

INFORMATION MEMORANDUM

ENF 02-13

File No.: HO-9325

TO: The Commission  
FROM: The Division of Enforcement  
RE: Pre-September 11, 2001 Trading Review  
DATE: May 15, 2002  
PERSONS TO CONTACT: [REDACTED]

I. Introduction

On September 12, 2001, the Division of Enforcement began a review of trading in U.S. securities markets to investigate whether there was evidence that anyone who had advance knowledge of the terrorist attacks on September 11 sought to profit from that knowledge by trading in United States securities markets. Our review expanded quickly to cover trading in a broad range of financial instruments here and abroad. Generally, the review covered trading during the period from August 20 to September 11, 2001. In furtherance of that review, we worked with, and sought information from, self-regulatory organizations, securities firms and other financial institutions, other government regulators in the U.S. and abroad, and criminal law enforcement agencies. At various times, over 40 Commission staff from the Division of Enforcement and the Office of International Affairs worked on different aspects of the investigation.<sup>1</sup>

In the course of our investigation, we examined over 9.5 million securities transactions. Commission staff, or staff of self-regulatory organizations with whom we cooperated, reviewed trading in securities and derivative products of 103 companies in six industry groups with trading in 7 markets. We also reviewed trading in 32 exchange traded funds and broad and narrow indices. To supplement this review, we requested that the legal and compliance departments at the largest securities firms, and foreign financial regulators determine whether any unusual trading activity had been observed by their staffs in the period prior to September 11.

Our review is now complete. We have not developed any evidence suggesting that those who had advance knowledge of the September 11 attacks traded on the basis of that information. In every instance where we noticed unusual trading before the attack,

<sup>1</sup> A list of Commission staff who worked on this investigation is attached as Appendix A

we were able to determine -- either through direct communication with those responsible for the trading or a review of trading records -- that the trading was consistent with a legitimate trading strategy. All of the information developed in this trading review has been made available to the Department of Justice and to the Department of the Treasury.<sup>2</sup>

We are providing this memorandum to the Commission to summarize the scope and the results of our investigation. The Commission may wish to consider whether to issue a statement notifying the public of those results. We have spoken to the Department of Justice and the Department of the Treasury, and they have no objection to the Commission making such a statement.

## II. Overview

### A. Summary of Trading Review

Initially, we focused on the securities of companies that were directly involved in the events of September 11: UAL Corp. and AMR Corp. (the parent companies of United Airlines and American Airlines, respectively); publicly traded companies with substantial operations in the World Trade Center; and insurers with substantial loss exposure as a result of the events. We identified various types of securities available for trading in these issuers and the markets in which they were traded, and analyzed price and volume activity for aberrational movements. For those securities for which listed options were traded, we reviewed large option position reports (LOPRs)<sup>3</sup> for any unusual accounts or activity. We also requested that the National Association of Securities Dealers Regulation Inc. (NASDR) review similar reports filed with that organization with respect to conventional options<sup>4</sup> and to review reported trading activity in the NASDR's Fixed Income Pricing System for eligible high yield securities of affected companies.

Shortly after September 12, we began a more comprehensive review. Analysts in the Division's Office of Market Surveillance were assigned specific industry groups to review. The staff analyzed the impact of the events on the trading activity of the companies within each group. The following industry groups were selected for a more detailed review and analysis:

---

<sup>2</sup> Both the Department of Justice (including various United States Attorney's Offices and Federal Bureau of Investigation Field Offices) and the Department of the Treasury were granted access to this investigation. Pursuant to Commission authorization, we also briefed staff members of the Senate Banking Committee. We also briefed staff of the National Security Council.

<sup>3</sup> The rules of each of the markets on which options trade require that member firms submit identifying information to the exchange for surveillance purposes for any customer or proprietary account that accumulates a position of 200 contracts or more on either side of the market in a particular class of options. This information is reported in the LOPR.

<sup>4</sup> A conventional option is any option contract not issued or subject to issuance by the Options Clearing Corporation.

1. Airlines;
2. Insurers;
3. Financial Services;
4. Defense and Aerospace;
5. Security Providers; and
6. Travel and Leisure Services.

In addition to the six industry groups identified above, we also reviewed trading in certain financial products, including exchange traded funds<sup>5</sup> and broad and narrow indices (e.g. Dow Jones Industrial Average, Nasdaq 100, and the American Stock Exchange Airline Index).

