Creative Investment Research, Inc.
Washington, DC

866-867-3795 phone/fax

http://www.minorityfinance.com
www.minoritybank.com
http://www.creativeinvest.com

info@creativeinvest.com

Monday, July 4, 2011

Ms. Elizabeth M. Murphy
Secretary
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
100 F Street, NE
Washington, DC 20549-1090

RE: File No. S7-15-11

Dear Ms. Murphy:

We understand that the U.S. Securities and Exchange Commission (the Commission) is seeking comments on a number of proposed rules resulting from the Dodd-Frank Wall Street Reform and Consumer Protection Act. According to one source[1],

"Public commenting occurs pursuant to statutes mandating citizen participation in agency action. These laws allow public involvement in the rule making process, and therefore the regulation of many activities involving animals. This participation gives a voice to diverse opinions and assures that all affected interests are considered during agency decision making. Public commenting is important to our nation because administrative agencies are largely insolated form public accountability through normal democratic channels."

We are writing to provide our viewpoint on these matters. We are doing so not because we believe in the Commission's ability to implement any of the suggestions we make below, but to establish a record for future generations. We are also writing in order to preserve our ability to request a Court review.

This letter provides general comments on the proposed amendment. We support the Commission's efforts to modernize the Securities Act of 1933 and the Securities Exchange Act of 1934 and believe the proposed amendments are a proper first step.

---

[1] Lewis and Clark Law School, online at:
http://law.lclark.edu/student_groups/student_animal_legal_defense_fund/public_commenting/

It is our belief that capital market practices, in general, are deeply flawed. It is our hope that the Commission will begin to review market practices from a systemic, global perspective, since defective practices in one sector have been shown to be linked to faulty practices in other capital market sectors:

- In multiple cases, corporate management used fraud and deceptive practices to unfairly transferred value from outsider to insider shareholders.

- Investment analysts issue biased research reports to curry favor with management.

- Rating agencies issue defective research reports. These institutions are supposed to "base their ratings largely on statistical calculations of a borrower's likelihood of default," but one news report noted that:

> "Dozens of current and former rating officials, financial advisers and Wall Street traders and investors interviewed by The Washington Post say the (NRSRO) rating system has proved vulnerable to subjective judgment, manipulation and pressure from borrowers. They say the big three are so dominant they can keep their rating processes secret, force clients to pay higher fees and fend off complaints about their mistakes."[2]

- Pension consultants are, also, conflicted and compromised. "Many pension plans rely heavily on the expertise and guidance of pension consultants in helping them to manage pension plan assets," but, according to a Commission report[3],

> "Concerns exist that pension consultants may steer clients to hire certain money managers and other vendors based on the pension consultant's (or an affiliate's) other business relationships and receipt of fees from these firms, rather than because the money manager is best-suited to the clients' needs."

[2] "Borrowers Find System Open to Conflicts, Manipulation" by Alec Klein, The Washington Post, Monday, November 22, 2004; Page A1.
[3] *Staff Report Concerning Examinations of Select Pension Consultants*. The Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission. May 16, 2005.

Together these practices threaten the integrity of securities markets. Individuals and market institutions with the power to safeguard the system, including regulators, investment analysts and rating agencies, have been compromised. Few efficient, effective and just safeguards are in place.

Statistical models created by the firm continue to show the probability of system-wide market failure has increased over the past decade.

Investors and the public remain at risk.

Background

William Michael Cunningham registered with the U.S. Securities and Exchange Commission as an Investment Advisor on February 2, 1990. He registered with the D.C. Public Service Commission as an Investment Advisor on January 28, 1994. Mr. Cunningham manages an investment advisory and research firm, Creative Investment Research, Inc. The firm researches and creates socially responsible investments and provides socially responsible investment advisory services.

Mr. Cunningham's understanding of capital markets is based on first hand knowledge obtained in a number of positions at a diverse set of major financial institutions. He served as Senior Investment Analyst for an insurance company. Mr. Cunningham was an Institutional Sales Representative in the Fixed Income and Futures and Options Group for a leading Wall Street firm. Mr. Cunningham also served as Director of Investor Relations for a New York Stock Exchange-traded firm. On November 16, 1995, his firm launched one of the first investment advisor websites.

The firm and Mr. Cunningham have long been concerned with the integrity of the securities markets. We note the following:

- Creative Investment Research, Inc. designed one of the first mortgage security backed by home mortgage loans to low and moderate income persons and originated by minority-owned institutions. (See: *Security Backed Exclusively by Minority Loans*, The American Banker. Friday, December 2, 1994.)

- In 2001, we helped design a refinancing plan for victims of predatory lending that led to the creation of targeted community development investments. (See: http://www.socialfunds.com/news/article.cgi?sfArticleId=682)

- On December 22, 2003, statistical models created by the firm using the Fully Adjusted Return ® Methodology signaled the probability of system-wide economic and market failure. (See page 6: http://www.sec.gov/rules/proposed/s71903/wmccir122203.pdf)

- On Monday, April 11, 2005, Mr. Cunningham testified before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York on behalf of investors at a fairness hearing regarding the $1.4 billion dollar Global Research Analyst Settlement.

- On February 6, 2006, statistical models created by the firm using the Fully Adjusted Return ® Methodology confirmed that system-wide economic and market failure was a growing possibility. (See page 2: http://www.sec.gov/rules/proposed/s71005/wcunningham5867.pdf)

- Also see:

    1. This Week in SRI - http://eepurl.com/erMCc
    2. http://www.prlog.org/10746429-firm-releases-transaction-cost-theory-of-the-financial-crisis.html
    3. http://twisri.blogspot.com/2009/08/wells-fargo-sued-for-racially-biased.html
    4. http://twisri.blogspot.com/2009/03/why-market-failed.html
    5. http://twisri.blogspot.com/2008/04/bear-rescue-and-senate-banking.html
    6. http://twisri.blogspot.com/2007/08/morgage-gses-predatory-lending-and.html
    7. http://twisri.blogspot.com/2009/04/adam-smith-on-current-financial-crisis.html

We incorporate these comments by reference.

Summary Comments

Repeatedly over the past thirty years, signal market participants, operating in the most materially advantaged country ever, abandoned ethical principles in the pursuit of material well being.[4] By 2011, marketplace ethics reached a new low. The following are the simple facts:

- On April 28, 2003, every major US investment bank, including Merrill Lynch, Goldman Sachs, Morgan Stanley, Citigroup, Credit Suisse First Boston, Lehman Brothers Holdings, J.P. Morgan Chase, UBS Warburg, and U.S. Bancorp Piper Jaffray, were found to have aided and abetted efforts to defraud investors. The firms were fined a total of $1.4 billion dollars by the SEC, triggering the creation of a Global Research Analyst Settlement Fund.

- In May, 2003, the SEC disclosed that several "brokerage firms paid rivals that agreed to publish positive reports on companies whose shares..they issued to the public. This practice made it appear that a throng of believers were recommending these companies' shares." This was false. "From 1999 through 2001, for example, one firm paid about $2.7 million to approximately 25 other investment banks for these so-called research guarantees, regulators said. Nevertheless, the same firm boasted in its annual report to shareholders that it had come through investigations of analyst conflicts of interest with its 'reputation for integrity' maintained."

