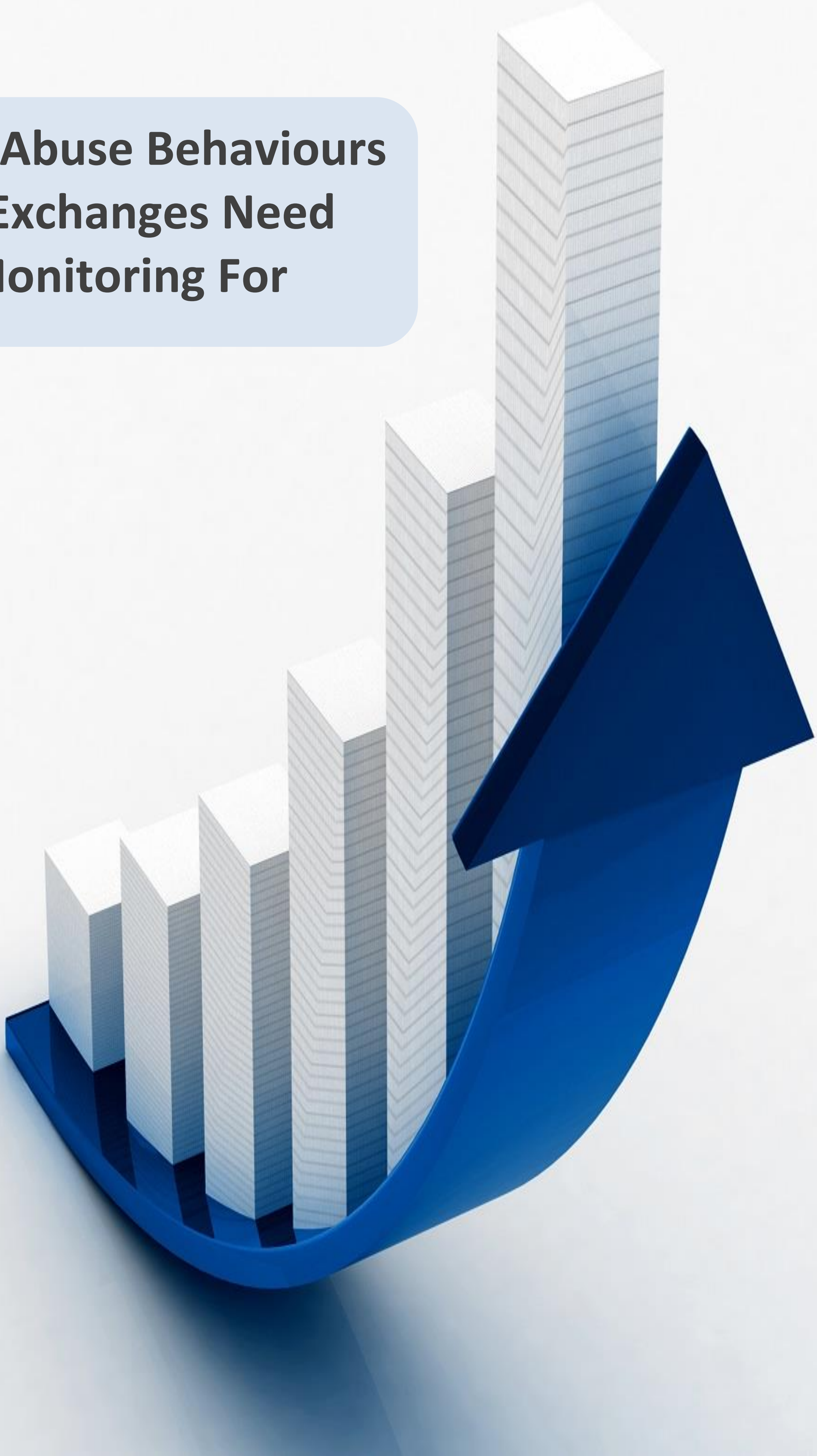
Market Abuse Behaviours Crypto Exchanges Need To Be Monitoring For



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As long as the existence of financial markets has been considered, various attempts have been made to manipulate them. However, these days, with the buzz of Crypto or digital assets growing considerably within a broad assortment of market players, sophisticated market abusers can apply schemes much quicker. With rules and regulations managing transactions sparse, the markets are exposed to fraud, hacking, money laundering and additional criminal activities. This happens to be keeping various possible participants on the sidelines.

