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Study exposes insider trading on Australian stock market

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Insider trading by company directors and associates trading on the Australian Security Exchange (ASX) is rife, according to new research from The ANU.

And according to the findings, the practice is found across all industry groups.

The research studied company directors' trades made after good and bad news announcements over a 10-year period from 2005.

Study lead Dr. Dean Katselas said trading was contrary to the sentiment of the news; good news meant the directors sold their shares and if it was bad news, they bought.

"My results show these contrary trades were being made with non-public knowledge, privy only to company insiders, about the future performance of the firm. This most certainly amounts to insider trading under the law," he said.

"It was the exact opposite of what you'd expect to see after either kind of news. If the news had the potential to boost the share price, I found the directors were selling their shares, when normally, this is the time you'd expect them to be buying."

Dr. Katselas said cases of insider trading prosecuted by the Australian Securities and Investments Commission (ASIC), were predominantly made ahead of public pronouncements. Trading after financial news about a company had been made public meant insider trading could fly under the radar.

"The practice is both creative and criminal," Dr. Katselas said.

"In the safe knowledge of what's coming in the future for their firms, these company directors and many of their associates, are confidently trading in the opposite direction, which ultimately helps tip the share price back again.

"There hasn't been a single individual or company identified as breaking the law by trading in this fashion to my knowledge because it's generally accepted that the information is public."

Dr. Katselas added his study showed the practice was most common in mining companies, but that it was happening across all sectors, including healthcare, pharmaceuticals, consumer and other services.

"You name it, the directors of most companies on the Australian stock exchange are engaging in this illegal practice," he said.

In a separate study, Dr. Katselas looked at director trades following companies' earnings announcements, usually made public twice a year, and found the same thing.

"I looked at the profits made by these trades and found that companies which publicly gave out the least rosy picture, were the ones that showed the greatest profitability as a result of these negative trades," he said.

"This indirect insider trading is quite difficult to identify and therefore to prosecute, because the ASX and ASIC are effectively looking in the wrong place."

More information: Dean Katselas. Strategic insider trading around earnings announcements in Australia, *Accounting & Finance* (2019). DOI: 10.1111/acfi.12478

Provided by Australian National University

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