Statement for the Record
Rep. Blaine Luetkemeyer (MO-09)
"The Stanford Ponzi Scheme: Lessons for Protecting Investors from the Next Securities Fraud"
Committee on Financial Services
Subcommittee on Oversight and Investigations
May 13, 2011

I thank the Subcommittee on Oversight and Investigations for holding this important hearing, and request that this statement be submitted for the hearing record.

One of the principle missions of the U.S. Securities and Exchange Commission (SEC) is to protect investors. Yet for more than a decade, the SEC failed in that mission by neglecting to seriously investigate the Stanford Financial Group (Stanford), a Ponzi scheme that defrauded thousands of American investors to a tune of $8 billion. The warning signs were clear and prolific, from troubling exams to evidence of money laundering to whistleblower reports from Stanford insiders. Documentation shows that the SEC was aware as early as 1997 (seven years before any action was taken) that Stanford was troubled. Despite a preponderance of evidence, it was not until 2009, twelve years after our nation's supposedly preeminent regulator of investor fraud took its first examination of Stanford, that any formal action took place.

It seems the SEC is continuing to ignore the Stanford problem. After two years, Chairman Schapiro has still not made a determination on Stanford victims' right to coverage under the Securities Investor Protection Corporation (SIPC). This is despite the fact that she has told members of Congress that a decision would be made by April of this year. Regardless of the outcome, the least the SEC could do for these victims, after twelve years of inaction, is to make a determination on SIPC coverage.

The weight of the Stanford case cannot rest on the SEC alone. The company was being investigated by numerous other regulators and law enforcement agencies. Yet the SEC's failure to synchronize both internally between the SEC's examination and enforcement offices, and externally among various state, federal, and international agencies, exposes not only the weak coordination of our regulators but also brings into question their general competence, or lack thereof.

This is a problem that is not unique to the Stanford case. But instead of repairing the broken regulatory bodies, Congress and the Administration have opted to create new agencies that will do nothing to protect investors from future threats of investment fraud. As a nation, it is time that we get serious about consumer protection. Regulating community banks, credit unions, property/casualty insurance agents, and payday lenders into oblivion will do nothing to protect consumers. Rather it will hurt consumers by forcing them out of the banking system, out of their property/casualty insurance policies, and out of the regulated alternative loan system. As a government, we should be focused on real-world solutions that will provide actual protection to consumers and responsible and effective oversight over institutions like Stanford Financial.

I thank Chairman Neugebauer and this subcommittee for holding this important hearing. I look forward to our continued discussion of and resolution on the Stanford case and encourage cooperation from the SEC and other regulatory and law enforcement bodies. It is my hope that all members can work together and with the federal regulators to identify methods for improvement and encourage a culture that promotes investor protection.