

# STANFORD FINANCIAL GROUP RECEIVERSHIP

## **STATEMENT ON THE STATUS OF THE RECEIVERSHIP**

**March 2, 2009**

What follows is a more detailed statement of the summary report that Receiver Ralph S. Janvey presented to the Court this morning in Dallas during a hearing in *SEC v. Stanford International Bank, Ltd., et al.* The Receiver will be providing additional information concerning the Receivership in the coming days, as well as a formal statement to be filed March 16, 2009 as directed by the Court.

1. On February 16, 2009, I became Receiver for the assets of Defendants Stanford International Bank, Ltd., Stanford Group Company, Stanford Capital Management, LLC, Robert Allen Stanford, James M. Davis, Laura Pendergest-Holt, and all entities owned or controlled by them (collectively, “Stanford”). Since that date, I have been engaged in carrying out the Court’s mandate to identify and secure the far-flung holdings and business operations of Stanford.

### ***Efforts to Obtain Control of Receivership Estate***

2. Immediately upon my appointment as Receiver, I retained experts to assist and advise me in carrying out the duties assigned to me by the Court. I have engaged two international law firms; a business restructuring advisor with substantial broker dealer experience; forensic, accounting and information technology experts; a brokerage operations specialist; and a security consultant to coordinate security personnel to maintain the physical security of Stanford facilities. For the reasons detailed below, my retention of these experts is necessary to perform the tasks delegated to me by the Court.

3. Defendants own and control a large, global network of financial services companies. Although our work is yet in its preliminary stages, it is clear that the Stanford group of companies is extraordinarily complex.

- There are at least 175 Stanford entities. According to internal Stanford records, even that number may be incomplete. One organizational chart for the Stanford operations spans 25 pages, and we find new and contradictory records daily.
- Stanford has operations at more than 100 discrete locations, with offices throughout the U.S. (including Texas, Georgia, Maryland, Louisiana, Florida, Massachusetts, North Carolina, Mississippi, Colorado, Arkansas, Virginia, Tennessee, New York, California, Washington, D.C., and Pennsylvania), Canada, Europe, Latin America, and the Caribbean.
- The Stanford entities include a vast array of diverse businesses, such as securities brokerage, investment advisory services, gold coins and bullion, trust and fiduciary services, financial planning, merchant banking, venture capital, real estate development (including hotels, clubs and golf courses), investment banking, institutional securities research, securities trading, insurance strategies, commercial banking and alternative investments.

It is likely that the final picture we develop will be even more complex than what we see now.

4. The Estate includes a number of foreign companies and assets across a wide array of industries. Some foreign governments are actively attempting to secure companies and assets in their jurisdictions. The government of Antigua, in particular, has an interest in the disposition of Stanford companies, as they employ over 10% of the local population. Accordingly, the Antiguan government has taken a number of actions affecting Stanford assets, including appointing two receivers (the “Vantis Receivers”) for the Stanford International Bank and Stanford Trust Company, and has convened its parliament for the expressed purpose of seizing property owned by Stanford for the benefit of its citizens. Separately, the East Caribbean Central Bank, a consortium of entities from several countries, has announced that it has created a new entity to carry on Bank of Antigua’s operations. It is our understanding that Mexico, Panama, Colombia, Ecuador, and Venezuela also have taken steps to secure Stanford assets. The

Defendants' foreign-owned companies have been placed on notice of the Court's Order Appointing Receiver and TRO and that they are subject to both. My advisors and I are analyzing the situation in these and other jurisdictions and will take such actions as are necessary to secure Receivership assets while minimizing interruptions of normal day-to-day operations.

5. Nevertheless, my advisors and I have made significant progress in securing Stanford's assets and operations.

- We developed information about Stanford and its assets, including interviewing persons with knowledge about financial records and assets.
- We have identified and interviewed the key personnel in Stanford's major operational departments, including treasury, accounting, information technology, human resources, risk management, real estate, building operations, aviation, security, private equity investments, broker-dealer operations, compliance, legal, and Latin American operations.
- We have identified major "control" locations throughout the U.S. and taken steps to secure at least 30 locations and the assets and business records at those locations, including establishing mail receipt and document protocols, and ceasing operations.
- As necessary, we have changed the locks at certain Stanford offices, installed security personnel, moved gold coin and bullion to lock boxes in safe locations, and locked down documents and data. To date, we have imaged more than 300 hard drives used by Stanford employees.
- We have served over 120 affiliated entities and known control persons worldwide with the TRO and Order Appointing Receiver, and employees have been notified of the Receivership and given instructions about how to proceed in the short term.
- We also have served more than 70 domestic and international depository institutions with the TRO and Order Appointing Receiver, ceased electronic transfers from those institutions, and begun arranging for the recovery of Stanford assets in their possession.
- We have attempted to cease all known transfers of assets while we inventory Stanford's holdings.
- We are coordinating with authorities in foreign jurisdictions to secure overseas locations, identify assets, and share information.

