Mr. Dingell. The Chair recognizes first the gentleman from Oregon, Mr. Wyden.

Mr. Stad. Mr. Chairman, may I ask—Mr. Lynch and Mr. Ketchum also have very brief opening comments.

Mr. Dingell. Gentlemen, I apologize to each of you and to you, Mr. Shad.

Mr. Lynch or Mr. Ketchum, we will recognize you in the order of your choice.

TESTIMONY OF GARY LYNCH

Mr. Lynch. I will go first.

I want to briefly describe the Dennis-Levine and Ivan Boasky cases, two of the most significant insider trading cases in the Commission's history.

On May 12, 1986, the Commission brought an insider trading case against Dennis Levine, an investment banker. At the time, it was the Commission's largest insider trading case. We allege that Levine made approximately $12.6 million over a six-year period going back to 1980 by trading in the securities of at least 54 issuers while in possession of material non-public information about actual or proposed tender offers, mergers, leveraged buyouts, and other business combinations. The Commission alleged that Levine learned of these impending transactions, in many instances, through his employment as an investment banker.

The Commission's continuing investigation subsequently led to a series of cases against four individuals who participated with Levine in his insider trading scheme. These individuals worked at other investment banking firms and a law firm and allegedly participated in the scheme by misappropriating information from their firms and passing that information to Levine.

One of these individuals, a gentleman by the name of Robert Wilks, who is also an investment banker, also allegedly purchased securities on material non-public information provided to him by Levine.

Each of the four individuals consented to a permanent injunction against future violations of the securities laws, and the three individuals associated with investment banking firms also agreed to be permanently barred from the securities industry.
They also agreed to pay a total of $3.7 million in disgorgement and $875,000 in civil penalties. Three of them have also pleaded guilty to criminal charges arising from the insider trading scheme.

On November 14, 1986, our investigation coming out of Levine resulted in the institution of the largest insider trading case in the Commission's history against Ivan F. Boesky, an arbitrageur.

The Commission alleged that Boesky caused certain affiliated entities to trade in securities while in possession of material nonpublic information provided to him by Levine.

As part of the settlement of that action, Boesky consented to the entry of a permanent injunction and agreed to pay out of his own individual funds the equivalent of $100,000,000 in cash and assets. $50,000,000 of that amount represents disgorgement of profits obtained by the entities affiliated with Boesky as a result of the illegal insider trading, and $50,000,000 represents a civil penalty paid by Boesky to the U.S. Treasury under the Insider Trading Sanctions Act.

In our complaint against Boesky, we specifically allege that from February 1985 to February 1986, Levine provided Boesky with information concerning a number of tender offers, mergers or other business combinations or extraordinary corporate transactions.

Levine, as I said earlier, allegedly obtained the information by virtue of his employment as an investment banker and from some of the other people that I just mentioned.

The Commission also alleged that Boesky agreed to pay Levine five percent of the profits received in those instances where the inside information provided by Levine was the initial basis for Boesky's purchase of the securities, and a lesser percentage of the profits where the information provided by Levine was material to Boesky's decision to hold or increase his holdings of a specific security.

Boesky agreed to pay Levine approximately $2.4 million pursuant to this arrangement, but Levine was sued and arrested on May 12, 1986, in connection with our insider trading case and the U.S. Attorney's investigation before he was paid any money by Boesky.

As part of the settlement of the matter, Boesky also consented to the entry of an administrative order barring him from association with any broker or dealer.

The order entered by the Commission provides that the bar will be stayed until April 1, 1988, or such earlier time as the Commission determines, to permit an orderly transfer of control of Boesky's present businesses.

A special compliance agent is monitoring Boesky's compliance with the Federal securities laws during the stay and will report to the Commission's staff. The staff of the New York Stock Exchange, at the request of the Commission, is also monitoring Boesky's trading.

An important element of the Boesky settlement agreement is Boesky's agreement to cooperate with the Commission and to truthfully disclose all information pertaining to his activities and the activities of others about which the Commission might inquire.
of identifying accounts for further investigations.

