MARKET ABUSE IN MODERN FINANCIAL SYSTEMS: DETECTION, REGULATION, AND ENFORCEMENT

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Abstract: *Market abuse, encompassing insider trading and market manipulation, poses significant risks to the fairness and transparency of financial markets. This article explores the evolution of market abuse regulation across different jurisdictions, evaluates the effectiveness of enforcement mechanisms, and highlights emerging challenges such as high-frequency trading and cross-border violations. Drawing from international literature and regulatory practices, the study finds that while legal frameworks have become more robust, enforcement remains inconsistent. The article concludes by recommending enhanced surveillance technologies, cross-border cooperation, and stronger penalties to improve deterrence and maintain market integrity.*

Keywords: *Market abuse, insider trading, market manipulation, financial regulation, enforcement, high-frequency trading, Market Abuse Regulation (MAR), compliance*

Market abuse undermines investor confidence and distorts the price discovery process, threatening the overall stability of financial markets. As financial systems globalize and trading technologies evolve, market abuse has become more complex and difficult to detect. This paper aims to analyze how different regulatory systems combat market abuse and assess the strengths and weaknesses in enforcement practices globally. This study uses a qualitative review approach, synthesizing findings from peer-reviewed articles, legal frameworks, and regulatory reports. Primary sources include analyses from jurisdictions such as the United Kingdom, the European Union, the United States, and South Africa. Emphasis is placed on insider trading, market manipulation, and the evolution of enforcement practices over time. The main participants in the securities market are the government, local authorities, large and international companies. Due to their high reputation, these participants can issue and place securities with relatively little effort, as the market is always ready to absorb large volumes of such securities. However, despite their high level of reliability, these securities do not always guarantee high returns. Nevertheless, because of their reliability, certain segments of the population—such as pensioners, individuals living alone, and families who have lost their breadwinners—prefer to invest their funds in such securities without taking significant risks.[1]

Market abuse broadly covers:

• Insider Trading: Trading securities based on material non-public information.

• Market Manipulation: Creating a misleading appearance of market activity or price movement.

These behaviors disrupt market integrity and give certain actors unfair advantage.

United Kingdom: The Financial Services and Markets Act 2000 and the Criminal Justice Act 1993 criminalize market abuse, with oversight by the Financial Conduct Authority. [2]

• European Union: The Market Abuse Regulation (MAR) broadens definitions and imposes stricter compliance requirements.[3]

• United States: Enforcement under the SEC includes criminal and civil penalties for insider trading and manipulation.[4]

• South Africa: The Financial Markets Act 19 of 2012 attempts to modernize and enhance enforcement capability. [5]

• Low Conviction Rates: Regulatory bodies often struggle to gather sufficient evidence for criminal conviction.[6]

• Technological Sophistication: High-frequency trading (HFT) creates new forms of abuse that traditional methods fail to detect.[7]

• Cross-Border Offenses: Globalized markets require international regulatory cooperation, which remains limited.[8]

Despite strong legal frameworks, market abuse continues to persist due to enforcement inefficiencies, especially in proving intent and gathering digital evidence. Market surveillance technology, including algorithmic trade analysis and anomaly detection systems, are becoming increasingly vital. [9] Efforts like MAR and similar global legislation show promise, but harmonized international enforcement remains a critical missing link.

Conclusion. Market abuse threatens the integrity of financial systems worldwide. While progress has been made in regulation, improved enforcement, international cooperation, and technological innovation are necessary to combat increasingly sophisticated abuses. Future reforms must focus on strengthening detection systems, closing jurisdictional gaps, and imposing meaningful penalties to serve as effective deterrents.

References:

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