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MARKET MANIPULATION

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U.S. Securities and Exchange Commission



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What is market manipulation?

- Intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities, or
- Intentional interference with the free forces of supply and demand
- Can be designed to drive a stock's price up or down.



Why is it a problem?

- Harmful because it affects the integrity of the market place
- Price should be set by the unimpeded collective judgment of buyers and sellers
- Undermines fair, honest and orderly markets
- Investors will stay out of your market if they perceive that it is not fair and is subject to manipulation

Sources -Tips Complaints & Referrals

- A TCR is any credible allegation or statement of concern about a possible violation of the federal securities laws or conduct that poses a possible risk of harm to investors.
- **Sources**
 - The Public
 - Other Government Agencies
 - Self-Regulatory Organizations (SROs)
 - Self-Generated Referrals
 - Foreign government agencies

SEC's Office of Market Intelligence

Handles the Majority of TCRs

Conducts “Triage”

- Evaluates Quality of Information
- Determines Jurisdiction and Actionability
- Determines Connections to Open Matters
- Determines Connections to Existing Data

Market Surveillance

- Looks for unusual trading
- Assisted by FINRA – SONAR system.

Two Broad Types

- “Pump and dump” or “Hype and dump”
- Trading manipulations
 - Arbitrary Quotes
 - Wash Sales
 - Matched Orders
 - Marking the Close
 - Domination and Control of Market
 - Layering
- May see both types at work in a particular manipulation
 - For example, a combination of false press releases along with wash trades and matched orders

Where is the Money?

- Probably the most important thing to determine is who is making the money.
- In all likelihood, if you can determine who profited at the end of the day that is the prime suspect for your manipulation

Commencement of a Manipulation

- Market manipulations typically involve thinly traded shares of little known or start up companies
 - With small volume of trading, it is easier to effect the price of the stock
 - Also, easier to make fraudulent or outlandish claims about the financial condition or business prospects of a little-known company
- But this is not always the case – sometimes a fraudster will circulate a false rumor about well-known company hoping to benefit when the stock price runs up (if it's good news) or down (if it's bad news)

Shell Companies (Microcaps)

- Insiders purchase dormant corporation with previously registered freely tradable stock (“shell company”)
- Merge that dormant corporation into privately-held company with some genuine or purported line of business
- Find a cooperative transfer agent
- Locate a broker-dealer who is willing to make a market in the newly merged company
- Trading begins in the shares of the newly-created entity

Gain control of a shell company

- Find a closely-held shell company (usually a defunct company).
- Orchestrate a reverse merger of a privately-owned company at a grossly over-inflated price which give the stock manipulator a majority of the company's shares.
- Rename the company.
- Buys out any remaining shareholders and appoints new officers and directors.
- Reverse stock splits
- RESULT – Stock manipulator has gained control of a public company without having to go through more stringent IPO process.

Bogus “Exempted” Securities

- Fraudsters need to use some mechanism for issuing “freely tradable” securities to themselves
- Will often issue stock pursuant to an exemption to the SEC registration statements
- In reality, these exemptions are being abused and do not apply
- Examples in the US:
 - Rule 504 offerings – allow sales of limited dollar amount that purportedly comply with state requirements
 - S-8 offerings – stock issued to advisers and consultants as purported compensation

Category 1: Pump and Dumps

- Insiders or promoters obtain ownership or control of a significant block of stock of selected issuer
 - Can use their own accounts or nominees
- Then they start hyping the stock to the public to generate artificial interest in stock and cause price to rise
 - Often use internet, spam email and faxes

The Pump: False Press Releases

- Company or promoter puts out press release announcing some form of market moving news that is not true or without a legitimate basis
- Examples:
 - Claim of a significant transaction, contract or business deal
 - Claim to an invention, patent, new product or license for certain technology
 - False or baseless financial claims, i.e. record earnings, revenues or sales
 - Sometimes the press releases will contain some element of truth

The Pump: Paid Promoters

- Purportedly independent adviser or analyst publishes a recommendation or analysis regarding company recommending stock as a “bargain”, “must buy” or “hot buy”
 - In reality, this recommendation or analysis has been paid for by insiders or promoter but this payment is not disclosed
 - Also a violation of the anti-touting provisions of Section 17(b) of the Securities Act
- Don’t typically call themselves “promoters” – might appear as “consultant”
- Who they might be: former or current registered reps; company insiders; people we’ve already barred from the industry

