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SEC accuses pharma exec of 'shadow trading'

By [Jody Godoy](#)

(Reuters) - The U.S. Securities and Exchange Commission on Tuesday accused a biopharmaceutical industry executive of illegally trading a competitor's stock ahead of a pending merger in a rare attempt to police what researchers have dubbed "shadow trading."

The agency's [lawsuit](#) claims former Medivation Inc business development executive Matthew Panuwat learned Pfizer Inc planned [to buy](#) the biopharmaceutical company in August 2016. By purchasing call options in competitor Incyte Corp's stock before the news went public, Panuwat engaged in insider trading, the SEC said.

The lawsuit seeks a fine and to prohibit Panuwat from serving as an officer or director of a publicly traded company.

An attorney for Panuwat declined to comment on the allegations on Tuesday.

SEC Enforcement Director Gurbir Grewal said in a statement that the agency "is committed to detecting and pursuing illegal trading in all forms."

In its complaint, the SEC alleged that Medivation's insider trading policy required Panuwat not to trade on the company's non-public information, including in other companies' stock.

The agency alleged that Panuwat knew that large pharmaceutical companies "were interested in acquiring oncology-focused mid-cap biopharmaceutical companies with commercial-stage drugs" at the time and that Medivation's acquisition would take one of the few targets off the market, potentially driving up prices for companies like Incyte.

Panuwat made \$107,000 on the short-term Incyte options trades, the SEC said.

The case appears to be a rare instance of the SEC alleging insider trades in a company that could be affected by another company's announcement.

A study published last year in *The Accounting Review* termed the practice "shadow trading." The last case involving similar allegations was brought in 2011, according to the study.

The paper examined trading around major corporate events to conclude that insiders trade in the stock of competitors or supply chain partners to evade insider trading prohibitions.

The study also found a correlation between companies that had explicitly prohibited shadow trading and fewer suspected instances of the practice.

Mihir Mehta, a University of Michigan professor who co-authored the study, said on Tuesday the case is a welcome sign that the SEC is paying attention to the phenomenon.

"If their goal is ultimately to ensure that markets are fair, this is something critical that they should be focusing on," he said.

The case is SEC v. Panuwat, U.S. District Court, Northern District Of California, No. 21-06322.