Together with the market surveillance groups at several self regulatory organizations (SROs), including the New York Stock Exchange (NYSE), the American Stock Exchange (Amex), the Chicago Board Options Exchange (CBOE), the Pacific Exchange (PSE), the Philadelphia Stock Exchange (PHLX), and the NASDR, we obtained the identity of numerous accounts that traded in a total of 103 individual securities and 32 indices or exchange traded funds. We reviewed and analyzed trading records for those accounts to determine whether trades made during the period prior to September 11 were consistent with earlier trading. When possible, we interviewed the individuals responsible for the investment decisions and/or the traders who placed the trades.

We focused particular attention on short-selling activity. In order to identify short sales, in addition to reviewing bluesheet information, we obtained data about short sales from the Depository Trust Company, the National Securities Clearing Corporation and from LoanNet Inc.<sup>6</sup> In addition, NYSE staff performed a detailed analysis of changes in reported short interest positions for the affected securities.

In addition to the review of domestic trading in corporate securities and related derivative products by the Commission staff and the SROs, we contacted others to assist in a larger review of securities trading here and abroad.<sup>7</sup> First, from September 18 through September 20, we contacted the legal and compliance staff at 20 of the largest securities firms and requested (a) that they survey each business group within their

---

<sup>5</sup> Exchange traded funds hold a portfolio of common stocks intended to provide investment results that generally track the price performance and yield of a specific index.

<sup>6</sup> LoanNet facilitates lending of securities to deliver to complete a short sale transaction. Counsel for SunGuard Securities Finance Inc., LoanNet's parent company, notified the staff that a subpoena would be required for the production of any records. Accordingly, the staff sought a formal order of investigation from the Commission on September 28, 2001.

<sup>7</sup> The CFTC initiated a similar review of trading in financial futures products.

respective firms to determine if any unusual activity had been noted in the weeks prior to September 11, and (b) that on a continuing basis, they notify the Commission in the event they observe any unusual trading activity that might suggest the possibility of future attacks.<sup>8</sup>

5, 7(E)

Third, the Commission's Office of International Affairs (OIA) contacted securities regulatory authorities in ten countries.<sup>9</sup> Initially, those foreign regulators were asked to review trading in all U.S.-registered stocks and derivatives based on U.S.-registered stocks that were traded on their markets during the period from August 27, 2001 through September 11, 2001, and to identify any unusual trading. The foreign regulators were asked to pay special attention to any unusual trading in the securities of airlines, hotels, brokerage firms, bank holding companies, and insurance and re-insurance companies. At the request of the foreign regulators, Commission staff compiled a list of thirty-eight companies for review to determine if there was any unusual trading activity.<sup>10</sup> In addition to the broad reviews described above, OIA sought the assistance of various regulatory authorities<sup>11</sup> in obtaining information about specific trades or patterns of trading that we identified in the course of our investigation.

**B. Coordination with the Department of Justice, the Department of The Treasury and Other Federal Agencies**

Early in the investigation, we consulted with the Department of Justice, the FBI, other criminal law enforcement agencies, the Department of The Treasury and other federal financial regulators, to coordinate investigative activities. On Monday, September 17, senior staff from the Division of Enforcement and OIA, along with other

<sup>8</sup> Similarly, at the request of the FBI, staff of the Office of Market Surveillance requested that the surveillance staffs of each of the domestic marketplaces be alert to unusual movements in individual securities, industry groups or index products that may provide an early warning sign of an imminent terrorist event. In October, two anomalous trading situations were noted and passed on to the FBI. In each instance, subsequent inquiry determined that the increased, unexplained activity was due to recommendations from an established options newsletter publication.

5

<sup>9</sup> 5, 7(E)

<sup>10</sup> The list of companies is attached as Appendix B.

<sup>11</sup> 5, 7(E)

federal regulators, met with the Department of Justice's Financial Review Group (FRG),<sup>12</sup> and were briefed on the criminal investigation as it related to the terrorists' use of the financial system. The primary purpose of the meeting was to establish a central location to which potential investigative leads could be directed. Thereafter, we consulted regularly with designated FBI agents and Assistant U.S. Attorneys from the Eastern and Southern Districts of New York assigned to the investigation. All of the information developed in this trading review has been shared with the Department of Justice and made available to the Department of the Treasury.

In addition to reviewing trading activity, the Division initially attempted to determine if any of the 19 identified hijackers had accounts with securities brokerage firms and subsequently coordinated the dissemination to securities-related entities of a broader list of individuals wanted for questioning by criminal law enforcement authorities. On September 26, the SEC asked all securities-related entities, whether or not regulated by the SEC, to review their records for any relationships or transactions with any individuals or organizations identified on two lists: an executive order signed by President Bush freezing assets and blocking transactions with 27 individuals and organizations; and a FBI list of people under investigation in connections with the World Trade Center and Pentagon Attacks.<sup>13</sup> OIA contacted securities regulatory authorities in the ten countries identified earlier so that those regulators could contact financial institutions in their jurisdictions to determine whether they had accounts in the names of any of the 27 persons and entities identified in the Executive Order issued by President Bush on September 24, 2001 or in the names of the alleged hijackers.

