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Bond Traders Face Ban for Market Abuse in the UK

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The Financial Conduct Authority ("FCA") has banned and fined three bond traders for placing large-sized orders for future contracts in relation to Italian government bonds that they did not intend to execute, while concurrently placing smaller orders on the opposite end of the order book over the period from June 1 to July 29, 2016. At the time the facts occurred, the three individuals were part of the Fixed Income Government Bond Trading desk at a global financial institution where they held the position of Managing Director, Director and Associate, respectively.

The FCA maintained that through the placement of those large orders, the traders worked in concert with each other for the common purpose of falsely representing to the market an intention to buy or sell, with the aim to impact trading activities in the wider market. In particular, the only purpose for the large orders (8-digit figures) was to assist the execution of the smaller ones (7-digit figures) that they genuinely wanted to make; the trading strategy was such that the large orders were placed "away from the touch" (that is, the highest price to buy and the lowest price to sell) and were quickly withdrawn before execution. The FCA considered that this pattern of abusive conduct was frequently repeated over the relevant period and determined that it gave false and misleading signals to the market as to demand and supply positions, amounting to market manipulation contrary to Article 15 of the EU Market Abuse Regulation ((EU) 596/2014).

In the FCA's view, such market manipulation was serious and directly undermined the integrity of the market, as other traders would "highly" likely have altered their trading strategies in response to it. The bans from performing any function in relation to any regulated activity and the related fines (almost £600,000 in the aggregate, based on the greater of 30% of income and £100,000 for each trader) that have been decided by the FCA reflect the nature of the breaches and should represent a "sufficient deterrent" to other market participants as well. Notably, in this respect, the FCA's assessment over the conduct at issue acknowledged that none of the traders derived any direct financial benefit from carrying out the market abuse itself (but also noted that the performance of the desk was a significant factor when calculating the traders' bonuses).

The traders have all appealed the FCA's decisions to the Upper Tribunal (Tax and Chancery Chamber), where they and the FCA will each present their cases. The decision notices (issued separately to the traders on October 31, 2022) were made public on December 7, 2022.