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US securities bodies probing Stanford group

By **STABROEK STAFF** | **18 COMMENTS**
LOCAL NEWS | FRIDAY, FEBRUARY 13, 2009

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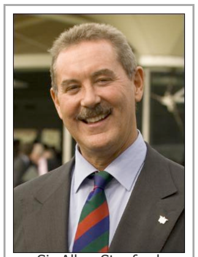
Stanford Financial Group Co, the Houston-based investment firm led by billionaire Sir Allen Stanford, is being investigated by U.S securities regulators over certificates of deposits (CDs) issued by its Antigua-based affiliate that pay higher than average returns.


Sir Allen Stanford

The financial news wires were yesterday abuzz about the investigation, which comes just as Stanford, who has been credited with reinvigorating interest in West Indies cricket, is expected to announce a major cutback of his investment in the sport in the region.

In an e-mail to staff members, Stanford said he would "fight with every breath to continue to uphold our good name" in the face of investigations, which are reported to have predated the investigation of money manager Bernard Madoff, who was arrested in December after allegedly bilking high profile investors out of $50 billion in a pyramid scheme that promised yields that were too good to be true. Stanford International Bank (SIB) recently told depositors in a letter posted on its website that it had no exposure to Madoff funds and that it was in compliance with financial regulators in Antigua.

On Wednesday, BusinessWeek broke the story, reporting that the U.S Securities and Exchange Commission (SEC), the Florida Office of the Financial Regulation and the Financial Industry Regula-tory Authority (Finra), a major private-sector oversight body, are all investigating how St. John's-based Stanford International Bank Ltd. has been able to offer high returns on CDs, while investing in stocks, real estate, hedge funds and precious metals, many of which have lost value in recent months. While investors have suffered huge losses, Stanford Financial Group has claimed to have boosted the assets it oversees by 30%, to more than US$50 billion.

"We are all aware that former disgruntled employees have gone to the regulators questioning our work and our processes," Stanford wrote to staff members yesterday, in an e-mail that was obtained by Bloomberg News. He said visits to Stanford Group's offices were routine examinations. "On the issue of Stanford International Bank, I want to be very clear," Stanford added, "SIB remains a strong institution, and even without the benefit of billions in U.S. taxpayers' dollars we are taking a number of decisive steps to reinforce our financial strength. We will take the necessary actions to protect our depositors." Earlier, Stanford spokesman Brian Bertsch, told Reuters that the BusinessWeek story was a rehash of old gossip and unsubstantiated allegations. "The Stanford Financial Group is vigorously managed and fully compliant with all U.S. regulations," he said.

Finra investigators are reported to have visited six Stanford Group offices last month, downloaded information from computer hard drives and looked through files, while the SEC questioned two former Stanford financial advisers. Bloomberg said former employees were questioned about SIB's stated returns on investment, which ranged between 10.3% and 15.1% every year, from 1995 until last year. SIB has US$8.5 billion in assets and 30,000 clients, according to its website, growing from $624 million in 1999. "Those returns are just incredible, in the sense that I don't believe them,"

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Bloomberg quoted Alex Dalmady, an independent financial analyst based in Weston, Florida, who has examined Stanford's investment strategy and published an article in VenEconomia Monthly, published by Caracas-based economic consulting firm VenEconomia.

Dalmady wrote that the bank offered rates on CDs of 7.5% on a one-year deposit of at least US$100,000 in fall 2007, when U.S. banks were offering 4 to 5%. Its gains on investments were consistently above average, ranging from 10 to 14% from 2003 to 2007. The company also said it had a gain of 6% in 2008, while many other firms had significant losses, Dalmady pointed out. The Group, however, has disputed his findings.

Meanwhile, four former investment advisers interviewed by Bloomberg said the Stanford Group offers incentives for those who steer their clients' money into the bank CDs. The company paid a 1 percent fee to the advisers, held contests and offered trips and bonuses of up to US$125,000, based on how much money went into Stanford International Bank, according to the former employees and e-mails provided to Bloomberg News. Those incentives weren't paid for investments in other securities, they said.

