Diego Urra has referred this Decision Notice to the Upper Tribunal to determine: (a) in relation to the FCA's decision to impose a financial penalty, what (if any) is the appropriate action for the FCA to take, and remit the matter to the FCA with such directions as the Tribunal considers appropriate; and (b) in relation to the prohibition order, whether to dismiss the reference or remit it to the FCA with a direction to reconsider and reach a decision in accordance with the findings of the Tribunal.

Therefore, the findings outlined in this Decision Notice reflect the FCA's belief as to what occurred and how it considers the behaviour of Diego Urra should be characterised. The proposed action outlined in the Decision Notice will have no effect pending the determination of the case by the Tribunal. The Tribunal's decision will be made public on its website.

FCA FINANCIAL CONDUCT AUTHORITY

12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

DECISION NOTICE

To: Diego Urra

Reference Number: DXU01006

Date: 31 October 2022

1. ACTION

1.1. For the reasons given in this Notice, the Authority has decided to:

(1) impose on Mr Urra a financial penalty of £395,500 pursuant to section 123(1) of the Act; and

(2) make an order prohibiting Mr Urra from performing any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm pursuant to section 56 of the Act.

2. SUMMARY OF REASONS

2.1. During the Relevant Period Mr Urra was a market-making trader in European Government Bonds ("EGBs") and held the position of Managing Director of Fixed

Income Government Bond Trading at Mizuho International Plc ("MHI"). He was an experienced trader, having worked in the financial services industry for 18 years, and had over 15 years' experience of trading EGBs.

2.2. Mr Urra managed the EGB desk, including Jorge Lopez Gonzalez, who was a Director, and Poojan Sheth, who was an Associate (together with Mr Urra "the Traders"). The Traders traded EGBs and related instruments and shared their trading books with one another. The desk's key role was to provide prices and liquidity in EGBs to MHI clients and the Traders would often hedge their trades with clients through EGB futures on the EUREX Exchange.

2.3. During the period 1 June to 29 July 2016, Mr Urra utilised an abusive trading strategy in EGB futures on the EUREX Exchange in Italian Government Bond futures ("BTP Futures"). He would place a large sized order on one side of the order book for the purpose of creating the impression of increased supply or demand, with the objective of assisting the execution of a smaller genuine order he wished to trade on the opposite side of the order book. For example, if Mr Urra wanted to buy bond futures, as well as placing a bid for those futures, he would place a large order to sell bond futures. The purpose of this was to create the impression that there was additional supply in the market with the aim of encouraging other market participants to sell (thereby increasing the chances of his buy order being executed). Once the smaller genuine order had been executed, he would cancel the large order.

2.4. Furthermore, this same pattern of abusive conduct through the placement of large orders on the opposite side of the book was also carried out by Mr Urra in concert with Mr Lopez and Mr Sheth. For example, Mr Urra would place an order he genuinely wished to trade and Mr Lopez or Mr Sheth would place a much larger order on the opposite side of the book for the purpose of creating the impression of additional supply or demand, thus assisting the execution of the genuine order.

2.5. Through the placement of these large misleading orders, Mr Urra and the other Traders falsely represented to the market an intention to buy or sell when their actual intention was the opposite. The only purpose of the large orders was to assist the execution of the smaller genuine orders that the Traders wanted to trade. The abusive trading strategy was such that it was unlikely the large misleading orders would themselves trade; notably, they were placed away from

the touch (that is, the highest price to buy and the lowest price to sell) and were quickly cancelled.

2.6. This conduct gave false and misleading signals to the market as to demand and supply. It amounted to market manipulation which since 3 July 2016 has been prohibited by Article 15 of the Market Abuse Regulation, and until 2 July 2016 was prohibited by section 118(5) of the Act (the Relevant Period straddles the date on which the Market Abuse Regulation came into effect in the UK). Article 15 of the Market Abuse Regulation and section 118(5) of the Act are equivalent provisions; section 118(5) refers to "a false and misleading impression" rather than "false and misleading signals", but the Authority considers that there is no material difference between those concepts for the purposes of this Notice.

2.7. This market manipulation was serious and directly undermined the integrity of the market. Other market participants would likely have altered their trading strategies as a result of the false and misleading signals given by the large orders. For example, when Mr Urra placed a large buy order it gave a false signal that there was a material buyer in the market and other buyers, anticipating that the market was likely to move higher, would likely act with more urgency in order to secure the execution of their buy orders. The same is true in the opposite direction when he placed large sell orders.

2.8. Mr Urra frequently repeated this pattern of abusive conduct during the Relevant Period. The Authority has identified 31 occasions on which he carried it out by himself, and 98 occasions when he did so acting in concert with Mr Lopez and/or Mr Sheth. Irrespective of which of the Traders placed the orders on specific occasions, they were each individually responsible for participating in the abusive trading strategy, which was collaborative and undertaken for a common purpose.

2.9. Mr Urra knew that placing large orders on the opposite side of the book to assist the execution of other orders he or another Trader genuinely wanted to trade would result in false and misleading signals to the market. Furthermore, he knew that this would be likely to impact the trading activities of other market participants. His conduct constituted deliberate, intentional and repeated market manipulation and was dishonest.

2.10. The Authority has therefore decided to:

(1) impose on Mr Urra a financial penalty of £395,500 pursuant to section 123(1) of the Act; and

(2) make an order prohibiting Mr Urra from performing any function in relation to any regulated activity carried on by an authorised person, exempt person or exempt professional firm pursuant to section 56 of the Act.

3. DEFINITIONS

3.1. The definitions below are used in this Notice:

"the Act" means the Financial Services and Markets Act 2000;

"the Authority" means the Financial Conduct Authority;

"Best Bid" means the highest price at which a person was willing to buy the bond;

"Best Offer" means the lowest price at which a person was willing to sell the bond;

"BTP" means Italian Government Bonds, Buoni del Tesoro Poliannuali;

"BTP Future" means an interest-rate futures contract (i.e. an agreement to buy or sell at a fixed price), based on a notional BTP with a remaining term of between 2 years and 11 years. References to BTP Futures in this notice are to contracts with a remaining term of between 8.5 and 11 years and a 6% coupon. A BTP Future has a standard €100,000 nominal contract value. One individual contract is often called a "lot";

"Certified Person" means a person who is not a Senior Manager but performs a role which could pose a risk of significant harm to the firm or its customers. The Certification Functions are defined in the Handbook, but a Certified Person is not approved by the Authority;

"Core EGBs" are the most commonly traded and most liquid EGBs. The term usually comprises EGBs from Germany, Finland, and Netherlands, sometimes also including the "semi-core" countries France, Austria and Belgium;

"DEPP" means the Authority's Decision Procedure and Penalties Manual, part of the Handbook;

"the Desk" means MHI's EGB desk as described in paragraph 4.1;

“EGBs” are European Government Bonds;

“the Exchange” is the EUREX Exchange through which the Traders executed BTP Futures;

“Handbook” means the Authority’s Handbook of Rules and Guidance;

“Iceberg Order” means an order to buy or sell a bond where the total amount of the order is divided into a visible section, which is visible to other market participants, and a hidden section which is not. When the visible part of the order is filled, a further part of the hidden section of the same size becomes visible;

“the Mandate” means the written mandate referred to in paragraph 4.3;

“the Market Abuse Regulation” means Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse;

“MAR” means the part of the Handbook entitled “Market Conduct”;

“Market-Maker” means a firm (or trader within the firm) that quotes bid and offer prices in a range of instruments and can act as principal in supplying liquidity by buying or selling from their own inventory;

“MHI” means Mizuho International Plc, a subsidiary of Mizuho Securities Co. Ltd. and member of Mizuho Financial Group;

“Peripheral EGBs” are Italian Government Bonds, Spanish Government Bonds, Irish Government Bonds and Portuguese Government Bonds;

“RDC” means the Regulatory Decisions Committee of the Authority (see further at paragraph 8.3 below);

“the Relevant Period” means the period from 1 June 2016 to 29 July 2016;

“RFQ” means “request for quote”, as referred to in paragraph 4.5;

“the Spread” means the difference between the Best Bid and Best Offer;

“the touch” means the highest price to buy and the lowest price to sell;

“the Traders” means Mr Urra, Jorge Lopez Gonzalez and Poojan Sheth; and

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber).

4. FACTS AND MATTERS

Background

The EGB desk

4.1. During the Relevant Period, Mr Urra worked as the Head of the EGB desk which comprised himself and four other traders ("the Desk"). He was also the Managing Director of Fixed Income Government Bond Trading at MHI. He had worked in the financial services industry for 18 years in both trading and management roles, and had over 15 years' experience of trading EGBs. Mr Urra joined MHI in October 2013. In addition to trading, Mr Urra mainly supervised two less experienced traders on the Desk, Mr Lopez (Director of Fixed Income European Government Bond Trading) and Mr Sheth (Associate, Fixed Income European Government Trading).

4.2. Mr Urra first held a controlled function in 2001 and subsequently held a number of roles as an approved person. He later became a Certified Person and, during the Relevant Period, held the Certified Roles of working in a Client Dealing Function, being a Material Risk Taker and being the Manager of Certified Persons (namely Mr Lopez and Mr Sheth).[1]

4.3. The Desk existed as a market-making desk, its role being to facilitate clients' trading by providing liquidity, and the Traders focused on trading Peripheral EGBs. The Desk operated according to a written mandate specifying which instruments it could trade and in what circumstances ("the Mandate"). Mr Urra was responsible for the Desk's adherence to the Mandate as well as the managerial and regulatory supervision of the other traders on the Desk, including Mr Lopez and Mr Sheth. As part of this role, Mr Urra, as Desk Head, along with senior management, had responsibility for evaluating and approving overall trading and hedging strategies, monitoring the performance of the Desk, and monitoring adherence by the Traders to risk limits.

---

[1] An approved person is an individual to whom the Authority has given its approval under section 59 of the Act for the performance of a controlled function. The approved persons regime was replaced by the Senior Managers and Certification Regime pursuant to which certain individuals became Certified Persons instead of approved persons. In the banking sector, this change took place in March 2016.

Trading BTPs and BTP Futures on the Exchange

4.4. EGB Market-Makers can be either Primary Dealers or Secondary Dealers. Primary Dealers are banks or other financial institutions approved to trade securities with a national government. A Primary Dealer may underwrite new government debt and act as a Market-Maker for the existing debt. Primary Dealers usually have a larger market share than Secondary Dealers, which have fewer rights and fewer obligations. Secondary Dealers are firms that have not been appointed to purchase, and subsequently distribute, bonds directly from a government, but that are still able to trade the bonds in the secondary market with other dealers, on behalf of clients or their own firms.

4.5. MHI was a Secondary Dealer in BTPs and the Traders' main role was to facilitate clients' trading by providing liquidity in BTP bonds. The way in which they would achieve this was by responding to requests for quotes ("RFQs"). Clients sent RFQs asking the Traders for the price at which the Traders would buy or sell a specified amount of BTPs. The Traders could choose whether or not to respond with a price, and if so, at what level. The client could then choose to accept or reject the price. If the client accepted the price, the Traders would trade with the client as agreed and would then position their book accordingly, for example by buying bonds to replace the bonds sold to the client.

4.6. The Traders would receive RFQs either directly from a client via an electronic platform or Bloomberg message, or via a salesperson who would relay clients' requests either orally or via a Bloomberg message. When a salesperson communicated an RFQ to the Traders, this would typically take place within less than a minute of receiving the RFQ and the Traders would relay a price to the salesperson. If the client then accepted the price, the salesperson would send the details to the Traders within around 5 minutes or less and the Traders would then confirm the trade in the system. When the Traders received an RFQ directly via the electronic trading platform, a pop-up notification would appear on each of the Trader's screens. If the client order was traded via the RFQ pop-up notification, this trade would be visible to all Traders instantaneously via a pop-up notification.

4.7. The Traders had their own books and they were supposed to take responsibility for different-sized RFQs, in terms of the volume of bonds requested. Mr Urra was supposed to deal with the largest RFQs in addition to his management role. Mr Sheth was supposed to manage the smallest RFQs and Mr Lopez was supposed to

manage the remainder. However, in reality, the Traders could book trades onto each other's books and they worked together to manage the risk on the Desk. When an RFQ was received by the Traders, it would often be allocated between them. Mr Urra would be involved in most RFQs and Mr Lopez and Mr Sheth would not undertake their trading in isolation. As the Traders sat next to each other, they were able to communicate orally about client orders that they were seeing and orders that they were placing on the Exchange. They could also see each other's executed trades and positions to ensure that they were appropriately managing the risk on the Desk.