- On September 3, 2003, the New York State Attorney General announced he has "obtained evidence of widespread illegal trading schemes, 'late trading' and 'market timing,' that potentially cost mutual fund shareholders billions of dollars annually. This, according to

---

[4] We refer to the following, abbreviated list of market related ethical lapses:

- The National Association of Security Dealers was found by the U.S. Securities and Exchange Commission to be "failing to police wrongdoing the NASDAQ Stock market, the second largest stock market in the world." The Washington Post (August 8, 1996. Page A1.)
- The failure of Long-Term Capital, an investment partnership started in 1994, was "laid on the kind of capitalism .. where a closed, secretive and incestuous elite held absolute sway over politics, the economy and finance, where banks lent to cronies and crooks, and the state miraculously came to the rescue when the time came to balance (or cook) the books." From "LTCM, a Hedge Fund Above Suspicion," by Ibrahim Warde, *Le Monde Diplomatique,* November 1998.

the Attorney General, "is like allowing betting on a horse race after the horses have crossed the finish line."

- On September 4, 2003, a major investment bank, Goldman Sachs, admitted that it had violated anti-fraud laws. Specifically, the firm misused material, nonpublic information that the US Treasury would suspend issuance of the 30-year bond. The firm agreed to "pay over $9.3 million in penalties." On April 28, 2003, the same firm was found to have "issued research reports that were not based on principles of fair dealing and good faith .. contained exaggerated or unwarranted claims.. and/or contained opinions for which there were no reasonable bases." The firm was fined $110 million dollars, for a total of $119.3 million dollars in fines in six months.

- On December 18, 2003, the Securities and Exchange Commission "announced an enforcement action against Alliance Capital Management L.P. (Alliance Capital) for defrauding mutual fund investors. The Commission ordered Alliance Capital to pay $250 million. The Commission also ordered Alliance Capital to undertake certain compliance and fund governance reforms designed to prevent a recurrence of the kind of conduct described in the Commission's Order. Finally, the Commission found that "Alliance Capital breached its fiduciary duty to (it's) funds and misled those who invested in them."

- On October 8, 2004, the Securities and Exchange Commission "announced..enforcement actions against Invesco Funds Group, Inc. (IFG), AIM Advisors, Inc. (AIM Advisors), and AIM Distributors, Inc. (ADI). The Commission issued an order finding that IFG, AIM Advisors, and ADI violated the federal securities laws by facilitating widespread market timing trading in mutual funds with which each entity was affiliated. The settlements require IFG to pay $215 million in disgorgement and $110 million in civil penalties, and require AIM Advisors and ADI to pay, jointly and severally, $20 million in disgorgement and an aggregate $30 million in civil penalties."

- On November 4, 2004, the Securities and Exchange Commission "filed a settled civil action in the United States District Court for the District of Columbia against Wachovia Corporation (Wachovia) for violations of proxy disclosure and other reporting requirements in connection with the 2001 merger between First Union Corporation (First Union) and Old Wachovia Corporation (Old Wachovia). Under the settlement, Wachovia must pay a $37 million penalty and is to be enjoined from future violations of the federal securities laws."

- On November 17, 2004, the Securities and Exchange Commission announced "charges concerning undisclosed market timing against Harold J. Baxter and Gary L. Pilgrim in the Commissions' pending action in federal district court in Philadelphia." Based on these charges, Baxter and Pilgrim agreed to "pay $80 million – $60 million in disgorgement and $20 million in civil penalties."

- On November 30, 2004, the Securities and Exchange Commission announced "the filing..of charges against American International Group, Inc. (AIG) arising out of AIG's offer and sale of an earnings management product." The company "agreed to pay a total of $126 million, consisting of a penalty of $80 million, and disgorgement and prejudgment interest of $46 million."

- On December 22, 2004, "the Securities and Exchange Commission, NASD and the New York Stock Exchange announced..enforcement proceedings against Edward D. Jones & Co., L.P., a registered broker-dealer headquartered in St. Louis, Missouri." According to the announcement, "Edward Jones failed to adequately disclose revenue sharing payments that it received from a select group of mutual fund families that Edward Jones recommended to its customers." The company agreed to "pay $75 million in disgorgement and civil penalties. All of that money will be placed in a Fair Fund for distribution to Edward Jones customers."

- On January 25, 2005, "the Securities and Exchange Commission announced the filing in federal district court of separate settled civil injunctive actions against Morgan Stanley & Co. Incorporated (Morgan Stanley) and Goldman, Sachs & Co. (Goldman Sachs) relating to the firms' allocations of stock to institutional customers in initial public offerings (IPOs) underwritten by the firms during 1999 and 2000."

- According to the Associated Press, on January 31, 2005, "the nation's largest insurance brokerage company, Marsh & McLennan Companies Inc., based in New York, will pay $850 million to policyholders hurt by" corporate practices that included "bid rigging, price fixing and the use of hidden incentive fees." The company will issue a public apology calling its conduct "unlawful" and "shameful," according to New York State Attorney General Elliott Spitzer. In addition, "the company will publicly promise to adopt reforms."

- On Feb. 9, 2005, the Securities and Exchange Commission "announced the settlement of an enforcement action against Columbia Management Advisors, Inc. (Columbia Advisors), Columbia Funds Distributor, Inc. (Columbia Distributor), and three former Columbia executives in connection with undisclosed market timing arrangements in the Columbia funds. In settling the matter, the Columbia entities will pay $140 million, all of which will be distributed to investors harmed by the conduct. The SEC also brought fraud charges against two additional former Columbia senior executives in federal court in Boston."

- On March 23, 2005, the Securities and Exchange Commission "announced that Putnam Investment Management, LLC (Putnam) will pay $40 million. The Commission issued an order that finds Putnam failed to adequately disclose to the Putnam Funds' Board of Trustees and the Putnam Funds' shareholders the conflicts of interest that arose from..arrangements for increased visibility within the broker-dealers' distribution systems."

- On March 23, 2005, the Securities and Exchange Commission (Commission) "announced that it instituted and simultaneously settled an enforcement action against Citigroup Global Markets, Inc. (CGMI) for failing to provide customers with important information relating to their purchases of mutual fund shares."

- On April 19, 2005, the Securities and Exchange Commission "announced that KPMG LLP has agreed to settle the SEC's charges against it in connection with the audits of Xerox Corp. from 1997 through 2000." As part of the settlement, KPMG paid a fine totaling

$22.475 million.

- On April 12, 2005, the Securities and Exchange Commission “instituted and simultaneously settled an enforcement action against the New York Stock Exchange, Inc., finding that the NYSE, over the course of nearly four years, failed to police specialists, who engaged in widespread and unlawful proprietary trading on the floor of the NYSE.” As part of the settlement, the “NYSE agreed to an undertaking of $20 million to fund regulatory audits of the NYSE's regulatory program every two years through the year 2011.” On that same date, the Commission “instituted administrative and cease-and-desist proceedings against 20 former New York Stock Exchange specialists for fraudulent and other improper trading practices.”

- On April 19, 2005, the Securities and Exchange Commission announced “that KPMG LLP has agreed to settle the SEC's charges against it in connection with the audits of Xerox Corp. from 1997 through 2000. As part of the settlement, KPMG consented to the entry of a final judgment in the SEC's civil litigation against it pending in the U.S. District Court for the Southern District of New York. The final judgment..orders KPMG to pay disgorgement of $9,800,000 (representing its audit fees for the 1997-2000 Xerox audits), prejudgment interest thereon in the amount of $2,675,000, and a $10,000,000 civil penalty, for a total payment of $22.475 million.”

- On April 28, 2005, the Securities and Exchange Commission announced “that it has instituted settled enforcement proceedings against Tyson Foods, Inc. and its former Chairman and CEO Donald "Don" Tyson. The SEC charged that in proxy statements filed with the Commission from 1997 to 2003, Tyson Foods made misleading disclosures of perquisites and personal benefits provided to Don Tyson both prior to and after his retirement as senior chairman in October 2001.”

