

# STANFORD GROUP OF COMPANIES

## ALLEGED FRAUD AND REGULATORY NEGLIGENCE TIMELINE

### 1982-1986

Allen Stanford files for business and personal bankruptcy in Texas. The Court discharges him from \$13.6 million in obligations.<sup>1</sup>

Stanford Guardian International Bank is founded and begins operations in Montserrat. Stanford also opens Guardian International Investment Services, a brokerage firm in Miami. The bank exclusively targets Latin American customers and offers a certificate of deposit product yielding 10.75%, doubling the then current rate of return. The bank sells the securities from the US-based brokerage firm.<sup>2</sup>

### 1990-1991

In a move to strengthen offshore banking regulations, Montserrat revises offshore banking restrictions. Stanford no longer meets bank ownership requirements and purchases Bank of Antigua, paving the way to a transition to a less regulated offshore banking industry.<sup>3</sup>

Following the regulatory disputes in Montserrat, Stanford relocates his offshore banking headquarters to Antigua and opens Stanford International Bank-Antigua.<sup>4</sup>

### 1992-1996

Stanford Financial Group begins US operations.

Stanford becomes largest private employer in Antigua.

Stanford is accused of money laundering. Case is settled out of court.<sup>5</sup>

Faced with international scrutiny for its extensive money laundering activities, Allen Stanford and the Antigua government propose the Money Laundering Prevention Act of 1996.<sup>6</sup>

### 1998

Allen Stanford writes in a letter to the US Ambassador to Antigua that he has been investigated by numerous agencies over the years, and none had found evidence of wrongdoing.<sup>7</sup>

Allen Stanford and Antigua government officials create offshore banking regulatory body Financial Services Regulatory Commission (FSRC). Allen Stanford is appointed as president of FSRC, the regulator appointed to oversee his bank.<sup>8</sup>

### 1999

US FBI opens an extensive investigation with the UK's Scotland Yard to uncover Stanford's money laundering activities. FBI agent Ross Gaffney, who headed the task force set up to investigate the suspicious explosion of offshore banks on the island, said, "We had hard intelligence about what he was

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<sup>1</sup> United States Bankruptcy Court Dockets Numbers 6-82-00061 and 00263

<sup>2</sup> *BusinessWeek*, Feb. 24, 2009, "Did Court Ruling Prolong Stanford Probe?"

<sup>3</sup> *Latin American Herald Tribune*, Feb. 27, 2009, "The Sir Allen Stanford Story"

<sup>4</sup> *BusinessWeek*, Feb. 24, 2009, "Did Court Ruling Prolong Stanford Probe?"

<sup>5</sup> *Latin American Herald Tribune*, Feb. 27, 2009, "The Sir Allen Stanford Story"

<sup>6</sup> Government of Antigua and Barbuda, Money Laundering Prevention Act of 1996

<sup>7</sup> *New York Times*, Feb. 20, 2009 "Fraud Case Shakes a Billionaire's Caribbean Realm."

<sup>8</sup> Government of Antigua and Barbuda

doing and we began to develop it.”<sup>9</sup>

In only the second warning of its kind, the US Treasury’s Financial Crimes Enforcement Network issues an advisory to US banks to scrutinize all financial transactions routed into or out of Antigua for evidence of money laundering. The warning states, “The operation of Antigua and Barbuda’s offshore financial sector has been a concern of regulators and enforcement officials in the United States, the United Kingdom, and other nations for some time.”<sup>10</sup>

In a letter to Antiguan Prime Minister Bird, U.S. Treasury Undersecretary for Enforcement James E. Johnson, wrote, "It is clear that the Government of Antigua and Barbuda has, in effect, turned away from its partnership with the United States Government in combating money laundering and other financial crimes."<sup>11</sup>

US State Department places Antigua on its money laundering watch list. Jonathan Winer, then-head of the State Department's Bureau for International Narcotics and Law Enforcement Affairs Winer's says Antigua is "one of the most attractive financial centers in the Caribbean for money launderers." In a Senate testimony, Winer said, “Antigua has long been one of the worst regulated offshore centers in the world. When I went to Antigua in my previous job, its chief bank regulator told me and other U.S. officials that what Antigua had to offer the world that New York and London didn’t have to offer was secrecy.”<sup>12</sup>

Retired US Drug Enforcement Agency agent Mike Vigil, who was then the Chief of International Operations in the Caribbean, said island banks “have always been a focal point for laundering illicit drug proceeds and Antigua has always a primary center of money laundering operations for many significant drug traffickers.”<sup>13</sup>

