Being: SPX Guidance Note
For: Market Surveillance
Last Updated: 13th July 2020

INTRODUCTION

The South Pacific Stock Exchange (SPX) Listing Rules are intended to ensure that investors have and can maintain confidence in the market. As such, in order to protect the integrity of the market, it is vital that our market is constantly monitored for possible market manipulation and insider trading.

NEED FOR THE GUIDANCE NOTES

The rules do not specify what procedures will be followed when market surveillance is carried out. This notice therefore would provide a practical guideline which needs to be followed when the Exchange carries out market surveillance.

GUIDANCE NOTES

Market Surveillance

The Exchange monitors the activities of the market on a daily basis. The Exchange also monitors the price movement of every listed stock—on a trade-to-trade basis—throughout the trading session.

A close review is conducted of the market in those securities in which unusual price and volume changes occur or where there is a large unexplained influx of buy or sell orders. Whenever there is a price movement in a stock, it is immediately "flagged" and review of the situation is undertaken within 3 days of the movement to seek the cause of the exceptional activity. Where the price movement in a stock exceeds by 10% in a day, market surveillance query is immediately triggered.

Apart from daily movements that trigger market surveillance, the stock prices will also be monitored over a longer period of time to ascertain any trend as a result of possible market manipulation or insider trading.

If the movement in the SPX Equal Weighted Price Index exceeds 5%, it is immediately "flagged" and review of the situation is immediately undertaken to seek the cause of the exceptional activity. The entire market may be placed on a trading halt (through an enquiry mode) during such investigations. Upon review and corrective measures being implemented, the trading halt maybe uplifted for normal trading to resume.

Listed Entities

Where a movement in any listed stock has been "flagged", the Exchange has the discretion to do any or all of the following:

(a) Review the situation and if necessary, immediately place a trading halt in order to protect the integrity of the market;
(b) Make an inquiry with the listed entity and request any information relating to the price movement;
(c) Direct that the company release and make public any undisclosed information;

(d) Carry out an investigation; and/or
(e) Close the enquiry.

Broking Members

In order to protect the integrity of the market, broker representatives must play a proactive role. As such, although brokers are required to act on the instructions of their clients, sometimes these instructions may lead to significant changes in the overall market capitalization.

Consequently, brokers are advised to expose such orders to the market immediately and gradually alter the price towards the limit given by the client. The rate at which the price is altered must be dependent on the liquidity of that particular stock. As such, it is necessary for brokers to use their discretion to attain a balance between the demand and supply of that particular stock and the price limit given by their client. This means that even if an investor instructs the broker to suddenly increase or reduce the price of a stock sharply in order to trade the shares, the broker must expose the order of the client on the Orders Table of the Electronic Trading Platform and must gradually increase or reduce order price to meet the instructions of the client and to carry out best execution of client's orders. The gradual increase or decrease will depict the true value of the shares as the market will correctly respond to the forces of demand and supply in a timely manner.

If in any case where through direct instruction from client in absence of any advice being sought, orders have been given limits which will result in sharp increases or decreases, the broker will have to obtain a disclaimer signed by the client which must state valid reasons for such an instruction. This will ensure that there is no market manipulation or insider trading taking place.

Broking members executing such trades must ensure that all instructions of clients are well documented so that any queries arising from the trade by the Exchange is supported with proper documentation.

The Exchange may refer any anomalies in the trade or the Order forms submitted by the brokers to the Reserve Bank for further action.

The Exchange reserves the right to investigate any matter relating to the market in its absolute discretion and in the best interest of the market.

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