Insider trading

Insider trading is a term that most investors have heard and usually associate with illegal conduct, but the term actually can refer to perfectly legal behaviour too.

Legal insider trading, in fact, happens all the time when managers, directors and employees of publicly traded companies (the so called corporate insiders) own stocks in their firm or have stock options, i.e. the ability to trade a stock at a certain time for a set price. This is considered a form of "insider trading" because company employees might have access to information not known to the public, which could send the firm's stock price higher or lower: a new product, a merger with another company, a change of CEO or a spectacular earnings report. However, to keep their trading legal, these "insiders" must report their transactions to the Security and Exchange Commission (SEC) within a certain time period after the sale or purchase, usually 10 days from the end of the month when the transaction took place. What is more, they can only trade their stocks when that "insider" information is made public through a press release or general announcement, not to take direct advantage over other investors.

On the contrary, illegal insider trading refers to trading stocks while in possession of confidential or fiduciary material or information about the shares which has not been made public yet. Insider trading violation also includes tipping off, or in other words, passing on such information.

The SEC has accused of trading cases:

- corporate officers, directors, and employees who traded the corporation's securities after learning of significant, confidential corporate developments
- friends, business associates, family members, and other "tippees" of such officers, directors, and employees, who traded the securities after receiving such information
- employees of law, banking and brokerage firms who were given such information to provide services to corporations
- government employees who learned of such information because of their position.

Insider trading undermines investors' confidence in the fairness and integrity of the stock markets, thus SEC handed over any case after 1984 (when the Insider Trading Sanction Act, ITSA, was passed) as a criminal and financial penalty. Individuals face up to 20 years in prison for criminal securities fraud and those suspected of insider trading are usually charged with fraud and sentenced to jail, too. They can even be charged with racketeering, which means extorting money illegally, tax evasion, and/or obstruction of justice.

1 Say if these statement are *true* or *false*. Then correct the false ones.

1. Insider trading is an expression to describe illegal behaviour of investors in stocks. ....
2. A stock option is the possibility for corporate insiders to trade stocks at a reduced price. ....
3. Stock prices fluctuate if a company is going to be taken over by another company. ....
4. Corporate insiders could benefit before the public from confidential information and its effects on the market future trend. ....
5. Corporate insiders are free to trade as they want and take advantage over other investors. ....
6. Insider trading is a fraud when trading takes place before information is made public. ....
7. Investors are safeguarded in their trading transactions by government officers. ....
8. Passing on confidential information is a form of illegal insider trading. ....

2 Read the text and choose the right option.

Insider trading becomes **1.** *illegal/legal* when insiders trade stocks on leaked knowledge that the **2.** *company/market* does not possess, and which allows them to make a profit. A famous case of insider trading is ImClone CEO Samuel Waksal, who was sentenced **3.** *at/to* seven years in prison and fined $3 million after **4.** *plead/pleading* guilty to insider trading and fraud. Waksal, in fact, **5.** *has/had* sold his ImClone stock **6.** *after/before* finding out that the Federal Drug Administration had rejected an application for the company's new cancer drug. Waksal **7.** *was not/was* in possession of the information **8.** *after/before* the public and he traded on it, thus committing illegal insider trading. The irony is that the drug was later approved.
The SEC also includes in its definition of insiders those **9.** *which/who* have temporary or useful access to material or **10.** *information/informations* on a company. Anyone outside of the firm is included too. In fact, Martha Steward, who was not an **11.** *employer/employee* of ImClone Systems but a business woman, was convicted of insider trading **12.** *for/because* lying to investigators about selling 3,000 of her stocks in the company on the same day Waskal sold his. She went to jail because she got the same information that Sam Waksal had: her stock broker leaked the news that the company's CEO was **13.** *buying/selling* all his shares. That made her an insider **14.** *by/for* definition: she knew things before the market. The day after the sale, when the information became public, ImClone stock **15.** *increased/fell* by 16 percent and Stewart avoided a $46,000 loss by **16.** *selling/buying* her shares before the news was general knowledge. Stewart denied **17.** *trading/trade* the stock on the information but she was convicted and went to prison for five months besides **18.** *pay/paying* a $30,000 fine. Her broker, Peter Bacanovic, also went to jail. What was really paradoxical of the whole story, is that If she **19.** *held/had held* her stocks and waited for a few months, she **20.** *would have earned/would earn* a much higher sum of money after the company's **21.** *joint venture/takeover*.
In conclusion, an insider can be **22.** *someone/anyone* who has tradeable information before the public.