In the initial stages of the investigation, the FBI compiled and distributed to other law enforcement and regulatory agencies, including the Commission, a list entitled the "Watch List" that contained names of several hundred individuals or entities about which the FBI was seeking information. This initial list and frequent updates were used by the Division and by the SROs to check for matches against both historical records and records obtained during the course of the inquiry into pre-September 11 trading activity.

By the end of September, securities firms (particularly those with international operations) were receiving requests for information (including administrative and grand jury subpoenas) from a number of sources, including the Division, SROs and various FBI field offices and United States Attorneys offices (and from foreign regulators), many of which were redundant or overlapping. In an effort to reduce the burden and the confusion caused by these requests, the Division, representatives of the FRG and the Department of the Treasury met on October 4 with a broad cross-section of industry representatives. At that meeting, the Division agreed to serve as the primary point of contact for requests for information directed to securities firms.

---

<sup>12</sup> The FRG is a multi-agency task force coordinated by the DOJ and FBI that was formed to investigate all financial aspects of the events. In addition to working with the FRG, since September 12, we have responded to numerous requests for assistance in specific inquiries being conducted by FBI field offices and U.S. Attorney's offices throughout the country.

<sup>13</sup> Commission Press Release 2001-103.

Following the October 4 meeting, the FBI narrowed the original "Watch List" into a more focused list of individuals and entities in which the FBI was interested, entitled the "Control List". In coordination with the Department of Justice, the Commission issued a press release on October 18, 2001, soliciting the voluntary cooperation of securities-related entities to search their account records for matches to the names on the Control List<sup>14</sup>. Nearly 2000 entities responded to this request and approximately 1,800 were provided a copy of the Control List.<sup>15</sup> The Office of Market Surveillance subsequently coordinated the receipt of positive responses, requests for documentation relevant to the positive responses and dissemination of this documentation to the Assistant U.S. Attorneys and FBI agents conducting the criminal investigation. To date, we have received positive responses from over 25 entities involving over 200 accounts and have sought additional information with respect to more than 100 of these accounts.

5, 7(E)



This cooperative effort continues. When we receive a report that an institution has identified an account holder matching a name on the control list, we notify the Department of Justice. The control list was updated recently, and we circulated the updated version. At the request of the Department of Justice, the market surveillance units at the SRO's continue to survey their markets for unusual trading activity that may signal terrorist attacks.<sup>17</sup>

---

<sup>14</sup> Commission Press Release 2001-115. The same list was distributed to all United States banking institutions by the Federal Reserve Bank of New York.

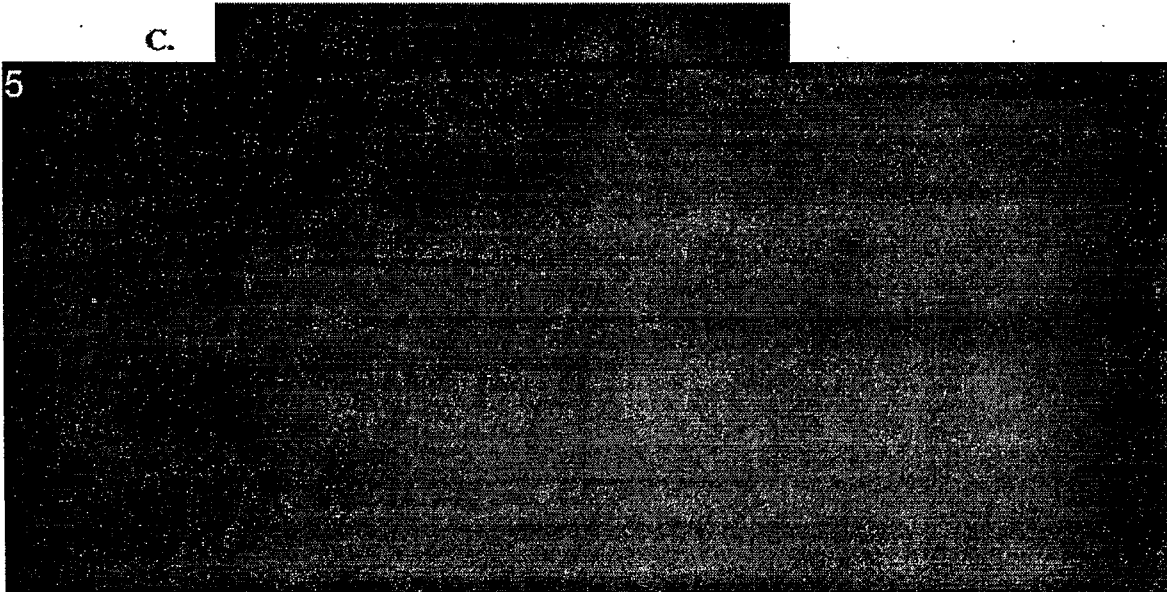
<sup>15</sup> The staff of the Division and DOJ personnel reviewed each of the responding entities to determine whether the Control List should be provided to them.

