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MARKET MANIPULATION AND ANTI- COMPETITIVE PRACTICES: HOW LARGE PLAYERS DISTORT STOCK PRICES

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ABSTRACT:

This article looks at large players' manipulation¹ of the stock market. It focuses on the ways that powerful investors and business insiders manipulate markets by taking advantage of competition. Utilizing insider knowledge Overproduction² is one actual activity that managers may control. In order to generate trading chances using insider knowledge. Usually, this leads to more consumer surplus but decreased corporate profits. According to this article, market competition may have a moderating effect. As a result, there is less motivation for such manipulation. Furthermore, more contemporary tactics like spoofing and layering as well as more conventional ones like bear attacks and pump and dump. manipulating market dynamics³ by faking a rise or fall in stock prices. These acts could deceive investors and disturbs the efficiency of the market and raises volatility. The research also shows that market players and major investors take advantage of their influence over substantial shares. How are pricing distortions and increased risk for other market participants caused by the creation of market corners⁴? In order to combat these tactics, the regulatory structure must encourage competition and transparency. In addition to suggesting measures to lessen distortion. Ultimately, even while these market-distorting tactics could help major players in the short run, they compromise the market's long-term stability⁵. Strict regulatory control is necessary to guarantee an equitable and competitive market.

Key Words: Large Players, Stock Prices, Market Manipulation, Manipulation, Anti-

¹ Aggarwal, R. K., & Wu, G. (2006). *Stock Market Manipulations*. The Journal of Business, 79(4), 1739-1774. doi: 10.1086/503652

² Chen, H., & Jorgensen, B. N. (2016). *Insider Trading, Competition, and Real Activities Manipulation*. Management Science, 68, 1497-1511. doi: 10.1287/mnsc.2020.3915

³ Fox, M. B., Glosten, L. R., & Rauterberg, G. V. (2018). *Stock Market Manipulation and Its Regulation*. Yale Journal on Regulation, 35, 2-36.

⁴ Franklin, A., Litov, L. P., & Mei, J. (2004). *Large Investors, Price Manipulation, and Limits to Arbitrage: An Anatomy of Market Corners*. Social Science Research Network. doi: 10.2139/SSRN.604302

⁵ Putniņš, T. J. (2020). *An overview of market manipulation*. Social Science Research Network, 13-44.

INTRODUCTION:

Large-scale stock market manipulation has long endangered the integrity of the financial markets. This immediately threatens fair competition. This has major consequences for regulators and market players. Supply and demand are undermined by both traditional and modern deception strategies. This provides regulators an unfair edge over ordinary investors and results in fake price swings. The legal framework concerning stock market manipulation More than eight decades later, it remains uncertain, which poses significant challenges for appointed authorities in maintaining integrity and ensuring fair competition⁶.

Various forms of market manipulation have been identified in academic publications. Bear attacks, pump and dump schemes, and painting the tape are examples of traditional market price manipulation techniques that have long been known to happen. By deliberately inflating or deflating the value of a stock for their own personal gain, these schemes target both regular investors and the stability of the market overall. New techniques such as quotation stuffing, layering, and spoofing have been developed as a result of technological advancements, allowing manipulators to exploit the speed and complexity of modern trading systems. Because of these strategies, it is become harder for authorities to spot and halt manipulation in real time. The literature has raised serious concerns about the involvement of big investors in market manipulation. These individuals or groups can engage in what are known as "market corners," when they seize a sizable portion of a stock or commodity and so have direct control over pricing, thanks to their market power. Such actions put short sellers in grave danger and influence the values of related assets by creating market volatility in addition to fake price inflation. This concentration of market power by a limited number of rivals highlights issues with market fairness and competition.

The relationship between insider trading and market manipulation has also been the subject of much debate. Because they have access to sensitive information and command over the company's operations, corporate insiders might alter actual actions, such production levels, to profit from insider trading chances. This manipulation has a trade-off because of overproduction; although consumers benefit from lower prices, companies may see a decline

⁶ Joseph, Cherian, Robert, A., Jarrow. "Chapter 20 Market manipulation." *The Finance*, 9 (1995):611-630. doi: 10.1016/S0927-0507(05)80064-7

in profitability. Since the degree of competition in a particular market may influence the amount of manipulation that takes place, the relationship between insider trading and competitiveness is complex. Because insider trading possibilities are few in highly competitive marketplaces, managers are less prone to overproduce. This implies that competition serves as a built-in deterrent to manipulation.

The identification of manipulation has been another area of interest for the literature⁷. Many methods have been developed to identify manipulated equities, particularly in developing nations like India. Techniques including discriminant analysis, support vector machines (SVM), and artificial neural networks with genetic algorithms (ANN-GA) have been employed to separate manipulated stocks from unmanipulated ones. Since SVM has the highest classification accuracy of any of them, regulators and financial analysts may be able to identify manipulation with its help. These models can aid in the prevention of market abuses and provide regulators with crucial information about how deceptive strategies behave.

