

## Internal Memo

Re: Preliminary Meeting with Joe Cella  
Date: June 23, 2003  
Time: 1:00 p.m.  
Location: SEC HQ  
Attendees: Joe Cella, SEC  
Richard Humes, SEC  
Doug Greenburg (Team 4)  
Duration: 40 Minutes  
Nature: Unclassified; voluntary; preliminary meeting to discuss SEC's investigation of trading activity designed to profit from the September 11 terrorist attacks.  
Write-up: DNG

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I met today with Joe Cella, the Chief, Office of Market Surveillance, Division of Enforcement at the SEC. Richard Humes, of the SEC's General Counsel's office attended the meeting, although he was about 10 minutes late. Cella is the SEC official who managed the SEC's investigation into potential trading activity designed to profit from the September 11 terrorist attacks. Cella had requested the meeting to give an overview of the SEC's efforts in advance of our receipt of the report the SEC Staff prepared on the subject. I attempted to defer the meeting and explained we would have to interview him after reviewing the report. Cella said he understood that, but thought a preliminary meeting would be useful. I agreed to meet with him, with the understanding a more formal interview would take place after we reviewed the SEC's report.

The following summarizes the key points discussed during the meeting and contains neither a verbatim recitation or comprehensive report. This memo is organized by subject matter and does not necessarily address topics in the same order as they were discussed during the meeting. This memo is based on a preliminary and brief discussion without having had the benefit of reviewing the SEC's report or supporting documents.

Cella gave an overview of the SEC's investigation. He said he managed it, with supervision from William R. Baker, then Associate Director, Division of Enforcement. [Baker is now in private practice at Latham & Watkins.] Cella estimated up to 40 SEC staffers worked on the investigation at one time or another. Cella said that he, Baker, and Antonia Cion, another Enforcement Division official, all were part of the Financial Review Group (FRG), based at the FBI, that was assembled as part of the post-9/11 investigative effort. Cella said the SEC had considerable interaction during the investigation with the FBI and certain U.S. attorneys offices (E.D.N.Y. and S.D.N.Y.). He said the primary FBI contacts were agents [REDACTED]

[REDACTED] The primary DOJ contact, was Ken Breen, an AUSA from the E.D.N.Y, who was assigned to the FRG. Rob Khauzami, then head of the Securities and Commodities Fraud section at the S.D.N.Y. also had a role in the investigation. (Cella said Khauzami is now with Deutchsbank). In addition to government officials, Cella said

the SEC had considerable contact with the private sector, the various exchanges, and foreign officials during the course of the investigation.

Cella said that the SEC ultimately concluded there is no evidence that any person traded with knowledge of the impending terrorist attacks. He said the investigation focused on companies likely to suffer a decline in stock price as a result of the attacks, including UAL, AMR (parent of American), 21 other airline stocks, Boeing, insurers, companies headquartered in the WTC, the financial services industry, and the travel and leisure industry. He said the investigation also looked at companies that might benefit from the attacks, including defense and aerospace companies and security companies. Overall, he said the SEC looked at trading in 103 companies as well as 32 exchange-traded funds or indices. As would be expected, they devoted substantial efforts to looking into options trading and short-selling. They also investigated borrowing of securities through a private company called Loanet, which Cella explained arranged for lending of securities that could be used in certain short-selling activities.

Cella said the press reports about unusual trading patterns in put options are largely erroneous. In fact, he said there were only two days with unusual trading patterns. On September 6, 2075 puts were purchased in UAL, an unusually high number. As it turned out upon investigation, 2000 were purchased by a single U.S. investor, who was pursuing an overall strategy of betting against United. Moreover, September 6, 2001, was the day Goldman Sachs downgraded the entire airline industry. Cella said this trader was interviewed, and his explanation checked out.

On September 10, 2001, 2,282 put options were purchased in AMR. Upon investigation, a substantial number of those puts can be attributed to a newsletter for options traders put out by Steve Sarnoff. Sarnoff's newsletter recommended the purchase of a certain series of AMR puts, and apparently, many of his subscribers did so on his advice (frequently in the unusual sized-block of six contracts). Cella said after thorough investigation, including interviewing dozens of Sarnoff's subscribers, there was no reason to believe anyone who traded on September 10 had any information about the impending attacks.

Other than these two days, Cella said there was no particular unusual patterns in the trading of UAL or AMR during the relevant period. He also pointed out there was a substantial reason to bet against those companies at that point in time (including UAL's cutting earnings expectations on September 7). According to Cella, there was no substantial offshore trading or trading from the Middle or Far East.

With respect to the other companies or investments investigated, Cella said the investigation similarly revealed no efforts to profit from the terrorist attacks. Cella said the SEC and FBI devoted substantial resources to the inquiry and never came up with any evidence of illicit trading. Cella said the investigation received 100 percent cooperation. He said there are no outstanding questions or issues.

Cella said the SEC worked with law enforcement or regulators in the UK and Japan, as well as other jurisdictions. He said he is unaware of any evidence that anyone in the world traded with any knowledge of the impending attacks.

Cella pointed out that a number of the large insurance companies hurt by 9/11 are traded in Germany. He noted that the head of Germany's Central Bank had publicly stated soon after 9/11 that there appeared to have been substantial unusual trading in the stock of these companies. Cella said, however, that he has since spoken several times to various German officials, who entirely discounted such allegations. Cella said, however, that the Central Bank has never publicly retracted the statement. Cella said that because the German investigation was handled by German criminal law enforcement officials, he had less contact with them than did the FBI. As a result, he knew less about the investigation in Germany than he did the investigation in other countries. He suggested the FBI might know more than he about the German investigation. [That said, Cella had no reason to believe there was any illicit trading in Germany and his conversations with German officials led him to believe the opposite.]

At the conclusion of the brief meeting, Cella reiterated his willingness to talk further about any aspect of the investigation. Cella also confirmed that the SEC staff had summarized the investigation in a memo to the Commission, with supporting documents. Humes said that the SEC itself -- the actual Commission -- would have to approve turning over such a report to our Commission, but that there was no legal impediment to it doing so. He said he would work on a memo to his Commission to obtain its approval. I told him our Deputy GC had sent the official request to him last week, but he said he did not get it. I assured him I would get it to him today.