DOWNLOAD PDF ARE INSIDER TRADING AND STOCK MANIPULATION SO BAD?

Chapter 1 : blog.quintoapp.com | Insider Trading

Why Insider Trading Is Bad. Such an investor could purchase the pharmaceutical company's stock prior to the public release of the information and benefit from a rise in the price after the.

In this article, we will look at some landmark incidents of insider trading. Still, while the market kept going up and up, these setbacks were seen as a small price to pay in order to get in on the big game later on. In October, , the big game was revealed to be yet another smokescreen. After the crash, the public was hurt, angry, and hungry for vengeance. This is like a boxer betting on his opponent â€” a serious conflict of interest. He later declined the pension when the public outcry grew too loud to ignore. Foster Winans is a landmark case for its curious outcome. Winans wrote the "Heard on the Street" column profiling a certain stock. The brokers made easy profits and allegedly gave some of their illicit gains to Winans. Winans was caught by the SEC and put at the center of a very tricky court case. Because the column was the personal opinion of Winans rather than material insider information, the SEC was forced into a unique and dangerous strategy. This meant that while Winans was convicted of a crime, the WSJ could theoretically engage in the same practice of trading on its content without any legal worries. Stewart claimed to have a pre-existing sell order with her broker , but her story continued to unravel and public shame eventually forced her to resign as the CEO of her own company, Martha Stewart Living Omnimedia. In , Stewart and her broker were also found guilty of insider trading. The Bottom Line Although the cases in this article are glaring examples, insider trading is often difficult for the SEC to spot. Detecting it involves a lot of conjecture and consideration of probabilities. Truth be told, the SEC has made mistakes and accused the innocent in cases that are borderline, at best. The risks, in this case, definitely outweighed the returns. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 2 : Reasons Why Insider Trading Is Wrong | Finance - Zacks

It is believed that insider trading and stock mar-rate insiders to disclose ket manipulation was widespread in the United their trades ex post cre- States until the early s and led to the enact- ates incentives for in-.