- On May 31, 2005, the Securities and Exchange Commission “announced settled fraud charges against two subsidiaries of Citigroup, Inc. relating to the creation and operation of an affiliated transfer agent that has served the Smith Barney family of mutual funds since 1999. Under the settlement, the respondents are ordered to pay $208 million in disgorgement and penalties and to comply with substantial remedial measures, including an undertaking to put out for competitive bidding certain contracts for transfer agency services for the mutual funds."

- On June 2, 2005, the Securities and Exchange Commission "filed securities fraud charges against Amerindo Investment Advisors, Inc., Alberto William Vilar and Gary Alan Tanaka, Amerindo's co-founders and principals, for misappropriating at least $5 million from an Amerindo client."

- On June 9, 2005, the Commission announced that "Roys Poyiadjis, a former CEO of AremisSoft Corporation, which was a software company with offices in New Jersey, London, Cyprus, and India, agreed to final resolution of fraud charges brought against him by the Securities and Exchange Commission in October 2001. In documents filed with the federal district court in Manhattan, Poyiadjis consented to disgorge approximately $200 million of unlawful profit from his trading in AremisSoft stock -- among the largest recoveries the SEC has obtained from an individual."

- On July 20, 2005, the Securities and Exchange Commission "announced a settled administrative proceeding against Canadian Imperial Bank of Commerce's (CIBC) broker-dealer and financing subsidiaries for their role in facilitating deceptive market timing and late trading of mutual funds by certain customers. The Commission ordered the subsidiaries, CIBC World Markets Corp. (World Markets), a New York based broker-dealer, and Canadian Imperial Holdings Inc. (CIHI), to pay $125 million, consisting of $100 million in disgorgement and $25 million in penalties."

- On August 15, 2005, the Securities and Exchange Commission "charged four brokers and a day trader with cheating investors through a fraudulent scheme that used squawk boxes to eavesdrop on the confidential order flow of major brokerages so they could 'trade ahead' of large orders at better prices."

- On August 22, 2005, the Securities and Exchange Commission "filed civil fraud charges against two former officers of Bristol-Myers Squibb

Company for orchestrating a fraudulent earnings management scheme that deceived investors about the true performance, profitability and growth trends of the company and its U.S. medicines business."

- On August 23, 2005, the Securities and Exchange Commission "filed charges against two former top Kmart executives for misleading investors about Kmart's financial condition in the months preceding the company's bankruptcy."
- On November 2, 2005, the Securities and Exchange Commission "filed enforcement actions against seven individuals alleging they aided and abetted a massive financial fraud by signing and returning materially false audit confirmations sent to them by the auditors of the U.S. Foodservice, Inc. subsidiary of Royal Ahold (Koninklijke Ahold N.V.)."
- On November 28, 2005, the Securities and Exchange Commission announced "that three affiliates of one of the country's largest mutual fund managers have agreed to pay $72 million to settle charges they harmed long-term mutual fund shareholders by allowing undisclosed market timing and late trading by favored clients and an employee."
- On December 1, 2005, the Securities and Exchange Commission "announced settled enforcement proceedings against American Express Financial Advisors Inc., now known as Ameriprise Financial Services, Inc. (AEFA), a registered broker-dealer headquartered in Minneapolis, Minn., related to allegations that AEFA failed to adequately disclose millions of dollars in revenue sharing payments that it received from a select group of mutual fund companies. As part of its settlement with the Commission, AEFA will pay $30 million in disgorgement and civil penalties, all of which will be placed in a Fair Fund for distribution to certain of AEFA's customers."
- On December 1, 2005, the Securities and Exchange Commission "announced a settled administrative proceeding against Millennium Partners, L.P., Millennium Management, L.L.C., Millennium International Management, L.L.C., Israel Englander, Terence Feeney, Fred Stone, and Kovan Pillai for their participation in a fraudulent scheme to market time mutual funds. The respondents will pay over $180 million in disgorgement and penalties and undertake various

compliance reforms to prevent recurrence of similar conduct."

- On December 19, 2005, the Securities and Exchange Commission "announced that it filed and settled insider trading charges both against an accountant and a former executive of Sirius Satellite Radio, Inc. who illegally profited from advance knowledge of radio personality Howard Stern's $500 million contract with Sirius."

- On December 21, 2005, the Securities and Exchange Commission "sued top executives of National Century Financial Enterprises, Inc. (NCFE), alleging that they participated in a scheme to defraud investors in securities issued by the subsidiaries of the failed Dublin, Ohio company. NCFE, a private corporation, suddenly collapsed along with its subsidiaries in October 2002 when investors discovered that the companies had hidden massive cash and collateral shortfalls from investors and auditors. The collapse caused investor losses exceeding $2.6 billion and approximately 275 health-care providers were forced to file for bankruptcy protection."

- On January 3, 2006, the Securities and Exchange Commission announced "that it filed charges against six former officers of Putnam Fiduciary Trust Company (PFTC), a Boston-based registered transfer agent, for engaging in a scheme beginning in January 2001 by which the defendants defrauded a defined contribution plan client and group of Putnam mutual funds of approximately $4 million."

- On January 4, 2006, the Securities and Exchange Commission "filed securities fraud charges against McAfee, Inc., formerly known as Network Associates, Inc., a Santa Clara, California-based manufacturer and supplier of computer security and antivirus tools. McAfee consented, without admitting or denying the allegations of the complaint, to the entry of a Court order enjoining it from violating the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws. The order also requires that McAfee pay a $50 million civil penalty, which the Commission will seek to distribute to harmed investors pursuant to the Fair Funds provision of the Sarbanes-Oxley Act of 2002."

- On January 9, 2006, the Securities and Exchange Commission "announced that Daniel Calugar and his former registered broker-dealer, Security Brokerage, Inc. (SBI), agreed to settle the SEC's charges alleging that they defrauded mutual fund investors through improper late trading and market timing. As part of the settlement, Calugar will disgorge $103 million in ill-gotten gains and pay a civil penalty of $50 million."

- On February 2, 2006, the Securities and Exchange Commission "announced that it filed an enforcement action against five former senior executives of General Re Corporation (Gen Re) and American International Group, Inc. (AIG) for helping AIG mislead investors through the use of fraudulent reinsurance transactions."

- On February 9, 2006, the Commission announced "the filing and settlement of charges that American International Group, Inc. (AIG) committed securities fraud. The settlement is part of a global resolution of federal and state actions under which AIG will pay in excess of $1.6 billion to resolve claims related to improper accounting, bid rigging and practices involving workers' compensation funds."

- On March 9, 2006, the Securities and Exchange Commission filed a lawsuit "against registered investment adviser BMA Ventures, Inc. and its president, William Robert Kepler, 35, of Dallas, Texas, alleging that they illegally obtained approximately $1.9 million in a fraudulent 'scalping' scheme from January 2004 through March 2005. Scalping is the illegal practice of recommending that others purchase a security and secretly selling the same security contrary to the recommendation."

- On March 16, 2006, the Securities and Exchange Commission "announced a settled enforcement action against Bear, Stearns & Co., Inc. (BS&Co.) and Bear, Stearns Securities Corp. (BSSC) (collectively, Bear Stearns), charging Bear Stearns with securities fraud for facilitating unlawful late trading and deceptive market timing of mutual funds by its customers and customers of its introducing brokers. The Commission issued an Order finding that from 1999 through September 2003, Bear Stearns provided technology, advice and deceptive devices that enabled its market timing customers and introducing brokers to late trade and to evade detection by mutual funds. Pursuant to the Order, Bear Stearns will pay $250 million, consisting of $160 million in disgorgement and a $90 million penalty."

