CHARLES W. RAWL
1800 ST. JAMES PLACE, SUITE 212
HOUSTON, TX 77056
713-341-4733

March 24, 2011

United States Senator Chuck Grassley
135 Hart Senate Office Building
Washington, DC 20510

Via fax: 202-224-6020 and via email: whistleblower@judiciary-rep.senate.gov

RE: HOW THE SEC REALLY TREATS "WHISTLEBLOWERS"

Dear Senator Grassley:

Madoff whistleblower Harry Markopolos' book, *They Wouldn't Listen*, describes his experience of trying to get the SEC to see a multi-billion dollar Ponzi scheme growing by leaps and bounds each year right before their eyes. Three years ago, my business partner, Mark Tidwell, and I "blew the whistle" on the Stanford Financial Group's (Stanford's) multi-billion dollar Ponzi scheme growing by leaps and bounds each year right before the SEC's eyes. "They" DID listen to *us*, and used our evidence and testimony to support a civil lawsuit against Stanford and take a global network of companies into receivership on February 17, 2009.

Unfortunately, Mark Tidwell and I have had a very one-sided relationship with the SEC, and the Commission's failed promise of protection in return for cooperation and assistance in their case sends a message to the entire financial industry that being an SEC whistleblower is a dangerous and absurdly misguided endeavor.

Given the record of failure by the SEC and FINRA to adequately regulate the financial sector, it is critically important that whistleblowers be protected and compensated for delivering crucial information to authorities to help stop predatory and criminal enterprises like Stanford. Law-abiding citizens like Mark and I should be able to trust and depend on the SEC's assurances of protection. Instead, we have become the perfect examples of why NOT to blow the whistle.

Mark and I were promised protection when we risked our careers, our reputations and even our families' security to blow the whistle on Stanford. The SEC's promises have been broken in a very blatant manner and I firmly believe that when our story becomes public, it will be counter-productive to the admirable efforts of our nation's leaders like you who encourage citizens to do the right thing and come forward to report fraudulent conduct in corporate America.

I am writing you because of your long-term advocacy for whistleblowers and I am confident you will be appalled to learn some of the shocking details of my experience as a Stanford whistleblower. As the SEC is in the rule-making process for its recently expanded whistleblower program, I feel it is very important Congress truly understands the Commission's CURRENT treatment of whistleblowers so that appropriate legislative support is in place to force the SEC to comply with some very critical provisions to protect whistleblowers.

Background: Discovering Fraudulent Business Practices at Stanford

My business partner and fellow "whistleblower," Mark Tidwell, joined Stanford Group Company (SGC) in 2004 upon leaving Merrill Lynch. I moved my practice to Stanford from UBS in 2005. We were both well-established financial advisors and planners with many years of experience in the industry. We both had prior experience in banking and degrees in Finance.

During the course of our employment at Stanford, we began to uncover various "red flags" and symptoms of serious problems at the firm. When we uncovered problems, we brought them to the attention of management. Management dismissed, denied and/or covered up the issues. Once we began to realize the extent of corruption within the firm and the quantity and magnitude of the unethical and likely illegal business practices, we decided we had to leave to protect our clients. Mark and I both resigned in December 2007. At the request of my manager, I detailed the reasons for my resignation in writing. Once this letter was in Stanford Group's hands, the battle of our lifetimes began.

All we wanted to do was leave quietly so that we could protect our clients. Unfortunately, Stanford chose to make an example of us to show the rapidly growing Stanford Group sales force it would be extremely difficult to leave the firm. We have been told that Stanford spent over $1 million in legal fees in 2008 in their efforts to discredit us.

Fighting Back Against Stanford and Becoming Whistleblowers

In early 2008, Stanford filed for a FINRA arbitration proceeding against us. Our FINRA arbitration attorney assured us that our very serious allegations against Stanford would be taken seriously by FINRA and the arbitration panel.[1] This did not happen and it became very clear the FINRA arbitration process would favor Stanford, as it had always protected the firm in the past.[2]

We decided to file a lawsuit against Stanford in Texas State Court in late January 2008. Unfortunately—for us and the defrauded Stanford investors—our lawsuit did not proceed in court and was instead sent back to the FINRA arbitration Stanford initiated. Today, our suit has been put on hold by the Stanford receiver and has yet to be heard.

