This reflection aside, the book is a truly invaluable contribution to the study of EU social governance for any scholar engaging in an interdisciplinary study of the social dimension of the European integration process.

Samantha Velluti


This book provides an exhaustive and systematic analysis of the practice and regulation of market abuse in the financial sector. The choice of such a research topic is not surprising: market abuse is the generic name referring to a variety of economic practices the common denominator of which is the creation of false impressions about the economic value of issuers in financial markets and the instruments that depict this value. Evidently, this affects the heart of the functioning of financial markets as an efficient allocation of funds mechanism and is indeed considered the pathology of the financial sector. While this is an old phenomenon, its _topicality_ is immense. Not only is there a general trend in the financial sector of increasingly shifting the focus of attention towards the securities markets as the preferred and more efficient method for the allocation of resources, rather than the (traditional for some markets) banking financing. There are also specific reasons for the renewed interest in the topic of market abuse in particular: new insights on market abuse following the recent corporate crises in the US (like Enron), plus new data on the basis of how these practices are carried out in the modern more integrated global financial markets, requires analysis anew in an interdisciplinary, modern and systematic fashion. It is to this conceptual and academic need that Dr. Avgouleas’ book responds. Within the EU context, in particular, the topicality of the theme becomes even more accentuated by another shift of focus, this time from the pre-occupation with setting in place a framework for creating a single European financial market (the so-called ‘integrating’ measures) to the establishment of rules that seek to regulate problems of an integrated single market (i.e. ‘post-integration’ or ‘post-harmonization’ measures). This distinction is taken up by the author, at p. 240 (as well as by other researchers in this field, e.g. see Niamh Moloney, _New Frontiers in EC Capital Markets Law: From Market Construction to Market Regulation_, 40 Common Market Law Review, 809–843 (2003)) and serves to demonstrate the novel EU interest in post-harmonization matters such as market abuse, that are considered as the ‘core’ of securities regulation in the US.

The main aim of the work is to seek to contribute to the ‘deterrence and punishment of market abuse, as well as enhance the efficient function of contemporary
financial markets' (at p. 21). In order to respond to such a demanding research question, the author makes use of inter-disciplinary tools, by applying both economic and legal analysis to his topic, as the sub-title of the book also suggests. In other words, a twin concern of the book is to: firstly, examine what and how market abuse operates in financial markets (an economic analysis); secondly, given the insights from the former analysis, explore the efficiency of the current regulatory strategy on market abuse and how this can be improved to provide optimal results in terms of decreased occurrence of the phenomenon (a legal analysis).

As concerns now the scope of the work, on the one hand, the concept of market abuse is examined in its two main expressions: insider dealing and market manipulation. On the other hand, the regulatory environment used as a framework of reference upon which to apply the findings of the economic analysis is the EU legal framework, complete with an extensive review of its implementation in a country with probably the deepest and oldest financial markets in the world, i.e. the UK. Despite the discussion of the matter within the particular EU and UK legal orders, the usefulness of the research cannot be underestimated: given the (in)famous inter-dependence of economies and markets of our times, it is not only the economic analysis of market abuse that can have universal application; indeed, also legal approaches and regulatory solutions tend to cross-fertilize and possibly even converge. This inter-dependence is to be found, for example, behind the apparently 'proactive' EU regulation of market abuse (i.e. not as a reaction to any particular crisis, as is often the case in financial regulation), which is, in reality, also 'reactive' in character, if one considers the recent US corporate scandals owed also to instances of market abuse. In this respect, the incorporation of examples and research insights from the US context renders this study truly comprehensive and global in its appreciation and usefulness.