4.8. The Mandate specified that the Desk took orders for BTPs and other government bonds only from a selection of approved institutional clients and counterparties and it could buy or sell hedging instruments, including BTP Futures, to mitigate risks. BTP Futures could be used for hedging, but not generally for market-making. However, the Desk could execute BTP Futures block trades (as designated by the EUREX Exchange, orders of 250 lots and above in BTP Futures which may impact the market if shown in their full size) in response to client demand, but this was rare and BTP Futures were primarily traded to hedge trades in BTPs.

4.9. The Mandate also allowed the Desk to execute transactions in hedging instruments, such as BTP Futures, in anticipation of a highly likely near-term exposure to risk, where a sound risk management rationale for such anticipatory hedging existed. However, it also specified that the size of the Desk's market-making inventory must be designed not to exceed, on an ongoing basis, the reasonably expected near-term demand of customers.

4.10. When the Traders placed BTP Futures orders, they were sent to the Exchange through MSUSA (another subsidiary of Mizuho Securities Co. Ltd), as MHI was not a member of the Exchange. The Traders undertook their trading manually, without the use of algorithms (that is, the practice of trading in financial instruments where a computer algorithm automatically determines individual parameters of orders such as whether to initiate the order, the timing, price or quantity of the order or how to manage the order after its submission and there is limited, or no, human intervention).

4.11. The price of an instrument, including BTP Futures, may move in response to an order being placed on the market as other market participants react to the

increase in demand or supply, and this is particularly true of a large order. A trader can split a large order into multiple smaller orders, using an Iceberg Order. This hides the actual size of the order and the price of the instrument is therefore less likely to move as substantially as it would have done had the full size of the order been visible.

4.12. Market participants can place orders on the Exchange at the Best Bid or Best Offer price, or a number of "ticks" from the Best Bid or Best Offer. A tick is the smallest increment permitted in quoting or trading a security. A tick on the Exchange in BTP Futures was equivalent to 1 Euro cent. The Traders were able to see the ten most competitive bids and the ten most competitive offers on screen when choosing at what price to place their order. Generally, the further the price of an order is away from the Best Bid or Best Offer, the less likely it is that such an order will execute on a timely basis, or at all. Most BTP Futures orders on the Exchange were placed at, or near, the Best Bid or Best Offer. Although market participants could see the quantity and price of the orders that were placed on the Exchange, they would not have been able to see the identity of the firms or traders placing orders.

4.13. During the Relevant Period, aside from MHI, there were on average 109 market participants who placed BTP Futures orders on the Exchange each day.

Trader remuneration and performance of the Desk

4.14. The Mandate stated that the Desk must facilitate client trading; however, as MHI was not a Primary Dealer in BTPs, it was limited in its possibilities to deal with clients, and it had a limited product range, and a small market share in BTP trading.

4.15. The Desk often lost money as a result of trading with clients; however, it was strategically important for MHI to offer EGBs to clients of other MHI services. Senior Management had increased the "hit ratio" for the Desk in April 2016, requiring the Traders to execute a higher proportion of client orders than previously.

4.16. In order for the Desk to be successful, and to achieve the increased hit ratio, it was necessary to respond to clients quickly and with as competitive a price as possible. Through the use of the abusive trading strategy, the Traders aimed to

respond to clients' RFQs more quickly, and make more competitive prices with increased certainty, in order to increase their hit ratios.

4.17. While the Traders were remunerated based on a range of weighted factors, the performance of the Desk was a significant factor when calculating the Traders' bonuses.

Training and awareness of market abuse

4.18. Mr Urra was familiar with behaviours constituting market abuse and the regulations that prohibit them, due to his considerable experience in the industry. In addition, as part of his role Mr Urra undertook training in behaviours constituting market abuse while at MHI during, and shortly prior to, the Relevant Period. He undertook specific training in relation to the Market Abuse Regulation which came into force during the Relevant Period. The training materials gave examples of market abuse, including placing orders into an electronic trading system at prices which are higher than the previous offer, or lower than the previous bid, and withdrawing them before they are executed, to give a misleading impression that there is demand or supply at that price. They also gave an example of inputting orders to buy when the genuine intention is to sell and advised that all trading must have a legitimate rationale.

Market manipulation

Abusive trading strategy

4.19. Mr Urra undertook an abusive trading strategy, both alone and in collaboration with Mr Lopez and/or Mr Sheth. The abusive trading strategy involved the following:

i. Large orders (relative to other orders on the Exchange at the time) were placed for the purpose of giving an impression that the Traders wanted to buy or sell a specified number of BTP Futures lots. The Traders did not intend to trade these orders. These misleading orders were not placed as Iceberg Orders; they were placed to facilitate the execution of smaller genuine orders on the opposite side of the order book. The genuine orders were sometimes placed as Iceberg Orders;

ii. The misleading orders were placed on the opposite side of the book either shortly before, or shortly after, the genuine orders were placed;

iii. The misleading orders were placed away from the touch, whereas the genuine orders were placed at, or close to, the touch;

iv. The misleading orders were cancelled shortly after the genuine orders had fully, or at least 50%, traded; and

v. Sometimes this abusive trading strategy was carried out in relation to a number of orders simultaneously, such that there could be more than one genuine order and/or more than one misleading order on the Exchange at the same time.

4.20. When Mr Urra undertook the abusive trading strategy in collaboration with Mr Lopez and/or Mr Sheth, sometimes one Trader would place the smaller genuine order and another Trader would place the larger misleading order; and sometimes all three Traders would place a range of genuine orders and misleading orders between them.

4.21. It is clear from the multiple occasions that Mr Urra undertook this pattern of trading that he deliberately engaged in a repeated strategy, both individually and with Mr Lopez and Mr Sheth.

Abusive trading by Mr Urra alone

4.22. The Authority has identified 31 occasions in the Relevant Period on which Mr Urra manipulated the BTP Futures market by undertaking the abusive trading strategy alone.

4.23. An example of this took place on 28 June 2016. Mr Urra placed a genuine order to sell 90 lots of BTP Futures at a price which improved the existing Best Offer by one tick and so became the new Best Offer. A portion of this sell order traded immediately with existing bids from other market participants who wanted to buy, but the majority of the order remained untraded until Mr Urra placed a large order to buy 444 lots at a price 2 ticks away from the Best Bid, at which point another market participant immediately bought the remainder of the smaller sell order.

Mr Urra then cancelled his large buy order without it having traded. This abusive trading took place over approximately 12 seconds.

4.24. The large buy order in this example gave an impression to other market participants that there was genuine material demand for BTP Futures when, in fact, Mr Urra did not intend to trade this buy order. Instead, Mr Urra's genuine interest at that time was in selling a smaller quantity of BTP Futures on the opposite side of the book. That Mr Urra did not intend to trade his large buy order is demonstrated by the following:

i. He placed the buy order two ticks away from the Best Bid so that other market participants would be less likely to trade with the order; and

ii. He cancelled the buy order 4 seconds after he placed it, which was immediately after the smaller sell order traded.

4.25. At the time of placing the large buy order, there were no executed BTP trades or RFQs in BTPs or BTP Futures that the Traders could have wanted to hedge with an order in BTP Futures of the large size of the misleading order.

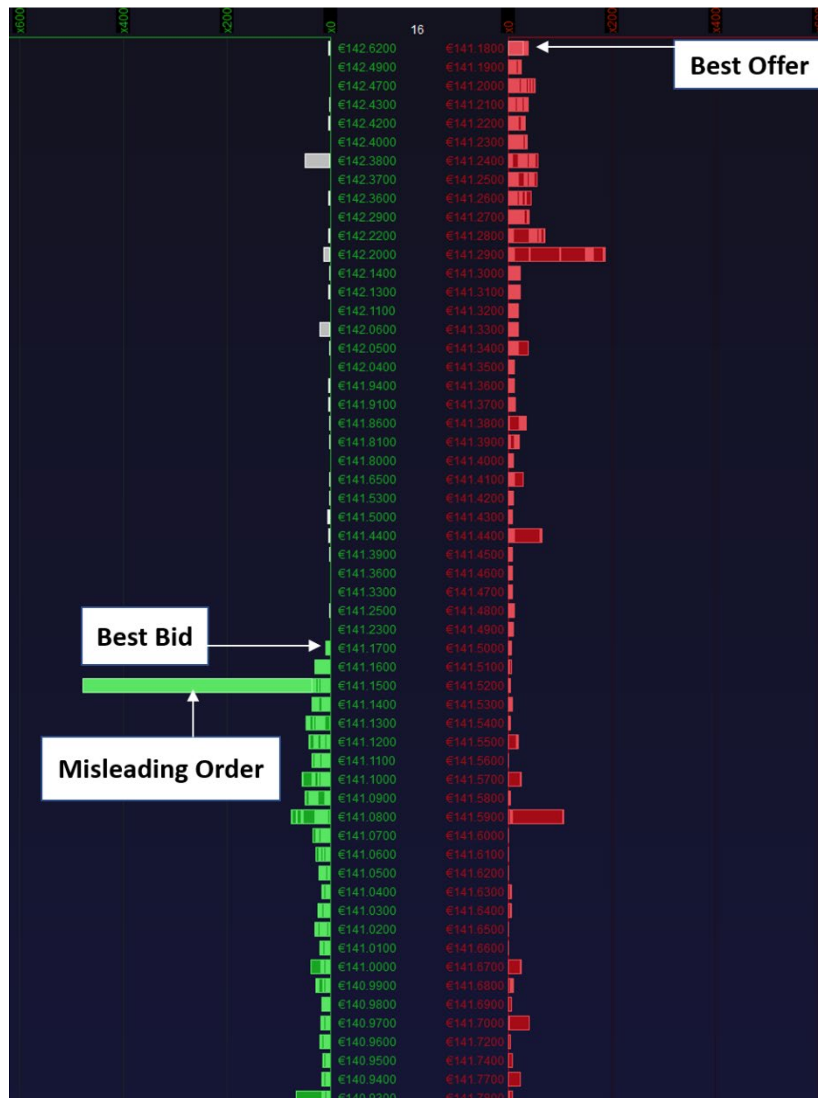
4.26. Mr Urra used his large buy order to assist the execution of his smaller sell order so that he could trade the sell order more efficiently than he would otherwise have been able to do. Other market participants likely changed their trading strategy as a result of his misleading order. Mr Urra increased the impression of genuine material demand which was given to other market participants by:

i. placing the misleading order at a size significantly larger than any other order on the Exchange at the time and creating an imbalance between the volume of orders on the bid and offer sides of the order book;

ii. not placing the misleading order as an Iceberg Order with the result that all 444 lots were visible to the market as soon as the order was placed; and

iii. placing the misleading order near enough to the Best Bid to be visible to other market participants and to increase the pressure on the order book, but not so close that it was likely to be hit.

4.27. The size of the misleading order compared to other orders on the order book can be seen as follows:[2]



4.28. In contrast, Mr Urra placed his small genuine sell order, which he intended to, and subsequently did, trade, at the Best Offer, giving an improved chance of execution.

[2] In this illustration, and the other similar ones which appear in this Notice, each shaded section of a bar represents a different order with the size of the bars representing the size of orders at different prices. The green bars represent the bid side of the order book (i.e. those who are looking to buy), and the red bars represent the offer side (i.e. those who are looking to sell). The grey bars represent orders that are inactive and would not have been visible to market participants viewing the order book.

4.29. Taking a sample of 10 occasions on which Mr Urra carried out this trading strategy on his own, it is evident that the trading was abusive from the following features:

i. He placed 12 misleading orders across the set of 10 occasions, ranging in size between 444 and 490 lots, and totalling 5,524 lots. All of the orders were significantly larger than other orders on the Exchange at the time and would therefore have given an impression of significant demand/supply to other market participants;

ii. He placed 10 genuine orders ranging in size between 5 and 90 lots, with an average of 26 lots. The genuine orders totalled 262 lots;

iii. He did not iceberg any of the large misleading orders, despite deciding to iceberg two of the significantly smaller genuine orders that he placed. This icebering meant that on average the greatest quantity visible to other market participants from the genuine orders was less than 21 lots. However, showing the full size of the misleading orders increased the impression of supply/demand which was given to other market participants.

iv. When placing his 10 genuine orders, he placed the majority either at, or more competitively than, the Best Bid or Best Offer at the time;

v. When placing his misleading orders, he did not place any at, or more competitively than, the Best Bid or Best Offer. Instead, in each instance (with one exception), his misleading orders were placed further from the Spread than his genuine orders;

vi. He executed only 3 of the 5,524 lots he indicated that he wanted to execute through the placement of his misleading orders. By contrast, he fully executed all of the genuine orders totalling 262 lots;

vii. He always placed his first misleading orders after his first genuine orders, on average 27 seconds later, with the majority under 11 seconds later. He always cancelled any remaining misleading orders on the order book after his final genuine order had filled, on average 5 seconds after; and

viii. At the time of placing the misleading orders, there were no executed BTP trades or RFQs that the Traders could have wanted to hedge through placing

orders of this size in the BTP Futures market. When placing orders with a genuine market-making intention, Market-Makers will ordinarily hedge their risk precisely, and the sizes of orders that they place in the market should therefore reflect this. If these orders were genuine hedges, it would be extremely unlikely for the volume to be frequently round numbers and for the same sized large orders to be repeated in a short space of time. Mr Urra regularly repeated the same sized orders when placing misleading orders, and these were also often round numbers, both of which indicated that he did not have a legitimate market-making rationale for placing the orders, such as a client order or an executed BTP bond trade that he was trying to hedge; the purpose of the large orders was to facilitate the execution of the smaller genuine orders. Of the 12 misleading orders he placed, 4 orders were of 490 lots, 2 orders were of 450 lots, and 6 orders were of 444 lots.

