

Unfair trading practices and posing a risk to market integrity of Scoach Switzerland

On 30 November 2012, Surveillance & Enforcement issued a reprimand against a trader of a participant in relation to price quotation irregularities in two products traded on Scoach Switzerland due to unfair trading practices and posing a risk to market integrity. The trader was ordered to pay the costs of the proceedings.

Trader X was the trader responsible at participant Y (the issuer of warrant 1 and warrant 2) for quoting bid and ask prices in warrant 1 and warrant 2 both on and after dd/mm/yyyy, and until both products expired. On dd/mm/yyyy, trader X made erroneous entries during the pre-opening period in respect of the prices quoted for both warrants by quoting extremely low prices in the order book for 500,000 warrants (CHF 0.02 to CHF 0.03) each, which did not reflect the fair value of either warrant. Participant A subsequently placed buy orders consisting of 550,000 warrants each at CHF 1.76 for warrant 1 and CHF 1.38 for warrant 2. Due to a crossed order book situation, these buy orders were partially executed shortly after the commencement of trading. The trades consisted of 500,000 warrants priced at CHF 1.76 in warrant 1 and 500,000 warrants priced at CHF 1.38 in warrant 2. Shortly after the execution of these trades, trader X contacted Scoach Switzerland Market Control to have the transactions declared as mistrades, and ceased to quote prices in both warrants for a period of around 10 minutes. Trader X subsequently resumed quoting prices in warrant 1 and warrant 2 for approximately 20 minutes during the 30-minute period in which the decision from Scoach Switzerland Market Control concerning the mistrades was still pending. Shortly after the mistrade period had elapsed, and following the decision by Scoach Switzerland Market Control not to declare the transactions as mistrades, trader X stopped quoting prices in both warrants altogether, and did not provide any further quotes until both products expired.

During the proceedings, trader X argued that neither he nor participant Y was under any obligation to provide continuous quotes in the two warrants. However, the reason for commencing the proceedings was not based on a breach of a market making obligation, but was for the purpose of upholding market integrity and curbing unfair trading practices in accordance with section 9.2 (1) of the Scoach Switzerland Rule Book (market conduct) with which all participants and traders are bound to comply, irrespective of any market making agreement.

Trader X also submitted in the proceedings that he had stopped quoting prices in the warrants concerned due to a lack of customer interest in either product after dd/mm/yyyy. He further argued that market participants had the option, in principle, to request quotes from the issuer at any time. The reasons cited in the proceedings do not justify the conduct of trader X, i.e. the sudden cessation of quotations following the decision by Scoach Switzerland Market Control not to grant the request of trader X to have the transactions declared as mistrades. Already prior to dd/mm/yyyy, there was little customer interest in warrants 1 and 2, and the fact that trader X provided quotes continuously until dd/mm/yyyy and not merely on request, would have caused other market participants to believe in good faith that quotes for these products would continue, and that they were therefore able to trade in the products over the Exchange at any time. However, the conduct of trader X in respect of warrant 1 and warrant 2 could have led other market participants to assume that trader X would suddenly stop providing quotes in other products as well. The conduct of trader X is incompatible with fair and transparent trading, poses a risk to market integrity, and therefore constitutes a breach of section 9.2 (1) of the Scoach Switzerland Rule Book.

Surveillance & Enforcement has issued a reprimand against trader X and ordered him to pay costs of the proceedings in the amount of CHF 5,000.