Texas securities regulators find evidence of money laundering involving Stanford. The case is referred to the FBI and the SEC, because it involves offshore banks, where Texas has no jurisdiction. Texas securities commissioner Denise Voigt-Crawford later tells the state legislative committee: "Why it took 10 years for the feds to move on it, I cannot answer." She added: "We worked with the FBI and the SEC and basically gave them the case. We told them what we'd seen and they were going to run with it."<sup>14</sup>

After evidence surfaces that former Mexican drug lord, Amado Carillo Fuentes, had used Stanford International Bank-Antigua to hide or launder money, Stanford voluntarily makes out a cashier's check for \$3.1 million, and gives it to the US DEA.<sup>15</sup>

<b>Year</b>	<b>Total Assets</b>	<b>Growth Percentage</b>
<b>1990-1999</b>	<b>\$676 Mil.</b>	<b>576%</b>

## **2001**

Stanford files for an SEC regulation D exemption for selling Stanford International Bank-Antigua certificates of deposit through the SEC- and FINRA-regulated Stanford Group Company broker dealer in the United States.<sup>16</sup>

<sup>9</sup> *The Independent*, Feb. 22, 2009, “Secret World of Allen Stanford.”

<sup>10</sup> United States Department of Treasury Financial Crimes Enforcement Network Advisory, April 1999.

<sup>11</sup> *Wall Street Journal*, April 27, 1999, “US Antigua Dual on Money Laundering - High Flying Houston Financial is Caught in the Middle.”

<sup>12</sup> Statement to the US Congressional House Committee on Banking Financial Services, Jonathon Winer, US State Department, June 11, 1998

<sup>13</sup> *New York Times*, Feb. 20, 2009 “Fraud Case Shakes a Billionaire’s Caribbean Realm.”

<sup>14</sup> *Houston Chronicle*, Feb. 20, 2009 “Past Probe Sought to Tie Stanford to Drugs”

<sup>15</sup> *New York Times*, Feb. 20, 2009 “Fraud Case Shakes a Billionaire’s Caribbean Realm.”

<sup>16</sup> Securities and Exchange Commission IDEA database.

First Stanford employee comes forward in case with FINRA (then NASD) alleging fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claim is resolved in favor of Stanford.<sup>17</sup>

Two years after Texas handed its investigation over to the SEC, the Texas Department of Banking initiated a partnership with the government of Antigua and Barbuda to provide “coordinated comprehensive supervision.” According to Texas Banking Commissioner Randall S. James, this partnership “represents a landmark in cooperation between financial institution supervisory authorities of the State of Texas and a foreign government. It underscores that seamless supervision of both Texas State-chartered financial institutions with offices in other countries and foreign institutions with offices in Texas can be achieved.” The agreement, which is signed by Antiguan Prime Minister Lester Bird and then Texas Secretary of State (and now US Congressman) Henry Cuellar, specifies the state of Texas can examine a financial institution in Antigua’s jurisdiction.<sup>18</sup>

Year	Total Assets	SIB Growth	Estimated Fraud Losses*
2000-2001	\$1.198 Bil.	\$677 Mil.	\$522 Mil.

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

**2002**

An accountant in Mexico sends the SEC a letter pointing out numerous red flags regarding the Stanford International Bank certificates of deposit, including inexplicable high rates of return, a lack of detailed information about the performance of the CDs and the fact a small, Antiguan firm handles Stanford International Bank’s audits. The letter ends with a plea that the SEC “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.”<sup>19</sup>

Second Stanford employee comes forward in case with FINRA (then NASD) alleging fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claim is resolved in favor of Stanford.<sup>20</sup>

**2003**

The SEC receives a whistleblower report saying “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 insider claims the fraud has gone on for 17 years and that no legitimate audit has questioned why CDs were invested in “primarily in high risk securities,” which are “not congruent with the nature of safe CD investments promised to clients.” The alert says the CDs are marketed and sold as safe, but in reality, investor proceeds are being directed into speculative investments like stocks, options, futures, currencies, real estate and unsecured loans. The report goes on to say, “Overlooking these issues and not thoroughly investigating them is becoming an accomplice to any wrongdoing.”<sup>21</sup>

A North Carolina attorney contacts Congressman Bob Etheridge about allegations of Stanford’s violations of the Foreign Corrupt Practices Act and “widespread reports that certain Antigua government officials are

<sup>17</sup> FINRA Case #01-00680

<sup>18</sup> Texas Department of Banking, July 2001

<sup>19</sup> SEC Complaint, October 28, 2002.