However, in spite of these advancements, numerous legal and regulatory barriers remain. Judges and scholars disagree on whether trading conduct by itself constitutes criminal manipulation under federal law. The development of reasonable regulatory rules is made considerably more challenging by the scholarly community's disagreements regarding the feasibility and scope of market manipulation. This ongoing debate highlights the need for a more accurate legal framework that can adapt to the evolving nature of market manipulation tactics and ensure that the law remains effective in preventing such practices.

The purpose of this essay is to investigate how big players manipulate the stock market and how this affects competition. This investigation will be guided by the following research questions: How do big investors skew market integrity and competition by manipulating stock prices? What particular tactics do modern and traditional manipulators use, and how do they change in marketplaces with intense competition? How does competition affect the degree of manipulation, and how may these issues be successfully addressed by regulatory frameworks? In detecting manipulation, what function do detection models like Support Vector Machines serve, and how can regulators make greater use of these technologies? Lastly, how can legal

⁷ Jose, Joy, Thoppan., Punniamorthy, M., Ganesh, K.. "Competitive Models to Detect Stock Manipulation." Communications of the IIMA, 15 (2017):5-

frameworks be improved to give market manipulation laws more precise meanings and better enforcement?

LITERATURE REVIEW:

The manipulation of the stock market by huge investors, also known as "big players," has received a lot of attention in the academic and legal literature. Both conventional and contemporary manipulation strategies compromise the integrity of the market and put regulatory structures intended to maintain fair competition in jeopardy. Numerous academics have examined these manipulation strategies, their legal ramifications, and the function of regulatory agencies in stopping such abuses in recent years. With an emphasis on the relationship between stock market manipulation, competitiveness, and regulation, this literature review summarizes the information presented in the abstracts of significant scholarly works.

FORMS OF MARKET MANIPULATION:

The evaluated papers cover a wide range of stock market manipulation strategies, from traditional methods to contemporary strategies made possible by technological breakthroughs. *Putniņš (2020)* draws attention to classic tactics that have been used for a long time to artificially raise or lower stock prices, including Pump and Dump, Bear Raids, and Painting the Tape. The paper also discusses contemporary manipulation techniques that use technology to deceive the market and produce fictitious price movements, such as quote stuffing, ping, layering, and spoofing.

Jarrow (1995), who offers an analytical categorization of market manipulation techniques, highlighting their inclusion in equilibrium models. This offers a framework for classifying different tactics used by manipulators, like swaying share prices via calculated trading moves.

LARGE INVESTORS AND MARKET POWER

As demonstrated in the historical study by *Allen, Litov, and Mei (2004)*, large investors have the potential to manipulate prices due to their control over substantial market resources. They looked at "market corners," which are areas where powerful companies gained control over sizable shares of a stock or commodity, enabling them to influence prices. According to the study, this kind of manipulation might raise volatility and have a detrimental effect on other

market assets. The report also highlights dangers for short sellers, who can find themselves in a difficult situation as a result of persistent price distortions brought about by these influential parties. According to the study, in order to keep market corners from causing financial market instability, regulatory vigilance is required.

Chen and Jorgensen (2016) talk about how corporate insiders use their power over private information and operational choices to influence actual operations, including overproduction, in preparation for insider trading. By falsely inflating production, this manipulation can boost consumer surplus even when it lowers the firm's profitability. This dynamic shows how big investors can take advantage of flaws in the market to their advantage, putting their interests at odds with the health of the market as a whole.

CHALLENGES IN REGULATION AND LEGAL CONFUSION

The legal foundations governing stock market manipulation are still ambiguous and contentious despite the long history of federal law addressing the practice.

Fox, Glosten, and Rauterberg (2018) point out that federal courts are unclear on what exactly qualifies as unlawful manipulation. The continuous legal ambiguity is best shown by the dispute among federal courts on whether trading behaviour on its own qualifies as manipulation under federal law. The authors also urge for a more transparent regulatory approach to deal with the changing strategies of market manipulators and offer an analytical framework for a better understanding of manipulation.

Merritt and associates (2018) contend that in order to cover both conventional and contemporary manipulation strategies, the legal definitions of manipulation must change. Their work identifies the parties impacted by each sort of manipulation and offers an analytical framework for classifying them. They also emphasize the social welfare consequences of manipulation, emphasizing that the law needs to take into consideration both monetary losses and wider society effects.

THE ROLE OF COMPETITION IN MARKET MANIPULATION

Another important theme in the literature is the connection between manipulation and competition.

