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Inspector general faults U.S. SEC enforcers again

By Rachelle Younglai 3 MIN READ

WASHINGTON, Oct 10 (Reuters) - An enforcement director with the U.S. Securities and Exchange Commission failed to vigorously enforce securities laws in a 2003 investigation into Bear Stearns' pricing of collateralized debt obligations, the agency's internal watchdog said on Friday.

The SEC's inspector general found that there were delays in the investigation, the potential appearance of favorable treatment and lack of coordination with a federal prosecutor.

The 2003 probe centered on whether a salesperson at Bear Stearns provided inaccurate pricing for collateralized debt obligations (CDO) to Puerto Rico-based financial holding firm W. Holding. However, after reviewing data from Bear Stearns, the SEC concluded the case was "inappropriate for further enforcement action" and closed it in 2007.

The recent demise of Bear Stearns raised questions about whether the SEC closed the case prematurely, and in April Sen. Charles Grassley asked the SEC inspector general to investigate the matter. Grassley is the top Republican on the Senate Finance Committee.

The new inspector general's report singled out SEC regional director David Nelson, saying he "failed to administer his statutory obligations and responsibilities to vigorously enforce compliance with securities laws in connection" with the case.

The matter is being referred to SEC Chairman Christopher Cox for disciplinary action, the report said.

The SEC said in a letter accompanying the report that it disagreed with the findings, which it said were misleading and often relied on speculation to support its harsh conclusions.

The findings are the latest in a series of inspector general reports criticizing SEC actions.

On Tuesday, the internal watchdog said the SEC should discipline its director of enforcement and two supervisors for their role in an insider trading probe. Late in September, the inspector general said the SEC failed to adequately supervise Bear Stearns and limit the amount of risk it took on.

"The Inspector General's findings offer yet another disturbing example of the lack of vigorous enforcement at the SEC," Grassley said in a statement.

"While it is not clear whether more aggressive action in this case could have helped the SEC identify systemic risks at Bear Stearns much earlier, it certainly demonstrates the culture of deference at the SEC in dealing with the big players on Wall Street." (Reporting by Rachelle Younglai; editing by Carol Bishopric, Richard Chang)

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