Appendix I

TYPES OF MANIPULATION

Market Surveillance covers the monitoring of large types of illegal trading activities. Market Manipulation occurs when a participant (a manipulator) deliberately attempts to create misleading appearance of the securities, the price of securities and the market. This could be done either by spreading misleading/false information or by submitting buy/sell orders intentionally to affect the price/turnover of an asset in order to create a profitable opportunity.

Examples of event patterns that are used to detect market manipulation are:

- Insider Dealing
  - *Frontrunning*: Frontrunning (or trading ahead) occurs when a broker times the purchase or sale of shares of a security for his own account so as to benefit from the price movement that follows execution of large customer orders.
  - Tailgating: When a broker or adviser buys or sells a security for an informed client(s) and then immediately makes the same transaction in his or her own account.
  - Spreading False Information to Purchase at Bargain Prices: An unlawful practice occurring mainly on the internet. A small group of informed people attempt to push down a stock by spreading false information and rumours. If they are successful, they can purchase the stock at bargain prices.
- Improper Disclosure
  - Concealing Ownership: This is a transaction or a series of transactions which is designed to conceal the ownership of a security via the breach of disclosure requirements through the holding of the instrument in the name of a colluding party (or parties).
  - Touting: The practice refers to any person who is paid directly or indirectly, to recommend the sale of any security, without disclosing this fact and the amount of compensation to be received.

- Misuse of Information
  - Pump and Dump: This practice involves taking a long position in a security and then undertaking further buying activity and/or disseminating misleading positive information about the security with a view to increasing the price of the security. Other market participants are misled by the resulting effect on price and are attracted into purchasing the security.
  - Trash and Cash: Trash and cash (or 'slur and slurp') is the opposite of pump and dump. A party will take a short position in a security; undertake further selling activity and/or spread misleading negative information about the security with the purpose of driving down its price.
  - Influencing Market Price without Controlling the Available Supply or Demand: An individual may not control the supply of a security or the asset underlying a derivative contract, but may use various other means to manipulate the price, such as disseminating false information about the relevant company or taking advantage of a congested market.
  - Boiler Room Sales: Boiler rooms use banks of telephones to make cold calls to as many potential investors as possible using high-pressure selling techniques to persuade investors to purchase 'house stocks' – stocks that the firm buys or sells as a market maker or has in its inventory.
  - Cybersmear: Cybersmear is a practice in which individuals post malicious messages about businesses in online forums, to manipulate the stock or to hurt a company they have a grievance against.
  - Scalping: Scalping is the fraudulent trading practice that occurs when a person buys shares of thinly-traded, small-cap companies, recommending the companies to the general public, and then selling the majority of his shares when the increased demand generated by his favourable recommendations drove up the stock price.
  - False Market: A market where prices are manipulated and impacted by erroneous information, preventing the efficient negotiation of prices. These types of markets will often be marred by volatile swings because the true value of the market is clouded by the misinformation.
  - Short and Distort (Bear Raid): An unlawful practice employed by unethical investors who short-sell a stock and then spread unsubstantiated rumours and other kinds of unverified bad news in an attempt to drive down the equity's price and realize a profit.
  - Long and Distort: An unlawful practice employed by unethical investors who buy a stock and then spread unsubstantiated rumours and other kinds of unverified good news in an attempt to drive up the equity's price and realize a profit.
  - Stock Basher: An individual, either acting alone or on behalf of someone else, who attempts to devalue a stock by spreading false or exaggerated claims against a public company. After the stock's price has dropped, the basher, or the basher's employer, will then purchase the stock at a lower price than that he or she believes it is intrinsically worth.

