Chapter 8

Conclusions and Policy Implications

8.1 Introduction

Across the world, the amount of asset intermediation through stock markets has exceeded the same through banks in the recent years. Despite global economic meltdown in the recent times, it is expected that trend will continue in the years to come. In contradiction to our earlier belief of the American supremacy in the global financial market the world is experiencing multiple parallel economic super powers in many continents across the world. As a result we will find more asset intermediation through stock market and thereby increasing its importance. With the pace of growth in volume and depth, resilience in the equity market all over the world is expected to grow. The factors that made it possible this shift from banking orientation towards stock market orientation are fair price discovery, enhanced liquidity and declining transaction cost. In contradiction to these pro market conditions number of anti market practices viz., price rigging, lack of transparency and fraudulent financial accounting practices in the published company accounts, excessive speculation etc. are also accentuating at an alarming pace. But the single problem that sometime outweighs the magnitude of the other problems is insider trading. Along with the growth of the global equity market severity, intensity and magnitude of the problem of the insider trading is also expected to grow over time. Regulators, despite all inherent problems within themselves, will try to come up with more comprehensive and rule based regulations to combat this problems. On the other hand, inviduals and institutions will be continuously evolving with finer, e-based and cross border techniques of insider trading that seeks to tackle the regulatory hurdles-national as well as
international. As a result, despite having anti-insider trading regulations in most of the organised securities market, the regulators would continue with better and finer rule based regulations of insider trading on a continues basis.

Although insider trading is a global phenomenon, its intensity is much higher in underdeveloped securities market. In the ongoing case of Satyam Computer Services Ltd. (2009) insider trading has occurred on a massive scale. Most people associated with securities trading consider this to be one of the key factors responsible for destabilising the securities market in the country. Like Satyam many large companies in India have developed intricate network of brokers, investment firms, syndicate of friends and associates through whom they conduct insider trading and make good fortunes.

It is often claimed that insider trading reduces investors’ confidence in the market. Behind huge foreign investment in the United States many critics find the presence as well as strict enforcement of insider trading laws. If confidence in the market really decreases when insider trading exits then deregulation of the financial market is the most effective way to increase investors’ confidence. Stock exchanges that have private rules of forbidding insider trading will attract more insiders and companies wish to have their stock listed on these exchanges. The free market can provide for sensible insider trading rules without government intervention.

This concluding chapter is divided into three sections. In section 8.2 a summary is provided of the contents of different chapters including the key findings of the study. Section 8.3 is designed to offer the potential policy guidelines for combating the problem of insider trading in India. Section 8.4 offers scope of further research.
8.2 Summary of the investigation

After narration of the aim, scope and methodology an indication has been given along with usual details as to how the study would be undertaken in chapter-1. Chapter-2 has been devoted to investigation into the types and motivations for the insider trading. This is an important chapter that clarifies most of the basic conceptions of insider trading. It has been observed that insider trading may take place in the name of insiders or their relatives. It may happen either in individual capacity or institutional capacity. It may also take place within a country or across national boundaries. Not only national institutions but also foreign institutional investors (FIIs) may go for insider trading. Mutual funds, in many of the cases have been found to be indulged in insider trading. Insiders may also trade in derivative securities based on inside information in cash securities (e.g. Barings Bank). Sometimes insiders go for trading through intermediaries instead of doing it themselves. Some other instances of insider trading have been found where insider trading was purely accidental or unintentional. Two distinct types of insider trading have been found. However, in rare cases insider trading has been found to be legal. In USA insiders i.e. officers, director and employees may buy or sell stocks in their own companies not more than 10% of a class of securities and they have to report to the Securities Exchange Commission (SEC). In India every person holding more than 5% of the shares or voting rights in a listed company must disclose to the company, the number of shares or voting rights held by such person. Any change in shareholding or voting rights must also be disclosed, if such change exceeds 2% of the total shareholding pattern or voting rights in the company. Such disclosures must be made within two working days of receiving intimation of the allotment of shares, or the acquisition of shares or voting rights. Motivations against all these types of insider trading are threefold. Insiders are motivated (i) to earn super normal profit, (ii) to avoid losses and (iii) to acquire greater control over the target company. One significant part of this chapter is a survey made by Business Week. The study has revealed many
interesting observation as to which type of initiatives may result into insider trading and which do not.

