



TYOLOGY

Suspected Market Abuse

October 2021

Typology Report

Suspected Market Abuse

Financial Intelligence Agency (FIA) - Bermuda

CONFIDENTIAL

October 2021

Statistical Disclaimer:

The report's statistics are based on SARs and STRs submitted to the FIA between January 1st, 2019, and September 30th, 2021. These reports reflect suspicions from reporting entities and do not confirm the existence of criminal activity. The data is intended for analysis and may change as new information or investigations arise. While reasonable steps are taken to ensure accuracy, the FIA relies in part on information provided by reporting entities and other third parties and cannot independently verify all underlying data.

Contents

Introduction	3
<i>Indicators and Red Flags</i>	3
<i>Typology Objectives</i>	3
What is market abuse (market manipulation and insider trading)?	4
Statistical Overview	4
Report Indicators	4
Nationalities.....	4
Suspected Market Manipulation	5
Why is market abuse a problem?.....	5
SAR/STR reviews	5
STR Review 1- Suspected Market Manipulation.....	5
Reporting Sector: Investment Service Providers (ISPs).....	5
SAR Review 2- Suspected Market Manipulation/Money Laundering.....	5
Reporting Sector: Fund Administrators	5
STR Review 3- Suspected Market Manipulation.....	6
Reporting Sector: Banks.....	6
Red flags.....	6
Actions taken by Reporting Entities.....	7
Suspected Insider Trading	7
SAR/STR reviews	7
SAR Review 4- Suspected Insider Trading.....	7
Reporting Sector: Investment Service Providers (ISPs).....	7
SAR Review5- Suspected Insider Trading.....	8
Reporting Sector: Investment Service Provider (ISP)	8
STR Review 6- Suspected Market Manipulation.....	8
Reporting Sector: Banks	8
Red flags.....	8
Actions taken by Reporting Entities - Insider Trading.....	9

Introduction

In January 2020, Bermuda received a glowing report from the Caribbean Action Task Force (CFATF) and the Financial Action Task Force (FATF) due to the robustness and effectiveness of its AML/CFT regime and legal framework in accordance with the international standards promoted by the FATF's 40 Recommendations and associated Methodology.

As a result, Bermuda endeavours to continue promoting AML/CFT awareness and training, as well as conducting ongoing reviews and revisions of Bermuda's AML/CFT framework in order to more effectively detect and deter opportunities that criminals seek to launder the proceeds of crime.

Likewise, it is paramount that local reporting entities, reporting persons and stakeholders remain aware of emerging and persistent patterns and trends to best address incidents of money laundering and terrorist financing within the Bermuda economy.

To meet these objectives, the FIA has produced a typology to discuss indicators highlighted in Suspicious Activity Reports (SARs), Suspicious Transaction Reports (STRs), Incoming Requests for Information (IRIs) and other intelligence reports (UTRs) filed by local reporting entities, local competent authorities and Egmont Financial Intelligence Units (FIUs). This typology covers reports filed between January 1, 2019, and September 30, 2021.

This typology focuses on market abuse (insider trading and market manipulation), suspicious indicators, statistics and actions taken by the filers in response to the red flags presented. These elements have been included in this report to provide clarity, insight and suggestions when dealing with cases of this nature.

Indicators and Red Flags

Report indicators can provide insight into various patterns and trends that are taking place locally and internationally when they are selected within SAR/STR/UTR filings. When reporting entities select relevant indicators, this enables FIA analysts to conduct analysis more effectively, widening the scope during the information/intelligence gathering, collation and synthesis processes of the intelligence cycle. Ultimately, this information enables the FIA to readily produce more case studies and typologies that can be shared locally and internationally.

