

Regulatory Alert

SEC Charges 21 Individuals with Alleged Wide-Reaching Insider Trading Scheme

Based on the relentless efforts and data analytics of the SEC's Division of Enforcement's Market Abuse Unit ("MAU"), the SEC charged 21 individuals with a decade-long insider trading scheme that used information misappropriated from multiple global law firms, resulting in tens of millions of dollars in illicit profits. This indictment has dismantled a large-scale, decade-long, international organized criminal network of corporate attorneys and financial professionals who are accused of stealing confidential information on nearly 30 merger and acquisition deals and trading on material, non-public information from several of our nation's leading law firms.

This case highlights the effectiveness of the MAU, which focuses on market surveillance to uncover potential violations of fraud, insider trading, and other illegal activities involving the country's capital markets. The MAU leverages sophisticated data analysis to detect suspicious trading patterns, market manipulation, insider trading, and other crimes. At the MAU's disposal are quantitative analytics that examine massive volumes of market data to identify potential violations and determine where best to deploy the Division of Enforcement's resources.

As alleged in the charging documents, Nicolo Nourafchan, who was a licensed corporate attorney at several large law firms, and others, accessed their law firms' internal computer networks to view confidential documents relating to pending acquisitions, including confidential transactions on which Nourafchan did not work, and then provided the material non-public information ("MNPI") to others in exchange for kickbacks. Mr. Nourafchan and his partner, Robert Yadgarov, allegedly recruited other attorneys and insiders to serve as sources of inside information. In exchange for the MNPI, Messrs. Nourafchan and Yadgarov allegedly paid their sources kickbacks consisting of up to hundreds of thousands of dollars in cash. Messrs. Nourafchan and Yadgarov also allegedly provided the MNPI to a network of traders and middlemen whom they also enlisted to join the scheme.

Defendants and other co-conspirators also allegedly traded in brokerage accounts in the names of shell companies and other corporate entities, enlisted others to trade on behalf of co-conspirators, traded in others' brokerage accounts, and traded in foreign brokerage accounts, all to try to evade the detection of U.S. securities regulators and law enforcement. The defendants and other co-conspirators sought to keep law enforcement from learning about the scheme by, among other means, using burner phones, encrypted applications, coded language (including about "flights"), and in-person meetings where participants turned off their electronic devices or put them elsewhere before communicating with each other. Defendants allegedly transferred proceeds and kickback payments in cash and through intermediaries and shell companies, in locations like Panama and Switzerland. At times, such payments were allegedly disguised as purported "loans" or business transactions.

The first indictment charged 16 individuals with two counts of conspiracy to commit securities fraud, two counts of securities fraud and one count of money laundering conspiracy. The second indictment charges five defendants with two counts of conspiracy to commit securities fraud, two counts of securities fraud and one count of money laundering conspiracy. Certain of those individuals are also charged with making false statements to law enforcement and obstruction of justice.

OPTIMA TAKEAWAY

Most of the defendants charged were professionals entrusted with access to clients' MNPI, and were likely subject to confidentiality obligations and non-disclosure agreements. The alleged scheme underscores the importance of conducting thorough due diligence on professional firms and service providers with which advisers conduct business.

Vendor due diligence should include a review of policies and procedures governing the handling and protection of MNPI, including controls designed to prevent the unauthorized dissemination of confidential information. Advisers should also assess the monitoring and supervisory measures firms have implemented to enforce these requirements, as well as the scope and frequency of employee training relating to insider trading, confidentiality, and information security obligations.

Link to SEC Complaint [here](#)