Chapter -1

Introduction

1.1 Backdrop

The development of an effective and efficient stock market is necessary for creating conducive climates for investment and economic growth. During the last two decades, Indian stock markets have witnessed tremendous growth. Despite this phenomenal growth, the stock market in India suffers from a number of distorting forces namely price-rigging, *insider trading*, lack of transparency in the company accounts, high transaction cost, excessive speculation, administrative lapses in the stock exchanges, faulty primary markets and various other problems, namely cornering, wash sales, curb market dealing etc. Among these entire range of problems insider trading has been found to be the most difficult problem simply due to the absence of circumstantial evidence that is regulatory requirement to book the offenders. Insider trading is an extremely complex issue and it is almost impossible to get rid of it because it evolves from a very basic human instinct i.e., greed. One who is having insider information and arrive at a decision of future profit or reduction of loss by discounting such information, it is extremely difficult for him to keep himself abstained from trading based on that information. Present effort is an endeavour to understand the magnitude of this problem and regulatory practices that exist to combat it.

Stock market is also important and an effective way of allocating scarce resources from surplus unit to deficit unit\(^1\). However, this is only possible where different segments of the financial markets are able to operate efficiently. The competition for external capital amongst small, developing and emerging financial markets has resulted in a growing awareness of the importance of investor protection laws if markets are to be competitive. One important aspect of such law
is the need to control the behaviour of insiders who are involved in illegal insider trading.

Insider trading is trading of company securities while having material non-public information about the security in breach of fiduciary duty or other relationship of trust and confidence. Insider trading may also include passing such information to the other person. Insider trading may take place in various segments or sub-segments of financial market viz., real estate market, foreign exchange market and money market. The trading may take place with reference to different types of securities such as equity, bond or derivative instruments. However, the present study has been kept confined to insider trading problem in relation to equity segment of the stock market. The study has attempted to focus on insider trading problem of the Indian equity market. However, case studies and study of insider trading regulation of other countries have enriched our experience.

Although exceptionally, some of the experts of financial market supports insider trading. To them it seems to be quite logical to trade on inside information because, it makes the financial market perfect. But present study has upheld the majority opinion which identifies the problem of insider trading as a major problem towards orderly growth of the financial market. Insiders as well as non-insiders (common investors) belong to a single class 'investors'. Therefore, if insiders are allowed to trade on the basis of inside information to which they have access simply by virtue of their position, then it becomes detrimental to the rest of the investors. As a result rampant insider trading goes against the most fundamental requirement of market competition i.e. level playing field. In the present study attempt has been made to comprehend this complex problem through case studies and existing regulatory practices of India. Instances of foreign countries (case studies and regulatory practices) have been made in order to strengthen the idea of insider trading.

Insiders use specific unpublished information either for their own financial benefits or avoiding losses. The term ‘insider’ includes almost any person having
access to unpublished price sensitive information about the company. Insider trading has been assumed to be an offence in this endeavour simply because of the fact that undue profit is being made by the select few at the cost of huge losses of large number of common investors who do not have any access to confidential information about their companies. The same has been considered in this study as a financial crime, which is widely known as white-collar crime. Very few persons who are called as insiders enjoy the benefit of this trading and the common investors are left to suffer. It undermines investor’s confidence in the fairness and integrity of the capital market. Whenever it takes place in a large scale, then it deters foreign investors from the capital markets. Insider trading is often coupled with rigging of share prices, luring genuine investors into deals of mergers and acquisitions etc. In most of the cases it results into unlawful gains or avoidance of losses by unscrupulous insiders and huge losses to millions of investors.

Print media has continuously referred insider trading as ‘a great evil’. Lawyers and politicians, who seek to justify regulation of insider trading, invariably resort to the notion of the fairness. The lawyer’s approaches are more sophisticated. Although, there exists uncertainties and an element of chance in trading is always found in corporate securities. As argued earlier both the insider and outsider should have equal opportunity and bargaining position. The problem is quite critical because it is very difficult to arrive at a conclusion as to whether a trade is taking place based on inside information. Although insider trading is a global phenomenon, its intensity is much higher in under-developed securities markets than developed markets.