<sup>16</sup> A senior official of the Financial Services Authority of the United Kingdom stated publicly on September 25, 2001: "So far it has been possible to establish rapidly for a number of these cases (of unusual trading) that there is a ready explanation." German officials have told us that their inquiry has not uncovered any unusual trading.

<sup>17</sup> See, e.g., footnote 8 *supra*.

C.

5



### III. Review of Trading by Industry Group

The review of trading in the securities effected by the events of September 11 must be considered in the context of the general market conditions then prevailing. A slowdown in business activity, debate over whether the economy was actually in a recession, and political disagreement over appropriate corrective measures had negatively affected the secondary trading markets. Both the Dow Jones Industrial and the NASDAQ Composite Averages had steadily declined from mid-August through September 10 on worsening economic news. In particular, the airline industry was hit hard by a decrease in business travel and an increase in oil prices. On September 6, an influential airline industry analyst lowered his earnings estimates for several major airlines.<sup>18</sup> On the following day, AMR warned that the company expected larger second half losses than previously expected. That announcement caused a further lowering of expected industry earnings by analysts on September 10, 2001.

#### A. Airline Industry

We reviewed trading in the securities of 21 airline companies.<sup>19</sup> The securities of Boeing Company, manufacturer of the planes used in the attacks, were also reviewed.

Following the reopening of the markets on September 17, shares of AMR and UAL were down 43 percent and 40 percent, respectively. Similar price declines from their September 10 close were experienced by other airline companies. Trading in equities, equity options and options on an airline index were reviewed by both Commission and SRO surveillance staff. Particular attention was paid to the purchase of put options and the short selling of common stock.

<sup>18</sup> Glenn Engel of Goldman Sachs & Co.

<sup>19</sup> See Appendix C for a complete list of all companies reviewed.

With respect to options trading, Table 1 sets forth the volume of contracts traded in UAL and AMR during the period August 20, 2001 through September 10, 2001.<sup>20</sup> There was no material increase in the volume of either UAL or AMR put options with two exceptions: (1) volume in UAL put options increased substantially on September 6 to 2,075 contracts; and (2) volume in AMR put options increased substantially on September 10 to 2,282 contracts. Those increases are identified in bold below.

**Table 1**  
**UAL and AMR Option Volume: August 20 – September 10, 2001**

Date	UAL Call Volume	UAL Put Volume	AMR Call Volume	AMR Put Volume
08/20/2001	291	21	445	16
08/21/2001	249	246	161	15
08/22/2001	249	256	254	30
08/23/2001	706	1,205	268	200
08/24/2001	358	238	1,487	93
08/27/2001	201	30	482	62
08/28/2001	199	2	145	174
08/29/2001	590	31	122	89
08/30/2001	424	281	2,365	200
08/31/2001	127	26	732	598
09/04/2001	55	105	545	133
09/05/2001	111	605	114	131
09/06/2001	87	<b>2,075*</b>	142	98
09/07/2001	111	606	700	485
09/10/2001	426	186	375	<b>2,282*</b>

(Source: the Options Clearing Corporation)

An investment adviser registered with the Commission and based in the United States purchased 2,000 UAL October 30 put options on September 6. That trade constituted 96 percent of UAL put option volume for the day. We interviewed both the

<sup>20</sup> August 20, 2001 was the first trading day after the expiration of the August 2001 series of options.

CEO of the adviser and the trader who executed the transaction.<sup>21</sup> We also reviewed account statements for the adviser. Both the CEO and the trader stated that they manage several hedge funds and have a total of \$5.3 billion under management. Both also stated that they make the investment decisions for the accounts they advise (and that they do not accept client recommendations. They said the 2,000 contract purchase was part of a series of transactions they had effected in airline related securities. They were bearish on the airline industry due to several factors, including recently released on-time departure figures, which suggested planes were not carrying as many passengers, and recently disclosed news by AMR reflecting poor fundamentals.

