14th January,2020

Supervisory Guideline - Market Manipulation

□ Prohibition of acceptance of orders for trading securities from a customer who may commit unfair trading (Rules 68 (k))
□ Implementation of measures necessary for the prevention of unfair trading (Rules 71 (a))

Check point 1: Overall

- Securities companies shall establish internal rules to build a structure to screen transactions. Such rules shall include operational flow and the matters listed below and be understood correctly by relevant officers.
- Securities companies shall specify the division to take charge of screening transactions and define the right and responsibility of the division in relation to the screening.

Check point 2: Accurate understanding of customers' attributes

- Securities companies shall try to ensure frequent communications with customers to understand the customers' trading patterns, motives and experiences, etc. – such communications include questionnaires in the A/C opening procedure, periodic surveys, etc.

Check point 3: Screen transactions

- Securities companies shall screen transactions timely manner or at least weekly.
- Securities companies shall develop their own criteria to pick out customers subject to screening – for on-line transactions, the more conservative selection of customers is needed due to the non-face-to-face nature. Such customers shall include the followings:

  1) Customers who got involved with the trading of specified stocks at an extraordinary high ratio during the certain period;
  2) Customers who sold and purchased specified stocks at the same time at the same prices – such transactions can mislead other market participants into believing that trading of those stock is very active;
  3) Customers who canceled a significant amount of trading orders for specified stocks or changed bid or ask prices to subordinate prices (higher purchase or lower sell);
  4) Customers who stuck with closing prices in carrying out transactions – closing prices are used as reference prices and for assessing stock value;
  5) Customers who carried out transactions that caused market price collapse; and
  6) Customers about whom the Securities and Exchange Commission or the Stock Exchange provided information about unfair trading.

- Securities companies shall check whether or not unfair trading took place, through analyzing selected transactions in light of trading sizes, the attributes of customers, patterns of transactions, etc.; pulling up prices (pulling down price) in a very short period of time; the patterns of getting involved in the formation of closing prices; the patterns of fictitious or wash trades; and “spoofing”.

Check point 4: Actions to unfair trading

- When, as a result of the screening, a securities company recognizes customers’ transactions as those that may lead to unfair trading, the securities company shall inform the customers of such suspicions. When no improvement is seen, the securities company shall take appropriate measures against the customers, such as the suspension of acceptance of trading orders, limitations on order placement, and the closure of trading accounts.
- When, as a result of the screening, a securities company recognizes customers’ transactions as unfair trading, the securities company shall report the transactions and the names of the customers involved to the Securities and Exchange Commission.

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