

[Securities Regulation Daily Wrap Up, FRAUD AND MANIPULATION—S.D.N.Y.: Chinese traders charged with hacking law firms, trading on stolen data, \(Dec. 27, 2016\)](#)

Securities Regulation Daily Wrap Up

[Click to open document in a browser](#)

By [John M. Jascob, J.D., LL.M.](#)

The SEC has charged three Chinese nationals with fraudulently trading on inside information hacked from two prominent New York-based law firms. The Commission alleges that the three men netted approximately \$3 million in illicit profits by scheming to hack into the law firms' computer networks and steal confidential client information involving several publicly-traded companies that were engaged in merger and acquisition discussions ([SEC v. Hong](#), December 27, 2016).

The SEC claims that the three men installed malware on servers in the networks of two unnamed law firms to obtain broad access to nonpublic aspects of the networks, including nonpublic email systems. The defendants then allegedly transmitted dozens of gigabytes of data to a remote location and fraudulently used the stolen information to purchase shares in at least three public companies ahead of public announcements about entering into merger agreements. The three companies were semiconductor manufacturer Altera Inc., which was acquired by Intel Corporation in 2015; Borderfree, an e-commerce company acquired in 2015 by Pitney Bowes; and drug maker InterMune, which was acquired in 2014 by Roche Holding.

According to the Commission's [news release](#), this marks the SEC's first enforcement action charging the defendants with hacking into a law firm's computer network.

In a parallel criminal action, the Department of Justice announced the unsealing of a [13-count indictment](#) charging the three men with targeting at least seven law firms as well as other entities in an effort to enrich themselves by obtaining and trading on material, nonpublic information. One of the three defendants, Macau resident Iat Hong, was arrested in Hong Kong on December 25 and is now pending extradition proceedings.

In a [news release](#), Manhattan U.S. District Attorney Preet Bharara cautioned law firms to beef up their defenses against cybercrime: "This case of cyber meets securities fraud should serve as a wake-up call for law firms around the world: you are and will be targets of cyber hacking, because you have information valuable to would-be criminals."

Attorneys: Jennie Boehm Krasner (Dechert, LLP) for the SEC.

LitigationEnforcement: CyberPrivacyFeed Enforcement FraudManipulation InternationalNews NewYorkNews