Most of the developed as well as developing countries have laws to curb it, but no law has been found to be effective enough. In India, insider trading occurs on a massive scale and this is one of the key factors responsible for destabilising the securities market in the country. The issue has been sensationalised in the financial press in India in recent years. Indian companies such as Hindustan Lever Ltd. (HLL), Reliance Industries Ltd. (RIL) etc. and the activities of the market
operator's viz. Harshad Mehta, Dilip Pendse, Samir Arora, Hiten Dalal or Ketan Parekh offer an idea of magnitude of this crime in the country. In the international circuit the big companies such as Marcus Scholoss & Co., Drexel Burnham Lambert and the names of Michael R. Milken, Ivan F. Boesky, Martin Siegel or Dennis Levine have cropped up and hurt the market sentiment which indicate and tend to suggest that there is large scale involvement of corporate insiders in the international arena.

Prior to the formation of Securities and Exchange Board of India (SEBI), no concrete steps have ever been taken by the government in this direction. However, three committees, viz. the Sachar Committee in 1977, the Patel Committee in 1985 and Abid Hussein Committee in 1989 had made recommendations to curb such type of trading. SEBI came out with insider trading regulations for the first time in 1992, which was thoroughly revised in 2002.

Present study is mainly based on four distinct areas viz., (i) insider trading practices in India, (ii) insider trading practices in some selected foreign countries, (iii) insider trading regulatory practices in India and (iv) insider trading regulatory practices in some selected foreign countries - the USA, the UK and Australia. During the course of our study we have found large number of insider trading cases in the event of Mergers and Acquisitions (M&As). Therefore, special attempts have been taken to identify and analyse insider trading cases in the event of M&As.

1.2 Survey of literature

Although Insider trading has been found to be rampant in the Indian stock market for a long period of time, growth of academic interest in this crucial area is of recent origin. Reasons why research on insider trading has failed to draw the attention of academic researchers in the past are of twofold; (i) non availability of data in relation to transaction by the insiders and (ii) substantiation of insider
trading crime has been found to be extremely difficult, as evident from various court decisions- India and abroad.

Following US regulatory intervention, data are now available in business dailies in India. But a lot of court cases regarding insider trading could not be won either due to loosely drafted regulation or failure on the part of the court to prove various complex conditions which have been made as a part of insider trading regulation.

Despite these inherent difficulties, vast literature has been found during the course of our study. Researcher has examined the problem from different dimensions. Although we have found ways and means to combat the problem of insider trading, we have come across to a bunch of literature which contradicts our core thought and ultimately help us to form a stronger foundation of our core concepts in this endeavour. Although our work is qualitative in nature and we have not ventured to test any hypothesis and we have found a good amount of literature that are qualitative in nature. We have also come across to a vast literature on insider trading in the event of Mergers and Acquisitions that are based on empirical research. Survey of that literature has been organised under six broad categories.

(i) Abnormal profit arising out of insider trading

By using price sensitive information insiders may earn abnormal profit from the stock market. Lorie and Niederhoffer (1968) found that insider transactions are significant predictor of the direction of large price changes (monthly increases of 8% or more). Jaffe (1974a) and Finnerty (1976) have concluded that the occurrence of profitable insider transactions implies that trading on inside information is widespread and insiders actually do violate security regulations. Seyhun (1986) have observed that insiders usually make abnormal profit and it influence the entire market mechanism which calls for a regulatory initiative by the market regulators.
(ii) Stock market crash as a result of rampant insider trading

There are many reasons behind the stock market crash. However, insider trading has been considered as one of the activities for those crashes or major corrections either in the developed or in the developing market. Thomas Gordon & Mergan-Witts Max (1979) in their book have thoroughly examined incidence behind the Wall Street Crash in 1929 and found insider trading as one of the main reasons behind that collapse. James B Stewart was awarded the 1988 Pulitzer Prize along with Daniel Hertzberg for their findings on the 1987 stock market crash and the insider trading scandal. His books (1991a & 1991b) unfolded the insider trading episodes of Martin Siegel, the investment banker, Ivan F. Boesky, the arbitrageur, Michael R Milken, the head of High Yield Securities. In her book, Gene G. Marcial (1995) had unfolded many insider trading episodes in the USA. Most of the cases were related to 1987 stock market crash.

