

Sen. Grassley and Rep. Issa:

Despite your best efforts to clean up the SEC, serious problems with special access and preferential treatment remain. In the Citigroup investigation involving hiding/failing to disclose more than \$50 billion of subprime securities from investors, the staff had negotiated a settlement with one individual that included fraud charges and was prepared to file contested 10(b) fraud charges against another individual, but just before the staff's recommendation was presented to the commissioners, enforcement director Robert Khuzami had a secret conversation, without telling the staff, with a prominent defense lawyer who is a good friend of Khuzami's and a fellow former SDNY alum, and who was counsel for the company, not the individuals affected. During that secret conversation, Khuzami agreed to drop the 10(b) fraud charges against the individual. Afterwards, the staff was also forced to drop the fraud charges that were part of the settlement with the other individual. The two individuals were also represented by SDNY alums and friends of Khuzami's, creating the appearance that his decision was made as a special favor to them and perhaps to protect a Wall Street firm for political reasons. That decision also had the effect of protecting the company in private litigation that it faces. By not telling the staff about this conversation before it happened, the director directly violated recommendations by inspector general Kotz in previous reports about how such special access and preferential treatment can cause serious appearance problems concerning fairness and integrity of decisions that are made by the enforcement division. To protect investors and the public's faith and confidence that the justice system is fair to all, especially about matters that are at the heart of the financial crisis, you should get to the bottom of this.