Collaborative abusive trading by the Traders

4.30. The Authority has identified 98 occasions in the Relevant Period on which Mr Urra manipulated the BTP Futures market in collaboration with Mr Sheth, Mr Lopez, or both.

4.31. The Traders worked together to manipulate the market by placing the large misleading orders on the opposite side of the book to genuine orders, for the purpose of facilitating the execution of the genuine orders. The Traders aimed to execute their genuine orders more efficiently and manage better the risk on their books as a result of the placement of the misleading orders.

Collaborative abusive trading on 22 July 2016

4.32. An example of Mr Urra undertaking the abusive trading strategy in collaboration with Mr Lopez and Mr Sheth took place on 22 July 2016 and involved Mr Lopez placing (and subsequently executing) two genuine orders on the opposite side of the order book to large misleading orders placed by Mr Urra and Mr Sheth, which were cancelled without trading.

4.33. Mr Lopez placed a genuine order ("First Genuine Order") to sell 35 lots of BTP Futures at a price which improved the existing Best Offer by one tick and so became the new Best Offer. He placed the order as an Iceberg Order to show only 6 lots at a time on the order book. 7 seconds later, Mr Urra placed a large buy

order ("First Misleading Order") to buy 450 lots at a price 2 ticks away from the Best Bid. The Best Bid moved one tick further away from Mr Urra's First Misleading Order. Less than a second after Mr Urra placed the First Misleading Order, Mr Sheth placed another large buy order ("Second Misleading Order") to buy 250 lots at the same price as Mr Urra's First Misleading Order (now 3 ticks away from the Best Bid), at which point the First Genuine Order started to trade (another market participant lifted, i.e. bought, the first 2 sections of the First Genuine Order).

4.34. 5 seconds later, Mr Lopez placed another sell order ("Second Genuine Order") for 4 lots at a price one tick away from the Best Offer. He placed the order as an Iceberg Order to only initially show 3 lots, followed by 1 lot. Sections of Mr Lopez's First Genuine Order and Second Genuine Order remained on the Exchange without trading. Mr Sheth cancelled the Second Misleading Order and Mr Urra's First Misleading Order remained on the Exchange. Mr Lopez amended the prices of the First Genuine Order and the Second Genuine Order to the Best Offer price, however sections of Mr Lopez's First Genuine Order and Second Genuine Order continued to remain on the Exchange without trading for a few more seconds.

4.35. Mr Urra amended the price of the First Misleading Order to only one tick away from the Best Bid, increasing the pressure on the order book, and in the same second, Mr Lopez's First Genuine Order started trading again and the Second Genuine Order started to trade (another market participant lifted the third section of the First Genuine Order and the first section of the Second Genuine Order). Over the next two seconds, the Second Genuine Order finished trading and the fourth section of the First Genuine Order was traded, both having been lifted by another market participant.

4.36. Mr Urra again amended the price of the First Misleading Order to become three ticks away from the Best Bid, and the First Genuine Order continued to trade: firstly, Mr Lopez hit another market participant's bid and the final section was lifted by another market participant. 5 seconds after Mr Lopez's final section of the First Genuine Order traded, Mr Urra cancelled the First Misleading Order.

4.37. This collaborative abusive trading activity took place over approximately 37 seconds. During this time, the Traders together sold 39 lots, filling all of the genuine sell orders that Mr Lopez had placed during this time. The Traders bought

1 lot (in a separate order)[3] after placing buy orders indicating that it was their intention to buy 700 lots through buy orders Mr Urra and Mr Sheth placed opposite Mr Lopez's sell orders.

4.38. The First and Second Misleading Orders placed by Mr Urra and Mr Sheth gave an impression to other market participants that there was genuine material demand for buying BTP Futures when in fact Mr Urra and Mr Sheth did not intend to trade at all. Instead, the Traders' genuine interest at that time was in selling a smaller quantity of BTP Futures through Mr Lopez's sell orders. That Mr Urra and Mr Sheth did not intend to trade the First and Second Misleading Orders and that they were working in collaboration with each other and Mr Lopez is demonstrated by the following:

i. Mr Urra placed the First Misleading Order after Mr Lopez's First Genuine Order had remained untraded on the Exchange for 7 seconds, despite Mr Lopez having placed the First Genuine Order at the Best Offer;

ii. Mr Urra initially placed the First Misleading Order two ticks away from the Best Bid so that other market participants would be less likely to trade with the order;

iii. Mr Sheth placed the Second Misleading Order milliseconds after Mr Urra placed the First Misleading Order;

iv. Mr Sheth placed the Second Misleading Order three ticks away from the Best Bid so that other market participants would be less likely to trade with the order;

v. Within a second of Mr Urra placing the First Misleading Order and Mr Sheth placing the Second Misleading Order, Mr Lopez's First Genuine Order began to trade;

---

[3] In the same second as Mr Urra cancelling the First Misleading Order, Mr Lopez placed a buy order of 1 lot at one tick away from the Best Bid and traded when he lifted another market participant's offer. The order is not believed to have had a connection to the abusive trading.

vi. Mr Sheth cancelled the Second Misleading Order 14 seconds after he placed it. He cancelled the Second Misleading Order after the Best Bid had moved closer to it so that it became at more risk of being traded;

vii. When Mr Sheth cancelled the Second Misleading Order, Mr Lopez amended the prices of the First and Second Genuine Orders to bring them back to Best Offer; however, they remained on the Exchange without trading for around 6 seconds. Mr Urra amended the price of the First Misleading Order, moving it closer to the Best Bid to increase pressure on the market and make it more likely that other market participants would trade with Mr Lopez's Genuine Orders. Within a second of Mr Urra making this price amendment, Mr Lopez's Genuine Orders began trading again;

viii. Mr Urra made a further price amendment to the First Misleading Order. Two seconds after bringing it to within one tick of the Best Bid, he amended the price to be three ticks away from the Best Bid, to reduce the risk of the First Misleading Order being traded;

ix. Mr Urra cancelled the First Misleading Order 30 seconds after placing it and 5 seconds after Mr Lopez's Genuine Orders had finished trading; and

x. Mr Urra did not place the First Misleading Order as an Iceberg Order, with the result that all 450 lots were visible to the market and Mr Sheth did not place the Second Misleading Order as an Iceberg Order, with the result that all 250 lots were visible to the market. This is in contrast to the Genuine Orders which Mr Lopez placed as Iceberg Orders.

4.39. At the time of Mr Urra and Mr Sheth placing the First and Second Misleading Orders, there were no executed BTP trades or RFQs in BTPs or BTP Futures that the Traders could have wanted to hedge with an order in BTP Futures of the large size of the First and Second Misleading Orders.

4.40. Mr Urra and Mr Sheth used the First and Second Misleading Orders to execute Mr Lopez's Genuine Orders more efficiently than would otherwise have been possible. Other market participants likely changed their trading strategy as a result of the misleading orders. Mr Urra and Mr Sheth increased the impression of genuine material demand which was given to other market participants by the following:

i. The First and Second Misleading Orders were placed at sizes significantly larger than any other order on the Exchange at the time and increasing the imbalance between the volume of orders on the bid and offer sides of the order book;

ii. Mr Urra did not place the First Misleading Order as an Iceberg Order, with the result that all 450 lots were visible to the market and Mr Sheth did not place the Second Misleading Order as an Iceberg Order, with the result that all 250 lots were visible to the market. While both of these orders were on the Exchange, they falsely indicated a combined demand for 700 lots. It is implausible that Mr Urra and Mr Sheth would consider orders of this size to be incapable of impacting the market at the same time as Mr Lopez considered it necessary to enter his considerably smaller orders as Iceberg Orders; and

iii. The First and Second Misleading Orders were placed near enough to the Best Bid to be visible to other market participants and to increase the pressure on the order book.

4.41. The size of the First Misleading Order compared to other orders on the order book can be seen as follows:

4.42. The combined size of the First and Second Misleading Orders compared to other orders on the order book can be seen as follows:

4.43. In contrast, Mr Lopez acted differently to Mr Urra and Mr Sheth when he was placing the two sell orders, which he intended to, and subsequently did, trade:

i. Mr Lopez placed the First Genuine Order at the Best Offer, giving an improved chance of execution;

ii. Mr Lopez placed the Second Genuine Order one tick away from the Best Offer;

iii. When the Spread moved, Mr Lopez amended the prices of both of the Genuine Orders to the Best Offer so that other market participants would be more likely to trade with the orders; and

iv. Mr Lopez iceberged the First Genuine Order, showing 6 lots of the 35 lot order at a time. He iceberged the Second Genuine Order, showing 3 lots of the 4 lot order, followed by 1 lot.

4.44. It is clear that the First and Second Misleading Orders and the First and Second Genuine Orders were related, given: the absence of a legitimate rationale to execute orders of this size at this time; the timing of the placement and trading of the Genuine Orders and the placement and cancellation of the misleading orders; the Traders' close working relationship and collaborative approach to risk management; and the multiple occasions on which the Traders followed the same pattern of trading. This collaborative abusive trading was a strategy by the Traders to facilitate the execution of the Genuine Orders.

4.45. Taking a sample of 6 occasions on which Mr Urra undertook the collaborative trading with Mr Lopez and/or Mr Sheth, it is evident that the trading was abusive from the following features:

i. The Traders placed 13 misleading orders across the set of 6 occasions, ranging in size between 250 and 500 lots, totalling 5,903 lots. All of the orders were significantly large compared to the other orders on the Exchange at the time and would therefore have given a significant impression of demand/supply to other market participants;

ii. The Traders placed 8 genuine orders ranging in size between 4 and 160 lots, with an average of 43 lots. These genuine orders totalled 342 lots;

iii. The Traders did not iceberg any of the misleading orders, showing the full size of the orders to increase the impression of demand/supply, despite deciding to iceberg 5 of the significantly smaller genuine orders that they placed. This iceberging meant that on average the greatest quantity visible to other market participants from the genuine orders in each example was less than 13 lots. However, showing the full size of the misleading orders increased the impression of supply/demand which was given to other market participants;

iv. When placing the 8 genuine orders, the Traders placed the majority either at, or more competitively than, the Best Bid or Best Offer at the time;

v. When placing the misleading orders, the Traders did not place any at, or more competitively than, the Best Bid or Best Offer. Instead in each instance (with one exception), their misleading orders were placed further from the Spread than their genuine orders;

vi. The Traders did not execute any of the 5,903 lots that they indicated that they wanted to execute through the placement of their misleading orders. They executed 304 of the 342 lots of the genuine orders that they placed (38 lots of 1 order were not executed);

vii. The Traders always placed their first misleading orders after their first genuine orders, on average 12 seconds later. With the exception of two orders, they cancelled any remaining misleading orders on the order book on average 3 seconds after their final genuine orders had filled; and

viii. At the time of placing the misleading orders, there were no executed BTP trades or RFQs that the Traders could have wanted to hedge with large BTP Futures trades. As with Mr Urra's individual abusive trading, a number of the large misleading orders that the Traders placed were round numbers; for example, 450 and 500 lots. It would be highly unlikely that these orders were frequently round numbers based on a specific calculation of the risk to be hedged. The Traders also regularly repeated the same sized orders, which would not be likely to occur frequently if the orders were placed following a specific calculation of the risk to be hedged.

<u>Recurring characteristics of the Traders' strategy</u>

4.46. The Traders' trading and order placement in BTP Futures on the Exchange was markedly different to the trading and order placement of other market participants, including the sizes of orders that they placed, the pricing of their orders and their use of Iceberg Orders.

4.47. A central feature of the abusive trading was that the misleading orders were large volume orders, exceeding 200 lots ("Large Orders"). Large Orders of BTP Futures were rarely placed on the Exchange. Including MHI, 47 market participants placed Large Orders, accounting for 0.02% of the total number of orders placed on the Exchange during the Relevant Period.

4.48. Despite MHI being a small market player, trading less than 0.43% of the total traded volume of BTP Futures, the Traders placed more Large Orders than any of the other market participants and accounted for 23.24% of the total volume of

Large Orders placed across the Relevant Period. On one day in the Relevant Period, the Traders accounted for 75.5% of the number of Large Orders placed. However, the Traders rarely executed BTP trades or received client orders in BTPs that they could have wanted to hedge with these Large Orders.