Introduction More Americans are investing in the stock market than ever before and Americans now have almost twice as much money invested in the stock market as in commercial banks. They know that our securities laws require free, fair, and open transactions. In the fiscal year ended September 30, , the Commission brought 57 insider trading cases. The Insider Trading Debate "Insider trading" is a term subject to many definitions and connotations and it encompasses both legal and prohibited activity. It is the trading that takes place when those privileged with confidential information about important events use the special advantage of that knowledge to reap profits or avoid losses on the stock market, to the detriment of the source of the information and to the typical investors who buy or sell their stock without the advantage of "inside" information. Today, we are seeing a resurgence of the insider trading of the s. The United States is again experiencing "merger mania. In , the United States Supreme Court held that a director of a corporation who knew that the value of the stock of his company was about to skyrocket committed fraud when he bought company stock from an outsider without disclosing what he knew. Those who oppose prohibiting insider trading advance many arguments, most of which fall on their own weight. Some argue that insider trading is a legitimate form of compensation for corporate employees, permitting lower salaries that, in turn, benefits shareholders. It provides an incentive to innovation, some argue, by promising huge rewards for developing a plan or product that will lead to a precipitous rise in the stock. Others have argued that American reliance on several antifraud provisions, and the absence of a statutory definition of insider trading, may lead to unfairly penalizing traders whose conduct comes close to the line. There are at least two compelling reasons for this. First, scienter, a fraudulent intent, is an element that must be proven. They willfully stride across the bright line of the law. Thousands of analysts ply their important trade in the United States diligently, effectively and within the law. But, ethically, its very clear: Finally, there are those who argue that insider trading is a victimless offense and that enforcing insider trading prohibitions is simply not cost effective; the amount of money recovered does not justify the money and human capital spent on investigating and prosecuting insider traders. But the options market presents a different story. Professional option writers write options only in response to a particular demand. Where that demand comes from an insider possessing material non-public information, the option writer suffers a loss that would not otherwise have occurred. In fact, as regulators throughout the world are discovering, governments cannot afford to turn a blind eye to insider trading if they hope to promote an active securities market and attract international investment. As one commentator on the subject observed: But one of the main reasons that capital is available in such quantities in the U. Fairness is a major issue. Even though it sounds simplistic, it is a critical factor and one that is absent, really to a surprising degree in many of the sophisticated foreign markets. The common belief in Europe that certain investors have access to confidential information and regularly profit from that information may be the major reason why comparatively few Europeans actually own stock. The preamble to the directive stresses the economic importance of a healthy securities market, recognizes that maintaining healthy markets requires investor confidence and acknowledges that investor confidence depends on the "assurance afforded to investors that they are placed on an equal footing and that they will be protected against the improper use of inside information. Insider Trading Law in the United States Rooted in the common law tradition of England, on which our legal system is based, we have relied largely on our courts to develop the law prohibiting insider trading. While Congress gave us the mandate to protect investors and keep our markets free from fraud, it has been our jurists, albeit at the urging of the Commission and the United States Department of Justice, who have played the largest role in defining the law of insider trading. After the United States stock market crash of , Congress enacted the Securities Act of and the Securities Exchange Act of , aimed at controlling the abuses believed to have contributed to the crash. The Act addressed insider trading directly through Section 16 b and indirectly through Section 10 b. Section 10 b of the Securities and Exchange Act of makes it unlawful for any person "to use or employ, in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the [SEC] may prescribe. It shall be unlawful for any person, directly or indirectly. The breadth of the anti-fraud provisions leaves much room for interpretation and the flexibility to meet new schemes and contrivances head on. Moral imperatives have driven the development of insider trading law in the United States. And the development of insider trading law has not progressed with logical precision as the reach of the anti-fraud provisions to cover insider trading has expanded and contracted over time. Far less clear was whether Section 10 b and Rule 10b-5 prohibited insider trading by a corporate "outsider. The Commission reasoned in language worth quoting: Analytically, the obligation [not to engage in insider trading] rests on two principal elements: In considering these elements under the broad language of the anti-fraud provisions we are not to be circumscribed by fine distinctions and rigid classifications. Thus, it is our task here to identify those persons who are in a special relationship with a company and privy to its internal affairs, and thereby suffer correlative duties in trading in its securities. Intimacy demands restraint lest the uninformed be exploited. The Commission adopted the "disclose or abstain rule": Several years later in the case of SEC v. Texas Gulf Sulphur Co. Insider trading reached new heights. Ironically, it is during this period that courts narrowed the scope of Section 10 b and Rule 10b-5 in the insider trading context. In the case of Chiarella v. United States, the United States Supreme Court reversed the criminal conviction of a financial printer who gleaned nonpublic information regarding tender offers and a merger from documents he was hired to print and bought stock in the target of the companies that hired him. In reversing the conviction, the Supreme Court held that trading on material nonpublic information in itself was not enough to trigger liability under the anti-fraud provisions and because the printer owed target shareholders no duty, he did not defraud them. In what would prove to be a prophetic dissent, Chief Justice Burger opined that he would have upheld the conviction on the grounds that the defendant had "misappropriated" confidential information obtained from his employer and wrongfully used it for personal gain. In response to the Chiarella decision, the Securities and Exchange Commission