



# On the inside

An extraordinary level of collaboration provided the critical ingredient to breaking Australia's largest insider trading case.

Insider trading doesn't often incite the same media sensationalism as other crime types. There isn't even a particular victim as the financial loss is ultimately dispersed throughout markets and economies. Australia's biggest insider trading case was however, unique. Age-old greed would undo 26-year-old Lukas Kamay and 25-year-old Chris Hill.

Kamay and Hill met at university in 2007 while studying commerce and economics. After graduation, Kamay ventured into the financial system with the National

Australia Bank (NAB) and Hill to the Australian Bureau of Statistics (ABS). It was only because of Kamay's extraordinary good luck while trading on foreign exchange (FX) derivatives that would bring them under scrutiny of law enforcement.

Kamay's success trading on FX market derivatives raised the suspicion of insider trading and brought Kamay onto the radar. In the course of about four months, Kamay had amassed \$500,000 in a string of more than 20 successful trades and it all seemed a bit too good to be true.



**National Manager Organised Crime and Cyber Ian McCartney and Australian Securities Investment Commission Senior Executive Leader, Markets Enforcement Chris Savundra meet the press to announce the resolution of Australia's biggest insider trading investigation.**

set time. It's akin to betting on 'red' or 'black' on a roulette table, so when Kamay started to accumulate win after win, his FX contract provider became suspicious and referred the situation to the Australian Securities Investment Commission (ASIC).

Andrew Stecher has worked at ASIC in enforcement roles since 1998. He says there were certainly unique aspects that needed investigation. Mr Stecher says insider trading more generally occurs with shares traded on the listed market. It was a first for Mr Stecher that Kamay was trading exclusively in FX derivatives.

"When you trade in foreign exchange you are gambling," Mr Stecher says. "It's a zero sum game. For everyone that makes money somebody loses."

Kamay was trading immediately ahead of ABS announcements of Main Economic Indicators such as the Consumer Price Index, Labour Force, Retail Trade and Building Approval data. Not that that is necessarily suspicious. The market fluctuations Kamay was betting on are affected by economic announcements from institutions like the ABS.

What piqued Mr Stecher's curiosity was that Kamay was betting only on the ABS data in a market where providers can offer as many as 7000 options. Kamay was always trading ahead of the same ABS data. Finally, Kamay was making increasingly larger bets beyond what his account could sustain if he lost – but winning every time. It looked suspicious and it looked like insider trading. More concerning was that it pointed to a corrupt government official inside the ABS.

Mr Stecher says another unique aspect of the case was that the compliance officer from the FX provider had done initial investigative work. He had looked at Kamay's contacts on social networking sites. One of those was Chris Hill, a friend from Kamay's university days who now worked at the ABS.

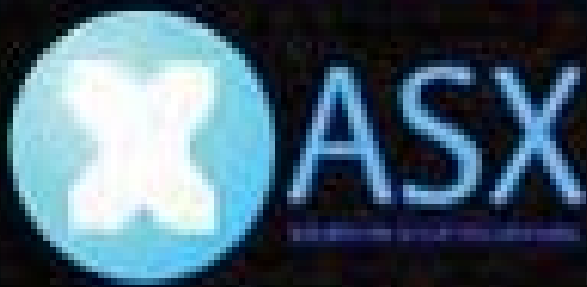
The compliance officer Googled Hill and found he had written a statistics paper. He contacted the ABS on the auspices of talking to Mr Hill about the paper. Even through casual conversation, he found that Hill worked in the very area producing the statistics that Kamay was betting on.

"Within 48 hours of it actually coming through the doors of ASIC we had a formal investigation," Mr Stecher says. "We received material from the CFD provider and also another CFD provider used by Kamay who made a similar complaint. We contacted the AFP and in a couple of days we tentatively had a joint investigation."

## Foreign exchange derivatives

Kamay was trading FX derivatives, which are flexible 'leveraged' products that give exposure to price movements of a financial commodity. Specifically Kamay was trading on fluctuations in the price of the Australian dollar versus the United States dollar. Known as Contracts for Difference (CFD), you don't have to own the commodity and you can trade through a variety of online platforms once you are registered. Even better, you don't need that much money. You can start trading with as little as \$10.

But here's the catch. Essentially, it is a 50-50 bet on what is going to happen with the price of the commodity over a



# STOCK

# EX

TREASURY	3.6
TREASURY WINE	3.2
TREYDLE	0.0
TRIANGLE	0.0
TRIALSMIN	0.1
TRIBLINE	2.1
TRITONGOLD	0.0
TROJAN E	
TROY RES.	
URANIUM	
USCOM	
LTD OROGEN	0.0
LTD URAN	0.0
LIXA RESOUR	0.0
LIXC LTD	0.8
VAN IALIG	0.7
VDM GROUP	0.0
VECTOR RES	0.1
VENTURES	0.1

A decision was made to fully engage and work in partnership with government agencies and private businesses. It turned out to be a key decision to facilitate collection of evidence that was otherwise impossible to obtain.

## Challenges

Operation Leith was launched on 21 February 2014. The challenge to gather the evidence required to prove a case of insider trading had begun. And there were significant concerns within the stakeholders already involved.

From the AFP perspective, there were gaps in the evidence. They didn't know how the information was being passed, according to the AFP's case officer, Federal Agent Dean Wealands. Initial checks identified that contact between Kamay and Hill ceased in about August 2013, when the trading activity began. "That," says Federal Agent Wealands "was one of the most critical gaps to fill for the investigation to be successful."

Just to complicate things, the investigation couldn't find any evidence of profit sharing between Kamay and Hill, even after \$500,000 had been made. With two people working collaboratively, it was expected that money was being shared. It was also problematic that Kamay was trading from an app on his smart phone. While money was exiting his account, there was no evidence that it was Kamay actually making the trades.

During the initial stages of the operation, investigators didn't know who else may be involved other than Kamay and Hill. A decision was made to fully engage and work in partnership with government agencies and private businesses. It turned out to be a key decision to facilitate collection of evidence that was otherwise impossible to obtain.

The ABS found it confronting to have an investigation within its ranks. ABS Chief Operating Officer and Deputy Australian Statistician Jonathon Palmer says the ABS is one of Australia's most trusted institutions. Erosion of trust does have a real impact on the public good as well as market integrity.

"We don't often get a call from the ASIC, so we didn't have much precedent," Mr Palmer says. "I worried a lot about what would happen if proof wasn't found because very smart people may not leave a sufficient evidence trail."

NAB also places great emphasis on trust, integrity and doing the right thing and gave its full co-operation to the AFP investigation.

Federal Agent Wealands says the ability to conduct surveillance was absolutely critical. "It was really important to either confirm whether it is occurring or not – especially corruption at the ABS. We had to work out whether Kamay was actually pushing the button or not."