- Manipulating Transactions
    - Painting the Tape: This practice involves engaging in a transaction or series of transactions which are shown on a public display facility to give the impression of activity or price movement in a security.
    - Wash Sales: This is the practice of entering into arrangements for the sale or purchase of a security where there is no change in beneficial interests or market risk, or where the transfer of beneficial interest or market risk is only between parties who are acting in concert or collusion.
    - Improper Matched Orders: Transactions where both buy and sell orders are usually entered at the same time, with the exact same price and quantity by different but colluding parties.
    - Marking the Close: Marking the close (or ramping) involves deliberately buying or selling securities or derivatives contracts at the close of the market in an effort to alter the closing price of the security or derivatives contract.
    - Cornering the Market: Securing such control of the bid or demand-side of both the derivative and the underlying asset that leads to a dominant position. This position can be exploited to manipulate the price of the derivative and/or the asset.
    - Abusive Squeeze: This involves a party or parties with a significant influence over the supply of, or demand for, or delivery mechanisms for a security and/or the underlying product of a derivative contract exploiting a dominant position in order materially to distort the price at which others have to deliver, take delivery or defer delivery of the security/ product in order to satisfy their obligations.
    - Capping and Pegging: This practice involves activity on both the stock market and the derivatives market. A trader writes an option, which obliges the trader to sell to (in the case of a call option) or buy from (in the case of a put option) the option holder a specified number of shares covered by the option in order to affect the share price in a direction that will make the option unprofitable to exercise.
    - Manipulative Naked Short Sales: A short sale is generally the sale of a stock the seller does not own. In a 'naked' short sale, the seller does not borrow or arrange to borrow the securities in time to make delivery to the buyer within the standard settlement period.
    - Pooling and Churning: 'Pooling and Churning' can involve wash sales or pre-arranged trades executed in order to give an impression of active trading, and therefore investor interest in the stock.
    - Interpositioning: Interpositioning involves a two-step process that allows the brokerage firm to generate a profit for the brokerage firm from the spread between two opposite trades.
    - Late Trading: This involves purchasing mutual fund shares at the closing price after the market closes.
    - Holding the Market: The practice of placing active or pending orders for a security into a market where the price is dropping rapidly in an attempt to 'hold' the price of the security steady, or create a floor in the security.

  - Ghosting: An unlawful practice whereby two or more market makers or brokers collectively attempt to influence and change the price of a stock. Ghosting is used to affect stock prices so the manipulators can profit from the price movement.
  - Freeriding: An unlawful practice in which an underwriting syndicate member withholds part of a new securities issue and later sells it at a higher price. This practice involves the unlawful activity of buying a stock and selling it before paying for the purchase.
  - Bucketing: A brokerage that makes trades on a client's behalf and promises a certain price and/or confirms execution of an order to a client without actually executing it. The brokerage however, waits until a different price arises and then makes the trade, keeping the difference as profit in an attempt to make a short-term profit.
  - Portfolio Pumping. The unlawful act of bidding up the value of a fund's holdings right before the end of a quarter, when the fund's performance is measured. This is done by placing a large number of orders on existing holdings, which drives up the value of the securities within the Portfolio.

- Manipulating Devices

  - Advancing the Bid: Increasing the bid for a security to increase its price artificially, creating the impression of strength or the illusion that stock activity was causing the increase.
  - Placing Orders without Intention to Execute: This involves the entering of orders, especially into electronic trading systems, which are higher/lower than the previous bid/offer.
  - Excessive Bid-ask Spreads: This conduct is carried out by intermediaries which have market power, such as specialists or market makers acting in cooperation, in such a way intentionally to move the bid-ask spread to and/or to maintain it at artificial levels and far from fair values, by abusing their market power.

- Misleading Behaviour and Distortion

  - Short and Extort: This practice occurs when short sellers state, for example posting messages on message boards, they would stop shorting the stock if they were given money or free shares.
  - Spoofing: Spoofing (or small lot bailing) is a fraudulent trading practice that occurs when a person uses a displayed limit order to manipulate prices, entering quotes followed by virtually simultaneous cancellations, obtaining an improper trading advantage.
  - Overtrading: An unethical practice employed by some brokers to increase their commissions by excessively trading in a client's account. It is also referred to as 'churn and burn', 'twisting' and 'churning'.

All of the above manipulative strategies can be broadly classified under three heads namely action based, information based and trade based. Our focus is limited to the trade based manipulation.