promulgated Rule 14e-3 under Section 14 e of the Exchange Act, and made it illegal for anyone to trade on the basis of material nonpublic information regarding tender offers if they knew the information emanated from an insider. In , the Second Circuit adopted the "misappropriation" theory, holding in the case of United States v. Newman 29 that a person with no fiduciary relationship to an issuer nonetheless may be liable under Rule 10b-5 for trading in the securities of an issuer while in possession of information obtained in violation of a relationship of trust and confidence. Newman, a securities trader, traded based on material nonpublic information about corporate takeovers that he obtained from two investment bankers, who had misappropriated the information from their employers. Three years later in Dirks v. Dirks was significant because it addressed the issue of trading liability of "tippees": Dirks held that tippees are liable if they knew or had reason to believe that the tipper had breached a fiduciary duty in disclosing the confidential information and the tipper received a direct or indirect personal benefit from the disclosure. Because the original tipper in Dirks disclosed the information for the purpose of exposing a fraud and not for personal gain, his tippee escaped liability. A significant aspect of the decision was contained in a footnote to the opinion, which has come to be known as "Dirks footnote These constructive insiders acquire the fiduciary duties of the true insider, provided the corporation expected the constructive insider to keep the information confidential. The Second Circuit again addressed the misappropriation theory in the case of United States v. The columnist tipped information about his upcoming columns to a broker among others and shared in the profits the broker made by trading in advance of publication. The Supreme Court unanimously agreed that Carpenter engaged in fraud, but divided evenly on whether he engaged in securities fraud. The "misappropriation theory" holds that a person commits fraud "in connection with" a securities transaction, and thereby violates 10 b and Rule 10b-5, when he misappropriates confidential information for securities trading purposes, in breach of a duty owed to the source of the information. First, the Court stressed that prohibiting insider trading is. Although informational disparity is inevitable in the securities markets, investors likely would hesitate to venture their capital in a market where trading based on misappropriated nonpublic information is unchecked by law. The undisclosed misappropriation of such information in violation of a fiduciary duty. The European Community Directive on Insider Trading As United States lawmakers, courts and regulators struggled to refine prohibitions on insider trading, insider trading in the rest of the world markets, with few exceptions, went virtually unregulated prior to the s. In its final form, the Directive has an appealing structural simplicity. It is too soon to make any intelligent generalizations about how legislation modeled on the Directive has fared jurisprudentially. In the scheme of things, insider trading laws fashioned under the Directive are in their infancy. Luxembourg, for example, enacted its version of the Directive just last year. Germany and Italy, in particular, have had trouble surmounting cultures which traditionally viewed insider trading as an acceptable practice. One commentator recently observed as to Italy that "[i]n spite of the passage of laws on takeovers and insider trading since , the bourse has not shaken its reputation as a fiefdom of an inward-looking financial community that treats small shareholders shabbily. Criminal Insider Trading Prohibitions Although it may be too early to draw conclusions about the efficacy of the EC Directive generally, one aspect bears discussion as we look to the future of insider trading regulation. The Directive leaves it to the discretion of its members to provide appropriate penalties for violations of insider laws, with the proviso that the "penalties shall be sufficient to promote compliance with these measures. On one level, this is certainly true. Providing stiff criminal penalties for insider trading sends a message to the community that the government considers insider trading to be a serious offense, contrary to attitudes prevailing quite recently in many markets outside the U. But if the law does not lead to successful prosecutions, its power as a deterrent is soon diminished. The experience in the Netherlands is noteworthy. In May of this year, Dutch authorities heralded its new law against insider trading as the "toughest in the world. In June of this year, following a two year investigation, Dutch prosecutors began their case against four individuals charged with insider trading in options on shares of a Dutch company. The prosecutors based their case on evidence that the defendants met regularly in a restaurant during the relevant time period. The underlying act of buying or selling securities is, of course, perfectly legal activity. It is only what is in the mind of the trader that can make this legal activity a prohibited act of insider trading. Direct evidence of insider trading is rare. There are no smoking guns or physical evidence that can be scientifically linked to a perpetrator. Unless the insider trader confesses his knowledge in some admissible form, evidence is almost entirely circumstantial. The investigation of the case and the proof presented to the fact-finder is a matter of putting together pieces of a puzzle. This is why providing civil, as well as criminal, liability is vital to an effective insider trading program. While it is possible to prove beyond a reasonable doubt the standard in a criminal case that a defendant engaged in insider trading based entirely on circumstantial evidence, it poses significant challenges and, in fact, almost all successful criminal insider trading prosecutions in the United States have rested at least, in part, on the testimony of cooperating witnesses. The burden of proving a purely circumstantial case is less onerous in the civil context, where guilt need be shown only by a preponderance of the evidence, rather than beyond a reasonable doubt, and where the use of presumption may shift the burden of proof to the defendant under certain circumstances. For example, in a civil case, the finder may draw an adverse inference against a defendant who asserts his Fifth Amendment right not to testify. But it is also a civil offense. The importance of making insider trading both a criminal and civil offense is illustrated by two recent decisions by U. Adler, a civil case, but to alleviate the difficulties of proof raised by the standard, adopted a rule providing that although "use" is a required element of a Rule 10b-5 insider trading violation, when an insider trades in possession of material nonpublic information, a strong inference arises that such information was used by the insider in trading. Such an inference is unavailable in the criminal context, where the burden remains on the government to prove each element of an offense beyond a reasonable doubt.

