as cash liquidity is concerned, the U.S. dollar became the currency of choice in light of the global weakening of 2000-2001. As the year progressed, economic data indicated that the recovery in the U.S. was outpacing the recoveries seen in Europe and Asia.

Finally, the move into the U.S. dollar was a result of global instability as a consequence of the September attacks in New York and heightened political tension.

	2001	2000
NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating Profit for the Year	\$ 12,160,997	\$ 5,012,965
Depreciation of Fixed Assets	405,148	408,689
Loss from Sale of Fixed Assets	28,997	. 0
Increase in Investments	(390,670,209)	(128,074,837)
Increase in Advances to Customers	(469,093)	(5,131,785)
Decrease in Accounts Receivable and Prepayments	518,231	1,063,379
Increase in Customer Accounts	344,193,561	148,701,066
Increase in Other Liabilities	772,530	753,586
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	\$ (33,059,838)	\$ 22,733,063
INVESTING ACTIVITIES		
Payment to Acquire Tangible Fixed Assets	\$ (1,289,542)	\$ (109,000)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	\$ (1,289,542)	\$ (109,000)
FINANCING ACTIVITIES		
Contribution to Share Premium Account	\$ 10,000,000	\$ 0
NET CASH INFLOW FROM FINANCING ACTIVITIES	\$ 10,000,000	\$ 0
Increase/(decrease) in Cash and Cash Equivalents	\$(24,349,380)	\$ 22,624,063
CASH BALANCE AT BEGINNING OF YEAR	\$123,910,227	\$101,286,164
CASH BALANCE AT END OF YEAR (see Figure VII)	\$ 99,560,847	\$123,910,227

Figure VII: CASH Deliars (ta millions)

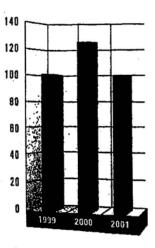


Figure XIV: ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS Betlers (le millions)

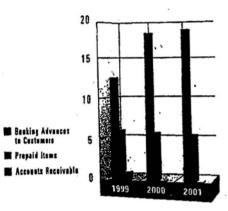
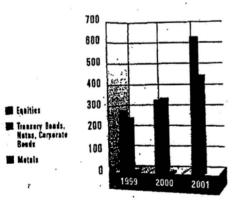


Figure XV: INVESTMENTS Dellers (Is milliens)

Equities

Metals



#### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

	*	2001	2000
NOTE 14	ADVANCES TO CUSTOMERS	4	
	AND OTHER ACCOUNTS (see Figure	re XIV)	
	Banking Advances to Customers \$	18,663,824	\$ 18,194,731
	Prepaid Items	5,556,004	6,088,753
	Accounts Receivable	264,593	250,075
	\$	24,484,421	\$ 24,533,559
	Gross Advances are repayable as	follows:	
	Within one year \$	11,221,514	\$ 14,160,298
	Between one and three years	7,386,398	4,034,43
	More than three years	55,912	

NOTE 15 INVESTMENTS (see Figures XV, XVI, XVII)

The investment portfolio consists of bonds, notes and equities. The portfolio is stated at the lower of either cost or market value.

#### **Investments - Listed Securities**

	\$ 1,068,944,607	\$678,274,398
Metals	0	15,710,008
Treasury Bonds, Notes, Corporate Bonds	443,033,662	334,847,905
Equities	\$ 625,910,945	\$ 327,716,485

All listed securities, of or guaranteed by various governments, mature on fixed dates up to 30 years. These investments are generally listed on major international exchanges and are deemed highly liquid.

Pigure XVI: ALLOCATIONS BY SECTOR

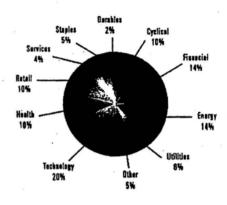


Figure XVII: INVESTMENT PORTFOLIO

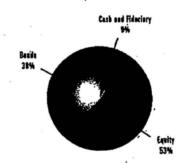
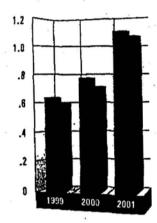


Figure XX:

TOTAL DEPOSITS PAYABLE AND CERTIFICATES OF DEPOSIT Delfers (le biffiess)



Total Deposits Payable Cortificator of Deposit

#### NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

# NOTE 17 CUSTOMER DEPOSITS (see Figure XX)

# **Express Accounts**

Funds from these accounts are generally invested in short-term instruments and eurodollar and foreign currency deposits.

