



Market Manipulation, Insider Trading & Front Running - What you should know.

Happy New Year, Trinidad and Tobago! This week's article focuses on market manipulation, insider trading and front running. The information provided is intended to increase the level of awareness among investors and the general public to certain practices which are prohibited in the local securities market.

Market manipulation is defined as any intentional or wilful conduct designed to deceive or defraud investors by controlling or distorting market activity. The use of false or misleading information is usually essential to the success of a manipulative scheme. This represents deleterious conduct as it affects the integrity of the securities marketplace. The price of a security (and trading volume) should be determined by the unimpeded collective judgment of buyers and sellers. Market manipulation changes the independent trading and pricing mechanism of the marketplace and turns it into a stage-managed performance, which can lead to tremendous losses to investors. Some market manipulation schemes include Pump and Dump Schemes as well as Insider Trading and Front Running.

Pump and Dump Schemes

Pump and Dump schemes occur when a fraudster deliberately and artificially inflates the price of a stock and then "dumps" their holding of securities on the market at the artificially induced increased price.

Fraudsters try to pump the value of a stock by making misleading, false, or exaggerated statements that cause more people to buy the investment. These statements may spread through various sources including social media, investment research websites, investment newsletters, online advertisement or emails. Once the demand for the 'pump stock' reaches its peak, the fraudsters will sell their shares, dumping them into the stock market while they make a significant profit at this higher price. All promotion of the stock will cease, and as a result it drops in value returning to its original price or even lower. Unfortunately, investors who purchased the stock at the higher prices end up suffering significant losses.

These schemes work best where stocks are thinly traded, that is, only a small portion of the issued stocks are available for regular trading. These stocks generally have a small float, low trading volumes and limited information available publicly. As such, small events in the market can cause relatively large price increases thereby making it easy, to attract prospective buyers, before fraudsters eventually dump the security.

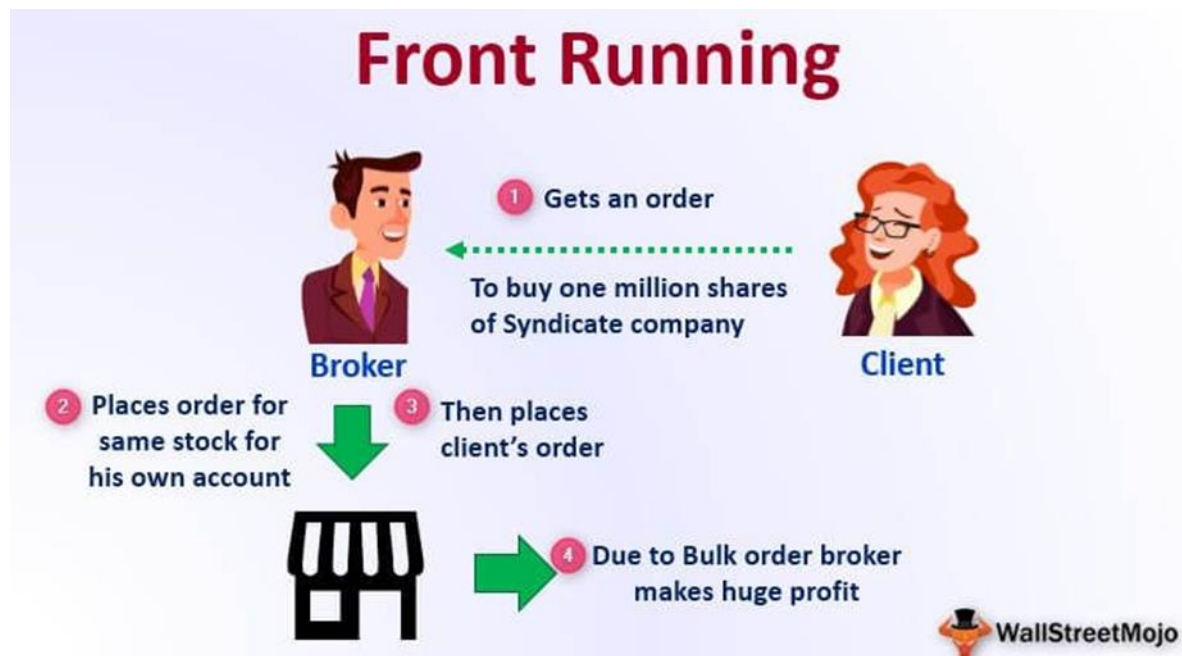
These actions are usually orchestrated by the perpetrator through the use of a “shell company”. A shell company is one that has no operating business but exists solely for the purpose of merging with an operating company. Shell companies enable perpetrators to control the float of an issuer’s stock because the price of the stock is initially low.

Insider Trading and Front Running: A Tangled Web

These two concepts are inextricably linked. Front Running is an act of market manipulation that is premised on the perpetrators acting on information not made public (i.e. insider trading). It is the illegal practice of purchasing a security based on advance non-public information regarding an expected large transaction that will affect the price of a security. Insider Trading involves trading in a public company's stock by someone who has non-public material information about that stock. Insider trading violations may also include "tipping" such information, securities trading by the person "tipped," and securities trading by those who misappropriate such information.

Front running is considered as a form of both market manipulation and insider trading because a person who commits a front running activity expects security’s price movements based on the non-public information. For example, if a broker has prior information about the orders of investors, which is misused ahead of trading on behalf of clients, and profits once the investor influences the price of the security. **Figure 1** provides a depiction of a typical front running scheme.

Figure 1 – Depiction of a Typical Front Running Scheme¹



¹ Source: <https://twitter.com/dheerajvaidya/status/1284345659009699841> and <https://www.wallstreetmojo.com/front-running/>.

The Available Remedies:

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) has various mechanisms that are provided for under the Securities Act, Chapter 83:02, and other subordinate legislation, to combat market abuses within the local securities industry. Some of these mechanisms include registration of market participants, monitoring and surveillance of market activities, inspections, and enforcement for breaches of the legislation by registrants and the promotion of investor education. The following includes sections of the legislation that deal with market manipulation.

- *Market Manipulation*: In Trinidad and Tobago, a perpetrator found guilty would be charged under sections 91 – 99 (“False trading and artificial prices in a securities market”) of the SA 2012; and would be liable on **summary conviction to a fine of two million dollars** and **imprisonment for five years**.
- *Insider Trading*: Sections 100 – 106 of the SA 2012 outline the provisions used to treat with insider trading, with the first three clause briefly listed below:
 - Section 100 - prohibition on use of material non-public information;
 - Section 101 - prohibition on the disclosure of material non-public information;
 - Section 102 - contraventions of sections 100 or 101 is an offence and is liable on **summary conviction to a fine of TT\$10M and to imprisonment for ten years**.

The TTSEC is empowered to take enforcement action and a major tool at the TTSEC’s disposal is the conduct of investigations as prescribed under **sections 150 – 153** of the SA 2012.

We encourage any investor who may have been affected or is aware of such illegal practices to contact the TTSEC via our Customer Complaints portal (<https://www.ttsec.org.tt/site/investor-complaints/>) or you can do so anonymously using the TTSEC [Investor Protection Mobile Application \(IPA\)](#).

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For more information, please visit our corporate website, www.ttsec.org.tt. You may also visit our Investor Education website at www.investucatett.com or connect with us via any of our social media handles:



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