Chen and Jorgensen (2016) shed light on the ways in which competition affects the probability of corporate insiders overproducing. According to the paper, insiders are less motivated to manipulate production quantities in more competitive markets, suggesting that market forces may be able to reduce some types of manipulation.

The prediction modelling of manipulation in competitive markets, specifically in the Indian stock market, is another topic covered in the *Thoppan and Punniyamoorthy (2017)* study. The significance of technological tools in detecting market distortions is highlighted by their discovery that Support Vector Machines (SVM) perform better than other methods in detecting manipulation. This implies that improved detection systems could help competitive markets by lowering the frequency of manipulation.

TECHNOLOGICAL ADVANCES AND MANIPULATION DETECTION:

Better detection methods as well as new types of manipulation have been made possible by technological advancements. *Thoppan and Punniyamoorthy (2017)* investigate a number of classification methods for identifying stock manipulation, including Support Vector Machines (SVMs), Artificial Neural Networks in conjunction with Genetic Algorithms, and Discriminant Analysis. According to their research, SVM offers the best accuracy for spotting manipulated stocks, especially in the Indian stock market. Investors and regulators stand to gain a great deal from this strategy in terms of improving their capacity to identify and counteract manipulation.

REGULATORY RESPONSES AND SOLUTIONS:

A number of articles offer strategies and tactics to counteract market manipulation. Businesses can use the corporate strategies recommended by *Cherian and Jarrow (1995)* to protect themselves from manipulation. For example, companies can avoid manipulation during experienced equity offerings by letting manipulators cover their short positions in the pre-issue market. Furthermore, since it allows prices to function as a natural defense mechanism, enhancing the flow of information between markets is recommended as a means of reducing manipulation.

Fox, Glostén, and Rauterberg (2018) support a revised legal framework that would make it simpler for regulators to prosecute violators of federal laws pertaining to market manipulation. They offer an analytical framework that combines instruments from firm theory and

microstructure economics to assist regulators in comprehending the dynamics of manipulation and dealing with the complexity of the contemporary market.

IMPLICATIONS FOR FUTURE RESEARCH:

The reviewed papers offer a number of directions for further study on stock market manipulation. *Putniņš (2020)* points out important gaps in knowledge among academics, especially when it comes to the subtlety of contemporary manipulation techniques like layering and spoofing. Both researchers and regulators find it difficult to stay up with the constantly changing landscape of market manipulation due to the constant development of new tactics.

More historical studies of market corners are needed, according to *Allen, Litov, and Mei (2004)*, who stress the significance of comprehending how historical occurrences can influence present regulatory procedures. Similarly, *Merritt and colleagues (2018)* suggest that in addition to its financial and legal aspects, manipulation's impact on social welfare should be investigated in future studies.

OBJECTIVE AND SCOPE OF THE RESEARCH:

With a particular focus on how these organizations take advantage of competitive dynamics to skew market prices, jeopardize fair trading practices, and ultimately erode market integrity, the goal and scope of this study are all focused on how big investors and corporate insiders manipulate stock markets. Investigating the methods of market manipulation specifically, insider trading, manipulating actual business activity, and market corners and comprehending how they impact company profitability and consumer welfare are the main goals. In order to balance trade-offs between firm profits and growing consumer surplus, this study attempts to investigate how corporate managers, armed with insider knowledge, manipulate production levels to affect stock prices. It also aims to evaluate how managers' equity stakes, cost information, and competitive forces affect their decision-making in manipulating market outcomes.

Additionally, the study discusses how big investors contribute to market corners, which are concentrated control over assets that enable price manipulation and higher market volatility, destabilizing not just the manipulated asset but the entire market. Examining the legal frameworks that currently govern such manipulative practices, especially in the Indian and U.S.

markets, and determining how well they work to stop these practices are important goals. The study also seeks to find legal loopholes and suggest changes to improve market manipulation detection, prevention, and regulation.

This study aims to give a thorough understanding of stock market manipulation and policy recommendations for better enforcement by fusing legal theory, economic analysis, and regulatory viewpoints. With an emphasis on the legal and regulatory ramifications of these practices, the scope is restricted to the literature on insider trading, competition law, and manipulation by major players. Other types of financial misconduct unrelated to stock market manipulation are not covered in this study.

RESEARCH METHODOLOGY:

The paper's research methodology is mostly focused on theoretical modelling. The following are the methodology's main components:

Development of Theoretical Models: The authors create a model that accounts for the feedback loops between firms' access to external financing and equity markets. Understanding how stock price manipulation can happen and the effects it can have on businesses and rivals requires an understanding of this model.

Pay Attention to Uninformed Traders: In particular, the model looks at how ignorant traders behave when they short sell a company's stock while holding large positions in its rivals. This tactic is essential to the authors' definition and analysis of predatory stock price manipulation in the framework of their model.

