



MARKET MANIPULATION A GUIDE TO SPOT 'TRICKY TRADERS'

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) must at all times remain vigilant against entities and individuals who may wish to use unscrupulous means to deprive investors of their hard-earned money. This week, we hone in on the area of market misconduct or wrongdoing, and the Commission's zero tolerance approach to combatting acts of Market Manipulation, Insider Trading and Front Running.

Manipulation is variously called price manipulation, stock manipulation, and market manipulation. It is the act of artificially inflating or deflating the price of a security or otherwise influencing the behaviour of the market for personal gain. This includes Pump and Dump Schemes, Insider Trading and Front-running.

Pump and Dump Schemes

These occur when a fraudster deliberately and artificially inflates the price of a stock, and then dumps his holding of securities on to the market, at the artificially induced price. These schemes work best where stocks are thinly traded, i.e., only a small portion of the issued stocks are available for regular trading, and the perpetrator can control the float (i.e. the shares of a company that are freely available to investors). Small events in the market can cause relatively large price increases thereby making it easy to attract prospective buyers before eventually dumping the security.

In order to pump up the price of a stock, false or misleading information is circulated over the internet, via bulletin boards, chat rooms and through the use of e-mails or press releases. Such misleading information can also come from broker-dealers, "boiler rooms", online chats, mobile applications, faxes and answering machines. Additionally, the schemes may "manufacture" trading activity by ensuring that there are matched or coordinated sales, i.e. the perpetrator or affiliate operates on both sides of a transaction. These create an illusion of demand, which can cause the price of a security to inflate. The perpetrator then sells at the inflated price in order to prevent other investors from capitalising on this inflated price.

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.

Fraudsters using pump and dump schemes have become quite sophisticated in their execution of these types of scams. Internet users are more often the target of such market manipulation schemes. The recent price surge in GameStop stock has raised questions as to whether it was

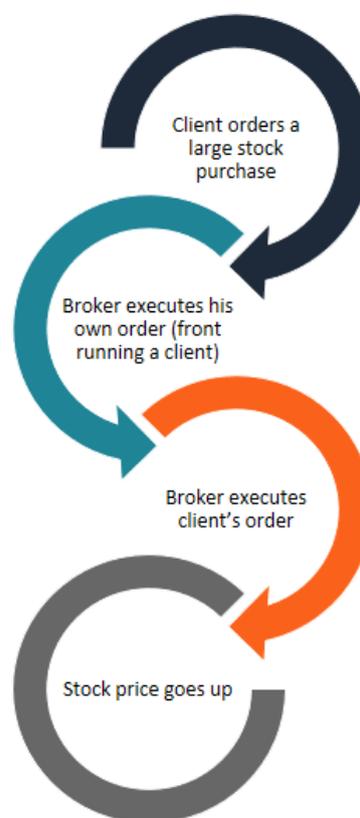
a pump and dump scheme (see Megan Leonhardt’s article on CNBC, “GameStop is being called a ‘pump and dump’ scheme – here’s what you need to know”).

Insider Trading and Front Running: A Tangled Web

These two concepts are inextricably linked with each other. **Front Running** is an act of market manipulation that is premised on the perpetrators acting upon inside information (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. Section 100(1) of the Securities Act 2012, as amended states, “No person connected to a reporting issuer shall, directly or indirectly, buy, sell, or otherwise trade in any securities of such reporting issuer, on a securities market, during any time that such person has knowledge or possession of material non-public information, however obtained, until such information has been published.” Section 100(2) prohibits anyone with insider information from providing tips based on same.

Front running is considered as a form of 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. **Figure 1** provides a depiction of a typical front running scheme.

Figure 1 – Depiction of a Typical Front Running Scheme



Source: <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/front-running/>

The Available Remedies:

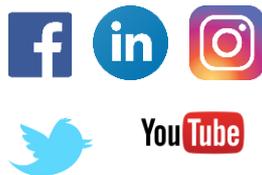
The TTSEC has various mechanisms to combat market abuses within the local securities industry including legislation, registration, monitoring and surveillance, conducting inspections and enforcement on registrants, as well as investor education programmes:

- *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 for breaches of the legislation, and this would follow based on the outcome of investigations, as prescribed under **sections 150 – 153** of the SA 2012.

We encourage anyone who may have been affected or are aware of improper market practices, to follow our complaint process, by completing our Online Customer Complaints form (<https://www.ttsec.org.tt/site/investor-complaints/>).

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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