In the economic analysis of market abuse the framework of analysis employed is finance theory, while traditional legal analysis is the tool used in the second part of the work. Finally, in the intersection of the two analyses, i.e. the application of the findings of the economic analysis to the legal framework of the prohibition and punishment of market abuse in the EU and the UK, the author employs the methodological tool of economic analysis of law, justified by the fact that, more so in securities law than in other legal disciplines, the main rationales of regulation are economic considerations of efficiency that make the case for a 'law and economics' approach stronger, if not imperative. The core findings and related proposals of the book can be summarized in the following: firstly, a redefinition of the concept of market manipulation so as to provide increased certainty as to the practice that can be held to constitute such an offence. Secondly, the establishment of a general right of action for insider trading and market manipulation; and thirdly, the resolution of the insider dealing debate by resort to the 'social norms' theory, which would help highlight societal preferences on the issue' (at p. 16), in addition to investor protection and efficiency considerations, which combined, call for a prohibition of the practice.
If now one wanted to sketch an outline of the main body of the work, one would find that this is also based on the dual approach of economic and legal analysis, in that order. Thus, chapters 2–5 (inclusive) are dedicated to the former, while chapters 6–9 (inclusive) to the latter. The first part of chapter 2 provides a bird’s eye view of the financial markets world. This includes a survey of the possible ways of classifying the various types of financial markets; an exploration of the role and functioning of stock exchanges; market composition and the growth of institutional investors particularly through collective investment schemes; financial innovation and its results (new products such as derivatives, and new trading practices such as program trading or portfolio insurance etc.). The second part of this chapter, instead, deals with the theoretical framework behind the functioning of financial markets. The most established (in terms of ‘solid empirical evidence’, p. 48) theoretical view for explaining and understanding them is the Efficient Capital Market Hypothesis (ECMH) which can be essentially described as holding that the price of a security reflects the information available on that security. In that sense ECMH is based on rationality expectations on the part of the investors. Nevertheless, recently developing theories such as ‘behavioural finance’ and ‘chaos theory’ have come to show that investor behaviour is much more complex and perhaps much more repetitive and predictable than the rationality assumption of the ECMH would have us believe (at p. 73). But adhering to the explanations of one over the other economic theory has repercussions on the regulatory approach to be followed; indeed, behavioural finance and chaos theories have provided the basis for calls for deregulation in the securities markets and the redundancy of e.g. the insider trading prohibition. The author’s finding in this respect is that these theories (which he calls post-modern) contribute to and refine the ECMH theory but do not seem to offer conclusive and solid evidence that would suffice to discard it completely, therefore their importance lies in focusing our (scarce so far) attention on market institutions and market microstructure, instead.

One such aspect of market microstructure is market abuse, the two faces of which (insider trading and market manipulation), are taken up in chapters 3 and 4, respectively. Chapter 3 firstly provides an overview of the literature on the impact of insider trading on market efficiency. The author’s conclusion is that there is ultimately a stronger case for considering insider dealing harmful to market efficiency, which serves to provide a rationale for requiring disclosure in a legal and regulatory framework. A final section of this chapter is then dedicated to exploring the relationship between various inter-related concepts: the author finds that corporate fraud exacerbates occurrences of market abuse by contributing to the creation of a favourable environment for its perpetration; market abuse and market ‘bubbles’, even though not entailing any element of deception, are mutually facilitating factors since the latter create opportunities for concealing insider dealing practices, while market abuse can perpetuate, although not create, a ‘bubble’; weak corporate governance can again facilitate the occurrence of market abuse practices; finally, insider trading and market manipulation are two
closely related concepts, as they both constitute market abuse, with the sole
difference that the former is information-based manipulation, while the latter
trade-based manipulation.

The second of the twin concepts of market abuse, i.e. market manipulation, is
taken up in chapter 4. A first part of it is concerned with the basic problem of
defining market manipulation, since difficulties in accurately describing it gives
rise to problems of applying it in a legal and regulatory context. The author
reviews the various definitions that have been suggested thus far and comes up
with an, arguably, more workable definition of the concept of market manipula-
tion that presents it in a more synthetic manner, taking also into account the
characteristics of modern financial markets. In the third and final part of this
chapter, the author then applies the new definition to case-studies, thereby com-
ing up with a new classification (albeit not exclusive, as he notes, p. 154) of market
manipulation practices. He roughly distinguishes them in, (a) information-
based manipulations, (b) manipulations based on artificial transactions and (c)
price manipulations (which, in turn, are further elaborated in other distinc-
tions). He then concludes that (a) and (b) above 'are probably a species of fraud' (p. 154)
but that they should still constitute a separate offence, given their adverse influence
on the market's price formation mechanism, while as concerns cases falling
under (c), since they seem to not be very straightforward, with possibility of abuse
e.g. 'of one price effect in order to influence the profitability of positions held on
another market' (p. 155), it would be perhaps prudent to require the examination
of the simultaneous existence of different cross-market positions or open contracts
held, or, in other cases of 'suspicious' trading to establish 'a refutable presumption
of intent to manipulate the market'.