4.49. While the Traders placed significantly more Large Orders than other market participants, they had much lower execution rates of their Large Orders. The Traders partially or fully executed only 1.5% of their Large Orders, cancelling 98.5% without them having begun to execute (Mr Urra himself executed 0.8% of the total volume of Large Orders that he placed). By comparison, other market participants partially or fully executed 72.28% of their Large Orders, cancelling only 27.72% of their Large Orders without them having begun to execute. It would likely have been possible for the Traders to execute a larger proportion of their Large Orders if it had been their intention for them to execute.

4.50. In comparison to their low execution rates when placing Large Orders, the Traders executed 74.1% of their orders under 200 lots by volume (Mr Urra executed 87.39% of the volume of orders he placed under 200 lots).

4.51. When the Traders placed Large Orders, they rarely priced them competitively, placing only 1.93% of them at the Best Bid or Best Offer price. In contrast, other market participants placed 80.34% of their Large Orders at Best Bid or Best Offer prices, or at improved prices. By placing their Large Orders away from the Best Bid or Best Offer price, the Traders were less likely to execute them.

4.52. Of the 181 Large Orders Mr Urra placed over the Relevant Period, he 'iceberged' 6 of them (3.31%), placing 175 of them with their full size visible to other market participants on the Exchange. By contrast, Mr Urra 'iceberged' 36.4% of smaller orders that he placed (between 50 and 199 lots), even though these were less likely to impact the market than the Large Orders. Showing these orders in their full size would likely have encouraged other market participants to act with more urgency, assisting the Traders to execute a higher proportion of their smaller orders.

5. FAILINGS

5.1. The regulatory provisions relevant to this Notice are referred to in Annex A.

5.2. Mr Urra's abusive trading took place in the Relevant Period of 1 June 2016 to 29 July 2016. Section 118 of the Act was in place until 2 July 2016.The Market Abuse Regulation came into force on 3 July 2016.

Section 118 of the Act

5.3. The Authority has identified that, between 1 June 2016 and 2 July 2016, Mr Urra undertook the abusive trading alone 24 times and in concert with Mr Lopez and/or Mr Sheth 65 times.

5.4. Section 118(1)(a) of the Act (as in force at that time) provides the scope of market abuse under the Act as engaging in behaviour in relation to qualifying investments admitted to trading on a prescribed market. BTP Futures are qualifying investments and the EUREX Exchange is a prescribed market (see further at Annex A). Section 118(1) also provides that market abuse can be committed by one person alone or by two or more persons jointly or in concert.

5.5. Section 118(5) of the Act (as in force at that time) provides (so far as relevant to this Notice) that market abuse occurs where:

> "…the behaviour consists of effecting transactions or orders to trade (otherwise than for legitimate reasons and in conformity with accepted market practices on the relevant market) which –
>
> (a) give, or are likely to give, a false or misleading impression as to the supply of, or demand for, or as to the price of, one or more qualifying investments, or
>
> (b) secure the price of one or more such investments at an abnormal or artificial level."

5.6. Mr Urra's misleading orders (and those of the other Traders when acting in concert with Mr Urra) were not placed for legitimate reasons; nor did they conform with an accepted market practice.

5.7. Mr Urra engaged in market abuse as defined by section 118(5) of the Act and in contravention of section 118(1) of the Act, as in placing the misleading orders he

(and the other Traders when acting in concert with Mr Urra) gave a false or misleading impression as to the supply of, or demand for, the BTP Futures to which the misleading orders related. This was because in placing the misleading orders, the Traders signalled that they wanted to buy or sell a specified number of BTP Futures. In fact, they did not wish to trade in that manner and the purpose of placing the misleading orders was to facilitate the execution of genuine orders at a more advantageous price, or on a more timely basis, than would otherwise have been achieved but for their having misled other market participants by the misleading orders.

Articles 12 and 15 of the Market Abuse Regulation

5.8. The Authority has identified that, between 3 July 2016 and 29 July 2016, Mr Urra undertook the abusive trading alone 7 times and in concert with Mr Lopez and/or Mr Sheth 33 times.

5.9. Article (2)(1)(a) of the Market Abuse Regulation provides that it applies to financial instruments admitted to trading on a regulated market. BTP Futures are financial instruments and the EUREX Exchange is a regulated market (see further at Annex A).

5.10. Article 15 of the Market Abuse Regulation, as a result of Article 12(1)(a), prohibits the placing of an order to trade which gives, or is likely to give, a false or misleading signal as to the supply of or demand for a future.

5.11. Article 12(1)(a) provides that market manipulation shall comprise the following activities (so far as relevant to this Notice):

> "entering into a transaction, placing an order to trade or any other behaviour which:
>
> > (i) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument, […];
>
> unless the person entering into a transaction, placing an order to trade or engaging in any other behaviour establishes that such transaction, order or behaviour have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with Article 13."

5.12. Section 131AE of the Act states that Article 15 of the Market Abuse Regulation may be contravened by a person alone or a person and one or more other persons jointly or in concert.

5.13. Mr Urra's misleading orders (and those of the other Traders when acting in concert with Mr Urra) were not placed for legitimate reasons; nor did they conform with an accepted market practice as established in accordance with Article 13 of the Market Abuse Regulation.

5.14. Mr Urra engaged in market manipulation as defined by Article 12(1)(a) of the Market Abuse Regulation and in contravention of Article 15, as in placing the misleading orders he (and the other Traders when acting in concert with Mr Urra) gave a false or misleading impression as to the supply of, or demand for, the BTP Futures to which the misleading orders related. This was because in placing the misleading orders the Traders signalled that they wanted to buy or sell a specified number of BTP Futures. In fact, they did not wish to trade in that manner and the purpose of placing the misleading orders was to facilitate the execution of the genuine orders at a more advantageous price, or on a more timely basis, than would otherwise have been achieved but for their having misled other market participants by the misleading orders.

Fitness and propriety

5.15. The Authority considers that Mr Urra's conduct in deliberately engaging in market manipulation was dishonest and lacked integrity. This dishonest conduct was highly likely adversely to impact other market participants and was repeated many times over a period of two months. As a result, he is not a fit and proper person to perform any function in relation to any regulated activity carried out by an authorised person, exempt person or exempt professional firm.

6. SANCTION

Financial penalty

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. The Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5C sets out the details of the five-step framework that applies in respect of financial penalties imposed on individuals in market abuse cases.

Step 1: disgorgement

6.2. Pursuant to DEPP 6.5C.1G, at Step 1 the Authority seeks to deprive an individual of the financial benefit derived directly from the market abuse where it is practicable to quantify this.

6.3. The Authority has not identified any financial benefit that Mr Urra derived directly from the market abuse.

6.4. Step 1 is therefore £0.

Step 2: the seriousness of the breach

6.5. Pursuant to DEPP 6.5C.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the market abuse. That figure is dependent on whether or not the market abuse was referable to the individual's employment. The market abuse committed by Mr Urra was referable to his employment. In such cases, pursuant to DEPP 6.5C.2G(2), the Step 2 figure will be the greater of:

(a) a figure based on the percentage of the individual's "relevant income";

(b) a multiple of the profit made or loss avoided by the individual for their own benefit, or for the benefit of other individuals where the individual has been instrumental in achieving that benefit, as a direct result of the market abuse (the "profit multiple"); and

(c) for market abuse cases which the Authority assesses to be seriousness level 4 or 5, £100,000. The Authority usually expects to assess market abuse committed deliberately as seriousness level 4 or 5.

6.6. Pursuant to DEPP 6.5C.2G(4), an individual's relevant income is the gross amount of all benefits they received from the employment in connection with which the market abuse occurred for the period of the market abuse.

6.7. The period of the market abuse committed by Mr Urra was from 1 June 2016 to 29 July 2016. Pursuant to DEPP 6.5C.2G(5), where the market abuse lasted fewer than 12 months, the relevant income will be that earned by the individual in the 12 months preceding the final market abuse. Therefore, the relevant period for calculating Mr Urra's relevant income is the 12-month period ending on 29 July 2016. Mr Urra's relevant income in the 12-month period ending on 29 July 2016 was £1,318,367.

6.8. In cases where the market abuse was referable to the individual's employment, pursuant to DEPP 6.5C.2G(6):

(a) the Authority determines the percentage of relevant income which applies by considering the seriousness of the market abuse and choosing a percentage between 0% and 40%; and

(b) the Authority determines the profit multiple which applies by considering the seriousness of the market abuse and choosing a multiple between 0 and 4.

6.9. DEPP 6.5C.2G(8) provides that the percentage range and profit multiple range are divided into five fixed levels which reflect, on a sliding scale, the seriousness of the market abuse; the more serious the market abuse, the higher the level. For penalties imposed on individuals for market abuse there are the following five levels:

Level 1 – 0%; profit multiple of 0
Level 2 – 10%; profit multiple of 1
Level 3 – 20%; profit multiple of 2
Level 4 – 30%; profit multiple of 3
Level 5 – 40%; profit multiple of 4

6.10. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the market abuse, and whether it was committed deliberately or recklessly.

6.11. DEPP 6.5C.2G(13) lists factors tending to show the market abuse was committed deliberately and includes, amongst other factors, that the market abuse was intentional, in that the individual intended or foresaw that the likely or actual consequences of his actions would result in market abuse (DEPP 6.5C.2G(13)(a)) and the individual's actions were repeated (DEPP 6.5C.2G(13)(g)).

6.12. Mr Urra intended to mislead other market participants by placing misleading orders and acting in concert with the other Traders in order to facilitate the efficient execution of his, Mr Lopez, and Mr Sheth's genuine orders. He knew that the misleading orders would give false or misleading signals to other market participants as to the supply of, or demand for, BTP Futures. He knew that the placement of misleading orders constituted market abuse as a result of his considerable experience in the market and the training that he had undertaken.

6.13. Mr Urra's market abuse was repeated on multiple occasions during the Relevant Period, both alone and in concert with Mr Lopez and Mr Sheth.

6.14. The Authority considers that Mr Urra deliberately committed market abuse.

6.15. DEPP 6.5C.2G(15) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant:

i. The market abuse was committed on multiple occasions during the Relevant Period (DEPP 6.5C.2G(15)(c)).

ii. Mr Urra breached a position of trust by conspiring with his direct reports in an abusive strategy when he should have been setting an example for them through his conduct (DEPP 6.5C.2G(15)(d)).

iii. The market abuse was committed deliberately or recklessly (DEPP 6.5C.2G(15)(f)).

6.16. DEPP 6.5C.2G(16) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factor to be relevant:

i. Limited profits were made or losses avoided as a result of Mr Urra's market abuse, either directly or indirectly (DEPP 6.5C.2G(16)(a)). However, the Authority notes that Mr Urra aimed to execute his genuine orders more efficiently and manage better the risk on his book as a result of the placement of his misleading orders (or those of the other Traders when acting in concert with Mr Urra). This would have improved the performance of the Desk which was a factor taken into account in determining the bonus he was to receive.

6.17. The Authority has also taken into account that:

i. Mr Urra is an experienced industry professional (DEPP 6.5C.2G(12)(e)).

ii. Mr Urra held a senior position within MHI (DEPP 6.5C.2G(12)(f)). Mr Urra held the Certified Roles of working in a Client Dealing Function, being a Material Risk Taker and being the Manager of Certified Persons (namely Mr Lopez and Mr Sheth). Prior to becoming a Certified Person, Mr Urra held a number of roles as an Approved Person, first holding a Controlled Function in 2001 (see footnote 1 above).

iii. The Authority usually expects to assess deliberate market abuse as seriousness level 4 or 5 (DEPP 6.5C.2G(2)(c)).

6.18. Taking all of these factors into account, the Authority considers the seriousness of the market abuse to be level 4. This means the Step 2 figure is the higher of:

(a) 30% of Mr Urra's relevant income of £1,318,367, a sum of £395,510;

(b) a profit multiple of 3 applied to Mr Urra's financial benefit of £0, a sum of £0; and

(c) £100,000.

6.19. Step 2 is therefore £395,510.

<u>Step 3: mitigating and aggravating factors</u>

6.20. Pursuant to DEPP 6.5C.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any

amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the market abuse. DEPP 6.5C3.G provides a non-exhaustive list of factors that may aggravate or mitigate the market abuse. Having considered each of the factors listed in DEPP 6.5C3.G, the Authority has concluded that there are no aggravating or mitigating factors such as to justify an adjustment to the Step 2 figure.

6.21. Step 3 is therefore £395, 510.

Step 4: adjustment for deterrence

6.22. Pursuant to DEPP 6.5C.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the individual who committed the market abuse, or others, from committing further or similar market abuse, then the Authority may increase the penalty.