When manipulation is considered, it comes in various forms. Still, many are more expected to happen within this digital and Crypto market, which regulators and exchanges need to be monitoring for.

• Spoofing and layering

Crypto traders spoof market participants by adding orders to change other people's trading behaviour. Spoofing is generally signalled by an unusually large proportion of orders that are deleted and entered and unexecuted at the end of the day. On the other hand, layering refers to the fact when the Crypto traders enter the orders at varied price depths to provide market participants with a fake impression of the level of supply-demand. Furthermore, they enter those orders on the other side of the book for taking advantage of the reaction of the markets and then cancelling the layered orders.

Various high-frequency trading firms have used their anti-spoofing authority to prosecute energy trading. Such companies have manipulated the contracts including metals, crude oil, natural gas financial indexes and foreign currencies. The owners of those companies utilized an algorithmic trading program to place small orders for selling futures it wanted to execute. By doing so, they have provided the market with the false impression that there was a significant buying interest.

In turn, energy trading companies were forced to spend millions in fines. They were additionally banned for a year. The financial authorities also fined them for the manipulation of commodities markets.

It can be considered that manipulative schemes are now being used within the digital asset and ICO markets, although nothing much has been confirmed yet. You can understand better by the following example.
A blockchain-based decentralized application platform and operating system have ownership that happens to be highly concentrated, and their supply on exchanges is notably small. Some market players anticipate that those large holders are manipulating prices higher by spoofing the market and by positive announcement into thinking that the interest for trading in their

company happens to be higher than it is. After the participants go by the manipulators' lead and purchase from their company, the owner sells them.

- ## Pump and dump

Pump and dump usually happen when a broker takes a long position in the security and further executes buying activity or disseminates misleading positive information regarding the security to attract additional buyers and increase the cost. When the price is at the extended position or an artificially high level and is sold, this is considered as the pump and dump.

During the 1920s, pump-and-dump and over-speculation schemes added to the great depression and crash of 1929. One case states that a unit of investors dubbed a radio pool purchase and sold RCA stock among themselves to develop a ticker-tape record of rising costs and volumes in the stock. The stock price of RCA collapsed when they sold their shares. The laws of securities that were established in response to the 1929 crash are the base of the regulations and rules in place today.

