STATEMENT OF THE HONORABLE RAY GARRETT, JR.
CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION
BEFORE THE SUBCOMMITTEE ON HUD - SPACE -
SCIENCE - VETERANS, COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE (THURSDAY, OCTOBER 11, 1973)

Mr. Chairman, members of the Subcommittee, pursuant to your request, I am pleased to testify here today to discuss the Commission's enforcement program. I understand that your Subcommittee, which generally is concerned with budget matters for a number of agencies, wishes to discuss the Commission's handling of the Equity Funding matter, particularly as set forth in the Chairman's letter to me of September 10, 1973.

As I believe this Subcommittee is aware, I was not a member of the Commission at the time the Equity Funding matter surfaced, but I have reviewed the facts in that matter.

Then the item appeared in the Wall Street Journal on August 29, suggesting that the Commission had been alerted to problems at Equity Funding as early as March 9, 1973, and the Commission had not suspended trading in Equity Funding stock until March 28, I requested a report from the staff. This resulted in a memorandum dated August 31, 1973, from Mr. Boltz to Mr. Irving M. Pollack, Director of our Division of

Enforcement, setting out a chronology and attaching a copy of a memorandum dated March 16, 1973, from Mr. Leslie L. Ogg, an attorney in our Los Angeles Regional Office to Mr. Botlz [sic]. In response to your letter of September 10, at my request the Office of the General Counsel together with the Division of Enforcement produced the memorandum that was forwarded to you by my reply of September 26. I have attached copies of all of these to my original statement to avoid having to repeat details.

Before summarizing the sequence of events, I would like to acquaint the Committee with certain facts about Equity Funding. It is not a run-of-the-mill company. [Descriptions supplied separately.]

With the Subcommittee's permission, I should like to summarize briefly my understanding of the relevant facts.

At about six o'clock in the evening, Eastern Time, on Friday, March 23, of this year, William Blundell, Bureau Chief of the Los Angeles Office of the Wall Street Journal, advised Stanley Sporkin, the Deputy Director of our Division of Enforcement, of certain rumor that had been circulating concerning possible fraudulent activities at Equity Funding. Our Los Angeles Regional Office immediately contacted Mr. Blundell and a meeting with him was set for Monday, March 26, 1973.

On Monday, March 26, prior to meeting with Mr. Blundell, our Los Angeles Regional Office contacted the independent auditors of Equity Funding Life Insurance Company, a subsidiary of Equity Funding -- Haskins and Sells -- to discuss Equity Funding's financial statements. After three telephone conversations with Haskins and Sells, no information tending to verify the rumors was obtained, but the Commission's staff commenced examining company filings and financial statements. At the same time, in Washington, Mr. Sporkin alerted the Commission to the possibility of problems in Equity Funding. Later in the day on Mach 26, members of the staff in our Los Angeles Regional Office met personally with Mr. Blundell of the Wall Street Journal, who recited in some detail the information had had obtained from former employees of Equity Funding.

Specifically, I understand our staff was then advised that:

(1) two former employees of Equity Funding, Messrs. Hopper and Majerus, and one Raymond Dirks believed that Equity

Funding’s top management had created a substantial amount of bogus or fictitious insurance sales;

(2) false insurance applications and policies had been prepared and the bogus insurance business was fed into the company’s data processing equipment;

(3) Equity Funding’s management had engaged in efforts to obtain illegally assets from Bankers National Life Insurance Company, one of Equity Funding’s recently-acquired subsidiaries;

(4) the fictitious insurance business (designated “Y” business) had its genesis in the creation of a special class of insurance offered to employees of Equity Funding with free premiums during the first year; and

(5) it was believed that this insurance was then offered to reinsurance companies which provided Equity Funding with additional income.

Mr. Blundell expressed his concern whether the information he had disclosed was reliable and whether these former employees and Mr. Dirks would talk to the Commission. This initial discussion left unresolved numerous questions concerning how, if these statements were true, this scheme had been implemented.