(iii) Foreign regulation

One of the important tasks of stock market regulators is to regulate insider trading so that market become efficient and effective. There exist large numbers of literature on insider trading regulations. A comprehensive work has been done on the regulations of insider trading by Barry Alexander, K. Rider and H. Leigh Ffrench (1979). The book has critically examined insider trading regulations of 30 countries. But this work could not offer any concrete suggestions for regulating insider trading. Although purpose of their work was to examine whether the Securities and Exchange Commission (SEC) regulation meets public interest, Phillips Susan M and Zechar Richard J (1981) have tackled the issue of insider trading quite extensively in their research work The SEC and the Public Interest.

In their article “Insider Trading and the Value of the Firm”, Mason, Robert and Madhavan (1991) have shown that insiders may increase the volatility of the company's securities prices by engaging in activities involving investment and
production decisions to destabilise firm performance to take advantage of security price swings. Seyhun (1992)\textsuperscript{18} empirically examined the effectiveness of the increases in insider trading sanctions in the USA.

In a study Meulbrock (1992)\textsuperscript{19} has explained that the regulatory authorities use a multi-pronged strategy to detect and prosecute illegal insider trading. The first source comes from individuals informing other people. The other source relies upon tangible evidence such as notes, memorandums or telephone conversations which indicate that an investor trades on the basis of inside information. The last strategy relies on circumstantial and statistical evidence to detect and prosecute insiders.

Bainbridge (1999)\textsuperscript{20} has analysed that origin of the insider trading prohibitions in the USA. His study described the modern federal insider trading prohibition. Further he argued in favour as well as against insider trading activities. In their comprehensive inter-country research work covering 103 countries Bhattacharya and Daouk (2002, 2005)\textsuperscript{21} have found the existence of stock markets in those countries at the end of 1998. But insider trading laws existed in 87 countries and prosecutions had taken place in 38 countries. Before 1990s the respective numbers were 34 and 9. They concluded that the existence of the enforcement of insider trading laws in stock markets is a phenomenon of the 1990s. In their second study they found that developed countries have a better record of prosecution than emerging markets (82% of developed countries and 25% of emerging markets have had prosecutions). However, they didn’t find any correlation between establishment and enforcement of insider trading laws and reduction in the cost of equity.

(iv) Indian regulation

In his book ‘The Fall of Angels’, R. C. Murthy (1992)\textsuperscript{22} has made introspection into securities scam held in India during early 1990s. He has explained the process of using of Banker’s Receipt (BR) by Harshad Mehta, Hiten
Dalai, Bhupen Dalai, Abhay Narottam and others engaged in that scam. But no such suggestions have been made regarding combating insider trading.

Two excellent articles on (i) Insider Trading – A Menace to the Growth (Chander 1995) and (ii) Insider Trading: How to prevent it. (Srivastava 1995) have examined insider trading as a problem to the securities market and the mechanism of its prevention.

Reddy and Prakash (2000) have analysed SEBI (Insider Trading) Regulations, 1992. They suggested that existing insider trading regulations would require more stringency to combat this complex issue. In another article they suggested that civil remedies should be provided in addition to criminal penalties in India.

Chitale (2002) has explained in his articles the meaning of terms like ‘insider’, ‘dealing in securities’, ‘unpublished price sensitive information’ and outlined the salient features of the Code of Conduct and scope of its applicability. In his book, Vyas (2002) has analysed insider trading regulations in India. He criticised SEBI (Insider Trading) 1992 regulations. He found that these regulations were loosely drafted and some important issues and definitions like, ‘insider’, ‘connected person’ have not been addressed properly. He also examined 1992 insider trading regulations and its amendments in the year 2002.

