Oversight of the U.S. Securities and Exchange Commission: Evaluating Present Reforms and Future Challenges

Tuesday, July 20, 2010, 10:00 a.m, 2128 Rayburn House Office Building

Opening Statement – Congressman Ron Klein

Thank you, Mr. Chairman, for holding this important hearing, and thank you, Chairman Shapiro, for joining us today.

When you took over the reins of the SEC last year, you certainly had your work cut out for you. The SEC had taken a hard hit to its reputation, and many lapses had been exposed. I appreciate the work you have done to help restore trust and integrity in our financial regulatory institutions. Transparency and openness are one of the greatest assets of American financial markets, and it is essential that investors have confidence in our financial institutions. Investments help drive our economy, and people should be able to invest without the fear of being swindled.

However, there is one area where I feel the SEC has not adequately addressed clear failures, and that is in regard to the Madoff and Stanford Ponzi schemes. The stories of the schemes are familiar to all, and are a distinct embarrassment for the SEC, as they allowed these massive frauds to continue for well over a decade despite repeated warnings.

In regards to Madoff investors, the definition of net equity being used by the SIPC trustee does not reflect the spirit or letter of the law. Investors are entitled to full SIPC protection, and if there is not enough money in the fund then the dealers should be accessed to provide the funds. As the GAO pointed out, broker/dealers were severely underpaying for SIPC coverage for decades – as little as $150 a year. The SEC cannot allow SIPC to get away with putting the interests of industry ahead of investors. First, investors who had legitimate expectations that their securities were in their account should receive the full protection under SIPC. Second, the SIPC Trustee must be prevented from clawing back funds from innocent investors who had every right to assume that the profits they paid taxes on were legitimate.

In regards to the Stanford Financial Group investors, I understand that it is not a clear cut case for SIPC coverage. However, it is clear that the SEC and SIPC stamp of approval were placed on both the Stanford Financial Group and the statements received by investors, and these investors should receive SIPC protection. The SEC OIG recently released a report detailing the failures of the SEC in uncovering this fraud. I urge the SEC to take the OIG report into consideration when determining SIPC coverage for these investors, and seek the SEC's full cooperation to ensure justice for those who have been wronged by this crime.

It is unacceptable for the SEC to simply throw hands up in the air and act as if there is nothing that can be done to provide these Ponzi scheme victims the SIPC protection they are entitled to under the clear intent and letter of the law.

I know you have a monumental task in translating the new financial reform bill into workable rules, but this important issue also needs to be addressed promptly. We need your help in holding SIPC accountable, and I look forward to working with you to resolve these issues in the near future.