The next day, March 27, the staff commenced questioning these former Equity Funding employees and Mr. Dirks. In substance, their testimony repeated and elaborated upon the information furnished by Blundell to our staff the day before -- information subsequently supplemented by a letter to the Commission from the New York Insurance Department. This letter, which we received on March 30, 1973, advised us of an interview by that Department on March 7, 1973, which Ronald Secrist, a former officer of Bankers National Life Insurance Company, a subsidiary of Equity Funding. A copy of the letter has previously been made available to the Subcommittee’s staff and is attached to my statement.

As a result of the initial inquiry into this matter, the staff concluded either that a massive fraud had occurred or that there was a concerted effort to disseminate intentionally adverse rumors about the company in order to devalue its stock price. In either event, it was the view of senior Commission staff officials that, without full clarification of the facts informed investment decisions could no longer be made as to the investment merit of Equity Funding securities.

Accordingly, our staff recommended and the Commission approved a suspension of trading in the company's stock, effective the next morning, March 28. Equity Funding's management and counsel, it should be noted, vigorously denied the existence of any fictitious assets.

We continued our investigation of this matter and, shortly thereafter, on April 2, the Commission instituted an injunctive action against Equity Funding for antifraud violations, which resulted in the company's consent to the entry of an injunction against the company, its officer and directors and the creation of a court-appointed board of directors. A Chapter X reorganization proceeding was instituted shortly after the entry of this decree.

The foregoing summarizes the relevant information which prompted the Commission's action in the Equity Funding matter.

The Chairman's September 10 letter to me refers to an August 29, 1973, article in the Wall Street Journal, which suggested that we had received an indication of this scandal on March 9. The circumstances, as I understand them, are as follows:

On March 9, Mr. Edward J. Germann, of the California Department of Insurance, advised Mr. Leslie Ogg, of our Los Angeles staff, that Equity Funding was about to acquire a number of insurance companies, including two companies based in California and New York, respectively. Mr. Germann explained that, while no application had yet been filed, his office would be required to pass upon the proposed acquisition within 60 days after a filing was made. Mr. Germann further advised that his office had received a report from the New York Insurance Department that a former employee of Equity Funding had reported that some of Equity Funding's assets could have been overstated and that investors as well as policyholders were experiencing delays in effecting cancellations. In this context, Mr. Germann asked Mr. Ogg to explain the nature of the Equity Funding operation. The subsequent discussion centered around the actual operation of Equity Funding and the complex cash flow attributes of this unique program. It was then suggested that the complex nature of the company's program could explain delays that reportedly had been experienced in the initiation and termination of customer accounts. There was no information related by Mr. Germann to Mr. Ogg of a scandal at Equity Funding. Nor was there any information furnished indicating that Equity Funding had issued massive fictitious insurance policies or engaged in other spurious business activities. Mr. Ogg requested, however, that Mr. Germann obtain as much detailed information as he could and, upon the receipt of any such information, that Mr. Germann meet again with the staff to decide when an inspection might be arranged.

Suggestions that Equity Funding assets might be overstated had arisen in 1971, but were not substantiated after a staff inquiry of former Equity Funding employees. The individuals questioned -- William Sessler, John Templeton and William Mercado -- stated that there were no irregularities in the operations or accounting practices of Equity Funding and that earlier suggestions to the contrary resulted because the corporation had been founded by salesmen who were not qualified accountants. Subsequently, the corporation employed several qualified, certified public accountants. The staff concluded there was no basis for any claims of a present understatement of assets at Equity Funding.

The Equity Funding debacle represents a major financial reversal for our capital markets. We are most sympathetic with the plight of the investors who have suffered substantial losses in these securities. Needless to say, we make ever attempt to detect frauds in their incipient stages and frequently do so. We attempt to minimize, as far as practicable, the perpetration of frauds with the apparent magnitude of Equity Funding. But where frauds, through deviousness and deception, cannot be detected early enough, we are compelled to rely upon the vigilance and alertness of our enforcement staff to bring them to an effective and early conclusion. After review of the circumstances in this case, I am satisfied that our staff exercised appropriate judgment, consistent with the facts then available.

As requested by your staff, I am submitting with my statement organization charts showing authorized positions for the Commission's fiscal years 1972 through 1974, inclusive. Also attached is a statement of our requests for funds for the same period.

Gentlemen, this concludes my statement. We will be pleased to answer any questions you may have.

