FUND MANAGEMENT REGULATIONS
SECURITIES OFFENCES

MARKET MANIPULATION BY MARKET RIGGING

The prohibitions on false trading and market rigging transaction and stock market manipulations are contained in s.175 and s.176 of the CMSA. A fund management company is in a powerful position in relation to these prohibited activities since it is often able to deal in large amounts without reference to clients, and can place deals (or recommend clients to place deals) which together may have the effect of breaking one or both of these sections. In most cases a client will be totally unaware of the investment transactions of other clients of a fund management company. Client A may therefore be acquiring shares from, or selling shares to, client B. It is therefore vital that staff of fund management companies are fully aware of the law and their responsibilities in this area.

Stock Market Manipulation
Transactions that are not entered into for legitimate trading purposes, but with the intention of creating a false impression of a genuine demand for securities, are prohibited by s.176. This section is drafted very broadly and relates to multiple transactions designed to raise, lower, maintain or stabilise the relevant price with the intention of inducing others to buy, sell or subscribe for the securities. A ‘transaction includes the making of offers of sale or purchase and any express or implied invitation with respect to the offer or sale of securities. Hence, an offence can result from making bids that have an effect on the price for the securities even if the bids do not develop into sales or purchases.
S.202 of the CMSA prohibits the creation or the cause for the creation of a false or misleading appearance of a active trading in derivatives on a derivatives market.
Bucketing is also prohibited under s.203. It is stated under this section that no person shall execute or hold himself out as having executed, an order for the purchase or sale of derivatives on a derivatives market without having effected a bona fide purchase or sale of the derivatives in accordance with the rules and practices of the derivatives market.
Cornering is prohibited in the futures market under s.205 of the CMSA. Under this section it is stated that no person shall directly or indirectly corner or attempt to corner, any underlying instrument which is the subject of a derivative.

False Trading and Market-Rigging Transactions
This section prohibits the creation of:
(a) a false or misleading appearance of active trading in any securities on a stock market
(b) a false or misleading appearance of a fluctuation in the price of any securities on a stock market.
An example of this would be if a person makes an offer to purchase securities at a specified price when he or she has also made an offer to sell the same number at substantially the same price.
Trading is, of course, one of the most effective ways of ensuring that prices will vary; the more shares that are purchased, the better the chances are of raising the price (all other things being equal). It is not the only way, however, of creating an appearance of active trading. For example, if a person indicates that he or she wishes to buy large parcels of shares of a particular kind when they are not available through the normal channels of the stock market, it may give the appearance of activity in a particular market for securities.
Note that this section covers actions that are calculated to create the necessary appearance of active trading, i.e. it is not necessary for active trading to have, in fact, occurred. This prohibition appears wide enough to cover all kinds of market rigging and the distortion of market prices by fictitious sates.
A person is also prohibited from causing a change in the market price of securities by buying or selling legal title to the securities, without a change in the beneficial ownership, or by using some fictitious device.
The aim of this prohibition is to stop fictitious activities through intermediaries such as fund management companies which may create what appears to be an active market in securities. The purpose of such an illusion is to influence other investors to purchase securities of a similar or related class. For example, a company may have issued a limited number of class A shares, but a large number of class B shares. The perpetrators of the fictitious activities may wish to stimulate trading in class B shares by creating false trading in class A shares.
In this context, transactions include offers and invitations to purchase or to sell, as the case may be.