IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

SECURITIES AND EXCHANGE COMMISSION	§	
	§	
Plaintiff,	§	
	§	
v.	§	Case No. 3:09-CV-0298-N
	§	
STANFORD INTERNATIONAL BANK, LTD.,	§	
STANFORD GROUP COMPANY,	§	
STANFORD CAPITAL MANAGEMENT, LLC,	§	
R. ALLEN STANFORD, JAMES M. DAVIS, and	§	
LAURA PENDERGEST-HOLT,	§	
	§	
Defendants.	§	

RECEIVER'S REPLY TO DEFENDANT ROBERT ALLEN STANFORD'S RESPONSE TO RECEIVER'S MOTION TO TRANSFER ACCOUNTS

Ralph S. Janvey, Receiver, has requested the Court's approval of a proposed transfer of certain Stanford Group Company ("SGC") customer accounts[1] to Dominick & Dominick, LLC ("Dominick"). After engaging in considerable effort and utilizing the best industry advice available, the Receiver has decided to execute the bulk transfer because, among other reasons, such transfer (i) represents the most efficient transfer method available to the Estate and eliminates monthly expenses of approximately $35,000[2] as an ongoing Estate

[1] At the time the Receiver filed the Motion to Transfer Accounts, the accounts at issue numbered approximately 3,500 with an aggregate asset value of approximately $135,430,000. As of November 5, 2009, the accounts numbered approximately 2,500 with an aggregate asset value of approximately $65,000,000.

[2] At the time the Motion to Transfer Accounts was filed, the Accounts were costing the Estate approximately $50,000 to continue to maintain. Because 1,000 accounts have since been transferred, the monthly expense burden has been reduced to approximately $35,000.

obligation, and (ii) returns control of customer accounts to SGC customers and permits them to manage their accounts and maximize the value of their account assets.[3]

Although the Defendants claim the proposed transfer does not secure sufficient consideration, they "do not oppose the transfer of the accounts to the extent transfer is necessary to protect the account holders" or if the proposed transfer "is in the best interest of the Estate." Doc. 784. Defendants further claim that the Receiver has not complied with his duties imposed by this Court, and that the Court should withhold making a decision until after a trial on the merits.

First, the Receiver has not opted to give these accounts away for "free," and Defendant Stanford's objection in this regard reflects a fundamental lack of understanding of the status of these accounts and the economic realities facing the Receiver. Shortly after the receivership proceedings commenced, the Receiver and his representatives began analyzing whether a bulk transfer would be feasible for SGC accounts. Firms often execute a bulk transfer of customer accounts to a different institution when experiencing financial or operational difficulties or when going out of business. As detailed in the declaration attached hereto as Exhibit A, in evaluating the most efficient methods to transfer the accounts away from SGC, the Receiver decided to initiate a bulk transfer of the accounts to a different broker-dealer in such a manner that would (i) permit customer access to accounts as quickly as possible and (ii) involve minimal transaction costs to the Estate and relieve the Estate of thousands of dollars in monthly expenses. Accordingly, to reduce expenses associated with the transfer process, facilitate a smooth transition, maintain consistent client reporting and cause as little disruption to SGC customers as possible, the Receiver ruled out a bulk transfer to firms that did not have an

[3] As noted in the Receiver's Motion, these accounts are not currently affected by the Court's order freezing accounts. These accounts are eligible for transfer to a firm of the customer's choice.

established clearing relationship with Pershing LLC ("Pershing"). Pursuant to the clearing contract between Pershing and SGC, Pershing charges Automated Customer Account Transfer Service charges, certain termination fees, account system conversion fees and certain maintenance fees for each SGC account transferred away from SGC to a firm not on the Pershing system. If the Receiver were to transfer the accounts to a firm not on the Pershing platform, the Estate would be required to absorb these fees. By transferring the accounts to a firm that uses Pershing as its clearing firm, the Receiver will save approximately $170,000[4] in such fees. In addition, the Receiver and his representatives currently devote significant time, and thus expense, to various tasks associated with the administration of these accounts. As noted above, these administrative tasks currently cost the Estate approximately $35,000 each month. By transferring the accounts, the Receiver will eliminate these monthly expenses as well.

