Financial Conduct Authority

FINAL NOTICE

To:	Mark Stevenson
Date of Birth:	8 February 1963
FCA Reference Number:	MAS01168
Date:	20 March 2014

1. ACTION

1.1. For the reasons given in this notice, the Authority hereby:

(i) imposes on Mark Stevenson a financial penalty of £662,700 for engaging in market abuse (market manipulation); and

(ii) makes an order prohibiting him from performing any function in relation to any regulated activity carried on by any authorised or exempt person or exempt professional firm. This order takes effect from 20 March 2014.

1.2. Mr Stevenson agreed to settle at an early stage of the Authority's investigation. He therefore qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £946,800 on Mr Stevenson.

2. SUMMARY OF REASONS

2.1. Mr Stevenson, an experienced bond trader formerly employed by Credit Suisse Securities (Europe) Limited ("CSSEL"), bought £331 million of the UKT 8.75% 2017 (the "Bond"), a UK government gilt, between 09:00 and 14:30 on 10 October 2011.

The Bond was relatively illiquid and Mr Stevenson's purchases represented approximately 2,700% of the average daily volume traded for the Bond in the previous four months and 92% of the value of the Bond purchased in the IDB market on 10 October 2011. The price and yield of the Bond significantly outperformed all gilts of similar maturity on 10 October 2011, as a direct result of Mr Stevenson's trading.

2.2. This trading took place on the first day of the second round of Quantitative Easing in the UK. During Quantitative Easing the Bank of England purchased certain gilts from GEMMs, injecting money directly into the economy with the aim of improving liquidity, stimulating growth and moving inflation towards the 2% target. Offers for sale of eligible gilts to the Bank of England could be made by GEMMs between 14:15 and 14:45 on 10 October 2011. Mr Stevenson offered to sell £850 million of the Bond to the Bank of England on 10 October, which included the £331 million[1] acquired that day. Mr Stevenson's offer price to the Bank of England was based upon the prevailing market price for the Bond, which had been heavily influenced upwards by his trading that day.

2.3. The Authority has concluded that Mr Stevenson's trading on 10 October 2011 was designed to move the price of the Bond, in an attempt to sell it to the Bank of England at an abnormal and artificial level, thereby increasing the potential profit made from the sale of the Bond. In the event, the Bank of England identified the highly unusual price movement of the Bond and at 14:56, announced that it had rejected all offers received by it in that gilt "*…following significant changes in its yield in the run up to the auction*". This is the only time the Bank of England has ever taken such a step. Mr Stevenson stopped buying the Bond at 14:30 and by 15:30 on 10 October 2011, its intraday outperformance had completely reversed.

2.4. The Authority has concluded that Mr Stevenson's behaviour amounted to market abuse within the meaning of section 118(5) of the Act in that it gave a false or misleading impression as to the price of the Bond and secured the price at an abnormal or artificial level.

2.5. The Authority regards this as a particularly serious example of market abuse, which sought to profit unreasonably from Quantitative Easing, at the expense of the Bank of England and ultimately the taxpayer at a time when the economy was very weak and confidence in the UK financial system was low.

2.6. The Authority has concluded that Mr Stevenson was solely responsible for the abusive trading in the Bond on 10 October 2011. For the avoidance of doubt, neither CSSEL nor any individuals employed by CSSEL (other than Mr Stevenson) are subject to criticism as a result of the facts referred to in this Notice.

2.7. The Authority therefore imposes a financial penalty on Mr Stevenson in the amount of £662,700 pursuant to section 123(1) of the Act and makes a prohibition order 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;

[1] £25 million of the £331 million was sold back to an IDB following a trading error.

"the Asset Purchase Facility" means the mechanism by which the Bank of England repurchases gilts during Quantitative Easing as explained more fully in the Glossary;

"the Authority" means the Financial Conduct Authority (formerly the Financial Services Authority);

"BOE" means the Bank of England;

"the Bond" means the UK gilt UKT 8.75% 2017, also described as UKT 8 3 17 or 8 3 17 or UKT_8.75_250817;

"CF30" means controlled function 30 (customer function) as set out in the Authority's Handbook, which replaced CF21;

"Comparator Bonds" means those gilts of a similar maturity to the Bond and (save for UKT 4% 2022) falling in the same Quantitative Easing buyback maturity bucket as the Bond;

"GEMM" means a Gilt Edged Market Maker;

"IDB" means inter-dealer broker;

"QE" means Quantitative Easing (as further described in section 4);

"QE2" means the decision by the BOE's Monetary Policy Committee's decision to extend the Asset Purchase Facility by an additional £75 billion and restart the quantitative easing process; and

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber).

3.2. Certain of these terms and additional technical terms are explained more fully in the glossary at Appendix 2.

4. FACTS AND MATTERS

Mr Stevenson

4.1. At the relevant time in October 2011, Mr Stevenson was a bond trader with significant market experience, having traded in the market since 1985. He was employed by CSSEL in 2008 as a director on its London bond trading desk. Mr Stevenson traded a range of bonds including UK government gilts and gilt futures, operating a trading a book in his name and a joint book with a colleague. Given his significant market experience, Mr Stevenson was able to trade with a large degree of autonomy, designing and implementing his own trading strategies.

4.2. Mr Stevenson was an approved person and had held the CF21 or CF30 function from 2001 until October 2012.

Trading in the UK gilt market

4.3. The UK government bond market is an over the counter ("OTC") wholesale market. UK government bonds are more commonly referred to as gilts – a reference to the original gilt edging which was used on the bond certificates. Gilts are qualifying investments and despite most of their trading not taking place on exchanges, they are admitted to trading on a prescribed market.

4.4. UK gilts are a popular investment choice, particularly for pension funds and other long term investors and provide a predictable income stream in the way of 6 monthly coupon payments. They are widely traded, with the value of gilts turned over in the 2011-2012 financial year through the IDB market approximately £7.2 trillion.

4.5. Gilts are most commonly traded between GEMMs through IDBs, who are recognised by the UK Debt Management Office (an executive agency of HM Treasury) for that purpose. GEMMs are the only entities permitted to trade gilts through IDBs. Any other entity that wishes to trade gilts must trade with one of the 21 GEMMs and all GEMMs are obliged to provide market liquidity by providing quotes or prices at which they will trade.

4.6. Buyers "bid" a price to buy a gilt and sellers "offer" a price to sell, with trading done on an outright basis or a switch basis. Outright trading involves the sale/purchase of one gilt, akin to an equity trade, with the overall cost to the buyer being the market value for the gilt multiplied by the number purchased or sold. Switch trading involves the simultaneous sale of one gilt and purchase of another (or vice-versa), with the gain or loss on the trade being determined by the difference between the yields (the yield spread) of the two gilts in question.

4.7. A gilt is identified by reference to its coupon (that is, the yearly interest it pays, expressed as a percentage) and maturity date. For example, a 4% gilt with a maturity date of 2030 would be referred to as UKT (United Kingdom Treasury) 4% 2030. Gilts which pay a fractional interest rate (for example, 4¼%, 4½%, 4¾%) can be expressed as a decimal (for example, UKT 4.25% 2030), a fraction (UKT 4¼ 2030) or by a letter which reflects the fraction, with the letter Q meaning a quarter (UKT 4Q30), H meaning a half (UKT 4H30) and T meaning three quarters (UKT 4T30).

4.8. Unlike equities, which are universally valued with reference to their market price, bonds (including gilts) are usually valued in terms of their yield. Price and yield always move in opposite directions, so as the price of a bond or gilt rises its yield falls (and vice versa).

4.9. A gilt's performance can be measured in one of several ways, including by reference to the performance of gilts of a similar maturity. Evaluating a bond or gilt relative to comparable bonds provides a useful snapshot of its relative performance over time. For the purposes of the Bond, its Comparator Bonds are set out in the glossary at Appendix 2.

Quantitative Easing

4.10. By early 2008, the global economy had begun to experience significant economic challenges. The economy significantly slowed and credit markets tightened with a knock-on effect on the real economy.

4.11. The Chancellor of the Exchequer authorised the BOE to set up an Asset Purchase Facility to purchase high quality assets through a program of QE. The assets targeted for purchase in large quantity by the BOE were gilts.

4.12. The BOE purchased eligible gilts[2] in QE through a competitive reverse auction process. Between 14:15 and 14:45 on a QE reverse auction day, GEMMs were invited to submit offers to sell gilts to the BOE. This was a competitive process, with GEMMs stipulating a price they wished to achieve for the sale of the gilts. At 14:45, the 30 minute reverse auction window closed and the BOE took a snapshot of the DMO mid-market price for each gilt eligible for purchase on that day. All offers received by the BOE from GEMMs were then value-ranked relative to the mid-market price for the relevant gilt, with the cheapest offers being purchased first and more expensive offers being subsequently purchased, until the target size of the purchase operation was met.

4.13. The first round of QE ("QE1") in the UK commenced in early 2009 and ran until early 2010. The Bond was one of the gilts included (and purchased) by the BOE in QE1. Following a meeting of the BOE's Monetary Policy Committee in October 2011, it was decided to extend the Asset Purchase Facility by an additional £75 billion (and subsequently more) and to restart the QE process (referred to as "QE2"). QE2 ran from 10 October 2011 until May 2012.

4.14. During QE2, there were three reverse auction days each week with gilts of different maturity being eligible for repurchase on different days. On Mondays, gilts with a short residual maturity (initially 3 to 10 years, changed to 3 to 7 years in February 2012) were eligible, with longer dated buckets eligible for purchase on Tuesdays and medium dated on Wednesdays. In October 2011, the Bond had a residual maturity of 6 years and was therefore eligible for purchase by the BOE on Mondays. During QE2, the BOE allocated £1.5 to £1.7 billion to the asset purchase facility on each reverse auction day with which to purchase eligible gilts.

