



**CORPORATE RESOLUTIONS INC**

**GLOBAL INTELLIGENCE FOR BUSINESS PROFESSIONALS**

New York • Boston • London

# Trends, Tips and Lessons Learned

January 2007

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## Trends

**Corporate Resolutions has recently been mentioned in the following publications:**

1. "Feds Charge One, Mention Co-Conspirators In HP Media Leak Probe", *INFORMATION WEEK*, January 17, 2007
2. "Investors, Do Your Homework, Ex-FBI Agent Says", *HedgeWorld Daily News*, December 19, 2006
3. "HP Scandal Raises Questions About The Twilight World Of Corporate Intelligence", *COMMWEB*, October 24, 2006
4. "Corporate Probes Under Scrutiny", *COMMWEB*, October 9, 2006
5. "Amid Arrests In HP Case, Time To Shore Up Corporate Probes," *INFORMATION WEEK*, October 9, 2006
6. "Digging for Disclosure: It's Not What They Tell You, It's What They Don't Tell You," *Secured Lender*, September/October 2006
7. "HR Spies infiltrate companies in search of employees," *Boston Business Journal*, December 1, 2006

## Letter from the President

Happy New Year. This is our first newsletter in 2007 and we hope it finds you well. This newsletter is focused on some proposed changes in Sarbanes Oxley and international investigations. Last year, 30% of our investigations were conducted internationally.

Relying on our office in London and our widespread network of trusted investigators, we have expanded our presence in Europe, Asia and South/Central America. Now more than ever before, we can meet any of your due diligence needs across the globe.

In other news, after fifteen years, **Corporate Resolutions moved to a new location. We are now at 111 Broadway, Suite 1206.** If you happen to be in the area, please stop by.

As always, we hope the newsletter helps to keep you informed. I look forward to doing business with you in 2007. Thank you.

Kenneth S. Springer  
President

## SEC vs. Hedge Funds: Round Two

When the US Court of Appeals invalidated the SEC registration requirement imposed upon hedge funds, many thought that the industry's days of reckoning were over. However, it seems that in spite of that appeal, the SEC still has many plans to restrict and regulate hedge funds and their investors.

The beginning of December brought news of two such proposed restrictions. First, on December 15th, the SEC unveiled proposals that would tighten anti-fraud regulations for hedge fund advisers. This proposed new anti fraud rule would authorize the SEC to take action against hedge fund advisers that work for a pooled investment vehicle, if they defraud or mislead investors, regardless of whether or not the advisor or the fund it works for is registered.

Although this proposal would make any false and misleading statements made by advisors to investors a fraudulent act, the scope of liability is difficult to gauge until the full ruling is released.

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In addition to this, the SEC has also proposed raising the hedge fund minimum. The new proposal recommends that an individual must have more than \$2.5 million in net worth in order to invest money into a hedge fund. This will be the first time in 20 years that the minimum has been changed to identify an “accredited” investor.

Currently, the net worth of an individual must be \$1 million dollars. In addition to this large jump in personal worth, is the clause that would no longer allow a person’s home to count towards their net worth. This shift in requirements will hopefully limit the number of accredited investors as well as taking away the mass appeal of alternative investment vehicles. The “retailization” of hedge funds has increased fraud and investor vulnerability because it has made a very complicated and sophisticated investment tool accessible to unsophisticated investors.

As the hedge fund industry grows in size and influence, so do the number of unknown fund managers. Corporate Resolutions realizes the risk, both financial and reputational, that this poses to investors. In response to this ever growing problem, Corporate Resolutions has developed the necessary services to provide our clients with a complete range of business intelligence:

- Global Fund Manager Background Checks (to include bi-annual checks as well)
- Due Diligence on Investors, Privately Held Companies and Companies Under Regulatory Scrutiny
- Litigation Support for Dispute Resolution
- Anti Money Laundering Compliance Reviews
- Corporate Fact Gathering Inquiries/Investigations

### The China Syndrome: How to protect yourself against corruption

The \$4 billion pension fraud and corruption scandal that unfolded in Shanghai recently drives home the reality that corporate problems are rampant in China. Because China has a legal system that is only now being reconstructed after the Cultural Revolution, trust and awareness are difficult tenets to attain. Corporate Resolutions aims to help you secure your investments in China.

Recently, after we were engaged to look into significant concerns of a Chinese company, CRI rescued billions of dollars for the investor. CRI looked into the ownership structure of this regional player and carefully scrutinized the target CEO’s approach to negotiations. We found the CEO had shuffled assets and liabilities in a complex holding structure, and it was our assessment that the client was being tricked into over-paying for what was for sale. The client’s board dropped its offer and obtained greater guarantees after our review.