In an article, Suchismita Bose (2005) has studied important regulatory provisions that have been evolved for tackling insider trading problem, securities market misconduct and regulatory action aimed at investor protection. A comparison has also been made between US securities markets regulations and Indian securities markets regulations. She suggested that Indian principal regulator SEBI should be given more power to combat market manipulations.

Singh (2006) has tested stringency of insider trading laws on the basis of five broad parameters such as (i) whether any liability on outsiders (tippees) is imposed due to insider trading; (ii) whether any liability on tipper is imposed for communicating the material non-public information; (iii) whether monetary
penalty can be imposed for violation of insider trading laws; (iv) whether criminal prosecution is provided by law and (v) whether investor is entitled to bring private cause of action for damages. He concluded that prohibiting insider trading is no doubt a challenging task and Indian laws are no exception to the general rule particularly while in possession of unpublished price sensitive information. Balakrishnan (2006) has discussed issues of SEBI insider trading regulations. He has suggested a draft of insider dealing code.

The Institute of Company Secretaries of India (2007) has released a comprehensive work on Indian regulatory practices on insider trading. They examined recommendations of different committees constituted specially to combat this heinous crime. It made a comparative analysis between Insider trading regulation, 1992 and its amended version released in the year 2002 by SEBI.

(v) Mergers and Acquisitions (M&As)

Mergers and acquisitions are the important strategic alliance in the form of corporate restructuring. This has been recognised as price sensitive information when it is announced publicly. Vast literatures exist on problems of insider trading in the event of M&As. Keown and Pinkerton (1981) provided evidence of excess returns earned by investors in acquired firms prior to the first public announcement of planned mergers. He concluded that systematic abnormal price movements can be interpreted as prima facie evidence of the market's reaction to information in advance of its public announcement.

Easley and O'Hara (1987) presented a model where informed traders preferred to trade large amounts. Arshadi and Eyssell (1991) determined the relationship between pre-announcement price movements and insider trading by directly examining the trading volume and profitability by the insiders during the period preceding tender offer announcement. They examined a sample of US target firms during the period of 1975-1987. Insider Trading Sanctions Act (ITSA) was enacted in the year 1984. Sample firms were chosen from time slots 1975-
They found that during the era prior to the passing of ITSA insiders were purchased (net) huge shares of their own firm's over the 40 weeks pre-announcement period.

Paul Barnes (1996)\textsuperscript{35} has made an empirical study concerning share price performance of both the target as well bidder firm prior to the public announcement of a merger bid. The study noticed almost 75% rises in the share price of a target company immediately before its announcement.

Although his work has been referred earlier, Seyhun (1998)\textsuperscript{36}, in chapter 11 and 12 of his book has examined the effect of insider trading in target as well as bidder firms. He concluded that stock prices of target firms drift up prior to takeover announcement. He observed that approximately one fifth of the total stock price reaction occur before the takeover announcement. In case of bidder firms he observed that successful bidders appeared to do better than the unsuccessful bidders. He further concluded that large insider buying prior to the takeover attempt provides a good signal regarding the eventful performance of the bidder firms. Takeover announcements generate great investors' enthusiasm because they usually lead to large increasing share prices of the selling firms. He had made a study consisting of 1913 target firms during 1975 to 1992 period. Out of this total 89\% of the firms has eventually taken over and termed as successful targets. In his sample only 11\% of the takeover target has remained unsuccessful target. His study suggests that synergy\textsuperscript{37} plays an important role in the creation of value of corporate takeovers. When the corporate takeover is successful, the combination of the bidder and the target firms generates synergy and the bidder firm is forced to share some of the burdens with the shareholders of the target firms. As a result the value of the target firms increases permanently. In contrast, when the attempted takeover becomes unsuccessful no synergy is developed and the value of the target firm goes back to its original value prior to takeover announcements. Consequently there is no real increase in the value of the target firm.
Bettis, Ducan and Harmon (1998) have provided empirical survey on major corporate events including M&As. They found that insiders used to extract significant gains from non-public information although insider trading regulations existed in a country. They concluded that insiders not only continue to purchase shares before good news and sell before bad news, but their trading volume has also surged over time. The magnitude of abnormal returns realised or losses avoided also proved that insiders trade on the basis of inside information. In their interesting study P. Brown and M. Foo (1998) have found that directors' of Australian companies sold more shares after abnormal price rises and purchased by abnormal price declines.