As part of its strategy, the adviser sold short 1,800 shares of AMR, 8,700 shares of Continental Airlines, and 18,500 shares of Delta Airlines on September 6. The adviser sold short an additional 3,800 shares of Delta on September 7 and 10, and 500 shares of Northwest Airlines on September 10. On September 10, it purchased 115,000 shares of AMR, believing the price reflected recently released financial information and sold short 117,000 shares of UAL.

The substantial increase in AMR put volume on September 10 was based largely on a surge in volume in the October 30 put series. Purchases of the October 30 puts appear to have been triggered by a recommendation to purchase made by *Options Hotline*, a California newsletter; 1535 contracts of the October 30 put series traded on September 10, constituting 67 percent of the total volume of 2,282 puts traded on the day.

We interviewed 28 individuals who purchased the October 30 put series and 26 of them cited the "Options Hotline" recommendation as their basis for purchasing. They purchased 388 contracts. An additional 27 individuals whose names appeared on the "Options Hotline" subscriber list purchased another 365 contracts, bringing the total to 763 contracts. The remaining contracts were purchased in small amounts by previously established accounts in widely dispersed locations primarily in the United States.

We interviewed the editor of *Options Hotline*, Steve Sarnoff. Sarnoff told us that his recommendation was distributed by e-mail and facsimile on Sunday, September 9, to approximately 2,000 subscribers.

7(C)

Sarnoff

wrote, in pertinent part, the following:

<sup>21</sup> The FBI also conducted interviews of these individuals.

So, without further ado, here's...

This week's Option Recommendation

Buy the AMR October \$30 put for \$170, or less, good this week.

Shares of AMR Corp. trade on the New York Stock Exchange under the symbol "AMR." The symbol for this option reco [sic] is "AMRVF." American Airlines closed the week at \$30.15. The 52-week range for AMR is \$27.62 - \$43.93. My downside price target is \$22 - \$26.

The major airline is under pressure. At \$25, each \$30 put would have \$500 of intrinsic value. If AMR is at or above \$30 on the third Friday in October, your option will expire worthless. That is your risk. Set your stop-loss at \$100, to preserve capital, in case my expectations go awry.

In addition to investigating the reason for increased option volume in the October 30s discussed above, we obtained information from SROs that assisted in determining the universe of bearish option trading and positions in the period from August 20 to September 10, 2001. Using two reports, the Customer/Firm Market Watch Report<sup>22</sup> and the LOPR, as well as electronic bluesheet information, we identified all bearish retail and non-market making institutional option trading and positions in the weeks prior to September 11. This data was used to construct a database of all opening put option purchases and call option sales in UAL and AMR in the period of August 20 to September 10. We also contacted and/or referred to the FBI the 21 individuals and entities who held large bearish positions (i.e., 200 or more puts or calls) in either UAL or AMR on September 10, regardless of when the positions were established. The relevant accounts were identified on the LOPR report obtained by the staff from the Pacific Exchange. Our own interviews did not provide us with any information to suggest that the trades were inconsistent with other account activity, or were otherwise unusual.

Both the NYSE and NASDR surveillance staffs requested trading data for secondary market activity in the common stock of airline companies in their markets. As described more fully in their reports, attached as Appendix D and E, respectively, any transactions that were considered unusual in terms of size, name or location of account or timing were discussed with Commission staff as trading data was received from the executing broker-dealers and appropriate additional inquiry was undertaken. All short sales were reviewed by SRO staff and any unusual trades were referred to the Division's Office of Market Surveillance. These unusual trades were investigated by the Division. Instances in which we could not ascertain the beneficial owner of the account or could not interview the person making the investment decision (because the accounts and owners were located overseas) were referred to the FRG. Based on discussions with the FRG, we do not believe that there is evidence that the traders or the beneficial owners for those accounts had advance knowledge of the attacks.

<sup>22</sup> This report lists, by broker-dealer, all transactions in a given class of options contracts for a specified period of time.

The AMEX trades options on an index consisting of airline companies, including UAL and AMR. The AMEX staff review of activity in this product revealed minimal activity in the weeks preceding the events and no unusual trades.

## B. Insurers

Along with the SROs, we reviewed trading in the common stock, options and American Depository Receipts (ADRs)<sup>23</sup> of 42 insurance companies to see if we could identify any unusual increase in volume and/or decrease in price during the three-week period prior to the events (August 20 through September 11, 2001). This review resulted in the identification of securities of 24 insurance companies that experienced atypical price or volume movement. Because this large result suggested an industry-wide downturn in insurance company securities due to factors other than anticipation of the events, we sought to identify insurance companies that could have been reasonably expected to suffer as a result of the events.