<sup>20</sup> FINRA Case #01-00687

<sup>21</sup> SEC Complaint, September 1, 2003

soliciting and accepting large sums of money in bribery payments from a Texas businessman named R. Allen Stanford in order to allow Mr. Stanford to obtain and retain business in Antigua on behalf of Stanford Financial Group of Houston, Texas.” Twelve other Congressmen are copied on the letter.<sup>22</sup>

Ten Stanford employees file individual cases with FINRA (then NASD) alleging wrongful dismissal and fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>23</sup>

Key whistleblower Leyla Basagoitia (now Wydler) comes forward to SEC and FINRA (then NASD) with details of an alleged Ponzi scheme to defraud clients. Defendant refused to sell CD products and was fired from Stanford’s Houston office. Wrongful dismissal suit filed against Stanford and case is eventually settled in FINRA arbitration with no warning to investors.<sup>24</sup>

Year	Total Assets	SIB Growth	Estimated Fraud Losses*
2002-2003	\$2.225 Bil.	\$1.027 Bil.	\$1.549 Bil.

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

**2004**

North Carolina Congressman Bob Etheridge contacts US Attorney General John Ashcraft about “specific concerns” of Stanford’s alleged violations of the Foreign Corrupt Practices Act.<sup>25</sup>

US Assistant Attorney General Christopher Wray contacts North Carolina attorney and Congressman Etheridge saying the Department of Justice “will take appropriate investigative steps” regarding allegations of Stanford’s violation of the Foreign Corrupt Practices Act.<sup>26</sup>

Four Stanford employees file individual cases with FINRA (then NASD) alleging fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>27</sup>

Year	Total Assets	SIB Growth	Estimated Fraud Losses*
2004	\$3.086 Bil.	\$861 Mil.	\$2.41 Bil.

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

**2005**

Two investors file a lawsuit in a Florida District Court accusing Stanford of aiding and abetting Ponzi scheme.<sup>28</sup>

The SEC conducts an “informal inquiry” of Stanford Group Company clients holding Stanford International Bank-Antigua CDs. A questionnaire is sent via FedEx on May 26 asks for responses by June 8. The 4-page questionnaire asks for detailed information about their Stanford Group Company financial

<sup>22</sup> Letter to US Congressman Bob Etheridge, December 10, 2003

<sup>23</sup> FINRA Arbitration & Mediation Database

<sup>24</sup> FINRA Case #03-02025

<sup>25</sup> Congressman Bob Etheridge letter to US Attorney General John Ashcroft, February 10, 2004

<sup>26</sup> US Department of Justice letter, September 9, 2004

<sup>27</sup> FINRA Arbitration & Mediation Database

<sup>28</sup> US District Court, Southern District Florida, Miami Division, Docket # 1:05CV22911

advisor and the marketing and sales of the SIB CDs. Among many other questions, investors are asked if were told the CDs had insurance and if they recorded any conversations they had with their advisor.<sup>29</sup>

Five Stanford employees file individual FINRA (then NASD) complaints alleging wrongful dismissal and fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>30</sup>

<b>Year</b>	<b>Total Assets</b>	<b>SIB Growth</b>	<b>Estimated Fraud Losses*</b>
<b>2005</b>	<b>\$4.059 Bil.</b>	<b>\$973 Mil.</b>	<b>\$3.383 Bil.</b>

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

## **2006**

The SEC's Fort Worth, Texas, office opens a formal investigation of Stanford Group.<sup>31</sup>

The SEC requests copies of SIB CD investor files from Stanford Group's Houston office. The commission does not go in and seize files.<sup>32</sup>

A lawsuit alleging a Ponzi scheme is filed by former employee Lawrence J. De Maria under the Florida Private Whistleblower Act. De Maria says in the suit that the firm was "operating a Ponzi scheme or pyramid scheme" by using money from the offshore bank "to finance its growing brokerage business." The suit also alleges that Stanford is paying off Antiguan regulators and US government officials to keep money laundering legislation from being passed.<sup>33</sup> The complaint is referred to the SEC by OSHA.<sup>34</sup>

Four Stanford employees file FINRA (then NASD) complaints alleging wrongful dismissal and fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>35</sup>

<b>Year</b>	<b>Total Assets</b>	<b>SIB Growth</b>	<b>Estimated Fraud Losses*</b>
<b>2006</b>	<b>\$5.336 Bil.</b>	<b>\$1.277 Bil.</b>	<b>\$4.66 Bil.</b>