In November 2007, Stanford Group Co. was fined $20,000 for failing to adequately state the risks involved in the CD investments and to disclose that an affiliation between the broker-dealer and the bank could pose a conflict of interest. Stanford consented to the sanctions without admitting or denying wrongdoing, according to Finra.

Stanford International Bank says on its website it is able to pay higher interest to depositors "by channeling available resources into profitable activity," through investing. It added that it doesn't lend proceeds and instead invests in a mix of equities, metals, currencies and derivatives. L. Burke Files, President of a Tempe, Arizona-based due diligence firm that specialises in offshore financial organisations, told the Associated Press that he steered a client away from Stanford in part because the bank's CD rates were two to five times higher than the competition, and because the returns seemed to avoid the market swings that show up in the accounts of even the best investors. "The consistency of returns gave me significant pause," Files said.

Knighted

Stanford, 58, a Texas-born billionaire with a personal fortune estimated by Forbes at US$2.2 billion, was knighted by Antigua, where he has been based for more than 25 years. He is known by the moniker "Sir Allen" throughout the region, where he launched a million-dollar regional Twenty20 tournament that is largely credited with reinvigorating interest in West Indies cricket. The eponymous Stanford Twenty20 was launched in 2006, when the Guyana team emerged as champions.

However, Stanford last year announced a review of cricket operations, citing contractual issues with the West Indies Cricket Board which arose prior to the start of the Stanford Super Series. The series consisted of five Twenty20 matches between England and a collective of Stanford Superstars drawn from the best of the best players from the Twenty20 tournament, culminating in a single match for US$20 million-the richest team prize in history for a single sporting match. The series was, however, marred by controversy from the start when Stanford sat the pregnant wife of England wicketkeeper Matt Prior on his lap. He later issued an apology while the England Board announced it was reviewing the five year US$100 million deal with Stanford. The series ended in one sided match where England was thrashed by 10 wickets.

In December, Stanford announced a review and sacked a board of legends, which included Sir Viv Richards and Sir Garfield Sobers, and closed his office in Antigua. "I think he's done well right through the Caribbean. Credit must be given when it's due," West Indies Captain Chris Gayle told the AP as he prepared for the start of the second test against England in Antigua today. "It would be disappointing if he actually walked out. He has done a lot for us." He noted that the Stanford tournament has brought a lot of supporters out. "We're just trying to rebuild in the region right now," Gayle said. "Our cricket has been down for quite some time so obviously we need as much as we can get to actually come alive again."

Stanford has since announced the scrapping of the US$20M match, but has entered into negotiations with the England and Wales Cricket Board (ECB) for an annual quadrangular tournament at Lord's featuring his Stanford Superstars XI. Telegraph Sport reported that the new contract will replace the existing US$100 million five-year deal he signed with the board last June, although Stanford's quadrangular tournament is expected to be held at Lord's in May. Meanwhile, last evening there was speculation in the UK press that the U.S investigation could jeopardise a future deal with the ECB.

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freespeech 2 years ago

SN is this a change of heart to publish foreign news or your reader- ship is dropping.

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amen-ra 2 years ago in reply to freespeech

freespeech be grateful you got something to read, and stop the petty bickering, and childish attitude. Grow up or get a life.

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SandHurst First 2 years ago

Money, can't buy life but money buys many other things,money gives you a lot of fake friends but be careful of them because they will kill you for your things....

Like Reply

Guyanesegalfureal 2 years ago

it is not a guyanese in this news

Like Reply

CountryGal 2 years ago

DOES THIS MEAN THAT HE WILL STOP SPONSORING 20/20? I GUESS THEY ARE TRYING TO MAKE SURE THIS IS NOT ANOTHER BERNIE MADOFF TYPE OF PONZI SCHEME.

Like Reply

One Love 2 years ago

Not a Guyanese in the news but lots of Guyanese work for him in the banks and at his companies in Antigua and if it all goes south then Guyanese at home will feel some of the pinch when they cant get their "freck" from family members every month. So this news has Guyanese in it...yall just dont know.