Typology Objectives

The following objectives are intended to be achieved through the dissemination of FIA Typologies:

- To identify potential and actual illegal activity associated with money laundering, terrorist financing and other predicate offences.
- To educate reporting entities, reporting persons, local and overseas competent authorities, financial intelligence units (FIUs) and the public about the various methods and techniques that criminals may use to launder the proceeds of crime.
- To identify areas that require enhanced attention to support the detection, prevention, investigation and prosecution of higher-risk activities that require ongoing monitoring; and
- To establish emerging and persistent threats through analysis of patterns and trends.

What is market abuse (market manipulation and insider trading)?

According to LexisNexis, "The concept of market abuse typically consists of insider dealing, unlawful disclosure of inside information, and market manipulation of the financial markets which could arise from distributing false information, distorting prices or improper use of insider information. Market abuse behaviour is unlawful and prohibited."¹

Statistical Overview

Upon a review of the FIA database (goAML) for the period of January 1st, 2019, and September 30th, 2021, it was identified that a total of twenty-five (25) SARs, STRs and Incoming Requests for Information (IRIs) were filed involving suspected market abuse. A breakdown of these filings per year and per Reporting Sector is shown in Tables 1 and 2.

Table 1: Number of Filings Involving Suspected Market Abuse

Year	No. of Local SARs Filed	No. of Local STRs Filed	No. of International IRIs Filed	TOTAL
2019	4	1	1	6
2020	4	4	1	9
2021 (Jan - Sep)	1	9	0	10
TOTAL	9	14	2	25

Source: FIA (2021)

Table 2: - Suspected Market Abuse Filings by Reporting Sector

Reporting Sector	# of Filings
1. Investment Service Providers	14
2. Banks	4
3. Fund Administrators	3
4. Corporate Service Providers	2
5. Financial Intelligence Units (FIUs)	2
6. Local Regulators	1

Source: FIA (2021)

Report Indicators

Indicators of suspicious activity selected by reporting entities when filing SARs/STRs, by year, that involved suspected market abuse are shown below.

Table 3: Reporting indicators selected by entities

2019	2020	2021
Adverse Media	Adverse Media	Insider Trading
Consent Request	Beneficial Ownership	Market Abuse
Corruption	Cancelled Transaction	Market Manipulation
Fraud	Consent Request	Securities Fraud
Guest worker(s)	Electronic Transfers	
Insider Trading	For Information Only	
Investment Related	Foreigner(s)	
Investment Related	Fraud	
Lending/Loan Related	High Risk Country	
Market Abuse	Inconsistent Account	
Misrepresentation	Activity	
Misuse Accounts - business transactions in personal account	Insider Trading	
Money Laundering	Investment Related	
Money Transfer	Money Laundering	
No Source of Funds	Securities or Brokerage	
Scams - Investment related	Securities or Brokerage	
Securities Fraud	Use of Corporate Vehicles	
Securities or Brokerage	Use of Trusts	
Tax Evasion		
Third Party (sending on behalf of another)		
Use of Corporate Vehicles		

Source: FIA (2021)

Nationalities

The nationalities of the Subjects and country registrations of entities featured in SARs, STRs and IRIs filed by year that involved suspected market abuse are as follows:

Table 4: Nationalities featured within reports

2019	2020	2021
American	Bermuda Registered	Chinese (Hong Kong)
BVI Registered	Company	Lebanese
Company	Bermuda Resident	Malaysian
Canadian	Cypriot	
Cayman Islands	Israeli	
Registered Company	Panama Registered	
Chinese (Taiwan)	Company	
Greek	Russian	
Irish	Ukrainian	
Monacan Resident	Uzbekistan	
Panamanian		
United Kingdom		

Source: FIA (2021)

¹ Market abuse definition. LexisNexis. 2026. <https://www.lexisnexis.co.uk/legal/glossary/market-abuse>

Suspected Market Manipulation

According to The U.S. Securities and Exchange Commission (SEC), market manipulation is defined as:

- Intentional or wilful 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 demands, or
- Can be designed to drive a stock's price up or down.

Why is market abuse a problem?