4.15. Unlike other market participants, the BOE was not primarily concerned with the profitability of its gilt acquisitions during QE, nor with their liquidity characteristics, but with the stimulus effect of those trades. As public money was involved (an indemnity was provided by the Government to indemnify against losses arising from the Asset Purchase Facility) it was also concerned with buying gilts which offered reasonable value for money, which was consistent with QE's stated aim of injecting funds into the economy. Gilts which were therefore less liquid were purchased by the BOE along with more liquid gilts, provided that they were being offered to the BOE at market price. With the BOE entering the market as a large, guaranteed buyer of gilts, QE gave market participants an opportunity to sell large numbers of gilts (including less liquid gilts) to the BOE. This may have made buying gilts in large numbers through the IDB market on QE days more difficult for market participants.

[2] A gilt was ineligible if the BOE owned 70% or more of its free float.

The Bond

4.16. The Bond is a relatively old, high coupon and fairly illiquid gilt, issued in 1992 at a time when the prevailing interest rates were at or around the Bond's coupon (8.75% per annum). The table below sets out average daily trading figures for the Bond and comparable gilts (the "Comparator Bonds") in the IDB market, and shows how the trading on 10 October 2011 impacted on the average daily value traded.

4.17. The Bond was considerably less liquid that the Comparator Bonds and the trading on 10 October 2011 caused an increase of over 36% in the 5 month average daily value of the Bond traded in the IDB market, a very large increase from a single day's trading. Mr Stevenson was responsible for 92% of all trading in the Bond on 10 October 2011. The majority of Mr Stevenson's trading of the Bond on 10 October 2011 was on a switch basis with the UKT 5% 2018 (that is, he bought the Bond and sold UKT 5% 2018).

Bond	Total value traded in 5 months from 1 June-31 October 2011 (£m)[3]	Average daily value ("ADV") traded (£m)[4]	ADV traded excluding 10 October 2011 (£m)	ADV change following 10 October 2011 (%)
UKT 1.75% 2017	9,984	175.1	175.76	- 0.4%
UKT 2% 2016	51,418	476.1	478.8	- 0.6%
UKT 4% 2016	16,759	155.2	156.3	- 0.7%
UKT 4% 2022	18,288	169.3	169.5	- 0.1%
UKT 4.5% 2019	7,987	73.9	74.5	- 0.8%
UKT 5% 2018	10,273	95.1	92.9	+ 2%
UKT 8.75% 2017	1,324	12.2	9.0	+ 35.5%

[3] These amounts have been rounded down to one decimal point.
[4] There were 108 trading days during this period.

Events from June 2011 to 9 October 2011

June 2011

4.18. Mr Stevenson's position in the Bond was first established on 14 June 2011. This was a purchase of £50 million from a sovereign wealth fund, an existing client of CSSEL. This was a typical client trade by CSSEL and one which was consistent with its obligation as a GEMM to provide market liquidity through client trading. Mr Stevenson dealt with the trade for CSSEL.

4.19. Two further acquisitions of the Bond (totalling £100 million) were made by CSSEL on 16 June 2011. These purchases were made by the GEMM side of the desk and were transferred to Mr Stevenson's proprietary book shortly after the acquisition.

1 July – 5 October 2011

4.20. Between 1 July and 5 October 2011, Mr Stevenson acquired further amounts of the Bond. Mr Stevenson had formed a view that the Bond was undervalued relative to other gilts and that it would be a good trading strategy to accumulate the Bond. Mr Stevenson believed there was considerable potential for the Bond to appreciate in value should further QE be introduced by the BOE. The first phase of QE had been halted in 2010 but Mr Stevenson agreed with some market commentators who felt that further QE was more likely than not.

4.21. On 29 September 2011, Mr Stevenson had a telephone conversation with Trader A, an acquaintance and employee of another GEMM. During the conversation, the following exchange took place in the context of QE:

STEVENSON:	*I mean I'll give you my sort of run down. So we're sort of thinking where the cusp could come, so obviously it could be 3 years and out but we're sort of fancy longs because 5 years and out is possible.*
TRADER A:	*Yes.*
STEVENSON:	*In which case 8 3 17 [i.e. the Bond] I mean they look off the dial-y cheap to me and who's … going to stop you putting them up.*
TRADER A:	*Yeah yeah.*
STEVENSON:	*I mean they're the same err you know same swap thing as 8 21 or are they were until 2 days ago until the basis went a bit bid.*
TRADER A:	*Yes.*
STEVENSON:	*And who's … going to stop them going 20 basis richer.*
TRADER A:	*Yeah yeah.*
STEVENSON:	*If [the BOE says its] buying them against the DMO's screen.*

4.22. The "cusp" refers to the maturity bucket starting point for QE reverse auction eligibility – that is, whether gilts with a residual maturity of 3 years or 5 years will be the eligibility starting point for the QE program. "Buy[ing] them against the DMO screen" refers to the process the BOE uses to buy gilts offered to it during QE – that is, ranking the value of offers relative to the DMO mid-price for the relevant gilt. "Putting them up" refers to the Bond increasing in value. "Going 20 basis points richer" means decreasing the yield of the Bond by 20 basis points with the price of the Bond increasing or becoming "richer" by an equivalent amount.

4.23. Between 28 September and 5 October 2011, Mr Stevenson did not purchase the Bond. The Bond did not trade at all in the IDB market between 30 September and 5 October 2011. There was a significant level of trading in the Comparator Bonds in the period between 30 September and 5 October 2011 (£648,230,000 of UKT 1.75% 2017, £504,850,000 of UKT 5% 2018 and £581,300,000 of UKT 4% 2016 were traded in the IDB market), illustrating the Bond's relative illiquidity. Mr Stevenson did not buy more of the Bond because QE2 had not been announced and there was no certainty that it would be. Mr Stevenson's described his strategy as "…*a trade idea for an event which might or might not occur*." QE was therefore a key factor in his strategy to buy more of the Bond.

6 October 2011

4.24. At midday on Thursday 6 October 2011, the BOE announced that QE would be reintroduced on 10 October 2011. The market notice released by the BOE confirmed that the Bond was potentially eligible for inclusion in the QE2 operation on 10 October 2011. At 16:00 on 6 October 2011, the BOE issued a further market notice, which stated that certain gilts would be excluded where the BOE owned more than 70% of the free float (free float information is freely available to the market), consistent with the approach taken in QE1. The BOE did not own more than 70% of the Bond meaning that it was not excluded from, and was eligible for, QE2.

4.25. Mr Stevenson purchased an additional £31 million of the Bond through the IDB market on 6 October 2011 through switch trades with one of the Comparator Bonds, UKT 1.75% 2017.

7 October 2011

4.26. On Friday 7 October 2011, £29.3 million of the Bond was traded by other market participants through the IDB market. Mr Stevenson did not acquire any more of the Bond, although he did actively trade gilts on 7 October 2011.

4.27. During the day, Mr Stevenson took part in a telephone conversation with Broker A, a friend of Mr Stevenson and an agency broker. During the telephone conversation with Broker A, Mr Stevenson said "*And we've been loading up with QE trades for months*", and "*QE's are … cake…*". The Authority has concluded that Mr Stevenson was indicating his belief that QE was an opportunity to profit from selling gilts to the BOE.

4.28. Mr Stevenson received a telephone call on 7 October 2011 from Risk Management at CSSEL, who were calling in respect of a profit and loss spike on a book jointly held by Mr Stevenson and another trader. Mr Stevenson explained on the telephone to the Risk Management officer that:

"*… I mean the MPC, the Bank of England has announced you know they're extending their asset purchase scheme yesterday, and you know we're preparing to… well we're buying some assets to sell to them, I mean basically that's what's going on*."

4.29. In other words, Mr Stevenson stated that he had been acquiring assets and his intention was to buy more, for the express purpose of selling them onto the BOE as part of QE2.

10 October 2011

4.30. Monday 10 October 2011 was the first day of QE2. Between 14:15 and 14:45 GEMMs could submit offers to sell gilts to the BOE through its B-Tender electronic platform. Buying gilts on QE days can be more difficult than non-QE days because sellers of eligible gilts are fully aware that a large buyer (that is, the BOE) will enter the market at 14:15.

4.31. At 07:34, Mr Stevenson made enquiries to try to find out if CSSEL's client from whom the initial acquisition of the Bond had taken place in June 2011 had any further amounts of the Bond for sale. No indication was received that this was the case.

4.32. At 08:49, Mr Stevenson contacted a broker at IDB A and asked for the yield spread between the Bond and UKT 1.75% 2017. Mr Stevenson also told the broker at IDB A that he was a buyer of the Bond.

4.33. Between 09:00 and 14:30, Mr Stevenson bought a total of £331.1 million of the Bond through the IDB market. This was 2,700% of the Bond's average daily trading value for the period from June to October 2011 and represented 92% of the purchases of the Bond in the IDB market that day. He purchased the Bond outright and through switch trades as follows:

(a) £57 million by buying the Bond outright at progressively higher prices;

(b) £254.1 million by buying the Bond and selling UKT 5% 2018 at an increasingly more expensive spread (that is, he paid increasingly more to acquire the Bond whilst selling UKT 5% 2018);

(c) £20 million by buying the Bond and selling UKT 1.75% 2017 at an increasingly more expensive spread (that is, he paid increasingly more to acquire the Bond whilst selling UKT 1.75% 2017).

