Both the Port Moresby Stock Exchange ("POMSoX") Business Rules and the Securities Act prohibit manipulative trading.

SECURITIES ACT

Stock Market Manipulation

Section 95 of the Securities Act prohibits a person from entering into two or more transaction in securities either directly or indirectly with the intention that those transactions have or will likely have the effect of increasing, reducing, or stabilising the price of those securities on the stock market.

False Trading & Market Rigging Transactions

Section 96 of the Securities Act prohibits a person from creating or doing anything that is intended or likely to create false or misleading appearance of active trading in any securities on a stock market or a false or misleading appearance with respect to the market or price of any securities.

The Section furthermore prohibits any purchase or sale of securities where there is no change in beneficial ownership or by any fictitious transactions or devices, maintains, increase, reduce or cause fluctuations in the market price of any securities.

For the purpose of this Section a purchase or sale of securities does not involve a change in beneficial ownership where a person who had an interest in the securities before a purchase or sale or an associated person of that person has an interest in the securities after the purchase or sale.

It is a defence for a person who is being prosecuted for false trading & market riggingif it can be proved that the purpose or the transaction was not to create a false or misleading appearance of active trading or price of the securities.

False or Misleading Statements in Relation to Securities

Section 97 of the Securities Act prohibits a person from making a statement or disseminating information that is false in a material matter or materially misleading and-

(a) is likely to induce a sale or purchase by another person;
(b) is likely to have the effect of increasing, reducing, maintaining or stabilising the market price of securities.
Where a person makes a statement or disseminates information-
(c) the person must take reasonable steps to ensure the statement or information is correct;

Fraudulently Inducing Persons to Deal in Securities

Section 97 of the Securities Act prohibits a person from-

(a) making or publishing a statement or forecast that the person knows is misleading, false or deceptive; or
(b) conceal material facts; or
(c) recklessly make or publish (dishonestly or otherwise) a statement or forecast that is misleading, false or deceptive; or with the intention to induce or attempt to induce another person to deal in securities.

BUSINESS RULES

Business Rule 2.2.4 places the onus on the Stock Broker to prevent manipulative trading by not making a bid, offer or deal in securities that would represent manipulative trading.Under the Business Rule there are two types of transactions a Broker cannot enter into:

1. As Principal with the intent to make a false or misleading appearance of active trading; or
2. On account of another person where:
   (i) The Broker intends to create;
   (ii) The Broker is aware that the person intends to create; or
   (iii) Taking into the circumstances, the Broker OUGHT REASONABILY SUSPECT the person has placed an order with the intention of creating a false and misleading appearance of active trading in any security.

Under points (i) & (ii) above it implies that the Broker is aware that the intent of the bid or offer is to create a false and misleading appearance of active trading in the securities.

In point (iii) however the words OUGHT REASONABILY SUSPECT are much more subjective and place a greater onus on the Broker to make all reasonable enquiries about the order before the order is placed in the market. If their client is found guilty of manipulative trading, the Broker cannot rely on the defence that they were only acting on client instructions, the Broker must be aware that the placing of the orders by their client is with the intent of manipulative trading.

Therefore for the purpose of (iii) above, when considering the circumstances of the order, POMSoX Business Rule 2.2.4(2) provides some guidance as to what matters Brokers should have regard to when accepting orders:

(a) whether the order or the execution of the order would be inconsistent with the history or recent trading history of the security;
(b) whether the order or execution of the order would materially alter the market for, or the price of, the securities;
(c) the time the order is entered or any instructions concerning the time of entry of the order;
(d) whether the person placing the orderor a related party to the person placing, may have an interest in creating a false or misleading appearance of active trading in any securities or with respect to the market for, or the price of any securities;
(e) whether the order is accompanied by settlement, delivery or security arrangements which are unusual;
(f) whether the order appears to be a part of a series of orders which when put together with other orders appear unusual.
(g) Whether there appears to be a legitimate commercial reason for that person to place the order.

Whilst the above are examples of circumstances which may indicate manipulative trading, Business Rule 2.2.4(3) stipules a Broker must not:

(a) enter into a transaction on behalf of a client or as Principal which; or
(b) make a bid or offer for securities the execution of which would involve no change of beneficial ownership' unless the Broker can show that:
(c) the Broker had no reason to suspect that the transaction would involve no change in beneficial ownership of the securities, or
(d) the purpose or purposes for which the transaction, or bid or offer was made was not or did not include, creating a false or misleading appearance of active trading in any securities or with misleading appearances of active trading in any securities or with respect to the market for, or the price of any securities.

Penalties

Under section 100 of the Securities Act, a person who enters into a transaction by way of unlawful market activity can take civil action to recover the amount lost. The amount they can recover is the difference between the price they dealt at and the price at which they would have likely to be dealt out if no contravention had occurred.

A person who is found guilty under the Securities Act for unlawful market activity will be fined up to K200, 000 or ten times the profit derived from the offence or imprisonment for a term not exceeding five years or both.