

Whistleblower Tips

What Information Should I Provide?

You can send an alarm by giving us an intelligence report on our whistleblower tips, simply fill in the form and send. You are not required to furnish any more information than you wish. Alternatively you can send a letter or call our offices.

Examples of market abuses and unethical business conduct

The illustrations below are examples of market abuses and unethical business conduct set out in the Securities Commission's Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives.

Action based manipulation

Company A engages PLC B to undertake certain projects. Company A then short sells securities of PLC B and subsequently cancels the contract with PLC B, causing the security price to drop significantly.

Trade-based manipulation

Mr. X hires Mr. Y as consultant to provide public relations and assist his company in realizing the value of its stocks. As compensation Mr. X pays Mr. Y N50,000 cash per month and gives him a warrant to purchase 100,000 shares from the company at N1 per share.

Mr. Y along with three other accomplices, i.e. the brother-in-law, secretary, and a clerk opens 10 separate margin accounts at 10 different brokers. Accounts are opened under a variety of names including dormant companies that Mr. Y controlled in order to hide Mr. Y's identity.

Mr. Y and his accomplices engage in an aggressive series of wash trades and match orders. Trading is done between the accomplices at successively higher price to move the market price up. Mr. Y is also personally touting the securities to stockbrokers and other investors.

The security which now carries an inflated price is utilized to secure additional margin facility. The cycle is repeated several times. At a certain stage, Mr. Y dumps or sells all securities under his control, causing the price of the securities to plummet.

Painting the tape

Stockbroker A issues false trade reports for immediate publication to give an impression of activity or active trading in a counter to encourage investors to participate in order for stockbroker A to offset an unprofitable risk position.

Unethical trades

"Arrangers or Introducers" were verbally engaged by stockbroker C to assist and facilitate stockbroker C in obtaining pre-placement bond trades, with stockbroker C seen ostensibly as facilitating the bond transactions between different companies or financial institutions.

Four parties were involved, namely Company A, Company B, stockbroker C and Company D. Company A sold bonds to Company B, who then sold them to stockbroker C. Stockbroker C then sold them to Company D, who finally sold them back to Company A. The transactions were carried out at the same value date but at different price levels.

The bond transactions mentioned above would result in Company A incurring an "opportunity loss", which accrued to the other parties involved. In other words, the other parties profited at the expense of Company A.

Profits from the bond trades would then be shared between stockbroker C and the "Introducers", where the "Introducers" received significant profits from the bond trades.

In this case, stockbroker C is used as a conduit or "middle person" to take advantage of opaque two-way quotes in bond trades to benefit its clients by executing the deals at the expense of the initial bond buyer/seller where the latter did not get the best price.

Rollover

SBC A executed several married deals where the purchase and sale of securities did not involve any change in the beneficial ownership. The married deals were performed to give clients a deferment on settlement time for outstanding purchases (rollover).

The quantity and price of the securities transacted would be similar to the initial contract. However, the settlement period (due date) had been extended and additional brokerage was charged on clients for each rollover executed by the company.

Hence, the deals were transacted through the sales and purchases of securities without any change in beneficial ownership of the said securities.

Third party payment

Stockbroker A was instructed by Client A to purchase 10 million units of PLC P's securities on behalf of Client B from Client C. At settlement, Client A instructed stockbroker A to utilize Client C sales proceed to set-off against the purchases made by Client B.

The sale of PLC P's securities may not have involved a change in beneficial ownership of securities, as Client A had an interest in the securities before the purchase, and Client A had control over or was able to exert influence on Client B and/or Client Cover the securities.

Marking the close

A remise of stockbroker A assisted several clients by placing orders at the close of trading day, which caused the price of securities to move higher than the prior sales price. Simultaneously, orders at prices which are higher than the previous bid or lower than the previous offer were entered, and withdrawn before they could be executed, in order to give a misleading impression that there was demand for or supply of the securities at that price.

Front running

Dealer's representatives handling accounts of several big institutions/retail clients executed trades for their individual clients or accounts of related persons prior to the execution of trades of the big institutions/retail clients, with the view to front run and make quick profits.

Conflicts

A person with knowledge of a favorable or unfavorable research report purchases or sells securities in advance of the report being released.

Scalping

The person trading is also responsible for giving buy or sell recommendations, e.g. purchases a security

before recommending the security, and then sells the security at a profit upon the rise in the market price following the recommendation.

