

FSA Reports Leaks are Rampant

The latest edition of the FSA Newsletter (Market Watch – which can be read in full at www.fsa.gov.uk/pubs/newsletters/mw_newsletter18.pdf) contains some interesting comments on the extent of trading on “insider information”. It says the FSA “considers there are too many leaks of information” about public takeovers and asks firms to tighten up on their reporting of “suspicious transactions”.

It seems the standards in regulated firms vary enormously and they want more consistency to raise the general standards – for example they suggest that “trades with large profits” should be examined as a matter of routine.

They even suggest that clients who make “unusual” profits in comparison with the average performance of the firm’s clients should be examined very carefully, although I must admit that this always seemed a good idea to me anyway – if nothing else the firm’s investment managers could learn how to perform better by simply studying their own clients activities!

It seems that insider trading may have taken place in about one third of takeover announcements in 2004, based on abnormal price movements. The complexity of modern mergers and acquisitions seems to create a particular problem in that hundreds of people may know about a potential transaction before it is publicly announced.

Private equity transactions are also particularly vulnerable where innocent informal comments can get around, and where the participants who have walked away from a deal, or who are not selected to proceed, may create “pressure points for information to leak” as the FSA puts it. Participants also apparently often receive “ad hoc” enquiries from various sources which they find “unhelpful” – presumably they mean from the press or other people wanting to participate in a deal.

Of course most of the discussion relates to leaks from institutions, so are private investors innocent? Apparently not it seems as the newsletter says “Firms should be aware that manipulation is achievable in the AIM market, especially with penny shares, by retail investors”. No I am not going to tell you how to do it, but one particular problem with AIM is that the normal low volume of trading in some shares make them particularly vulnerable to manipulation.

This latest report reiterates what the FSA said earlier in the year when it reported that insider trading is very common in FTSE-350 stocks. And the regulations brought in to stop them seem to be having no effect, because if anything it's getting worse. The FSA detected abnormal price movements before 29% of bid announcements and before 22% of trading statements in the last few years. In addition, the position seemed to deteriorate in the last year when there were a few "enforcement" cases but the fines imposed were trivial (in the range £1,000 to £18,000). Go to: www.fsa.gov.uk/pages/Library/Communication/PR/2006/020.shtml for full details

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