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Feds Targeting White Collar Crime

Charges due soon in insider trading cases

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In what white collar crime experts say is no surprise, federal prosecutors in Connecticut are targeting insider trading and similar financial crimes for the first time.

U.S. Attorney David Fein recently told the Associated Press his staff is investigating several cases of insider trading in Connecticut, a global financial hub that is said to have the largest concentration of hedge funds outside New York and London. He said charges are expected to be filed, but he could not provide further details on the investigations.

“You’ll read more about those,” Fein said.

Cases involving manipulation of markets in southwestern Fairfield County traditionally have been handled by the neighboring U.S. Southern District of New York, but Fein said his district is working to take over that responsibility.

Fein, who once worked as a prosecutor in the southern district, said the shift reflects his commitment to root out white-collar crime, which has become a Justice Department-wide priority as the U.S. economy recovers

from a meltdown blamed partly on financial scandals.

Fein took office in May 2010, and Attorney General Eric Holder introduced



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him by saying he was determined to bring the pursuit of white-collar crime “to the next level.” As such, he’s set up a financial crimes task force, located with the office in Bridgeport.

“David Fein has experience as a prosecutor in the Southern District of New York and is no doubt familiar how to investigate and prosecute those



Ross H. Garber, a partner at Shipman & Goodwin, said it's no surprise U.S. Attorney David Fein is targeting white collar crime. Before he took over the district of Connecticut, Fein worked on white collar crime cases in the southern district of New York.

kinds of cases,” Ross H. Garber, a partner at Shipman & Goodwin handling white collar defense, told the *Connecticut Law Tribune*. “It’s not surprising that he’d be interested in doing that kind of work in Connecticut.”

White collar crime experts such as Garber and former employees of the U.S. Attorney’s Office in Connecticut told the *Law Tribune* they believe Fein’s office has the resources to take on the task.

“The U.S. Attorney’s Office [in Connecticut] has a number of very skilled prosecutors to go after these sorts of cases, so it’ll be interesting to see if they in fact can bring some quality inside trading prosecutions in the district of Connecticut,” said Alex V. Hernandez, a former supervisory assistant U.S. Attorney in Fairfield County who now chairs Pullman & Comley’s white collar defense group. “I have certainly seen an uptick in the number of filings for financial crimes. My practice has picked up in that regard.”

Stamford-based defense attorney Stan Twardy said it is clear that financial transactions in the state are coming under more scrutiny.

“It’s clear from the people I hear from, clients and the like, that they are making these cases,” Twardy, a former U.S. attorney in Connecticut, told the Associated Press.

He said it is important for Connecticut’s attorney to be prosecuting wrongdoing in the state. But he said Fein’s office will have to prove to agencies like the FBI, which have a comfort level with New York’s southern district, that it, too, can tackle sophisticated financial crimes.

Hernandez explained that “there’s an incredible volume of documents that would need to be reviewed; financial statements, disclosures, loan agreements, and many of these documents are very complicated.

“But as we saw in the southern district,” continued Hernandez. [Prosecutors] can often short circuit the need for extensive complex financial analysis with a well placed informant and other investigative techniques that have traditionally been used in street

crime or narcotics investigations, such as wired up informants or wire taps.”

Garber, said he too heard that the feds in Connecticut were turning to “blue collar tactics” to investigate insider trading.

“That’s a relatively recent trend which has been pioneered by the investigations in the Southern District of New York, but David Fein has talked about using those same tactics here in Connecticut,” Garber said.

The largest case prosecuted so far by Fein’s office involved a Stamford-based hedge fund manager, Francisco Illarramendi, who was accused of running a \$500 million pyramid scheme. Illarramendi is awaiting sentencing after pleading guilty to charges including fraud and conspiracy to obstruct justice.

But Fein’s office has involved itself in many smaller-scale cases in which people have lost their savings to unregistered investment advisers, who are often trusted friends or acquaintances. In one example, an Avon woman, Florin Ilovici, was accused last month of befriending and then defrauding elderly women in the Hartford area of more than \$1 million.

Fein said the weak economy appears to be a factor in what he called the surprisingly large number of investment fraud cases.

“It may not be for luxury cruises and diamonds. In a lot of these cases we’re seeing it be used for their kids’ tuition, at stores, to pay their rent,” he said in the interview earlier this month.

Fein, who directs a staff of roughly 60 prosecutors, served as an associate White House counsel to President Bill

Clinton and was a partner at Wiggin and Dana LLP where he co-chaired the white collar defense practice before taking the U.S. attorney job. In addition to financial crimes, he oversees prosecutions of other matters including public corruption, civil rights violations and violent crimes.

One challenge in prosecuting instances of insider trading, he said, has been his district’s lack of experience with such cases.

“For the agents and the assistants, it’s not as if you’re working off an existing docket of cases or existing sources,” he said. “They have been starting really from the ground level and doing a great job, but it takes time to build that enforcement docket and experience.”

Fein said his office has reason to pay attention to hedge funds in particular because of their high concentration in Connecticut. The state is home to about 200 hedge funds, private partnerships that typically are open to a limited number of investors and require a large initial minimum investment.

He said he has reached out to hedge funds to inform them of his office’s work, express openness to referrals and encourage them to be “good corporate citizens.”

Hedge fund industry groups did not make officials available to comment on the U.S. attorney’s approach. ■