A September 17, 2001 Bloomberg News article entitled *Insurers' World Trade Center Loss Estimates Reach \$8.4 Billion* identified the top six underwriters by potential losses:

1. Munich Reinsurance Co. (Munich Re): \$910 million;
2. Swiss Reinsurance Co. (Swiss Re): \$720 million;
3. XL Capital Ltd.: \$700 million;
4. Allianz AG: \$635 million;
5. American International Group, Inc. (AIG): \$500 million.
6. Citigroup, Inc. (C): \$500 million.

Initially, we examined trading in the securities of those six companies. In addition, we looked at trading in two additional insurance companies that suffered significant direct losses as a result of their presence in the World Trade Center: AON Corp. and Marsh & McLennan Companies, Inc. ("Marsh & McLennan"). With the exception of Munich Re<sup>24</sup>, each of these companies have securities that are traded on U.S. markets, and each experienced an increase in volume and/or an unusual decrease in price in the period prior to the events of September 11.

---

<sup>23</sup> American Depository Receipts are receipts issued by a U.S. bank for the shares of a foreign corporation held by the bank in its vault. These receipts are publicly traded in the U.S. markets.

<sup>24</sup> Although the U.S. markets were not the primary market for Swiss Re, which is traded on the VirtX, and Allianz AG, which trades on the Frankfurt Stock Exchange, trading in the American Depository Receipts (ADR's) of these companies was reviewed.

We made immediate efforts to identify firms responsible for increased activity and to identify the accounts at those firms that were responsible for the activity. We obtained LOPRs in order to identify any accounts that effected timely options positions prior to the events.

**1. Swiss Re**

Swiss Reinsurance Co. is a global insurance company located in Zurich. The primary market for Swiss Re common stock is the VirtX.<sup>25</sup> However, Swiss Re ADRs are traded over-the-counter, albeit infrequently, in the United States. There are no options on Swiss Re common stock or ADRs traded in U.S. markets. There was no unusual increase in volume and/or anomalous decrease in price in the three-week period prior to September 11. However, there was an unusual surge in volume in Swiss Re ADRs in early August 2001. Bluesheet information for the period of August 1 through September 21, 2001 was obtained for three firms (Merrill Lynch, Pierce, Fenner & Smith Inc., Herzog Heine, Geduld, Inc. and SG Cowen Securities Corp.) where there were accounts that appeared to engage in bearish trading in early August. A review of accounts responsible for the sell side activity in August revealed that accounts of institutions well known to staff were largely responsible for the increase in volume and that there were news items regarding the company and industry that appeared to justify the increase in volume.

**2. XL Capital**

XL Capital Ltd., located in Bermuda, is a global insurance and financial services provider. XL Capital common stock is traded on the NYSE and options are listed on the PHLX. XL Capital common stock volume increased on August 31, 2001 and XL Capital put option volume increased on September 10, 2001. The NYSE obtained bluesheet information for XL Capital common stock for the period of September 4, 2001 through September 10, 2001 from a total of 65 firms. The PHLX obtained bluesheet information for XL Capital options for the period of August 27 through September 10, 2001.

---

<sup>25</sup> VirtX, located in London, is a pan-European electronic exchange.

**Table 2**  
**XL Capital Option Volume**

Date	Calls	Puts
08/27/01	5	5
08/28/01	1,856	43
08/29/01	0	0
08/30/01	114	65
08/31/01	1,747	0
09/04/01	610	302
09/05/01	75	73
09/06/01	155	0
09/07/01	0	0
09/10/01	9	100

Neither the NYSE nor the PHLX identified any suspicious activity in XL Capital common stock or options prior to the events.

### 3. Allianz AG

Allianz AG is a global insurance company located in Munich, Germany. Allianz AG ADRs are traded on the NYSE. There are no options on either Allianz AG common stock or ADRs traded in U.S. markets. Between August 31 and September 10, 2001 the price of Allianz AG ADRs dropped 15.6 percent from \$28.20 to \$23.79 and the volume on September 10, 2001 (38,500) was more than double the average daily volume for the preceding ten trading days (14,300). The NYSE obtained bluesheet information for Allianz AG ADRs for the period of September 4, 2001 through September 10, 2001 from four firms. After review of this information, the NYSE did not identify any suspicious activity in Allianz AG common stock prior to the events.

### 4. AIG

American International Group, Inc., located in New York City, is a holding company with insurance and financial services operations. AIG common stock is traded on the NYSE and AIG options are traded on the CBOE, the AMEX, PHLX, and the PSE. AIG call option volume increased on September 5 and 10, 2001. The NYSE obtained bluesheet information for AIG common stock for the period of September 4, 2001

through September 10, 2001 from 43 firms. The CBOE obtained bluesheet information for AIG options for the period of August 27 through September 10, 2001 from all firms that executed AIG options transactions during the period.

