

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Budget Estimates
2014 - 2015

Department/Agency: Australian Securities and Investments Commission

Question: BET 74

Topic: Front-running conduct

Reference: Hansard page no. 16 - 03 June 2015

Senator: Canavan, Matthew

Question:

Senator CANAVAN: Yes. You mentioned that you have breached people for front-running conduct. Can you give us the details of those breaches, given that your investigations have concluded?

Ms Armour: We could obviously have a look at our public outcomes. We will take that on notice. Probably the more important point is that, because we are real-time supervising, we are intervening at the time. We will not really have that detail for you.

Answer:

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On reviewing the full transcript it has become apparent that a misunderstanding of the line of questioning may have arisen because the term "front-running" can be used in more than one context.

The more common usage is where a stockbroker executes orders on their own account, illegally taking advantage of the knowledge of an order from a client that is likely to change the share price when executed. It is a form of insider trading. Prosecutions include:

1. John Hartman who received a sentence of four years six months for trading in CFDs prior to Orion Asset Management Limited, where he was employed, trading in the underlying equities¹; and
2. Mr Oswyn de Silva who received a two year six month sentence for trading in equities and CFDs prior to Macquarie Bank, where he was a fund manager, trading in the same stocks².

In the context of the discussion at Senate Estimates, the question seems to relate to "front-running" by HFT. In these circumstances, "front-running" is a predatory trading strategy where the direction of fundamental investor demand is determined and the HFT front-runs that execution. While not excessive in our market, predatory trading can adversely impact the trading outcomes for investors and can undermine our objective of confident and informed investors and financial consumers. Existing rules (for equities but not futures) prohibit activities that may result in a market not being fair and orderly and require participants to have regard to the impact of orders on the market.

¹ <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2010-releases/10-258ad-former-equities-dealer-imprisoned-on-front-running-and-tipping-charges/>

² <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2011-releases/11-69ad-former-fund-manager-imprisoned-for-insider-trading-involving-front-running/>