6.23. The Authority considers that the Step 3 figure of £395,510 represents a sufficient deterrent to Mr Urra and others, and so has not increased the penalty at Step 4.

6.24. Step 4 is therefore £395,510.

Step 5: settlement discount

6.25. Pursuant to DEPP 6.5C.5G, if the Authority and the individual on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the individual reached agreement. No such agreement was reached in this case.

6.26. Step 5 is therefore £395,510.

Penalty

6.27. The Authority has therefore decided to impose a total financial penalty of £395,500 (rounded down to the nearest £100 in accordance with the Authority's usual practice) on Mr Urra for market abuse.

Prohibition

6.28. The Authority has had regard to the guidance in Chapter 9 of EG in considering whether to impose a prohibition order on Mr Urra. The Authority has the power to prohibit individuals under section 56 of the Act.

6.29. The Authority considers that, due to his dishonesty and the fact that he has engaged in deliberate market abuse, Mr Urra is not a fit and proper person to perform any function in relation to any regulated activity carried out by an authorised person, exempt person or exempt professional firm, and that a prohibition order should be imposed on him under section 56 of the Act.

7. REPRESENTATIONS

7.1. Annex B contains a brief summary of the key representations made by Mr Urra and how they have been dealt with. In making the decision which gave rise to the obligation to give this Notice, the Authority has taken into account all of the representations made by Mr Urra, whether or not set out in Annex B.

8. PROCEDURAL MATTERS

8.1. This Notice is given to Mr Urra under sections 57 and 127 and in accordance with section 388 of the Act.

8.2. The following paragraphs are important.

Decision maker

8.3. The decision which gave rise to the obligation to give this Notice was made by the RDC. The RDC is a committee of the Authority which takes certain decisions on behalf of the Authority. The members of the RDC are separate from the Authority staff involved in conducting investigations and recommending action against firms and individuals. Further information about the RDC can be found on the Authority's website:
https://www.fca.org.uk/about/committees/regulatory-decisions-committee-rdc.

The Tribunal

8.4. Mr Urra has the right to refer the matter to which this Notice relates to the Tribunal. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, Mr Urra has 28 days from the date on which this Notice is given to him to refer the matter to the Tribunal. A reference to the Tribunal is made by way of a signed reference notice (Form FTC3) filed with a copy of this Notice. The Tribunal's contact details are: The Upper Tribunal, Tax and Chancery Chamber, Fifth Floor, Rolls Building, Fetter Lane, London EC4A 1NL (tel: 020 7612 9730; email fs@hmcts.gsi.gov.uk). Further information on the Tribunal, including guidance and the relevant forms to complete, can be found on the HM Courts and Tribunal Service website: http://www.justice.gov.uk/forms/hmcts/tax-and-chancery-upper-tribunal.

8.5. A copy of the reference notice (Form FTC3) must also be sent to the Authority at the same time as filing a reference with the Tribunal. A copy of the reference notice should be sent to Stephen Robinson at the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

8.6. Once any referral is determined by the Tribunal and subject to that determination, or if the matter has not been referred to the Tribunal, the Authority will issue a Final Notice about the implementation of that decision.

8.7. If the person to whom this Decision Notice is given refers the matter to the Tribunal, they may be eligible for legal assistance under section 134 of the Act.

Access to evidence

8.8. Section 394 of the Act applies to this Notice.

8.9. The person to whom this Notice is given has the right to access:

(1) the material upon which the Authority has relied in deciding to give this Notice; and

(2) any secondary material which, in the opinion of the Authority, might undermine that decision. There is no such material.

Confidentiality and publicity

8.10. This Notice may contain confidential information and should not be disclosed to a third party (except for the purpose of obtaining advice on its contents). Section 391 of the Act provides that a person to whom this Notice is given or copied may not publish the Notice or any details concerning it unless the Authority has published the Notice or those details.

8.11. However, the Authority must publish such information about the matter to which a Decision Notice or Final Notice relates as it considers appropriate. Mr Urra should be aware, therefore, that the facts and matters contained in this Notice may be made public.

Authority contact

8.12. For more information concerning this matter generally, contact Stephen Robinson (direct line: 020 7066 1338) or Danielle Turek (direct line: 020 7066 7156) at the Authority.

Elizabeth France

<u>Deputy Chair, Regulatory Decisions Committee</u>

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT LEGISLATIVE PROVISIONS

The Financial Services and Markets Act 2000 (“the Act”)

The Authority’s statutory objectives

The Authority’s statutory objectives, set out in section 1B(3) of the Act, include the integrity objective, which is protecting and enhancing the integrity of the UK financial system and includes (amongst other matters) its not being affected by contraventions by persons of Article 15 (prohibition of market manipulation) of the market abuse regulation.

Section 123 of the Act

123.— Power to impose penalties or issue censure

(1) The Authority may exercise its power under subsection (2) if it is satisfied that—

(a) a person has contravened […] Article 15 (prohibition of market manipulation) of the market abuse regulation; […]

(2) The Authority's power under this subsection is a power to impose a penalty of such amount as it considers appropriate on the person.

Section 56 of the Act

Section 56 of the Act provides that the Authority may make an order prohibiting an individual from performing a specified function, any function falling within a specified description or any function, if it appears to the Authority that that individual is not a fit and proper person to perform functions in relation to a regulated activity carried on by an authorised person, exempt person or a person to whom, as a result of Part 20, the general prohibition does not apply in relation to that activity. Such an order may relate to a specified regulated activity, any regulated activity falling within a specified description, or all regulated activities.

Market abuse provision in the Act (as in force 1 June – 2 July 2016)

Section 118(1)(a) of the Act

For the purposes of this Act, market abuse is behaviour (whether by one person alone or by two or more persons jointly or in concert) which -

(a) occurs in relation to –

(i) qualifying investments admitted to trading on a prescribed market,

(ii) qualifying investments in respect of which a request for admission to trading on such a market has been made, or

(iii) in the case of subsection (2) or (3) behaviour, investments which are related investments in relation to such qualifying investments, and

(b) falls within any one or more of the types of behaviour set out in subsections (2) to (8).

[…]

Section 130A of the Act

Qualifying investments and prescribed markets will be defined by Treasury Order. That order is FSMA 2000 (Prescribed Markets and Qualifying Investments) Order 2001 SI 2001/996 ("the Order"), which was updated in 2005.

The Order (as amended) states that qualifying investments are all financial instruments within the meaning of Article 1(3) of Directive 2003/6/EC (Market Abuse Directive – MAD). Article 1(3) lists "financial futures contracts" which includes BTP Futures.

The Order (as amended) states that prescribed markets includes regulated markets and that regulated markets are those with the meaning given in Article 1(13) of Directive 93/22/EEC (the Investment Services Directive). The EUREX Exchange was a regulated market.

Section 118(5): Market manipulation

(5) The fourth [type of behaviour] is where the behaviour consists of effecting transactions or orders to trade (otherwise than for legitimate reasons and in conformity with accepted market practices on the relevant market) which –

(a) give, or are likely to give, a false or misleading impression as to the supply of, or demand for, or as to the price of, one or more qualifying investments, or

(b) secure the price of one or more such investments at an abnormal or artificial level.

Section 131AE of the Act (as currently in force)

For the purposes of any enactment a person contravenes Article 14 [of the Market Abuse Regulation] (prohibition of insider dealing and of unlawful disclosure of inside information) or Article 15 [of the Market Abuse Regulation] (prohibition of market manipulation) whether the contravention is by that person alone or by that person and one or more other persons jointly or in concert.

Regulation (EU) No 596/2014 ("the Market Abuse Regulation")

Article 2: Scope

1. This Regulation applies to the following:

(a) financial instruments admitted to trading on a regulated market or for which a request for admission to trading on a regulated market has been made; …

Financial instruments are those defined by Article 4(1)(15) of MiFID II (Directive 2014/65/EU) which refers to those instruments listed in Annex I Section C. Annex I Section C lists "Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivative instruments, financial indices or financial measures which may be settled physically or in cash" which includes BTP Futures.

Regulated markets are those defined by Article 4(1)(21) of MiFID II (Directive 2014/65/EU). The EUREX Exchange is a regulated market.

Article 12: Market manipulation

1. For the purposes of this Regulation, market manipulation shall comprise the following activities:

(a) entering into a transaction, placing an order to trade or any other behaviour which:

(i) gives, or is likely to give, false or misleading signals as to the supply of, demand for, or price of, a financial instrument, […];

unless the person entering into a transaction, placing an order to trade or engaging in any other behaviour establishes that such transaction, order or

behaviour have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with Article 13.

2. The following behaviour shall, inter alia, be considered as market manipulation:

[…]

> (c) the placing of orders to a trading venue, including any cancellation or modification thereof, by any available means of trading, including by electronic means, […], and which has one of the effects referred to in paragraph 1(a) above or […] by:
>
> […]
>
> > (iii) creating or being likely to create a false or misleading signal about the supply of, or demand for, or price of, a financial instrument, in particular by entering orders to initiate or exacerbate a trend; […]

Article 13: Accepted market practices

1. The prohibition in Article 15 shall not apply to the activities referred to in Article 12(1)(a), provided that the person entering into a transaction, placing an order to trade or engaging in any other behaviour establishes that such transaction, order or behaviour have been carried out for legitimate reasons, and conform with an accepted market practice as established in accordance with this Article.

Article 15: Prohibition of market manipulation

A person shall not engage in or attempt to engage in market manipulation.

Annex I

A. Indicators of manipulative behaviour relating to false or misleading signals and to price securing

For the purposes of applying point (a) of Article 12(1) of this Regulation, and without prejudice to the forms of behaviour set out in paragraph 2 of that Article, the following non-exhaustive indicators, which shall not necessarily be deemed, in themselves, to constitute market manipulation, shall be taken into account when transactions or orders to trade are examined by market participants and competent authorities:

> (f) the extent to which orders to trade given change the representation of the best bid or offer prices in a financial instrument, […] or more generally

the representation of the order book available to market participants, and are removed before they are executed; …

Commission Delegated Regulation (EU) 2016/522

Article 1: Subject matter and scope

This Regulation lays down detailed rules with regard to:

[…]

(2) the indicators of market manipulation laid down in Annex I to Regulation (EU) No 596/2014; …

Article 4: Indicators of manipulative behaviour

1. In relation to indicators of manipulative behaviour relating to false or misleading signals and to price securing referred to in Section A of Annex I to Regulation (EU) No 596/2014, the practices set out in Indicators A(a) to A(g) of Annex I to Regulation (EU) No 596/2014 are laid down in Section I of Annex II to this Regulation.

Section I of Annex II of Regulation (EU) 2016/522

6. Practices specifying Indicator A(f) of Annex I to Regulation (EU) No 596/2014:

(a) Entering of orders which are withdrawn before execution, thus having the effect, or which are likely to have the effect, of giving a misleading impression that there is demand for or supply of a financial instrument, […] – usually known as 'placing orders with no intention of executing them'. …

2. THE AUTHORITY'S HANDBOOK OF RULES AND GUIDANCE

Market Conduct

The part of the Authority's Handbook of rules and guidance entitled "Market Conduct" ("MAR") provides guidance on the Market Abuse Regulation (EU) No 596/2014 (see MAR 1.1.2G).

Chapter 1.6 of MAR is headed "Manipulating transactions".

MAR 1.6.5G states that the following factors are to be taken into account when considering whether behaviour is for legitimate reasons in relation to article 12(1)(a) of the Market Abuse Regulation, and are indications that it is not:

(1) if the person has an actuating purpose behind the transaction to induce others to trade in, bid for or to position or move the price of, a financial instrument;

(2) if the person has another, illegitimate, reason behind the transactions, bid or order to trade; and

(3) if the transaction was executed in a particular way with the purpose of creating a false or misleading impression.

MAR 1.6.6G states that the following factors are to be taken into account when considering whether behaviour is for legitimate reasons in relation to article 12(1)(a) of the Market Abuse Regulation, and are indications that it is:

(1) if the transaction is pursuant to a prior legal or regulatory obligation owed to a third party;

(2) if the transaction is executed in a way which takes into account the need for the market or auction platform as a whole to operate fairly and efficiently;

(3) the extent to which the transaction generally opens a new position, so creating an exposure to market risk, rather than closes out a position and so removes market risk; and

(4) if the transaction complied with the rules of the relevant trading venue about how transactions are to be executed in a proper way (for example, rules on reporting and executing cross-transactions).

MAR 1 Annex 2 "Accepted Market Practices" records that there are no accepted market practices as established by the Authority in accordance with Article 13 of MAR.

MAR can be accessed here:

https://www.handbook.fca.org.uk/handbook/MAR/

The Fit and Proper Test for Approved Persons ("FIT")

The part of the Authority's Handbook entitled "The Fit and Proper Test for Approved Persons" ("FIT") sets out the criteria that the Authority will consider when assessing the fitness and propriety of a candidate for a controlled function.