After deciding to execute the bulk transfer, the Receiver's representatives consulted with Pershing to identify potential transferee firms. Professionals working for the Receiver then researched each of these potential transferee firms and had further discussions with Pershing. After conducting independent research and diligence, the Receiver eliminated from consideration all but two of these potential transferee firms (Dominick and International Assets Advisory, LLC ("AIA")) because, among other reasons, some of these other firms had limited financial resources, were too small, specialized in a particular asset class or did not have broad enough expertise in the asset classes associated with the Accounts. The Receiver then initiated discussions with both Dominick and AIA. Neither firm was willing to pay up front for the Accounts. Although AIA was willing to share a small percentage of potential future

[4] Since the Motion to Transfer Accounts was filed, approximately 1,000 accounts have been transferred away from SGC. The Estate already has absorbed the applicable conversion fees, termination costs and other transfer fees associated with these accounts. The potential savings in such fees for the remaining accounts is approximately $170,000.

commissions earned on the Accounts after the bulk transfer, AIA was eliminated from consideration because it also was too small to service the number of accounts involved and would have had difficulty receiving FINRA approval. Dominick filed an application with FINRA to approve the bulk transfer, which FINRA approved on August 25, 2009. *See* Exhibit B.

The Receiver has been vested with "the sole and exclusive power and authority to manage and direct the business and financial affairs of the Defendants" and has been charged with preserving the value of the Estate while minimizing expenses. Amended Order, Doc. 157, ¶¶ 5(g), 5(j), 6. The carrying costs of the vast majority of Estate assets threaten to consume the remaining value of the Estate. As discussed in the Receiver's Motion and above, the account transfer to Dominick will reduce monthly Estate expenses by approximately $35,000, in addition to the approximately $170,000 saved in transfer fees and costs. Transferring these accounts to Dominick to reduce burdensome Estate expenses not only is appropriate, it is in compliance with this Court's mandate. *See id.* at ¶ 5(g) (ordering the Receiver to "minimize expenses"). Defendants cannot possibly claim that continuing to hold these accounts is in the best interests of the Estate.

Second, the account transfer clearly is in the best interests of the SGC customers. As discussed in the Motion, the customers at issue currently cannot place buy orders, change their account assets or otherwise manage their accounts. After the account transfer, Dominick will replace SGC as broker-dealer and provide investment services, thus allowing customers to manage their accounts. Until these accounts are transferred, the customers cannot address market and other risk factors affecting their accounts because SGC is currently in receivership and not managing the accounts. While these accounts sit at SGC, these risks cannot be

addressed. If the Receiver were forced to start the bulk transfer process over and search for a firm other than Dominick, not only would the Estate continue to absorb the monthly administrative costs associated with the accounts, customer accounts would continue to sit unmanaged. In addition, during this account transfer process, no customer will lose any control over his or her account. For example, to ensure that customers have ample opportunity to transfer their accounts to a firm of their choice, the Receiver's representatives have contacted, or have attempted to contact, the owners of each account with a market value of $50,000 or more and are currently contacting all customers whose accounts have a market value of at least $25,000 to assist such customers in the account transfer process. In addition, when the Court approves the transfer, the Receiver will send a letter to each of the SGC customers whose accounts are at issue to inform them that they will have at least an additional 45 days to object to the account transfer to Dominick. FINRA has approved the use of "negative consent letters" in connection with bulk transfers when the transferring firm is experiencing financial difficulties or going out of business. *E.g.,* NASD Notice 02-57 to Members, *Bulk Transfer of Customers Accounts, Use of Negative Response Letters for the Bulk Transfer of Accounts*, September 2002, *available at* http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p003486.pdf. If the customer responds to the negative response letter and objects to the transfer, the Receiver will transfer the account as directed by the customer. Further, because Dominick is on the Pershing system, customers will face little disruption because Pershing will maintain consistent reporting and account statement procedures. Defendants cannot possibly claim that continuing to hold these accounts is in the best interests of the customers.

Because the account transfer is in the best interests of the Estate and the SGC customers, the Court should grant the Receiver's Motion.

Dated: November 10, 2009

Respectfully submitted,

BAKER BOTTS L.L.P.

By: /s/ Kevin M. Sadler

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ATTORNEYS FOR RECEIVER RALPH S. JANVEY

CERTIFICATE OF SERVICE

On November 10, 2009, I electronically submitted the foregoing document with the clerk of the court of the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. I hereby certify that I have served the Court-appointed Examiner, all counsel and/or pro se parties of record electronically or by another manner authorized by Federal Rule of Civil Procedure 5(b)(2).

/s/ Kevin M. Sadler
Kevin M. Sadler