J. Fred Weston, Kwang S. Chung and Susan E Hoag (1999) have analysed M&As regulations of the USA and identified insider trading as a major problem emanating from M&A deal. They have also examined regulatory responses to the problems arising in the event of M&As. Arnold, Erwin, Nail and Bose (2000) stated that corporate insiders (i.e. directors and senior officers) trade prior to takeover announcements in the United States and use the derivative segment of the market. They found positive correlation between abnormal stock price movement at an early stage before a takeover bid's announcement and volume of trading by corporate insiders in Canada.

Banerjee and Woodrow (2001) had studied legal insider trading cases associated with mergers announcement during 1897-1903. They conducted empirical tests that focused on the impact of performance information disclosure on the distribution of value gains between insiders and outsiders. They have found substantial value gains immediately after announcement. It indicated participation by outside shareholders. Arturo Bris (2001) has gathered information on insider trading in 52 countries in the world and has analysed a firm’s stock reaction before a tender offer announcement on a sample of 4541 acquisitions. It has been found that profits to insiders calculated over the fifty-five days that precede a public announcement increase after insider trading laws are enforced.
In their study, Agrawal and Singh (2002)\textsuperscript{44} have examined the impact of inside information on daily stock trading in the Indian perspective. Their study has covered 165 trading days surrounding the merger announcement date including the date of announcement. They have taken 150 trading days prior to the announcement and 15 days on and after the announcement. They have focused on the daily closing stock price movements and volume traded of target companies prior to the first public announcement of their proposed merger. They analysed cumulative average return (CAR) and trading volume pattern, which created a foundation for the argument that stock price run-ups before merger announcement reflect widespread insider trading.

Weihong Song (2005)\textsuperscript{45} has made an empirical study on whether overvaluation leads to bad mergers. He used a sample of 1356 domestic mergers and acquisitions between 1986 and 2000 and tested “overvaluation driven acquisition hypothesis”. He found that there is a clear increase in average insider selling during the six month period prior to the acquisition announcement and the average number of share sold peaks in the month before the announcement date followed by increase in sales when the deal approaches completion. He also found that the acquirers whose insiders are ‘pure sellers’ significantly underperform their control firms while acquirers whose insiders are ‘pure buyer’ do not. Yuanzhi Luo (2005)\textsuperscript{46} has made an interesting study about insider learning from market reaction. His study has finally arrived at a model so that executives of both the target and bidder companies may cancel a deal depending on markets reaction to their proposed plan.

(vi) Studies that argued in favour of insider trading

Interestingly we have come across a few studies that supported trading on the basis of insider information. Henry (1966)\textsuperscript{47} has finished two pioneering works within a gap of three years. In 1966 he argued that insider trading is not only beneficial but also vital for the development of financial markets. He reiterated
that insider trading improves price accuracy and is an acceptable way to compensate managers. It can provide a bridge between the need for corporate secrecy and the markets thirst for information. He has undertaken a legal and economic analysis of the practice and concluded that insider trading should not be prohibited. Insider trading may be the only practical and appropriate method available for compensating Schumpeterian innovations. In his second published work released in 1969 he further argued that insider trading results in more efficient pricing of securities and in the more efficient operation of securities markets. Henry pointed out that insider trading makes the market perfect. However, his observations were largely marginalized by other studies. Carlton and Fischel (1981)\textsuperscript{48} asserted that insider trading fosters efficient capital markets by improving the accuracy of stock prices. Specially, insider trading promotes quick price discovery which migrates the incentive for many individuals to collect same information. However, barring these two exceptional studies trading on the basis of unpublished information have not been supported by any authors, practitioners or academicians.