Common Promotion Methods

- SPAM -send mass unsolicited e-mails touting stocks
- NEWSLETTER – mass mailed tout sheet
- WEBSITE COVERAGE - websites which provide favorable research (tout) about stocks
- INVESTOR RELATIONS/PUBLIC RELATIONS (IR/PR) - internal employee or external consultant responsible for coordination of promotional campaign and issuance of press releases
- ONLINE ADS – placed on reputable websites such as the WSJ
- CYBER MANIPULATION – increasing use of cyber-methods

Message Boards, Social Media and Chat Rooms

- Manipulators have found the internet to be a great tool for manipulating stocks
- Use e-mail spam campaigns, message board postings and chat rooms to create a “buzz” or public interest in a particular stock
- May send out literally thousands of e-mails purporting to come from multiple independent sources
- May be orchestrated “conversations” in chat rooms, social media or on message boards that follow particular stocks or the markets
- In reality it can all be traced back to the manipulators

Boiler Rooms

- In the “good old days” of market manipulation before the internet but boiler rooms are making a comeback.
- A small army of dishonest salesmen who make cold calls to as many investors as possible
- Use high pressure sales tactics to convince customers to buy stocks that have been manipulated
- May make outlandish promises of sure quick profits coupled with misrepresentations about the issuer

The Dump: TIME TO SELL

- Once the manipulators have been successful in driving up the price of the companies stock through these various means, they will “dump” or sell their own shares to the unsuspecting public and walk away with the profits
- Investors are left holding largely worthless stock
- Can be highly profitable for manipulators

Category 2: Trading Manipulations

- Trading Activity Designed to Fool the Market
 - Trading at volumes and times designed to fool the market about share values

Manipulators' Targeted Securities

- **Illiquid securities**
 - Value traders tend not to follow illiquid securities closely because they cannot trade sufficient volume to profit, given cost of fundamental research
- **Poor disclosure and information**
 - Sophisticated value traders tend not to follow securities that they cannot readily value
 - Manipulators may target securities for which little fundamental information is available
- **Hard-to-borrow securities**
 - Sophisticated value traders generally cannot sell securities that they cannot borrow. Short selling cannot be covered.
- **Controlled float**
 - Manipulated securities are often “small” stocks where the manipulator can control substantial portion of shares outstanding

Manipulative Trading

- Be on the look-out for
 - Arbitrary Quotes
 - Wash Sales
 - Matched Orders
 - Marking the Close
 - Domination and Control of Market
 - Layering

Arbitrary Quotes and Trading

- Open the market with arbitrary quotes that bear no logical relation to the issuer's business history, earnings, assets and products
- “Bizarre Trading” – is there any sense to the trading you see?
 - Do trading patterns follow those expected from free forces of supply and demand?

Wash Sales and Matched Orders

- **Wash Sales** – a person places simultaneous orders to buy and sell quantities of the same security in transactions involving no change of beneficial ownership of the stock
- **Matched Orders** – a person or persons places buy or sell orders for a security with the knowledge that sell or buy orders of substantially the same size and price will be placed simultaneously
- Engaged in for the purpose of creating a false appearance of active trading in the market for a security
- May be done at successively higher and higher prices to move market price of security upwards

Marking the Close

- Repeatedly upping the bid at or near the close of the market, or
- Purchasing the stock at or near the close of the market at an uptick
- Done to send a positive signal to the market
- Closing market price is viewed by market professionals and investors as a guide to the trend of the market

Control of the Market

- Market Maker comes to dominate and control market for a particular security
- Once control is established, market maker is free to arbitrarily move bid and price of security upwards without reference to forces of supply and demand
- If the manipulator can lure in the momentum traders and ill-informed value traders, the manipulation may succeed

Layering

- Trader places orders with no intention of having them executed but rather to trick others into buying or selling a stock at an artificial price driven by the orders that the trader later cancels.

Start of an Investigation

- First thing we did is to pull the company's filings to see what the US company was disclosing.
- Question – do you have similar disclosure requirements for your listed companies?
- Even if appropriate disclosures were made, the staff will sometimes keep the company on their radar.