4.34. The table at Appendix 1 sets out details of Mr Stevenson's trading in the Bond on 10 October 2011. Mr Stevenson had never previously traded the Bond in such significant volumes in a single day.

4.35. At 09:07, Mr Stevenson received a telephone call from Trader A, who was calling to speak to one of Mr Stevenson's work colleagues. Mr Stevenson and Trader A initially discussed trading generally and then discussed trading with respect to QE. Towards the end of the conversation, the following exchange took place:

STEVENSON:	*Well we're thinking about sort of doing something today but erm…*
TRADER A:	*I think you should just offer way up.*

STEVENSON:	*Well, it depends if you get it way up before, or offer way up.*
TRADER A:	*Yeah [laughs].*
STEVENSON:	*[Laughs]. If you see what I mean.*

4.36. The Authority has concluded that:

(a) "*Doing something today*" means making an offer into the QE reverse auction.

(b) "*Offer way up*" means offering gilts to the BOE at a high price.

(c) "*Get it way up before*" means moving the price of a gilt higher ahead of the reverse auction.

Buying the Bond outright

4.37. Mr Stevenson bought £57 million of the Bond outright in a series of 7 trades between 09:44 and 13:58 as set out in the table at Appendix 1. The increasing price at which Mr Stevenson was prepared to acquire the Bond on an outright basis can be contrasted with the gilt futures price, described by brokers at the time as trading at "*a new low*". It can also be contrasted with the increasing yield (and decreasing price) of the Comparator Bonds on 10 October 2011 as set out in Chart 1.

Buying the Bond through switch trades

<u>Trading the Bond vs UKT 5% 2018</u>

4.38. Mr Stevenson bought £254.1 million of the Bond on a switch basis against the UKT 5% 2018. These purchases took place in a series of 12 transactions between 10:26 and 14:27 and occurred at a yield spread of between -22 and -28.5 basis points. The most expensive purchase of the Bond by Mr Stevenson at -28.5 basis points at 14:01 and 14:13 represented a richening in the yield spread of the Bond against the UKT 5% 2018 of 10.5 basis points compared to his initial bid of -18 at 09:47.

4.39. Through this period of trading, Mr Stevenson consistently improved the level at which he was bidding for the Bond. The effect of this was to increase the price of the Bond relative to that of UKT 5% 2018 (and the other Comparator Bonds).

4.40. There was a pattern to Mr Stevenson's trading whereby he bought and then increased his bid within a short time frame. For example:

(a) At 12:17 he lifted an offer at -25 and he then immediately bid at -25.5.

(b) At 12:20 his bid at -25.5 was hit and he then immediately bid at -26.

(c) Between 12:23 and 12:31 his bid at -26 was hit four times and at 12.42 he bid at -26.5.

(d) At 12:51 he lifted an offer at -26.75 and then immediately bid at -27.

4.41. This style of trading, buying at one level and immediately rebidding at a higher level is known amongst traders as "facing". It is called this because the trading is "in your face" and is unusual in circumstances where the wider market is not moving in the same direction, because it is usually unnecessary to trade very aggressively if buying in a market where prices are generally falling. On 10 October 2011, the wider gilt market was moving in the opposite direction to the Bond and losing value and therefore the aggressive trading undertaken by Mr Stevenson was unlikely to have been necessary.

4.42. Mr Stevenson was the only market participant who provided bids in this switch to IDB B on this day and he will have been aware of the absence of other bidders throughout the day through his interaction with the IDBs.

4.43. As the day progressed and the level of the Bond's outperformance increased, it became apparent that some sellers were beginning to enter the market. For example, the broker at IDB B noted to Mr Stevenson that the seller with whom he traded at 12:20 was a different counterparty from the one who sold to him at 12:17. Despite this, Mr Stevenson continued to offer to pay increasingly more for the Bond.

4.44. Between 12:23 and 12:31 Mr Stevenson's bid at -26 was hit by four different counterparties resulting in Mr Stevenson buying £58.4 million of the Bond. Mr Stevenson continued to bid at -26 and then improved his bid at 12:42 to -26.5.

4.45. From around 13:45, additional sellers began to enter the market and a number of offers began to be made by other participants. Mr Stevenson's bids were hit 3 times at -28.5 (at 13:45, 14:01 and 14:13) and his bid at -28 was also hit (at 14:16).

4.46. Mr Stevenson's activity in the IDB market after the BOE reverse auction had commenced at 14:15 is particularly significant and the continued activity in the market informed the DMO mid-price which in turn informed the price of offers made to the BOE. In the 15 minutes between 14:15 and 14:30, Mr Stevenson purchased £56.7 million of the Bond on a switch basis against the UKT 5% 2018.

<u>Trading the Bond vs UKT 1.75% 2017</u>

4.47. At 09:00, a broker from IDB A noted in response to a request from Mr Stevenson that there had been a move in the yield spread between the Bond and the UKT 1.75% 2017 (from +10 to +9.5) which reflected a broader movement in the market, that is, a flattening in the yield curve.

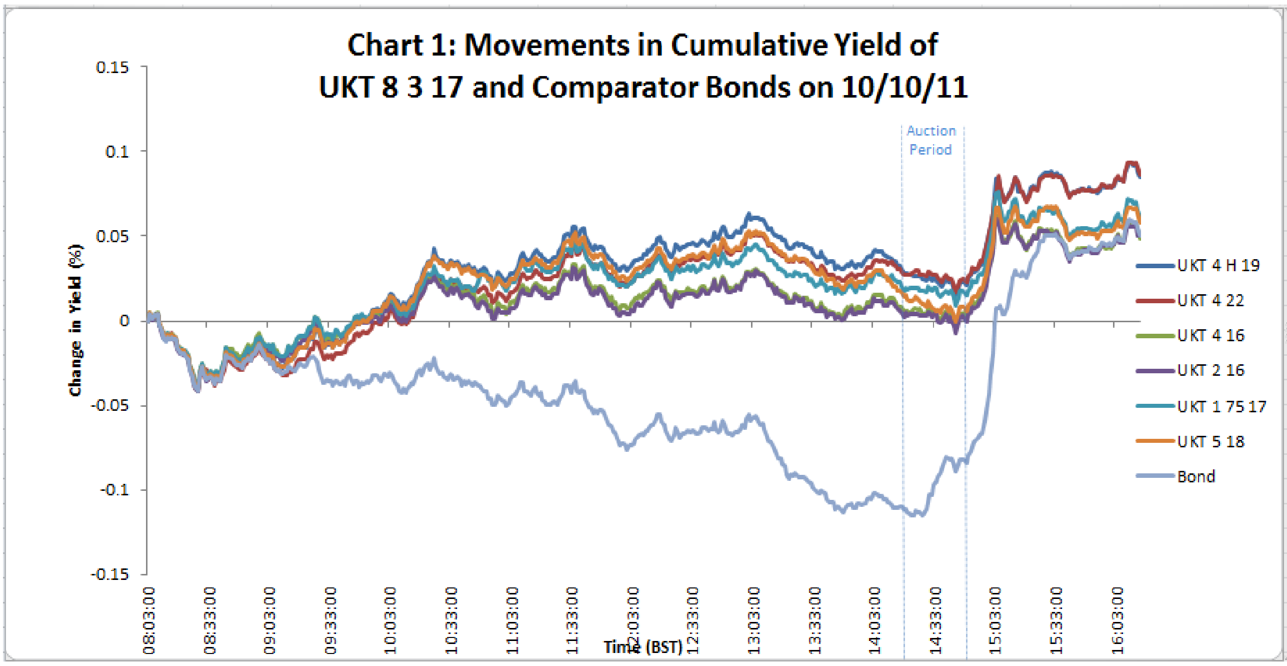
4.48. As the morning progressed, the Bond outperformed the UKT 1.75% 2017 such that the relationship between the two yields changed significantly. From approximately midday, the yield of the Bond became lower than that of the UKT 1.75% 2017. Thereafter, Mr Stevenson was prepared to buy the Bond against selling the UKT 1.75% 2017 and drop a negative yield rather than pick-up a positive yield, meaning that Mr Stevenson was effectively paying for the trade rather than receiving payment as he would have done earlier in the day.

4.49. Between 14:23 and 14:30, Mr Stevenson bought £20 million of the Bond on a switch basis against the UKT 1.75% 2017. These purchases took place in a series of 4 individual purchases and occurred at a yield spread of between -2 and -3 basis points. The average yield spread at which Mr Stevenson bought the Bond through this switch was -2.63 which represented a richening in the yield spread of the Bond against the UKT 1.75% 2017 of 11.63 basis points in comparison to the initial bid of +9 that he placed at 09:01. The most expensive purchase of the Bond by Mr Stevenson at -3 basis points represented a richening in the yield spread between the Bond and the UKT 1.75% 2017 of 12 basis points from the initial bid.