[do not transcribe]

CORRESPONDENCE BETWEEN THE SECURITIES
AND EXCHANGE COMMISSION AND SENATOR
WILLIAM PROXMIRE CONCERNING EQUITY FUNDING

[emblem] SECURITIES AND EXCHANGE COMMISSION
OFFICE OF Washington, D.C. 20549
THE CHAIRMAN

September 26, 1973

Honorable William Proxmire
United States Senate
Washington, D.C. 20510

Re: Equity Funding Corporation of America
File No. 132-3

Dear Senator Proxmire:

This is in response to your inquiry of September 10, 1973 concerning the Commission's role in the investigation of the Equity Funding matter. As you are aware, I was not a member of the Commission at the time the Equity Funding activities were uncovered. My review of the facts as provided by the Commission's staff, however, indicates that the Commission can justifiably be proud of the speed with which it acted in this matter.

I trust that the enclosed memoranda provide the information you seek. If you have any questions, do not hesitate to communicate with me.

Sincerely,

[signature]
Ray Garrett, Jr.
Chairman

Enclosures

MEMORANDUM OF
OFFICE OF GENERAL COUNSEL AND DIVISION OF ENFORCEMENT
IN RESPONSE TO LETTER OF SENATOR PROXMIRE,
DATED SEPTEMBER 10, 1973,
REGARDING EQUITY FUNDING CORPORATION OF AMERICA

On August 31, 1973, prior to the date of Senator Proxmire’s inquiry, Mr. Gerald Boltz, Los Angeles Regional Administrator of the Commission, in a memorandum to Irving M. Pollack, Director of the Division of Enforcement, provided a chronology of events relating to Equity Funding during the month of March 1973. Such memorandum, in its entirety, is attached. The following facts appear to be highly significant in evaluating the Commission’s handling of this matter.

A reporter of The Wall Street Journal contacted Ralph Erickson of the Los Angeles office of the Commission on Friday, March 23, 1973, and was referred to Stanley Sporkin, Deputy Director of the Division of Enforcement. At about 6:00 p.m. on March 23, the reporter, in a telephone conversation, informed Mr. Sporkin that he had information concerning possibly fraudulent activities at Equity Funding. Mr. Sporkin immediately called Mr. Boltz, who was ill at home. The Los Angeles office then arranged to meet with the reporter, and such meeting was held on Monday, March 26, 1973, at which time the reporter gave us the benefit of the information he had received. Also, on the evening of March 26, 1973, the reporter requested that the persons who furnished him with the information (former employees of the company) confer with the Commission’s staff, which they did commencing on March 27.

On the morning of March 26, Mr. Sporkin, while before the Commission on another matter, advised the Commission of the possible problems at Equity Funding, cautioning, however, that there had as yet been no verification of the information directly from the company. Indeed, the next day, March 27, Stanley Goldblum, Chairman of the Board of Equity Funding, persisted in publicly denying rumors of any fraud at Equity Funding.

On March 26 and March 27, Ralph Erickson, of our Los Angeles office and Mr. Sporkin contacted the company's auditors, who while expressing concern about the matter were unable to confirm the rumors in any material respect. Also on March 27 the Los Angeles office of the Commission commenced taking testimony from former Equity Funding employees and from Ray Dirks. Nonetheless, the information provided by the reporter and by these sources indicated the existence of either a massive fraud or a bear raid on the company evidenced by the downward market activity in the company's stock. In either event, it was the view of senior Commission staff officials that without full clarification of the facts informed investment decisions could no longer be made as to the investment merit of Equity Funding securities. It was against this background that the staff recommended and the Commission approved a suspension of trading in the company's stock, effective the next morning, March 28. There can be no doubt that The Wall Street Journal reporter provided to the Commission the first significant information about this matter.

The first confirmation which could be attributed to a high company official indicating that a massive fraud had taken place at Equity Funding reached us on Friday morning, March 30, when an attorney for First National City Bank, the company's lead banker, telephoned Mr. Sporkin to relate details of recent conversations between First National City Bank officer and a high official of Equity Funding. At Mr. Sporkin's request, the attorney and First National City Bank officials came to Washington that afternoon (March 30) and gave us the benefit of their information. The bank officials later flew to Los Angeles and conferred with Mr. Boltz during the weekend.