1.3 Identification of the research gap

Numbers of cases of insider trading all over the world are increasing every year. During last three years almost 31 cases (ref. exhibit no: 3.2 of chapter-3) of insider trading have been taken up by SEBI, which has caused huge losses to common investors\textsuperscript{49}. Instances of research (both empirical as well as conceptual) on insider trading in the global perspectives are huge but the same is very scanty and partial in India.

From the above survey it is evident that despite presence of vast literature on insider trading no single comprehensive study has ever been made in the Indian context to understand the nature and magnitude of the problem. Present study is a humble attempt to fill up this void.
1.4 Objectives of the study

Against this backdrop, the specific objectives of the present study include the following:

i) to explore the nature, magnitude and mechanism of the problem of insider trading;

ii) to examine the effectiveness of insider trading regulatory practices in India and some developed countries; and

iii) to find out the ways and means for the securities market regulators in general and SEBI in particular in order to curb the menace of insider trading.

1.5 Methodology and database

This is basically a descriptive research. It describes phenomena, as they exist. In some cases endeavour is also made to go beyond merely describing the phenomena to analyse and explore why and how things are happening. No attempts have, however, been made in the study to test or confirm any hypothesis. Emphasis has mostly been laid on gaining insights and familiarity with the issue being researched.

The research is based on a qualitative approach. A major part of the data collected and used in conducting this study is qualitative in nature. This has been done with full knowledge of the fact that the qualitative approach is bound to be somehow subjective. However, it should be mentioned in this context that certain quantitative data have been used in this study in some cases to supplement qualitative data.

Books, journal-articles, newspaper-articles, committee reports, seminar papers, exchange bye-laws, SEBI regulations, securities regulations of some developed countries, International Organization of Securities Commissions
(IOSCO) Report 2003 and related websites etc. pertaining to insider trading in securities markets have been used extensively as information sources for the study. Information concerning the securities market regulatory practices abroad has mostly been procured from published books, journals and website literatures.

In the present study facts and information have been gathered in the course of carrying out interviews with share brokers, financial analysts, investors, financial economists, business executives and stock exchange officials. Since the level of understanding of different categories of people interviewed is quite different, it has become necessary to depend on a system of an unstructured and semi-structured qualitative interview. This is a kind of interview, which is more in nature of probing conversation. While carrying out the interviews, questions were rephrased in such a fashion that the respondents could understand them most easily.

This is essentially a qualitative research work based on application of deductive logic. Real life insider trading cases from India and abroad and those which are arising particularly in the event of Mergers and Acquisitions have been selected. Analysis has been made to examine whether existing regulatory provisions are able to combat the menace of insider trading.

There exists a lot of empirical research in the western world. Empirical researches are also found in the areas viz., (i) whether regulatory provisions can reduce volatility arising as an outcome of insider trading or (ii) can disclosure norms reduce volume of insider trading (iii) how stock price is affected due to insider trading in the event of Mergers and Acquisitions. However, those efforts have not been taken up in this study in order to concentrate and emphasis on effectiveness of insider trading regulations. It is perceived that those areas would be taken up in the Indian context in due course.
1.6 Limitations of the study

The study has some limitations. These are as follows:

i) The present study concentrates on the insider trading regulations of company securities in India. Insider trading may take place in other markets viz. money market, derivative market and foreign exchange market. Effect of insider trading in one segment of the financial market creates unusual volatility in other segment. This issue of cascading effect has not been addressed in this study.

ii) In order to have a thorough idea about regulatory practices on insider trading, regulations of many developed as well as emerging countries should have been studied. Endeavour in the present study has been confined to only four countries; India, the USA, the UK and Australia with special reference to insider trading problems and regulations in India. Study of insider trading regulations of more number of countries—developed as well as underdeveloped could enhance the depth of the present endeavour.

iii) We have come across to a good number of empirical studies on insider trading, particularly with reference to Mergers and Acquisitions. Those studies have tested different hypotheses. Similar attempts have not been made in our study. Had such attempts been taken, conclusions could be made based on empirical tests which could supplement our subjective inferences or opinions.

