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# U.S. poised to bring more insider trading cases

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BOSTON/WASHINGTON (Reuters) - Fresh from laying charges in the largest hedge fund insider trading case in history, U.S. federal investigators are poised to bring further "significant" cases.

The targets will include financial professionals also involved in insider trading, a source familiar with the matter said. It was not immediately clear whether the new cases will be related to the one that ensnared hedge fund founder Raj Rajaratnam and executives from some of the largest U.S. companies.

On Friday, billionaire Raj Rajaratnam, who established Galleon Group in 1997, was charged with having used a network of company insiders to tip him off to information that netted $20 million in illegal profits between 2006 and 2009.

Galleon, which attracted some of Wall Street's savviest investors, is fighting for its life and investors who once counted themselves as lucky for getting access to one of the industry's finest technology hedge funds may be running for the exits, industry analysts and lawyers said.

Other firms caught up in the legal aftermath were rushing to control the damage and stressed they were cooperating with authorities. IBM placed senior executive Robert Moffat on leave of absence after he was arrested in the scheme.

Moody's Investors Service, already under fire for its role in the credit crisis, faced increased scrutiny after allegations one of its associate analysts leaked confidential information to Rajaratnam.

McKinsey & Co, the management consulting firm long known for its button-down culture and priding itself for playing by strict rules, said in a statement it was "distressed" by the arrest of consultant Anil Kumar, who has been put on indefinite leave after being charged in the case.

Former McKinsey & Co employees said it was "shocking" and "appalling," not to mention against all the firm's rules, that one of its consultants could profit from inside information.

A number of pension funds and endowments put money with Rajaratnam, helping the 52-year-old billionaire build Galleon Group into one of the world's biggest hedge funds with $7 billion in assets at its peak last year. U.S. financial regulators said the fund had $2.6 billion in assets as of March.

Rajaratnam's arrest also sent ripples through his native Sri Lanka, where he is at once viewed with admiration for his success and suspicion because of at least $5 million U.S. records show he gave to an organization found to have channeled money to the separatist Liberation Tigers of Tamil Eelam (LTTE).

The case also highlighted shifts at the main U.S. securities regulator, where a number of changes were made to help root out financial crimes when Mary Schapiro replaced Christopher Cox as Securities and Exchange Commission chairman earlier this year.

The SEC has faced widespread criticism for allowing the Bernard Madoff Ponzi scheme to thrive over many years and for failing to act decisively during the financial crisis.

Now staff attorneys no longer need to get permission from commissioners for a formal order of investigation or to use subpoenas. That power has been delegated to top enforcement staff, which insiders said streamlines the investigations process and has helped speed up the work they are doing.

"If you've just gotten a black eye, you need to vindicate yourself and show that you are no longer your grandfather's Buick," said Ron Geffner, a former SEC enforcement attorney who is now a partner at law firm Sadis & Goldberg LLC.

The SEC's internal changes are quickly being felt by managers in the $1.4 trillion hedge fund industry.

Several hedge fund managers said they now expect to have SEC lawyers knock on their doors more routinely to review certain documents.

Since 2006, when a landmark case reversed the SEC's rule to have hedge funds register with the regulator, the industry has managed to stay largely out of the SEC's sight.

"They are paying extra attention to everything right now," said Ian Roffman, a former SEC attorney, who is now a partner at Nutter McClennen & Fish, adding "We are in a period of very heightened enforcement activity."

Hedge fund managers have also been put on notice by the FBI that they are quite prepared to use court-approved telephone wire taps in insider trading investigations. They used those for the first time in this case.

The case against Rajaratnam got its start in 2007, when New York Stock Exchange's in-house regulators alerted the SEC to unusual trading activity in shares of Hilton Hotels Corp in 2007, and in Advanced Micro Devices Inc in 2008, said NYSE Regulation spokesman Ray Pellecchia.

"This may shutter Galleon," said Ron Geffner, a partner at law firm Sadis & Goldberg LLP, who works with hedge funds and their investors.

Rajaratnam's lawyer, Jim Walden, did not have any comment.

(Additional reporting by Jonathan Spicer, Steve Eder, Anupreeta Das, Dena Aubin and John Parry, editing by Leslie Gevirtz)