

## New Guide on Prevention of Insider Trading

SGX and industry partners, including SID, launch a guide to prevent insider trading and information leaks.

Why should companies and directors care about insider trading and information leaks?

The obvious answer is that insider trading is prohibited by law. Companies that fail to prevent or detect insider trading by their employees contravene the Securities and Futures Act, if the trades are conducted for the corporate benefit and attributable to corporate negligence.

Beyond the law, there are also practical considerations.

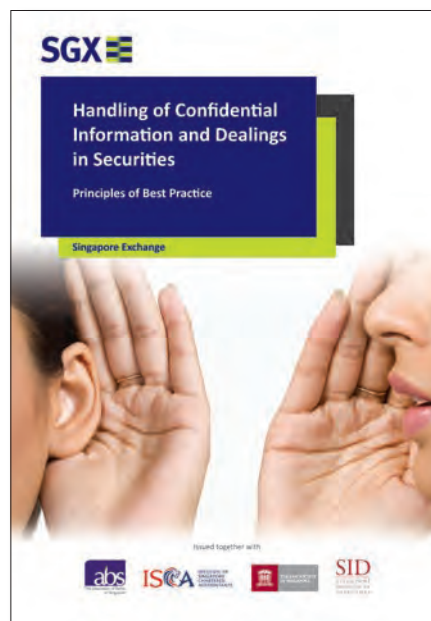
Information leaks cast a shadow over deal certainty. A 2009 Intralinks and Cass Business School study found that leaked deals, when compared with non-leaked ones, had a lower completion ratio, took a longer time to complete, and, in effect, resulted in a lower premium being paid.

SGX Listing Rules require issuers to immediately disclose material information.

One of the necessary conditions to withhold disclosure, when the issuer is not yet ready to announce the information, is to ensure that the information is kept confidential. Leaks may result in market rumours or unusual trading activity in the issuer's securities.

If the information is no longer confidential, to ensure informed and fair trading, the issuer must immediately announce such information, even if it is contrary to its original intention. Companies must thus control information flow to maintain confidentiality.

When insiders trade in a company's securities while in possession of inside information, uninformed



investors are worse off as the playing field is tilted unfairly against other market participants. That is why a trading query will be issued to draw investors' attention to the unusual trading.

To help companies and their advisers safeguard information and avoid unwanted distractions, SGX, together with the Association of Banks in Singapore, the Institute of Singapore Chartered Accountants, the Law Society of Singapore and SID, has launched a guide, *Handling of Confidential Information and Dealings in Securities*.

The guide collates industry best practice and practical examples on how to effectively deter insider trading and information leaks. Companies can decide on the measures they should adopt according to their own profile and needs.

The guide organises these guidelines and examples around nine principles, grouped into three parts (see box, "Principles of Best Practice").

It is in the interest of companies to combat insider trading and information leaks. Together, we can strengthen investor confidence in our markets if everyone follows these leading practices. ■

## Principles of Best Practice

### A. Creating a culture of compliance

#### Principle A1

Have in place clear written policies and procedures on the handling of confidential information and restrictions on dealings in securities.

#### Principle A2

Put in place measures to create a strong culture of awareness within the organisation of the risks of information flow and restrictions against dealings in securities.

#### Principle A3

Conduct regular reviews of the policy and procedures to assure that they are relevant and effective.

### B. Handling and control of information

#### Principle B1

Restrict the dissemination and sharing of confidential information to reduce any chances of information leakage, which could reduce market integrity.

#### Principle B2

Have in place procedures to prevent accidental disclosures.

#### Principle B3

Have effective physical document management and information technology controls.

### C. Restrictions against dealings in securities

#### Principle C1

Institute a “black-out period” and/or “trading windows”, to limit the time frame that dealing in the company’s securities is permitted; maintain a policy that staff should not deal in the company’s securities based on speculation or short-term considerations.

#### Principle C2

Establish proper pre-dealing and post-dealing procedures, and ensure proper audit trails.

#### Principle C3

Maintain a “restricted list” and “watch list” of securities.