Chapter 3 : Insider trading - Wikipedia

What insider traders, the bad type, don't realize is that the more investors are driven from the market, the more the market will suffer from liquidity issues. And that is bad for all market.

Regulatory Enforcement Approaches â€” Market Manipulation What we found from our empirical research was that even in jurisdictions with similar insider trading and market manipulation laws, enforcement approaches differed significantly. A summary of the sanctions imposed for market manipulation across the five jurisdictions is provided in the following table. Breakdown of Sanctions Imposed for Market Manipulation Across Jurisdictions Below are our key findings on the enforcement approaches relating to market manipulation. Australia A typical offender in Australia received a ban or a custodial sentence. The number of bans is significant given that offenders convicted of market manipulation in the criminal courts are also subject to automatic disqualification from managing corporations in Australia for five years. Pecuniary sanctions were very rarely imposed on offenders. Hong Kong In Hong Kong, around 41 percent of offenders received a custodial sentence, and a slightly smaller proportion of offenders 40 percent received a ban. Around a third of offenders also received a punitive pecuniary penalty. However, nearly two thirds of the custodial sentences were fully suspended, and the other sentences tended to be substantially shorter than in Australia. A typical offender in Hong Kong received a ban, a short custodial sentence, or a small pecuniary penalty. Ontario Ontario was characterized by a high proportion of offenders receiving bans, and a relatively high number of pecuniary sanctions. However, there was only one custodial sentence imposed for market manipulation in Ontario during the study period, so a typical offender received a ban and a pecuniary sanction. Singapore In Singapore, pecuniary sanctions were imposed on nearly all offenders. Bans were imposed on around 28 percent of offenders. In Singapore, a market manipulation conviction or a civil penalty also results in automatic management disqualification for five years. UK A typical offender in the UK received a punitive pecuniary sanction, and in some cases also a ban. There appear to have been no criminal sanctions imposed for market manipulation in the UK, despite the fact that insider trading offenders are increasingly prosecuted criminally in that jurisdiction. Sanction Severity and Enforcement Intensity â€” Comparing Market Manipulation and Insider Trading Sanctions We found differences in sanction severity and enforcement intensity in the five jurisdictions. Under our model, the level of enforcement intensity is influenced by both the level of enforcement activity and sanction severity. One of the complexities in comparing the severity of sanctions and enforcement intensity across jurisdictions is the different enforcement approaches taken. To account for this, we developed a model that assigned numerical values to sanctions based on their type and magnitude. Broadly, the model ranks custodial sentences with a minimum period of incarceration as most severe, followed by a criminal sanctions that involve convictions but not incarceration; b banning orders; c sanctions that are purely monetary; and d standalone declarations of contravention and cease and desist orders. All of the sanction values for a given offender are added togetherâ€” the higher the value of combined sanctions, the more severe the sanctions received by the offender. As shown below, sanctions imposed for insider trading were more severe than those imposed for market manipulation in each of the jurisdictions apart from Singapore. Severity of sanctions as estimated by median sanction values There were also considerable differences in sanction severity between jurisdictions. The differences were more significant for insider trading than for market manipulation. The countries with the most severe sanctions for market manipulation were Hong Kong The least severe sanctions for market manipulation were imposed in the UK 9. Enforcement Intensity We also found that there are considerable differences in the levels of enforcement intensity relating to insider trading and market manipulation among the five jurisdictions, which may indicate differences in regulatory enforcement priorities. As illustrated below, the stronger enforcement focus in Hong Kong and Singapore appears to be on market manipulation, while in Australia, Ontario, and the UK it is on insider trading. Enforcement intensity as estimated by total sanction values Previous research in this area typically focused on legal analysis of legislation and judgments. But academic studies have shown that strong laws without strong enforcement are not enough to maintain trust and confidence in the integrity of financial markets. Our application of an empirical model to provide insights into the level of enforcement intensity provides an example of how to evaluate regulatory effectiveness. By providing empirical evidence of the actual sanctions imposed for insider trading and market manipulation across a wide range of jurisdictions, our study aims to provide a more accurate picture of the enforcement landscape for insider trading and market manipulation. Our findings also have implications in terms of the ability of the various regulators to create a credible deterrent. These findings warrant further research on the enforcement priorities and practices of regulatory bodies and other enforcement agencies. For example, in Ontario, 94 percent of offenders received bans, 59 percent received a punitive pecuniary sanction, 59 percent received a corrective or restorative pecuniary sanction, and only 6 percent received a custodial sentence so in most cases an offender received a ban, a punitive pecuniary sanction, and a corrective or restorative pecuniary sanction.

