

## Splintered Europe share market seen ripe for abuse

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**The splintering of Europe's share markets into numerous trading platforms in recent years has created a fertile field for market abuse and made it more difficult to detect, a group of London market consultants said.**

The EU's Markets in Financial Instruments Directive (MiFID) in 2007 opened exchanges to competition from low-cost new rival platforms known as multilateral trading facilities (MTFs).

"Now there is so much market fragmentation and competition that we have got away from a fair and orderly market," said Brian Taylor, a member of the new Alliance of Independent Advisors to Financial Markets, or Avenues, at a media briefing on Tuesday.

"Ultimately this will become a macro-economic issue if investors lose confidence and say they are not going to participate," said Taylor, managing director of bta Consulting.

Bryok Consulting, bta, Golden Advisors and Capstan Consulting, which formed Avenues, have also joined forces to design a system to comb through trade information to identify possible abuse.

Before MiFID, national exchanges accounted for the large majority of trading. All UK trades had to be reported to London Stock Exchange, which was required to run surveillance for market abuse, for example.

Now a stock such as Vodafone trades on 18 different venues including MTFs and dark pools, which enable would-be buyers and sellers of large orders to avoid revealing pre-trade information, as well as by dealers over-the-counter, the consultant group said, citing data from a sample week in February showed that the LSE accounted for only about a third of volume.

The new MTFs and trade reporting firms such as Markit BOAT are not obliged to monitor trade data, which is left to regulators, the group said.

Furthermore under the EU's Market Abuse Directive (MAD), which predated MiFID by two years, regulatory surveillance has remained national, even while MiFID allows cross-border trading.

"Even if all the venues were doing surveillance, it would not be a perfect solution, because there is no one pair of eyes seeing it," said Steve Leegood, of Bryok.

"We need a single environment for all data to be brought together and monitored," he said.

Leegood cited data from the UK's Financial Services Authority (FSA) that it investigated several hundred cases of market abuse in the past decade, with the large majority of those cases involving insider trading.

"The FSA pays little attention to other types of abuse which are more subtle and difficult to detect," he said.

One type is front-running, when the broker does a trade for himself ahead of filling an order for a client that is likely to move the price.

Another is layering or spoofing. The FSA said in a recent newsletter that it was concerned about this practice of placing orders close to the best buy/sell price, but with no intention of trading, to create a false impression a stock is more liquid.

The FSA is due to announce its plan for the coming year on Wednesday, including an initiative to beef up enforcement.

The Avenues group said it planned to canvas market players, talk to leaders in the industry and lobby regulators on ways to improve surveillance and enforcement.

(Editing by Sharon Lindores)



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