- It is harmful because it affects the integrity of the marketplace
- Price should be set by the unimpeded collective judgment of buyers and sellers
- It 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.²

Statistical Overview

A review of filings made between January 1st, 2019 and September 30th, 2021, identified that out of the twenty-five (25) filings that were classified as market abuse, twelve (12) or 48% of them involved suspected market manipulation. A table showing the breakdown of filings involving suspected market manipulation is shown in Table 1.

Table 5: Number of Filings Involving Suspected Market Manipulation

Year	No. of Local SARs Filed	No. of Local STRs Filed	No. of International IRIs Filed	TOTAL
2019	3	0	0	3
2020	3	1	0	4
2021(Jan - Sep)	0	5	0	5
TOTAL	6	6	0	12

Source: FIA (2021)

Of the ninety-three (93) Investment Service Providers (ISPs) registered with the FIA, only two (2) ISPs filed reports involving suspected market manipulation during this Reporting Period.

SAR/STR reviews

In order to illustrate the content and context of reports filed with the FIA that involved market manipulation, below are three (3) reports filed by the ISP sector. Through these reviews, suspicious activity and red flags were identified to help with the prevention, detection and investigation of this suspected money laundering within the Bermuda economy.

STR Review 1 - Suspected Market Manipulation

Reporting Sector: Investment Service Providers (ISPs)

Reason for Suspicion: The matter reported related to a client's trading in several stocks in April 2021. The reporting entity was of the view that the client was placing bid/offers on the market to manipulate the market price (or was trying to manipulate). The client would then trade OTC with the ISP against this bid/offer, turning an illegitimate profit (or trying to do so). The entity also confirmed via Bloomberg several examples within which the client was successful in his attempts.

SAR Review 2 - Suspected Market Manipulation/Money Laundering

Reporting Sector: Fund Administrators

Reason for Suspicion: Adverse information was flagged in relation to the Subject, who was identified by an Asian bank as being linked to two offshore companies that manipulated securities on the Asian Exchanges in 2016 and

² The U.S. Securities and Exchange Commission (SEC). Market manipulation and Case Studies.

<https://www.sec.gov/files/Market%20Manipulations%20and%20Case%20Studies.pdf>

2017. One of such companies, which was owned by the Subjects, was not only the UBO of the Investment Advisor, but also the main investor in the fund. Thus, the source and legitimacy of the funds invested was questionable.

This suspicious activity also impacted the reporting entities branches in the Caribbean and Europe.

STR Review 3 - Suspected Market Manipulation

Reporting Sector: Banks

Reason for Suspicion: A local corporate service provider placed an order for the purchase of 500,000 shares in a company's stock at a price of USD0.76 in March 2020. The order was only partially filled by the broker on that day and expired at the end of the same day. The next day, the CSP placed an order of 400,000 shares in the stock at a revised limit price of USD0.77 per share, which was not filled. Later that day, however, the bank bought 450,000 shares of the stock at a price of US\$1.03 per share. The CSP claims that because of the delay by the bank in processing the request to buy shares, the CSP's customer had an opportunity loss of approximately USD100,000.00. In other words, shares were purchased for approximately USD450,000.00 in the afternoon, but would have been worth around USD350,000.00 the following morning.

The CSP submitted a customer complaint to the bank requesting partial reimbursement of the lost amount due to the delay in trading. The CSP also pointed out that its client had made threats to initiate legal actions to recover the loss.

It could be suspicious that the customer placed a large trade 1 day before a major 30% movement in the stock price. It could also be suspicious that the customer did not initiate legal action even though the CSP believed that the bank should partially reimburse its customer.