FIT is also relevant in assessing the continuing fitness and propriety of an approved person. FIT can be accessed here:

https://www.handbook.fca.org.uk/handbook/FIT/1/3.html

FIT 1.3.1G states that the Authority will have regard to a number of factors when assessing the fitness and propriety of a person. The most important considerations will be the person's honesty, integrity and reputation, competence and capability and financial soundness.

Prohibition orders

The Authority's policy in relation to prohibition orders is set out in Chapter 9 of the Enforcement Guide ("EG").

EG 9.1 states that the Authority may exercise this power where it considers that, to achieve any of its statutory objectives, it is appropriate either to prevent an individual from performing any function in relation to regulated activities or to restrict the functions which he may perform.

Decision Procedure and Penalties Manual ("DEPP")

Chapter 6 of DEPP sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act and can be accessed here:

https://www.handbook.fca.org.uk/handbook/DEPP/6/?view=chapter

The Enforcement Guide ("EG")

The Authority's approach to financial penalties and public censures is set out in Chapter 7 of EG and can be accessed here:

https://www.handbook.fca.org.uk/handbook/EG/7/?view=chapter

ANNEX B

REPRESENTATIONS

1 A summary of the key representations made by Mr Urra, and the Authority's conclusions in respect of them (in bold type), is set out below.

Factual issues

Mr Urra's career history, reputation and responsibilities

2 Throughout the Relevant Period, Mr Urra was a well-regarded and highly experienced financial services professional. He had won significant plaudits for his work. In interview with the Authority, Mr Urra's colleagues and managers spoke highly of his reputation, commitment to his role and compliance focus. He had an unblemished disciplinary record, having never been the subject of any employment disciplinary sanction, regulatory investigation or action. His career was flourishing and he was the sole breadwinner for his young family. It is implausible that he would risk all of this to commit deliberate market abuse.

3 In his role as Head of the Desk, Mr Urra was responsible for various matters, involving oversight of other employees and direct involvement in positioning MHI's books. His role was time-intensive and demanding, with multiple areas of focus. In assessing the credibility of the case against him it should be recognised that he spent only a small part of his day working on the EGB business, and an even smaller proportion working on his own book or directly with the other Traders.

4 **The Authority does not dispute Mr Urra's previous clean disciplinary and regulatory record or his family responsibilities, or that he was highly experienced and well-regarded in his work. The Authority has weighed these matters in the balance in reaching its conclusion that Mr Urra did commit market abuse. It notes that every person who commits market abuse for the first time had a clean record immediately before so doing, and that there have been previous cases where successful and experienced traders have engaged in market abuse (see, for example, the Final Notices issued by the Authority against Mr Paul Walter and Mr Corrado Abbattista).**

5 **The Authority does not consider the fact that Mr Urra was a busy man with many other responsibilities besides the EGB business is inconsistent with involvement in market abuse.**

Supposed pressure from MHI management

6 The context for the request from management to increase the "hit rate" of the Desk was a belief by MHI management that if it was more often the counterparty for "vanilla" products (such as EGBs) it would be able to sell a wider range of products to a wider range of clients. Nor could the Desk alone reasonably be expected to increase its hit rate; the sales team played a key role in developing relationships with clients and attracting consistent and high quality orders. It would be wrong to

think that the responsibility to increase the hit rate sat solely on Mr Urra's shoulders. More generally, Mr Urra regarded the request as something more akin to an informal target agreed between him and his manager, and something that related more to MHI's key clients than simply a request to transact more business regardless of the client. Mr Urra's manager recalled at interview that Mr Urra was probably already hitting the target hit rate even if others on the Desk were not, and Mr Urra believes this likely to be accurate. He did not regard it as too onerous or think the Desk was too far off the informal target.

7 **The Authority notes that Mr Urra has stated that the conduct in question was influenced by the request from management to increase the "hit rate" (see paragraph 11 below); thus, it appears he admits that it was influenced by pressure from management in that regard. The Authority considers that, as the Head of the Desk, Mr Urra would have felt a responsibility to improve the overall Desk performance, whatever his personal performance and however informally the target was expressed.**

Financial incentives

8 Increasing the hit rate would have had a minimal impact on Mr Urra's remuneration. It is not mentioned anywhere in his "Balanced Scorecard" for 2016/17 as a metric for his remuneration. If anywhere, it could have been taken into account as part of Franchise Management, but this itself was attributed only a 5% weighting and Mr Urra estimates that hit rate could have impacted his bonus by at most 1%, which is negligible.

9 Compensation at MHI was based on a matrix of factors not all of which were directly financial. The revenue for the overall team of which the Desk was part was the most important factor but was weighted at less than 50%. There was no direct correlation between Mr Urra's personal revenue and his compensation.

10 **The Authority notes that Mr Urra concedes that the performance of the Desk was to some extent relevant to his remuneration. Further, the Authority considers it unlikely that a decision by management to increase the target hit ratio for the Desk would be considered unimportant by Mr Urra. As noted above, Mr Urra does not deny that the behaviour which the Authority considers abusive was influenced by that decision on the part of management.**

Mr Urra's explanation for the trading

11 The request by his manager to increase the hit rate on the Desk caused Mr Urra to consider how to improve the Desk's position in the market and client engagement. He adopted an approach which he assumes he would have shared with the other Traders, although he cannot recall how or when he did this. To the best of his recollection, he had not deployed this approach personally before, or seen it deployed elsewhere. He was very familiar with the practice (as supported by the expert that he instructed in relation to this matter) of traders placing sizeable orders away from the touch for a variety of reasons but what was novel to his thinking was focusing in particular on client bond business as a trigger for anticipating likely demand for futures and placing an order on that basis.

12 Mr Urra's trading approach was shaped in general by the following factors:

12.1 Market-Makers could not rely on the bid-offer spread (the difference between what a bond can be bought or sold for at any given moment) to make money. Market making on EGBs and their futures is very competitive, which drives down margins.

12.2 Mr Urra had also to position his book and manage risk to anticipate client demand and market movements. He would seek to acquire positions cheaply to increase the profitability of a trade or increase the chance of getting business by being able to offer a more competitive price.

12.3 His trading approach was multi-dimensional but with a focus on relative value trading, meaning analysing whether instruments which are connected to each other (such as a bond and its future, or two bonds) are cheap or expensive relative to each other and then seeking to capitalise on the fact they are priced differently at that moment by taking a position in each that would deliver revenue when the instruments reverted to their fair value in relation to each other.

12.4 After a BTP transaction, Mr Urra would typically hedge it in whole or part by placing a futures order on the EUREX market. He would commonly, though not always, iceberg it so as not to indicate the size of the bonds being hedged, which is sensitive information.

12.5 The Desk had a disadvantage compared to its larger peers. Clients of big Market-Makers will be likely to seek to place larger volume transactions and will show the big Market-Maker the full order because they expect them to have inventory to fill and price the entire order well and wish to build a long-term relationship with the Market-Maker. This is advantageous as, knowing the full size of the order, the Market-Maker can price in any impact on the price of the bond (and bond future in respect of their hedge). By contrast, a client approaching MHI with a RFQ would be less likely to wish to build a long-term relationship. They might split a larger order across multiple smaller Market-Makers without revealing that they were part of a larger order, thus benefiting from more aggressive pricing, and might also assume that MHI (having fewer resources) would not be aware of relevant news that might impact the price of a bond. This situation may be referred to as the "winner's curse", as the business is won only because the Market-Maker is unaware of some factor that would be important to its decision on price.

13 Mr Urra also sometimes used a practice referred to as "price discovery". He would become aware of a market event from which he deduced that there was activity not yet apparent to the market, such as a counterparty with whom MHI rarely or never transacted, or one of the larger banks, requesting a quote; he might deduce they were taking advantage of MHI's potential information disadvantage. This provided an opportunity to enter into a trade that was financially beneficial and would, by confirming the accuracy of his original deduction (or not), provide him with information on client behaviour and market position.

14 If Mr Urra suspected that a client was splitting a considerably larger order (say, a buy order) over multiple Market-Makers, there would be likely to be demand for a significant amount of the bond future, because the other Market-Makers would need to hedge that activity by buying bond futures relatively promptly. If they were transacting considerable size, they would need to buy a large volume of futures. He would hope that a non-iceberged medium-sized order of, say, 490 lots might prove attractive to a Market-Maker who wanted to hedge more quickly and was willing to pay a premium to do so. On this basis he might place an offer to sell 490 lots at, say, 4 cents above the best offer. If the order did not trade after a period of time then, deducing that the anticipated latent demand did not exist and/or that any opportunity must have passed, Mr Urra cancelled the order manually. A cancellation decision was usually based on the passage of a period of time sufficient to allow him to suspect that there was no counterparty for his order. However, if the market traded in the opposite direction, then this might also be taken as an indicator that the order was not likely to trade. But if the order was hit then Mr Urra would have sold 490 lots at a premium to the best offer, entering into a cheap short position in respect of the bond market. He might choose to hold that position and use it, for example, to hedge future client business more cheaply, allowing more aggressive pricing. Or, more likely, he would use it as the first leg of a two-leg relative value trade called a basis trade. The second leg would comprise a subsequent bond purchase, or a corresponding bond position built up over a period. It would also give credence to Mr Urra's original deduction, which would be a factor to take into account when pricing for the client in the future.

15 Mr Urra does not say that relative value trading and price discovery motivated each of the impugned orders that he placed, but they are likely to explain the specific trading focused on by the Authority.

16 The orders placed by Mr Urra were not large and he did not view them as such, and they were within the Mandate.

17 The following features of this practice should be emphasised.

17.1 Mr Urra always placed an order to trade it. While there was some benefit in seeing his deduction disproven in the event of no trade, the real upside of a cheap position and some useful colour about the market could only be achieved with a fill.

17.2 Having made a deduction about what was happening on the market and placed an order, Mr Urra did not remain static. He wanted the order to trade and so he recalls that he naturally adjusted the price in accordance with what the market was doing and to see if a counterparty would transact at a slightly different price.

17.3 This practice co-existed with, and might be prompted by, the other activities of the Desk but it was quite distinctly concerned with Mr Urra working through his deduction. For example, at the same time, Mr Urra or one of his colleagues might well be seeking to partially hedge the client order for the sake of MHI's book consistent with best practice. A cancellation of the medium order after a short time if Mr Urra's deduction was not borne out might well be proximate in

time to the completion of a small hedge order at the bid/offer spread. However, these two events, whilst triggered by the client activity, served different purposes and were unrelated.

18 Mr Urra correctly viewed this as an established and legitimate practice and did not consider that it would be likely to, or did, mislead the market in any way. The orders were not large; he selected the volume to be large enough to be attractive to counterparties looking for volume at a premium. He was well aware that the bond future market was liquid and very large volumes transacted. It was common practice to cancel orders on the BTP market and therefore Mr Urra did not regard this as being potentially misleading. The Authority's own analysis confirms that cancellation of orders over 200 lots was far from unusual and, indeed, was by far the more likely outcome. It is also possible that the trading approach outlined above may have resulted in Mr Urra cancelling more trades than he would normally, as it was inherent in the approach. Various of Mr Urra's colleagues and superiors said at interview that they were comfortable with the practice of placing an order away from the touch to see if a trade could be entered at a beneficial price and information gained about the market. It is fair to note that they were less sure about the size of the orders used for this purpose and the frequency of the practice, but they did not have the benefit of Mr Urra's explanation of the reasons for the size and frequency.

19 **The Authority does not accept Mr Urra's explanation for the trading patterns.**

20 **In the Authority's view, it is clear that the misleading orders were large in relation to the genuine orders on the other side of the book (whether or not other, larger orders might be present in the market from time to time).**

21 **The Authority does not allege that cancellation of an order is of itself unusual, or that placement and cancellation of a large order is misleading of itself. However, it refers to the statistical data set out at paragraph 4.49 of this Notice, which does not establish cancellation of a large order to be the more likely outcome within the market as a whole. For the reasons set out in this Notice, the Authority considers that the repeated pattern of placement and cancellation seen in this case is indicative of an intention to mislead the market. The Authority does not accept that the proximity in time between cancellation of the large order and the completion of the small order is not indicative of a direct relationship between the two events; see further at paragraphs 43 to 45 and 49 below.**

22 **Placing such speculative large orders in reaction to client RFQs or trades based on a guess that the client might have placed larger cash orders with other market participants would be a high-risk strategy. It is implausible that, on the one hand being careful to hedge the risk arising from relatively small client cash orders, Mr Urra would on the other hand, and at the same time, look to trade much larger orders on a reactive basis to possible but unknown liquidity in the market.**

23 **The Authority does not accept that such an approach was within the Mandate. It is true that orders of the size of the misleading orders would not of themselves have breached the risk limits set out in the Mandate if they had**

traded, and basis trades were permissible in connection with client trading. But trading for pure profit, rather than for client purposes, was outside the Mandate. The Authority considers it implausible that Mr Urra would have proceeded with such a strategy regardless of the Mandate and without taking any steps to check his new approach with Compliance or senior management.