1.7 Expected contribution to knowledge

Expected contribution to knowledge stemming from the present study may be summarised as follows:

- Since this research is focused on the insider trading practices in India, it is expected to contribute to the fund of knowledge by extending insider trading regulatory practices in the Indian context.
• The other studies that have so far been conducted in this area, have dealt with the issue in a fragmented and piecemeal way. It will probably be the first ever-comprehensive study on insider trading in company securities in India.

• The study is expected to benefit the stock market regulators and stock exchange authorities by providing them with useful insights regarding insider trading in the Indian stock market.

• The study, it is believed, would advance our understanding of why the stock market in India has failed to achieve the desired growth due to the problem of having excessive insider trading practices.

1.8 Plan of work

The study has been arranged in eight chapters. Chapter-1 is the introductory Chapter. It describes the aims, objectives and methodology of the study. It sets out the reason why this study has been undertaken. Chapter-2 refers to types of and motivations for insider trading. Chapter-3 provides some selected Indian case studies on insider trading. Altogether seven leading Indian cases have been studied in this chapter. Chapter-4 is concerned with selected foreign case studies on insider trading of some of the advanced market economies. Six cases covering three countries viz., the USA, the UK and Australian have been made.

Insider trading may take place in number of occasions. However, number of cases in the event of M&As have been found to be of large proportion. With this specific end in view, Chapter-5 focuses on the problems of insider trading in the event of mergers and acquisitions. Four leading cases of insider trading arising in the context of M&As from two countries, viz., India and the USA have been dealt with in this chapter. Chapter-6 examines insider trading regulation in India. This chapter has examined SEBI regulations of insider trading (1992, 2002 and 2008) as well as regulations by Self Regulatory Organizations (SROs)—National
Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in connection with insider trading. Chapter-7 deals with foreign regulation on insider trading of most advanced market economies. This chapter has critically examined insider-trading regulations of the USA, the UK and Australia. Chapter-8 provides summary of conclusions made at the end of different chapters and offers some useful policy implications.

Notes and References


2 Commercial and Financial Chronicle, 8 February 1872

3 In the year 1992 during a seminar on Capital Markets, the former president of Bombay Stock Exchange began his speech by making an observation that “there is no other kind of trading in India, but the insider variety”. It is another matter, he said that by the time the retail guys get the “hot tip” the real operators are already are dumping there holdings.
4 One has to prove that profit has been made or loss avoided on the basis of inside information.

5 Exception proves the rule


10 Here the word ‘correction’ has a technical implication. Stock prices or indices moves to fundamental as well as technical reasons. There remains a possibility of mispricing. This is true not only in stock market but also in other segments of the financial market. But informed investors, speculators, arbitrageurs and intermediaries take advantages of these mispricing and those mispricing gets corrected.


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15 USA, UK, Canada, Australia, Canada, France, Federal Republic of Germany, Netherlands, Italy, Belgium and Luxembourg, Denmark, Sweden, Norway and Finland, Switzerland, Channel Islands, other European Countries, the European Economic Community, Hong Kong, New Zealand, and Papua/New Guinea, Indian Subcontinent, Africa, Middle East Countries.


Those who receive information from a primary insider are called tippees.


The Institute of Company Secretaries in India (2007), Prohibition of Insider Trading Law and Procedure, New Delhi


Synergy: 2+2=5; a combination of business in which the combined entity is more valuable than the sum of the parts.


41 Arnold, Erwin, Nail and Bos,(2000), “Speculation or Insider Trading: Informed Trading in Options Markets preceding Tender Offers”, *University of Alabama at Birmingham Working Paper*


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