# **Multi-Currency Accounts**

These are available through the Bank's Performance Accounts, Express Accounts and Certificates of Deposit.

#### **Performance Accounts**

Funds from these accounts are generally invested in investment-grade bonds, securities, eurodollar and foreign currency deposits.

#### **Premium Accounts**

Funds from these accounts are invested solely in United States Treasury bills and notes.

# Certificates of Deposit

The Certificates of Deposit accounts guarantee payment of the stated interest rate until maturity. Funds from these accounts are generally invested in investment-grade bonds, securities, eurodollar and foreign currency deposits.

	2001	2000
Express Accounts	\$ 18,931,055	\$ 12,161,904
Multi-Currency Accounts	209,713	297,414
Performance Accounts	3,558,189	2,758,671
Premium Accounts	352,498	256,761
Certificates of Deposit (see Figure XX)	1,093,403,131	756,786,275
	\$1,116,454,586	\$772,261,025
The components of interest expense on deposits for the	year ended 31 December were:	
Express Accounts	\$ 451,664	\$ 340,462
Multi-Currency Accounts	47,408	25,316
Performance Accounts	185,466	188,125
Premium Accounts	12,220	23,946
Certificates of Deposit	81,908,571	61,389,151
	\$ 82,605,329	\$ 61.967.000

# Antigua, Island of Sun, Is Also in the Shadow Of R. Allen Stanford

He Owns Sundry Enterprises. Lends to the Government; Will He Get the Half Moon?

By PETER FRITSCH

Staff Reporter of THE WALL STREET JOURNAL ST. JOHN'S, Antigua—This sundrenched Caribbean island, famous for its cricket stars, palm-flattening hurricanes and outsized corruption scandals, is fast gaining another reputation: as the personal flef of R. Allen Stanford, a Texas developer and international banker.

There is little in this former British colony, which includes the island of Bar-

buda, that isn't being branded by Mr. Stan-ford, a distant relative of Stanford University's founder,

His'company, Stanford Financial Group, an international banking concern in Houston, has \$14 billion under management. The 51-year-old Mr. Stan-ford owns Antigua's

R. Allen Stanford biggest commercial and offshore banks, a

local airline, Caribbean Star, and Antigua's biggest newspaper. He is the former chairman of the government board that oversees Antigua's offshore financial sec-

. Since he also lends a great deal of money to the government, he puts off many Antiguans wary of his imposing in-fluence: At the moment, some people are complaining about Antigua's Intention to nationalize the Half-Moon Bay hotel, taking it from its American owners and, they suspect, selling it to Mr. Stanford.

Mr. Stanford doesn't disclaim an interest in the hotel, but he denies having a deal. "Am I pushing the government? Absolutely not," he says.

Besides, he's busy on other fronts. An Antiguan citizen since 1999, Mr. Stanford is underwriting the construction by a Chinese company of a majestic state hospital now mired in a corruption scandal and new executive offices for the government. He is spending undisclosed millions on a cricket stadium, hotel, cinema and restaurant-the Sticky Wicket-on the grounds of the airport.

"I love this place and its people," says Mr. Stanford. That relationship deepened four years ago, he says, when he met a local Catholic priest with wounds in his hands and feet that he believed to be the stigmata of Jesus Christ. As a memento of that life-changing experience, Mr. Stanford carries with him a vial with the congealed fluids drained from the priest's

Where most banks balk at lending to a



# Ben Stanford Casts a Shadow Over Sunny Antigua

Continued From New Page
Country sayes, seek engine copposition
party leader haldwin Sponeer

That may be an overstatement, but consider the recommence properties by an independing commence was engine by the new heatital, the new rest of its investigation. It
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rest in the deat. Mr. Beton tout the canadas and 1988.

It an interview with Stanton says the desease of the house to the government without is also recognized to the government without is a shaper some arters to the many constituent. It not eath takes property these and anothing type agreed over 1981 to the control of 
allowed to own such model in.