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

## **2007**

Top executives Mark Tidwell and Charles Rawl are constructively discharged for refusing to participate in illegal acts relating to the marketing and sale of Stanford financial products. Tidwell and Rawl file a lawsuit against Stanford Group Company for requiring employees to engage in "illegal and unethical methods to market and sell its financial products to the public." In the lawsuit, Tidwell and Rawl accuse Stanford Group of falsifying returns, lying to investors and destroying critical documents for an ongoing

<sup>29</sup> SEC Stanford Investor Questionnaire, May 26, 2005

<sup>30</sup> FINRA Arbitration & Mediation Database

<sup>31</sup> SEC Office of Inspector General Report, July 2009

<sup>32</sup> SEC Office of Inspector General Report, July 2009

<sup>33</sup> Miami Dade County Circuit Court, Miami, FL

<sup>34</sup> SEC intake source control #4156, referred to Miami office

<sup>35</sup> FINRA Arbitration & Mediation Database

SEC inquiry. The suit outlines glaring violations of SEC, FINRA, Treasury and IRS laws and regulations. Claims provide impetus for SEC to reopen investigation in 2008.<sup>36</sup>

A routine FINRA examination finds Stanford Group failed to maintain minimum net capital requirements. FINRA fines \$20,000.<sup>37</sup>

FINRA fines Stanford \$10,000 for allegations of distributing "misleading, unfair and unbalanced information" about its Stanford International Bank Certificates of Deposit.<sup>38</sup>

Four Stanford employees file FINRA complaints alleging wrongful dismissal and fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>39</sup>

Year	Total Assets	SIB Growth	Estimated Fraud Losses*
2007	\$7.058 Bil.	\$1.722Bil.	\$6.382 Bil.

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

## **2008**

In January 2008, international clearinghouse Pershing LLC becomes worried of Stanford's business operations. Pershing continues to wire CD funds from the US to international financial institutions until December 12, 2008, when it publicly announced it could not verify Stanford International Bank was not involved in fraud of some nature. Pershing wired \$517 million in 1,635 transfers from 1,200 US accounts from 2006-2008.<sup>40</sup>

FINRA fines Stanford \$30,000 for allegations of failing to adequately disclose its research methods used to report certain securities valuations.<sup>41</sup>

Former executives Tidwell and Rawl file appeal to 2007 lawsuit. Appeal outlines specifics of alleged illegal marketing and sales tactics involving Stanford International Bank CDs. The plaintiffs accuse Stanford Group financial advisors were prohibited from filing mandatory security forms for clients transferring IRA accounts to SIB CDs and notifying clients of the civil and criminal penalties associated with the failure to do so.<sup>42</sup>

Due to evidence uncovered in Tidwell and Rawl case, the SEC's Fort Worth office reopens its Stanford investigation from 2006.<sup>43</sup>

Four Stanford employees file FINRA complaints alleging wrongful dismissal and fraudulent business practices in violation of the Securities Acts of 1933 and 1934. Arbitration claims are resolved in favor of Stanford.<sup>44</sup>

<sup>36</sup> US District Court, Harris County, Texas, Cause Number 2008-05203

<sup>37</sup> FINRA Regulatory Event Docket Number E062005005301

<sup>38</sup> FINRA Regulatory Event Docket Number 2005002203701

<sup>39</sup> FINRA Arbitration & Mediation Database

<sup>40</sup> *Times of London*, Feb. 23, 2009, "Pershing Assisted SEC Ahead of Stanford Fraud Charge."

<sup>41</sup> FINRA Regulatory Event Docket Number 2007007168001

<sup>42</sup> US Fourteenth Court of Appeals, Houston, Texas, Case#14-08-00408-CV

<sup>43</sup> Stephen Korotash, SEC Associate Regional Director of Enforcement, Fort Worth, Texas

<sup>44</sup> FINRA Arbitration & Mediation Database

Stanford International Bank –Antigua’s December 2008 newsletter tells investors the bank had “no direct or indirect exposure” to Madoff investments, securitized or the subprime mortgage meltdown and that is in position to “well exceed Basel II capital requirements as we continue to grow in to 2009.”<sup>45</sup> Later, the SEC reports SIB has been exposed to Madoff losses.<sup>46</sup> Newsletter also says the bank provides insurance coverage through Lloyd’s, Bankers Blanket Bond, Directors and Officers Liability, Professional Liability (errors and omissions) and Excess FDIC. Stanford International Bank is “strong, safe and fiscally sound.”<sup>47</sup>

Year	Total Assets	SIB Growth	Estimated Fraud Losses*
2008	\$8.5 Bil.	\$1.442 Bil.	\$7.824 Bil.