Red flags

Red flags noted in some of the filings involving suspected market manipulation were as follows:

- Clients were putting bids/offers in the market to manipulate the market price and would then trade over the counter with a reporting entity against this bid/offer, turning a legitimate profit.
- Adverse media found on Subject suggested that the source of funds invested may be linked to market manipulation.
- Customer manipulated transactions involving the client's contract for difference trading in Wall Street Cash according to the Reporting Entity's trade surveillance tools. (Difference trading is a financial contract that pays the difference in the settlement price between the open and closing trades.)
- The company in which shares were bought was located in a high-risk jurisdiction
- Transactions involved a high volume of low-priced securities which were susceptible to price manipulation
- The client may have been the same individual who has had securities sector legal/regulatory proceedings against him.
- When checking the trading history of the account it was found that the client started to build up positions shortly prior to the news.
- The investor requested several changes in the NAVs and provided multiple reports with different values. It is rare to get one updated report and, in the case in question, two updated reports were obtained for the same period. It seems that the investor may have tried to manipulate the price of the investments by getting the fund administrator to amend the price of the investments.
- The trust department of a local bank was alerted to adverse media involving the beneficial owners of a corporate client. There were allegations of fraud, market manipulation, and charges made against the

beneficial owners by the US Commodity Trading Futures Commission.

Actions taken by Reporting Entities

- It was recommended that the Executive Team terminate their relationship.
- The client's account was restricted from opening new trades to prevent the recurrence of such behaviour.
- The matter was reported to the Market Abuse Team at the FCA.
- Following the identification of potentially manipulative activity through trade surveillance tools, the client account was restricted from opening new trades to prevent such atypical recurrence.
- Continued monitoring of customer's account activity.
- The investor account was blocked.
- The account was closed.
- The information was provided as defensive SAR, and the report was filed for acknowledgement only.

Suspected Insider Trading

According to Investopedia, "Insider trading involves trading in a public company's stock by someone who has non-public, material information about that stock for any reason. Insider trading can be either illegal or legal depending on when the insider makes the trade."³

Statistical Overview

A review of SARs, STRs and IRIs filed between January 1st, 2019 and September 20th, 2021 identified that out of the twenty-five (25) reports filed that involved suspected market abuse, thirteen (13) or 52% of these filings involved suspected insider trading. A table showing the breakdown of SARs, STRs and IRIs filed involving suspected insider trading is shown in *Table 7*.

Table 6: Number of Filings Involving Suspected Insider Trading

Year	No. of Local SARs Filed	No. of Local STRs Filed	No. of International IRIs Filed	TOTAL
2019	1	1	1	3
2020	1	2	1	4
2021	1	5	0	6
TOTAL	3	8	2	13

Source: FIA (2021)

SAR/STR reviews

In order to illustrate the content and context of reports filed with the FIA that involved Suspected Insider Trading, below are three (3) reports filed by the ISP sector. Through these reviews, suspicious activity and red flags were identified to help with the prevention, detection and investigation of suspected insider trading within the Bermuda economy.

SAR Review 4 - Suspected Insider Trading

Reporting Sector: Investment Service Providers (ISPs)

Reason for Suspicion: The matter reported related to a contract for differences (CFD) trading in a company stock ahead of a takeover news. In December 2020, it was announced that RX made a takeover approach to the desired stock. The account in question held no trading history in the stock and the timing of the client's trading prior to the news aroused suspicions.

Upon checking the trading history of the account, the reporting entity found that they began building up positions just prior to the news in November 2020. Therefore, there was reason to believe that the timing of the trades combined with no trading history in the stock strikes could have been deemed as suspicious and consequently, provided reasonable grounds to suspect that the transactions may have constituted market abuse.

³ Investopedia. What Is Insider Trading and When Is It Legal? <https://www.investopedia.com/terms/i/insidertrading.asp>

SAR Review 5 – Suspected Insider Trading

Reporting Sector: Investment Service Provider (ISP)

Reason for Suspicion: A reporting entity suspected that their client was involved in Market Abuse. The matter related to CFD trading of the client in a certain stock. In June 2021, news was published noting that a certain company was approaching the stock with an acquisition offer and as a result the stock rose by over 5%.