24 **Further, the asserted strategy would not have improved the Desk's hit rate which Mr Urra says was the trigger for engaging in it.**

25 **With regard to the asserted price discovery benefit of the large orders, even if the orders had filled this would not have provided Mr Urra with much information, since he would not know who had traded as the market is anonymous, and nor would it indicate why they had traded: he would only be able to guess that the trade was driven by an underlying large cash order from his client.**

26 **The Authority notes that Mr Urra, despite his experience as a trader, told the Authority that he had never seen his trading strategy employed by others in the market, which is of itself indicative of its unusual nature.**

Certain features of the trading relied on by the Authority are consistent with his position

27 *The relatively low number of fills of larger orders:* It is correct that Mr Urra did not, within the Relevant Period, successfully achieve his goal of having one of his larger orders filled by a trader who had need of volume and was willing to pay a premium for it. This does not, however, mean that the strategy itself was misconceived. It simply means that the specific circumstances which Mr Urra had hoped to exploit had not occurred. In other words, the strategy had not worked yet. There was no reason not to continue attempting the strategy.

28 Furthermore, Mr Urra's use of the strategy did decline over the course of the Relevant Period as he had become disappointed with it. The Authority has identified 97 instances in June 2016 compared with 44 in July.

29 **The Authority finds it implausible that a busy trader like Mr Urra with the many duties and responsibilities he has described (see paragraph 3 above) would have persisted with a strategy, the success of which was premised on the large orders trading and which had completely failed despite many attempts to use it (as to the few large orders which did trade, see paragraphs 33 and 34 below).**

30 **While there were fewer instances involving Mr Urra in July 2016 than in the previous month, there was still a significant number in July.**

31 *Cancellation of larger orders after partial fills*: The Authority has pointed to the fact that the 5 larger non-iceberged larger orders placed by Mr Urra during the Relevant Period which traded partially were quickly cancelled by him as soon as they started to trade. But a partial (rather than total) fill of the larger order is potentially indicative of the market having moved, rather than a large buyer seeking liquidity and it is accordingly unsurprising that it would be cancelled.

32 The Authority has also pointed to Mr Urra's one non-icebergеd larger order in the Relevant Period which traded in full, and the fact that he quickly sought to reverse out of the position rather than using it for a relative value trade. However, this trade is unique in that it is the only trade where all three Traders held a large open position simultaneously and for this reason Mr Urra believes could well have been linked to a client order rather than a trade placed as part of this strategy.

33 **The Authority considers that the cancellation of the 5 large orders placed by Mr Urra after they were partially filled is indicative of an intention that the orders should not trade, when considered in all the circumstances (including that they were outside the Mandate (see paragraph 23 above)).**

34 **In relation to the one large order placed by Mr Urra in the Relevant Period which traded in full, the Authority does not consider that there is any apparent reason why the fact that all three Traders held a large open order simultaneously is indicative of the activity relating to a client order, and notes that Mr Urra has not explained <u>why</u> he considers that this might be so. For example, he has not explained why a client order would explain the filling of his large non-iceberged buy order being followed shortly afterwards by the placement of iceberged sell orders by Mr Sheth, which would have reversed out the entire position if they had traded (the majority did in fact trade, at the same price as Mr Urra's traded buy order, with a small amount trading at a slightly worse price). In the Authority's view, the trading pattern is indicative of Mr Urra's having had no intention to trade his initial buy order, and of steps being taken to reverse the position when it did trade.**

35 *Iceberging*: Mr Urra did not iceberg the larger orders placed for price discovery purposes as he wanted to find a particular buyer or seller interested in transacting at large volume who was willing to pay a premium price for it.

36 **The Authority considers that Mr Urra would have been well aware that placing a large order without iceberging it would have tended to make the market move away from it, making it less likely to trade; this is why large orders are frequently iceberged. It is not plausible, in the Authority's view, that Mr Urra would have been careful to iceberg most of his small orders on the opposite side of the book for this reason, while adopting a strategy which relied on other market participants trading with a fully visible order much larger than any others on the order book at the relevant time, knowing that such an order would be unlikely to trade. The approach is, however, consistent with a strategy to impact the market, thus making the smaller orders on the other side of the order book more likely to trade, or to do so more quickly.**

37 *Orders placed away from the touch*: The fundamental point of Mr Urra's strategy involved orders being placed at what were (from his point of view) highly attractive prices, because of his theory that there was a market participant who would be prepared to pay such prices to obtain the volume he was offering.

38 **The Authority accepts that placing an order away from the spread does not, in and of itself, negate an intention to trade. However, taken together with**

the other features of the trading in question, it is consistent with there being no intention to trade. By placing the large orders away from the spread, Mr Urra made it less likely that they would be executed because other market participants would be able to obtain a more favourable price. It is not plausible that Mr Urra would have repeatedly pursued such a strategy, which did not work as the larger orders were almost never hit. In those cases when they were hit, Mr Urra's subsequent behaviour supports the case that he never intended those orders to be traded (see paragraphs 33 and 34 above).

39 *Orders placed in the same size*: There was no reason to vary the size of the larger orders. Mr Urra could not have been expected to vary his order size to predict more precisely what the hypothetical market participant might need. There was no reason not to use a standard order size.

40 **The Authority considers that Mr Urra's use of repeated sizes for his large orders is inconsistent with his asserted trading strategy. If he was placing the large orders in anticipation of demand arising from other market participants looking to hedge larger parts of a particular client cash order, the Authority would expect Mr Urra to vary the large orders in size due to factors such as the client's order size, market conditions and the sizes of existing orders on the book. For example, in relation to client order size, it could be expected that Mr Urra would extrapolate from the size of the client cash order won by MHI to estimate the potential size of the client's overall cash order. Logically, the smaller MHI's client cash order, the smaller the theoretical overall client cash order would likely be, leading to the placing of a smaller-sized large order. However, there is no relationship between the size of the genuine orders, which reflect the size of the client cash order won by MHI, and the large orders placed by Mr Urra.**

41 *Orders cancelled shortly after "genuine" order had fully or at least 50% traded*: Some temporal correlation between the larger orders being cancelled and the smaller orders being traded is to be expected given the genesis of each order; it was likely that the large order, like the small order, was motivated by the original client trade placed with the Desk.

42 In any case, the Authority selected trades to investigate on the basis of such temporal proximity. There was no such proximity in 23% (40 out of 175) of the larger orders placed by Mr Urra during the Relevant Period but these were ignored by the Authority for the purposes of its analysis. Likewise, the Authority did not investigate the many occasions during the Relevant Period where the Traders placed small orders without any larger order being placed. Only 10.8% of Mr Urra's small orders are said even potentially to have had their execution assisted by the allegedly abusive strategy.

43 **In the Authority's view, the suggestion that the large and small orders may have been prompted by the same original client trade does not account credibly for the very striking degree of proximity in time between small orders trading and large orders on the opposite side of the book being cancelled, which is seen repeatedly during the Relevant Period: see the examples given in the Facts and Matters above. In the sample of 10 cases referred to at paragraph 4.29 above, any remaining misleading orders on the**

order book after Mr Urra's final genuine order had filled were cancelled on average within 5 seconds.

44 **A genuine intention to trade the large orders does not fit with the repeated close timing between the trading of the genuine order and the cancellation of the large order.**

45 **The Authority does not contend that every large order placed by Mr Urra during the Relevant Period involved market abuse. Those where the temporal proximity was absent have not been ignored by the Authority but they do not detract from the significance of the point. The striking temporal proximity was present in relation to the vast majority of the large orders placed by Mr Urra in the Relevant Period. Likewise, the Authority does not consider that it undermines its case that there were many small orders placed by Mr Urra and the other Traders during the Relevant Period for which there was no corresponding large order on the opposite side of the book; it is not the Authority's position that every order was abusive and, as a matter of fact, there was a significant number which did have a large order on the opposite side.**

46 *Modifications in the price of the larger orders*: Mr Urra would sometimes adjust the price to try to get a fill. It makes sense not simply to abandon the desire to trade if there was not a counterparty willing to trade at the exact price level initially selected. Having decided that the market might present an opportunity for a cheap trade, Mr Urra wanted to make sure that he had properly explored that opportunity. It also made sense to cancel the larger order when it touched the spread, since the aim was to execute trades at advantageous prices.

47 **In the Authority's view, the pattern of amendments made by Mr Urra to the prices of the large orders is indicative not of a desire that they should be filled but rather, according to the circumstances at any particular moment, a combination of increasing the pressure on the order book by moving them closer to the touch and moving them further away in order to reduce the risk that they might be traded; see, for example, the instance described at paragraph 4.38 above.**

The Traders' explanations of the trading are consistent with one another

48 Mr Sheth has stated that he was applying the same strategy as Mr Urra, as it was based on the method and explanation, and successful demonstration, provided by Mr Urra. The fundamental basis for Mr Lopez's actions, as he explained them to the Authority, was the same, namely that a fill of the larger order at an attractive price would enable him to enter future trades profitably through anticipatory hedging. His belief that there might be someone who would fill his larger order at such an attractive price was also based on his real-time observation of market events and movements. This is supportive of Mr Urra's position.

49 **The Authority agrees that the explanation given by Mr Sheth for the trading is largely consistent with that of Mr Urra. However, it is equally implausible for the same reasons as are set out in this Notice. The Authority also finds it implausible that the fact that Mr Lopez's alleged strategy, being different**

from that of Mr Urra and Mr Sheth (if also derived from observation of market events and movements) should involve precisely the same striking, and highly unusual, pattern of trading. It notes that, despite denying any collusion or coordination with the other Traders, Mr Urra has offered no explanation for the fact that in the multi-party cases the same pattern can be observed, but with large trades placed by one or more Traders opposite small trades placed by one of the others. The Authority considers this cannot plausibly be explained other than by collusion.

Multi-Trader cases

50 Each of the Traders' larger orders consistently differed in size from each other, suggesting each had a somewhat different approach. Had there been a coordinated strategy, one would expect the same lot sizes to be employed by each of the Traders from time to time.

51 **The Authority does not agree that one would expect the same lot sizes to be employed by all the Traders in a coordinated approach; one would, rather, expect the opposite, in order to minimise the risk of the pattern being noticed by their employer or EUREX.**

Other relevant matters ignored by the Authority

An abusive scheme of the type alleged would not have worked

52 The Authority's case is that Mr Urra placed "large" misleading orders on one side of the book to create a false impression as to his trading intentions, solely in order to assist the execution of the smaller order. Therefore it must also be the Authority's case that Mr Urra believed (rightly or not) that a "large" order on one side of the book would impact upon the other side of the book such that the smaller trade would execute in whole or part. The Authority's primary source for this assertion appears to be Mr Urra's use of the iceberg function. It says that if Mr Urra iceberged his smaller hedge trades out of concern for their impact on the price, then he must have believed that larger trades would impact the market. However, that logic is flawed. Mr Urra's expert confirmed that buyers or sellers transacting at or near the spread would not have been interested in an order distant from the touch, and orders of the magnitude that Mr Urra entered would not impact price. Mr Urra would have been well aware of the dynamics of market impact based on factors such as market conditions, order size and distance from the touch. He told the Authority that he did not recall any market impact and that this was as he expected based on his experience of the BTP market.

53 **The Authority's case is indeed that Mr Urra placed large misleading orders on one side of the book to create a false impression as to his trading intentions in order to assist the execution of the smaller order, and that Mr Urra believed this strategy would be effective. However, the Authority does not base its view primarily on his use of the iceberg function; rather, as explained in this Notice, it is based on a combination of factors, of which the use of the iceberg function was just one. The Authority does not accept that the large orders would not affect the market if distant from the touch. Its view is supported by the evidence of the expert instructed by the Authority's Enforcement team. See further paragraphs 74 and 75 below as to impact on the market.**

Any financial impact of an abusive scheme of the type alleged would have been negligible

54 The Authority's case is that through the use of the abusive trading strategy, the Traders aimed to respond to clients' RFQs more quickly and make more competitive prices with increased certainty, in order to increase their hit ratios. However, placing orders to assist the execution of a smaller hedging order on the other side of the book would not enable Mr Urra to respond to an RFQ more promptly. The hedge order would only be entered into after the bond transaction in response to the RFQ had completed and there was risk on the books to be managed. It is therefore impossible to understand how assisting the execution of a hedging order is said to enable an earlier bond transaction to be priced more competitively or with certainty. In these circumstances, even if the alleged abusive scheme could have worked, any financial benefit would have been non-existent or negligible.