- On April 11, 2006, the Securities and Exchange Commission announced "charges against individuals involved in widespread and brazen international schemes of serial insider trading that yielded at least $6.7 million of illicit gains. The schemes were orchestrated by..a research analyst in the Fixed Income division of Goldman Sachs, and a former employee of Goldman Sachs."

- On April 17, 2006, the Securities and Exchange Commission brought "Settled Charges Against Tyco International Ltd. Alleging (a) Billion Dollar Accounting Fraud."

- On May 10, 2006, the Securities and Exchange Commission ordered "Former Chairman and CEO of Gemstar-TV Guide International, Inc. .. to Pay Over $22 Million For Role in Accounting Fraud."

- On May 10, 2006, the Securities and Exchange Commission sued "Morgan Stanley..for Repeated E-Mail Production Failures."

- "On May 23, 2006, the (Securities and Exchange) Commission filed a settled enforcement proceeding charging the Federal National Mortgage Association ('Fannie Mae'), a shareholder-owned government-sponsored enterprise, with fraudulent accounting in violation of the anti-fraud, books and records, internal controls and reporting provisions of the Securities Exchange Act of 1934 (the 'Exchange Act') and the anti-fraud provisions of the Securities Act of 1933 (the 'Securities Act')."

- On May 30, 2006, the Securities and Exchange Commission brought "Settled Charges Against Tribune Company for Reporting Inflated Circulation Figures and Misstating Circulation Revenues."

- On May 31, 2006, Bear, Stearns & CO. Inc.; Citigroup Global Markets, Inc.; Goldman, Sachs & Co.; J.P. Morgan Securities, Inc.; Lehman Brothers Inc.; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc.; RBC Dain Rauscher Inc.; Banc of America Securities LLC; A.G. Edwards &

Sons, Inc.; Morgan Keegan & Company, Inc.; Piper Jaffray & Co.; Suntrust Capital Markets inc.; and Wachovia Capital Markets, LLC, settled "SEC Charges Involving Violative Practices in the Auction Rate Securities Market."

- On June 27, 2006, the Securities and Exchange Commission charged "Morgan Stanley With Failure To Maintain And Enforce Policies To Prevent Misuse of Inside Information."

- On June 28, 2006, the Securities and Exchange Commission settled "With Raytheon Company, Former CEO, and Subsidiary Controller for Improper Disclosure and Accounting Practices."

- On June 30, 2006, a jury found "Former PIMCO Equity Funds Chairman Defrauded Investors in Market Timing Case."

- On August 7, 2006, "Martha Stewart and Peter Bacanovic Settle(d) SEC's Insider Trading Charges."

- On August 28, 2006, Prudential Securities Inc. (APSI), now known as Prudential Equity Group, LLC ("PEG"), was ordered "to Pay $600 Million in Global Settlement of Fraud Charges in Connection With Deceptive Market Timing of Mutual Funds."

- On September 27, 2006, the Securities and Exchange Commission charged "Former CEO and Two Former Executives Affiliated with RenaissanceRe Holdings Ltd. with Securities Fraud."

- On October 30, 2006, the Securities and Exchange Commission charged "Delphi Corporation and Nine Individuals, Including Former CEO, CFO, Treasurer and Controller, in Wide-Ranging Financial Fraud; Four Others Charged With Aiding and Abetting Related Violations."

- On November 2, 2006, the Securities and Exchange Commission settled "Charges Against Eight Former Officers and Directors of Spiegel, Inc."

- On November 14, 2006 the Securities and Exchange Commission sanctioned "the City Of San Diego for Fraudulent Municipal Bond

Offerings and Order(ed) the City to Retain an Independent Consultant."

- On December 4, 2006, "Jefferies & Co., Inc. (Jefferies) Settle(d) SEC Charges Involving Illegal Gifts and Entertainment."

- On January 18, 2007, "Fred Alger Management and Fred Alger & Company (agreed) to Pay $40 Million to Settle Market Timing and Late Trading Violations."

- On January 29, 2007, "MBIA Settle(d) Securities Fraud Charges for Misuse of Reinsurance Contracts."

- On March 1, 2007, "The Securities and Exchange Commission announced insider trading charges against fourteen defendants in connection with two related insider trading schemes in which Wall Street professionals serially traded on material, nonpublic information tipped, in exchange for cash kickbacks, by insiders at UBS Securities LLC and Morgan Stanley & Co., Inc."

- On March 12, 2007, the Securities and Exchange Commission charged "Four Former Senior Executives of Nortel Networks Corporation in Wide-Ranging Financial Fraud Scheme."

- On March 14, 2007, the Securities and Exchange Commission and the NYSE settled "Enforcement Actions Against (a) Goldman Sachs Unit for Role in Customers' Illegal Trading Scheme."

- On March 14, 2007, the Securities and Exchange Commission brought an enforcement action "Against Banc of America Securities for Failing to Safeguard Nonpublic Research Information and Publishing Fraudulent Research." The firm agreed to pay $26 Million.

- On March 15, 2007, the Securities and Exchange Commission settled "With Former Raytheon Officers For Improper Disclosure And Accounting Practices."

- On March 15, 2007, the Securities and Exchange Commission announced a "$28.7 Million Settlement of Fraud Charges Against F.

David Radler, Former COO of Hollinger International, Inc."

- On March 22, 2007, the Securities and Exchange Commission charged "American Stock Exchange and Former Chairman and CEO Salvatore Sodano with Failing to Exercise Regulatory Oversight Responsibilities."

- On March 29, 2007, Nicor paid "$10 Million to Settle Fraud Charges."

- On April 2, 2007, the Securities and Exchange Commission charged "Tenet Healthcare Corporation and Four Former Senior Executives With Concealing Scheme to Meet Earnings Targets by Exploiting Medicare System."

- On April 24, 2007, the Securities and Exchange Commission charged the "Former Apple General Counsel for Illegal Stock Option Backdating."

- On April 26, 2007, the Securities and Exchange Commission charged "Baker Hughes With Foreign Bribery and With Violating 2001 Commission Cease-and-Desist Order."

- On May 9, 2007, "Morgan Stanley (agreed) to Pay $7.9 Million to Settle Best Execution Case."

- On May 14, 2007, the Securities and Exchange Commission charged "Former Oracle Vice President With Illegal Insider Trading in Stocks of Oracle Acquisition Targets."

- "On May 23, 2007, the Securities and Exchange Commission filed a civil injunctive action in United States District Court for the Southern District of New York charging The BISYS Group, Inc., a leading provider of financial products and support services, with violating the financial reporting, books-and-records, and internal control provisions of the Securities Exchange Act of 1934. BISYS has agreed to settle the case, without admitting or denying the Commission's allegations, and has agreed pay approximately $25 million in disgorgement and prejudgment interest."

- On May 31, 2007, "The Securities and Exchange Commission..filed civil fraud charges in federal district court for the Northern District of California against California-based software maker Mercury Interactive, LLC (formerly known as Mercury Interactive Corporation) and four former senior officers of Mercury -- former Chairman and Chief Executive Officer Amnon Landan, former Chief Financial Officers Sharlene Abrams and Douglas Smith, and former General Counsel Susan Skaer. The SEC alleges that the former senior officers perpetrated a fraudulent and deceptive scheme from 1997 to 2005 to award themselves and other employees undisclosed, secret compensation by backdating stock option grants and failing to record hundreds of millions of dollars of compensation expense."

