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CORPORATE & FINANCIAL
WEEKLY DIGEST

Corporate & Financial Weekly Digest

June 17, 2011 by Edward Black

FSA Obtains Permanent Injunction and Fines and Bans Trader

On June 14, the UK Financial Services Authority (FSA) published the final notice it had issued to Barnett Alexander, a trader and former private client stockbroker. The FSA fined him £700,000 (approximately $1,128,000) for market abuse and banned him from performing any controlled function in an FSA regulated firm.

Following receipt of a suspicious transaction report from another investment firm, the FSA became aware that Mr. Alexander was manipulating the price of certain shares traded on the London Stock Exchange. The firm identified examples of Mr. Alexander's trading strategy after carrying out an internal investigation, and reported the activity to the FSA. The FSA found that Mr. Alexander entered multiple buy and sell orders for equities using direct market access (DMA) services of a number of brokers, often using contracts for difference and spread betting accounts in third party names to disguise his actions.

The FSA concluded that Mr. Alexander's behavior amounted to market abuse under Section 118(5) (market manipulation) of the Financial Services and Markets Act 2000 in that he followed an abusive trading strategy designed to manipulate prices in his favor.

Together with the fine and the ban, Mr. Alexander was also ordered by the FSA to pay £322,818 (approximately $522,000) in restitution to the retail derivatives brokers who suffered loss as a result of his actions. Of the £629,130 (approximately $1,015,000) profit Mr. Alexander made through his abusive behavior, £306,312 (approximately $494,290) (held in trading accounts which he had controlled) will be retained by these brokers.

The FSA has also obtained a permanent High Court injunction prohibiting Mr. Alexander from further market manipulation. (This is the second such injunction in recent weeks—see the May 27 edition of *Corporate and Financial Weekly Digest*.)

The FSA also stated that it encouraged DMA providers to be aware of the risks that DMA presents. It emphasized that DMA providers must put have in place adequate systems and controls to monitor for abusive trading strategies and must report any suspicious activity to the FSA in a timely manner.

Mr. Alexander qualified for a 30% discount on his financial penalty (but not the requirement to make restitution) by agreeing to settle at an early stage of the FSA's investigation and consenting to the court order. Without this discount, the financial penalty on Alexander would have been £1 million (approximately $1.6 million).

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