Pull the stock price & volume charts



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
 6689-891-1 31-Jul-2007 13:09:02

Examine the Issuer

- Conduct a fundamental analysis of the issuer's financial statements
- Questions to ask:
 - What assets support the company's stock
 - Are they real or fictitious
 - How do earnings look – both past and current
 - Do the financial statements support the price at which the stock was trading
 - Goodwill

How To Investigate

- Need to come at these investigations from two different directions at once
- First, who was behind the market trading?
 - Where did the shares come from, who was trading, and most importantly who PROFITED from the trading ?
- Second, who was behind the hype and is there any truth to the claims made?

Who is Trading?

- Broker-dealer information and stock transfer records will show you who has the stock and how they ended up with it
- Key for showing control over company and helping identify nominee accounts
- Every time stock certificate is transferred to another name, you have another piece of the puzzle

Exam staff put together very useful charts

Excel spreadsheet of all trades in stock based on firm's trade blotter, sorted by client

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C	D	E	F	G	H	I	J	K	L	M	N	O		
2	ESSENCE CITY LIMITED	1/23/2006		1/26/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,100.00)	\$ 7.01	\$
2	ESSENCE CITY LIMITED	1/23/2006		1/26/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/23/2006		1/26/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(600.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/24/2006		1/27/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/24/2006		1/27/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,600.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/24/2006		1/27/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(300.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/25/2006		1/30/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(700.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/26/2006		1/31/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,200.00)	\$ 7.00	\$
2	NEW SOLOMON CONSULTA	1/26/2006		1/31/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,886.00)	\$ 7.00	\$
2	NEW SOLOMON CONSULTA	1/26/2006		1/31/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(904.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/27/2006	##	1/31/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	Y	(3,886.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/27/2006		2/1/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,100.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	1/27/2006	##	1/31/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	Y	(904.00)	\$ 7.00	\$
2	NEW SOLOMON CONSULTA	1/27/2006	##	1/31/2006	TRD	1498084	CHINA ENERGY	CESV	P	Y	N	904.00	\$ 7.00	\$
2	NEW SOLOMON CONSULTA	1/27/2006	##	1/31/2006	TRD	1498084	CHINA ENERGY	CESV	P	Y	N	3,886.00	\$ 7.00	\$
2	NEW SOLOMON CONSULTA	1/27/2006		1/30/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(1,000,000.00)	\$ 5.75	\$
2	NEW SOLOMON CONSULTA	1/30/2006	##	1/30/2006	TRD	1498084	CHINA ENERGY	CESV	P	Y	N	1,000,000.00	\$ 5.75	\$
2	NEW SOLOMON CONSULTA	1/30/2006	##	1/30/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	Y	(1,000,000.00)	\$ 5.75	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 6.80	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.02	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.03	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 7.00	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(3,000.00)	\$ 6.99	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,700.00)	\$ 6.80	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.88	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.82	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.80	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.89	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.88	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.78	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.80	\$
2	ESSENCE CITY LIMITED	2/2/2006		2/7/2006	TRD	1498084	CHINA ENERGY	CESV	S	N	N	(2,500.00)	\$ 6.85	\$

Analysts and Advisers

- “Purportedly independent” advice or recommendation – show it isn’t
- Subpoena records to see if have any ties to the issuer, insiders or promoter
- Most important, subpoena any and all financial records of analyst or adviser to see if obtained any kind of compensation or promise of future compensation from issuer, insider or promoter
- Will also want to subpoena any such records from issuer, insider or promoter

Internet Information

- When using the internet, manipulators generally try to hide their identities
- Operate behind various screen names
- Manipulators may be the source of hundreds of e-mails and postings, all appearing to come from many different sources
- Need to try to trace the spam e-mails, message board postings and chat room conversations back to their true source

Tracing E-mails

- For E-mails, we can subpoena the internet service provider that carries the e-mail account for account information relating to the e-mail account.
- We cannot get content of email under US privacy laws, but can get account identifying information.
- That's often enough to allow us to show that message board postings or spam came from the manipulator
- Question – do you have the ability to get email address, account information, or content of emails?

