Chapter 1

Market Abuse

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1.6 Manipulating transactions

1.6.1 UK [deleted]

1.6.1-A UK [article 12(1)(b) of the *Market Abuse Regulation*]

1.6.1A UK [deleted]

Giving false or misleading impressions

1.6.2 E [deleted]

[**Note:** Annex 1A of the *Market Abuse Regulation*.]

1.6.3 G Entering intoa stock lending/borrowing or repo/reverse repo transaction, or another transaction involving the provision of collateral,does not of itself indicate behaviour described in Annex IA(c) of the *Market Abuse Regulation*.

1.6.4 E [deleted]

[**Note:** Annex 1A of the *Market Abuse Regulation*.]

Factors to be taken into account: legitimate reasons

1.6.5 G The following factors are to be taken into account when considering whether behaviouris for legitimate reasons in relation to article 12(1)(a) of the *Market Abuse Regulation*, and are indications that it is not:

(1) if the *person* has an actuating purpose behind the transaction to induce others to trade in, bid for or to position or move the price of, a *financial instrument* ;

(2) if the *person* has another, illegitimate, reason behind the transactions, bid or order to trade; and

(3) if the transaction was executed in a particular way with the purpose of creating a false or misleading impression.

1.6.6 G The following factors are to be taken into account when considering whether behaviouris for legitimate reasons in relation to article 12(1)(a) of the *Market Abuse Regulation*, and are indications that it is:

(1) if the transaction is pursuant to a prior legal or regulatory obligation owed to a third party;

(2) if the transaction is executed in a way which takes into account the need for the market or auction platform as a whole to operate fairly and efficiently;

(3) the extent to which the transaction generally opens a new position, so creating an exposure to market risk, rather than closes out a position and so removes market risk; and

(4) if the transaction complied with the rules of the relevant *trading venue* about how transactions are to be executed in a proper way (for example, rules on reporting and executing cross-transactions).

1.6.7 G It is unlikely that the behaviourof *trading venue* users when dealing at times and in sizes most beneficial to them (whether for the purpose of long term investment objectives, risk management or short term speculation) and seeking the maximum profit from their dealings will of itself amount to manipulation. Such behaviour, generally speaking, improves the liquidity and efficiency of *trading venues* .

1.6.8 G It is unlikely that prices in the market which are trading outside their normal range will necessarily be indicative that someone has engaged in behaviour with the purpose of positioning prices at a distorted level. High or low prices relative to a trading range can be the result of the proper interplay of supply and demand.

Factors to be taken into account: behaviour giving a false or misleading impression

1.6.9 E [deleted]

[**Note:** Annex 1A of the *Market Abuse Regulation*]

Factors to be taken into account: behaviour securing an abnormal or artificial price level

1.6.10 G Thefollowing factors are to be taken into account in determining whether or not a *person*'sbehaviouramounts to manipulating transactions as described in article 12(1)(a)(ii) of the *Market Abuse Regulation*:

(1) the extent to which the *person* had a direct or indirect interest in the price or value of the *financial instrument* ;

(2) the extent to which price, rate or *option* volatility movements, and the volatility of these factors for the *investment* in question, are outside their normal intra-day, daily, weekly or monthly range; and

(3) whether a *person* has successively and consistently increased or decreased his bid, offer or the price he has paid for a *financial instrument* ;

Factors to be taken into account: abusive squeezes

1.6.11 G Thefollowing factors are to be taken into account when determining whether a *person* has engaged in behaviour referred to in Annex IA(a) or (b) of the *Market Abuse Regulation*, commonly known as an “abusive squeeze”:

(1) the extent to which a *person* is willing to relax his control or other influence in order to help maintain an orderly market, and the price at which he is willing to do so; for example, behaviouris less likely to amount to an abusive squeeze if a *person* is willing to lend the *investment* in question;

(2) the extent to which the *person*'s activity causes, or risks causing, settlement default by other market users on a multilateral basis and not just a bilateral basis. The more widespread the risk of multilateral settlement default, the more likely that an abusive squeeze has been effected;

(3) the extent to which prices under the delivery mechanisms of the market diverge from the prices for delivery of the *investment* or its equivalent outside those mechanisms. The greater the divergence beyond that to be reasonably expected, the more likely that an abusive squeeze has been effected; and

(4) the extent to which the spot or immediate market compared to the forward market is unusually expensive or inexpensive or the extent to which borrowing rates are unusually expensive or inexpensive.

1.6.12 G Squeezes occur relatively frequently when the proper interaction of supply and demand leads to market tightness, but this is not of itself likely to beabusive. In addition, having a significant influence over the supply of, or demand for, or delivery mechanisms for an investment, for example, through ownership, borrowing or reserving the investment in question, is not of itself likely to beabusive.

1.6.13 G The effects of an abusive squeeze are likely to be influenced by the extent to which other market users have failed to protect their own interests or fulfil their obligations in a manner consistent with the standards of behaviour to be expected of them in that market. Market users can be expected to settle their obligations and not to put themselves in a position where, to do so, they have to rely on holders of long positions lending when they may not be inclined to do so and may be under no obligation to do so.

1.6.14 E [deleted]

Examples of manipulating transactions

1.6.15 G The following are examples of behaviour that may amount to manipulating transactions as described in article 12(1)(a)(ii) of the *Market Abuse Regulation*:

(1) [deleted]

(2) [deleted]

(3) a trader holds a short position that will show a profit if a particular *financial instrument* , which is currently a component of an index, falls out of that index. The question of whether the *financial instrument* will fall out of the index depends on the closing price of the *financial instrument* . He places a large *sell* order in this *financial instrument* just before the close of trading. His purpose is to position the price of the *financial instrument* at a false, misleading, abnormal or artificial level so that the *financial instrument* will drop out of the index so as to make a profit; and

(4) a fund manager's quarterly performance will improve if the valuation of his portfolio at the end of the quarter in question is higher rather than lower. He places a large order to *buy* relatively illiquid *shares*, which are also components of his portfolio, to be executed at or just before the close. His purpose is to position the price of the *shares* at a false, misleading, abnormal or artificial level.

1.6.16 G The following is an example of an abusive squeeze:

A trader with a long position in bond *futuresbuys* or borrows a large amount of the cheapest to deliver bonds and either refuses to re-lend these bonds or will only lend them to parties he believes will not re-lend to the market. His purpose is to position the price at which those with short positions have to deliver to satisfy their obligations at a materially higher level, making him a profit from his original position.