

Blackout trading still rife

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Close to one in three company directors still trades during blackout periods, despite a concerted effort by the Australian Securities Exchange to minimise the risk of insider trading by board members.

ASX research found that of 713 active trades by directors last year, 224 (31 per cent) took place during blackouts - the time between the end of the reporting period and company results - involving 151 individual directors in 129 listed companies.

However, only 29 of those trades were expressly prohibited by company trading policies, suggesting a failure by companies to adopt firm policies on trading by their directors.

After ASX investigations, five of the trades - involving four directors trading in four different companies - were confirmed to have contravened company policy. In the remaining cases, directors had obtained permission for the trades from their boards.

However, despite repeated requests from the ASX, this approval was usually not disclosed to the market.

The failure of companies to properly scrutinise trading by their directors has led the ASX to propose changes to its listing rules. These would require companies to adopt and disclose a trading policy for all directors and senior executives, including details of market-sensitive blackout trading periods when trading was restricted.

The Corporations and Markets Advisory Committee, the federal corporate advisory body, recommended last July that the practice be restricted.

"Companies should be vigilant in enforcing their own trading policies and codes. And directors should be mindful of the message their trading behaviour sends to other shareholders and stakeholders," ASX chief supervision officer Eric Mayne said. "Blackout trading by directors is a matter of corporate governance and one for boards and shareholders to resolve."

The Australian Institute of Company Directors welcomed the marginal decline in share trading by directors in blackout periods in 2009 to 31 per cent of all directors' trades from 33 per cent a year earlier.

The AICD noted that none of the contraventions related to companies in the S&P/ASX 200 or All Ordinaries indexes.

But it noted a small proportion of companies and directors had not acceded to the ASX requests.

"The message is still not getting through to a very small number of directors that they can only trade when their company's trading policy permits them to do so, or when they receive approval from their board or chairman," AICD chief executive John Colvin said.

"This is disappointing for that vast majority of directors who are doing the right thing."

The Australian Financial Review

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