IP Addresses Can Be Key

- In one case, we were able to show that four accounts had all been opened at the same time, from the same IP address, using free email accounts set up at the same time
- The four accounts held \$4 million in proceeds that we were able to freeze by going to court

Account Opening Information

Date	Time (GMT)	Login Name	IP Address
Mon, May 22, 2006	06:01:33	Essencecity	218.102.223.128
	06:56:51	Precisepowerholdings	218.102.223.128
	07:46:33	Amicorpdevelopment	218.102.223.128
	08:18:26	Zhaoyanhongzyh	218.102.223.128

Account Usage Information

Date	Time (GMT)	Login Name	IP Address
May 22, 2006	06:14:55	Essencecity	218.102.223.128
	06:47:52	Essencecity	218.102.223.128
	06:53:14	Essencecity	218.102.221.128
	07:17:00	Precisepowerholdings	218.102.221.128
June 15, 2006	13:03:57	Essencecity	
		Zhaoyanhongzyh	
Jul 18, 2006	08:02:10	Essencecity	203.193.30.3
	08:49:53	Essencecity	203.193.30.3
Jul 25, 2006	04:56:42	Essencecity	203.193.30.3
	06:40:30	Amicorpdevelopment	203.193.30.3
Wed, Aug 16, 2006	02:19:18	Zhaoyanhongzyh	203.193.30.3
Thu, Aug 17, 2006	02:18:14	Zhaoyanhongzyh	201.193.30.3
	03:22:50	Zhaoyanhongzyh	203.193.30.3
Tue, Aug 22, 2006	03:13:59	Zhaoyanhongzyh	
Mon, Aug 28, 2006	05:27:21	Essencecity	203.193.30.3
Wed, Aug. 30, 2006	02:50:13	Newsolomonconsultantslimited	203.193.30.3
	02:52:37	Amicorpdevelopment	203.193.30.3
	03:00:08	Essencecity	203.193.30.3
	03:05:52	Newsolomonconsultantslimited	203.193.30.3
	03:18:09	Zhaoyanhongzyh	203.193.30.3

Obtaining Witness Statements

- Various ways we can get witness statements
 - Voluntary telephone interview
 - Voluntary in-person interview
 - Sworn voluntary testimony
 - Testimony under subpoena
- Pros & cons to each approach
 - Example: Sworn Testimony under Oath
 - **ADVANTAGES:**
 - Once placed under oath, false testimony could trigger perjury charge by criminal authorities
 - Minimizes the chances that a witness will change his/her story
 - Easier to use to impeach witnesses if they give subsequent inconsistent testimony
 - **DISADVANTAGES**
 - Slower – often takes more time to schedule
 - Gives counsel more time to prepare their clients and time to concoct a story or explanation

Finishing your investigation

- After all of this investigative work you want to bring the different prongs of your investigation back together
- Tie the false press releases, paid hype, false internet spam or postings back to the insider or promoter who profited from the manipulation and walked away with the trading profits
- Follow the money to make sure you find all the nominee accounts

HARMAN HOAX TENDER OFFER

- In July 2009, Hazem Al-Braikan, a financial adviser based in Kuwait, drafted and issued a bogus press release claiming that a non-existent private investment group in Saudi Arabia planned to acquire Harman International through a tender offer.
- Al-Braikan fabricated the press release over the weekend of July 18-19, 2009, which he then faxed or emailed to various news organizations in the U.S. and abroad.
- On the morning of Monday, July 20, a U.S. Internet news website posted the false announcement, which claimed that an entity called "Arabian Peninsula Group" was planning to make a public tender offer for Harman stock at \$49.50 a share. At the time, Harman International's common stock was trading at about \$25 per share. The false announcement led to a pre-market trading surge that drove Harman International's stock up by nearly 40%. After Harman International repudiated the announcement an hour later, the company's share price dropped precipitously, closing the day at \$20.86, more than twenty percent lower than the prior trading day's close.
- Al-Braikan perpetrated a similar hoax using Textron Inc. in April 2009, contacting media outlets about an alleged "scoop" regarding an upcoming takeover bid for Textron by a Middle Eastern company. In actuality, no such deal existed.

Harman Press Release

1E/C7 200E 20.1E FAX

D E O

2007/001



Stamford, CT

Hoax
press
release

Jeddah, Kingdom of Saudi Arabia 19-July-2009
For Immediate Release

Private Investment Group ARABIAN PENINSULA GROUP announced today its plan to acquire HARMAN INTERNATIONAL INDUSTRIES [NYSE : HAR] in a public tender offer.

25.w

Mr. Donald Parker [Head Of APG's Strategic Investments Unit] announced today the details of the offer. Mr. Parker mentioned ; "the acquisition is going to be partially shared with a South Korean partner in a joint bid , And the name of the Korean party will be announced next week from SEOUL , South Korea".

