Manipulation of Benchmarks – Follow-up to evidence session on 2 July

During my appearance before the Treasury Select Committee on 2 July, I committed to write to the Committee in response to a number of questions from Mr Mark Garnier MP on equity closing prices.

Equity closing prices represent the final price at which a security is traded on a given trading day. They are widely used in financial markets and the Committee should be assured that the FCA takes the risk of manipulation very seriously. The London Stock Exchange and other organised trading platforms on which the closing prices for equities are set are closely supervised by the FCA. As part of this they are required to have robust systems and controls in place to help prevent and identify potential manipulation and the FCA also feeds closing prices into our own surveillance system.

Furthermore, as equities are regulated financial instruments they are covered by market abuse legislation. Under the Market Abuse Directive, all market participants are obliged to report suspicious transactions to the FCA. Suspicious transactions are those where there is a reasonable suspicion of market abuse – such as insider dealing or market manipulation. If current market participants have relevant information, they must report this to the FCA immediately. This type of information may be vital in assisting the FCA in carrying out its functions to preserve the integrity of the UK financial markets.

Mr Garnier asked specifically about the FCA’s investigations into attempted manipulation of equity closing prices. I can confirm that the FSA concluded enforcement action against a number of individuals with regard to alleged manipulation of closing prices, and the FCA has taken this remit forward. In 2011, the FSA fined Mr Rameshkumar Satyanarayan Goenka £6.1m for artificial manipulation of the closing price of securities1. At the time this was the largest fine the FSA had levied against an individual. The FSA also took action against other individuals involved in that particular case and one of these individuals has referred his case to

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the Upper Tribunal. Furthermore, in January last year the FSA banned Stefan Chaligne, Patrick Sejean and Cheick Tidiane Diallo for manipulating the price of various securities traded on a number of different European and North American exchanges. They were fined a total of £1.5m.

I hope this information is helpful to the Committee.

David Bailey
Head of Market Infrastructure and Policy

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