Chapter 5 examines the rationale and welfare effects of prohibiting insider deal-
ing and market manipulation. It does so by firstly surveying general theories of
regulation and applying them to financial markets regulation (including the
emerging 'behavioural' theory of regulation, whose merits are also explored). In a
second section of the chapter, the specific regulatory tool of mandatory disclosure
and the literature on its pros and cons are examined. The analysis at this point is
dense and exhausting and the summary provided here does not do justice to its
convincing power, but due to space restrictions it should suffice here to note that
the author ultimately argues in favour of using mandatory disclosure, on the basis
that a liberalized regulatory setting might be optimal but much more vulnerable
to the occurrence of abuse. While he recognizes the problematic aspects of manda-
tory disclosure, i.e. costs of compliance and lack of flexibility, he proposes to miti-
gate them by shifting to a mixed system of implementation of mandatory
disclosure standards through self-regulatory rules. As concerns now market trans-
parency, the author finds that the discussion on its welfare effects on liquidity
is similar to the preceding one on mandatory disclosure and that the conclusion is
again that 'arguments against high standards of market transparency contain a
number of loopholes' (at p. 192) on which he then elaborates. An exploration of
the merits and problems with insider dealing is then presented, with reference to the US jurisprudence. The result advocates again in favour of regulating insider dealing, with the main rationale being that legalizing insider dealing would reduce the availability of public information in the market, a necessary condition of market efficiency (at p. 205). Additional rationale for this proposition is the suggested use of a purely sociological approach to the matter, dictating the replication in legal rules of social norms on the unfairness of insider trading, as can be shown by the strong social reaction to the recent US corporate scandals that led to the enactment of the Sarbanes-Oxley Act. Finally, the prohibition of market manipulation is analyzed both from a purely economic efficiency point of view, i.e. as to the economic and compliance costs it entails, as well as from a behavioural viewpoint. The author concludes that fraud should probably be prohibited and then enforced through self-regulation and private litigation rights, while ‘deregulating other forms of suspicious’ trading as liquidity-enhancing speculation (p. 234) would lead to efficiency gains.

Having completed the economic analysis of market abuse practices in the previous four chapters, the book then embarks upon the legal analysis of the topic in Chapter 6. It begins with a brief excursion of the evolution of EU financial services law (from original EC case law on the ‘general good’, to the mutual harmonization principle, to the FSAP—Financial Services Action Plan—reform of EC financial markets legislation, and the adoption of the Lamfalussy framework regarding financial decision-making). Then, a detailed examination of the provisions of the main legislative tool, the Market Abuse directive, and its level 2 implementing measures follows. These include both substantial provisions (such as the prohibition of insider trading and market manipulation or issuers’ continuing disclosure obligations, etc.) as well as more procedural questions (e.g. supervisory powers and provisions relating to regulatory cooperation in the market abuse regime). But the picture of the EU law on market abuse is not complete unless provisions of other EU directives are included: the conflicts of interest, licensing and conduct rules for investment firms, included in the MiFID (Market in Financial Instruments Directive); and the rules for continuous disclosure of information by issuers of financial instruments contained in the Prospectus and Transparency Directives. The author finds that the definition of insider trading within this legislative framework is rather confusing, while the multiple legislative texts make compliance a daunting and costly exercise. Also, he points at what he sees as a large problem in the institutional side of the regime: the enforcement of the largely ‘self-standing regulatory [market abuse] regime… by at least twenty-five—and probably many more…—country regulators’ (at p. 305). Therefore he calls for the establishment of a pan-European authority with both regulatory and enforcement powers, to be observed across the EU.

Chapter 7 examines the details of implementation of the EU directives in the UK. A historical survey of the evolution of the regime is provided, from which the author concludes that while the UK framework (the Financial Services and
Markets Act 2000 (FSMA) precedes the EU one, its approach and the guidance provided by the Financial Services Authority (FSA), were rather confusing and restrictive. Thus, the reforms that the adoption of the EU Market Abuse Directive dictated were actually a welcome change that allowed for a more flexible system and increased compliance. But in addition to regulatory prohibitions, also criminal law provisions characterize the UK market abuse regime; these the author finds largely untouched by the EU Market Abuse Directive reform. The final section of this chapter is devoted to the impressive enforcement arsenal of the regime that includes: regulatory investigations; regulatory remedies and criminal prosecution; exchanges' rules on market abuse; ECHR (European Convention of Human Rights) implications; and the role of the financial services tribunal. The author finds that the UK institutional edifice for enforcing its market abuse regime, through a combination of criminal law provisions with increased FSA powers, 'such as the issue of restitution orders and public statements and the ability to impose (unlimited) financial penalties' (at p. 387) probably makes for one of the most comprehensive market abuse deterrence systems available in developed countries. Nevertheless, he also finds that focusing on the FSA as the almost exclusive arbiter of the regime might be an unfortunate choice, which he suggests to cure by opening up the system to private enforcement in order to enhance its deterrent force.