- On July 25, 2007, "The Securities and Exchange Commission..filed civil charges against ConAgra Foods, Inc., a diversified international food company headquartered in Omaha, Nebraska, alleging that it engaged in improper, and in certain instances fraudulent, accounting practices during its fiscal years 1999 through 2001."

- On July 26, 2007, "The Securities and Exchange Commission..filed a civil action against Cardinal Health, Inc. (Cardinal), a pharmaceutical distribution company based in Dublin, Ohio, in which Cardinal agreed to pay $35 million to settle charges that it engaged in a nearly four-year long fraudulent revenue and earnings management scheme, as well as other improper accounting and disclosure practices."

- On September 5, 2007, the Securities and Exchange Commission charged "26 Defendants in $428 Million Securities Fraud That Targeted Senior Citizens and Retirement Savings."

- On September 19, 2007, "Evergreen Investment Management Company and Affiliates (agreed) to Pay $32.5 Million to Settle Market Timing Violations."

- On September 19, 2007, "HSBC Bank Settle(d) SEC Charges and Agree(d) to Pay $10.5 Million."

- "On September 20, 2007, the Securities and Exchange Commission filed a civil injunctive action in the United States District Court for the

Eastern District of New York charging 28 defendants in a series of fraudulent schemes involving phony finder fees and illegal kickbacks in the "stock loan" industry. The defendants include 13 current and former "stock loan" traders employed at several major Wall Street brokerage firms, including Van der Moolen ("VDM"), Janney Montgomery, A.G. Edwards, Oppenheimer, and Nomura Securities. These traders conspired in various schemes with 15 purported stock loan "finders" to skim profits on stock loan transactions."

- "On September 27, 2007, the Securities and Exchange Commission filed a settled enforcement action charging the Federal Home Loan Mortgage Corporation ('Freddie Mac'), a shareholder-owned government-sponsored enterprise, with securities fraud in connection with improper earnings management that occurred from at least the second quarter of 1998 through and including the third quarter of 2002."

- On October 25, 2007, "The Securities and Exchange Commission.. announced the filing of securities fraud charges against David H. Brooks, the former Chief Executive Officer and Chairman of the Board at DHB Industries, Inc., a major supplier of body armor to the U.S. military and law enforcement agencies. The SEC alleges that Brooks engaged in a pervasive accounting fraud at DHB between 2003 and 2005, violated insider trading laws in 2004, and used millions of dollars in corporate funds to pay personal expenses."

- On November 14, 2007, "The Securities and Exchange Commission.. filed Foreign Corrupt Practices Act books and records and internal controls charges against Chevron Corporation ('Chevron'), a California-based oil company, in the U.S. District Court for the Southern District of New York. The Commission's complaint alleges that from approximately April 2001 through May 2002, third parties with which Chevron contracted paid approximately $20 million in illegal kickback payments in connection with Chevron's purchases of crude oil under the U.N. Oil for Food Program."

- On February 5, 2008, "The Securities and Exchange Commission..announced settled insider trading charges against four Hong Kong residents for illegal tipping and trading in the securities of Dow Jones & Company, Inc. ('Dow Jones') in the weeks before the public disclosure on May 1, 2007 of an unsolicited $60 per share acquisition offer for Dow Jones (the 'Offer') by News Corporation. The alleged tip originated with David Li Kwok Po ('David Li'), who served on the Dow Jones board of directors."

- On May 1, 2008, "The Securities and Exchange Commission..filed a civil injunctive action against McCann-Erickson Worldwide, Inc. ('McCann') and the Interpublic Group of Companies, Inc. ('IPG'). The Commission alleged that McCann committed securities fraud when it misstated its financial results by failing to expense properly intercompany charges. IPG negligently failed to address the intercompany problems at its largest subsidiary, McCann."

- On May 1, 2008, the Securities and Exchange Commission charged "Banc of America Investment Services With Failing to Disclose It Favored Affiliated Mutual Funds."

- On July 30, 2008, "The Securities and Exchange Commission..charged New Hampshire-based Pax World Management Corp. with violating investment restrictions in socially responsible mutual funds that investors were told would not contain securities issued by companies involved with producing weapons, alcohol, tobacco or gambling products."

- On August 11, 2008, "The Securities and Exchange Commission..filed charges against Wextrust Capital, LLC (Wextrust), its principals, and four affiliated Wextrust entities, alleging that defendants conducted a massive Ponzi-type scheme from 2005 or earlier that raised approximately $255 million from approximately 1,200 investors. The targets of the fraudulent offerings are primarily members of the Orthodox Jewish community."

- On September 3, 2008, the "Securities and Exchange Commission..charged two Wall Street brokers (at Credit Suisse Securities (USA) LLC) with defrauding their customers when making more than $1 billion in unauthorized purchases of subprime-related auction rate securities."

- On September 3, 2008, The "Securities and Exchange Commission charged former Kellogg, Brown & Root, Inc. (KBR) executive Albert Jackson Stanley with violating the anti-bribery provisions of the Foreign Corrupt Practices Act (FCPA) and related provisions of the federal securities laws."

- On September 14, 2008, the Securities and Exchange Commission "announced..that, together with the Treasury and the Federal Reserve, it is working with Lehman Brothers to address the issues that it faces."

- On September 15, 2008, the Securities and Exchange Commission "charged the former chairman and CEO of Los Angeles-based home builder KB Home, Inc., for his participation in a multi-year scheme to backdate stock options to himself and other company officers and employees, depriving investors of accurate information about executive compensation at the company."

- On October 7, 2008, the "Securities and Exchange Commission..charged a former vice president at national home furnishing retailer Restoration Hardware with insider trading for tipping three friends that the company was about to be acquired, enabling them to make more than $900,000 in unlawful profits when public announcement of the subsequent merger caused the stock price to soar."

- On November 18, 2008, the Securities and Exchange Commission "charged four individuals for engaging in a fraudulent scheme to overvalue the commodity derivatives trading portfolio at Bank of Montreal (BMO), and thereby inflate BMO's publicly reported financial results."

- On December 11, 2008, the Securities and Exchange Commission "finalized settlements with Citigroup Global Markets, Inc. (Citi) and UBS Securities LLC and UBS Financial Services, Inc. (UBS) that will provide nearly $30 billion to tens of thousands of customers who invested in auction rate securities before the market for those securities froze in February, 2008."

- On December 11, 2008, the Securities and Exchange Commission "charged Bernard L. Madoff and his investment firm, Bernard L. Madoff

Investment Securities LLC, with securities fraud for a multi-billion dollar Ponzi scheme that he perpetrated on advisory clients of his firm."

- On December 18, 2008, the Securities and Exchange Commission "charged seven individuals and two companies involved in an insider trading ring, alleging that Matthew Devlin, a former registered representative at Lehman Brothers, Inc. in New York City, traded on and tipped his clients and friends with confidential, nonpublic information about 13 impending corporate transactions."

- On December 22, 2008, the Securities and Exchange Commission "filed a civil injunctive action against UnitedHealth Group Inc., a Minnetonka, Minn., health insurance company, alleging that it engaged in a scheme to backdate stock options. The Commission alleged that between 1994 and 2005, UnitedHealth concealed more than $1 billion in stock option compensation by providing senior executives and other employees with 'in-the-money' options while secretly backdating the grants to avoid reporting the expenses to investors."

- On February 5, 2009, the Securities and Exchange Commission "charged seven individuals involved in an insider trading ring that generated more than $11.6 million in illegal profits and avoided losses. The SEC allege(d) that two mergers and acquisitions professionals, at UBS Investment Bank and at Blackstone Advisory Services, L.P., tipped five individuals including a portfolio manager for a Jefferies Group, Inc. hedge fund, with material nonpublic information about three impending corporate acquisitions."

