

For Immediate Release

Tuesday, June 9, 2009

Grassley checks on SEC handling of previous allegations to avoid repeat of mistakes

WASHINGTON – Following the closing of Pequot Capital Management, Senator Chuck Grassley is asking the Securities and Exchange Commission for information about the total number of suspicious trading referrals it received about the investment fund and how those allegations were handled by the regulator.

In a letter to the Chairman of the SEC, Grassley recalled how Senate investigators three years ago had found that the SEC quickly narrowed its focus regarding Pequot before substantial investigative steps had been taken regarding allegations made by Self-Regulatory Organizations about suspicious trades. Findings of the Senate investigation conducted by Grassley and Senator Arlen Specter were released in August 2007. The report is posted at <http://finance.senate.gov>. Click on legislation, scroll through Legislative Archives and search by date.

“The mishandling of the case that resulted in the 2007 report was a violation of the public trust by the agency that’s supposed to protect investors and maintain a fair market,” Grassley said. “I asked for more information today as part of an effort to follow up on our previous inquiries and find out how much has improved.”

Last month, Grassley received a letter from Chairman Mary L. Schapiro indicating that the recommendations made in this report had been implemented. The changes have standardized procedures, prioritized resources, increased transparency of external communications and internal recusals, established guidelines for handling employee complaints and dismissals, protect whistleblowers and recognize the independence of the Inspector General for the SEC.

Grassley also won additional resources for the Inspector General of the SEC as part of anti-fraud legislation that became law in May.

The text of Grassley’s letter to Schapiro is below.

June 8, 2009

The Honorable Mary L. Schapiro  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chairman Schapiro:

As you know, evidence in the Senate's review of the SEC's Pequot Capital Management investigation demonstrated that managers quickly narrowed the focus of that inquiry before any substantial investigative steps had even been taken. Although Self-Regulatory Organizations (SROs) had identified somewhere from 17 to 25 sets of suspicious trades, staff attorneys were instructed to focus on only two or three. At the time of our inquiry it did not appear that that SEC had implemented any system for automatically identifying and focusing on referrals from SROs that might lead to suspicion of a pattern of misconduct by a particular market participant. For example, the 17 to 25 sets of suspicious trades identified by SROs in the Pequot case had to be manually identified and gathered over a period of weeks because no system existed to automatically highlight them as all being related to a single hedge fund.

In light of the recent closure of Pequot, please: (1) identify how many additional referrals SROs have made related to Pequot since 2005, and of those how many have been the subject of investigative activity by the SEC, and (2) describe what steps have been taken or will be taken to automate the analysis of information in SRO referrals in order to identify potential patterns of misconduct.

Thank you for your prompt attention to these important questions.

Sincerely,  
Charles E. Grassley  
United States Senator  
Ranking Member, Committee on Finance