Analysis of Investment Incentives: Part of the methodology is an examination of how the targeted firm's investment incentives are distorted by predatory stock price manipulation. This element is important because it draws attention to the wider effects of manipulation on competition and market efficiency.

Implications for Market Concentration: The study also looks at how this kind of manipulation may result in ineffective market concentration. The authors shed light on the effects of these trading tactics on general market dynamics by connecting stock price manipulation to modifications in market structure.

Regulatory Insights: The model also clarifies the connection between manipulation profits and product market competition, providing fresh viewpoints on how short sales should be regulated. This methodological feature highlights how crucial it is to comprehend market dynamics when thinking about regulatory frameworks.

This paper's research methodology, which is based on theoretical modelling, focuses on the relationships between product market competition and stock price manipulation. The knowledge gained from this model advances our comprehension of market dynamics and the ramifications for regulations.

RESULTS:

With an emphasis on the effects on market integrity, competition, and consumer welfare, the research's findings highlight a number of important conclusions about stock market manipulation, especially by big investors and corporate managers. First, it has been discovered that managers' overproduction practices increase consumer surplus while decreasing firm profits. Market competition, the manager's ownership stake in the company, and the accessibility of accurate cost data are some of the variables that affect this overproduction. Competition can serve as a mitigating factor in reducing market manipulation, as managers are less likely to engage in excessive production in competitive environments (*Hui, Chen et al., 2016*). Furthermore, the results indicate that in order to effectively identify and stop such manipulative practices, regulatory agencies must improve their oversight capacities (*Merritt et al., 2018*).

The study also shows that, especially during market cornering events, big investors have significant influence over market prices and volatility. The prices of other assets are distorted by these market corners, which causes the market to become more unstable overall (*Franklin et al., 2004*). Companies themselves are also recognized as strategic share manipulators, taking steps to affect share prices and shield their interests from outside manipulations (*Joseph & Jarrow, 1995*). Increased market-to-market information exchange is proposed as a possible defense against such manipulations.

The research's analytical frameworks provide insightful information about the different types of market manipulation, their effects on social welfare, and the necessity of stronger regulatory measures to maintain market integrity (*Tālis & Putniņš, 2020*). Furthermore, the market's

insider competition may lessen insider trading's profitability, which would ultimately lessen the degree of manipulation (*Hui, Chen et al., 2016*).

These findings highlight the significance of improved market monitoring, regulatory action, and the creation of instruments that can identify and stop manipulation tactics that jeopardize free and fair market competition.

CONCLUSION:

In conclusion, there are serious obstacles to preserving market integrity, guaranteeing fair competition, and safeguarding the welfare of consumers when it comes to the manipulation of stock markets, especially by big investors and corporate insiders. The research's conclusions highlight the intricacies of stock market manipulation and the calculated actions of managers who overproduce in order to take advantage of insider trading opportunities, jeopardizing company profits while unintentionally helping consumers by making more products available. Important elements that act as moderating forces on manipulative practices include market competition, the manager's equity stake, and access to cost information (*Hui, Chen et al., 2016*). The study also emphasizes how important competition is in limiting insider trading profits and preventing corporate manipulation. Market structure and competitive dynamics may act as safeguards against such manipulations, as managers are less likely to overproduce in competitive markets.

Furthermore, the study shows that big investors have a lot of market power, especially when market cornering occurs. They can manipulate asset prices and create volatility, which destabilizes the market as a whole (*Franklin et al., 2004*). Increased regulatory monitoring and action are required due to the possibility that such distortions will affect not just the manipulated asset but also other assets in the market. Furthermore, the study emphasizes how crucial it is for companies to be acknowledged as active participants in manipulating share prices and the necessity of improved information flow to offset their calculated moves (*Joseph & Jarrow, 1995*).

The findings also highlight the need for a more advanced regulatory framework that can recognize and counteract manipulation tactics, especially in view of changing market behaviours (*Tālis & Putniņš, 2020*). Regulatory agencies need to change in order to better identify and stop market manipulation tactics, which are becoming more complex. The study

concludes that in order to protect the integrity of financial markets and make sure that manipulative practices do not unnecessarily jeopardize competition and consumer welfare, more oversight, increased market transparency, and regulatory reforms are necessary.

All things considered, this study adds to the expanding corpus of research on stock market manipulation by emphasizing the detailed nature of manipulative tactics, their impact on market stability and competition, and the necessity of legislative changes to tackle these intricate problems. To guarantee that financial markets continue to be equitable, open, and supportive of long-term economic stability, future studies should concentrate on the efficacy of regulatory actions and investigate novel strategies for boosting market integrity.