- We have called for elected officials who received campaign contributions from Allen Stanford or Stanford affiliates to return those monies to the Receivership Estate for the benefit of defrauded investors, and some have agreed to do so.
- We are in the process of requesting the return of legal retainers from several law firms and continue to identify and contact firms with retainer balances.
- We are assessing Stanford's significant ongoing financial obligations to third parties.
- We are reviewing Stanford's employee base and payroll information and will have an announcement early this week on these issues.
- We are overseeing pre-existing and new litigation.
- We have established a website ([www.stanfordfinancialreceivership.com](http://www.stanfordfinancialreceivership.com)) and an email address ([info@stanfordfinancialreceivership.com](mailto:info@stanfordfinancialreceivership.com)) for the Receivership Estate to convey information to the public and to individual investors about the status of the Receivership and to permit orderly communications from various constituencies about the Receivership.

6. Based on our preliminary investigation, the liquidity situation and overall financial condition of the Stanford entities can only be described as dire. According to unaudited financial statements as of December 31, 2008, Stanford has amassed tens of millions of dollars in unpaid bills, and to date the Receivership accounting team has been able to identify only a limited amount of available cash on hand. Evidence is also mounting that the assets of the Estate will be only a fraction of the amount needed to satisfy the anticipated claims against the Estate.

***Efforts to Implement the Court's Order Freezing Assets***

7. Our efforts to secure the assets of the Receivership Estate have necessarily been broad in scope because the Order issued by the Court was broad in scope. Contrary to the suggestions in some of the motions to intervene, the inability of Stanford customers to access their accounts has not resulted from action by the Receivership. Rather, the Court's Temporary Restraining Order accomplished that, and appropriately so. In paragraph 6 of the Order, the

Court specifically restrained all transactions in all accounts held “in the name, on behalf or for the benefit of Defendants.” Such an Order was, in my view, required to prevent the Defendants from taking assets from accounts they held or managed for customers. My advisors and I are working on an emergency basis to implement the measures necessary to ensure that Stanford is in full compliance with the terms of the Order.

8. Stanford Group Company, one of the specific Receivership entities referenced in the motions to intervene, is a registered broker dealer and investment advisor headquartered in Houston, Texas, with 29 offices located throughout the United States. Stanford was the introducing broker for accounts held in custody at Pershing LLC and JP Morgan Clearing Corp., meaning that these accounts were, by definition, held on behalf of Stanford. At the time the Order was issued, there was no information available to allow the Estate to make distinctions among these accounts. Thus, the safest and most appropriate way to implement the Court’s order was to freeze all accounts at Pershing and JP Morgan that were introduced by Stanford.

9. As our investigation progresses, I will seek authority from the Court to release any accounts that we determine should not be covered by the Order. On the second day of the Receivership, my advisors and I began to develop the information necessary to determine which accounts can be released. My advisors and I are working closely with Pershing and JP Morgan Clearing to develop and test protocols for searching electronic data, thereby obviating the need to review accounts manually. Given the size and scope of Stanford’s operations and the complexity of the interrelationships among Stanford entities, these protocols will take additional time to implement.

10. Moreover, we know that a significant percentage of Stanford customers invested in products or schemes that the SEC alleges to be fraudulent. For example, many customers who

purchased the allegedly fraudulent certificates of deposit from Stanford received interest payments or were able to cash out CDs for full value prior to the date of the Order Appointing Receiver and the TRO. Based on the allegations in the SEC's complaint, these customers were paid, not from actual returns on any underlying investments, but from money contributed by new victims of the fraud. The proceeds such customers received may still be in their accounts or may have been used to purchase legitimate securities now held in the brokerage accounts. While most of these customers may have been innocent of the fraud, the Receivership Estate may, as required by the Court's Order, seek to reclaim these proceeds or the securities purchased with the proceeds, so that this value can be shared equitably by all victims of the fraud, as well as those who cashed out their CDs before the date of the Order. The number of brokerage accounts affected by these products could number in the thousands.

#### ***Progress Toward Releasing Accounts***

11. Despite the complexities, our efforts already have resulted in the identification and release of an entire category of accounts. As described on the Receivership website, we have determined that mutual fund assets of Stanford clients held outside of Stanford's custodial relationships with Pershing and J.P. Morgan are typically held directly in the name of the client by a mutual fund. While Stanford Group Company may provide investment advice to the owners of these accounts, it does not transact in these accounts, does not provide custody for these accounts, does not maintain books and records pertaining to the assets, and does not provide the client with individual transaction statements or periodic holdings statements. Assets in retirement plan accounts invested in a mutual fund or 529 plan accounts are examples of these types of accounts. As announced on February 23, 2009, mutual fund companies have been informed by the Investment Company Institute that assets held in such direct accounts are not

subject to any freeze under the Order. Accordingly, the Order will not restrict customers from accessing these accounts.