Chapter-3 has analysed contemporary leading cases of insider trading in India. It has been found that regulators in most of the cases prefer non-controversial decisions. It has been found to be the main reasons for the regulators out of many others for not being successful in insider trading cases. Loosely drafted regulations, technical incompetencies on the part of the investigation squad have been found to be some other reasons of not winning the cases of insider trading. Finding is common almost in all cases within India. In India for disposal of some of the insider trading cases SEBI has taken more than five years. Provisions for imposing penalty are also meagre in comparison to other developed markets.

Chapter- 4 has examined selected insider trading cases in advanced countries viz. the USA, the UK and Australia. Like the size of the financial market, proportion of financial crime has been found to be huge in the US market. To keep parity with the ratio of financial crime in response to trading volume four case studies from the USA, one from the UK and one from Australia have been chosen for in depth study. In the USA, US Supreme Court plays an important role for regulating insider trading activities. In SEC vs. Texas Sulphur Gulf case, the Court supported the SEC’s decision that anyone in possession of inside information is required either to disclose the information publicly or to keep himself abstained from trading. In connection with insider trading two theories have been developed in USA. One is traditional theory and the other one is misappropriation theory. Prior to 1980 nearly everyone who was in possession of inside information was prohibited from trading on it or communicating it to others. After 1980 the US Supreme court gave a landmark judgment that securities trader could not be held guilty of fraud for failing to disclose material price sensitive information in his or her possession. In misappropriation theory, a person commits fraud when he or she misappropriates material price sensitive information.
in breach of a fiduciary duty. In this theory any person who trades on the basis of inside information misappropriated from other person can be guilty of insider trading. It has been found that the SEC, FSA and ASIC have a good surveillance mechanism to detect insider trading. Their investigating agencies are more equipped and powerful.

Incidence of insider trading specifically in the event of Mergers & Acquisitions (M&As) assumes a large proportion in response to other cases and events. In view of the above, Chapter- 5 has analysed case studies and regulations on the insider trading in the event of M&As both Indian as well as foreign. Efforts have been taken to study how regulatory measures have been effective to tackle the problem of insider trading in these specific strategic alliances. Four case studies have been made in this chapter. Case studies from India include Global Trust Bank vs. SEBI and Hindusthan Lever Ltd. (HLL) vs. SEBI and foreign case studies include United States vs. O’ Hagan and SEC vs. Michael Milken. In HLL case loosely drafted regulation has been found to be the main reason of SEBI’s defeat. In Global Trust Bank case Ketan Parekh has been found to be engaged in insider trading with one of the promoters of Global Trust bank. In both cases regulators have been found to be reactive than to be proactive.