We contacted the SEC in early January 2008 to determine if the SEC was investigating Stanford. Contrary to the company line at Stanford, an SEC investigation initiated in 2005 was continuing. We informed the SEC we had resigned and had valuable information. We contacted the SEC again in April and May 2008. We also contacted the Texas State Securities Board and the Louisiana Attorney General's office as well. I personally met with the Attorney General of Louisiana on May 14, 2008. It is important to note that while the State of Louisiana may have been lax with the regulation of the sole state-chartered trust company in Louisiana, Stanford Trust Company (STC) in Baton Rouge, it immediately began investigating STC after my visit. In late summer 2008, the Louisiana Office of Financial Institutions took action against STC by

[1]At an August 2009 Senate Banking Committee Field Hearing in Baton Rouge, La., a FINRA spokesperson testified that the whistleblower complaints were not pursued because there was no policy or procedure to handle complaints from registered representatives. Subsequently, an "Office of the Whistleblower" was established at FINRA.

[2] Stanford had a regular practice of hiring former regulatory and law enforcement employees, including former FINRA Regional Director Bernerd Young who was Stanford Group Company's Chief Compliance Officer at this time. Stanford also hired the former head of the Texas State Securities Board, the head of the Miami DEA office and many other former government employees. Stanford's long-time counsel representing the broker dealer in its response to the SEC's inquiries was Wayne Secore, the former Director of the SEC's Fort Worth office.

stopping the sale of Stanford International Bank (SIB) CDs in Individual Retirement Accounts (IRAs). Importantly, the state ordered STC to remove the CDs from IRAs.

The primary function of the STC was to act as custodian for the SIB CDs in IRAs. Most IRA custodians would not have allowed such. It has been confirmed our actions helped save many IRA investors from further losses at Stanford. We have spoken to IRA holders who purchased the SIB CDs who, not knowing about the illegal conduct related to the CDs or the problems with having them in IRAs, tried to place more money in the CDs in the latter half of 2008 but could not. Unfortunately for us, there is no whistleblower program in Louisiana.

In June 2008, we learned that Louisiana Attorney General investigators had met with the SEC, the FBI and the DOJ. Also at that time, we asked the SEC to subpoena us so that we could properly provide the documents in our possession. Mark and I personally delivered our subpoenaed documents to the Fort Worth SEC office on July 11, 2008. We were mortified when the SEC told us there were delays in their investigation of Stanford because the firm was "non-cooperative with the SEC." We were told that other Federal authorities would contact us, as the SEC had asked for assistance because of Stanford's "non-cooperation."

On August 6, 2008, I was interviewed by the SEC, the DOJ, the Postmaster Inspector General's office and the FBI for approximately seven hours. A few days later, my attorney was contacted and told that I was the "SEC's man" and would make an excellent witness. They "would be in touch soon." "Soon" felt like an eternity. The SEC Inspector General later confirmed this was about the time that the DOJ asked the SEC to "stand down" in its investigation of Stanford.

The SEC was awakened when news of the Madoff Ponzi scheme broke in December 2008. Within days of Madoff's arrest, the SEC contacted us in a panic, wanting to meet immediately after many months of silence. The SEC was so anxious at this point, they asked to meet over the Christmas weekend. We met with the SEC the first week of January 2009. At this point, the SEC expressed its concerns about lacking jurisdiction over the Antigua-based bank. We helped the SEC design the legal strategy to implicate the domestic U.S. broker-dealer in the offshore bank fraud. Again, we turned over documents and our work-product developed in our own legal battle against Stanford. I had developed a list of 42 Stanford employees whose depositions would be critical evidence in our suit. It included names and the subject matter for questioning. I provided this list to the SEC, which they named "Rawl's Famous 42."

In mid-January 2009, FINRA and the SEC quietly "raided" seven Stanford offices simultaneously. They confiscated many of the computers on the "Famous 42" list, as well as about 20 others. They interviewed most of the 42 and many others. We met with the SEC in a hotel room as they gathered "intel" from the investigators camped out in the Stanford offices. Stanford management continued its habitual lies and deceit and we worked closely with the SEC attorneys to discredit the answers being given by Stanford management and other employees. By February 2009, the SEC told us that Stanford was far worse than we all imagined and things went very quiet. We knew that an SEC action against Stanford was imminent, but never dreamed the entire global Stanford empire would be shut down on one day—February 17, 2009.

Rawl and Tidwell to be protected by the SEC

Beginning with our earliest meetings with the SEC, we expressed our concern about Stanford's malicious attacks against us. At every meeting, we were assured by the SEC that it would do

everything within its power to protect us as we were important witnesses who were instrumental in developing their case against Stanford. We were told that we would be protected by our whistleblower status. Regretfully, we never asked for these guarantees in writing.

From the time we left Stanford in December 2007 until the SEC filed its suit against Stanford in February 2009, Mark and I feared for our lives and spent our life's savings fighting Stanford—all while working countless hours handing the SEC part of its case on a silver platter. While we did not know the full extent of the fraud and did not know that Stanford was a massive Ponzi scheme, we gave the SEC extensive details and evidence of multiple frauds and wrongdoing. We were instrumental in designing the SEC's case against Stanford. In essence, we gave the SEC the keys to open SGC's and SIB's doors along with a roadmap of what computers to seize, who to interrogate, and what questions to ask. Throughout all of this, we were promised protection. We were assured we would be protected as whistleblowers.