Chapter 4 : SEC Speech: Insider Trading - U.S. Perspective (T. Newkirk, M. Robertson)

How to Report Insider Trading. Insider trading is easily one of the most frequently seen forms of securities blog.quintoapp.com it occurs, it's important to report it to the appropriate authorities so that it can be stopped and the responsible parties held accountable.

Illegal[edit] Rules prohibiting or criminalizing insider trading on material non-public information exist in most jurisdictions around the world Bhattacharya and Daouk, , but the details and the efforts to enforce them vary considerably. In the United States, Sections 16 b and 10 b of the Securities Exchange Act of directly and indirectly address insider trading. Congress enacted this law after the stock market crash of When insiders buy or sell based upon company-owned information, they are violating their obligation to the shareholders. For example, illegal insider trading would occur if the chief executive officer of Company A learned prior to a public announcement that Company A will be taken over and then bought shares in Company A while knowing that the share price would likely rise. In the United States and many other jurisdictions, however, "insiders" are not just limited to corporate officials and major shareholders where illegal insider trading is concerned but can include any individual who trades shares based on material non-public information in violation of some duty of trust. Liability[edit] Liability for inside trading violations generally cannot be avoided by passing on the information in an "I scratch your back; you scratch mine" or quid pro quo arrangement if the person receiving the information knew or should have known that the information was material non-public information. In the United States, at least one court has indicated that the insider who releases the non-public information must have done so for an improper purpose. In the case of a person who receives the insider information called the "tippee" , the tippee must also have been aware that the insider released the information for an improper purpose. Proof of responsibility[edit] Proving that someone has been responsible for a trade can be difficult because traders may try to hide behind nominees, offshore companies, and other proxies. The Securities and Exchange Commission prosecutes over 50 cases each year, with many being settled administratively out of court. The SEC and several stock exchanges actively monitor trading, looking for suspicious activity. Trading on information in general[edit] In the United States and most non-European jurisdictions not all trading on non-public information is illegal insider trading. If this type of information is obtained directly or indirectly and there is reason to believe it is nonpublic, there is a duty to disclose it or abstain from trading. There are three main factors, which can be identified. Depending on jurisdictions, there may be either civil or criminal penalties, or both. Scope â€" How many people were affected by the wrongdoing? Gain â€" How much did the insider make from the transaction, whether directly or as a tipster? Where there is a tipster and a tippee, how much did the tippee make from the transaction? Evidence â€" Anyone charged is innocent until proven guilty. The burden of proof falls on the prosecution. If no one "flips", or if there is no smoking gun, the prosecution has a harder time proving guilt. This may result in prosecution moving away from criminal charges, and instead choosing to pursue civil charges. In the United States in addition to civil penalties, the trader may also be subject to criminal prosecution for fraud or where SEC regulations have been broken, the U. Department of Justice DOJ may be called to conduct an independent parallel investigation. If the DOJ finds criminal wrongdoing, the Department may file criminal charges. Following such leads subjects the follower to the risk that an insider is buying specifically to increase investor confidence, or is selling for reasons unrelated to the health of the company such as a desire to diversify or pay a personal expense. Legal[edit] Legal trades by insiders are common, [3] as employees of publicly traded corporations often have stock or stock options. SEC Rule 10b clarified that the prohibition against insider trading does not require proof that an insider actually used material nonpublic information when conducting a trade; possession of such information alone is sufficient to violate the provision, and the SEC would infer that an insider in possession of material nonpublic information used this information when conducting a trade. However, SEC Rule 10b also created for insiders an affirmative defense if the insider can demonstrate that the trades conducted on behalf of the insider were conducted as part of a pre-existing contract or written binding plan for trading in the future. This means that first-time offenders are eligible to receive probation rather than incarceration. Section 15 of the Securities Act of [18] contained prohibitions of fraud in the sale of securities, later greatly strengthened by the Securities Exchange Act of The Insider Trading Sanctions Act of and the Insider Trading and Securities Fraud Enforcement Act of place penalties for illegal insider trading as high as three times the amount of profit gained or loss avoided from the illegal trading. In the case of an unintentional disclosure of material non-public information to one person, the company must make a public disclosure "promptly. Court decisions[edit] Much of the development of insider trading law has resulted from court decisions. Repide [21] that a director who expects to act in a way that affects the value of shares cannot use that knowledge to acquire shares from those who do not know of the expected action. Even though, in general, ordinary relations between directors and shareholders in a business corporation are not of such a fiduciary nature as to make it the duty of a director to disclose to a shareholder general knowledge regarding the value of the shares of the company before he purchases any from a shareholder, some cases involve special facts that impose such duty. Texas Gulf Sulphur Co. Officers of the Texas Gulf Sulphur Company had used inside information about the discovery of the Kidd Mine to make profits by buying shares and call options on company stock. Securities and Exchange Commission [24] that tippees receivers of second-hand information are liable if they had reason to believe that the tipper had breached a fiduciary duty in disclosing confidential information. One such example would be if the tipper received any personal benefit from the disclosure, thereby breaching his or her duty of loyalty to the company. In Dirks, the "tippee" received confidential information from an insider, a former employee of a company. The reason the insider disclosed the information to the tippee, and the reason the tippee disclosed the information to third parties, was to blow the whistle on massive fraud at the company. But, while the tippee had given the "inside" information to clients who made profits from the information, the U. Supreme Court ruled that the tippee could not be held liable under the federal securities lawsâ€"for the simple reason that the insider from whom he received the information was not releasing the information for an improper purpose a personal benefit , but rather for the purpose of exposing the fraud. The Supreme Court ruled that the tippee could not have been aiding and abetting a securities law violation committed by the insiderâ€"for the simple reason that no securities law violation had been committed by the insider. In Dirks, the Supreme Court also defined the concept of "constructive insiders," who are lawyers, investment bankers and others who receive confidential information from a corporation while providing services to the corporation. Constructive insiders are also liable for insider trading violations if the corporation expects the information to remain confidential, since they acquire the fiduciary duties of the true insider. The next expansion of insider trading liability came in SEC vs. Materia [25] F. Materia, a financial printing firm proofreader, and clearly not an insider by any definition, was found to have determined the identity of takeover targets based on proofreading tender offer documents during his employment. After a two-week trial, the district court found him liable for insider trading, and the Second Circuit Court of Appeals affirmed holding that the theft of information from an employer, and the use of that information to purchase or sell securities in another entity, constituted a fraud in connection with the purchase or sale of a securities. The misappropriation theory of insider trading was born, and liability further expanded to encompass a larger group of outsiders. In United States v. Carpenter [26] the U. Supreme Court cited an earlier ruling while unanimously upholding mail and wire fraud convictions for a defendant who received his information from a journalist rather than from the company itself. Foster Winans was also convicted, on the grounds that he had misappropriated information belonging to his employer, the Wall Street Journal. In that widely publicized case, Winans traded in advance of "Heard on the Street" columns appearing in the Journal. In , the U. Supreme Court adopted the misappropriation theory of insider trading in United States v. The "misappropriation theory" holds that a person commits fraud "in connection with" a securities transaction and thereby violates 10 b and Rule 10b-5, when he misappropriates confidential information for securities trading purposes, in breach of a duty owed to the source of the information. The undisclosed misappropriation of such information in violation of a fiduciary duty It is no longer a defense for one to say that one would have made the trade anyway. The rule also created an affirmative defense for pre-planned trades. In , in the case of United States v. United States, the U. Because they generally do not have a confidential relationship with the source of the information they receive, however, they do not meet the usual definition of an "insider. A study found that stock sales and purchases by Senators outperformed the market by Also the same day trade effective the next day , Congressman Boehner cashed out of an equity mutual fund. With Congress-sourced information[edit] In , federal prosecutors issued a subpoena to the House Ways and Means committee and Brian Sutter, staff director of its health-care sub-committee, relative to a price move in stocks just prior to the passage of a law favorable to the companies involved. An e-mail was sent out by a "Washington-based policy-research firm that predicted the change [in the law] for its Wall Street clients. That alert, in turn, was based in part on information provided to the firm by a former congressional health-care aide turned lobbyist, according to emails reviewed by the [Wall Street] Journal" in Thus their activities may easily cross legal lines if they are not especially careful. Analysts should never report material nonpublic information, except in an effort to make that information available to the general public. Easterbrook have argued that laws against insider trading should be repealed. They claim that insider trading based on material nonpublic information benefits investors, in general, by more quickly introducing new information into the market. You want to give the people most likely to have knowledge about deficiencies of the company an incentive to make the public aware of that. The Atlantic has described the process as "arguably the closest thing that modern finance has to a victimless crime. Some authors have used these arguments to propose legalizing insider trading on negative information but not on positive information. Since negative information is often withheld from the market, trading on such information has a higher value for the market than trading on positive information. However, analogous activities such as front running are illegal under US commodity and futures trading laws. Commercialisation[edit] The advent of the Internet has provided a forum for the commercialisation of trading on insider information. In a number of dark web sites were identified as marketplaces where such non-public information was bought and sold. At least one such site used bitcoins to avoid currency restrictions and to impede tracking. Such sites also provide a place for soliciting for corporate informants, where non-public information may be used for purposes [44] other than stock trading. This is a much broader scope that under U. The key differences from U. Roderick Seeman said, "Even today many Japanese do not understand why this is illegal. Indeed, previously it was regarded as common sense to make a profit from your knowledge. Investor protection, Reducing systemic risk. The discussion of these "Core Principles" state that "investor protection" in this context means "Investors should be protected from misleading, manipulative or fraudulent practices, including insider trading, front running or trading ahead of customers and the misuse of client assets. Enforcement of insider trading laws varies widely from country to country, but the vast majority of jurisdictions now outlaw the practice, at least in principle. Larry Harris claims that differences in the effectiveness with which countries restrict insider trading help to explain the differences in executive compensation among those countries. All EU Member States agreed to introduce maximum prison sentences of at least four years for serious cases of market manipulation and insider dealing, and at least two years for improper disclosure of insider information. UK company law Regulatory fines imposed for market abuse in the UK â€” Further details in Tonks [60] Although insider trading in the UK has been illegal since , it proved difficult to successfully prosecute individuals accused of insider trading. There were a number of notorious cases where individuals were able to escape prosecution. Instead the UK regulators relied on a series of fines to punish market abuses. These fines were widely perceived as an ineffective deterrent Cole, , [61] and there was a statement of intent by the UK regulator the Financial Services Authority to use its powers to enforce the legislation specifically the Financial Services and Markets Act

