OFFICE OF
THE CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

August 31, 1987

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The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
2323 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell:

This is in response to your letter of July 17, 1987, concerning the stock, options and futures trading in the accounts managed by Ivan F. Boesky prior to and subsequent to the November 14, 1986 public announcement of his settlement with the Commission. (Hereafter, references to Boesky trading or transactions mean trading by accounts managed by Boesky.) Your letter requested an analysis of Boesky's futures trading for six months prior to and six months subsequent to the November injunction. In preparation of our response, we have reviewed the Commodity Futures Trading Commission's report to you that tracks Boesky reportable futures positions since 1983. We have focused our analysis on the period between the SEC's agreement with Mr. Boesky and the November injunction. The analysis below is based on our staff's review of trading summaries that report all known aggregate positions over 20,000 shares of stock or equivalent positions in options or futures, as well as periodic summary position reports compiled by Boesky staff.

This review and analysis reveals that from September to December 1986, Boesky partially hedged his long stock position by maintaining an overall short position in New York Stock Exchange Composite Index Futures ("NYSE futures") and an intermittent short position in S&P 500 futures.

For example, on September 10, 1986, the Boesky accounts were short 5,000 S&P 500 futures, a position worth approximately $600 million. This position increased in value by approximately $40 million over the next two days, as the market recorded one of its sharpest declines ever. Throughout this period, however, Boesky accounts were long approximately $1.8 billion in stock. The gain on the futures must be viewed against the decline in the larger long stock position.

By September 15, 1986, the consolidated positions of the Boesky accounts were long approximately $1.8 billion in stock and short nearly $1 billion in S&P 500 and NYSE futures. Between September 15 and November 1, Boesky maintained his long stock position at approximately $1.8 billion and effectively reduced his overall futures exposure by reducing the net short position. Boesky offset his short NYSE futures position by purchasing S&P 500 futures.

During the first two weeks of November, Boesky did increase his short futures position from $200 million to $689 million. However, Boesky began liquidating that position on November 12, reducing it to $550 million by end of trading on November 14. This liquidation accompained Boesky's reduction of his stock position to $1.2 billion on that date. This reduction is consistent with the conclusion that Boesky was using futures as a partial hedge to his stock position.

After November 14, Boesky's short futures position declined as the long stock position was liquidated, and the short futures position lost money during this period due to the overall rising market.

While Boesky did trade futures during the September through December period, and some of this trading may have been profitable, four additional points are salient:

(1) The futures at all times only partially hedged a larger stock position.

(2) By November 14, 1986, the short futures position had declined to $550 million (after previously rising to $1 billion) and declined further to $450 million on November 18. Thus, Boesky appears to have been reducing his futures short position proportionately with his underlying stock position. This activity is consistent with the view that Boesky was using futures to hedge rather than to speculate.

(3) During the September 11 and 12 market decline, the short futures position of the Boesky accounts increased from $600 million to $640 million. This gain, however, should be viewed against the decline in Boesky's $1.8 billion stock position to an approximate value of $1.67 billion in stock over the two day market decline.

(4) Between September 15 and November 18, the S&P 500 index rose from approximately 230 to a peak of 248 and closed at approximately 238 on November 18. Thus, the Boesky accounts must have lost money on the futures position during this period.

Subsequent to the November 14, 1986 settlement announcement, all positions in Boesky stock, options and futures accounts were gradually and steadily liquidated. As of December 19, 1986, the reportable futures positions were eliminated. (Reportable positions are those of sufficient size that they must be reported to the CFTC.)

In summary, the Commission's review has not identified inappropriate or even speculative futures trading by the Boesky accounts.

Please note that the information on Boesky stock and futures positions is non-public. I understand that, absent extraordinary circumstances, it is not the Subcommittee's practice to disclose publicly any non-public material without prior consultation with the Commission, and that you will follow this practice with respect to these materials.

Please call Richard Ketchum, Director, Division of Market Regulation, at (202) 272-3000 or Cecile Srodes, Director of Legislative Affairs, at (202) 272-2500, if you have any questions about this matter.

Sincerely,

David S. Ruder

David S. Ruder
Chairman