Spoofing

A person submits a large but not marketable limit order that raises the bid price of a security and/or greatly increases the quoted size at or around the current best bid price. The large order causes Market Participants to match or better the price of the order. The person then cancels the large order and enters (virtually at the same time) a sell order that matches the buy order of other investors at a higher price.

This is manipulation by "spoofing". By temporarily manipulating the bid price upward, and causing other bids and trading interest at that level, the person receives a better price for his security than what would have been the prevailing market price and/or volume if the person's large order had not been entered.

Spoofing is also used to manipulate the opening price of a security; e.g., via entry and immediate cancellation of lower priced sell orders with the objective of creating a more favorable buying opportunity for the manipulator.

Pump and dump

A person takes a long position in a security and disseminates misleading information about the security to inflate its price then disposes it at a higher price.

Illustration 13 - Trash and cash

A person takes a short position in a security and disseminates misleading negative information about the security to depress its price and to buy it at a lower price.

Surveillance Glossary

✓ **Bear Raid**

Taking over a company by manipulating its stock price, by first selling (to lower the price), and then repurchasing at the lower price.

✓ **Capping**

Manipulating stock prices (lowering or maintaining) in order to influence the exercise of an existing options position.

✓ **Pegging**

Manipulating the price of a stock (raising or maintaining) in order to influence the exercise of an existing options position.

✓ **Manipulation Prior to the Pricing of Related Products**

Manipulating certain stocks that influence the price of other stocks or related financial products.

✓ **Mini-Manipulation**

Manipulating the price of an option on a stock by manipulative trading in the underlying stock.

✓ **Overtrading (Securities Taken In Trade)**

If a broker-dealer purchases (or arranges the purchase of) securities taken in trade (swaps) not at the current fair market price. The purchases are usually for a fixed price offering,

✓ **Wash Sale**

Giving the impression of high trading activity by buying and selling the same stock at the same price, through the same broker-dealer.

✓ **Improper Execution**

As opposed to "best execution," the execution at unfair prices such that the buyer (seller) does not incur the lowest (highest) reasonable cost. Improper execution can be due to an improper spread (the difference between

the inter-dealer best bid and best offer); an improper markup (the amount charged to the buyer's cost in a principal trade over the best inter-dealer offer); or an improper markdown (the amount deducted from the seller's proceeds below the highest inter-dealer bid). In other cases, many individuals or companies were involved that caused the alert. Some of these illegal activities that can be the cause of the trades include: Activities to be detected through Suspicious Patterns of Name Associations

✓ **Acting in Concert**

Two or more persons working together to gain control of a company or manipulate the price of a security.

✓ **Cornering the Market**

Two or more persons working together to inflate the price of a stock, by acquiring a very large position in the security.

✓ **Collusion**

Two or more persons working together so as to create a false impression of market activity or to artificially interfere with supply and demand. Typical activities include making agreements to fix prices or otherwise control a market (likely to violate anti-trust laws, aside from industry rules and regulations); overbidding by entering unauthorized or inflated orders or indications of interest; evading credit restrictions or reporting requirements or to conceal or disguise the true ownership of securities; facilitating or aiding in any of the above or similar activities.

✓ **Daisy Chain**

A pattern of fictitious trading by a group of persons for the purpose of manipulation: the group profits when an unsuspecting person "bails out" the group.

✓ **Front-Running**

Someone (with knowledge of an imminent transaction) buying or selling a stock (or option or index in that stock) in order to take advantage of the information.

✓ **Insider Trading**

Someone (with non-public knowledge of a company) buying or selling a stock (or option or index in that stock) in that company in order to take advantage of this non-public knowledge.

✓ **Parking**

Hiding the true ownership of securities (and thereby avoiding fees, legal disclosures, capital requirements, anti-trust filings, or to extend financing otherwise prohibited), by creating a set of fictitious transactions and trades.

✓ **Pre-arranged Trades**

Transactions in which the price, terms or contra-side have been prearranged and which are not subject to normal market risk. The transactions may be illegal under both securities and tax laws.

✓ **Year End and "As Of" Trades**

Transactions executed at year end or as of a particular date in order to establish gains or losses for tax purposes or conceal portfolio losses or true positions from accountants, auditors or regulators. These trades may violate regulatory prohibitions against prearranged trading and may result in allegations of parking.

✓ **Marking the Close**

Transactions executed at or just before the market close to print favorable prices for inappropriate purposes, such as inflating position valuations or avoiding margin calls.

✓ **Rumors**

Starting or spreading rumors in order to influence the price of a stock.

✓ **Short Squeeze**

Persons who sell a security short paying inflated prices, because the price of a stock was inflated by someone