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Chapter 5 : How are stock buybacks not considered insider trading? - Personal Finance & Money Stack Ex

Insider Trading And The Manipulation Of Our Wealth. I n life there are no shortage of laws to follow. For most of us, as children we readily questioned other's perceptions of right and wrong, but as adults we all too often fail to do the same.

Insider trading There are two types of "insider trading". This is generally legal, but there are certain reporting requirements. This type of trading is illegal in most instances. Many penny stocks, particularly those that sell for fractions of a cent, are thinly traded. They can become the target of stock promoters and manipulators. This is referred to as a pump and dump scheme. The pump and dump is a form of microcap stock fraud. In more sophisticated versions of the fraud, individuals or organizations buy millions of shares, then use newsletter websites, chat rooms, stock message boards, press releases, or e-mail blasts to drive up interest in the stock. Very often, the perpetrator will claim to have "inside" information about impending news to persuade the unwitting investor to quickly buy the shares. When buying pressure pushes the share price up, the rise in price entices more people to believe the hype and to buy shares as well. Eventually the manipulators doing the "pumping" end up "dumping" when they sell their holdings. The promotion drew upon the legitimate growth in production and use of lithium, while touting Lithium Exploration Groups position within that sector. Its revenues and assets at that time were zero. Investors may encounter difficulty selling their positions after the buying pressure has abated, and the manipulators have fled. Accounting scandals In , a wave of separate but often related accounting scandals became known to the public in the U. In several cases, the monetary amounts of the fraud involved are in the billions of USD. Boiler room Boiler rooms or boiler houses are stock brokerages that put undue pressure on clients to trade using telesales, usually in pursuit of microcap fraud schemes. Some boiler rooms offer clients transactions fraudulently, such as those with an undisclosed profitable relationship to the brokerage. Securities sold in boiler rooms include commodities and private placements as well as microcap stocks, non-existent, or distressed stock and stock supplied by an intermediary at an undisclosed markup. Mutual Fund fraud[edit] Main article: Among them were late trading and market timing. Various SEC rules were enacted to curtail this practice. Pump and dump and Short and distort Abusive short selling , including certain types of naked short selling , are also considered securities fraud because they can drive down stock prices. In abusive naked short selling, stock is sold without being borrowed and without any intent to borrow. Ponzi scheme A Ponzi scheme is an investment fund where withdrawals are financed by subsequent investors, rather than profit obtained through investment activities. During and , securities fraud class actions were driven by market wide events, such as the backdating scandal and the subprime crisis. Securities fraud lawsuits remained below historical averages. The trading volume in the United States securities and commodities markets , having grown dramatically in the s, has led to an increase in fraud and misconduct by investors , executives , shareholders , and other market participants. Securities fraud is becoming more complex as the industry develops more complicated investment vehicles. In addition, white collar criminals are expanding the scope of their fraud and are looking outside the United States for new markets, new investors, and banking secrecy havens to hide unjust enrichment. A study conducted by the New York Stock Exchange in the mids reveals approximately These same financial markets provide the opportunity for wealth to be obtained and the opportunity for white collar criminals to take advantage of unwary investors. A victim of securities fraud is usually fortunate to recover any money from the defrauder. Sometimes the losses caused by securities fraud are difficult to quantify. For example, insider trading is believed to raise the cost of capital for securities issuers, thus decreasing overall economic growth. Not only do investors lose but so can creditors, taxing authorities, and employees. Potential perpetrators of securities fraud within a publicly traded firm include any dishonest official within the company who has access to the payroll or financial reports that can be manipulated to:

Chapter 6 : Why Insider Trading Is Bad for Financial Markets | Investopedia

Insider trading refers to the buying or selling of a stock by someone who has access to non-public information of value about the stock. Insider trading can be illegal or legal depending on when the insider makes the trade.

