

## Spotlight on rising ASX leaks

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### Tony Boyd

The first attempt to provide an objective measure of the efficiency and fairness of global stock exchanges has found that the Australian Securities Exchange's record on market manipulation and insider trading is getting progressively worse.

Analysis undertaken by Capital Markets Co-operative Research Centre in preparation for the publication of a global league table of exchanges found the "information leakage" ratio at the ASX more than doubled in the four years to 2008.

Researchers quantified the cost of the information leaks at \$1.7 billion in 2008, the year up to which the research has been completed.

The chief scientist at CMCRC, Mike Aitken, said that the ASX performance in terms of "market leakage" was in line with other exchanges such as the London Stock Exchange, but the upward trend was worrying.

"Any movement up or down in share prices ahead of market sensitive announcements is a threat to the integrity of the market," he said.

"You should not see this happening ahead of market announcements. It is either insider trading or trading driven by insider trading such as momentum trading by others in the market."

Dr Aitken said that based on the research, on average two out of 10 market-sensitive announcements made to the ASX were preceded by movements in the share price of the company involved.

He said it was important to focus on the relative number between markets because "some amount of insider trading is going to go on".

"The market leakage data for the Singapore Stock Exchange was higher than the ASX at 28.7 per cent in 2008. Also, Singapore had experienced an upward trend in this measure of integrity," he said.

The ASX's head of supervision, Eric Mayne, last night questioned the "market leakage" and "dislocation at the close" data presented by Dr Aitken to a conference in Sydney, which was attended by regulators and stock exchange compliance staff.

He said the best objective measure of the market fairness and efficiency of the ASX was the annual review by the Australian Securities and Investments Commission.

Mr Mayne attended the conference where Dr Aitken presented his research but he was not in the room when Dr Aitken provided the analysis to delegates.

However, Mr Mayne said he attended a session by the head of compliance from the Financial Services Authority in London.

"The critical thing about the analysis of the London Stock Exchange was that the FSA weeded out share price movements that could be explained by events other than insider trading," he said.

"It is a similar story with the ASX. About 90 per cent of the price alerts generated by the ASX surveillance system are found to be readily explainable."

He said weeding out alerts was important and this was shown by the latest half-yearly statistics on insider trading referrals from the ASX to ASIC.

The ASX investigated 79 suspected cases of insider trading in the six months to December but only 19 were referred to ASIC.

Mr Mayne said it would be useful to have an objective measure of the efficiency and fairness of global stock exchanges but this would be "almost impossible" because every exchange was different.

Dr Aitken, who is chairman of SMARTS Group - a software company that has provided market surveillance software to about 30 exchanges around the world, including the ASX - said CMCRC would soon release a league table ranking stock exchanges by market efficiency and fairness.

He said the data showed that the ASX was in the "middle of the pack".

No. 1 on the league table is the New York Stock Exchange.

The Australian Financial Review

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