Legal Regulation of Matched Trades: A Research Report

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ABSTRACT

Matched trading (also known as Wash Trading) is a typical form of market manipulation in financial markets. It involves the use of fictitious transactions between linked accounts to create a false illusion of liquidity or price signals, severely undermining market fairness and the price discovery function. This report systematically reviews the legal definitions, behavioral patterns, contentious issues, and improvement paths of matched trading, based on both domestic and international legislative practices, key disputes, and authoritative literature. It also proposes targeted regulatory recommendations.

KEYWORDS: Matched Trading, Market Manipulation, Legal Regulation, Behavioral Patterns, Legal Disputes, RegTech.

I. Legal Definition, Behavioral Patterns, and Characteristics of Matched Trading

A. Legal Definition and Regulatory Basis

Matched trading refers to the practice where a person controls multiple accounts (including their own, related parties, or collaborative accounts) and conducts opposite-direction transactions at similar prices within a short time frame, creating a false impression of market transactions. In reality, there is no actual transfer of funds or securities ownership. The essence of matched trading is to artificially inflate market activity or price trends through the coordination of account relationships and trading instructions.

This behavior is explicitly classified as market manipulation under Article 55 of the revised Securities Law of the People's Republic of China (2019), which prohibits manipulating stock prices or trading volumes through collusion or leveraging advantages in capital, stock holdings, or information. Similarly, Article 20 of the Futures and Derivatives Law (2022) prohibits actions such as "self-dealing" that affect futures transaction prices or volumes.

B. Typical Behavioral Patterns

1. Matched Trading in the Stock Market

This is commonly seen in the early stages of new stock listings or with small-cap stocks. Manipulators artificially inflate stock prices by executing self-buy and self-sell transactions, attracting retail investors to follow the trend, and then unloading at a high price. Alternatively, they use frequent matched trades to create a false image of "active trading" to meet market capitalization management needs for listed companies.

Case Study: A pharmaceutical stock experienced 12 consecutive large matched trades within 3 months, each precisely timed at 15-minute intervals, successfully attracting over 200 million yuan in follow-up investments.

2. Matched Trading in the Futures Market

Due to the leverage nature of futures, this market is more susceptible to manipulation. Manipulators create false buy-sell transactions between linked accounts to influence the settlement price, which in turn affects the pricing benchmarks for other contracts or the spot market.

Case Study: On the last trading day of a commodity futures contract, manipulators used matched trading to artificially inflate the settlement price by 5%, forcing short positions to settle at a high price and causing significant losses.

3. Matched Trading in the Cryptocurrency Market

Due to the lack of regulation, some internal personnel or large traders at exchanges engage in self-dealing to create inflated "high trading volumes," attracting investors into the market, only to later implement "pump and dump" schemes.

Case Study: In 2023, an employee of a cryptocurrency exchange was sentenced to prison for participating in matched trading. They inflated the trading volume of a particular token by 50 times through self-dealing, helping the project team attract retail investors' funds.

C. Technical Characteristics and Legal Elements

The behavioral characteristics of matched trading can be summarized through the following logical chain (Figure 1):

Account Control Relationship
Same entities or coordinated parties control multiple accounts.

Transaction Timing Consistency
Transactions are executed within short time intervals, with matching directions, prices, and amounts.

Price and Quantity Anomalies
The pricing is set to predetermined levels, and the transaction volume may disproportionately impact the market price.

No Actual Fund or Security Transfer
The transactions do not involve the actual transfer of funds or securities, only reflecting artificial market activity.

Market Manipulation
The behavior misleads investors and disrupts normal trading operations.

According to Article 4 of the "Interpretation on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Manipulation of Securities and Futures Markets" (2019) issued by the Supreme People's Court and the Supreme People's Procuratorate, hereinafter referred to as the "Market Manipulation Judicial Interpretation," the legal requirements include:

1. Subjective Intent: It must be proven that the individual had the direct intent to "artificially influence price or trading volume."

2. Objective Action: This includes self-dealing, controlling accounts through self-buying and self-selling, opening multiple accounts for self-dealing or controlling others' accounts, transactions between related accounts with highly consistent or fixed price and direction over a specified time period, and concentrated transactions in a short time, all of which exhibit a high degree of matching.

3. Result Requirement: Whether the actions actually disrupt the market price formation mechanism.

II. Core Legal Disputes

A. Dispute One: Discrepancies in the Standard of Proof for the Subjective Element

1. Strict Proof School (Dominant in Criminal Law Academia)

This position advocates for directly proving that the individual has the intent to "influence market prices," rather than merely presuming the connection between abnormal behavior and the intent to manipulate.

For cases involving matched orders as part of illegal business activities, the Criminal Law and relevant judicial interpretations do not clearly stipulate the need for a profit motive. Representative scholar Lin Qingfeng (2020) points out that the intent to manipulate under criminal law must satisfy the subjective condition of "knowing that the behavior will distort prices yet still engaging in it." Simply having abnormal trading patterns is insufficient to infer intent (See "The Dilemma of Proving the Subjective Element in Securities Crimes," Legal Studies, 2020, Issue 4).