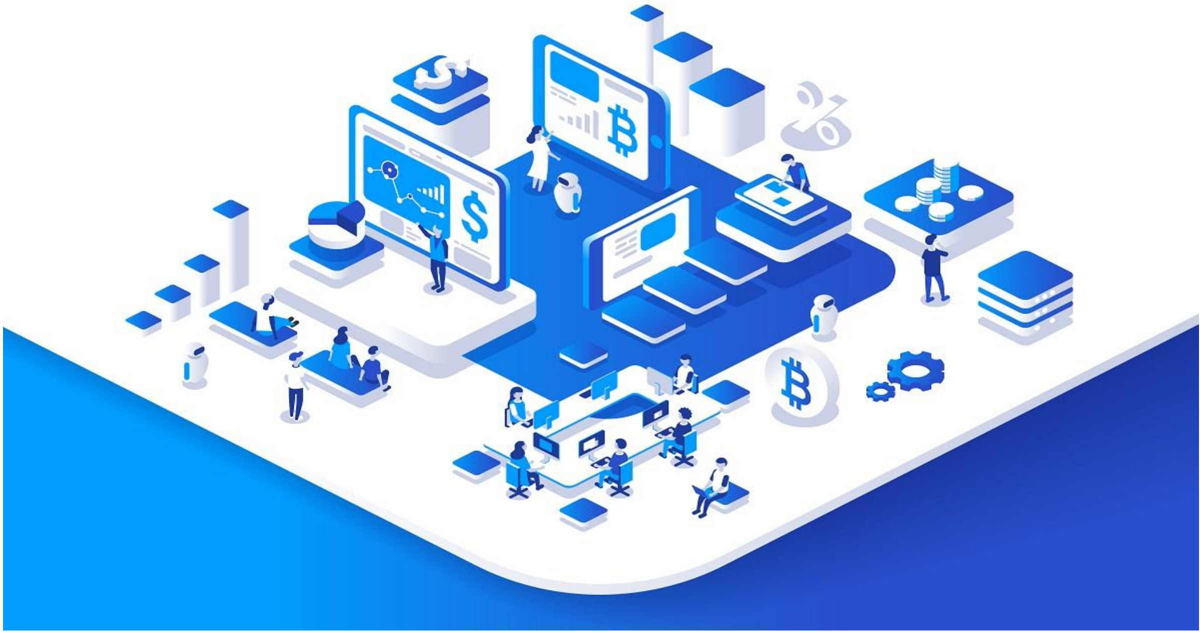
- ## Churning or wash trading

Wash trading churning occurs when a crypto trader heavily buys and sells securities to feed false information within the market, game market maker rules or generate commissions. Where churning or wash trading has happened, brokers likely get a significant gain with excessive commissions. This usually results in losses to the customer's end. On the other hand, traders might be seeking to inflate the percent activity artificially within a platform or security to attract more traders.

Unlawful wash trading activities might appear innocuous. However, in reality, they are not. This gives misleading signals to the market and is, therefore prohibited.
During 2014, the securities and exchange commission alleged four promoters for manipulating the securities of various microcap organizations and amassing over $2.5 million in illegal profits. The securities and exchange commission alleged that those defendants worked to purchase inexpensive shares of thinly traded penny stock organizations and managed manipulative pre-arranged and matched orders and wash trades to create the illusion of an active market within the stocks. In parallel, they additionally launched advertising campaigns to inspire investors to buy the stocks at inflated rates.

Hiding among the noise

Every market possesses its nuisance and norms, and that introduces complications when it comes to checking and surveillance. Considering this case, cryptocurrency and digital assets are traded round-the-clock throughout the globe. Professional, sophisticated market players conduct a notable amount of wallet to wallet trading, and those closed transactions never come under AML or the KYC screening. Furthermore, the markets are pretty volatile, usually, as order flow is mainly driven by retail investors who are readily unnerved by geopolitical events and government statements regarding regulation. One other volatility driver signifies the perceived store of value that happens to be the function by which an asset can be helpful in the long run with some predictability.



Each of these complications allows intelligent manipulators to take advantage of these new asset classes with minimal regulation. As Crypto assets become more mainstream and mature, Crypto trading will likely turn out to be faster, and trading volumes will rise to the extent that humans alone will not be capable of analyzing events productively. Nor will humans be able to depend on standard statistical data and data integration to unravel the patterns of market abuse.