Stock Market Manipulation Insider trading is an example! Stock market manipulation is any activity that attempts to interfere with the proper operation of the stock market and create artificially distorted stock prices. This type of activity is prohibited in the United States under Section 9 a 2 [2] of the Securities Exchange Act of Types of Market Manipulation Market manipulation can occur in a variety of ways including Churning - when a trader places both buy and sell orders at about the same price. The increase in activity is intended to attract additional investors, and increase the price. Wash trading - selling and re-purchasing the same or substantially the same security for the purpose of generating activity and increasing the price, or creating a tax loss. Follow the link Wash trading for further information. Bear raiding - attempting to push the price of a stock down by heavy selling or short selling. Insider Trading Insider trading refers to the buying or selling of a stock by someone who has access to non-public information of value about the stock. Insider trading can be illegal or legal depending on when the insider makes the trade. It is illegal when the material information is still non-public. Directors are not the only ones who have the potential to be convicted of insider trading. Brokers and even family members can potentially be guilty. Insider trading is legal once the information has been made public, at which time the insider has no direct advantage over other investors. The Securities and Exchange Commission SEC , and regulatory bodies in many other countries however, still require all insiders to report all their transactions. To Conclude Stock market manipulation is an activity which is out of the control of value investors. They are reliant on the market regulators to enforce the law regarding this behavior. Company insiders are required to report instances of insider trading to the regulator. Value investors should look at these trading reports to see how insiders are legally trading their stock. The reason being that company insiders have the best insight into the workings of their company.

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Chapter 7 : Congress: Trading stock on inside information? - CBS News

Insider trading is quite different from market manipulation, disclosure of false or misleading information to the market, or direct expropriation of the corporation's wealth by insiders.

Insider trading refers to the purchase or sale of securities by someone with information that is material and not in the public realm. It can be done by not only company management, directors and employees but also by outside investors, brokers and fund managers. The Legality of Insider Trading In the United States, there is no law that specifically bars investors from partaking in insider trading; instead, certain types of insider trading have become illegal through interpretation of other laws, such as the Securities Exchange Act of , by the courts. Why Insider Trading Is Bad One argument against insider trading is that if a select few people trade on material nonpublic information, the integrity of the markets will be damaged and investors will be discouraged from partaking in them. Insiders with nonpublic information will be able to avoid losses and benefit from gains, effectively eliminating the inherent risk that investors without the undisclosed information take on by investing in the markets. If those investors in the dark begin to withdraw from the markets, there would be no other investors for those partaking in insider trading to sell to or buy from, and insider trading would effectively eliminate itself. Another argument against insider trading is that it robs the investors who do not have nonpublic information of receiving the full value for their securities. If nonpublic information became widely known before an insider trading situation took place, the markets would integrate that information and the securities in question would become more accurately priced as a result. If, for instance, a pharmaceutical company is having success in Phase 3 trials for one of its new drugs and will make that information public in a week, there exists an opportunity for an investor with that nonpublic information to exploit it. The investor who sold the stock without knowledge of the success from the Phase 3 trials might have kept his or her stock and could have benefited from the price appreciation if the success in the clinical trials was widely known. Examples of Insider Trading Martha Stewart was infamously convicted of insider trading in ImClone Systems, a biopharmaceutical company that Stewart owned stock in, was on the verge of having the Food and Drug Administration FDA reject its experimental cancer treatment, Erbitux. She was eventually found guilty of insider trading and served five months in prison, in addition to house arrest and probation. The courts found that Stewart benefited at the expense of other investors. Another example of insider trading involves Michael Milken, known as the Junk Bond King throughout the s. Milken was accused of using nonpublic information related to junk bond deals that were being orchestrated by investors and companies to take over other companies. He was accused of using such information to purchase stock in the takeover targets and benefiting from the rise in their stock prices on the takeover announcements. If the investors selling their stock to Milken had known that bond deals were being arranged to finance the purchase of the companies that they partially owned, they likely would have held onto their shares to benefit from the appreciation. Arguments for Insider Trading Not all arguments regarding insider trading are against it. This makes the markets more efficient. As insiders and others with nonpublic information buy or sell the shares of a company, for example, the direction in price conveys information to other investors. Current investors can buy or sell on the price movements and prospective investors can do the same. Prospective investors could buy at better prices and current ones could sell at better prices. Another argument in favor of insider trading is that barring the practice only delays what will eventually happen: If an insider has good news about a company but is barred from buying its stock, for example, then those who sell in the time between when the insider knows the information and when it becomes public are prevented from seeing a price increase. Barring investors from readily receiving information or getting that information indirectly through price movements can condemn them to buy or sell a stock that they otherwise would not have traded if the information had been available earlier. Yet another argument for insider trading is that its costs do not outweigh its benefits. Enforcing laws related to insider trading and prosecuting insider-trading cases cost the government resources, time and people that could otherwise be used to pursue crimes considered more serious, such as organized crime and murder. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 8 : Top 4 Most Scandalous Insider Trading Debacles

So insider trading is considered bad in a society only if you want companies to be able to raise money through public securities offerings. k Views Â· View 18 Upvoters Gyanu Mani, CEO at Google (present).