Another ongoing project to expedite investigations at the SROs is the joint effort of the SEC, New York Stock Exchange, American Stock Exchange, NASD, and Securities Industry Association to establish a comprehensive automated system for the dissemination and analysis of individual and firm's records of trading activities.

Establish a comprehensive automated system for the dissemination of that information to analysts and accountants for comparison with accounts appearing in--trading records during suspicious periods.

For example, we would ask you to tell us, a, what your enforcement budget is, and b, what will be the level of enforcement that you will need to properly deal with not only the insider trading

questions, but the other related questions of takeovers and mergers, and questions that are associated therewith, because it appears very much to the Chair that these are related matters and may perhaps be simply different portions of the same apple.

Mr. SHAD. I would be pleased to provide you supplementally with the hard facts, but let me just characterize it. Over a third of the SEC's resources are devoted to enforcement, and in a sense, all of our resources are devoted to enforcement, because what we are doing is insisting on full disclosure and reviewing all these filings, and we will be able to do it better with automated systems that we are proposing to you as well later this year, or early next year, and we are requesting a substantial increase.

We are presently in the process of defining those parameters for budgetary purposes.

Mr. DINGELL. The Chair will request that you submit to us both the response to the question of the Chair in an appropriate fashion, and I want to know not only about your professional employees in your several offices, but also your support people and your paralegals.

I am informed that you have a number of very fine hunt-and-peck typists among your professionals who lack adequate numbers of support people, and that seems to me to be a rather bad application of your resources in having skilled security analysts and attorneys engaging in pecking out documents in response to their duties at your office.

I also would like to have you submit to us your request for budget in your several departments and so forth for next year, without having cleared that with the Office of Management and Budget. We find that when we get stuff from OMB, it tends to be somewhat strained, and at least modestly distorted.

Would you do that for us, please?

Mr. SHAD. I don't know if there is any legal constraints on what we can do.

Mr. DINGELL. Mr. Shad, there are no legal constraints on your providing this to the committee.

Mr. SHAD. I defer to counsel.

Mr. DINGELL. I assure you we have gone many rounds with the OMB on this, and they always lose.

Mr. SHAD. I may do that with a perfect sense of comfort and ease.

Mr. DINGELL. Without objection, the record will remain open for these matters.

[Testimony resumes on p. 103.]
March 20, 1987

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
H-311 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell:

Enclosed for your information are two charts compiled by the Commission's staff which indicate staff years to be devoted to various program areas within the Commission during the 1986 to 1988 fiscal years which you requested at the Subcommittee's hearing of December 11, 1986. The charts also include, as you requested, the staff years for each program contained in our original request to OMB for fiscal year 1988.

Also, enclosed are a letter dated today to Congressman Luken and an accompanying staff memorandum of March 17, 1987. That memorandum responds to a request made by Mr. Luken during the December 11 hearing for information as to actions taken by the Commission with respect to surveillance reports relating to trading in securities that the Commission ultimately alleged were the subject of insider trading by Dennis Levine and others. Mr. Luken had also made a request for the same information at a June 10, 1986 hearing of the Subcommittee on Telecommunications, Consumer Protection and Finance.

Sincerely yours,

Enclosures

John Shad
In connection with market surveillance, the investigations of the requested information to the Commission by the National Association specifically, the Commission took to trading in securities were the subject of in SEC v. Dennis (1986). We agreed that it would cost.

**Background**

The Commission million between at least $50 in information leveraged by affected the

<table>
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<tr>
<th>ORGANIZATION</th>
<th>FY-1986 ACTUAL</th>
<th>FY-1987 REQUESTED</th>
<th>REQUEST TO CONGRESS</th>
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<tr>
<td>Division of Enforcement</td>
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<td>213</td>
<td>254</td>
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<tr>
<td>Office of Applications and Reports Services</td>
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<td>12</td>
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<tr>
<td>Office of Consumer Affairs and Information</td>
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<td>11</td>
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<td>450</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td>629</td>
<td>749</td>
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