



OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

June 15, 2010

Via Electronic Transmission

The Honorable Charles E. Grassley, Ranking Member
United States Senate Committee on Finance
Washington, D.C. 20510-6200

Re: Your Letter of June 14, 2010

Dear Senator Grassley:

Thank you for your June 14, 2010 letter and your continued interest in our investigatory work and reports. We appreciate your attention to and concern about problems associated with Securities and Exchange Commission (SEC) employees who represent individuals or entities in matters before the SEC after leaving government work. The Office of Inspector General (OIG) has been vigilant in investigating allegations of violations of the criminal statutes and ethical standards pertaining to conflicts of interest, as well as improper attempts to influence SEC proceedings or actions by former SEC staff members.

In addition to the investigations you identified in your letter (Case No. OIG-526 - Investigation of the SEC's Response to Concerns Regarding Robert Allen Stanford's Alleged Ponzi Scheme, issued on March 31, 2010, and Case No. OIG-496 - Allegations of Conflict of Interest, Improper Use of Non-Public Information and Failure to Take Sufficient Action Against Fraudulent Company, issued on January 8, 2010), we have found similar concerns in the following investigations:

1. Case No. 502 – Allegations of Improper Disclosure and Assurances Given (issued on September 30, 2009)

The OIG investigated an allegation that former Director of the Division of Enforcement (Enforcement), Linda Thomsen, gave information to the Executive Vice President and General Counsel of JPMorgan Chase & Co. (JP Morgan), Stephen Cutler, about the state of various investigations into The Bear Stearns Companies, Inc. (Bear Stearns) during the weekend before JP Morgan acquired Bear Stearns. Mr. Cutler was Ms. Thomson's predecessor as SEC Enforcement Director and had promoted Ms. Thomsen when he was at the SEC.

The OIG investigation concluded that Ms. Thomsen did have communications with Mr. Cutler over the weekend in question and that Mr. Cutler sought assurances directly from Ms. Thomsen that JPMorgan would not be sued for the actions of Bear Stearns. While we found that Mr. Cutler did not receive the broad assurances he was seeking, he did receive some assurances with respect to ongoing and potential investigations involving Bear Stearns, and Ms. Thomsen provided such assurances without consulting with any other Enforcement staff regarding their ongoing cases.

The OIG also found evidence of a perception within the SEC that certain members of the legal defense bar have influence within Enforcement and, specifically, a belief that the special relationship between Ms. Thomsen and Mr. Cutler facilitated what occurred over the weekend in question.

2. Case no. OIG – 483 – Failure to Vigorously Enforce Action Against W. Holding and Bear Stearns at the Miami Regional Office (issued on September 30, 2008)

In this investigation, the OIG analyzed an Enforcement investigation conducted by the SEC's Miami Regional Office into Bear Stearns and a related entity, W. Holding Company, Inc. (W. Holding), which concerned the alleged filing of false and misleading securities forms and fraud on the part of senior Bear Stearns officials.

The OIG investigation found that after the Miami Regional Office staff conducted significant investigatory work in this matter and the Commission authorized a formal order of investigation, the staff met with counsel for Bear Stearns and began discussing possible settlement of the matter. In these settlement discussions, Bear Stearns was represented by a former SEC Enforcement attorney with whom the Regional Director of the SEC's Miami Office had an ongoing personal relationship. We found that SEC Miami Regional Office staff attorneys had negotiated a settlement agreement with Bear Stearns, pursuant to which Bear Stearns had agreed to a charge of "failure to supervise" and a monetary penalty of \$500,000. However, as the staff was making final settlement arrangements, the Regional Director abruptly decided to close the case completely. The Regional Director then contacted the former SEC Enforcement attorney who represented Bear Stearns and told him, "Christmas is coming early this year," and that Bear Stearns "can keep their money." The OIG investigation concluded that the reasons given by the Regional Director for closing the case were incongruous, and that SEC management failed to administer its statutory obligations and responsibilities to vigorously enforce compliance with applicable federal securities laws.

In addition to the above matters, we are currently conducting an investigation into allegations very recently brought to our attention that a prominent law firm's significant

ties with the SEC, specifically, the prevalence of SEC attorneys leaving the agency to join this particular law firm, led to the SEC's failure to take appropriate actions in a matter involving the law firm.

Finally, thank you for bringing to our attention the concerns expressed about former SEC Division of Trading and Markets Associate Director Elizabeth King. We have been aware of this matter and have already opened an investigation into these issues of concern. We will be pleased to share the results of this investigation with your office once a report has been issued and reviewed by the SEC.

If you have any questions or would like any further information about any of the above matters, please contact me at 202-551-6037.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. David Kotz', with a stylized, flowing script.

H. David Kotz
Inspector General