12. I expect to make similar determinations regarding other categories of accounts as our investigation progresses. In particular, my advisors and I are analyzing the potential release of accounts that have less than \$100,000 in assets, with certain exceptions. I am quite conscious of the hardship that the account freeze is imposing on some investors, and I believe that, particularly in the case of relatively smaller accounts, the hardship should be weighed against the benefits of the freeze, considering both the likelihood that an account is tainted by the fraud and the amount potentially recoverable by the Estate if it is tainted. I will make a recommendation to the Court on a release of accounts by March 16. While our analysis to determine the specific parameters of the release is not yet complete, I expect this release would not apply to accounts owned by Stanford shareholders, directors, and certain employees; accounts owned for the benefit of Stanford companies; accounts managed by Stanford companies; accounts that secure unpaid loans made by Stanford companies; and perhaps other categories for which there is a high likelihood the accounts were tainted by fraudulent products or activities. The exceptions also may include other accounts that are related to the owner of one of those accounts by social security number, address or other similar indicators. Even if such accounts are released, of course, the Estate would still be entitled to pursue claims against the owners of the accounts if they participated in the fraud or received the proceeds of fraudulent products or activities. Simultaneously, the receiver is evaluating the most timely and efficient method to transfer released accounts so that clients have access to their assets.

13. Identifying the precise accounts that fall within the categories described above is complicated by many factors, including the following:

- Our preliminary estimate is that Stanford Group Company has approximately 35,000 customer brokerage accounts, with total assets in excess of \$6 billion held in the custody of Pershing and JP Morgan Clearing. These accounts may be customer controlled, managed by independent third-party investment managers, or managed by Stanford-affiliated investment advisors.
- Defendants had approximately 3,000 employees worldwide who had varying levels of authority to act on behalf of Defendants, and also may have had access to the information and assets of the Defendants and their customers.
- Individual customers had the ability to invest their assets in more than 20 different types or styles of investment programs through a variety of different Stanford entities: Stanford Group Company, Stanford Capital Management, and Stanford Trust Company. These diverse activities were not consistently tied together operationally or in the record keeping system.
- Once we have determined the accounts held under the control of, on behalf of, or for the benefit of Defendants, we then have to insure that we have identified all related accounts across the various entities.

The account identification process is being accomplished through the use of electronic data management techniques that are dependent upon information that we continue to collect on a daily basis from outside sources, as well as on the reconstruction of Stanford's internal records.

### *Protecting Customers' Assets*

14. Even as my advisors and I are analyzing data and formulating strategies to identify accounts that can be released, we have taken steps to maintain the status quo and protect the interests of all investors. I have retained broker dealer experts to assist me in the management of this business. We have centralized control of brokerage accounts in the Houston headquarters and limited the ability of brokers and money managers to effect transactions. I have authorized a small team of closely supervised Stanford Group Company employees to execute customers' instructions to sell holdings in their accounts. Although many investors are still unable to access their accounts temporarily, their assets are safely custodied at Pershing and

J.P. Morgan Clearing, members of the Securities Investor Protection Corporation. Similar efforts aimed at preserving the assets on hand and protecting the interests of investors are underway at other Stanford entities. Our objective is to ensure that we protect investors' assets to the fullest extent possible while we complete our investigation.

### ***Conclusion***

15. In light of the dire financial condition of Stanford – and the growing likelihood that claims will far exceed assets – I believe that the only way to assure a fair distribution to every defrauded investor is temporarily to prohibit withdrawals from the accounts (except as described in paragraphs 11 and 12 above). If some Stanford customers were allowed to withdraw funds now, before any determination has been made about whether their accounts contain assets that can be traced to fraudulent products or schemes, the risk is high that money the Estate would otherwise be entitled to recover for the benefit of all victims of the fraud will be moved forever beyond the reach of the Receivership. The effect would be to give the early-withdrawing investors an advantage over other victims of the fraud, as the amount available to satisfy claims by the other investors would be diminished further. It is critical to my work on behalf of *every* defrauded investor to ensure that all available assets of the Estate remain within the Court's control.

16. I take very seriously my responsibility as the Receiver. All of the actions I have taken and will take are aimed at maximizing the recovery by innocent claimants. As described above, the Receivership is making every effort to locate and preserve assets. Our goal is to increase the pool of money available to satisfy investor and creditor claims. We are working diligently to devise a plan to ensure that equitable distributions are made to all claimants. That plan includes:

- Making provisions for releasing customer accounts not tainted by the Defendants' schemes in an orderly manner;
- Developing an efficient claims procedure that allows remaining investors to receive their fair share of Stanford assets;
- Devising mechanisms for determining which claims are legitimate; and
- Protecting against attempts by some to use the legal process to jump ahead of everyone else in line.

17. I recognize that customers whose accounts are frozen may be experiencing hardship, and it is my intention to resolve these issues and release accounts as quickly as possible.