



Department of Justice

REMARKS

BY

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BEFORE THE
DEPARTMENT OF JUSTICE SECURITIES ENFORCEMENT CONFERENCE

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I want to welcome you to the 1989 Securities Enforcement Conference dedicated to this Administration's on-going fight against white-collar crime in the free marketplace.

We have seen that free marketplace bring unprecedented prosperity to the 80s, but there has also great financial turbulence -- and in its swelling wake, a disturbing slick of fraud. Through hard cases, we have learned what lies beneath that telltale slick -- insider trading, fraudulent floor trading, precious metals schemes, stock-loan fraud, "parking" of securities, and other widespread abuses of free markets. White-collar criminals are engaging in illicit practices that threaten the institutional integrity -- and investor confidence -- that insure the great free flow of capital through our financial system.

And not just here at home. If you follow that slick carefully -- as we always must, in our investigations -- it often leads far from our shores, across every ocean. A bogus stock scheme in Los Angeles originates in Hong Kong. A bank fraud in New York traces back to Rome, even to Sicily. The trial of a penny stock promoter in Dallas requires extradition proceedings in South Africa. We know that free markets are international, and so are the crimes that plague them.

We must develop an all-encompassing reach to our fraud prosecutions. That is why, over a year ago, Attorney General Edwin Meese set up the Securities and Commodities Fraud Working Group -- an interagency organization charged with fighting financial fraud wherever it may arise. That group's leading members you will hear from today -- the Director of the FBI, the Chief Postal Inspector, the Chairs of the SEC and Commodity Futures Trading Commission. In addition, there are representatives from state securities regulatory agencies, as well as representatives from the industry's own self-regulatory bodies. This consolidation of forces gives the Working Group an unmatched probity into fraudulent practices, straight across the "Big Board."

But it is really you gathered here today who do the close tracking. Earlier this year, we established the Securities and Commodities Fraud Task Force Program within the Department. We started by setting up six Task Forces to concentrate all the prosecutive and investigative assets of federal law enforcement within the key United States Attorneys' offices. We called upon the FBI, the Postal Inspection Service, and the IRS -- as well as the SEC and the CFTC and many others -- to pool their talents in a concerted drive to curb securities and commodities fraud. These Task Forces are already at work in Chicago, Los Angeles, San Francisco, Kansas City, Denver, and Manhattan, and I am proud

to report that two more Task Forces -- Philadelphia and Salt Lake City -- have been established since then.

You know our accomplishments in this field -- they are your own. But what is more important is the public now knows them too, and so do the potential white-collar criminals we are determined to apprehend or to deter from embarking on a criminal path.

No such warning could be writ larger than by the successful insider-trading prosecutions brought by the United States Attorney's office in the Southern District of New York. They culminate in yesterday's landmark guilty plea of Drexel Burnham Lambert, resulting in \$650 million in penalties together with the convictions of Boyd Jeffries, Martin Seigal and Ivan Boesky, and others in a web of financial fraud still unravelling.

But there are more immediate, and equally dramatic, cases. Let me cite only three that give fair warning against "crime in the suites."

In Chicago, the FBI and the U.S. Attorney's office cooperated in an undercover operation that last month resulted in indictments and guilty pleas against a number of persons involved

in fraud in day-to-day floor trading on that city's commodities exchanges.

In Los Angeles, the U.S. Attorney for the Central District of California obtained a dozen convictions in a fraud prosecution involving \$100 million in losses on a sham building restoration company called ZZZZ Best.

And in Dallas, this past July, the Fraud Section successfully prosecuted two penny stock promoters, who had manipulated one shell company after another for the past decade--perpetrating a fraud that may finally cost millions to individually bilked investors.

These are real victories in our fight against fraud, but their very complexity -- and the huge sums involved -- indicate what kind of criminals we are up against. The 80s have created legitimate wealth for some, but they have also fostered greed and chicane in others bent on seizing wealth by any means. The stakes have never been higher, for fortune or for fraud.

Back a century ago, during the wildly speculative time labeled the Gilded Age, there was a shrewd operator named Daniel Drew. Some say he fed salt to his herd of sheep -- then let them drink deep from the Harlem River -- so he could sell Commodore

Vanderbilt the first "watered stock." But on the risks of manipulating markets, Daniel Drew had this pithy warning:

He who sells what isn't his'n
Must buy it back or go to pris'n.

A dire warning that still applies. But it has become far more difficult, since Daniel Drew's day, to catch up with a fraud who is selling what "isn't his'n." Invariably, stock schemes are highly sophisticated, well-planned, and, as I've said, worldwide in scope. Yes, they still leave that telltale slick, but you have to trace it everywhere -- including where the money is being laundered to remove the slick's stain.

That is what makes fraud such a virulent strain of financial crime. And like a virus, it can too quickly adjust to our legal remedies. That leaves us with a large challenge, a tough test for our best investigators and prosecutors. Can we keep ahead of sophisticated white-collar crime, hold fraud to legal account, even as it matures and mutates?

That is why we have called this conference together, under the sponsorship of the Attorney General's Advocacy Institute. Over the next two and a half days, we want to help each other become better equipped with the knowledge and techniques to

combat commodities and securities fraud. As investigators, you must possess the expertise and skill to penetrate complex schemes, reconstruct intricate financial transactions, "follow the paper trail" around every twist to its indictable end. As prosecutors, you must become legal craftsmen, able to forge, out of close scrutiny of the smallest details, the documented case against corrupt practices. Finally, we want you all to be able to say:

He who "parks " or "scams" what isn't his'n
May cop a plea -- but still go to pris'n.

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