- On February 5, 2009, the Securities and Exchange Commission "filed an enforcement action against UBS AG, charging the firm with acting as an unregistered broker-dealer and investment adviser."

- On February 17, 2009, the Securities and Exchange Commission "charged Robert Allen Stanford and three of his companies for orchestrating a fraudulent, multi-billion dollar investment scheme centering on an $8 billion CD program."

- On March 2, 2009, the Securities and Exchange Commission "charged

Oregon-based Sunwest Management Inc. with securities fraud and is seeking an emergency court order freezing its assets. The SEC alleged that Sunwest, which operates hundreds of retirement homes across the United States, lied to investors about its operations and concealed the risks of the investments, exposing investors to massive losses when the economic downturn triggered Sunwest's collapse."

- On February 25, 2009, the Securities and Exchange Commission "took emergency action and obtained an asset freeze against two New York residents and their three affiliated entities, who orchestrated a brazen investment fraud involving the misappropriation of as much as $554 million in investor assets."

- On March 4, 2009, the Securities and Exchange Commission "brought enforcement actions against 14 specialist firms for unlawful proprietary trading on several regional and options exchanges. The firms agreed to settle the SEC's charges by collectively paying nearly $70 million in disgorgement and penalties."

- On March 11, 2009, the Securities and Exchange Commission "charged Merrill Lynch, Pierce, Fenner & Smith Inc. with securities laws violations for having inadequate policies and procedures for controlling access to institutional customer order flow. Merrill Lynch agreed to settle the SEC's charges and pay a $7 million penalty, among other remedies."

- On May 12, 2009, the Securities and Exchange Commission "charged Julio Ramirez, Jr., who was formerly affiliated with Los Angeles-based broker-dealers DAV/Wetherly Financial L.P. and Park Hill Group LLC, in connection with a multi-million dollar kickback scheme involving New York's largest pension fund."

- On June 24, 2009, the Securities and Exchange Commission "charged a money manager who lives in Wayland, Mass., for conducting a multi-million dollar Ponzi scheme in which he promised investors lofty returns as high as 20 percent but instead often stole their money for his personal use."

- On July 22, 2009, the Securities and Exchange Commission "asked a court to order the former chief executive officer of CSK Auto Corporation to reimburse the company and its shareholders more than $4 million that he received in bonuses and stock sale profits while CSK was committing accounting fraud."

- On July 28, 2009, the Securities and Exchange Commission "obtained a court order to halt an alleged offering fraud and Ponzi scheme being conducted in the Detroit area by two individuals and two companies they control."

- On August 3, 2009, the Securities and Exchange Commission "charged Bank of America Corporation for misleading investors about billions of dollars in bonuses that were being paid to Merrill Lynch & Co. executives at the time of its acquisition of the firm. Bank of America agreed to settle the SEC's charges and pay a penalty of $33 million."

- On September 28, 2009, the Securities and Exchange Commission "charged (a) Detroit-area stock broker..with fraud, alleging that he lured elderly investors into a $250 million Ponzi scheme after convincing many of them to refinance their home mortgages."

- On October 16, 2009 — the Securities and Exchange Commission "charged billionaire Raj Rajaratnam and his New York-based hedge fund advisory firm Galleon Management LP with engaging in a massive insider trading scheme that generated more than $25 million in illicit gains."

- On November 4, 2009, the Securities and Exchange Commission "charged J.P. Morgan Securities Inc. and two of its former managing directors for their roles in an unlawful payment scheme that enabled them to win business involving municipal bond offerings and swap agreement transactions with Jefferson County, Ala."

- On November 4, 2009, the Securities and Exchange Commission "charged Milwaukee-based Merge Healthcare Incorporated and two former senior executives for their roles in an accounting fraud that ultimately caused the company's stock price to drop by two-thirds during a seven-month period."

- On November 4, 2009, the Securities and Exchange Commission "charged New York City-based investment adviser Value Line Inc., its CEO, its former Chief Compliance Officer and its affiliated broker-dealer with defrauding the Value Line family of mutual funds by charging over $24 million in bogus brokerage commissions on mutual fund trades funneled through Value Line's affiliated broker-dealer, Value Line Securities, Inc. (VLS)."

- On November 5, 2009, the Securities and Exchange Commission "charged a pair of lawyers for tipping inside information in exchange for kickbacks as well as six Wall Street traders and a proprietary trading firm involved in a $20 million insider trading scheme."

- On November 16, 2009, the Securities and Exchange Commission "charged four individuals and two companies involved in perpetrating a $30 million Ponzi scheme in which they persuaded more than 300 investors nationwide to participate in purported environmentally-friendly investment opportunities."

- On December 7, 2009, the Securities and Exchange Commission "charged three former top officers of New Century Financial Corporation with securities fraud for misleading investors as New Century's subprime mortgage business was collapsing in 2006. At the time of the fraud, New Century was one of the largest subprime lenders in the nation."

- On January 5, 2010, the Securities and Exchange Commission "announced that a former Perot family companies employee it charged with insider trading in September has agreed to return all of his illicit profits — a total of more than $8.6 million."

- On January 20, 2010, the Securities and Exchange Commission "charged General Re Corporation for its involvement in separate schemes by American International Group (AIG) and Prudential Financial, Inc. to manipulate and falsify their reported financial results."

- On February 4, 2010, the Securities and Exchange Commission "charged Boston-based State Street Bank and Trust Company with misleading its investors about their exposure to subprime investments while selectively disclosing more complete information to specific investors."

- On March 4, 2010, the Securities and Exchange Commission "charged a self-proclaimed psychic who fraudulently raised $6 million after telling investors he could predict stock market highs and lows."

- On March 5, 2010, the Securities and Exchange Commission "charged a San Diego-based broker-dealer with failing to reasonably supervise one of its registered representatives who engaged in unauthorized fraudulent trading in the accounts of two Florida municipalities."

- Om March 24, 2010, the Securities and Exchange Commission "filed fraud charges against a prominent New Mexico realtor and obtained an emergency court order to halt his $80 million Ponzi scheme."

- On March 29, 2010, the Securities and Exchange Commission "charged an Ohio-based investment adviser with fraud for lying about his investment strategy, fabricating account statements to hide losses, and using investor money to buy property and pay unrelated business expenses."

- On April 1, 2010, the Securities and Exchange Commission "announced a settlement with Daimler AG for violations of the Foreign Corrupt Practices Act (FCPA), alleging that the Stuttgart, Germany-based automobile manufacturer engaged in a repeated and systematic practice of paying bribes to foreign government officials to secure business in Asia, Africa, Eastern Europe and the Middle East."

- On April 7, 2010, the Securities and Exchange Commission charged "Morgan Keegan and Two Employees With Fraud Related to Subprime Mortgages."

- On April 15, 2010, the Securities and Exchange Commission "charged a private investment firm and one of its affiliated entities for participating in a widespread kickback scheme to obtain investments from New York's largest pension fund."

- On April 16, 2010, the Securities and Exchange Commission "charged

Goldman, Sachs & Co. and one of its vice presidents for defrauding investors by misstating and omitting key facts about a financial product tied to subprime mortgages as the U.S. housing market was beginning to falter."

- On April 22, 2010, the Securities and Exchange Commission "charged a private equity firm, a money manager and his friend with participating in a fraudulent scheme through which they stole more than $3 million invested by three Detroit-area public pension funds."