Like Reply

folly 2 years ago in reply to One Love

One Love tell them how d sudden set up.....He is the one that employ alot of our country men and women....so this should be concern too us all...

Like

Rupman 2 years ago

Our 20/20 cricketers were very lucky. They got rich before this whole thing implodes.

Like Reply

guyanaspice 2 years ago

not a guyanese in d news ,but its headline,money makes the world go around.and the beat goes on

Like Reply

Navy Seal 2 years ago

Money cannot buy luv. It is valentine. But that woman wud still tell ya no money no hunny.

Like Reply

Tessa 2 years ago

You dunda heads don't see how this affects us? Possibly no more 20/20, which Guyana won and got some millions from. We need all ht emoney we can get to revive cricket...then again, we should introduce cricket to America, some life might come back into it :)~

Like Reply

SWAT 2 years ago

This guy needs to be investigated by the SEC. In this global financial crisis, there is no way he can provide such returns to investors without taking from Peter to pay Paul.

Like Reply

Keno 2 years ago

This is indeed a very relavant story. Matter of fact, I was pleased to see Stabroek News report this even before Bloomberg News which only reported this very news at 9:30 am (EST).

Apart from the remittances from Guyanese employees employed by Stanford (Antigua)this matter is of more importance to the Guyanese investors in Stanford.

When I was in Antigua for the 20/20 in Feb 2008, sitting all around me were entire families of Berbice Rice Millers. I was staying at at the same hotel as the cricketers and a Senior Stanford representative who told me all those Guyanese wer eeither his clients or prospective clients that he is providing tickets and expenses for.

I did keep up with the Representative after the games and I sure he did a lot of business with these Rice Millers.

If this develops to be a Ponzi scheme, watch out for foreclosures of rice mill loans.

Like Reply

JAH 2 years ago

A little bit of international news is good for the soul. At least we can have an idea of what is going on in the world!!!

Like Reply

D11N 2 years ago

It is dissapointing that his efforts to revive WI cricket is met with so much frowns....when the fact is the WICB are in no position to do anything to lift the game. The first 20/20 was the most enthralling and organised regional game I have experienced.

Like Reply

Donaldson 2 years ago

As a former Stanford employee, I have seen a lot of half-truths and some outright lies thrown around regarding Stanford International Bank (SIB). There have been many facts that have not been reported that might interest investors, the public in general, and particularly the media, which seem to rely on bloggers for their sources without doing any fact checking.

Over the last 18 months, there have been unprecedented challenges which have confronted the global financial industry and have led to heightened scrutiny by regulatory bodies, the public and the media. Although Stanford Financial Group has not been the beneficiary of any government bailout money, they are not immune from this crisis; however any comparisons to recently defaulted institutions and scandals are not relevant to the organization and are a disservice to Stanford employees and clients worldwide.

One analyst's opinion regarding Stanford International Bank has been picked up by numerous blogs and reputable news outlets and printed "as fact." These facts need to be known: Stanford International Bank was able to show a positive return for doing what U.S, banks did NOT do: --SIB does not make loans, they have no loan loss reserves, they took no markdowns to capital and had no exposure to subprime. If U.S. Banks had followed this strategy -- chances are they might have shown positive returns.

Has anyone bothered to check out the Analyst -- one Alex Dalmady -- who is he, what is his track record? It is easy to point fingers and make broad statements -- what expertise does this guy have? I would hope the more reputable outlets did this homework, but they seem to have picked his words up verbatim and did no "fact checking" on the source of all of this at all.

The media has a responsibility to report accurately and balanced -- that is not apparent in Stanford's case. He may be flamboyant, but that is not a crime. Misleading and scaring thousands of investors is.

And let's not forget that ALL of this started with two disgruntled employees who owe Stanford a lot of money (Bloomberg link with what they actually owe: http://www.bloomberg.com/apps/...) running to regulators accusing Stanford when they found out Stanford expected them to pay back what they owed. To date, there has been NO evidence of wrongdoing on the part of Stanford, but evidence of illegal selling practices by the two employees has been uncovered and turned over to regulators. Why has not one reputable media outlet reported this??

