

FSA's Code of Market Conduct makes London a safer market for investors

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New survey finds the Code led to dramatic fall in large share price movements ahead of announcements.

Movements in share prices of 5% or more ahead of non-routine regulatory announcements fell by nearly 50% since the Financial Services Authority (FSA) introduced its Code of Market Conduct in December last year, according to new research by data technology group Knowledge Technology Solutions PLC (KTS). This research is now available on MarketTerminal, KTS's flagship real-time market information system.

On 1st December 2001, the FSA introduced its Code of Market Conduct and the threat of civil penalties to company directors found guilty of "market abuse". The Code was introduced with the intention of making London's markets stronger. The FSA said last year: "We are not out to trap the accidental offender: the aim is to outlaw insider trading and other clearly abusive practices. Research has shown that effective policing of insider trading reduces risk for investors and lowers the cost of capital for firms. So London's markets will be stronger."

The research on share price movement measured only untimetabled financial stock exchange announcements, such as those to do with mergers, acquisitions, new products, director appointments or company trading updates. It also excluded predictable events such as company interim and final results, as well as very routine regulatory announcements such as Rule 8 Disclosures and Net Asset Values.

Results showed that daily share price movements of 5% or more (up to three days ahead of an announcement) in October and November 2001, were dramatically reduced following the introduction of the new Code of Market in December. In the run up to the introduction of the new Code, in October 2001 there were 1024 moves of 5% or more preceding untimetabled price sensitive, non-routine regulatory announcements, and in November there were 1276 price moves prior to announcements of this type. When on 1st December the new Code came into force, there were only 669 price moves in that month. In January 2002, the number of similar price swings fell to 599. Allowing for market volatility, the research indicates that the FSA's new Code appears to have been effective.

Commenting on the figures, Dr Marc Pinter-Krainer, the CEO of KTS, said:

"We have carried out this research as part of a series of market studies on behalf of our clients using our MarketTerminal financial information service. By bringing in its Code of Market Conduct, the FSA aims to make London a stronger, better financial centre which has the trust of investors. From equity trading patterns we have seen so far, its Code does appear to have made a significant impact in reducing swings in share prices ahead of unexpected company announcements."