

POLITICS AND POLICY

Lawmakers Joined Executives In Profiting From IPO Access

By **CHRISTINE B. WHELAN** and **TOM HAMBURGER**
Staff Reporters of **THE WALL STREET JOURNAL**
September 6, 2002

WASHINGTON -- Several members of congressional committees now investigating how Wall Street doles out lucrative initial public offering stocks to favored bigwigs have themselves gotten access to coveted IPOs.

The most prominent is New York Rep. John LaFalce, the House Financial Services Committee's top Democrat. In calling for hearings last week, he contended that IPO allocations based on inappropriate considerations was one of many investment-banking practices "that are atrocious but not illegal." Long an active investor, Rep. LaFalce in 1995 secured \$15,000 of IPO stock in Healthcare Services Corp., some of which he sold three months later for a \$5,000-plus profit.

Mr. LaFalce denied getting favorable treatment from his broker and said he lost money overall on the investment, which he called a "once-in-a-life" event. "There's no awkwardness at all," said Mr. LaFalce of his participation in the IPO inquiry. "I'm not speaking against IPOs. Companies need to come to the marketplace and we want to encourage that. [But] we want to make it as open as possible."

Mr. LaFalce is one of numerous members who dabbled in such shares during the IPO salad days, when it was almost certain that prices immediately would spike. Others include Gary Ackerman, another New York Democrat on the Financial Services Committee, and California Democratic Sen. Barbara Boxer, who sits on the Senate Commerce subcommittee on consumer affairs, which is likely to hold IPO hearings this month.

Wall Street's habit of favoring big institutional and individual investors, celebrities, corporate chieftains and other VIPs with IPOs leaves average investors with almost no chance of securing them. Neither Congress nor past administrations have ever tried to force Wall Street to allocate in a more egalitarian fashion. But the atmosphere seems to have shifted in the aftermath of revelations that [Citigroup](#) Inc.'s Salomon Smith Barney unit allocated nearly one million hot IPO shares to WorldCom Inc. executives who were giving the firm tens of millions of dollars in investment-banking business.

The House Financial Services Committee has subpoenaed documents on those allocations and asked Credit Suisse First Boston, part of [Credit Suisse Group](#), and [Goldman Sachs Group](#) Inc. to disclose documents on their IPO allocations. Salomon has said its allocations conformed to industry norms. Goldman and Credit Suisse First Boston pledged to cooperate with the inquiries.

Meanwhile, Securities and Exchange Commission Chairman Harvey Pitt late last month called for the National Association of Securities Dealers and the New York Stock Exchange to review the IPO process and consider additional antifavoritism rules beyond the ones the NASD recently proposed sending to the SEC for approval.

"It's never been a level playing field," says Neil Weisman, general partner at Chilmark 21st Century Capital, a New York hedge fund.

"But if Congress is getting shares, my guess is it's because they may give a favor down the line, not because they generate big commissions."

The congressional ethics committees have never issued rules on IPOs, though House and Senate rules and federal law prohibit members from taking anything in exchange for official action. "If a member really has a relationship with a broker that would entitle them to participate in an IPO, that's fine," said Stan Brand, a Washington ethics lawyer. "But if the shares could be seen as provided based on the individual's status as a public official, that's going to draw scrutiny."

Before the IPO craze petered out in 2001, there were always at least a few members each year whose financial disclosure statements revealed IPO trades.

Mr. Ackerman reported profits of between \$1,800 and \$6,700 on several IPOs in 1993. Mr. Ackerman said he lost money on other IPOs and called any suggestion that he got special treatment "absolutely absurd." He said he didn't even know what an IPO was when his broker purchased the shares without his knowledge. Nevertheless, he said he discontinued investments with that broker after an article in *The Wall Street Journal* mentioned the trades.

"I was not making the decisions; no one was rewarding me for anything," Mr. Ackerman said. "Making investments in American companies is not a crime and is not something someone should be ashamed of," he said. On the coming hearings, Rep. Ackerman added: "The IPO process is problematic in and of itself."

Ms. Boxer and her husband frequently trade stocks, and they participated in five IPOs in 2000, producing thousands of dollars in profits. For example, they purchased stock in the high-tech company [Avenue A](#) at its opening price of \$24 per share and sold

the next day, when its price hit \$72. A spokesman said Ms. Boxer's financial adviser made the trades without her knowledge and gave her no preferential treatment. Ms Boxer has since placed her investments in a blind trust.

Lawmakers' IPO trades first got media attention in 1993, when it was disclosed that then-House Speaker Tom Foley made more than \$150,000 over five years through IPO deals arranged by a longtime friend. He promised to stop investing in IPOs.

When he was in the House in 1992, Sen. Robert Torricelli made \$70,000 from a New Jersey bank IPO. Responding to criticism when the deal was disclosed the next year, he promised not to trade in future IPOs, but in 1997 he reported making \$1,692 on nine IPOs. The senator's staff said his brokerage firm recommended the deals but afforded him no favoritism.

Former New York Sen. Al D'Amato, a Republican, made a \$37,125 profit in one day trading on Computer Marketplace Inc.'s IPO in 1993. He denied that he had received favored treatment from his Stratton Oakmont Inc. broker, but an inquiry conducted for the SEC concluded that Stratton had bent its own rules "to service a United States senator." The Ethics Committee found "no improper conduct."

Despite those controversies, many other members of Congress have since traded in IPOs. Among them are California Democrat Nancy Pelosi, now the House minority whip; and Sens. Fred Thompson, a Tennessee Republican; and Judd Gregg, a New Hampshire Republican. The wives of Reps. Peter Deutsch, a Florida Democrat, and Lloyd Doggett, a Texas Democrat, and Sen. Jeff Bingaman, a New Mexico Democrat, also have been given access to IPOs. The members denied getting inappropriate treatment.

While he was a corporate chief executive in 1999, Vice President Dick Cheney flipped some of the year's most sought-after IPOs, producing \$45,000 in profits. During the presidential campaign, a spokeswoman said his broker gave him "no special consideration whatsoever."

Write to Christine B. Whelan at christine.whelan@wsj.com and Tom Hamburger at tom.hamburger@wsj.com