



INSIDER TRADING

FFR18-1-4

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HOMETASK for today

I Speak on the issues based on the information from Unit 17

- A new board of directors
- Budgetary control

II Abstract "Investment Banking"

III Topic on M&As



Abstract

- **The article concerns the intermediary functions of banks in the aspect of investment banking.**
- **The author aims to study the main purpose of investment banks, their basic function and how they contribute to the functioning of financial markets.**
- **The author takes a retrospective view on the origins and risks of investment banking.**
- **The author's findings are focused on the rationale behind the strict regulation of the banking sector and separation of commercial and investment banking.**
- **The author concludes that M&A processes which occurred at the end of the 20th century led to partial deregulation of the banking industry, which continued as further consolidation of these two types of banks.**



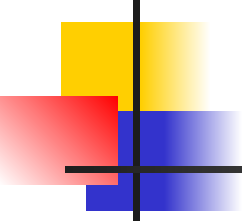
REVISION: M&As

- A combination of two companies into one by either closing the old entities into one new entity or by one company absorbing the other. In other words, two or more companies are consolidated into one company.
- A corporate transaction where one company purchases a portion or all of another company's shares or assets in order to take control of, and build on, the target company's strengths and capture synergies.



Revision: M&As

- A special form of acquisition that occurs when a company takes control of another company without the acquired firm's agreement.
- It occurs when the acquiring company has the permission of the target company's board of directors to purchase and take over the company.

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- If a person or a company carries out this strategy, they try to buy a large number of a company's shares at the start of a day's trading, especially if they want to buy the whole of it.
 - The acquirer and the target company use various **solicitation methods to influence shareholder votes** for replacement board members. This action is mainly used in corporate takeovers, where outside acquirers attempt to convince existing shareholders to vote out some or all of a company's senior management, to make it easier to seize control over the organization. PROXY FIGHT



Insider trading

- **Insider trading is the buying or selling of a publicly traded company's stock by someone who has non-public, material information about that stock.**
- Insider trading can be **illegal or legal** depending on when the insider makes the trade.
- It is **illegal** when the trade is based on material non-public information
- **Insider trading cases are prosecuted against**
- officers, directors, employees of involved corporations
- people considered tippees such as
- friends of the corporation's managers,
- lawyers,
- accountants,
- governmental regulatory bureaucrats
- printing companies having access to nonpublic documents



Insider trading

- Legal insider trading is considered as corporate insiders – officers, directors, and employees’ trading securities issued by their own company.
- When a corporate insider buys or sells his company’s securities, this trading activity must be reported to the SEC, which then discloses this information to the public. Even though the trading is disclosed, corporate insiders can only trade their corporation’s securities during certain windows of time when there is no material non-public information that might affect a buyer or seller’s trading decision.
- Insider trading can undermine the integrity of the financial markets.
- Through aggressive monitoring, the SEC helps maintain confidence that the markets operate fairly.



Insider trading

- SEC defines illegal insider trading as *buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, on the basis of material, nonpublic information about the security.*
- Material information is any information that could substantially impact an investor's decision to buy or sell the security.
- Non-public information is information that is not legally available to the public.



Conclusion

- Illegal **insider trading**
- gives the **insider** an unfair advantage in the market,
- puts the interests of the **insider** above those to whom he or she owes a fiduciary duty,
- allows an **insider** to artificially influence the value of a company's stocks.



Examples of legal insider trading

- A CEO of a corporation buys 1,000 shares of stock in the corporation. **The trade is reported to the Securities and Exchange Commission.**
- An employee of a corporation exercises his stock options and buys 500 shares of stock in the company that he works for.
- A board member of a corporation buys 5,000 shares of stock in the corporation. **The trade is reported to the Securities and Exchange Commission.**

Examples of illegal insider trading



- A lawyer representing the CEO of a company learns in a confidential meeting that the CEO is going to be indicted for accounting fraud the next day. The lawyer shorts 1,000 shares of the company because he knows that the stock price is going to go way down on news of the indictment.
- A board member of a company knows that a merger is going to be announced within the next day or so and that the company stock is likely to go way up. He buys 1,000 shares of the company stock in his mother's name so he can make a profit using his insider knowledge without reporting the trade to the Securities and Exchange Commission and without news of the purchase going public.
- A corporate officer learns of a confidential merger between his company and another lucrative business. Knowing that the merger will require the purchase of shares at a high price, the corporate officer buys the stock the day before the merger is going to go through.



State if it is legal or illegal

- A high-level employee of a company overhears a meeting where the CFO is talking about how the company is going to be driven into bankruptcy as a result of severe financial problems. The employee knows that his friend owns shares of the company. The employee warns his friend that he needs to sell his shares right away.
- A government employee is aware that a new regulation is going to be passed that will significantly benefit an electricity company. The government employee secretly buys shares of the electricity company and then pushes for the regulation to go through as quickly as possible.
- A board member of a corporation buys 5,000 shares of stock in the corporation. The trade is reported to the Securities and Exchange Commission.



Insider trading. Example.

- Internal auditors have to make sure that no one has done insider **trading** or **dealing** – buying or selling securities when they have confidential or secret information about them. For example M&A department often has advance information about takeovers. This information is called **price-sensitive**: if you used it you could make the share price change. This gives people in M&A a huge opportunity for profitable insider dealing, but internal controllers try to keep what is called “**Chinese walls**” around departments that have confidential information. This means having strict rules about not using or spreading information.



Voc. exercise

Chinese walls insider traders laundering money

1. FSA warns that criminal gangs are still _____ through exchange points.
2. FSA says it's time to get tough on _____ that are almost never prosecuted.
3. Fed says _____ not functioning in investment banking: suspicious trading is increasing.



Exam questions

1. Can Illegal insider trading raise the cost of capital for securities issuers? What effect will it have on overall economic growth?
2. How does insider trading put a company at risk?
3. How may insider trading influence investment decisions?
4. Would you agree that corporate insiders may have better insights into the health of a corporation?



Hometask for 6/05/20

- **1.** Read the text Supporting material on page 110 of the Textbook. Use the information from the text and presentation to make and present a Topic **Insider Trading.**
- **2. Watch the video at**
<https://www.youtube.com/watch?v=u40snvSXLkE>
- And answer the questions below
- **3.** Textbook 2.7 Cross cultural associations. Read the text and fill in the table after it. Answer the following questions about
NEW PRODUCT DEVELOPMENT:
 - 1, How do launch decisions differ in different countries?
 - 2. What is 'marketing mix'?
 - 3. How did the introduction of the Internet affect the new product development?
 - 4. What brand extension? Its plusses and minuses?
 - 5. How can be acquisitions used to increase the product lines?
 - 6. What is 'me-too' strategy? Its plusses and minuses?
 - 7. What is repositioning and reformulation?
- **Summarize your answers in a topic.**



Homework for 6/05/20

- **4.** Give your answers to **exam questions** about insider trading in writing (150-180 words total) and send the file at m.belogash@gmail.com
- **5.** Grammar: Participles. Textbook exs. 1,2,3 pp.129-133
- **6.** ABSTRACT writing

Write abstracts to TEXTS 1,2,3 and send them to the teacher. See the word file attached.

Questions to the video at

<https://www.youtube.com/watch?v=u40snvSXLkE>

1. What is insider trading?
2. What are the two types of insider trading?
3. Why example of insider trading does the video give?
4. What are the most common insiders?
5. Whom do we call tippers and tpees?
Are both subject to legal prosecution?