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

**2009**

Stanford Group of Companies has at least 175 entities with offices in more than 100 locations globally, primarily in the southeastern US and Latin America.



In the wake of widespread criticism of the SEC’s failure to catch Bernard Madoff’s \$50 billion Ponzi scheme, SEC files civil charges against Stanford group of companies and its top three executives, alleging “massive ongoing fraud.”<sup>48</sup>

SEC complaint specifically states all international banks are subject to the Feb. 16 asset freeze. However, international assets are compromised when local governments in Antigua, Venezuela and Panama seize

<sup>45</sup> Stanford International Bank-Antigua Investor Newsletter, December 2008

<sup>46</sup> Securities and Exchange Commission Complaint to US District Court, Northern District of Texas, Dallas Division, Complaint #LR20901, Feb. 16, 2009.

<sup>47</sup> Stanford International Bank-Antigua Investor Newsletter, December 2008

<sup>48</sup> Securities and Exchange Commission Complaint to US District Court, Northern District of Texas, Dallas Division, Complaint #LR20901, Feb. 16, 2009.

banks in their countries and assume all assets, obliterating potentially hundreds of millions of dollars in Stanford investor assets.<sup>49</sup>

US District Court appoints Ralph Janvey as receiver for all Stanford Group entities.<sup>50</sup> Antigua does not acknowledge US authority over Stanford International Bank-Antigua and appoints UK-based Vantis PLC as receiver.<sup>51</sup> Dual receiverships result in duplication of efforts and expenses related to investor recovery.

US Congressman Dennis Kucinich, Chairman of the Subcommittee for Domestic Policy Reform, publicly asks SEC Chairman Mary Schapiro to disclose documents related to SEC “stand down” order.<sup>52</sup>

US receiver Janvey closes over 30 Stanford Group offices throughout the US, eliminating approximately 1,000 jobs.

Former Stanford financial advisors retain FINRA licenses and resume employment at various other US brokerage firms. FINRA records for individual brokers do not disclose any involvement of selling alleged fraudulent securities, or their involvement in working for an alleged fraudulent company.<sup>53</sup>

Internal Revenue Service files US District Court motion to intervene with receivership to claim Allen Stanford’s personal income tax debt of \$227 million.<sup>54</sup>

The Securities and Exchange Commission’s Inspector General H. David Kotz publishes an audit report stating the agency has “not complied with the requirements of the Regulation D exemptions,” or does not “substantively review the more than 20,000 Form D filings that it receives annually, which in 2008, identified total estimated offerings of \$609 billion dollars. The report identifies several instances of “misuse, non-compliance, and illegal acts regarding the Regulation D exemptions.”<sup>55</sup>

Receiver Ralph Attorney files for legal fees in excess of \$27 million for what appears to be less than pennies on the dollar. Receiver also attempts to clawback \$925 million from investors who received principal or interest from their CDs.

Stanford investors are denied coverage under the Securities Investor Protection Act despite a very loose interpretation of the statute that was provided to extend coverage to the victims of the Madoff Ponzi scheme.

<b>Year</b>	<b>Total Assets</b>	<b>Investor Losses*</b>
<b>2009</b>	<b>Unknown</b>	<b>\$7.2 Bil.</b>

*\*Estimated losses due to lack of enforcement and/or inter-agency communication among FBI, Department of Justice, US Treasury and Securities and Exchange Commission.*

<sup>49</sup> Bloomberg, Feb. 17, 2009, “Stanford Bank’s Clients in Latin American Seek Funds.”

<sup>50</sup> Securities and Exchange Commission Complaint to US District Court, Northern District of Texas, Dallas Division, Complaint #LR20901, Feb. 16, 2009.

<sup>51</sup> Financial Services Regulatory Commission, Government of Antigua and Barbuda, Claim #ANUHCV20009/0110, Feb. 26, 2009.

<sup>52</sup> US Congressman Dennis Kucinich, [www.kucinich.house.gov](http://www.kucinich.house.gov).

<sup>53</sup> FINRA BrokerCheck.

<sup>54</sup> US District Court, Northern District of Texas, Dallas Division, March 13, 2009, Case #3:09-cv-00298-N.

<sup>55</sup> Securities and Exchange Commission Office of Inspector General Audit Report, March 31, 2009.