It has been found from the study that most of the decisions on M&As are taken in the Board Room and actual implementation involves series of steps. The moment when decision about M&As are taken, the information becomes available to a select few who trade companies’ shares on the basis of such information which was not available to the common investors at that point of time. But the result of their trading creates havoc in the securities market which results into losses of millions of common investors simply due to the fact that information about M&As were not accessible to them at same point of time when the piece of information were available to the insiders and who have acted upon them either to save their losses or to book profit.
Chapter- 6 has dealt with the insider trading regulations in India. There was no specific provision in the Indian Companies Act or Income Tax Act to combat insider trading in India. However, Sachar Committee (1979), Patel Committee (1987) and Abid Hussein Committee (1989) made various recommendations to curb insider trading in India. After enactment of the SEBI Act in 1992, insider trading regulations has been framed by SEBI which is called SEBI (Insider Trading) Regulations, 1992. During 1992-2002 a few important insider trading cases have come out in the financial press. SEBI regulation on insider trading 1992 was not comprehensive enough to tackle those problems. Some of the regulations [e.g. Regulation 2(5)(v)] were found to have been loosely drafted. This regulation was criticised from the different perspectives. In 2002, this regulation was thoroughly revised. A new Chapter- IV relating to framing of policies on Disclosure and Prevention of Insider has been added. All listed companies and organisations (non-listed) associated with the securities markets are now required to frame a ‘code of internal procedures and conduct’ for the prevention of insider trading in the lines of the model code specified in Schedule- I of the new regulations. In new regulation temporary insiders have also been defined. The price sensitive information has been bifurcated into two parts. One is ‘unpublished’ and another one is ‘sensitive information’. A model code of conduct for the prevention of insider trading for listed companies and other entities such as merchant bankers, law firms, and analysts, who advise listed companies in respect of trading of securities, has also been specified. Disclosure requirements, initial and continual in respect of shareholding in the listed companies have also been specified. Penalties for violating insider trading regulations have been increased from Rs.5 lacs to Rs.25 crores.

Chapter-7 has focused on foreign regulatory practices. Insider trading regulations of the USA, the UK and Australia have been selected for in-depth study. Existence of advanced capital market has been the common reason behind selection of those three countries. It has been found that after the enactment of the
Insider Trading and Securities Fraud Act, 1988 insiders appeared to adjust the timing of their transactions so that the trades occur after the release of the relevant information in USA. Like Chapter-5 it has been found that (i) the laws and the enforcement activity have a positive effect and (ii) insider trading seems to remain as a part of M&As activity of public companies. Although practices vary across nations, during the entire process of our study, insider trading has been perceived to be an offence either civil or criminal. However, in the USA the distinction has been made between legal and illegal insider trading practices. This variation has prompted us to make a comparative study of insider trading regulatory practices in the USA, the UK and Australia. Countries have been selected for their rich experience in financial market operation, sophisticated trading procedure and regulatory robustness. Variations have been found mainly with respect to following terminologies viz., (a) definition of insiders, (b) defining inside information, (c) nature of offence and (d) penal measures.

8.3 Policy implications

Insider trading is a most controversial area of research and far more difficult is either to draw any general conclusions or to suggest any specific policy implication which would be a full proof one. During the last few years many well-known companies both national as well as international have been found to be associated with this crime. SEC and other prominent regulatory bodies have suggested exhaustive list of measures, which are suggested to be adopted by the securities markets across the globe. In number of cases- Indian as well foreign, it has been noticed that anomalies remains not only in loosely drafted regulation but also in their ineffective implementations. Self Regulatory Organisations (SROs) can take a predominant role in implementing insider trading regulations mainly defining disclosure requirements, defining procedures for handling inside information, defining restrictions concerning trading by insiders, limiting possibilities of trading based on inside information and investors education.
In view of the above, following policy implications are considered to be useful.

8.3.1. **Strengthening anti-insider drives and introducing insider trading task force**

