

DRAFT — Opening Statement

Professor Andrew Verstein

Vice Dean for Curricular and Academic Affairs

Professor of Law, UCLA School of Law

Before the Subcommittee on Capital Markets

Committee on Financial Services, U.S. House of Representatives

"Safeguarding Main Street: Combatting Fraud and Exploitation in Our Capital Markets"

April 15, 2026

Chairman Hill, Ranking Member Waters, Subcommittee Chairman Wagner, Ranking Member Sherman, and Members of the Subcommittee, thank you for the opportunity to testify. I am Andrew Verstein, Vice Dean and Professor of Law at UCLA. I appear in my personal capacity and not as a spokesman for UCLA.

Today's hearing concerns fraud in our financial markets. I want to address what I consider the most dangerous form of that fraud and explain why the strength of our regulatory institutions determines whether this danger remains manageable or becomes corrosive.

For context, I have dedicated my career to studying insider trading and market manipulation. The problem I consider most worrisome is insider trading by government officials.

I am not alone in this concern. In 1966, Professor Henry Manne of George Mason wrote the most famous book on insider trading ever published, arguing it was economically beneficial—a form of compensation for the entrepreneurs who create corporate value. Manne argued that corporate insider trading should be permitted. But even Manne drew the line for government insider trading. He warned against the ease with which inside information can be used as a payoff device, and that government officials can create the very events on which they trade. The appearance that the system is rigged for those in power corrodes confidence in both government and markets. If the strongest defender of insider trading drew the line here, the rest of us should take that line seriously.

This is why I am troubled by a pattern of trading widely reported in recent months. On several occasions in the past year, large directional trades have been placed shortly before major announcements by President Trump and proved extraordinarily profitable. Let me highlight two. On March 23, roughly \$580 million in crude oil futures were sold in a two-minute window, just fifteen minutes before the President announced a halt to strikes on Iranian energy infrastructure, which sent the value of those futures plummeting. And in January, a previously inactive Polymarket account wagered on the capture of Venezuelan President Maduro days before a covert military operation accomplished exactly that, turning \$34,000 into over \$400,000.

I cannot tell you today that these trades constitute insider trading. That requires tracing accounts, identifying beneficial owners, and establishing access to material nonpublic information. It is possible that the traders were just lucky, or that they had no ties to the Administration. What I can say is that these patterns exhibit the worrisome hallmarks investigators are trained to identify. Whether anyone is actually investigating is a question this Committee should be asking.

That question leads directly to my second point. Suspicious trading does far more damage when the public has no confidence anyone is investigating. Weak enforcement does not merely fail to catch wrongdoers—it invites suspicion of everyone, raises trading costs, and drives capital elsewhere.

I am therefore concerned about a sustained erosion of the SEC's capacity. Its Fiscal Year 2025 Enforcement Results, released last week, celebrate the closure of over a thousand matters without action. Whistleblower awards are down 90% and staffing down almost 20%. Meanwhile, the Consolidated Audit Trail—the most comprehensive surveillance tool the SEC has ever had—is being scaled back.

I take this last change personally. My own research uses SEC filings to detect insider trading that enforcement has missed. In one study, my co-authors and I found insiders concealing sales of overvalued stock worth more than \$100 billion annually. That kind of research empowers shareholders to hold directors and officers accountable.

But this is only possible when records exist. In research on insider trading around the collapse of Enron and WorldCom, I found the SEC had destroyed documents I needed—shredded without

being digitized. Records that are destroyed cannot be investigated by regulators, and they cannot be used by ordinary investors to protect themselves.

Reduced transparency and capacity undermines the SEC's ability to address not only government insider trading, but the full range of fraud before this Subcommittee today—including the Chinese ramp-and-dump schemes, influencer fraud, and elder financial abuse that my fellow witnesses will discuss.

The United States has the deepest and most trusted financial markets on Earth. That trust, once broken, is extraordinarily difficult to rebuild.

Thank you. I look forward to your questions.