The Commission's Los Angeles office staff under Mr. Boltz' direction worked the entire weekend to prepare injunctive papers for a court action. On Monday, April 2, the Commission gave its approval for the filing of an injunctive action and such a suit was filed on that date alleging violations by Equity Funding of the antifraud provisions of the Securities Exchange Act of 1934. A court decree with the company's consent providing for broad injunctive relief and the establishment of a court-appointed board of directors and a special counsel for Equity Funding was entered on the next day. This action, however, was superseded by the Chapter X reorganization proceeding instituted shortly thereafter.

The Commission continues to be active in several aspects of the Equity Funding matter. Our Los Angeles office is providing assistance to the U.S. Attorney in Los Angeles in connection with the grand jury investigation in the matter and our New York Regional Office is investigating "insider trading" in the securities of Equity Funding in the weeks before disclosure of the fraud. The Commission is also taking an active role in the reorganization proceedings.

The letter from Senator Proxmire inquired specifically about information concerning Equity Funding allegedly given to the Commission on March 9, 1973. A memorandum to Gerald Boltz (attached to Boltz' memorandum to Pollack) summarizes the information provided by a representative of the California Department of Insurance. It is apparent that the kind of information then provided was not of the same character as that later received by the Commission's staff which prompted its action. In this regard it should be noted that by March 30, three days after the Commission approved a trading suspension, neither the Illinois Insurance Department nor the California Department of Insurance, which had been conducting an examination at the company's offices, had found any bogus insurance policies or other falsified records.

On March 30, 1973, Mr. Alan Levenson, Director of the Commission's Division of Corporation Finance, received a letter dated March 21, 1973 from Malcolm MacKay, First Deputy Superintendent of the State of New York Insurance Department. With his letter, Mr. MacKay enclosed a memorandum by a Senior Examiner of the New York Insurance Department dated March 15, 1973 concerning a visit on March 7, 1973 to such Department by Ronald Secrist, a former employee of two Equity Funding subsidiaries. As noted, prior to the date such memorandum was received at the Commission, a trading suspension in securities of Equity Funding had already been instituted.

Office Memorandum SECURITIES AND EXCHANGE COMMISSION

Date: August 31, 1973

To : Irving M. Pollack
Division of Enforcement

From : Gerald E. Boltz, Administrator [signature]
Los Angeles Regional Office

Subject: Equity Funding Corporation of America
(File No. LA-46)

Pursuant to the request received through the Division of Enforcement on August 29, 1973 for a chronology of events relating to the subject company in March 1973, the following information is supplied:

Friday, March 23, 1973 1/

Ralph H. Erickson, Assistant General Counsel, Los Angeles Regional Office, received a telephone call from William Blundell, Bureau Chief of the Los Angeles office of the Wall Street Journal, inquiring whether the Commission was investigating Equity Funding. Mr. Erickson furnished no information but suggested Blundell may wish to speak with Stan Sporkin, Deputy Director, Division of Enforcement. Later that day Gerald E. Boltz, Regional Administrator, received a telephone call while he was at home ill, wherein Sporkin advised that Blundell had called him and that Blundell had information concerning some possibly fraudulent activity at Equity Funding. Gerald Boltz thereupon called Ralph H. Erickson to discuss setting up an appointment with Blundell to obtain this information. John Peloso of the New York Regional Office called Mike Donahue of the Los Angeles office to advise he heard rumors on the “street” re Equity Funding, but no details.

1/ This chronology begins on March 23, 1973 as that was the first day we began to obtain information indicating a substantial fraud at Equity Funding. (See Background Section of this memo for events occurring prior to March 23, 1973.)

Monday, March 26, 1973, 11:40 a.m.

Ralph H. Erickson received a telephone call from Herb Lawson, Wall Street Journal, who indicated that there was talk in the street concerning what may be the “biggest insurance fraud in history” at Equity Funding.

11:45 a.m.

Erickson telephoned Sporkin reporting Lawson’s comments and discussed possible trading suspension.

11:55 a.m.

Erickson called the Los Angeles office of Haskins & Sells to discuss financial statements of Equity Funding.

Initial phone call resulted in two additional telephone conversations with Haskins & Sells’ offices that afternoon; no information tending to verify rumors was obtained; company filings and financial statements examined by staff.