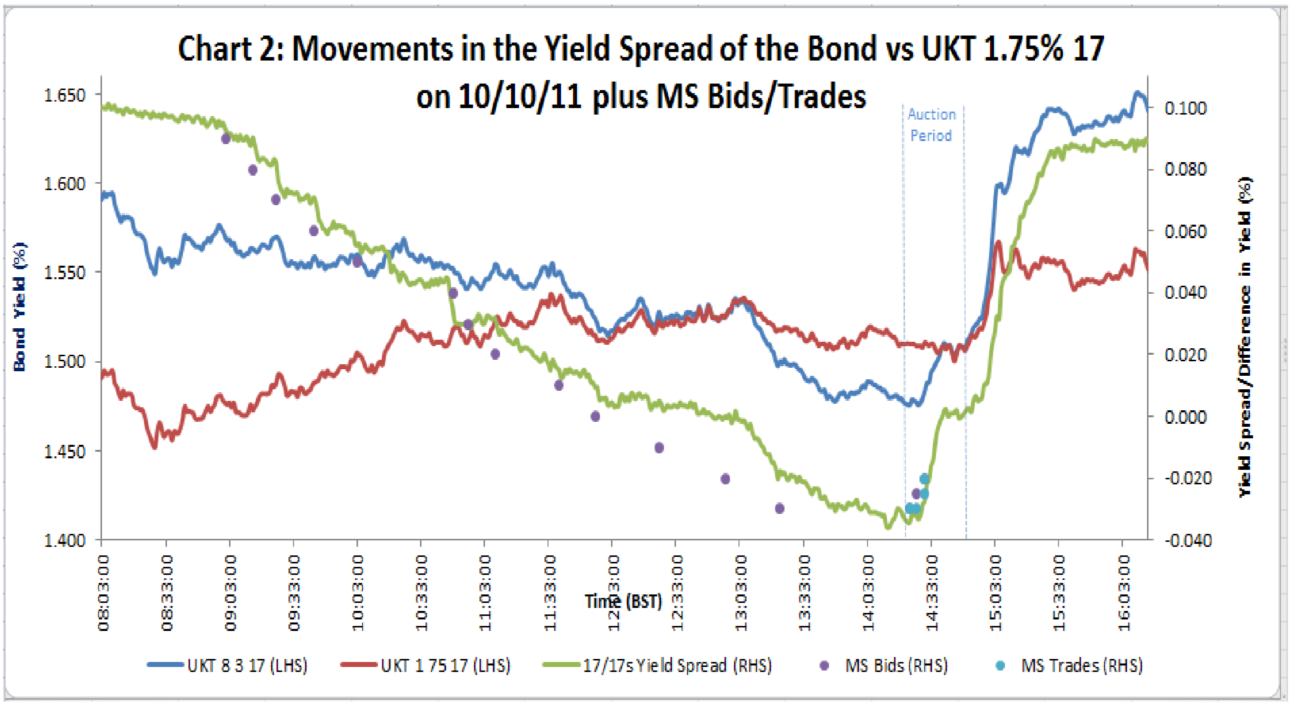
The impact of Mr Stevenson's trading

4.50. The three charts below demonstrate the significant impact Mr Stevenson's trading had on the Bond's yield and yield spread relative to other comparable bonds. For example:

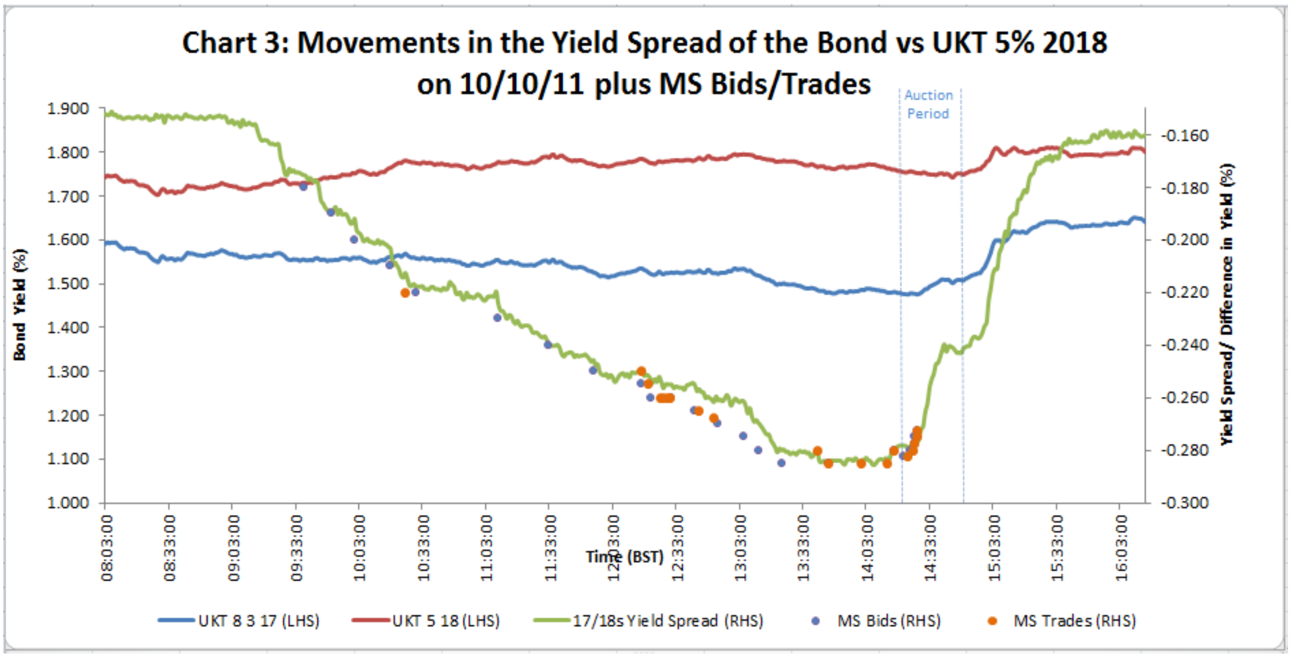
(a) Chart 1 shows the Bond outperforming all Comparator Bonds on 10 October 2011. From around 09:20, the Bond's yield decreases (reflecting a price increase) as the yield of all other Comparator Bonds increase (reflecting a price decrease). The yield spread between the Bond and the Comparator Bonds is at its widest at around 14:30. Following this, Mr Stevenson leaves the IDB market and ceases bidding for or trading the Bond. By approximately 15:30, the Bond's yield movement had fallen in line with each of the other Comparator Bonds, completely reversing its earlier outperformance.



(b) Chart 2 shows the movement in the yield of the Bond (UKT 8 3 17) and the UKT 1.75% 2017 (UKT 1 75 17) and the movement of the spread between the Bond and UKT 1.75% 2017 (17/17s Yield Spread) on 10 October 2011. The yield spread moves from approximately -9 to +3 between the times Mr Stevenson placed his first bid (09:01) and when he executed his last trade (14:30).



(c) Similarly, Chart 3 shows the movement in the yield of the Bond (UKT 8 3 17) and the UKT 5% 2018 (UKT 5 18) and the movement of the spread between them on 10 October 2011. The yield spread can be seen dropping throughout the day until around 14:30, at which time it begins to increase, until approximately 15:30 when it stabilises.



Offers submitted by Mr Stevenson to the Bank of England

4.51. The QE2 reverse auction ran from 14:15 to 14:45 on 10 October 2011. During this period, the GEMMs were able to submit offers to sell gilts through the BOE's B-Tender system during the auction period. Mr Stevenson was responsible for placing the offers in the Bond on behalf of CSSEL to the BOE.

4.52. Mr Stevenson submitted a number of offers through the B-Tender system during this time. Each offer superseded the previous one and only offers in the system as at 14:45 could be accepted by the BOE. As shown in the table below, the quantity of the Bond offered by Mr Stevenson increased from £800 million to £850 million and the price at which Mr Stevenson offered the Bond decreased during the auction.

Bond offers submitted by Mr Stevenson to the BOE on 10 October 2011

Time	Nominal (£m)	Price	Yield (%)	Total Consideration[5] (£m)[6]
14:17:15	800	140.7	1.486	1,134
14:17:59	800	140.701	1.486	1,135
14:32:30	850[7]	140.6	1.501	1,205
14:36:23	850	140.53	1.511	1,204
14:38:44	850	140.48	1.518	1,204
14:40:36	850	140.45	1.522	1,203
14:42:23	850	140.43	1.525	1,203
14:44:00	850	140.45	1.522	1,203

[5] The total consideration number reflects the nominal amount x the price plus accrued interest due on the Bond as at 10 October 2011.

[6] Rounded down to the nearest million.

[7] The change in quantity offered reflected an internal request by another trader on a different desk in CSSEL to add £50million to the offer to take into account another position held on a different book.

4.53. The size of Mr Stevenson's offer of the Bond into the QE2 reverse auction on 10 October 2011 was larger than all of the other offers in the Bond on 10 October 2011 combined and represented two-thirds of the value of the Bond offered to the BOE on 10 October 2011 and the total consideration payable by the BOE to CSSEL (had the offer been accepted by the BOE) would have been 70% of the amount (£1.7 billion) it had allocated to the reverse auction on 10 October 2011.

Events following submission of the offer

4.54. At 14:56, the BOE announced the "Asset Purchase Facility gilt purchase operation results" which included the following statement:

"*The Bank has decided to reject all offers against UKT_8.75_250817 following significant changes in its yield in the run up to the auction.*"[8]

4.55. The Bank therefore decided to reject all offers in the Bond – the only time that the BOE has ever taken such a step.

4.56. Shortly afterwards, the BOE contacted CSSEL. In a telephone conversation between senior representatives of the BOE and CSSEL, the BOE explained that it believed that the Bond had been traded in such a way so as to increase its price in order to sell it to the BOE at a distorted level, and that someone would contact the relevant trading desk at CSSEL to further investigate.

4.57. The BOE was concerned that the Bond was being offered to it at an inflated level, such that there would have been an additional, unacceptable cost to the taxpayer in buying at that level. The BOE therefore rejected all offers in the Bond.