This matter he takes up more in detail in chapter 8 where he examines all possible means of redress in a market abuse scenario on the part of investors themselves, directly, and not through the FSA. Topics covered here include: the FSMA framework; claims in tort; claims for breach of contract; liability in equity and equitable remedies; unjust enrichment; and restitution. The analysis concludes that statutory, common law or equitable rights of action alike are burdened with limitations in their potential use by investors that have suffered loss, therefore what is suggested as a solution is the creation of a general right of action in damages for insider dealing and market manipulation through the establishment of a statutory tort for all breaches of section 118' (at p. 445).

Chapter 9 engages in a more general discussion of the use of civil liability regimes as tools for deterring market abuse, using economic analysis as a benchmark for judging the efficiency of such tools. Thus, an overview and comparison of the effectiveness of criminal law sanctions and civil penalties on the one side, with the deterrent force and economic efficiency of civil remedies on the other side is provided. The question of over-deterrence and the choice between civil sanctions or civil remedies is then also examined, while resort to the US regime on civil remedies is also made. The author's proposal mentioned above regarding the creation of a private right of action for market abuse is further explained and details are provided in order to render this a calibrated tool, able to provide relief only where there is identifiable loss to the plaintiff, thereby avoiding the dangers of vexatious litigation. The problem of loss evaluation the author proposes to solve through event-based studies. Thus, the panorama of the author's views on the
approach and the guidance were rather confusing and EU Market Abuse Directive for a more flexible system, prohibitions, also criminal law; these the author finds reform. The final section of the arsenal of the regime that criminal proceedings; Convention of Human Rights tribunal. The author and its market abuse regime, with increased FSA powers, statements and the ability to badly makes for one of the few available in developed he FSA as the almost exclusive, which he suggests to not to enhance its

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optimal use of the various enforcement options becomes clear: criminal law tools would be better used in case of widespread financial frauds where there is a strong public demand for the criminal punishment of the engineers of such abuses (at p. 495), complemented by civil penalties and private enforcement; while the aforementioned properly calibrated civil rights of action and civil penalties should be used in cases of smaller abuses. Proper levels of retribution and deterrence would then be possible, with higher chances for the attainment of enhanced legitimacy of financial market regulation in general.

In sum, this is an excellent work, whose many virtues include simplicity and clarity in the description of complex, sophisticated economic concepts without the resort to mathematical formulae. Indeed, what this lawyer reviewer found extremely helpful is that while finance theory bases its findings on rigorous mathematical models, this book manages to give the kernel of their conclusions in a very jurist-friendly fashion! An additional contribution of the book is depth of analysis; a thorough literature survey is provided of all competing views and theories on each sub-topic treated, thereby allowing even the un-initiated to get a complete picture of the main concerns and trade-offs involved. Nevertheless, breadth of the research is also there, not sacrificed in the name of depth of analysis: the book exhausts all aspects of the market abuse phenomenon, from an economics and legal viewpoint, in the context of the EU and the UK, but with lessons from the US experience, examining both the regulatory, criminal (in the UK context) and civil enforcement of a regime. One theme that could have been developed slightly more extensively is perhaps the section on the impact of the institutional organization for the EU financial sector, especially since the author finds that it creates potential problems in the correct and efficient application of the market abuse provisions, and since the Market Abuse Directive was one of the first to be produced according to the Lamfalussy process. Despite this minor point, Dr. Avgoulea’s book not only contributes immensely to our understanding of the phenomenon of market abuse, thereby clarifying the optimal ambit of the related prohibitions, but with its comprehensive coverage of all features and related facets of market abuse stands up to the challenge of any ‘checklist’ of future developments to look out for in this area.

Despina Chatzimanoli


Today, practitioners and scholars alike agree that the European Court of Justice (ECJ) and processes of legal integration have greatly shaped what we today understand as the politics of European unification. Legal scholars and political scientists