

Petition for Rulemaking to Enhance Oversight and Enforcement Against Corporate Embezzlement by Public Company Executives

Statement of Interest

I am a retail trader who has been directly impacted by the lack of enforcement against corporate executives engaging in financial misconduct. Despite existing rules and regulations designed to protect investors, enforcement remains weak, allowing serial fraudsters to repeatedly exploit public markets without consequence. The failure of the SEC, OTC Markets, and legal gatekeepers to take action against clear violations has led to significant financial harm to retail investors like myself. This petition seeks to improve oversight and enforcement mechanisms to ensure that retail shareholders are protected from repeat offenders who manipulate and abuse the system without facing appropriate repercussions.

Introduction

Embezzlement and financial misconduct by executives of publicly traded companies pose significant threats to investor confidence and market integrity. Recent cases have highlighted gaps in existing regulations and enforcement mechanisms that allow such misconduct to occur with limited repercussions. To address these issues, we propose amendments to current securities laws, including the Securities Exchange Act of 1934, Sarbanes-Oxley Act of 2002, and SEC Rule 10b-5, to enhance oversight and enforcement against corporate embezzlement by public company executives.

Proposed Amendments

- 1. Clarification of Embezzlement Provisions in Securities Laws**
 - Amend the **Securities Exchange Act of 1934**, particularly **Section 10(b)** and **Rule 10b-5**, to explicitly define embezzlement by officers and directors as securities fraud. This will provide clearer legal grounds for the SEC to pursue enforcement actions.
 - Strengthen **Sarbanes-Oxley Act (SOX) Section 302 and 404** to explicitly require CEOs and CFOs to certify that no unauthorized withdrawals or misappropriation of corporate funds have occurred.
- 2. Mandatory Reporting of Executive Misconduct**
 - Amend **SEC Regulation S-K, Item 401 and 407**, to require public disclosure of any allegations or findings of embezzlement or financial misconduct involving executives.
 - Require **Form 8-K Item 5.02** filings to include any material investigations related to executive financial misconduct, ensuring investors are informed in real-time.
- 3. Enhanced Penalties and Disgorgement Requirements**
 - Amend **Exchange Act Section 21(d)(3)** to increase monetary penalties for executives found guilty of embezzlement, ensuring penalties exceed the financial gain obtained through misconduct.

- Strengthen **Sarbanes-Oxley Act Section 304** to enforce mandatory clawbacks of compensation, including salary, bonuses, and stock options from executives involved in embezzlement.
 - Amend **Rule 10b-5-1** to prevent executives under investigation for financial misconduct from selling stock while a probe is ongoing.
4. **Strengthening the Role of Gatekeepers**
- Amend **SEC Rule 17a-4** to require auditors and legal counsel to report suspected embezzlement by executives to both the SEC and the company's board of directors.
 - Expand **Sarbanes-Oxley Section 307**, requiring attorneys representing public companies to report up suspected misconduct directly to regulators if internal reporting is ignored.
 - Establish **mandatory penalties for OTC Markets and attorney opinion letter providers** who knowingly facilitate fraudulent executives' ability to continue operating public companies.

Supporting Evidence

Several high-profile cases underscore the need for these amendments:

- [REDACTED] a serial fraudster, has admitted in filings to misappropriating millions from public companies, yet neither the SEC, OTC Markets, nor the attorney drafting opinion letters have enforced compliance, enabling ongoing financial harm to shareholders. This continues now into [REDACTED] after he used 8 other OTC shells to steal tens of millions. The SEC has not protected retail shareholders once, in any of his fraudulent schemes, even though they are aware of his activities and confirm the embezzlement. He is using a network of unregistered broker dealers to continue to steal millions from US residents.
- **Woodbridge Group of Companies:** In this Ponzi scheme, CEO Robert H. Shapiro misappropriated funds, leading to significant investor losses. The SEC charged Shapiro, resulting in penalties and highlighting the need for stricter oversight.
- **Comverse Technology:** Founder and CEO Jacob Alexander was implicated in an options backdating scandal, demonstrating how executives can exploit existing loopholes for personal gain.
- **Peregrine Systems:** CEO Stephen Gardner engaged in accounting fraud, leading to the company's bankruptcy and significant investor losses. This case emphasizes the consequences of inadequate oversight.

Conclusion

Enhancing oversight and enforcement against embezzlement by public company executives is crucial for protecting investors and maintaining market integrity. If CEO's like [REDACTED] can flagrantly embezzle millions over decades of scams with the SEC's **BLESSING**, the oversight is not sufficient. We urge the Securities and Exchange Commission to consider these proposed amendments to strengthen the regulatory framework and deter future misconduct.