In Washington, Sporkin advises Commission of possible problem at Equity Funding.

6:00 p.m.

Messrs. Boltz, Erickson and Les Ogg of the Los Angeles office met with William Blundell at the Los Angeles offices of the Wall Street Journal. Blundell recited in some detail information he had obtained from former employees of Equity Funding and further described the activities of one Ray Dirks in obtaining similar information. Blundell expressed his concern as to the reliability of the information and stated he was not sure his informants would talk to the SEC. Blundell was requested to contact his informants that evening in an attempted to convince them to come to the SEC with their information. Subsequently, Gerald Boltz received telephone calls at his home at approximately 8:00 to 9:00 p.m. from Messrs. Majerus and Hopper, wherein they offered to furnish information concerning Equity Funding to the Commission. Boltz asked them to appear the following morning to give statements.

Tuesday, March 27, 1973

Messrs. Dirks, Majerus and Hopper appeared in the morning and were introduced by Blundell. Majerus' statement was initially taken off-the-record by Boltz and Mike Donahue (LARO) (later on April 2 his on-the-record statement was taken). Concurrently, Messrs. Dirks and Hopper were interrogated on-the-record through the day on March 27 (these interrogations continued through the balance of the week). Conversations were also held between members of the staff and Larry Williams, Compliance Counsel for Equity Funding, wherein it was requested that the principal executives of the company and the company's accountants appear for an on-the-record interrogation on Thursday, March 29 in this matter. Further, the principal executives were urged to immediately furnish affidavits denying all rumors of fraud. Boltz conferred in a telephone conversation with Stan Sporkin and Irving M. Pollack. Discussion centered on whether we were witnessing a "bear" raid accompanied by the intentional dissemination of rumors or an actual fraud at the company, or both. It was finally agreed that based upon information and testimony just obtained from Majerus and Hopper, as well as recent market activity in Equity Funding stock sales, that trading should be suspended by the Commission immediately; this recommendation was presented to the Commission. The staff also met with the State of California Department of Insurance; we were apprised that they had no further information to furnish. Ogg and other staff members related information obtained by the Commission staff to the state officials. Goldblum issued press release denying rumors.

Wednesday, March 28, 1973

SEC trading suspension in effect. Additional testimony and statements taken of witnesses Dirks, Ballint and Hill (the latter two being partners of Haskins & Sells). Further inquiry of Larry Williams at Equity Funding re progress made on affidavits from company officials. Williams complained that the Commission's suspension of trading, which had been announced, was unjustified and terribly damaging to the company. Other members of the staff involved in reviewing the company's filings with the Commission, checking information from brokers for possible insider sales and other related market activity.

Thursday, March 29, 1973

Larry Williams advised the staff that they were experiencing a delay in obtaining affidavits, that some of them might not be forthcoming and that interrogation must be delayed until next day. Executives of Equity Funding might retain personal counsel. Other aspects of the investigation continued. Recommendation for injunctive action discussed with home office. Representatives of First National City Bank provide information to Division of Enforcement of illegal Equity Funding activities.

Friday, March 30, 1973

An on-the-record conference and interrogation of representatives of Seidman & Seidman and Haskins & Sells (also present was Larry Williams of the company). Following this interrogation, Williams furnished information indicating that Stanley Goldblum, president of Equity Funding, might have been selling securities of Equity Funding through Dishy-Easton & Co. Telephone calls were placed to the Division of Enforcement, Mr. Sporkin, who in turn contacted Dishy-Easton in order to freeze funds and securities in the Goldblum account. Other broker-dealers likely to have accounts for insiders of Equity Funding were checked in an attempt to freeze funds or securities therein. Equity Funding retained Buchalter, Nemer, Fields & Savitch law firm as general counsel. Conferences held with the Buchalter firm; company employees interviewed. State of California Department of Insurance urged by staff to seize company to preserve records. 2/

Saturday, March 31, 1973

Conferences held between the staff, company counsel, and members of the board of Equity Funding. Also a conference held with Seidman & Seidman relating information they were volunteering. Discussion also held re integrity of the company's records, preventing the erasure of tapes, etc.