The market's view of the trading

4.58. Several gilt market participants commented on the Bond's significant outperformance on 10 October 2011.

4.59. By 09:39 (38 minutes after Mr Stevenson began trading in the Bond), a market participant had telephoned the BOE regarding the Bond's outperformance. Several other market participants telephoned the BOE throughout the day, suggesting that the Bond had been "*squeezed*", "*rammed*", and that someone "*was messing around with*" it. One market participant said he could see no reason for the significant trading in the Bond on 10 October 2011 other than deliberately pushing the price higher in order to sell to the BOE later in the day

4.60. Some market participants declined to trade the Bond with clients on 10 October 2011, with one indicating that he would be prepared to do so only at the previous trading day's closing price in view of the unusual price movements. Other market participants commented on the scale of the outperformance.

Mr Stevenson's explanation for the trading

4.61. Mr Stevenson has stated that he bought the Bond on 10 October 2011 because he believed it was cheap and not with the definite intention of offering to sell it to the BOE

[8] "UKT_8.75_250817" is the Bond.

later that day. He stated that he traded the Bond throughout the day on 10 October 2011 in an open and transparent manner. He said that he continued to purchase the Bond until it reached what he believed was its fair value. He said that once the Bond reached what he believed was its fair value, he was entitled to offer it into the reverse auction.

4.62. Mr Stevenson said that one reason for offering the Bond into the QE reverse auction on 10 October 2011 was in order to rebalance the trading book. He said that the Bond was offered because it had reached what he believed was its fair value, but that he could have offered a number of other gilts instead.

The Authority's findings about Mr Stevenson's trading in the Bond

4.63. The Authority has reached the view that Mr Stevenson made the decision to purchase the Bond with a view to offering it to the BOE in the auction. He was aware that his trading in the Bond on 10 October 2011 would not only increase CSSEL's holding in the Bond but also increase its price. This was done in order to increase the return for CSSEL if its bid in the auction was accepted by the BOE.

4.64. The Authority has concluded that Mr Stevenson had formed an intention to offer the Bond into the next round of QE before 10 October 2011. He had an opportunity to buy more of the Bond before 10 October 2011 (both before and after QE2 was announced on 6 October 2011) but instead chose to buy an extremely large quantity on 10 October 2011 (92% of the value traded in the Bond through the IDBs and 2,700% of the Bond's 5 month daily average volume, the only time he has traded the Bond in this volume).

4.65. Mr Stevenson's trading in the Bond on 10 October 2011 had a significant effect on the price of the Bond, something Mr Stevenson would have been aware of at the time yet he continued to buy the Bond aggressively throughout the day. The comments made during the day by other market participants indicate how remarkable the movements in the Bond's price and yield were compared to the Comparator Bonds during the day. The Authority has concluded that Mr Stevenson's trading was designed to move the price of the Bond on 10 October 2011 and that he was not simply trying to acquire more of a bond that he perceived as being cheap.

5. FAILINGS

5.1. The legal and regulatory provisions relevant to this Decision Notice are referred to in Appendix 3.

5.2. In trading the Bond, Mr Stevenson was engaging in behaviour in relation to a qualifying investment admitted to trading on a prescribed market within the meaning of section 118(1)(a) of the Act and the market abuse provisions in Part VIII of the Act apply to his trading.

5.3. The Authority is satisfied that Mr Stevenson's trading in the Bond on 10 October 2011 was contrary to section 118(5) of the Act. Mr Stevenson deliberately traded in an aggressive style when purchasing the Bond which gave a false or misleading impression as to the price of the Bond and secured the price of the Bond at an abnormal or artificial level. The Authority finds that Mr Stevenson's trading on 10 October 2011 was intended not only to enable him to acquire the Bond but also to increase the price of the

Bond with a view to offering the Bond to the BOE at an artificial price. This is not trading for a legitimate reason or in accordance with accepted market practices.

5.4. Mr Stevenson's trading led to movements in the yield spread between the Bond and Comparator Bonds which were significantly outside their typical or normal ranges and the price levels for the Bond which resulted from this activity were abnormal. These abnormal price levels were also artificial, as there was no legitimate reason for the trading which led to the abnormal prices.

5.5. The Authority has had regard to the factors set out in the Code of Market Conduct (MAR) as to be taken into account when determining whether conduct amounts to market abuse. In particular, the Authority relies upon MAR 1.6.5E (not legitimate reasons), MAR 1.6.9E (false or misleading impression) and MAR 1.6.10E (abnormal or artificial price level). Extracts from MAR are set out in Appendix 3.

5.6. Mr Stevenson's trading in the Bond on 10 October 2011 constituted market abuse in that it was behaviour consisting of effecting transactions or orders to trade (otherwise than for legitimate reasons and in conformity with accepted market practices) which gave a false or misleading impression as to the price of the Bond and secured its price at an abnormal or artificial level (section 118(5)(a) and (b) of the Act).

6. SANCTION

Financial Penalty

6.1. Under section 123(1) of the Act, the Authority may impose a penalty on any person if it is satisfied that he has engaged in market abuse. Under section 123(2) of the Act, the Authority may not impose a penalty if there are reasonable grounds for it to be satisfied that he believed on reasonable grounds that his behaviour did not amount to market abuse, or that he took all reasonable precautions and exercised all due diligence to avoid behaving in such a way which amounted to market abuse. The Authority does not consider that there are grounds for it to be so satisfied in this case.

6.2. The Authority's policy for imposing a financial penalty is set out in DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5C sets out details of the five-step framework that applies in respect of financial penalties imposed on individuals in market abuse cases.

Step 1: disgorgement

6.3. At step 1, the Authority seeks to deprive an individual of the financial benefit derived as a direct result of the market abuse where it is practicable to quantify this. Mr Stevenson's offer of the Bond to the BOE on behalf of CSSEL was rejected and therefore no profit was immediately made by CSSEL and no benefit accrued to Mr Stevenson. Therefore the Authority has determined that the figure for step 1 is zero.

Step 2: Seriousness of the market abuse

6.4. At step 2, the Authority determines a figure dependant on the seriousness of the market abuse and whether or not it was referable to the individual's employment. Mr

Stevenson's market abuse was referable to his employment and therefore the figure for step 2 will be the greater of:

(a) A figure based on a percentage of the individual's "relevant income" (DEPP 6.5C.2(2)(a)G);

(b) A multiple of the profit made or the loss avoided by the individual for his 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") (DEPP 6.5C.2(2)(b)G); and

(c) For market abuse cases which the Authority assess to be seriousness level 4 or 5, £100,000 (DEPP 6.5C.2(2)(c)G).

6.5. No profit was made or loss avoided on 10 October 2011 because the BOE rejected the offer of the Bond into the QE2 reverse auction and therefore the Authority will use the greater of a figure based on a percentage of Mr Stevenson's relevant income or £100,000 as the starting point.

6.6. DEPP 6.5C.2(4)G provides that 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 for the period of the market abuse. Where the market abuse lasted less than 12 months or was a one-off event, DEPP 6.5C.2(5)G provides that the relevant income will be that earned by the individual in the 12 months preceding the final market abuse.

6.7. The market abuse took place on 10 October 2011 and was a one-off. Therefore, the relevant period for calculating Mr Stevenson's relevant income is the 12 month period ending on 10 October 2011. Mr Stevenson's relevant income in the 12 month period ending on 10 October 2011 was £2.367 million.

6.8. The Authority will determine the percentage of relevant income which will apply by considering the seriousness of the market abuse and choosing a percentage between 0% and 40%. The percentage range is 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 (DEPP 6.5C.2(8)G):

(a) level 1 – 0%;

(b) level 2 – 10%;

(c) level 3 – 20%;

(d) level 4 – 30%;

(e) level 5 – 40%.

6.9. In assessing the seriousness level, the Authority will take into account various factors in determining the level most appropriate to a market abuse case. These include factors relating to the impact and nature of the market abuse and factors tending to show whether the market abuse was deliberate or reckless (DEPP 6.5C.2(10)G).

6.10. DEPP 6.5C.2(11)G lists factors relating to the impact of the market abuse and include (a) the level of benefit intended to be gained by the individual from the market abuse; (b) whether the market abuse had an adverse effect of markets and if so, how serious that effect was; and (c) whether the market abuse had a significant impact upon the price of the investment.

6.11. DEPP 6.5C.2(12)G lists factors relating to the impact of the market abuse and include: (a) the frequency of the market abuse; (d) whether the individual has a prominent position in the market; (e) whether the individual is an experienced market professional; and (f) whether the individual held a senior position with the firm.

6.12. DEPP 6.5C.2C(13)G lists factors which tend to show the market abuse was deliberate and include: (a) 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; (b) the individual intended to benefit financially from the market abuse, either directly or indirectly; and (f) the individual was influenced to commit the market abuse by the belief that it would be difficult to detect.

6.13. DEPP 6.5C.2(15)G lists factors which are likely to be considered level 4 or 5 factors and include: (b) the market abuse had a serious adverse effect on the orderliness of, or confidence in, markets; (e) the individual has a prominent position in the market; and (f) the market abuse was committed deliberately or recklessly.

6.14. The Authority considers the following to be relevant in determining the level of seriousness:

(a) CSSEL stood to make significant sums of money had the offer of the Bond been accepted by the BOE and Mr Stevenson would have indirectly benefited from this.

(b) The market abuse had a significant impact on the market on 10 October 2011 and risked undermining market confidence and having a serious adverse effect on the orderliness of the market. The trading took place on the first day of the second round of QE (which was designed and implemented to stimulate the economy) and is the only time the BOE has rejected all offers in a bond. Some market participants refused to trade the Bond at all on 10 October 2011 because of the price movements and others may have suffered losses as a consequence of the decision of the BOE to reject all offers in the Bond.