SEBI has already made it compulsory that any significant contract for purchase and sale of securities above a specified percentage of the total number of shares of the company must be published by the stock exchange. Details of such statutory disclosure are available in paragraph 6.7 of chapter 6. Failure to make such disclosure attracts penal action. At present SEBI has right to initiate criminal prosecution against an insider for violation of SEBI insider trading regulations. Such prosecution may lead to imprisonment for a term which may extend to five year with fine or with both. In the USA, civil as well as criminal penal actions are allowed to be taken against insider trading offences. Penal measures are more rigorous which could lead to ten years of rigorous imprisonment and or cash penalty that too may lead to a maximum sum of 1 million dollars for individual and 2.5 million dollars for companies. Considering the gravity of the situation we suggest that disclosures should be made obligatory at a lower percentage of holding at all levels and penal measures should be more rigid. With the spread of Indian stock market trading operations among the different foreign countries it is assumed that the nature of this problem will be more complex in the coming days. SEC has already gained a commendable experience in this regard. In their anti-insider trading drive, SEC is currently exploring even the foreign countries where the insider trading takes place in relation to securities listed in their exchanges. If permitted, this anti-insider trading squad of SEBI should be sent to SEC or other advanced securities market regulators for their training. In USA there exists a very good provision in SEC regulation. Any one who supplies information to SEC are amply rewarded. It helps insider trading investigation squad to probe into this
complex issue and to obtain circumstantial evidence to book the culprit. The amounts recovered by the SEC or Attorney General from imposition of penalty for insider trading, not exceeding 10% of such amounts as the commission deems appropriate, paid to the person or persons who provide information leading to the imposition of such penalty. In India such provisions should introduce so that information about insiders may be easily available to the regulators or investigating officers.

There exists Insider Trading Task Force in Canada. Squads of similar nature, exclusively on insider trading investigation exists in USA. Those Squads are competent for inter-country investigation and may take independent legal action against the victims. No such exclusive force has ever been established in India. Formation of such force with legal back up is strongly suggested in India.

8.3.2 Application of circuit breakers mechanism on the basis of empirical research

Transactions in the Indian stock exchanges can be stopped or suspended in four different ways. Buy fridge, sell fridge, circuit filters and the closure of the whole exchange. However, transactions unofficially may continue in grey market. These closures of transactions are generally taken by the exchange authorities when it is perceived that a completely artificially arranged price gives benefit to a select few and neglects the interest of the mass. Some of such instances are cornering, wash sale etc.

Cornering is the practice of buying or holding of the entire supply of a particular security. In such a situation the bears or short sellers who have contracted to sell the security without possessing the same would be unable to deliver it to the buyers who have cornered the security. The buyers in this situation may dictate terms to the short sellers. In this way, the short sellers are squeezed to adopt the commonly adopted practice, which also goes against the interest of the
common investors. On the other hand, when a speculator enters a fictitious transaction in which he sells a particular security through one broker and buys the same at a higher price through another broker the transaction is a wash sale transaction. It creates a false and misleading opinion about the price of the stock market. When the price picks up speculators simply wash-off their hands by selling their scrips. Sometimes, the speculators give orders to different brokers for the sale and purchase of a particular security i.e. orders are matched. This creates an impression in their market that the security is being actively traded and the price starts rising upward. The speculators off-load their holding when they consider that the price has attained its peak. Once again, it is only the helpless common investors who suffer.

When authorities feel that majority of the common investors are buying scrip without taking note of the fundamentals or there is nexus between unscrupulous brokers to hike up the price artificially, they adopt buy fridge technique when common investors are not allowed to buy for a certain period of time. In a reverse situation there might be a situation to bring down the price artificially and investors may sell out of panic. In that situation the strategy on the part of the exchanges could be sell fridge. On the other hand when exchange authority feels a high degree of speculation but cannot determine the direction, they might go for circuit filters i.e., they determine the price range within which price may be allowed to oscillate. Circuit breaker is a different method. If price of scrip opens next day with a difference of 16% or more in comparison to its previous day, transaction in that scrip may be stopped for a few days.

Due to these type of artificial activities, when market volatility goes to an extreme level measures like buy fridge, sell fridge, circuit filters, circuit breakers or market closure methodologies are adopted on a rule of thumb method. No empirical research is being conducted by the Exchanges in India to adopt such policies. In developed stock exchanges like NASDAQ, New York Stock Exchange (NYSE) or American Stock Exchange (AMEX) the same is based on empirical
research. We suggest our stock exchange like NSE or BSE to go for empirical research and adopt internal regulation to monitor our trading procedures on the basis of empirical research in line with NYSE or AMEX.