Hans

Mr. Parker added that "APG is willing to offer HARMAN INTERNATIONAL INDUSTRIES shareholders USD 49.5 per stock". He added that "APG is going to insure compliance with all U.S. rules and regulations in such transaction"

He added that APG studied this opportunity very carefully with two Investment Banks since the beginning of 2009 and the firm is willing to pursue this opportunity jointly with its Korean partner .

Mr. Parker mentioned that : "APG managed to close one deal in East Asia during the current financial crisis environment, and we hope that we will be able to close this deal "

APG added that : " We see great values in many public and private U.S. companies during the current economic down turn"

About APG

APG was initially established in May.1981 , The Group manages private wealth of two prominent parties in the Kingdom of Saudi Arabia and the United Arab Emirates , The head office of the firm is based in Jeddah. APG main operations are in Real Estate , Constructions , And Private Equity Investment.

APG own and operates 17 privately held companies in the GCC region and South East Asia .

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HARMAN HOAX TENDER OFFER

- Discretionary authority over his client accounts.
- Started buying Harman shares in June.
- Shared purported market rumors surrounding Harman International.
- Harman stock did eventually nearly double in price by November 2009.

SEC Charges Firms Involved in Layering, Manipulation Schemes

- On March 10, 2017, SEC filed a complaint against Lek Securities Corporation, Samuel Lek, Vali Management Partners dba Avalon FA Ltd., Nathan Fayer and Sergey Pustelnik.
- The SEC's complaint alleges that Avalon FA Ltd touted itself as a destination to engage in layering, a scheme in which orders are placed but later canceled after tricking others into buying or selling stocks at artificial prices. Avalon allegedly made more than \$21 million in the layering scheme involving U.S. stocks during a five-year period. Avalon also made more than \$7 million through a cross-market manipulation scheme in which the firm bought and sold U.S. stocks at a loss in order to manipulate the prices of the stock and its corresponding options in order to profitably trade at artificial prices. Avalon allegedly used traders in Eastern Europe and Asia to conduct its cross market trading.

Layering case cont.

- The SEC further alleges that Lek Securities and its owner Samuel Lek made the schemes possible by providing Avalon with access to the U.S. markets, approving the cross-market trading scheme, and improving its trading technology to assist Avalon's trading. According to the SEC's complaint, Lek Securities also relaxed its layering controls after Avalon complained. Avalon was the highest-producing customer for Lek Securities in terms of trading commissions, fees, and rebates generated

New Orleans-Based Energy Company Charged With Fraudulent Stock Manipulation

- In December 2014, the SEC charged New Orleans-based oil-and-gas company and 5 executives with running a stock trading scheme in order to manipulate the price of the company's stock
- The company issued deceptive press releases claiming to have struck oil in Belize and Texas to induce investor demand for its unregistered stock, and then illegally sold restricted shares to the public
- The company's stock price shot up nearly 80% the day of the press release

New Orleans-Based Energy Company Charged With Fraudulent Stock Manipulation

- In the last leg of the scheme, the company began offering investors a working interest in well in Texas
- Investors were enticed with claims that the working interests were low-risk and expected to yield a return of 111.42% over a 10-year period
- The SEC alleges that the company knew these claims were baseless, because the well was producing only marginal amounts of oil
- The SEC also charged a Houston attorney with facilitating the scheme by issuing false legal opinion letters that allowed free trading of the restricted company stock

SEC's First High Frequency Trading Manipulation Case

- In October 2014, the SEC sanctioned a New York City-based high frequency trading firm for placing a large number of aggressive, rapid-fire trades in the final two seconds of almost every trading day during a six-month period to manipulate the closing prices of thousands of NASDAQ-listed stocks
- The firm, Athena Capital Research, used an algorithm code named “Gravy” to engage in a practice commonly known as “marking the close”
- “Gravy” overwhelms the market’s available liquidity and artificially pushes the closing price in Athena’s favor, making Athena the dominant firm

SEC's First High Frequency Trading Manipulation Case

- Athena also implemented additional algorithms known as “collars” to ensure that the firm’s orders received priority over other orders when trading stock imbalances.
- Athena knew of this price impact and in internal emails called it “owning the game”
- Traders can undoubtedly use complex algorithms and take advantage of cutting-edge technology, but what happened here was fraud
- The firm violated section 10(b) of the Securities and Exchange Act