

**Ethical Issues in**

**Johannesburg Stock Exchange System and Insider**

**Trading**

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# **Presentation Flow**

1. What is Stock Exchange System?
2. What is Insider Trading?
3. What is wrong with Insider Trading?
4. Johannesburg Stock Exchange System and Insider Trading.
5. Blowing whistle.
6. Who is behind bars now?

7. Stakeholder.

8. What do Software Engineers have to do with this?

9. Reference and discussion.

# **What is Stock Exchange System?**

## **Stocks**

- ✧ Divided unit of a business.
- ✧ Quantitative measure of ownership.

## **Stock Exchange System**

- ✧ A “Supermarket” of stock trading.

✧ Makes stock exchange very convenient.

✧ Stock prices fluctuate every second.

*What if, you can tell the future of stocks you are holding?*

# What is Insider Trading?

## Definition:

An insider is defined by the Insider Trading Act (1998) as:

Section 1, (viii) a(i)(ii)b

Insider means an individual who has inside information-

a) through-

(i) being a **director, employee or shareholder** of an issuer of securities

or financial instruments to which the **inside information relates**; or

(ii) having **access** to such information **by virtue of his or her**

**employment**, office or profession; or

b) where such individual knows that the direct or indirect source of the information was a person contemplated in (a);(ii)



# What is Insider Trading? (CONT.)

In plain English:

**An insider** is a person who knows something while others can't possibly know.

## **Definition:**

Inside information is defined by the Insider Trading Act (1998) as:

Section 1, (vii)a, b

Inside information means **specific or precise information** which has **not** been **made public** and which:

- a) is obtained or learned as an **insider**; and
- b) if it **were made public** would be likely to have a **material effect** on the price or value of any securities or financial instrument

# **What is Insider Trading? (CONT.)**

In plain English:

## **Inside Information**

- ✧ Learned by an Insider
- ✧ Significant influence when know.

## **Insider Trading:**

Making a decision to make profit or avoid loss under the influence

of inside information.

Why is that a big deal?

# **What is wrong with Insider Trading?**

**It is all about fair play**

✧ Economic class inequality

✧ Poverty

✧ Privileged few feed on the rest.

*“When the rich wage war it is the poor who die.” The Devil and the Good Lord,*

*Jean-Paul Sartre*

# **Johannesburg Stock Exchange System**

## **Largest Stock Exchange in Africa.**

- ✧ Equipped with JET trading system. (1997)
- ✧ Forged links with other stock exchanges.

## **However:**

- ✧ Insider trades exist.

✧ Hard to prove – beyond reasonable doubt.



# **Johannesburg Stock Exchange System (CONT.)**

## **Ultimately Failed**

✧ Not satisfy ultimate specification

- Law

- Build an adequate environment for stock exchange

## **JET Failures**

✧ July 1 and July 22, 1996

✧ Severe loss, but later partially recovered.

✧ Unethical understatement to the public.

*New legislation required.*

# **Blowing whistle.**

## **Marvyn King**

✧ New legislation recommended by King – Insider Trading

Act

✧ Civil and Criminal action against offenders:

✧ Fine of up to R2-million.

✧ Claim for special damages up to four times the profit

gained, or loss avoided.

✧ Ten-year imprisonment.

*Justice served?*

# **Who is behind bars now?**

**Most are fined.**

✧ Dodge conviction by settlement.

✧ Landmark case: Cadbury's Schweppes.

✧ Transaction took place: October 2000.

✧ Press release: February 2002.

✧ Fined: R607,170<sup>1</sup> or CAD\$109,820<sup>2</sup>

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<sup>1</sup> R denotes Rand, South African currency. 1 Canadian Dollar is equivalent to R5.53 as of March 19, 2003.

<sup>2</sup> Did not include inflation.

# **Stakeholders**

## **General public**

- ✧ Insider trading makes the rich richer.
- ✧ Inequalities in economic classes.

## **Insiders**

- ✧ Honesty and reputation are challenged.

✧ Fine or imprisonment.

## **Other shareholders**

✧ Insider traders steal possible profit.



**What do Software Engineers have to do with this?**

**Honesty, honesty, and honesty.**

**Software Engineer is:**

✧ A profession, so

✧ Share knowledge

## **When you have Inside Information, you could:**

- ✧ Go public, share with the world, or
- ✧ Remain silent
- ✧ Try to benefit from it, or remain original decision.

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