8.3.3 Ensuring better financial disclosure and harmonisation of disclosure requirements

It is widely recognised fact that the stock market needs a steady flow of reliable of high quality corporate financial information to assess investment risks and returns. Corporate-credibility is the foundation on which investors base their confidence in the future success of the enterprise. This confidence may be damaged if it is revealed that an enterprise has followed less than rigorous standards in generating information provided to the shareholders. Full and fair disclosure of financial information in the financial statements has the effect of lowering the cost of capital. First path to lower cost of equity capital involves reducing the so called information risk that confronts all investors. If the available information is not adequate, investors are more uncertain about their estimates, which inject an additional element of risk into their assessment of the value of the firm. The second path to lower cost of capital is through a greater liquidity in the market for the firm’s securities. Enhanced public disclosure reduces information asymmetry among investors and as a result market liquidity for securities increases. Greater liquidity enhances demand for the firm’s security and lowers cost of capital.

Indian companies have to make disclosures under both the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and SEBI (Prohibition of Insider Trading) Regulations, 1992. The requirements somewhat vary making it cumbersome to companies. Regulators are required to consider harmonisation of disclosure requirements under the insider trading regulations and
the takeover regulations. This harmonisation would streamline the disclosure process.

8.3.4 Making SEBI more Powerful

8.3.4.1 More Power of Investigation to SEBI

In the USA, Congress gave SEC the power to supplement the securities statutes with various rules and regulations. Congress also gave the SEC more power to investigate alleged violations of the securities laws and to bring civil actions against suspected violators. Most insider trading actions are handled by the SEC’s Division of Enforcement which is the litigation arm of the SEC. In the past few years, FSA has acquired its full range of powers like regulatory and registration functions. Experienced and technically competent personnel should be appointed by SEBI at competitive salary. Government pay packet has been found to be not attractive enough to attract best talents in the securities industries. In the last couple of years, we have found a large scale of complex securities transactions and the sophisticated fraudulent schemes adopted by unscrupulous operators. Moreover, the SEBI does not have any explicit powers to check money laundering and cross-border violations. The SEBI has to depend frequently on investigating agencies like the Enforcement Directorate and the Central Bureau of Investigation and other regulators like the RBI for completion of inquiries. Therefore, to avoid duplication of effort and loss of crucial time in bringing the guilty to book, the SEBI needs more power of investigation including (i) power of search and seizure (ii) inspection, investigation, surveillance and enforcement powers and (iii) implementation of an effective compliance programme.
8.3.4.2 More financial power

The SEBI doesn’t have adequate financial power. It should promote measures for enhancing its finance sources. At present, the SEBI has to survive on the registration fees of brokers and some other market intermediaries. It also receives some grants from the government. But these are not adequate. The SEBI has not been able to attract talented persons at competitive remuneration due to scarcity of funds. Fund scarcity has also prevented it from widening its anti-insider trading devices. It would have been better if SEBI could be made financially self-supported. There are several ways in which the same could be achieved. One possible way could be to collect fees for vetting offer documents at some pre-determined rates. Another possible way of augmenting funds could be to levy revenues generated by the stock exchanges.

8.3.4.3 Advanced software and strong surveillance mechanism to detect insider trading

The SEC and the London Stock Exchange (LSE) use highly advanced software called EDGAR—Electronic Data Gathering, Analysis and Retrieval system which is quite effective in tracking down the manipulators. SEBI needs to be equipped with such high tech software for curbing insider trading. Given the size, complexities and level of technical sophistication of the markets, the tasks of information gathering and analysis of data or information are divided among exchanges, depositories and SEBI. Information relating to price and volume movements in the market, broker positions, risk management, settlement process and compliance pertaining to listing agreement are monitored by the exchanges on a real time basis as part of their self-regulatory function.