Corporate Resolutions due diligence investigations in China and throughout the world seek to verify the complete and accurate details of an individual’s identity, background, and activities. CRI also presents an accurate and reliable snapshot of operational risks.

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Studies show consistently that local financial institutions (including hedge and private equity funds) suffer losses due to internal fraud. Some transport and logistics operations handle natural disasters better than others. Manufacturers of high margin products are vulnerable to counterfeits. CRI knows where the pitfalls are and we ask the right questions to measure vulnerability, and to suggest solutions.

We recommend all of our current and future clients to engage our services when making investments overseas. Our international capabilities span the globe and our vetted network of investigators and analysts will aid you in ensuring that your investments are safe abroad. Please visit our website or call for more information on our services in China and throughout the world.

### Sarbanes Oxley Compliance: The SEC wants to help you

As addressed in past newsletters, significant improvements have been much needed to properly implement Section 404 of Sarbanes Oxley. High costs and unreachable deadlines have garnered numerous complaints, especially from smaller companies. On December 16, 2006, the Securities and Exchange Commission chairman Christopher Cox said "We are proposing the interpretative guidance to help management make their evaluation process more efficient and cost effective." These proposals and amendments are meant to help all public companies, but smaller companies should particularly benefit from them.

According to the SEC, the guidance proposed is a "principles-based guidance" that is focused on two managerial tenets:

- Management should evaluate the design of the controls that it has implemented to determine whether there is a reasonable possibility that a material misstatement of the company's financials would not be prevented or detected in a timely manner.
- Management should gather and analyze evidence about the operation of the controls being evaluated based on its assessment of the risk associated with those controls.

These proposed guidelines would enable smaller public companies to modify and tailor their evaluation methods according to their specific circumstance. The areas addressed in the guidance are as follows:

- Identification of risks to reliable financial reporting and the related controls that management has implemented to address those risks
- Evaluation of the operating effectiveness of controls
- Reporting the overall results of management's evaluation
- Documentation

Corporate Resolutions offers a whistle blower hotline complimented by investigative support services that meet or exceed the guidelines outlined in the Sarbanes Oxley Act of 2002. We can also consult your company on how best to satisfy potential corporate governance requirements, making the road to SEC compliance stress free and attainable.



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## Top Ten Business Scams: Many are old and still in the way

As a precautionary measure for our newsletter recipients, Corporate Resolutions would like to remind you that fraud and scams in the business place are as prevalent and dangerous as ever. In addition to our background check and investigative services, Corporate Resolutions offers a number of fraud protection services to its customers to include, AML compliance, an Ethics Whistleblower hotline as well as physical security assessments and network vulnerability evaluations.

Below, please find the top ten scams to watch out for, as compiled by the North American Securities Administration Association, which can also be found at [www.marketcounsel.com](http://www.marketcounsel.com).

- 1. Unlicensed individuals, such as life insurance agents, selling securities.**  
By calling your state securities regulator, you can find out if a person is licensed or registered to sell securities.
- 2. Affinity Group Fraud**  
Using one's religious and cultural affiliations and beliefs to gain their trust is a surprisingly easy and rampant form of fraud.
- 3. Payphone and ATM sales**  
Selling coin operated, customer operated phones with promises of big annual returns appear to be nothing but Ponzi schemes.
- 4. Promissory notes**  
These notes are often sold to investors by independent life insurance agents who promise high returns with little or no risk.
- 5. Internet Fraud**  
Regulators highly recommend that investors ignore unsolicited and anonymous financial advice on the internet.
- 6. Ponzi/pyramid schemes**  
By using money from previous investors to pay off new ones, this century old scheme inevitably fails- leaving the swindler with cash and investors with none.
- 7. "Callable" CDs**  
Sellers of these CDs often neglect to disclose the risks of investing in such a vehicle. Long maturity rates (10-20 years) in addition to extremely high early redemption fines make callable CDS perilous terrain for unsophisticated investors.
- 8. Viatical settlements**  
Originally meant to help ill patients pay their medical bills, these settlements now teeter on the unethical side, asking investors to speculate to predict when someone will die.
- 9. Prime bank schemes**  
Access to the worlds most powerful and influential investors "secrets" is an idealistic and fraudulent scam that bilks average investors out of millions of dollars each year.
- 10. Investment Seminars**  
The only people making big returns after "get rich quick" seminars are the people organizing them.