Table 3  
AIG Option Volume

Date	Calls	Puts
08/27/01	10,142	2,342
08/28/01	8,475	2,880
08/29/01	5,686	1,934
08/30/01	8,284	3,411
08/31/01	902	891
09/04/01	1,449	1,815
09/05/01	16,801	4,634
09/06/01	4,587	1,045
09/07/01	3,700	2,299
09/10/01	5,093	990

Following the review by the NYSE in AIG common stock, we interviewed traders of several large institutional accounts responsible for large transactions in AIG options prior to September 11. In each instance, the traders for the institutional accounts stated that AIG options were either purchased as part of an established hedging strategy against a long stock position or a hedge against a long stock position was triggered by the availability of inexpensive options in the days prior to the events. A review of account statements and market data supported the statement by the traders.

#### 5. Citigroup

Citigroup Inc., located in New York City, is a financial services holding company whose operations include Travelers Insurance Group plc. Citigroup common stock is traded on the NYSE and Citigroup options are traded on the CBOE, AMEX, PHLX, PSE and the International Securities Exchange (ISE). Citigroup put option volume spiked on August 29 and September 5 through 10, 2001 and there was an increase in Citigroup call option volume on September 10. The CBOE obtained bluesheet information for Citigroup options for the period of August 27 through September 10, 2001 from all firms that executed Citigroup options transactions during the period. The NYSE reviewed equity trading, including short-selling. Following a review of those trading records

neither the NYSE nor the CBOE identified any suspicious activity in Citigroup common stock or options prior to the events of September 11.

**Table 4**  
**Citigroup Option Volume**

Date	Calls	Puts
08/27/01	10,170	2,849
08/28/01	7,393	8,328
08/29/01	10,173	23,016
08/30/01	11,606	17,927
08/31/01	10,062	11,558
09/04/01	9,206	5,347
09/05/01	10,242	26,583
09/06/01	13,778	28,964
09/07/01	11,717	28,409
09/10/01	39,238	21,965

#### 6. AON Corp.

Aon Corp. is an insurance holding company headquartered in Chicago. Aon had substantial operations in the World Trade Center. Aon common stock is traded on the NYSE and options are traded on the CBOE and the PSE. Aon put option volume increased on September 7, 2001. The CBOE obtained bluesheet information for Aon Corp. options for the period of August 27 through September 10, 2001 from all firms that executed Aon Corp. options during the period. Following a review of the trading information, neither the NYSE nor the CBOE identified any suspicious activity in AON Corp. common stock or options prior to the events of September 11.

**Table 5**  
**AON Corp. Option Volume**

<b>Date</b>	<b>Calls</b>	<b>Puts</b>
08/27/01	0	0
08/28/01	0	0
08/29/01	21	20
08/30/01	228	20
08/31/01	41	6
09/04/01	279	0
09/05/01	20	0
09/06/01	0	0
09/07/01	0	550
09/10/01	10	0

#### 7. Marsh & McLennan

Marsh & McLennan is an insurance holding company headquartered in New York City. The firm had substantial operations at the World Trade Center. Marsh & McLennan common stock is traded on the NYSE and options are traded on the AMEX, CBOE, ISE, PSE, and the PHLX. Marsh & McLennan put option volume increased on September 5, 6 and 10, 2001. The CBOE obtained bluesheet information for Marsh & McLennan options for the period of August 27 through September 10, 2001 from all of the firms that executed Marsh & McLennan options transactions during the period. The NYSE obtained bluesheet information for Marsh & McLennan common stock for the period of September 4, 2001 through September 10, 2001 from 10 firms.<sup>26</sup>

<sup>26</sup> These firms were selected based on either the volume of selling activity or a shift in concentration from buying activity prior to the review period to selling activity during the review period.

**Table 6**  
**Marsh McLennan Option Volume**

<b>Date</b>	<b>Calls</b>	<b>Puts</b>
08/27/01	407	85
08/28/01	163	223
08/29/01	408	93
08/30/01	373	80
08/31/01	22	38
09/04/01	133	197
09/05/01	79	849
09/06/01	203	1,265
09/07/01	217	307
09/10/01	400	2,782

We interviewed traders for several institutional accounts responsible for large and timely options transactions in Marsh & McLennan options prior to the events. The explanations provided by these institutional accounts were fairly consistent and credible. The Marsh & McLennan options were either purchased as part of an established hedging strategy against a long stock position or as a hedge against a long stock position that was triggered by the availability of inexpensive options and/or a decline in the price of Marsh & McLennan common stock in the week prior to the events. A review of account statements and market data supported the traders' statements.