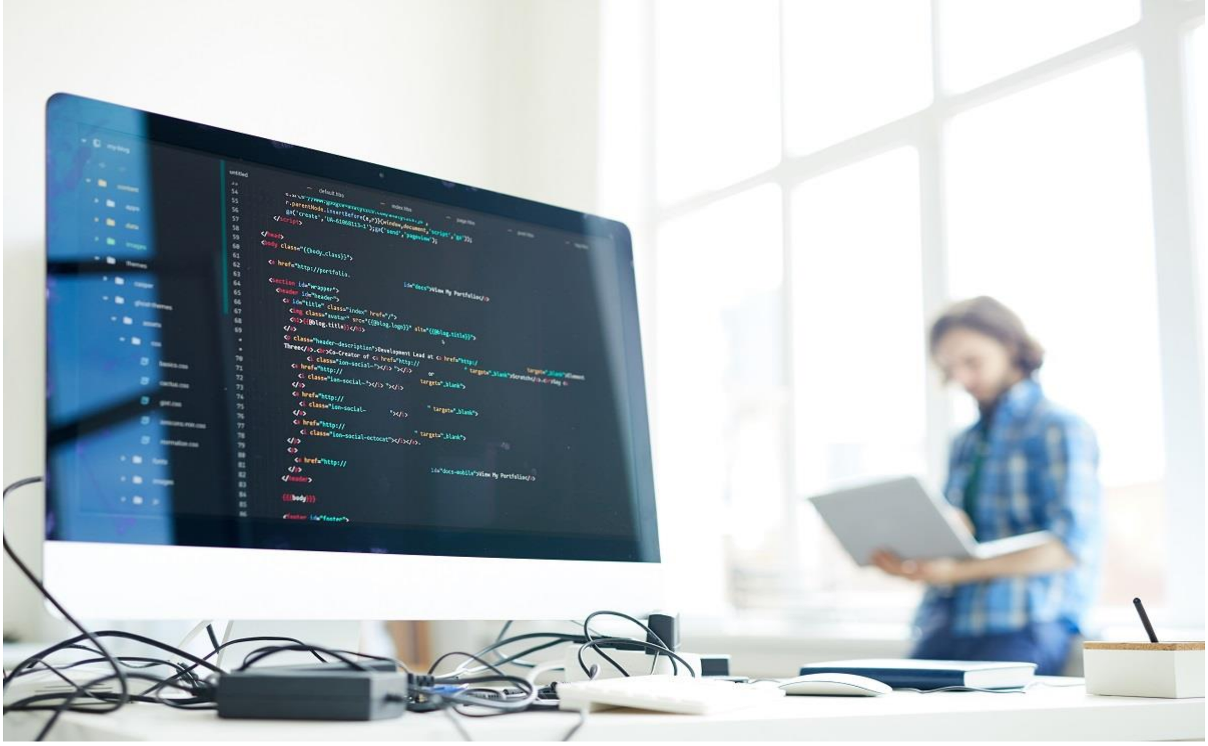
Counteracting the threat

Manipulation undermines the efficiency and fairness of financial markets. Each participant needs to have the same opportunity to take part, and if they do not trust the rates, they will not trade. This will cause the investors to suffer, along with the array of additional stakeholders.

Digital exchanges have the responsibility to implement robust surveillance programs. To make this successful, they need to be capable of determining a baseline concerning normal behaviour within a particular market down to the order book level and choose patterns or events that remain abnormal and locate the relevant issues and activities.

The professionals of surveillance require to follow ongoing development when it comes to behaviour over time. Also, the layering techniques and methods have modified in the last few years. They are applied in shorter time frames, and the real schemes are being designed to boost algorithmic trading programs. Monitoring the entire depth of the order book is a must. It is because that is where the manipulative behaviour usually occurs. Additionally, it is also essential to build a process encircling unstructured information contained in analyst reports and news releases.

For accomplishing this, the Crypto and digital exchanges need to have sophisticated technology that is capable of automating the application of their policies, procedures and rules. They require systems that can perform statistical analysis on all order flow, market events and trade data to build a picture of the current state of the market. Additionally, such systems need to be capable of analyzing how the scenario of the market is changing according to the interactions between trades and orders. Ultimately, they need to be capable of detecting events, understanding the impact of the market, sending notifications to the market participants and building reports in a user-friendly manner so that the humans can reduce false positives, investigate cases and prioritize alerts.



Final words

Market abuse is most expected to happen when traders perceive a market or a marketplace is lax in enforcing its rules and regulations or is not capable of detecting it. Manipulation is usually as old as the financial markets themselves and digital asset markets are no exception.

Various Crypto exchanges have taken a proactive approach for monitoring market abuse behaviours by adopting automated surveillance solutions while regulators throughout the globe are starting to scratch the surface when it comes to regulatory guidance on the monitoring of digital and crypto-assets. Recent developments have been occurring in at least 25 nations, where regulators have talked about preliminary policies encircling the regulation and rules of digital currencies.

As the regulators turn out to become more and more stringent, digital assets and Crypto exchanges will face rising requirements. Exchanges need to be implementing surveillance processes and technology presently, not just to ensure that they are compliant but additionally to protect possible investors and attract new customers.