The report "Insiders" received quite a reaction the week after it aired. As Steve Kroft reports, members of Congress and their aides have regular access to powerful political intelligence, and many have made well-timed stock market trades in the very industries they regulate. The following is a script of "Insiders" which aired on Nov. Few of them are doing it for the salary and all of them will say they are doing it to serve the public. But there are other benefits: Most former congressmen and senators manage to leave Washington - if they ever leave Washington - with more money in their pockets than they had when they arrived, and as you are about to see, the biggest challenge is often avoiding temptation. This is a venture opportunity. This is an opportunity to leverage your position in public service and use that position to enrich yourself, your friends, and your family. Peter Schweizer is a fellow at the Hoover Institution, a conservative think tank at Stanford University. A year ago he began working on a book about soft corruption in Washington with a team of eight student researchers, who reviewed financial disclosure records. Schweizer says he wanted to know why some congressmen and senators managed to accumulate significant wealth beyond their salaries, and proved particularly adept at buying and selling stocks. There are all sorts of forms of honest grafts that congressmen engage in that allow them to become very, very wealthy. What do you mean honest graft? For example insider trading on the stock market. If you are a member of Congress, those laws are deemed not to apply. So congressman get a pass on insider trading? And that sort of behavior goes on. Why does Congress get a pass on this? And the people who make the rules are the political class in Washington. The buying and selling of stock by corporate insiders who have access to non-public information that could affect the stock price can be a criminal offense, just ask hedge fund manager Raj Rajaratnam who recently got 11 years in prison for doing it. But, congressional lawmakers have no corporate responsibilities and have long been considered exempt from insider trading laws, even though they have daily access to non-public information and plenty of opportunities to trade on it. We know that during the health care debate people were trading health care stocks. We know that during the financial crisis of they were getting out of the market before the rest of America really knew what was going on. In mid September with the Dow Jones Industrial average still above ten thousand, Treasury Secretary Hank Paulson and Federal Reserve Chairman Ben Bernanke were holding closed door briefings with congressional leaders, and privately warning them that a global financial meltdown could occur within a few days. These meetings were so sensitive-- that they would actually confiscate cell phones and Blackberries going into those meetings. What we know is that those meetings were held one day and literally the next day Congressman Bachus would engage in buying stock options based on apocalyptic briefings he had the day before from the Fed chairman and treasury secretary. I mean, talk about a stock tip. While Congressman Bachus was publicly trying to keep the economy from cratering, he was privately betting that it would, buying option funds that would go up in value if the market went down. He would make a variety of trades and profited at a time when most Americans were losing their shirts. Congressman Bachus declined to talk to us, so we went to his office and ran into his Press Secretary Tim Johnson.

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Chapter 9 : Why Is Insider Trading Even Illegal? | blog.quintoapp.com

The story that is missing is the likely "insider trading" element, "share price manipulation" and "fraud" from Viceroy and the one or more hedge funds behind them. This Viceroy (and Aurelius) hides behind private servers (do a WHOIS search) and one cannot find any information on who the principals are.

The objective of insider trading laws is counter-intuitive: Unfortunately, keeping people ignorant is economic folly. We make more bad decisions, and markets take longer to adjust. He goes on to argue that the goal of insider trading laws, which is to promote a fair stock market, is misguided. Every day stock market participants trade securities based on incomplete information. In nearly every transaction, one party has superior information than the other. And that decision is illegal, but can never be proven. Such a rule is not likely to improve private investment decision-making or promote more efficient markets. Ever since , when insider trading became illegal in the United States, theorists have argued about the merits of such restrictions. That changed radically in the s, when several new laws were passed to stiffen penalties for insider trading, and regulators started bringing many more cases against Wall Street. So why was there a sudden shift against insider trading in the s, and what is the rationale behind these laws? How a Minor Charge Threatens a Major Figure One such organ of modern financial system are market professionals like hedge fund, pension, and mutual fund managers. These are the people who spend significant time and resources digging up non-inside information about the economy and individual firms. For instance, big hedge funds often produce vast amounts of research concerning companies using publicly available data from the government or private institutions. This information helps make markets more efficient and helps to price assets more accurately. If these market professionals leave the market as a result, it could lead to much less efficient markets. Second, insider trading most certainly puts the average investor at a disadvantage. Just as with professional money managers, this will have the effect of reducing liquidity. Another effect of decreased liquidity is on so-called market makers: Fewer participants in the market mean wider spreads, as market makers have to make up for decreased volume. The conclusion that researchers from the Federal Reserve Bank of Atlanta came to when looking at all these effects is that insider trading laws do indeed present a trade off. On one hand, insider trading laws distort the market by making it more difficult for prices to reflect all available information. On the other hand, a developed and modern securities market relies on the participation of different types of investors with different motivations and levels of expertise â€” and without insider trading laws many of these types of investors would stop participating. Insider trading rules were laughably lenient in the U. Markets in such economies have few sources for information about the economy and the individual companies, and so it is important for inside information to be able to filter its way through to markets. But once an economy is mature, it can forgoe these sources of information in the name of more robust markets. Often its actions simply reflect the emotional will of the American people. And Americans like fair play. Subscribe Popular Among Subscribers.