55 **The Authority does not allege that assisting the execution of a hedging order could enable an earlier bond transaction to be priced more competitively or with certainty. Rather, it considers that effective execution of the genuine orders enabled the Traders to perform their roles well. Further, the more efficiently Mr Urra could implement hedges, the better he could manage the book's risk which would allow the Desk to deal with upcoming client RFQs more quickly and competitively, thus increasing the likelihood of winning more client orders (increasing the "hit rate").**

An abusive scheme of the type alleged would have been quickly detected

56 In line with his experience at other employers, Mr Urra expected that his trading and that of the Desk would be closely monitored. He knew during the Relevant Period that, in addition to the front line at MHI and other market participants, there was monitoring at the level of the bank and by MHI USA (the clearing member of EUREX exchange), by Bloomberg Trade Pad and by EUREX itself. Mr Urra also witnessed Compliance looking into certain bond transactions before the Relevant Period. Also, Mr Urra was, according to the Authority's interview with a member of the Compliance team, known to the team to be compliance conscious.

57 It cannot sensibly be doubted that Mr Urra assumed that any unusual or inappropriate activity would be noticed or that his trading would be intensively monitored.

58 It is implausible that, despite believing in the existence of a developed multi-layer monitoring framework, Mr Urra nonetheless engaged in a sustained course of deliberate market abuse alone and in collaboration with Mr Sheth and Mr Lopez believing that he would evade detection or that the upside was worth the risk.

59 **When anyone engages in market manipulation whilst trading for a firm, they run the risk that their behaviour will be noticed and questioned. However, the abusive trading pattern is claimed by Mr Urra to be legitimate; on his own case, therefore, it is not obvious that the trading would have been noticed as**

potentially manipulative. As a matter of fact, MHI did not pick up on the trading pattern and question it, although it was noted by EUREX when Mr Sheth placed multiple large orders at the same time. The Authority further notes that, once MHI was aware of Mr Urra's trading strategy, it instructed him not to use it.

Insufficient visibility and co-ordination to effect an abusive scheme of the type alleged

60 The Authority's case only makes sense if there was considerable communication between the Traders and/or good visibility of what each was doing on the futures market. But there is no evidence of any contemporaneous communications (such as recorded calls, emails or messages) that support its case. Nobody interviewed by the Authority expressed any concerns about the communications overheard between the Traders. Certain colleagues mentioned communication and collaboration between the Traders, but this was appropriate and, in all the circumstances, it would be unusual and noteworthy if they did not communicate and collaborate.

61 The Traders could not see each other's executed trades and positions to ensure that risk was being properly managed. There was no "common blotter" in place on the Desk during the Relevant Period and therefore, although Mr Urra would be able to see that someone had placed an order to buy futures on EUREX, he would not know it was one of the other Traders unless they were communicating about it (presumably orally) or unless Mr Sheth booked a trade into one of Mr Urra's books. Mr Urra's recollection is that he did not use any other information sources to see the other Trader's positions immediately and he assumes this was true of the other Traders. An Excel spreadsheet devised by Mr Urra had to be updated manually after each trade so would not track risk second by second.

62 **The lack of records of communications in this case is not surprising: the Traders sat next to each other, so they had ample opportunity to communicate with one another and, as acknowledged by Mr Urra as set out in paragraph 60 above, there is evidence that they did so. There would have been no need to write messages or telephone each other, nor to rely on written records of each other's trades to understand what the other Traders were doing at any given moment. Participants to a manipulative scheme would be likely to avoid creating records about it and would be unlikely to speak in an unguarded way when discussing their manipulative behaviour in front of colleagues.**

Legal issues

Burden and standard of proof

63 It is for the Authority to prove the constituent elements of market abuse under section 118(2) of the Act and Article 15 of the Market Abuse Regulation.

64 In cases of market abuse, the evidence that is adduced must be both cogent and clear. Further, the less likely it is that something has occurred, the stronger the evidence will need to be to discharge the Authority's burden. It follows that the Authority can only make a finding of market abuse in cases where it has taken into account the

inherent improbabilities in the allegations and has nevertheless concluded that the evidence is sufficiently clear and cogent to satisfy it on the balance of probabilities that the conduct occurred.

65 These principles are especially relevant in this case where there is no direct evidence indicating that any dishonest conduct occurred, and the Authority relies solely upon inferences drawn by its expert from the sequence in which trades were placed.

66 **The Authority agrees that it is for it to establish that the elements of market abuse are present in this case. It has taken the same approach as that taken by the Tribunal (to which Mr Urra has the right to refer this matter following the issue of this Notice) in cases brought by the Authority under Part VIII of the Act, and it considers it appropriate to apply the same approach insofar as this case falls under the Market Abuse Regulation, given the similarity between the two regimes. Accordingly, in reaching its decision in this matter it has applied the ordinary civil standard whereby allegations must be proved on the balance of probabilities (that is, whether it is more likely than not that the misconduct occurred).**

67 **The Authority also agrees that the evidence of market abuse must be both cogent and clear, and that the more inherently unlikely an event, the stronger the evidence that will be required to prove it. But a lack of direct evidence (such as an email in which a manipulative scheme is set out or a telephone recording discussing the manipulative trading) does not have any bearing on the strength of the evidence required. The Authority has assessed the case on the evidence available. See further at paragraph 62 above in relation to documentary evidence.**

68 **In considering the evidence, including the explanations provided by Mr Urra, the Authority has considered whether particular matters alleged are more likely to have occurred than not (having due regard to their inherent probability or otherwise), and its reasons for reaching its conclusions are set out in this Notice. While the expert engaged by the Authority's Enforcement team supported the view taken by the Authority as to the significance of the respective timing of the relevant trades, that is only one matter taken into account by the Authority in reaching those conclusions.**

False or misleading signals or impressions

69 The Authority must prove in relation to each relevant trade by Mr Urra, that the signals/impression given by him was false or misleading, by reference to his subjective wishes and intentions.

70 It is insufficient to argue that because bids or offers were not in fact filled at the price at which they were placed, there must have been no real desire to trade at such a price. The reason the trades in question were not filled was because there was, in fact, no other market participant prepared to trade at the prices and in the volumes at which Mr Urra wanted to trade. It is inevitable and in accordance with orderly market conduct that Mr Urra should cancel his trades in such circumstances. These actions were entirely in accordance with the relevant legal test, which distinguishes between conduct: (1) in placing an offer which at the time it is placed is intended by

the offeror to be open for acceptance, though it might subsequently be cancelled prior to acceptance; and (2) in placing an offer which, at the time it is placed, the offeror does not genuinely intend should be accepted (see *Sarao v Government of the United States* [2016] EWHC 2737). It is the latter but not the former example which is potentially abusive.

71 The Authority has not demonstrated any actual impact on the market and so has sought to rely on the proposition that it is not necessary to prove such an impact on the market and has ignored the relevance of the lack of market impact for the subjective enquiries which are the most important aspect of this case. Any examination of Mr Urra's subjective intentions must consider that the scheme alleged by the Authority would not have worked, as there would have been no market impact.

72 **Neither section 118(5) of the Act nor Article 15 of the Market Abuse Regulation includes any requirement of impact on the market. If a trader places an order that he does not intend to trade, then provided that order is visible to market participants (as in this case), it indicates supply or demand that is not real and thus creates a false and misleading impression.**

73 **The Authority agrees that Mr Urra's intention in placing the misleading orders is crucial, on the facts of this case, to whether or not he committed market abuse. The Authority does not contend that, simply because bids or offers were not in fact filled at the price at which they were placed, there must have been no real desire to trade at such a price. Rather, for all the reasons set out in this Notice, it has concluded that, at the time he placed the misleading orders, Mr Urra did not genuinely intend that they should be accepted; his conduct falls within the second limb of the test in *Sarao*, and accordingly was abusive.**

74 **In any event, as the misleading orders were larger than the other visible orders on the book at the time they were placed, and were visible to other market participants, it is likely that other market participants would have taken them into account. In that sense, the misleading orders would likely have had an impact on the market.**

75 **The Authority agrees that market impact is relevant to the question of why the Traders, including Mr Urra, would have participated in an abusive strategy. However, it is satisfied on the evidence that, whether or not the strategy was successful, the intention to assist the execution of the genuine orders provided the motivation for the strategy.**

<u>The Authority's expert</u>

76 The Expert relied on by the Authority's Enforcement team failed to disclose an instance of previous contact with MHI and Mr Urra himself. Although Mr Urra does not argue this would render the expert's evidence inadmissible, it is of great concern that the expert did not make this disclosure, and this should be taken into account in the round.

77 **The Authority's Enforcement team explained that its expert had thought the information to be irrelevant and, for that reason, not disclosed it in their report. With hindsight, the Authority considers that the information should**

have been disclosed and has taken the non-disclosure into account in the round. However, it does not consider that it significantly affects the weight to be afforded to the evidence of the expert in question.

Quantum

78 The Authority has incorrectly determined Mr Urra's "relevant income" at Step 2 of the financial penalty calculation. Pursuant to DEPP 6.5C.2G(5), the "relevant income" will be that "earned by the individual in the 12 months preceding the final market abuse" in this case 29 July 2015 to 29 July 2016. But the Authority's calculation is based on amounts received by Mr Urra in that period, whether or not earned in that period. Some amounts received relate to awards for work undertaken two years prior to the period and it would be grossly unfair to include these payments in the calculation. "Earned" income should refer to the remuneration paid in respect of work undertaken in the 12-month period, rather than the date when prior-earned sums happened to vest. The remuneration related to work undertaken prior to the 12-month period should be removed from the calculation of relevant income, which reduces it from £1,318,367 to £745,000.

79 **DEPP 6.5C.2G(5), which is relied on by Mr Urra, is preceded by DEPP 6.5C.2G(4) which provides: *"An individual's "relevant income" will be the gross amount of all benefits received by the individual from the employment in connection with which the market abuse occurred (the "relevant employment") for the period of the market abuse…"* [emphasis added]. DEPP 6.5C.2G(5) then provides (in full): *"Where the market abuse lasted less than 12 months, or was a one-off event, the relevant income will be that earned by the individual in the 12 months preceding the final market abuse. Where the individual was in the relevant employment for less than 12 months, his relevant income will be calculated on a pro rata basis to the equivalent of 12 months' relevant income"*. The Authority considers that it is clear from DEPP 6.5C.2G(4) that the correct approach is to take as relevant income all payments received during the period of the market abuse, whether or not those payments related to prior periods but vested during the period of the abuse. In the Authority's view, the reference in DEPP 6.5C.2G(5) to income "earned" should not be taken to change the position in relation to the calculation of relevant income in cases (as this one) where the market abuse lasted for less than one year; the Authority does not understand the reference to "earned" to mean anything different from "received" in this context and there would be no logical basis for such a difference in approach.**

80 The Authority has also determined the seriousness level of the market abuse at Step 2 to be level 4. However, in addition to the factor set out at paragraph 6.16 of this Notice, the factor at DEPP 6.5C2G(16)(b) also applies: *"there was no, or limited, actual or potential effect on the orderliness of, or confidence in, markets as a result of the market abuse"*. The case sits squarely at seriousness level 2 for which 10% of relevant income is applied.

81 **The Authority does not agree that there was no, or limited, actual or potential effect on the orderliness of, or confidence in, markets as a result of the**

market abuse and, accordingly, does not agree that that factor provides any basis for reducing the seriousness below level 4, let alone to level 2.

Sanction

82 Whilst EG 9.3.2(4) includes an individual engaging in market abuse as one of a list of factors that the Authority will consider when assessing an individual's fitness and propriety, a prohibition order is not inevitable in a market abuse case. The test of fitness and propriety judges a person's character and circumstances generally, not how they may have behaved on an isolated occasion. Mr Urra has an unblemished disciplinary record and has had a long and successful career as a well-regarded and highly experienced regulated financial services professional. Further, at interview, Mr Urra's colleagues at MHI spoke of his reputation, significant commitment to his role and compliance focus.

83 The case against Mr Urra does not stand up to scrutiny. Further, a prohibition order would be a very severe response which would forever impede Mr Urra’s ability to seek employment in the future. A prohibition order is not a punishment but should only be imposed where it is necessary for the protection of a relevant interest. In this case, it is not necessary for the protection of consumers or markets and would impose an unwarranted and disproportionate stain on Mr Urra's hitherto good name.

84 **The Authority agrees that a prohibition order is not inevitable in a market abuse case. The Authority has taken into account Mr Urra’s record and the views of his colleagues as expressed in interview in considering what action is appropriate in this case, including whether a prohibition order is justified. However, the Authority does not agree that the case against Mr Urra does not stand up to scrutiny; it considers this to be a serious case of deliberate and dishonest market abuse. It is also not a case where market abuse was committed on an isolated occasion; rather, it was committed in multiple instances over a period of almost two months. In all the circumstances, the Authority considers a clear lack of integrity has been established on the part of Mr Urra, and that the prohibition imposed by this Notice is justified.**