



Analyzing Securities Fraud and Insider Trading within the Framework of Financial Crime

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ABSTRACT: *Securities fraud and insider trading were significant financial crimes in Nigeria's capital market that undermined investor confidence and compromised market integrity. This study examined the nature, causes, and consequences of these crimes, focusing on the regulatory framework and measures to combat them. The research adopted a doctrinal approach, analyzing secondary data from reputable sources. The findings revealed that securities fraud and insider trading were often perpetrated through market manipulation, false disclosures, and insider trading by corporate insiders and other market participants. The study recommended strengthening regulatory frameworks, enhancing enforcement mechanisms, and increasing public awareness to combat these crimes. Collaboration between regulatory bodies and international organizations was also suggested to promote a culture of transparency and accountability in Nigeria's capital market.*

KEYWORDS: *Insider Trading, Securities Fraud, Financial Crimes, Capital Market, Nigeria.*

INTRODUCTION

Financial markets thrive on trust, transparency, and fairness. However, securities fraud and insider trading are among the most serious financial crimes that undermine these principles, threaten the integrity of global markets, leading to market instability, investor losses. These illegal practices distort fair competition, erode investor confidence, and can lead to severe legal and financial consequences. Securities fraud refers to deceptive practices in the stock and investment markets, such as market manipulation, misrepresentation of financial information, and Ponzi schemes. Among these, insider trading is the buying or selling of securities based on non-public, material information about the company, and is one of the most scrutinized offenses. Securities fraud and insider trading in Nigeria involve deceitful practices, such as spreading false information¹, market manipulation², and exploiting confidential information

¹ Investments and Securities Act 2007, section 114.

² Investments and Securities Act 2007, section 115.

for personal gain,³ all of which are regulated and prosecuted by the Nigerian Securities and Exchange Commission (SEC).

TYPES OF SECURITIES FRAUD AND INSIDER TRADING

- a. False or Misleading Statements: This involves making false or misleading statements about a security or company, such as exaggerating financial performance or hiding material information, to influence investment decisions and potentially gain financially.⁴
- b. Market Manipulation: This involves artificially influencing market prices through deceptive practices, such as spreading false rumors, engaging in wash trades, or using other tactics to create a false impression of market activity.⁵
- c. Insider Trading: This involves trading on confidential, non-public information about a security, such as upcoming mergers or earnings announcements, that is not available to the general public.⁶
- d. Front-Running: This involves trading on non-public information about upcoming transactions, such as large buy or sell orders, to profit from the expected price movement⁷
- e. Ponzi Schemes: These involve fraudulent investment programs that promise unrealistically high returns, often using funds from new investors to pay returns to earlier investors rather than generating returns through legitimate investments.⁸
- f. Pump and Dump Schemes: These involve artificially inflating stock prices through false or misleading information, often through online promotions or press releases, and then selling the stock at the inflated price.⁹
- g. Short Selling Manipulation: This involves manipulating stock prices through short selling, such as spreading false rumors or engaging in other deceptive practices, to drive down the stock price and profit from the decline.¹⁰
- h. Tipping: This involves sharing confidential information with others, such as friends or family members, who then trade on the information, potentially profiting from the tip.¹¹
- i. Trading on Non-Public Information: This involves exploiting confidential information for personal gain, such as trading on information about upcoming mergers or acquisitions that is not yet publicly known.¹²

INSIDER TRADING AS A FINANCIAL CRIME

Classifying insider trading within the spectrum of financial crimes is justified by the harm it causes to financial systems. Financial crimes are generally understood as unlawful acts that involve fraud, dishonesty, or abuse of position for financial gain. Insider trading fits this description because it involves the abuse of a fiduciary duty or position of trust, and its effects

³ Investments and Securities Act 2007, section 111.

⁴ Investments and Securities Act 2007, section 114.

⁵ Investments and Securities Act 2007, section 115.

⁶ Investments and Securities Act 2007, section 111.

⁷ SEC Nigeria - Rules and Regulations.

⁸ SEC Nigeria - Investor Alerts.

⁹ SEC Nigeria - Investor Education.

¹⁰ SEC Nigeria - Market Surveillance.

¹¹ SEC Nigeria - Insider Trading.

¹² SEC Nigeria - Trading Regulations.

ripple across the economy. It undermines investor confidence, discourages participation in the capital market, and diminishes the credibility of regulatory institutions. Unlike crimes such as theft or armed robbery, insider trading is subtle and “victimless” in appearance, but the aggregate harm is significant, particularly in emerging economies where the capital market is still developing.¹³

METHODS AND SCHEMES OF INSIDER TRADING

Insider trading can take different forms, including tipping, where an insider passes confidential information to another person who then trades on it; front-running, where brokers trade on their own account ahead of large client orders; and the use of nominees or shell companies to conceal trades. In modern times, technological platforms, cross-border accounts, and cryptocurrencies have also become tools for masking insider trades.¹⁴ These techniques make detection difficult and require regulators to adopt sophisticated surveillance systems.

CHALLENGES OF ENFORCEMENT

One of the primary challenges in prosecuting insider trading is the difficulty of proving that a person was in possession of material non-public information at the time of trading and that such information was the basis of the trade.¹⁵ This evidentiary burden, coupled with weak whistle-blower protection, poor market surveillance infrastructure, and limited judicial precedents in Nigeria, creates significant obstacles. Moreover, the complex and transnational nature of financial markets makes cooperation with foreign regulators indispensable.