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2/ The California Insurance Department was not fully convinced we had sufficient evidence to warrant seizure, but agreed to this procedure. Larry Baker, Deputy Commissioner, later stated: "At that point, we had not found one fake policy. We had nothing but stories. Our hearts were in our mouths."

Sunday, April 1, 1973

Further conferences with company counsel and certain employee informants were questioned concerning board of directors meeting held that day wherein officers of Equity Funding resigned. Complaint for injunctive and other moving papers prepared and discussions held concerning possible Court appointed board based upon the suggested resignation of all present directors of Equity Funding. Discussion also held concerning appointment of a special investigator for Equity Funding by the Court. Met with bank officials re company’s outstanding loans.

Monday, April 2, 1973

Commission injunctive action filed alleging a scheme to defraud in violation of Section 10b and Rule 10b-5 and false filings by Equity Funding. Conference held with U.S. District Judge Harry Pragerson. Candidates for possible board members contacted. Attorney Lewis Merriefield contacted re possible appointment as special investigator. Initial Wall Street Journal article appears describing Equity Funding fraud. Conferences held with principal bank lenders re further extensions of credit to Equity Funding.

Tuesday, April 3, 1973

Equity Funding Corporation of America consents to an order of permanent injunction, a Court appointed board of directors and appointment of a special investigator. Conferences held by the staff with Buchalter, Nemer, Fields & Savitch re company’s financial and operational crisis.

Wednesday, April 4, 1973

Further conference with company counsel re company’s condition. Further information obtained in an attempt to avoid reorganization under the Bankruptcy Act from employees and other informants re nature of fraud.

Thursday, April 5, 1973

Equity Funding Corporation of America files a petition under Chapter X of the Bankruptcy Act.
Irving M. Pollack

Background

During the 1968-1971 period, the Los Angeles office received complaints about the "back office" operations of Equity Funding resulting from delays in effecting customer orders. The staff made inquiries, and as a result the company changed certain procedures and hired an experienced compliance counsel in 1969.

In late 1971 a local attorney reported hearing of possible misstated assets due to improper accounting at Equity Funding. An inquiry was undertaken wherein present and former financial officers and accountants of the company were interrogated. This inquiry indicated that in the early 1960's the company had been managed by essentially "sales" people, who had not emphasized record keeping, so that by the mid 1960's the records were in a poor state. Subsequently, the company had corrected this situation by hiring several qualified accountants. Present and former officials questioned furnished no information concerning any other improper practices. (Subsequent investigation in mid 1973 showed that at least one of these witnesses withheld information from the staff and apparently attempted to shake down Equity's management in return for not divulging the true facts about the company.)

In January, 1972 the Los Angeles office recommended a scheduled 600-man-hour mutual fund inspection at Equity. The staff proposed to the California Corporation Commission and the California Insurance Department the formation of a joint task force to conduct inspections of several local insurance funding type companies. This was proposed in view of the substantial manpower requirements of these inspections.3/ Subsequently,

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3/ The Los Angeles office was then a branch office with approximately 25 employees. In April, 1972 the newly appointed Regional Administrator, Mr. Boltz, caused the office to become a regional office, and the staff was increased although such was limited by government and Commission employment freezes. (The Los Angeles office Investment Company Inspection Unit then consisted of two attorneys and one examiner, who were also responsible for all regional investment company investigations and litigation).

an inspection was conducted at Zenith Funding Corporation as, in part, a training exercise for the task force group, preparatory to inspecting the much larger Equity Funding.

On March 9, 1973 Edward Germann of the California Department of Insurance discussed Equity Funding with Les Ogg, Chief of the Investment Company Unit in Los Angeles (see attached memorandum). Ogg concluded that Germann furnished no new information but requested Germann to obtain further details and provide us with the information.4/ On March 12 an inspector from the state of Illinois commenced an examination at Equity Funding Life Insurance Company and was joined on March 16 by an examiner from the California Department of Insurance. However, by March 30 they had not found any fake policies or other falsified records.

4/ Due to a then pending court hearing re SEC v. Goldstein Samuelson, Inc., secretarial personnel did not transcribe Ogg's memorandum, dictated March 9, until March 16. The memorandum was routed to Mr. Boltz who first saw it on March 26, 1973, as he was at home ill during the previous week.