#### **8. Coordination of Review by SROs**

In addition to the securities of the above seven companies, the Office of Market Surveillance also coordinated the SRO's review of trading in the following 15 securities of insurance companies:

- Aegeon N.V. (common stock: NYSE);
- Allstate Corp. (options: CBOE);
- AXA SA (options: CBOE; common stock: NYSE);
- Chubb Corp. (options: CBOE);

- Cigna Corp. (options: CBOE);
- CNA Financial Corp. (options: AMEX);
- Consec Inc. (options: CBOE; common stock: NYSE);
- Hartford Financial Services Group, Inc. (options: CBOE; common stock: NYSE);
- IPC Holdings Ltd. (common stock: NASDR);
- John Hancock Financial Services Inc. (options: CBOE);
- Lincoln National Corp. (options: AMEX);
- MetLife Inc. (options: CBOE);
- Progressive Corp. (options: CBOE);
- Royal & Sun Alliance Insurance Group plc (common stock: NYSE);  
and,
- Trenwick Group Ltd. (common stock: NYSE).

The SROs reviewed trading in the common stock and options of the above 15 companies and referred to the Division's Office of Market Surveillance accounts that they determined warranted further review. Although a number of the accounts referred had large timely trades, based on interviews that we conducted with accounts responsible for sizeable activity, we determined that the option activity effected by these institutional accounts was due to hedging long stock positions. The reasons offered by the traders interviewed for hedging their long stock positions included one or more of the following:

- Options transactions were part of an established hedging strategy against a long stock position;
- Options transactions were the result of a hedge against a long stock position triggered by the availability of relatively inexpensive options (verified); and,
- Options transactions were effected to hedge long stock position because of recent downturn in insurance company stock prices (verified).

We found no direct link between any accounts with timely activity in insurance company securities prior to the events with any of the persons or organizations on any of the DOJ lists.

**C. Other Industry Groups**

For each of these industry groups, the Division and/or the relevant SRO reviewed trading in individual common stocks, equity options, and ETFs and similar products.

**1. Financial services**

Trading in the securities of financial services companies was reviewed due to the substantial physical damage sustained by the industry on September 11 and the impact on anticipated industry revenues and earnings by a further weakening economy due to the events. A review of trading in these securities by SRO and Commission staff revealed no unusual, unexplained activity.

**2. Defense and Aerospace**

Purchasing activity in these securities was reviewed due to the general rise in prices of these securities following the events based on the expectation of increased spending by the U.S. government on defense in reaction to the terrorist attacks. The review of purchasing activity by SRO and Commission staff revealed no unusual, unexplained activity in these securities.

**3. Security Providers**

Similar to the defense and aerospace industry, prices of securities in this industry increased post-September 11. The review of purchasing activity by SRO and Commission staff revealed no unusual, unexplained activity in these securities.

**4. Travel and Leisure Services**

The securities of companies in these industries were affected negatively by the events, particularly the securities of hotel and cruise line companies. No unusual, unexplained activity was revealed by the review conducted by SRO and Commission staff.

**D. Narrow and Broad Based Indices and Exchange Traded Funds**

Trading in all index products and exchange traded funds was reviewed and requests for account identifying information were sent to securities brokerage firms with respect to 32 of these products. Particular attention was paid to the trading in products based on the Dow Jones Industrial Average, Standard & Poor's One Hundred and Five Hundred Indexes and the NASDAQ One Hundred Index. Initially, LOPR reports for options trading on these indices were reviewed by both SRO and Commission staff. Over 4 million transactions in options and underlying equities were subsequently reviewed by SRO and Commission staff. No unusual, unexplained activity was revealed as a result of these reviews.

#### IV. Conclusion

The Division of Enforcement has completed its investigation of trading in securities to determine whether there was evidence that anyone who had advance knowledge of the terrorist attacks on September 11 sought to profit from that knowledge by trading in United States securities markets. We have not developed any evidence that suggests that those who had advance knowledge of the attacks traded on the basis of that information. In every instance where we noticed unusual trading before the attack, we were able to determine, either through speaking directly with those responsible for the trading, or by reviewing trading records, that the trading was consistent with a legitimate trading strategy.

We are providing this memorandum to the Commission so that you will know the results of our investigation and so that you can decide whether to issue a statement notifying the public that we have not uncovered any evidence that anyone who had advance knowledge of the attack sought to profit from the information by trading securities.

#### APPENDICES

- A. Commission Staff who worked on the investigation
- B. List of Securities Reviewed by Foreign Regulators
- C. List of All Securities Reviewed
- D. Databases Created
- E. NYSE Report
- F. NASDR Report

Note that, due to their size, Appendices E and F are being distributed only to the Commission. Copies for review are available from the Division of Enforcement, Office of Market Surveillance.