

Federal officials ask for legislation to thwart insider trading scandals

From Associated Press reports

WASHINGTON — The head of the Securities and Exchange Commission and the top federal prosecutor of insider trading on Monday endorsed legislation that would make brokerage firms liable when their employees violate securities laws.

"It's the only way we're going to get institutions to start taking responsibility for individual behavior," Rudolph Giuliani, U.S. attorney in Manhattan, told a House panel.

However, Giuliani and SEC Chairman David Ruder both cautioned that the law should exempt firms and supervisors that make a good-faith effort to prevent their employees from using non-public information to profit from the trading in securities.

"All of us are certainly sensitive to the fact that whenever anyone runs any institution, large or small, they can be victimized by the criminal activities of others," said Giuliani, whose office has prosecuted a string of prominent Wall Street insider trading cases during the last two years.

Ruder said his agency is investigating the role of Morgan Stanley & Co. in the biggest insider trading case the SEC has ever handled.

Two weeks ago, the SEC accused Stephen Wang, a 24-year-old Morgan Stanley analyst, and Fred Lee, a Hong Kong businessman, of reaping \$19 million in illegal profits, second only to the \$100 million Ivan Boesky case.

"We will be looking . . . at whether Morgan Stanley's supervisory procedures were adequate and whether Morgan Stanley bears any fault," Ruder told reporters outside the hearing room.

"If they were directly responsible for the activity . . . we might consider including them as one of the parties to the action, but I don't mean for a minute to suggest that we have any indication of that at all," he said.

Ruder and Giuliani, commenting on a draft bill offered by Rep. Edward Markey, D-Mass., chairman of the House Energy and Commerce finance subcommittee, said it should more carefully spell out when brokerage firms would be subject to fines for the violations of their employees.

John Bachmann, chairman of the Securities Industry Association, the trade group representing brokerages, said firms and supervisors should be required to have policies designed to prevent insider trading, but he said they should be held liable only when they actively aided a violation.

The bill "is flawed in that it will create unlimited and unknowable risk for innocent brokers," he said.

Bachmann also sought to limit a provision that would allow the SEC to pay bounties of up to 10 percent of any insider-trading penalty to informers who tip the agency off to

a violation. He said participants in an insider trading scheme should not be allowed to receive bounties.

Ruder also expressed reservations, saying juries may not believe witnesses who are paid to testify.

However, Giuliani said the Internal Revenue Service has used bounties effectively to prosecute tax cheats. Although tipsters are sometimes peripherally involved in illegalities, it is worth paying a reward when it results in a windfall for federal coffers, he said.

Markey said he intends to pass the bill out of his subcommittee in time for congressional action this year.

In other testimony, Giuliani said a shortage of personnel is hampering his ability to pursue as many insider-trading allegations as he would like.

Ruder said his agency, because it lends staff lawyers to aid U.S. attorneys, was also feeling pinched. He added that the SEC would be further pinched if Congress enacts the \$5 million cut in the House version of the commission's 1989 budget.

Rep. John Dingell, D-Mich., chairman of the Energy and Commerce Committee, said he was looking into legislation that would make the SEC, which collects in fines and fees roughly two and one-half times what it spends, a self-supporting agency.

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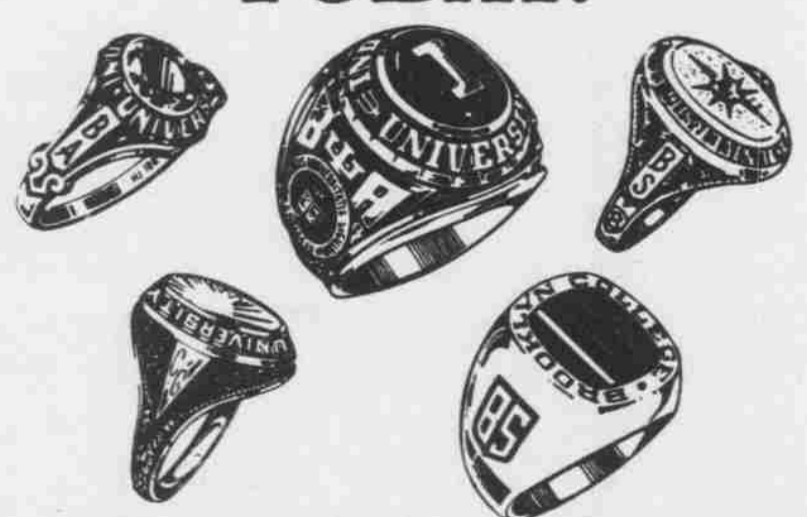
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