Computerisation has given a boost to the surveillance process of SEBI for which the structure was set up some six years ago. The basic surveillance under the new system is supposed to be carried on by the stock exchanges themselves while SEBI would only monitor the process. But here remains an inherent
weakness. The SEBI has less than hundred of officials involved in surveillance, investigation and prosecution works compared to more than thousand in the SEC. It is unfortunate that the BSE, the biggest stock exchange of the country has only thirty people involved in surveillance compared to over five thousand people doing the job for the NYSE. We do suggest improvement of quality and committed people at market- competitive compensation package. Like NASDAQ and LSE, Indian stock exchanges should introduce strong surveillance mechanism to detect insider trading.

8.3.4.4 Involving market players

If SEBI has to achieve its mission of playing a developmental role along with investors' interests, it is imperative to involve market players in its operation. Instead of having the Industrial Development Bank of India (IDBI) and RBI officials on deputation, it would be a good idea if the SEBI invites senior executives like DSP Merrill Lynch, Kotak Mahindra or Jardin Fleming at market-oriented remuneration. These persons could have share market experience and this would be highly beneficial for it. By doing so, the SEBI would be prevented from using utopian notifications or loosely drafted rules and regulations and at the same time the investing community could avail of the wisdom of any array of capital market associates.

8.3.5 Insider trading to be treated as a civil offence in India

The SEC is also empowered to pursue civil proceedings and it intelligently uses these proceedings against the insiders and compels them to settle for a court settlement. As against a criminal case, a civil case does not require proving of mens rea beyond doubt and hence only a preponderance of evidence has to be shown whereby the wrongful act is closely linked to the actions of the insiders. Prof. J.R. Verma has clearly recommended that the offence of insider trading
should be classified as a civil offence rather than a criminal offence since this is notoriously difficult to prove. In an interview published in the Business Standard dated 6th October 2003 he has further suggested that the right to take action against the wrong doers should be left to the discretion of the investors instead of the regulators as was being done now. A similar view has been held by Dr. Ajay Shah- a leading economist, stating that laws to curb insider trading are largely ineffective due to the heavy burden of proof required for a criminal case.

8.3.6 Setting up a special court

In the stock exchange of the developed countries, it is possible to go back and trace every single transaction due to their electronic record archival system. If we can have such an effective system in India, authorities can reach the root cause of such alleged insider trading. Regulators of the US and UK securities market are using high quality infrastructure to detect insider trading. Electronic evidence such as teleconversation, e-mails with digital signature and close circuit television recordings is now being recognised by Courts world over and this change can also be brought in Indian securities market. Keeping in mind the heavy burden of proving a criminal offence it is suggested earlier that insider trading should be considered as a civil offence. Establishment of special court to deal with the cases of insider trading is also suggested. It would not only expedite the early decision of the complex cases but also create an indirect pressure on the prospective insiders who might indulge into insider trading.

One thing that strongly emerges from the above analysis is that the best option to curb insider trading is to have a separate stringent law to treat specific instances of omission or commission as insider trading without the need to prove the malafide intention behind such transactions. It is also necessary to look at the option of setting up of special courts to deal with such cases and strengthen the Indian Evidence Act, 1872 to recognise strong circumstantial for proving charges of insider trading.
There is a dire need to set up special courts to deal with offences relating to securities markets on a summary basis. The judges of such courts should be necessarily qualified and experienced in the area of securities markets.

8.3.7 Making SEBI’s databank public

The SEBI has large databank relating to stock trading in India. The facts and statistics comprising the databank must be continuously updated to retain their usefulness. The principal user of the databank is the SEBI itself. It uses the information contained in the databank for its supervisory and monitoring purposes. The databank should be brought into the public domain in order to enhance transparency and empirical research on various issues related to the stock market operations including insider trading.

If this is done it will also make the activities of the SEBI transparent. As the apex regulatory body, the SEBI has gained considerable regulatory power over the stock exchanges and other market participants. For this reason it needs to be accountable and its activities should be more transparent.