(c) Mr Stevenson's trading took place during measures designed and implemented by the BOE to stimulate the economy and this trading significantly impacted upon QE on 10 October 2011. This trading had the potential to impact upon taxpayers, with the BOE potentially overpaying for the Bond and HM Treasury indemnifying the BOE for losses on gilt holdings purchased during QE.

(d) The price of the Bond, expressed through its yield spread with the Comparator Bonds, moved significantly on 10 October 2011. This movement was the largest or second largest yield spread movement relative to the Comparator Bonds. The table below sets this out, with a rank of 1 being the largest movement over the relevant time period and a rank of 2 being the second largest movement over the relevant time period.

Comparator Bond	Time period[9]	Trading days	Rank
UKT 1.75% 2017	11 August 2011 – 30 April 2012	182	1
UKT 2% 2016	5 November 2010 – 30 April 2012	363	1
UKT 4% 2016	2 January 2008 – 30 April 2012	1,089	1
UKT 4% 2022	27 February 2009 – 30 April 2012	798	2
UKT 4.5% 2019	18 November 2008 – 30 April 2012	868	1
UKT 5% 2018	2 January 2008 – 30 April 2012	1,087	2

(e) Mr Stevenson was a very experienced trader, having been a gilt market participant for over 25 years. He was employed by CSSEL as a senior trader and exercised significant autonomy.

(f) Mr Stevenson must have known that his trading on 10 October 2011 would impact upon the Bond's price significantly given that he placed increasing bids throughout the day. It would also have been as obvious to him as to other market participants that this was the case as his trading continued during 10 October 2011. His trading activity was carried out with this in mind, in order to drive the price higher through the day so that he could offer the Bond at these artificial levels to the BOE, in order for CSSEL to benefit from the increased sale price.

(g) Although the trading activity in issue took place on one day, it involved a repeated course of conduct during that day, representing 92% of the trading in the Bond on 10 October 2011.

6.15. Having considered these factors, the Authority has concluded that Mr Stevenson's conduct is at level 5 in terms of seriousness and therefore, the percentage of relevant income for step 2 is 40 %. This amounts to £946,800. As this amount is larger than £100,000, the step 2 figure is £946,800.

[9] The time period used is 2 January 2008 (or the date of issue of the Comparator Bond if after 2 January 2008) to 30 April 2012 (QE2 ended in May 2012).

Step 3: aggravating and mitigating factors

6.16. The Authority may increase or decrease the step 2 figure to take into account factors which aggravate or mitigate the market abuse. DEPP 6.5C.3(2)G lists factors which may have the effect of aggravating or mitigating the market abuse. Having considered each of the factors listed in DEPP 6.5C.3(2)G, the Authority has concluded that there are no aggravating or mitigating factors and no adjustment to the step 2 figure has been made. The step 3 figure is therefore £946,800.

Step 4: adjustment for deterrence

6.17. The Authority may adjust the figure arrived at after step 3 if it considers the figure is insufficient to deter the individual who committed the market abuse, or others, from committing further or similar abuse. DEPP 6.5C.4(1)G lists some of the circumstances in which the Authority may do this.

6.18. The Authority has concluded that no adjustment is necessary at Step 4. The step 4 figure is therefore £946,800.

Step 5: settlement discount

6.19. DEPP 6.5C.5G provides that the Authority and the individual on whom a penalty is to be imposed may seek to agree the amount of any financial penalty and other terms. In recognition of the benefit of such agreements, 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 reach agreement. DEPP 6.7.3G sets out the four stages of an action for the purposes of settlement discount:

(a) The period from commencement of an investigation until the Authority has:

(i) A sufficient understanding of the nature and gravity of the breach to make a reasonable assessment of the appropriate penalty; and

(ii) Communicated that assessment to the person concerned and allowed a reasonable opportunity to reach agreement as to the amount of the penalty ("stage 1");

(b) The period from the end of stage 1 until the expiry of the period for making written representations or, if sooner, the date on which written representations are sent in response to the giving of a warning notice ("stage 2");

(c) The period from the end of stage 2 until the giving of a decision notice ("stage 3");

(d) The period after the end of stage 3, including proceedings before the Tribunal and any subsequent appeals ("stage 4").

6.20. The reductions in penalties are as follows:

(a) Stage 1: 30%

(b) Stage 2: 20%

(c) Stage 3: 10%

(d) Stage 4: 0%

6.21. The Authority and Mr Stevenson reached agreement at stage 1 and so a 30% discount applies to the step 4 figure. The step 5 figure is therefore £662,700 (rounded down to the nearest £100).

Penalty

6.22. The Authority therefore imposes a total financial penalty of £662,700 on Mark Stevenson for market abuse.

Prohibition

6.23. The Authority considers that Mr Stevenson deliberately acted to increase the price of the Bond on 10 October 2011 and considers that this amounted to deliberate market abuse. His behaviour is particularly egregious as it took place on the first day of QE2 and effectively sought to deprive the economy from QE's full effect in order to maximise the potential profit from selling the Bond to the BOE in the QE2 reverse auction. The Authority considers that, as a result of this behaviour, Mr Stevenson lacks fitness and propriety in terms of his integrity.

6.24. The Authority therefore makes a prohibition order pursuant to section 56 of the Act prohibiting Mr Stevenson from performing any function in relation to any regulated activity carried on by any authorised or exempt person or exempt professional firm. This order takes effect from 20 March 2014.

7. PROCEDURAL MATTERS

Decision Maker

7.1. The decision which gave rise to the obligation to give this notice was made by the Settlement Decision Makers.

7.2. This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for Payment

7.3. The financial penalty must be paid in full by Mr Stevenson to the Authority by no later than 3 April 2014, 14 days from the date of the Final Notice.

If the financial penalty is not paid

7.4. If all or any of the financial penalty is outstanding on 4 April 2014, the Authority may recover the outstanding amount as a debt owed by Mr Stevenson and due to the Authority.

Publicity

7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to Mr Stevenson or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.6. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.7. For more information concerning this matter generally, contact Nick Bayley (direct line: 020 7066 5342) or Brett Harris (direct line 020 7066 5426) at the Authority.

Matthew Nunan

Project Sponsor

Financial Conduct Authority, Enforcement and Financial Crime Division

Appendix 1

Mr Stevenson's chronological trading in the Bond on 10 October 2011

Time	**Trade basis**	**Trade Volume**	**Price or Level[10]**	**Offer lifted/bid hit**
09:01	1.75% 2017 switch		+9	
09:14	1.75% 2017 switch		+8	
09:16	Outright		140.20	
09:25	1.75% 2017 switch		+7	
09:37	5% 2018 switch		-18	
09:43	1.75% 2017 switch		+6/-3	
09:44	Outright	£10million	140.26	Mr Stevenson lifts offer
09:50	5% 2018 switch		-19	
10:01	5% 2018 switch		-20	
10:03	1.75% 2017 switch		+5/-2	
10:18	5% 2018 switch		-21	
10:21	Outright	£3million	140.20	Mr Stevenson's bid is hit
10:22	Outright	£10million	140.20	Mr Stevenson's bid is hit
10:23	Outright	£5million	140.20	Mr Stevenson's bid is hit
10:26	5% 2018 switch	£38million	-22	Mr Stevenson lifts offer
10:30	5% 2018 switch		-22	
10:48	1.75% 2017 switch		+4/flat	
10:49	Outright		140.26	
10:55	1.75% 2017 switch		+3	
11:08	1.75% 2017 switch		+2/+1	
11:09	5% 2018 switch		-23	

[10] The price at which Mr Stevenson bids for or trades at on an outright basis, or the spread level at which Mr Stevenson bids or trades in respect of UKT 5% 2018 and UKT 1.75% 2017. Trades are shown in red.

11:25	Outright	£10million	140.34	Mr Stevenson lifts offer
11:33	5% 2018 switch		-24	
11:47	Outright	£14million[11]	140.38	Mr Stevenson lifts offer
11:47	Outright		140.38	
11:54	5% 2018 switch		-25	
12:17	5% 2018 switch	£9.7million	-25	Mr Stevenson's bid is hit
12:17	5% 2018 switch		-25.5	
12:20	5% 2018 switch	£20million	-25.5	Mr Stevenson's bid is hit
12:21	5% 2018 switch		-26	
12:23	5% 2018 switch	£58.4million[12]	-26	Mr Stevenson's bid is hit
12:25	1.75% 2017 switch		-1/4	
12:42	5% 2018 switch		-26.5	
12:46	5% 2018 switch	£24.6million	-26.5	Mr Stevenson's bid is hit
12:51	5% 2018 switch	£7.4 million	-26.75	Mr Stevenson lifts offer
12:53	5% 2018 switch		-27	
12:56	1.75% 2017 switch		-2/5	
13:05	5% 2018 switch		-27.5	
13:12	5% 2018 switch		-28	
13:22	1.75% 2017 switch		-3/6	
13:23	5% 2018 switch		-28.5	
13:45	5% 2018 switch	£9.7million	-28.5	Mr Stevenson's bid is hit
13:58	Outright	£5million	140.72	Mr Stevenson lifts offer
14:01	5% 2018 switch	£14.6 million	-28.5	Mr Stevenson's bid is hit

[11] This trade comprised two separate purchases that were aggregated into one trade

[12] This trade comprised 4 purchases each with a different counterparty which were aggregated into one trade. It was originally a trade for £58.4m but part of it (£24.3million) was sold back by Mr Stevenson at 13.49 due to a misunderstanding between the broker and the seller. The Bond was sold at a different level to the original purchase because the price in the market had moved and Stevenson therefore made a profit on this trade at the broker's expense – he bought at 26 and sold at 28.