- On May 7, 2010, Jerry Brown, then California's attorney general, announced a lawsuit targeting "two former officials from Calpers, the nation's largest public pension fund, alleging that they took kickbacks in exchange for a piece of the fund's lucrative investment portfolio." The lawsuit alleges "that former chief executive Federico Buenrostro Jr. accepted tens of thousands of dollars in gifts and promises of a future employment from Alfred Villalobos, a former Calpers board member who is now a placement agent. Brown's office secured a court order to freeze the assets of Villalobos's firm and to recover more than $40 million in commissions. Brown also said the court will take control of Villalobos's 20 bank accounts and all of his assets, including two Bentleys, art worth more than $2.7 million and 14 properties."

- On June 16, 2010, the Securities and Exchange Commission "charged the former chairman and majority owner of what was once the nation's largest non-depository mortgage lender with orchestrating a large-scale securities fraud scheme and attempting to scam the U.S. Treasury's Troubled Asset Relief Program (TARP)."

- On June 21, 2010, the Securities and Exchange Commission "charged a New York-based investment adviser and three of his affiliated firms with fraudulently managing investment products tied to the mortgage markets as they came under pressure in 2007."

- On July 15, 2010, the Securities and Exchange Commission "announced that Goldman, Sachs & Co. will pay $550 million and reform its business practices to settle SEC charges that Goldman misled investors in a subprime mortgage product just as the U.S. housing market was starting to collapse."

- On July 22, 2010, the Securities and Exchange Commission "charged Dell Inc. with failing to disclose material information to investors and using fraudulent accounting to make it falsely appear that the company was consistently meeting Wall Street earnings targets and reducing its operating expenses. Dell Inc. agreed to pay a $100 million penalty to settle the SEC's charges."

- On July 29, 2010, the Securities and Exchange Commission "charged Citigroup Inc. with misleading investors about the company's exposure to subprime mortgage-related assets. Between July and mid-October 2007, Citigroup represented that subprime exposure in its investment banking unit was $13 billion or less, when in fact it was more than $50 billion."

- On August 4, 2010, the Securities and Exchange Commission "charged a former Deloitte and Touche LLP partner and his son with insider trading in the securities of several of the firm's audit clients."

- On August 6, 2010, the Securities and Exchange Commission "charged two global tobacco companies with violations of the Foreign Corrupt Practices Act (FCPA) for paying more than $5 million in bribes to government officials in Thailand and other countries to illicitly obtain tobacco sales contracts. The SEC alleges that Richmond, Va.-based Universal Corporation Inc. and two competitors who have since merged to form Alliance One International Inc. engaged in a coordinated bribery scheme in Thailand."

- On August 18, 2010, the Securities and Exchange Commission "charged the State of New Jersey with securities fraud for misrepresenting and failing to disclose to investors in billions of dollars worth of municipal bond offerings that it was underfunding the state's two largest pension plans."

- On September 29, 2010, the Securities and Exchange Commission "charged ABB Ltd with violations of the Foreign Corrupt Practices Act (FCPA) for using subsidiaries to pay bribes to Mexican officials to obtain business with government-owned power companies, and to pay kickbacks to Iraq to obtain contracts under the U.N. Oil for Food Program."

- On October 15, 2010, the Securities and Exchange Commission "announced that former Countrywide Financial CEO Angelo Mozilo will pay a record $22.5 million penalty to settle SEC charges that he and two other former Countrywide executives misled investors as the subprime mortgage crisis emerged."

- On November 4, 2010, the Securities and Exchange Commission "announced sweeping settlements with global freight forwarding company Panalpina, Inc., Pride International, Inc., Tidewater Inc., Transocean, Inc., GlobalSantaFe Corp., and Noble Corporation, all companies in the oil services industry who, according to the SEC, violated the Foreign Corrupt Practices Act (FCPA) by paying millions of dollars in bribes to foreign officials to receive preferential treatment and improper benefits during the customs process."

- On December 27, 2010, the Securities and Exchange Commission "charged Paris-based telecommunications company Alcatel-Lucent, S.A. with violating the Foreign Corrupt Practices Act (FCPA) by paying bribes to foreign government officials to illicitly win business in Latin America and Asia."

- On January 25, 2011, the Securities and Exchange Commission "charged Merrill Lynch, Pierce, Fenner & Smith Incorporated with securities fraud for misusing customer order information to place proprietary trades for the firm and for charging customers undisclosed trading fees. To settle the SEC's charges, Merrill..agreed to pay a $10 million penalty and consent to a cease-and-desist order."

- On February 3, 2011, the Securities and Exchange Commission "charged three AXA Rosenberg entities with securities fraud for concealing a significant error in the computer code of the quantitative investment model that they use to manage client assets. The error caused $217 million in investor losses."

- On March 1, 2011, the Securities and Exchange Commission "announced insider trading charges against a Westport, Conn.-based business consultant who has served on the boards of directors at Goldman Sachs and Procter & Gamble for illegally tipping Galleon Management founder and hedge fund manager Raj Rajaratnam with inside information about the quarterly earnings at both firms as well as an impending $5 billion investment by Berkshire Hathaway in Goldman."

- On April 6, 2011, the Securities and Exchange Commission "charged a corporate attorney and a Wall Street trader with insider trading in advance of at least 11 merger and acquisition announcements involving clients of the law firm where the attorney worked. The SEC alleges that Matthew H. Kluger, who formerly worked at Wilson Sonsini Goodrich & Rosati, and Garrett D. Bauer did not have a direct relationship with each other, but were linked only through a mutual friend who acted as a middleman to facilitate the illegal scheme."

- On June 21, 2011, the Securities and Exchange Commission "announced that J.P. Morgan Securities LLC will pay $153.6 million to settle SEC charges that it misled investors in a complex mortgage securities transaction just as the housing market was starting to plummet. Under the settlement, harmed investors will receive all of their money back."

- On June 22, 2011, the Securities and Exchange Commission, state regulators, and the Financial Industry Regulatory Authority (FINRA) announced..that Morgan Keegan & Company and Morgan Asset Management have agreed to pay $200 million to settle fraud charges related to subprime mortgage-backed securities."

This is no mere listing of transgressions. This is a multi-year, multi-firm set of fraudulent and unethical business practices spanning every major industry in the United States. These facts support a belief on the part of some observers that these practices have become standard business operating procedures. Given this, the future of American capitalism is at stake.

Envy, hatred, and greed have flourished in certain capital market institutions, propelling ethical standards of behavior downward. Without meaningful reform there is a significant and growing risk that our economic system will simply cease functioning.[5]

---

[5]Proportional hazard models created by the firm and reflecting the probability of system wide market failure first spiked in September, 1998. The models spiked again in January and August, 2001. They have continued, in general, to increase. On December 22, 2005, we met with Ms. Elaine M.

Fully identifiable entities engaged in illegal activities. They have, for the most part, evaded prosecution of any consequence. We note that the aforementioned Goldman Sachs, fined $659.3 million by the Commission for various efforts to defraud investors, subsequently received $75 million in Federal Government tax credits.[6]

We also note that the aforementioned Alliance Capital Management, fined $250 million by the Commission for defrauding mutual fund investors, received a contract[7] in August, 2004 from the U.S Department of the Interior (DOI) Office of Special Trustee for American Indians, to manage $404 million in Federal Government trust funds.[8]

Recently, we have observed several cases where corporate management unfairly transferred value from outsider to insider shareholders.[9] These abuses have been linked to the abandonment of ethical principles noted earlier. Faulty market practices mask a company's true value and misallocate capital by moving investment dollars from deserving companies to unworthy companies.

Hartmann and others from the Division of Market Regulation, U.S. Securities and Exchange Commission and specifically noted our model findings.

