Name: Alert ID: TMML202403719638 Key Points Unlike victims of Bernie Madoff, who have gotten back large chunks of their principal, 18,000 customers of fraudster R. Allen Stanford have recovered practically nothing. The Securities and Exchange Commission shut down Stanford's operations 10 years ago this week. As with Madoff, the SEC missed warning signs of the fraud for years. The Stanford scam, second only to Madoff's in size, involved billions in fraudulent certificates of deposit. Ten years after the second biggest investor fraud in U.S. history, victims of the $8 billion Ponzi scheme run by disgraced financier R. Allen Stanford have recovered practically nothing, court records show. That's in stark contrast to the substantial recoveries on behalf of victims of the Bernard Madoff scam, which became public two months earlier. The difference has enraged Stanford's victims — many of whom were retirees who had been sold "safe" investments — and has some lawmakers still calling for reforms. "The only true justice Stanford's victims could ever see is in getting their savings back," said Angela Shaw, whose family lost millions in the collapse. "Sadly, all they have seen and can expect to see is a few pennies on the dollar." A group of U.S. House members is preparing to ask the Securities and Exchange Commission to step up its efforts to aid the victims, according to a draft letter obtained by CNBC. In February 2009, the SEC was already under scrutiny for its mishandling of the Madoff case, which broke two months earlier. With the financial crisis in full swing, speculation was swirling around Stanford, a Texas billionaire who had built a sprawling financial empire on his offshore bank in Antigua. Stanford, who referred to himself as "Sir" Allen Stanford after receiving a knighthood from the tiny Caribbean nation, styled himself as an international man of mystery who promoted the game of cricket and just might be a CIA operative (he was not). 'Massive' fraud On Feb. 17, 2009, the SEC and FBI agents raided Stanford's Houston headquarters, shutting down the Stanford Financial Group's worldwide operations. In a civil complaint, the SEC accused Stanford and his associates of running a "massive, ongoing fraud" based on certificates of deposit issued by Stanford International Bank in Antigua and sold to investors by Stanford's U.S.-based brokerage arm. While Stanford claimed the CDs were backed by solid assets and posted returns that consistently beat the market, the SEC alleged the entire operation was a fraud that financed Stanford's lavish lifestyle. A subsequent report by the SEC inspector general found that, as in the Madoff case, the agency had missed warning signs of the scandal for years. In the case of Stanford, according to the report, the missteps went back more than a decade to 1997. And the report found the agency's investigations were hampered by a regional enforcement official who would go on to do legal work for the firm. Stanford, a former health club operator and insurance salesman from rural Texas who once falsely claimed to be related to the founder of Stanford University, insisted his businesses were legitimate. He alleged the SEC was scapegoating him following its mishandling of the Madoff investigation. "Madoff comes along, well, they need somebody to make an example out of," he told CNBC in 2009. But a federal jury in Houston disagreed, convicting Stanford in 2012 on 13 felony counts. Now 68, he is serving a 110-year sentence at a high security prison in Florida. But none of that — or the fact that Stanford was ordered to forfeit some $5.9 billion in cash that has long since been spent — is any solace to Stanford's 18,000 investors. According to the most recent figures from Ralph Janvey, the court-appointed receiver rounding up funds for the victims, about $500 million of the roughly $5 billion in investor losses had been recovered as of Oct. 31, 2018. Of that, a court has approved about $224 million in fees and expenses for Janvey and his team. That leaves about $275 million — or about 5 cents on the dollar — for the victims. An attorney for Janvey, Kevin Sadler, said the receivership has recovered about $200 million more since that report, including about $63 million in a settlement with Stanford's former law firm. And Janvey is still trying to recover hundreds of millions more in lawsuits against those who allegedly received fraudulent transfers from Stanford, including members of Stanford's sales force. Other funds are in limbo, including some $160 million in Stanford's Swiss bank of choice, Societe Generale. That money was to be returned to investors under a settlement between U.S. and Antiguan regulators, but the bank has blocked its release. Contrast to Madoff Even if all of Janvey's efforts are successful, Stanford's investors are likely to receive only pennies on the dollar, while Madoff investors have recovered about 75 cents on the dollar in principal — and counting. Sadler said the difference is the result of different treatment of the two frauds by the agencies that normally look out for investors. "Sadly, unlike in the Madoff case, Stanford investors were not eligible for SIPC coverage for their losses," Sadler told CNBC in an email. He was referring to the Securities Investor Protection

Corporation, which compensates investors for securities and cash that are lost when a brokerage firm fails. In the case of Madoff, SIPC oversaw the liquidation of the firm, made payments to thousands of investors, and covered the fees of court-appointed trustee Irving Picard. But in the case of Stanford, whose U.S. brokerage arm was a SIPC member, the agency argued that the securities in question — bogus CDs issued by a foreign bank — were not covered under the law. Thus, neither were the victims. Sadler also noted that the Justice Department has recovered some $8 billion for Madoff victims through criminal prosecutions, including a $2 billion settlement with Madoff's primary bank, JPMorgan Chase. But in the Stanford case, prosecutors only targeted individuals. Stanford and two of his of his top lieutenants — Mark Kuhrt and Gilberto Lopez — were convicted at trial. Two others, Chief Financial Officer James Davis and Chief Investment Officer Laura Pendergest-Holt, pleaded guilty. A sixth individual, Antiguan banking regulator Leroy King, has thus far successfully fought extradition. "The cleanup efforts for the Stanford and Madoff frauds are routinely compared, but there is no question that the absence of both SIPC coverage and any multibillion-dollar U.S. DOJ recoveries for Stanford victims accounts for the substantial difference between distributions to the Madoff and Stanford victims," Sadler said. But Shaw also blames Janvey, and the professionals he hired, for "spending 50 cents for every dollar they've recovered." And she says the SEC "botched" a lawsuit aimed at forcing SIPC to compensate the victims. "The list is shockingly exhaustive with failure at every turn," she said. Sen. Bill Cassidy, R-La., introduced legislation last year that would have allowed the SEC to take over the Stanford receivership and distribute funds to investors, but the proposal went nowhere. For his part, Stanford has not given up trying to clear his name. Acting as his own attorney, he has cranked out a steady stream of court filings from prison, none with any success. In the most recent petition, filed in December, Stanford demands to be allowed to question Special Counsel Robert Mueller, who was FBI director during Stanford's prosecution, over alleged mishandling of evidence. The court has yet to rule on his motion.