8.3.8 Client identification: national as well as international

In a recent case it has been found that a single investor is having more than hundred dematerialised account in various names. At present client identification (ID) are done through code number monitored by different depository participants. With the globalisation of stock market operation, it is possible that investors, either individual or institutional of a particular country are operating through different countries under different stock exchanges. Possibility of unauthorised transactions nationally as well as internationally cannot be avoided unless each client is provided with a single national client ID and/ or with international client ID in case of international transactions. In this cyber age this particular policy
implication is strongly suggested to detect the possibility of unreported insider trading practices.

8.3.9 Ensuring Better Corporate Governance

The employees of a company have been considered as insider and they have a great opportunity to access unpublished price sensitive information. Besides ‘Chinese Wall’ system every listed or unlisted company is required to set a high standard of ethical conduct on their employees. There is greater linkage among various market segments. Effect of insider trading in one segment may immediately affect other segments. For example, effect of insider trading in derivative segment will have an obvious effect on its cash counterpart. This should be a matter of serious concern at the time of introspection. Separate code of conduct for the insiders is available in SEBI Code of Conducts for insiders. It is unfortunate that the Indian insiders neither follow those codes of conducts in general (excepting a few) nor any disclosure is made in corporate annual report. Strict adherence as well as specific disclosure together with penal measure for non-compliance is strongly suggested.

Just like the Takeover Panel of the UK an independent Merger and Takeover Panel should be set up in India with the objective of investigating changes in shareholding pattern around the times of mergers and takeovers. The stock exchanges should be required to keep more vigilant on the share price movements and trading volumes of the concerned companies at the time of every merger. Practice of online trading could be of much help in this regard. The government should make it obligatory for every company to disclose any material information on its proposed merger fully and accurately to the shareholders and investors just when the merge negotiation is in process. Following the Sachar Committee recommendations an insider should not be allowed to deal in his company’s shares during a specified time-slot before and after the date of the merger announcement.
Proportion of independent (non-executive) directors should be increased in the composition of Board of Directors. Necessary changes to be brought in company law and corporate governance practices. Information on number of shares bought and sold by the directors or their relatives during the year should be disclosed in the company annual report.

8.4 Scope of Further Research

Limitations of the study have already been referred to in Chapter-1. However, some of the limitations may be overcome by doing further research in the following areas:

(i) Policy implications of our study about the problems of insider trading in the event of M&As can be extended to takeover announcements. One more issue on which further research can be carried out is the effect of insiders' behaviour on liquidity. Other possible areas of further research may be the effect of insider trading on the probability of completion of merger. Insider trading may raise the cost of merger by increasing the premium offered to shareholders. Mergers and Acquisitions are common form of strategic alliance which opens possibilities of insider trading at a rampant scale. Possibility of getting qualitative as well quantitative data is more in this area due to regulatory support almost in all countries including India. Exclusive research possibilities exist in this crucial area particularly in the Indian context.

(ii) Main hindrance to empirical research on the issue of insider trading is non-availability of data relating to trading volume of the insiders or their relatives. It is true that the same problem has partially been solved. It might be overcome only if data relating to share trading of the individual
insider is made open to the public. Subject to availability of databank, there is a good scope of empirical research on insider trading.

(iii) There exists linkage among different segments of financial markets, viz., money market, capital market, commodity market, foreign exchange markets etc. Insider trading in one segment may have immediate effect in other segment. Nature, extent and depth of this inter-market effect could be another interesting area of doing further research.

(iv) Insider trading has been found to be closely associated with high market volatility. Moreover, the quantitative effect of insider trading on market volatility is found to be quite significant when compared to the effect of the volatility arising out of some other fundamental factors. In future research, it would be useful to ascertain the precise mechanisms through which insider trading enhances market volatility and to investigate whether the rise in volatility has any effect on economic efficiency.