[6] The tax credits were awarded under the U.S. Department of the Treasury New Markets Tax Credit (NMTC) Program. (See: http://www.cdfifund.gov/programs/nmtc/).

[7] Contract number NBCTC040039.

[8] The contract was awarded despite the fact that placing Alliance Capital Management in a position of trust is, given the Commission's enforcement action, inconsistent with common sense, with the interests of justice and efficiency and with the interests of Indian beneficiaries. Alliance is also in violation of DOI Contractor Personnel Security & Suitability Requirements.

[9] Including, but not limited to, Adlephia Communications, the aforementioned Alliance Capital Management, American Express Financial, American Funds, AXA Advisors, Bank of America's Nations Funds, Bank One, Canadian Imperial Bank of Commerce, Canary Capital, Charles Schwab, Cresap, Inc., Empire Financial Holdings, Enron, Federated Investors, FleetBoston, Franklin Templeton, Fred Alger Management, Freemont Investment Advisors, Gateway, Inc., Global Crossing, H.D. Vest Investment Securities, Heartland Advisors, Homestore, Inc., ImClone, Interactive Data Corp., Invesco Funds Group Inc., Janus Capital Group Inc., Legg Mason, Limsco Private Ledger, Massachusetts Financial Services Co., Millennium Partners, Mutuals.com, PBHG Funds, Pilgrim Baxter, PIMCO, Prudential Securities, Putnam Investment Management LLC, Raymond James Financial, Samaritan Asset Management, Security Trust Company, N.A., State Street Research, Strong Mutual Funds, Tyco, UBS AG, Veras Investment Partners, Wachovia Corp., and WorldCom. Accounting firms, including Arthur Andersen and Ernst & Young aided and abetted efforts to do so. We believe there are hundreds of other cases.

We understand that, given any proposed rule, crimes will continue to be committed.[10] These facts lead some to suggest that regulatory authorities may have been "captured" by the entities they regulate.[11] We note that under the "regulatory capture" market structure regime, the public interest is not protected.

We favor efforts to increase fairness in our capital markets while opposing reform for reform's sake.

We cite the following:

> *"Falsification and fraud are highly destructive to free-market capitalism and, more broadly, to the underpinnings of our society. Above all, we must bear in mind that the critical issue should be how to strengthen the legal base of free market capitalism: the property rights of shareholders and other owners of capital. Fraud and deception are thefts of property. In my judgment, more generally, unless the laws governing how markets and corporations function are perceived as fair, our economic system cannot achieve its full potential. "*
>
> Testimony of Mr. Alan Greenspan, Chairman of the Federal Reserve Board, Federal Reserve Board's semiannual monetary policy report to the Congress. Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate. July 16, 2002.

We agree.

We support the Commission's efforts to modernize the market system. We suggest the Commission use XBRL to do so. We detail our reasons below.

Prior to the creation and adoption of high speed, massively networked public computer systems, providing an alternative market method was a costly proposition, unfair to public companies and corporate management. This is,

---

[10] We assume that "employees are 'rational cheaters,' who anticipate the consequences of their actions and (engage in illegal behavior) when the marginal benefits exceed costs." See Nagin, Daniel, James Rebitzer, Seth Sanders and Lowell Taylor, "Monitoring, Motivation, and Management: The Determinants of Opportunistic Behavior in a Field Experiment, *The American Economic Review*, vol. 92 (September, 2002), pp 850-873.

[11] See George J. Stigler, "The Theory of Economic Regulation," in *The Bell Journal of Economics and Management Science*, vol. II (Spring 1971), pp. 3-21.

however, no longer the case. Many investors and shareholders currently use websites like www.google.com/finance/[12] to obtain corporate information.

Internet technology was specifically designed for this type of problem.

We are, however, concerned that the proposed amendments do not go far enough. The suggested rule changes are incremental modifications in an environment where more significant action is required. We note such action can be constructive, especially in light of market malfeasance cited above.

For example, we believe public companies should be *required* to disclose executive and director compensation via the Internet.

Information could be submitted using a secure, tamper resistant, management-independent website. Data would be tabulated in real time. The proposed executive and director compensation database could be tied to a Board member nomination and vote tabulation system and a shareholder accounting system. Once collected, executive and director compensation information could be easily incorporated into on-line proxy materials that are the subject of other proposed amendments.

Further, we continue to recommend the creation of a fairness-enhanced, Dutch-auction style system to allocate and price initial public offerings (IPO.)[13] The network of prescreened buyers, already well known to Wall Street, could easily be moved to this system. The system would be designed to meet certain security and performance standards.

An Internet based, on-line system, allowing for the dissemination of executive and director compensation data, other corporate governance data, pricing information and securities, will significantly lower the cost of raising

---

[12] Google Finance "offers a broad range of information about North American stocks, mutual funds and public and private companies along with charts, news and fundamental financial data." This dataset will include compensation information.

[13] We have developed a fairness-enhanced Dutch-auction style system to allocate and price securities, our Fully Adjusted Return[tm] Auction System. The system is proprietary and a trade secret. As such, it is beyond the scope of this comment.

capital.[14] We believe this lowered cost will result in more companies coming to market. More companies coming to market will result in, other things equal, higher levels of economic activity, lower unemployment and lower inflation.

We also believe such a system will be fairer. Currently, members of the public pay, unfairly, for the privilege of purchasing IPO shares: they can only purchase shares at an excessively high price in the after issuance market. We believe a non-proprietary, SEC-owned and managed IPO Dutch auction system will eliminate the short term run up observed in the after issuance IPO market.[15]

In summary, we believe the use of on-line, Internet-based corporate information and capital access tools will significantly reduce costs and increase the flow of capital to all sectors in society. This increase in capital access will, in turn, result in significantly increased general economic activity. We estimate, using proprietary economic models, this increased economic activity at $6 trillion dollars over ten years. (This assumes an internet based corporate information and director compensation and capital access system that is gender and racially neutral, operating without significant falsification and fraud.)

The internet is a powerful tool. We understand both the potential benefits and the potentially disruptive nature of this technology better than most.[16]

Capital market regulators in other regions of the world will, at some point, enhance their ability to access capital using internet-based tools. Thus, competitive advantage with respect to executive and director compensation

---

[14] On average, investment banks appropriate seven percent (7%) of the capital raised via traditional Initial Public Offerings. We estimate the cost will, over six years, fall from 7% to 1%.

[15] This run-up was, according to one source, 16 percent (for IPO stocks issued between 1960 and 1987).

[16] We appreciate the nature of the task facing regulators. Implementing the proposed modification is very much like performing surgery on a marathon runner - during a race. Corporate fraud and malfeasance threaten the entire system, just as cholesterol clogged arteries threatens the health of the aforementioned runner. To make matters worse, (and to extend this analogy far too long) the nature of the technology is such that it significantly improves the performance of every runner in the race.

information and capital access is available to any country with significant economic potential and a modest communications infrastructure.

We do not know which countries will be winners over the long term. We know with certainty, however, that without the full set of internet-based and enhanced information and capital access tools outlined above, given both excessive executive compensation and the corporate fraud and malfeasance cited, it is unlikely that the United States will long maintain and enjoy its current advantage. The modifications proposed by the Commission are an important first step.

We look forward to reviewing the Commission's continuing efforts to carry out its mission. We appreciate the time and effort the Commission has devoted to this task. Thank you for your leadership.

Please contact me with any questions or comments.

Sincerely,

William Michael Cunningham
Social Investing Adviser
for William Michael Cunningham and Creative Investment Research, Inc.