14:13	5% 2018 switch	£15 million	-28.5	Mr Stevenson's bid is hit
14:13	5% 2018 switch		-28	
14:16	5% 2018 switch	£9.7million	-28	Mr Stevenson's bid is hit
14:21	5% 2018 switch		-28.25	
14:23	5% 2018 switch	£27million	-28.25[13]	Mr Stevenson's bid is hit
14:23[14]	1.75% 2017 switch	£5million	-3	Mr Stevenson's bid is hit
14:24	5% 2018 switch		-28	
14:25[15]	5% 2018 switch	£5million	-28	Mr Stevenson's bid is hit
14:26	5% 2018 switch		-27.75	
14:26	5% 2018 switch	£5million	-27.75	Mr Stevenson's bid is hit
14:26	5% 2018 switch		-27.5	
14:26	1.75% 2017 switch	£5million	-2.5	Mr Stevenson's bid is hit
14:26	1.75% 2017 switch		-2.5	
14:27	5% 2018 switch	£5million	-27.5	Mr Stevenson's bid is hit
14:27	5% 2018 switch		-27.25	
14:27	5% 2018 switch	£5million	-27.25	Mr Stevenson's bid is hit
14:30	1.75% 2017 switch	£5million	-2.5	Mr Stevenson's bid is hit
14:30	1.75% 2017 switch		-2	
14:30	1.75% 2017 switch	£5 million	-2	Mr Stevenson's bid is hit

[13] Credit Suisse's letter dated 20 June 2012 at Appendix 1 originally recorded this trade as at -28.5, but this was corrected to -28.25 in Credit Suisse's letter dated 18 September 2012.
[14] The purchases at 14:23 and 14:26 were aggregated into one trade
[15] The four purchases between 14.25 and 14.27 were aggregated into one trade.

Appendix 2

Glossary

Asset Purchase Facility: The scheme through which the BOE conducts QE. The BOE is allocated a defined sum of money by HM Treasury, and is responsible for purchasing bonds from the private sector. The BOE facilitates the reverse auction through a competitive reverse auction process. During QE2, the BOE held three auctions each week, with each held on a different day. Different maturity buckets of gilts were bought on each auction day. Gilts with a residual maturity of 3 to 10 years were purchased on Mondays; of over 25 years on Tuesdays; and of 10 to 25 years on Wednesdays. The BOE intended to purchase evenly across all maturity sectors and allocated £1.7 billion with which to purchase gilts on each auction day.

Entities wishing to sell eligible assets did so by offering those to the BOE at a fixed price in the reverse auction between 14:15 and 14:45. At the close of the 30 minute auction period/reverse auction window (14:45), the BOE took a snapshot of all offers and ranked those offers relative to the market mid-price for each particular gilt[16]. Those which offered the best value for money (that is, the cheapest offer relative to the market mid-price) were purchased first, with the BOE progressively buying more expensive gilts until all offers were purchased, or the £1.7 billion allocated to the reverse auction that day had been exhausted.

Bank of England ("BOE"): The UK central bank. One of the BOE's committees, the Monetary Policy Committee, is responsible for setting the UK's monetary policy, including setting interest rates and for QE. The BOE is also responsible for purchasing UK gilts during a phase of QE.

Basis point: A unit equivalent to one hundredth of a percentage point – for example, a 10 basis point movement is equal to a 0.1% movement. Basis point movement is often used to describe a shift in a gilt's yield, or a widening or narrowing of the price or yield spread between two gilts.

B-Tender system: The electronic platform through which the BOE operates the Asset Purchase Facility. This is the only system through which offers into the reverse auction can be made.

On a reverse auction day, each GEMM wishing to submit an offer is required to log in to B-Tender using its own username and password and enter details of:

- the gilt being offered;

[16] The 'market mid-price' used by the BOE during the Asset Purchase Facility is the DMO mid-price (see below for further explanation).

- the price at which the gilt is being offered; and
- the number of gilts being offered.

On 10 October 2011, the B-Tender system opened at 14:15 and closed at 14:45. GEMMs can submit offers at any time in this 30 minute period and amend or delete that offer within the same period. At 14:45, valid offers remaining in the system were ranked by the BOE.

Comparator Bonds: These are gilts in the same QE2 maturity reverse auction bucket (gilts with a residual maturity of 3 – 10 years) as UKT 8.75% 2017. These gilts were closest in maturity to UKT 8.75% 2017 and (with the exception of UKT 4% 2022 which was the cheapest to deliver gilt on 10 October 2011 but fell in a later maturity bucket) were included in the QE2 reverse auction on 10 October 2011, namely:

- UKT 2% 2016
- UKT 4% 2106
- UKT 1.75% 2017
- UKT 5% 2018
- UKT 4.5% 2019
- UKT 4% 2022

Coupon: The interest paid by the Government to the holder, expressed as an annual percentage. For example, assuming a gilt is issued at £100, a 4% gilt would pay two six monthly coupons of £2. Coupon rates broadly reflect the prevailing market interest rates at the time of the gilt's issue.

Debt Management Office (UK): The DMO, an agency of HM Treasury. The DMO is responsible for debt and cash management for the UK Government, including the management of the UK gilt market.

The DMO's gilt operation responsibilities include conducting regular auctions, and publishing daily reference prices and yields. Gilt auctions are a competitive process open to GEMMs only.

The price and yield information published by the DMO is collated from end of day mid-market closing price information supplied by each of the GEMMs and the IDBs. The DMO collates prices for each gilt and then publishes an average mid-price, along with other information.

DMO mid-price: The process that the DMO uses to arrive at its mid-price is identical for both end of day prices and intraday prices. The DMO receives a bid price and an offer price for each bond from each GEMM and a mid-price is then calculated for each gilt that an individual GEMM holds. The top and bottom outliers are then excluded and the remaining mid-prices are used to create an average mid-price. This is updated throughout the day as and when the average of the mid-price changes.

Gilt: A UK Government debt in sterling. There are several types of gilts however the most relevant to this notice is the conventional gilt.

A conventional gilt is a Government debt which guarantees to pay the holder a fixed coupon every six months until the maturity date, at which point the holder receives the final payment and the return of the principal.

Gilts are issued by the UK Debt Management Office through regularly scheduled auctions.

Gilt Edged Market Maker: A Gilt Edged Market Maker ("GEMM") is a primary dealer in gilts. GEMMs are endorsed by the DMO and undertake to make, on demand and in any trading conditions, continuous and effective two way prices in gilts. There were 20 GEMMs during QE2.

To be considered for appointment, an applicant must satisfy certain criteria. These include market capitalisation requirements and for that reason, all GEMMs are large firms. Once appointed, GEMMs must meet certain obligations on an ongoing basis. These obligations are focussed on ensuring that the gilt market remains suitably liquid. Certain benefits also accrue to GEMMs, including the right to take part in Debt Management Office gilt auctions.

Interdealer Broker ("IDB"): An interdealer broker matches buy and sell orders in wholesale markets. In the gilt market, IDBs provide buy and sell services solely to GEMMs. IDBs facilitate trading through both voice broking and electronic broking (including through messaging systems such as Bloomberg). There are currently six IDBs in the gilt market (five at the time of QE2).

Liquidity: The ability to buy or sell a security without moving the price. For gilts, liquidity will reflect the issue size, the free float size as well as the market turnover of the security in question.

As a general rule, older, higher coupon gilts are less liquid than newer, lower coupon gilts. They are less popular with investors as high coupon gilts generally trade at a premium to par or face value, resulting in a capital loss to investors on maturity.

Maturity date: The date upon which a gilt expires and the principal is returned to the holder. Gilts issued by the UK have varying maturities (usually between 10 and 50 years).

Monetary Policy Committee: The committee within the BOE responsible for setting monetary policy, including QE.

Outright trade: The simplest form of trade, involving a straight purchase or sale of an individual gilt. Outright trades are effected at a fixed price, typically linked to the relative attractiveness of the gilt's yield.

Quantitative Easing: An unconventional monetary policy used by central banks to stimulate the national economy when conventional monetary policy has become ineffective. It is implemented by buying financial assets from the private sector, thus injecting cash into the economy which can be used to purchase other assets.

Quantitative Easing buyback/ reverse auction: The process by which the BOE buys financial assets (such as gilts) from the private sector during QE. This is facilitated through the Asset Purchase Facility. In short, HM Treasury provides its approval to the BOE to create additional reserves of cash, and these additional reserves are used to finance the purchases.

Switch trade: A type of trade involving the simultaneous purchase of one gilt and sale of another, or vice versa.

Tick: The smallest possible movement in a given security. One tick in the gilt market equals a one penny movement in price.

Yield curve: A yield curve is a graphical representation of yields for financial instruments over different time periods.

Yield spread: The difference between the yields of two gilts, which narrows or widens depending upon yield movements in each gilt. The yield spread between two bonds helps investors determine the relative attractiveness of one gilt against another.

Yield to maturity: UK gilts use a "yield to maturity" approach, which is the overall return earned by an investor who purchases a gilt today at the market price, assuming the gilt will be held to maturity, and all coupon and principal payments are made on time. These future payments are taken into account in determining the yield to maturity, which differs from the simple yield approach, where the net present value of future payments are not considered.

Appendix 3

Legal and Regulatory provisions

Section 56 of the Financial Services and Markets Act 2000

56 Prohibition orders

(1) The FCA may make a prohibition order if it appears to it that an individual is not a fit and proper person to perform functions in relation to a regulated activity carried on by –

(a) an authorised person,

(b) a person who is an exempt person in relation to that activity, or

(c) a person to whom, as a result of Part 20, the general prohibition does not apply in relation to that activity.