Attachment

GEB/rl

[handwritten initials]
March 16, 1973

Gerald E. Boltz

Leslie L. Ogg

Equity Funding Corporation
811-278

RE: Conference between Edward J. Germann, Division Chief, Company Information and Analysis Division, State of California – Department of Insurance and Leslie L. Ogg on March 9, 1973 at 2:00 p.m.

Mr. Germann stated that he had received a telephone call from the Insurance Commissioner's Office, State of New York. This telephone call was precipitated by the proposed acquisition of three affiliated insurance companies by Equity Funding Corporation (Equity Funding), the major one of which is incorporated in New York, while the other two are a California corporation, and a Dutch corporation. While this acquisition must ultimately be approved by the California Department of Insurance, no application has yet been filed.

The New York Insurance Commissioner's office was concerned because an informant, an ex-employee of Equity Funding in New Jersey, had come to their offices alleging that Equity Funding was overstating assets on their financial statements, issuing confirmations for sale of Fund's shares – which shares were in fact not issued until some later date, and delaying the payments for a substantial period of time to investors and policy holders who canceled programs.

Mr. Germann stated that when his office received the application from Equity Funding to acquire these three insurance companies, that he had 60 days in which to act. He said he felt that his superiors were going to demand a full inspection of Equity Funding's operations because of the question raised by New York and asked what assistance I could be. I advised Mr. Germann that similar allegations had been made before regarding this company and attempted to explain the Equity Funding program to him. He stated that it is possible this informant was an officer, perhaps a controller of the corporation, and if so, felt that such information probably was more substantial than past disgruntled employees. I agreed and suggested that he obtain as much detailed information as possible from the informant and that upon receipt of this information, we would set down with the Division of Insurance, as well as the Department of Corporations, and decide what type of task force might prove productive in this matter.

However, if the informant cannot give detailed information, I suggest delaying any type of inspection of the Equity Funding operations until next year when more personnel are available.

LLO:md

[stamp:] CHAIRMAN’S [illegible]
MAILED
SEP 19 [illegible] 3
Signed by: ………

Honorable William Proxmire
United States Senate
Washington, D.C. 20510

Dear Senator Proxmire:

I have directed our General Counsel’s Office to investigate and prepare responses to the questions in your letter of September 10, 1973, relating to the Equity Funding matter. As soon as that Office has finished its report, it will be forwarded to you.

Sincerely,

Ray Garrett, Jr.
Chairman

Dferber:db
9/17/73

JOHN SPARKMAN, ALA., CHAIRMAN
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DUDLEY L. O'NEAL, JR.
STAFF DIRECTOR AND GENERAL COUNSEL

United States Senate
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

September 10, 1973

[stamp:] CHAIRMAN'S OFFICE
RECEIVED
SEP 11, 1973
SEC. & EXCH. COMM.

The Honorable Ray Garrett. Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Dear Mr. Chairman:

The Wall Street Journal published a story on August 29 indicating that the Securities and Exchange Commission was notified of the potential Equity Funding scandal on March 9, 1973, several weeks before the Commission moved to suspend trading in Equity Funding stock. If these facts are correct, the article raises serious questions about the adequacy of SEC's supervisory efforts in connection with the Equity Funding matter.

As the Chairman of the Subcommittee on Independent Offices of the Committee on Appropriations, which includes the budget estimates for the Commission, I am deeply concerned about the implications of the August 29 article. In order to determine whether my Subcommittee should investigate this matter more thoroughly, I would appreciate as much information as possible concerning SEC's actions on the Equity Funding scandal. I would hope your response would be specific enough to answer the following questions:

1. What information did the Commission receive about a potential scandal at Equity Funding, and when was it received?

2. From whom was it received, and what official within the Commission was made aware of the information?

3. What specific inquiries were made by the Commission in response to the information received on the Equity Funding matter?

4. What specific information finally caused the Commission to suspend trading in Equity Funding's stock, and when was this information received?

5. What are the reasons for the time lag between the period when the Commission first received the information about a potential scandal at Equity Funding and its suspension of trading in the company's stock?

I would appreciate receiving a complete report on this matter as soon as possible.

With best wishes, I remain

Sincerely,

[signature]
William Proxmire, U.S.S.

WP:mm