

Federal Prosecutors Targeting Connecticut Hedge Funds In Insider Trading Probes

On January 16, 2012, the Associated Press published a story in which the United States Attorney for the District of Connecticut, David B. Fein, announced his focus on insider trading investigations. (Michael Melia, AP Interview: Feds in Conn. Target Insider Trading, THE WALL STREET JOURNAL (Jan. 16, 2012), [click here for article](#).) The story notes that Connecticut is “a global financial hub that is said to have the largest concentration of hedge funds outside New York and London.”

Although insider trading cases involving companies in Connecticut have traditionally been prosecuted by the U.S. Attorney for the Southern District of New York, Fein said that federal prosecutors and agents in Connecticut are working to take over that responsibility.

Fein’s comments come in the wake of increased focus by the U.S. Department of Justice and the SEC on insider trading cases. In the last two years, federal prosecutors in the Southern District of New York have charged more than 45 people with insider trading, at least 36 of whom pleaded guilty or were convicted. In several recent cases, prosecutors have focused heavily on hedge funds as well as firms and consultants providing so-called “expert network services” to clients. Further, prosecutors in New York have made headlines using unprecedented blue-collar tactics, including wiretaps and informants, in their vigorous pursuit of companies and individuals involved in financial fraud.

Though his office may take a similarly aggressive and covert approach to its investigations, Fein has already made direct overtures to hedge funds. The AP story said Fein “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.’”

All law enforcement inquiries -- by any agency of the state or federal government -- should be taken seriously. Hedge funds and other financial services companies should be particularly alert to any questions about issues related to insider trading.

Questions?

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Before questions arise, hedge funds and others in the financial industry should ensure they have sufficient compliance programs and provide employees with training on insider trading issues. Hedge funds whose managers are registering as investment advisers for the first time are required to have compliance programs and codes of ethics in place to comply with the Investment Advisers Act of 1940.

Questions or Assistance?

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