[…]

Section 118 of the Financial Services and Markets Act 2000

118 Market abuse

(1) 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).

[…]

(5) The fourth 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 123 of the Financial Services and Markets Act 2000

123 Power to impose penalties in cases of market abuse

(1) If the Authority is satisfied that a person ("A")-

(a) is or has engaged in market abuse, or

(b) by taking or refraining from taking any action has required or encouraged another person or persons to engage in behaviour which, if engaged in by A, would amount to market abuse,

It may impose a penalty of such amount as it considers appropriate.

(2) But the Authority may not impose a penalty on a person if, having considered any representations made to it in response to a warning notice, there are reasonable grounds for it to be satisfied that-

(a) he believed, on reasonable grounds, that his behaviour did not fall within paragraph (a) or (b) of subsection (1), or

(b) he took all reasonable precautions and exercised all due diligence to avoid behaving in a way which fell within paragraph (a) or (b) of that subsection.

Section 119 of the Financial Services and Markets Act 2000

119 The Code

(1) The Authority must prepare and issue a code containing such provisions as the Authority considers will give appropriate guidance to those determining whether or not behaviour amounts to market abuse.

(2) The code may among other things specify-

(a) descriptions of behaviour that, in the opinion of the Authority, amount to market abuse;

(b) descriptions of behaviour that, in the opinion of the Authority, do not amount to market abuse;

(c) factors that, in the opinion of the Authority, are to be taken into account in determining whether or not behaviour amounts to market abuse;

(d) descriptions of behaviour that are accepted market practices in relation to one or more specified markets;

(e) descriptions of behaviour that are not accepted market practices in relation to one or more specified markets.

(2A) In determining, for the purposes of subsection (2)(d) and (2)(e) or otherwise, what are and are not accepted market practices, the Authority must have regard to the factors and procedures laid down in Articles 2 and 3 respectively of the Commission

Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC of the European Parliament and of the Council.

(3) The code may make different provision in relation to persons, cases or circumstances of different descriptions.

(4) The Authority may at any time alter or replace the code.

<u>The Code of Market Conduct</u>

The Code of Market Conduct (MAR) in the Authority's Handbook applies to all persons seeking guidance on the market abuse regime (MAR 1.1.1G). It provides assistance in determining whether behaviour amounts to market abuse but does not exhaustively describe all types of behaviour that may or may not amount to market abuse.

<u>MAR 1.6.5E</u>

Factors to be taken into account: "legitimate reasons"

In the opinion of the Authority the following factors are to be taken into account when considering whether behaviour is for "legitimate reasons", and are indications that it is not:

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

(2) if the person has another, illegitimate, reason behind the transactions1, or order to trade;

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

<u>MAR 1.6.9E</u>

Factors to be taken into account: behaviour giving a false or misleading impression

In the opinion of the Authority, the following factors are to be taken into account in determining whether or not a person's behaviour amounts to market abuse (manipulating transactions):

(1) the extent to which orders to trade given or transactions undertaken represent a significant proportion of the daily volume of transactions in the relevant qualifying investment on the regulated market, concerned, in particular when these activities lead to a significant change in the price of the qualifying investment;

(2) the extent to which orders to trade given or transactions undertaken by persons with a significant buying or selling position in a qualifying investment lead to significant changes in the price of the qualifying investment or related derivative or underlying asset admitted to trading on a regulated market;

[…]

(5) the extent to which orders to trade given or transactions undertaken are concentrated within a short time span in the trading session and lead to a price change which is subsequently reversed;

[…]

(7) the extent to which orders to trade are given or transactions are undertaken at or around a specific time when reference prices, settlement prices and valuations are calculated and lead to price changes which have an effect on such prices and valuations.

MAR 1.6.10E

Factors to be taken into account: behaviour securing an abnormal or artificial price level

In the opinion of the Authority, the following factors are to be taken into account in determining whether or not a person's behaviour amounts to market abuse (manipulating transactions):

(1) the extent to which the person had a direct or indirect interest in the price or value of the qualifying investment or related investment;

(2) the extent to which price, rate or option volatility movements, and the volatility of these factors for the investment in question, are outside their normal intra-day, daily, weekly or monthly range; and

(3) whether a person has successively and consistently increased or decreased his bid, offer or the price he has paid for a qualifying investment or related investment.

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

The Fit and Proper Test for Approved Persons in the Authority's Handbook sets out the criteria that the Authority will consider when assessing the continuing fitness and propriety of approved persons (FIT 1.1.2G).

FIT 1.3.1G provides that the Authority will have regard to a number of factors when assessing the fitness and propriety of a person to perform a particular controlled function, the most important of which are:

(1) honesty, integrity and reputation;

(2) competence and capability; and

(3) financial soundness.

FIT 2.1 sets out the factors which the Authority will consider when determining a person's honesty, integrity and reputation. The Authority will consider all relevant matters including, but not limited to, those set out in FIT 2.1.3G. The matters in FIT 2.1.3G include:

(3) whether the person has been the subject of, or interviewed in the course of, any existing or pervious investigation or disciplinary proceedings by the Authority or other regulators;

(4) whether the person is or has been the subject of any proceedings of a disciplinary or criminal nature;

(5) whether the person has contravened any of the requirements and standards of the regulatory system;

(10) whether the person has been investigated, disciplined, censured or suspended or criticised by a regulatory or professional body.

In assessing Mr Stevenson's fitness and propriety, the Authority had regard to his honesty, integrity and reputation and all relevant matters relating to this.

Decision Procedure and Penalties Manual (DEPP)

Section 124 of the Act requires the Authority to issue a statement of policy with respect to the imposition of penalties for market abuse and the amount of such penalties. The Authority's policy in this regard is contained in Chapter 6 of DEPP as applicable from 6 March 2010. In deciding whether to exercise its power to impose a financial penalty under section 123 of the Act, the Authority must have regard to this statement.

DEPP 6.2 sets out a number of factors to be taken into account when the Authority decides to take action for a financial penalty. The factors are not exhaustive, but include the nature and seriousness of the suspected breach and the conduct of the person after the breach.

In deciding whether to exercise its power under section 123 of the Act in the case of any particular behaviour, the Authority must have regard to the statement of policy published under section 124 of the Act. In determining the penalty to be imposed on Mr Stevenson, the Authority has had regard to DEPP 6.

DEPP 6.3 sets out factors which the Authority may take into account in determining whether the conditions in section 123(2) of the Act are met. Relevant factors include:

(a) whether, and if so to what extent, the behaviour in question was or was not analogous to behaviour described in the Code of Market Conduct as amounting or not amounting to market abuse (DEPP 6.3.2(1)G);

(b) whether the Authority has published any guidance or other materials on the behaviour in question and if so, the extent to which the person sought to follow that guidance or take account of those materials. The Authority will consider the nature and accessibility of any guidance or other published materials when deciding whether it is relevant in this context and, if so, what weight should be given (DEPP 6.3.2(2)G);

(c) the level of knowledge, skill and experience to be expected of the person concerned (DEPP 6.3.2(4)G);

(d) whether, and if so to what extent, the person can demonstrate that the behaviour was engaged in for a legitimate purpose and in a proper way.

DEPP 6.4 sets out factors which the Authority may take into account in determining whether to impose a financial penalty or public censure. These factors include:

(a) whether or not deterrence may be effectively achieved by issuing a public censure (DEPP 6.4.2(1)G);

(b) if the breach is more serious in nature or degree, this may be a factor in favour of a financial penalty, on the basis that the sanction should reflect the seriousness of the breach; other things being equal, the more serious the breach, the more likely the Authority is to impose a financial penalty (DEPP 6.4.2(3)G);

(c) The Authority's approach in similar previous cases: the Authority will seek to achieve a consistent approach to its decisions on whether to impose a financial penalty or issue a public censure.

DEPP 6.5 sets out the principles relating to the Authority's penalty setting regime and DEPP 6.5C sets out the five step framework that applies in respect of financial penalties imposed on individuals in market abuse cases. Details of this framework are set out in the body of this Notice.

<u>The Enforcement Guide (EG)</u>

Chapter 7.1 of EG provides that the effective and proportionate use of the Authority's powers, rules and Statements of Principle for Approved Persons will play an important role in the Authority's pursuit of its statutory objectives. Imposing financial penalties, suspensions and public censures shows that the Authority is upholding regulatory standards and helps to maintain market confidence and deter financial crime.

Chapter 9 of EG sets out the Authority's policy in respect of prohibition orders. Chapter 9.1 of EG provides that the Authority may exercise its power under section 56 of the Act to make a prohibition order where it considers that, to achieve any of its statutory objectives, it is appropriate to either prevent an individual from performing any function in relation to regulated activities, or to restrict the functions which he may perform. EG 9.9 states that when it decided whether to make a prohibition order against an approved person, the FCA will consider all the relevant circumstances of the case, which may include whether the approved person has engaged in market abuse.

Chapter 9.17 provides that when considering making a prohibition order against an individual who is not approved, the Authority will consider the severity of the risk posed by the individual and may prohibit the individual where it considers this is appropriate to achieve one or more of its statutory objectives. Paragraph 9.18 provides that when considering whether to exercise its power to make a prohibition order against an individual who is not approved, the Authority will consider all the relevant circumstances of the case.

Chapter 9.23 provides that in appropriate cases the Authority may take other action against an individual in addition to making a prohibition order, including the use of its power to impose a financial penalty.