POLICY IMPLICATIONS AND REFORMS

Recognizing insider trading as a financial crime highlights the need for strong preventive and punitive mechanisms. In Nigeria, reforms should include: strengthening corporate governance standards; improving transparency and disclosure requirements; deploying advanced market surveillance technologies; and enhancing cooperation between the SEC, EFCC, and international regulators.¹⁶ Equally important is the development of judicial expertise in financial crimes to ensure timely and effective adjudication of insider trading cases. By aligning Nigeria’s framework with international best practices, the integrity of its capital markets can be safeguarded.

Insider trading, though not as visible as other financial crimes, poses a grave threat to market confidence and economic development. By exploiting privileged information, insiders undermine the principle of fairness that underpins financial markets. Nigeria’s legal and institutional frameworks provide a foundation for combating the practice, but stronger enforcement, judicial development, and international cooperation are essential. In this respect, insider trading is not just a breach of corporate duty, but a serious financial crime with implications for national and global market stability.

¹³S. Yakubu, *Money Laundering in Nigeria: Trends, Techniques and Legal Response* (Tamaza Publishing, 2019), p. 133.

¹⁴L. Bainbridge, *Securities Law: Insider Trading* (Foundation Press, 2014), p. 67.

¹⁵R. Alexander, *Insider Dealing and Money Laundering in the EU: Law and Regulation* (Aldershot: Ashgate, 2007), p. 73.

¹⁶O. Ajayi, “The Regulation of Insider Trading in Nigeria: Issues and Challenges,” *Journal of African Law*, Vol. 58, No. 2 (2014), pp. 230–246.

LEGAL AND INSTITUTIONAL FRAMEWORKS FOR SECURITIES FRAUD AND INSIDER TRADING

Legal Frameworks

- a. Investments and Securities Act (ISA) 2007: This law regulates Nigeria's securities market, setting rules for companies issuing securities, brokers, and investors. It prohibits securities fraud and insider trading, with penalties for violations.¹⁷
- b. Economic and Financial Crimes Commission (EFCC) Act: This law established the EFCC to investigate and prosecute financial crimes, including securities fraud, corruption, and money laundering. The EFCC works to prevent and combat economic crimes in Nigeria.¹⁸

Institutional Frameworks

- a. Securities and Exchange Commission (SEC) Rules and Regulations: The SEC regulates Nigeria's securities market, setting rules for companies, brokers, and investors. These rules cover disclosure, reporting, and trading practices to prevent securities fraud and insider trading.¹⁹
- b. Nigerian Stock Exchange (NSE) Rules: The NSE is Nigeria's primary stock exchange, and its rules govern trading, listing, and disclosure requirements for companies. These rules ensure fair trading practices and market integrity.²⁰
- c. Financial Reporting Council (FRC) Act: The FRC promotes transparency and accountability in financial reporting by setting standards for financial statements and audits. This helps investors make informed decisions and prevents financial misreporting.²¹

GLOBAL EFFORTS TOWARDS COMBATING SECURITIES FRAUD AND INSIDER TRADING IN NIGERIA

Global efforts to combat securities fraud and insider trading in Nigeria involve:

- a. International Cooperation: Global regulatory bodies, such as the International Organization of Securities Commissions (IOSCO), facilitate cooperation among countries to share best practices, intelligence, and enforcement actions.²²
- b. Regulatory Frameworks: Nigeria's Securities and Exchange Commission (SEC) has established rules and regulations aligned with international standards to prevent and detect securities fraud and insider trading.²³
- c. Enforcement Actions: Regulatory bodies in Nigeria, such as the SEC and the Economic and Financial Crimes Commission (EFCC), collaborate with global authorities to investigate and prosecute cases of securities fraud and insider trading.²⁴

¹⁷ Investments and Securities Act 2007.

¹⁸ Economic and Financial Crimes Commission Act.

¹⁹ SEC Nigeria - Rules and Regulations.

²⁰ Nigerian Stock Exchange - Rules and Regulations.

²¹ Financial Reporting Council Act.

²² International Organization of Securities Commissions (IOSCO).

²³ SEC Nigeria - Rules and Regulations.

²⁴ Economic and Financial Crimes Commission (EFCC).

- d. Capacity Building: Training programs and workshops are conducted for regulatory staff, market participants, and law enforcement agencies to enhance their skills and knowledge in detecting and preventing securities fraud and insider trading.²⁵
- e. Public Awareness: Educational initiatives are undertaken to inform investors and the general public about the risks of securities fraud and insider trading, promoting a culture of compliance and vigilance.²⁶
- f. Technology Utilization: Advanced technologies, such as artificial intelligence and machine learning, are used to detect and prevent securities fraud and insider trading.²⁷
- g. Cross-Border Collaboration: Regulatory bodies share information and coordinate efforts across borders to combat securities fraud and insider trading.²⁸

These global efforts aim to protect investors, maintain market integrity, and prevent financial crimes in Nigeria and beyond. Securities fraud and insider trading were significant financial crimes in Nigeria's capital market, undermining investor confidence and compromising market integrity. The research revealed that these crimes were often perpetrated through market manipulation, false disclosures, and insider trading by corporate insiders, directors, and other market participants.

CONCLUSION

To combat securities fraud and insider trading, the study recommended strengthening regulatory frameworks, enhancing enforcement mechanisms, and increasing public awareness. The Securities and Exchange Commission (SEC) and other regulatory bodies should collaborate with international organizations to effectively tackle these crimes and promote a culture of transparency and accountability in Nigeria's capital market. In conclusion, securities fraud and insider trading were serious financial crimes that undermined Nigeria's capital market, and concerted efforts are required from regulatory bodies, market participants, and other stakeholders to combat these crimes and promote a fair and transparent market.



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²⁵ SEC Nigeria - Training and Capacity Building.

²⁶ SEC Nigeria - Investor Education.

²⁷ SEC Nigeria - Technology and Innovation.

²⁸ IOSCO - Cross-Border Cooperation.