Katten
Katten Muchin Rosenman LLP
CORPORATE & FINANCIAL
WEEKLY DIGEST

Corporate & Financial Weekly Digest

September 16, 2011 by Edward Black

FSA Imposes £8 Million Market Abuse Fine

On August 31, the UK Financial Services Authority (FSA) announced an £8 million (approximately $12.6 million) fine on Swift Trade Inc. (Swift Trade), a Canadian company that is not FSA authorized or regulated, for market abuse in the form of "layering." It placed relatively large orders on one side of the London Stock Exchange (LSE) order book, which moved the share price. It then traded on the opposite side of the order book to profit from the share price movement. It then rapidly deleted the large orders that had been entered in order to cause the movement in price and repeated this conduct in reverse on the other side of the order book. None of these large orders were intended to be traded. They were carefully placed close enough to the touch price (i.e., the best bid and offer prevailing in the market at the time) to give a false and misleading impression of supply and demand, but far enough away to minimize the risk that they would be traded. The trading activity caused many individual share prices to be positioned at an artificial level, from which Swift Trade profited directly.

Swift Trade has appealed the FSA's decision to the Upper Tribunal. Under powers granted to the FSA under the Financial Services and Markets Act 2010 taking effect from October 2010, the FSA can publish decision notices that are under appeal in appropriate cases.

The FSA determined that during 2007, Swift Trade carried out many of manipulative trades that caused a succession of small price movements in a wide range of individual shares on the LSE. Swift Trade's profits from its market abuse were in excess of £1.75m (approximately $2.76 million).

The FSA decision notice states that the FSA considers this to be a particularly serious case of market abuse. It was widespread and repeated on many occasions involving tens of thousands of trading orders by many individual traders, sometimes acting in concert with each other across many locations worldwide. The trading led to a false or misleading impression of supply and demand and an artificial share price in the shares they traded which was to the detriment of other market participants. The FSA believes that such conduct, if unchecked, could undermine market confidence.

After Swift Trade became aware that the LSE had concerns about its trading activity, it actively sought to evade restrictions on its trading. It refined its trading pattern to avoid detection. Although Swift Trade undertook to impose effective controls on its trading, instead it took further action to avoid regulatory scrutiny (e.g., by changing its Direct Market Access provider).

For more information, click here.

Katten Muchin Rosenman LLP
Charlotte Chicago Irving London Los Angeles New York Washington, DC