Stanford International Bank has NEVER failed to make an interest payment or pay funds at maturity in the nearly 25 years of its history. That is 25 YEARS, not weeks or months. Also, while not obligated to, this Bank has always tried to help the customers who needed early withdrawals. This Bank has suspended THE Privilege of early withdrawals to ensure the protection of its entire depositor base. The media hype and continued repetition of half truths is only causing heightened anxiety, and this step has been taken in light of this barrage of negative and misleading statements.

SIB structures, operations and higher returns are no different than other private international banks except that SIB has narrowed its products to CDs and deposit accounts, as well as ancillary products like credit cards and loans to existing clients. The rates for a 5-year jumbo CD are from 1 1/3% to 6 7/8% and are comparable to other international institutions. This information is verifiable on bankrate.com.

This analyst states that it is near to impossible for SIB to show a positive return -- implying there must be fraud for this to occur. Plenty of financial investment vehicles had positive returns -- including more than 1,600 hedge funds. The characterization that positive must be fraudlent is simply false and sensationalism.

Are we going to launch investigations of all firms who did NOT lose money for their investors last year?

Madoff/ponzi characterization -- Separately, at Stanford Group Company, clients assets are held at Pershing LLC, a subsidiary of Bank of New York Mellon—one of the largest custodian organizations in the world. Clients' brokerage account assets are insured and segregated to assure return of their assets in the event of any catastrophic events like the ones that have occurred to world class financial institutions in the last two years. Madoff was his own custodian.....more sensationalism. Report the truth...report the Pershing relationship. There has not been one fact proving that Stanford International Bank's custodian relationships are not holding sigificant assets or that their independent money managers are not managing significant amounts for the bank.

Federal Agencies are "investigating" Stanford -- regulators are a reality for any U.S. Broker/Dealer....the SEC and Finra were in Stanford offices as part of a routine examination. No one has confirmed or advised an "investigation is ongoing. There was an article in the New York Times earlier this week with headline "Hundreds of Regulators descend on Citi....." Regulators are feeling the sting from their testimony to Congress, and are responding with more oversight. Stanford has no problem with this and has track record of full cooperation with regulators over the years.

Since the first Stanford Company's founding during the Great Depression, the Stanford Financial Group has grown into a full-service portfolio of companies servicing individuals and institutions. Stanford Financial Group is a privately held global network of independent, affiliated financial services companies including Stanford Group Company, Stanford International Bank and Stanford Trust.

The Stanford International Bank (SIB) is but one aspect of the overall company portfolio and operates in St. John in the Caribbean Island of Antigua and Barbuda. The Bank has a prudent investment approach that it has followed for over 20 years and has over 30,000 clients in over 90 countries. It has stringent know-your customer/anti-money laundering policies and procedures and terrorist financing tracking. SIB remains a strong institution, and even without the benefit of billions in US taxpayer's dollars SIB is taking a number of decisive steps to reinforce SIB financial strength to keep the capital base intact to protect SIB depositors.

Stanford International Bank has used the same auditing firm for a number of years. Once the external bank auditors are selected by the Board of Directors they must be expressly approved by regulatory agencies. The regulatory framework follows international standards set forth by Basel I and II. For the record, Basel I and Basel II are the highest standards in the industry.

Like Reply

Keno 2 years ago

Pershing provides clearing services for Broker dealers andf custodies customer fully paid securities. Bank CD's are not securities under the SEA 15c3-1 and 15c3-3 regulations and Pershing would therefore not lock-up or segregate the value of these customers CD's in the Special Reserve Bank Account for Customers as required by the Securities and Exchange Act 15c3-3.

Secondly, Pershing will have no clearing business with the Bank - SIB, which seems to be where the problem may be.

Thirdly, the Stanford related brokerage business is currently cleared through a much smaller ADM Investors Services efective 9/23/08 having been dropped by Pershing.

Like Reply

Stanford Group 2 years ago

A class action has been filed on the behalf of Stanford Group investoprs. You can find more information at

http://www.stanfordgrouplawsui...

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