Insider Trading: United States vs. Newman and Chiasson

In an important decision providing clarity as to the contours of remote tippee liability for insider trading actions, the Second Circuit Court of Appeals ruled that a tippee must know that an insider disclosed confidential information in exchange for a personal benefit. In reversing the insider trading convictions of Todd Newman and Anthony Chiasson, who were downstream tippees, the Second Circuit resoundingly rejected the government’s theory that knowledge of a breach of the duty of confidentiality alone, without knowledge of the personal benefit, is sufficient to impose criminal liability. In addition, and perhaps even more significantly, the Court ruled that while a personal benefit may be inferred from a personal relationship between the tipper and tippee, such an inference can only be established by proof of a “meaningfully close personal relationship” where the exchange of the personal benefit is “objective, consequential, and represents at least a potential gain of a pecuniary or similarly valuable nature.” In overturning Newman and Chiasson’s convictions, the Court has sharply curtailed liability for tippees and brought into question the government’s ability to bring large-scale criminal or civil insider trading cases with tippees that are far removed from the inside tipper. This memorandum from Debevoise & Plimpton provides more detail.