

INSIGHTS FROM CFA SOCIETY SINGAPORE

Manipulating the market via multiple accounts

By CFA Society Singapore Advocacy Team

IN 2013, Singapore-listed Blumont Group, Asiasons Capital, and LionGold Corp were suspended from trading following a collapse in their share price. This collapse was preceded by a massive increase in share price in all 3 counters. When trading suspension was lifted, the 3 companies had lost in excess of 80 per cent of their market value prior to collapse.

After close to a decade, the masterminds of the 2013 penny-stock crash were found guilty of artificially inflating the share price of the 3 companies. Soh Chee Wen and Quah Su-Ling manipulated the shares using 187 trading accounts held by 58 individuals and companies.

Market manipulation standard

Market manipulation and creating a false market are prohibited under many, if not all, stock exchange rules including the Singapore Exchange. Many professional bodies including CFA Institute, a global professional body for investment management professionals, warn market participants including investors to not engage in practices that distort prices or artificially inflate trading volume, with the intent to mislead other market participants through the Market Manipulation Standard.

The professional conduct standard requires members to uphold market integrity by prohibiting market manipulation. Market manipulation includes practices that distort security prices or trading

volume with the intent to deceive people or entities that rely on information in the market.

Market manipulation damages the interests of all investors by disrupting the smooth functioning of financial markets and lowering investor confidence as evident from the penny-stock crash in Singapore. Retail investors suffered significant losses. Confidence took a hard knock and daily volumes on the Singapore bourse declined markedly.

Market manipulation may also lead to a lack of trust in the fairness of the capital markets, resulting in higher risk premiums and reduced investor participation. A reduction in the efficiency of a local capital market may also negatively affect the growth and economic health of the country and may also influence the operations of the globally interconnected capital markets. Although market manipulation may be less likely to occur in mature financial markets than in emerging markets, cross-border investing increasingly exposes all global investors to the potential for such practices.

What is deemed as market manipulation?

Market manipulation includes the dissemination of false or misleading information and transactions that deceive or are likely to mislead market participants by distorting the price-setting mechanism of financial instruments. The development of new products and technologies increases the incentives, means, and opportunities for market manipulation. Additionally, the

increasing complexity and sophistication of the technologies used for communicating (such as social media) with market participants have created new avenues for manipulation.

Another type of manipulation known as transaction-based manipulation involves instances where an individual knew or should have known that his or her actions could affect the pricing of a security. This type of manipulation includes, but is not limited to, the following:

- Transactions that artificially affect prices or volume to give the impression of activity or price movement in a financial instrument, which represent a diversion from the expectations of a fair and efficient market
- Securing a controlling, dominant position in a financial instrument to exploit and manipulate the price of a related derivative and/or the underlying asset

The standard, however, is not intended to preclude transactions undertaken on legitimate trading strategies based on perceived market inefficiencies. The intent of the action is critical to determining whether it is a violation of the standard.

Research on manipulation in Singapore

CFA Society Singapore, a member of the CFA Institute global network of societies, decided to undertake a research project to further examine if the equities market in Singapore is free from manipulation after the penny stock saga in 2013. The project aims to determine the



Masterminds of the 2013 penny-stock crash artificially inflated the share price of 3 companies - Blumont Group, Asiasons Capital and LionGold Corp. PHOTO: PIXABAY

presence of market manipulation around company announcements in equities listed on Singapore Exchange.

By analysing data on price, volume and announcements in the 6-year period between 2011 and 2016, the study investigates if the Singapore equities market is prone to manipulation with announcements as the trigger at both the broader market level as well as at any subset level.

The 2018 report findings include:

- No evidence of broad-based manipulation around company announcements on SGX between Jan 2011 and Dec 2016
- Observed potential instances of manipulation around company announcements on SGX are standalone events and not part of a broader phenomenon
- Regulatory measures have been

effective in preventing broad-based market manipulation

- Recommendation on certain announcement categories and sectors in which regulators may wish to strengthen oversight

Ethics in action

Here is a sample case adapted from content by CFA Institute. As a guide, the desired ethical behaviour required is based on the CFA Institute Code of Ethics and Standards of Professional Conduct (Code and Standards).

John Lee is a private investor in Malaysia who bought a large position several years ago in Fame Pharmaceuticals, a Vietnamese small-cap security with limited average trading volume. He has now decided to significantly reduce his holdings owing to the poor price performance. Lee is worried that the low trading volume for the stock

may cause the price to decline further as he attempts to sell his large position.

Lee devises a plan to divide his holdings into multiple accounts in different brokerage firms and private banks in the names of family members, friends, and even a private religious institution. He then creates a rumour campaign on various blogs and social media outlets promoting the company.

Lee begins to buy and sell the stock using the accounts in hopes of raising the trading volume and the price. He conducts the trades through multiple brokers, selling slightly larger positions than he bought on a tactical schedule, and over time, he is able to reduce his holding as desired without negatively affecting the sale price.

John Lee violated Market Manipulation Standard by fraudulently creating the appearance that there was a greater investor interest in the stock through the online rumours. Additionally, through his trading strategy, he created the appearance that there was greater liquidity in the stock than actually existed. He was able to manipulate the price through both misinformation and trading practices.

This column has been adapted from content by CFA Institute and is printed here with permission from CFA Institute. The writers are CFA charterholders who volunteer with the Singapore chapter on advocacy issues with a view towards promoting financial literacy among retail investors and improving overall standards and integrity in the industry.