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S.E.C. Fines Didn't Avert Stanford Group Case

By STEPHEN LABATON and CHARLIE SAVAGE
Published: February 18, 2009

WASHINGTON — Years before the Stanford Group was accused in a worldwide fraud, American financial regulators found significant securities violations at the company that some experts say were telltale signs of deeper problems. But each time the regulators ultimately let the company off with relatively small fines, records show.

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David Fernandez/European Pressphoto Agency

Stanford International Bank's Caracas headquarters represented confidence in Venezuela.

On Tuesday, the Securities and Exchange Commission said Stanford might have engaged in an \$8 billion fraud involving high-yielding certificates of deposit held in the company's bank in Antigua. It was run by Robert Allen Stanford, a businessman who enjoyed political connections in Antigua and in Washington, where his company lobbied extensively.

Experts said that the earlier violations amounted to a series of red flags of deeper problems. Officials at the S.E.C. said Wednesday that they were reviewing the regulatory history of Stanford, and whether the agency — often accused of lax enforcement — should have been more vigilant in this case.

The commission has faced a wave of criticism for failing to detect the huge [Ponzi scheme](#) that [Bernard L. Madoff](#) is said to have run.

In 2007, the S.E.C. found that the Stanford Group did not have adequate capital to meet the requirements of being a broker-dealer. The company paid \$20,000 to settle those charges. Later that same year the firm was censured and paid an additional \$10,000 to resolve accusations that it had provided “misleading, unfair and unbalanced information” about its certificates of deposit, according to records kept by the Financial Industry Regulatory Authority, the agency known as Finra that polices Wall Street for the S.E.C.

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Some people are anxious in Antigua as the United States investigates one of the country's most prominent

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companies, the Stanford Group, which is accused of running an \$8 billion fraud.

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Alexandre Meneghini/Associated Press

Investors in Mexico City wait at a Stanford International Bank branch, affiliated with the company in Texas and Antigua whose high-yielding certificates of deposit are under investigation.

Late last year, Stanford paid \$30,000 to resolve a third set of accusations by Finra that the company had failed in its research reports to adequately disclose a variety of research methods and the way it was valuing certain securities.

A summary of violations posted on Finra's Web site said that two years ago the firm distributed sales literature that did not disclose the affiliations between the company and a related bank, and that the company "failed to present fair and balanced treatment of the risks and potential benefits of" instruments it was marketing as C.D.'s.

Greg LaRoche of LaRoche Research in Providence, R.I., said that of the 5,000 broker-dealers in the United States that he had examined, fewer than 50 slipped below the net capital requirements.

"A net capital violation is a major, major, major red flag," he said. "Generally when a firm has a net capital violation, it's already on the brink of bankruptcy," he said. "When you look at all of these things together, this is really serious. Either the firm is in big financial trouble, or it's hugely incompetent. Neither one is good."

As the story of the company's regulatory history emerges, a portrait of the Stanford Group's courtship of Washington lawmakers is also coming into focus.

For years, Mr. Stanford and entities associated with him have been raining money on Congress, through campaign donations, trips and conferences in resort destinations. There is no evidence that this influenced the way regulators handled the company.

But since 2000, Mr. Stanford and his firm, along with its employees and its political action committee, have given \$2.4 million in campaign contributions, according to the Center for Responsive Politics — about two-thirds to Democrats. Top recipients, the center said, included Senator Bill Nelson, Democrat of Florida, \$45,900; and Senator [John McCain](#), Republican of Arizona, \$28,150.

Campaign finance records also show that in 2008 Mr. Stanford gave at least \$28,000 to committees controlled by Representative [Charles B. Rangel](#), Democrat of New York. Mr. Rangel has been an outspoken champion of legislation benefiting the economic interests of Caribbean countries and residents.

Mr. Stanford and entities associated with him have also courted lawmakers with trips. For example, the Stanford Group took Senator [John Cornyn](#), Republican of Texas, and his wife on a three-day trip to Antigua and Barbuda for a "financial services industry fact-finding mission" shortly after the 2004 election, according to data compiled by LegiStorm, which tracks Congressional ethics disclosures.

In a statement, Mr. Cornyn said: "No one is above the law, and prosecutors should follow the facts, wherever they may lead."

Mr. Stanford is also associated with the Inter-American Economic Council, a nonprofit that brings political and corporate leaders together to discuss Caribbean and Latin American business issues. Donors to the council are not public, but when it gave him a leadership award three years ago, it said he had "strongly supported" its work.

The council spent more than \$300,000 from 2003 to 2007 providing about 85 trips to lawmakers and their staff members — mostly to resort locations like Jamaica and the

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Virgin Islands, LegiStorm's data shows. Democrats took 58 trips and Republicans 27.

One lawmaker who both went and sent staff members on several trips was Representative Donald M. Payne, Democrat of New Jersey. He is the co-chairman of the Caribbean caucus.

Kerry McKenney, Mr. Payne's chief of staff, said the events focused on issues like work force development, homeland security, health care and trade agreements, but not offshore banking.

"He never had any specific legislative requests," she said.

David Kocieniewski contributed reporting from Trenton.

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A version of this article appeared in print on February 19, 2009, on page B1 of the New York edition.

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