Discovering We Are Not Protected by the SEC after All

Throughout 2009 and into 2010, we continued to assist the SEC. We continued to work with the Louisiana Attorney General's investigators. While doing so, and obviously much to our dismay, in March 2010, Mark and I were sued by the Stanford receiver—sued by the very receiver the SEC put in place!

The lawsuit, which seeks the return of compensation received while working at Stanford, lumped us in with 330+ former Stanford employees, many of whom were aware of—and even complicit in—the fraud and went down with the ship. Together we are being sued for over $1.75 million—money we earned years ago (and I didn't receive any material compensation from selling the SIB CDs as I sold few of them.) The most absurd thing about this lawsuit is that if we have to defend ourselves in this action, we will be forced to take the side of "the bad guys," including those who fought us in our legal battle with Stanford for over a year. It is also quite possible our testimony in our own defense of this lawsuit could be detrimental to the government's cases.

In mid-March 2010, we called the SEC and explained our predicament. The SEC attorneys said they would immediately contact the receiver and ask for our removal from the lawsuit. We did not hear back from the SEC until a few weeks later when we were told the SEC could not help us because "the SEC does not control the receiver." This excuse was about as shocking as being sued in the first place. Nine months later, we are still seeking the SEC's promised protection.

The SEC's Influence on the Dodd-Frank Wall Street Reform and Consumer Protection Act

After the SEC reneged on its promise of protection and told us there was nothing they could do to stop the receiver from suing us, we were hopeful that we might get some relief when the Dodd-Frank Wall Street Reform and Consumer Protection Act was in its early stages in the legislative process. Unfortunately, this failed us as well. When the proposed bill went to the conference committee, the new SEC whistleblower provisions included verbiage that made the provisions "retroactive to open cases." Unfortunately, sometime between when the bill left committee and the historic early morning vote in the U.S. House of Representatives the SEC was successful in having the retroactive language removed. At the same time, the SEC had verbiage inserted that exempted it from FOIA! Many legislators became outraged when they learned about the new exemption from FOIA, but the removal of the retroactive language has been overlooked or not seen as a priority.

As a citizen, I would like to understand how the SEC could have such important influence in the legislative process, particularly after it failed to do its job in the Stanford case for so long and cost thousands of investors their life's savings. The SEC Inspector General reported that personnel at the SEC believed Stanford was a fraud as far back as 1998, failing to act on staff enforcement recommendations four times in twelve years. Also concerning is the opinion of many attorneys that the SEC is crafting such onerous rules that the effect of the new Dodd-Frank whistle-blowing provisions are muted or nullified. Many have said the SEC does not desire to pay significant rewards, and the whistleblower program is nothing more than a publicity stunt.

Request for Assistance

Our story is the exact opposite of how we believe you intend whistleblowers to be treated. Most people who hear our story tell us we are the epitome of "why not to be a whistleblower." We believe we have slipped through the cracks of your intended whistleblower protection and we respectfully request that you propose adding back the verbiage to make the Dodd-Frank Act retroactive to open cases. If this is not possible, we respectfully request that you consider sponsoring legislation protecting the Stanford whistleblowers.

An additional problem with the SEC whistleblower provisions is exemplified in the Stanford case, and that is the proposed form of compensation. While we saved countless new investors from becoming ensnared in the Stanford fraud and potentially saved investors billions of dollars, the Stanford entities are defunct and any fines or penalties charged to the firm would come out of the pocket of the defrauded investors. No one wants this and considering the SEC sat back and watched Stanford become insolvent over 12 years, there should be some allocated funding (possibly unallocated Fair Funds or the SIPC fund?) available for compensation of whistleblowers in such cases of insolvency.

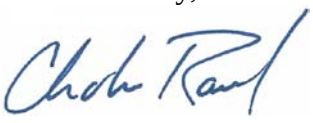
Another issue is the SEC's promise to protect us and failing to deliver on this promise. What is our recourse? What should our recourse be?

Our "Prayer"

During the first half of 2010, we learned about the whistleblower rights you have championed. We also learned that the proposed financial reform legislation would expand protection and compensation to SEC whistleblowers. Shortly thereafter, we had the devastating and disheartening experience to learn about the SEC's influence on the legislative process.

Would you please take the time to evaluate our situation and consider our predicament? Please consider offering an amendment to the Dodd-Frank Act to reinsert the "retroactive" language to cover us in the ongoing Stanford debacle and address the problematic definitions of compensation with a defunct entity such as Stanford. Your consideration would be sincerely appreciated. Thank you very much!

Most sincerely,



Charles W. Rawl