Nessled Along is unstance size Sauduled beach dispet by early first Eryel Channel as one of the world's beache the Half-Moon with its 100 aeastac rooms is world reputiding and it is worth fighting for defore its assiruction, the hour played boar to Elion John John Le Carre and Bjorn Borg.

Late less year, Mr. Standerd flew down gulcourse designers, from Jack Nicklaus Designs of survey the Half Moon a nine hole tourse for its 12 hole potential. Models executives sur, flow Deed 28 Mr. Standord's newspaper, the Sur, scooper the West indies media with the news that Mr. Standord had the Half Moon in high Skills -- 12 to 10 plays fater, the Sun brake another big story. Mr. Standord would longive a \$5

big story. Mr. Stanford would forgive a \$8 ing story. He Stanford would forgive a \$5 million personal bank for the government and follow up that act of generosity with the first transfer of a 10 million has to pay the bineaucrary a back salaries and neet other government billightions. We've made yery clear in the government that this does not at all look good, in light of the government, moves to confiscate Half from says a U.S. official.

The U.S. povernment the islands are a Commonwealth country, a number of U.S. politicians and private antiquent pusinesses, note decrease the government's sequestration of Itali Moon as a dangerous signal to private investors. But the island a largest brivate investors of "Standows asso an mained conscious ways numer the case. He and his heat bankers have refused to dis-clus the row between the government and the Half Moin's owners, white the buildus editorialized for Mr. Somiord's involve-

inchia.

Sociality for the first time of the matter taking tess Mr. Sinking continuents little est in buying Half deen "If the government gets till ni fire and clear." He adds. This is an asses that truly needs to be presented. for the betterment of a little country, emi-



as long as the owners are compens

Mr. Birti dkin i Cespondio repealed interview requests but has demed the fix is lotor Mr. Milding referred all questions of the

maticy to training. Minister Molveyn Joseph. a man who in 1995 hist a previous cabinet post for the role in springing a 1992 Rolls-

Rives only the island.

\*\*\*AUS-could's 16 4 victim of the Half-Moon's owners," he says. "It's clear that un-like investors the Mr. Stanford, they don't

like investors like Mr. Stanford, they don't have the receipt to rehabilitate the hotel."
In fait, is recently as Feb. 15, the World-Bank's intertational Pinance Corp. Teller ated its willingness to lend to Mrs/ Cherard, whose time same efforts were stalled for years by a dispute with a former partner in the hotel. Yeveral months agos a syndicate of fige, Europeanchagig was also resity to grant a loan but that live decined to do so because of the government's father to issue a standard letter of souldorfolessing the feel scarce of the povernment's father to issue a standard letter of souldorfolessing the feel scarce of the following replication. Under the decades of Bird fainty rule, its leaders have nearly their financy rule, its leaders have nearly involved in well-documented scandars takeing from samagning gips to South Africa and the Medelih cotaine car-South Africa and the Medellin cotains car-

denate of the Issae. After Mr. McClast, the chief of the Issaid recently saw the arguments chia misan, recently saw oils arguments
for Half Mobils exprepriation shot down on
local tadio show. Big Issues, the governmest and Expressive the work permits the
show's Bailbadian bost.

Mr. Stanford says such actions are common in Antique and that he is a sinuch a vic-

tim of government caprice as anyone else is. There is a missonception that I'm in bed with Lester Bird. De says. Ldon't always get my way as people think I do. The Texan, whose offshore tracking ac-

tivities here have come under close U.S. State Department and Transury scritting in the past, says he hopes to seen along of poli-des. He's focusing on plans to develop Anti-guals apport into a choice entertainment destination for West Minians and his prepon derantiv Latin American bank ellents. To help lerry them in he is negotiating the ac-quisition of AMR Cosp. 's American Bagie re-gional Caribbian operations out of San Tuan, Etierto Rico.

What the expanding Stanford empire, will thean for Antiguans remains unclear As one recent caller to a radio talk show dedi-cated in Mr. Stanford and the Half Moon fight concluded gitinly in his English patois: You know, mon, we folk can be bought. he a wrink of rum and a chicken leg."