The client traded the stock for the first time, in the days prior to the announcement. There was nothing unusual regarding the size of the trades placed. On the day the news broke, the client closed his positions and in turn realised a total profit of GBP4,000.00.

While there was nothing unusual regarding the size of the profits in the context of the account, the timing of trading in proximity to the news in June 2021 appeared suspicious.

STR Review 6 – Suspected Market Manipulation

Reporting Sector: Banks

Reason for Suspicion: The reporting entity was of the view that three of its clients were suspected to be involved in market abuse (insider dealing). The matter related to clients' CFD trading within a certain stock ahead of news announced on April 2021, when a certain company officially released information that there was a takeover offer.

Before the official news, there was a rumour on a financial blog called the Betaville, and Bloomberg made vague talk about a major corporate transaction. There was a large amount of additional trading mostly caused by the release of the rumour. All the suspicious accounts traded ahead of this news, buying a few days before published news and selling shortly afterwards which allowed a profit to be made. The reporting entity decided to report all

the clients who traded the stock before the release of article in the Betaville blog.

The clients' accounts in question held no previous history in the stock and the timing of the clients trading prior to the news aroused suspicions. Exposures most of the times were usual, however some clients used similar exposure before to trade stocks that they were reported for. Hardly any account had previous trading history in the property sector and the timing of the trades combined with no previous trades in the stock struck the entity as suspicious and therefore provided reasonable grounds to suspect that the transactions constituted market abuse.

The entity restricted any withdrawals from the account by forcing authorisations through to its Compliance department. All three clients were reported to the FCA.

Red flags

Red flags noted in some of the filings involving suspected market manipulation were as follows:

- Clients traded ahead of news when a company released information about a takeover.
- The account of a corporate client had no trading previous history in the stock. Therefore, the timing of the client trading ahead of news of discussions of a possible offer raised suspicion.
- The timing of the trades combined with no trading history in the stock prior to the news of the takeover was suspect.
- Client suddenly traded in a stock that a month later announced a takeover.
- Exposure was higher than normal in trading activity and client closed the position the day after the announcement of takeover, realizing a profit.
- Client opened positions prior to announcements about a takeover using two different accounts in his name.

- Client was suspected of conducting insider trading and was in court, at the time, on similar charges in Canada. The client requested to withdraw funds in two transactions from his account to pay his lawyers relative to the noted court proceedings.
- Adverse information related to a UBO and the UBO's involvement in securities violations and money laundering was found during screening as part of remediation.
- A subject cancelled his own trade through his company trading account without authority from his company in the subject's capacity as CFO. The subject also stated in writing that they were aware of the markets going down.
- It was observed that there was an unusual increased volume flow from a client which initially rose the entity's suspicion. Further review noted that the clients' volume alongside the noticeable price movement, and notable profits, were suspected to be front running.⁴

- This exploitation of information that was not yet public is illegal and unethical in almost all cases.

Actions taken by Reporting Entities - Insider Trading

- Client relationship was terminated as part of remediation and a SAR filed.
- Consent was requested of the FOA to release funds
- A SAR was filed with the FIA and the FCA and the account was closed.
- In addition to the STR filing, discussions were had with the Bermuda Monetary Authority and the Bermuda Police Service.
- Since the client was filed on twice within a very short period of time, as per procedures, the matter was recommended to terminate this relationship.
- Withdrawals from the account were restricted by forcing the authorisation through to the Compliance department.

END

⁴ According to Investopedia, "Front-running is trading stock or any other financial asset by a broker who has inside knowledge of a future transaction that is about to affect its price substantially. A broker may

also front-run based on insider knowledge that their firm is about to issue a buy or sell recommendation to clients that will almost certainly affect the price of an asset. Front-running is also called tailgating." <https://www.investopedia.com/terms/f/frontrunning.asp>