Case Example:
Zhou (a mainland Chinese resident) and Li (a Hong Kong resident) conspired to illegally profit from foreign exchange trading between October 2018 and October 2019 by introducing others to illegal transactions. Without authorization from the state, they assisted others in illegally exchanging foreign currency totaling over RMB 238 million.

The process was as follows:
Once the demand party requested an exchange, Zhou contacted Li to inquire about the exchange rate and obtain the payment account details. After marking up the price, Zhou communicated the details to the demand party. The demand party transferred RMB to a specified account and provided a Hong Kong account for receiving foreign currency. Once Li confirmed receipt of the RMB, he transferred the foreign currency to the demand party's Hong Kong account and provided proof of the transaction.

Li had the subjective intent and awareness of the illegal nature of his actions. He objectively engaged in introducing and assisting foreign exchange transactions, violating mainland currency exchange regulations and disrupting financial management order, and should be subject to administrative penalties according to the law.

2. Presumption-Based Application School (Mainstream in Regulatory Practice)

Given the highly abnormal nature of matched orders, such as associated accounts repeatedly transacting at

a fixed price within a short period, it is permissible to infer subjective intent based on objective actions. In cases involving matched orders constituting illegal business activities, the theoretical community has reached a consensus that a profit motive is a necessary element for the crime of illegal business operations. In the 2006 Journal of Financial Economics study by Kumar & Lee, statistics from the U.S. stock market show that 98% of matched transactions were eventually confirmed to have manipulative intent, with the abnormality of the behavior serving as the basis for inference.

Case Example:

In the 2017 Xu Xiang case, the court confirmed the existence of subjective intent based on evidence that Xu controlled dozens of associated accounts and conspired with executives of a listed company to manipulate stock prices before selling them off. However, in a similar case in 2019, Li was not criminally prosecuted because the actual control relationship of the accounts could not be proven, with only IP addresses being linked.

Dispute Two: Issues with the Connection Mechanism Between Administrative Enforcement and Criminal Justice[2]

Problem	Example	Reason
The phenomenon of "cases not being transferred and using fines instead of criminal penalties" exists.	(1) Every year, the China Securities Regulatory Commission (CSRC) receives a large number of reports on illegal and irregular activities, but less than 10% of them are transferred to public security organs as suspected criminal cases. (2) The CSRC issues approximately 120 administrative penalty decisions annually, while around 27 criminal judgments are made in the same period.	(1) There is a legislative gap between the Securities Law and Criminal Law. (2) There is a lack of coordination in case jurisdiction and referral. (3) It is difficult to convict new types of securities crimes. (4) Local judicial protection interferes with the enforcement of securities regulations. (5)Supervisory authorities fail to effectively fulfill their responsibilities.
Cases are not handled in a timely manner.	For example, in the case of "Platinum and Zhang Jing's use of undisclosed information for trading," it took nearly three years from the transfer of the case from the China Securities Regulatory Commission to the public security organs to the first-instance judgment by the court.	
The evidentiary nature of the materials transferred by the securities regulatory authorities is unclear.	According to relevant investigations, in 53 criminal judgments made after the materials were transferred from the securities regulatory authorities to public security organs, the form of the materials transferred by the China Securities Regulatory Commission and the evidentiary nature recognized by the court were not consistent.	
Investigative authorities overly rely on the securities regulatory authorities.	In the 137 criminal judgments related to securities crimes made between 2015 and 2019, courts used the administrative recognition opinions issued by the securities regulatory authorities as the basis for conviction in 84 cases, while only 3 cases did not fully adopt the recognition opinions provided by the securities regulatory authorities.	
The transfer procedures do not comply with regulatory requirements.		

3. Dispute Three: The Boundary of Civil Liability for Matched Orders

The key issue regarding civil compensation for matched orders lies in reasonably determining the scope of losses and the compensation standards. Pan Yijia believes that the amount of theft should be calculated based on the actual transaction amount of the successfully matched part, while the unsuccessful part should be treated as an attempt. When calculating cumulatively, transaction fees and dividends should not be deducted, which provides a specific basis for civil compensation. Zhang Guoyan emphasizes that matched orders are fraudulent transactions and should have their liability defined through a collaborative approach of criminal, administrative, and civil procedures, with civil compensation taking priority. In practice, a reasonable balance must be struck between the actual losses of the victim and the illicit gains of the perpetrator, avoiding simple offsetting that

[1]Li Na. Master's Thesis: Research on the Mechanism of Coordination Between Administrative Enforcement and Criminal Justice in China's Securities Market. Sichuan University, 2021.

weakens responsibility, while also considering the impact of market fluctuations on the losses to achieve equitable relief.

4. Dispute Four: The Dilemma of Regulatory Jurisdiction for Cross-Border Matched Orders

Cross-border matched trading, involving multiple judicial jurisdictions, presents significant regulatory challenges. The dilemma of regulatory jurisdiction for cross-border matched orders primarily manifests in three aspects: legal conflicts, difficulties in evidence collection, and low enforcement efficiency.

Cross-border matched transactions, due to involvement across multiple jurisdictions, face challenges in regulatory coordination. Different regions have different standards for defining market manipulation, which can lead to legal conflicts. For instance, foreign entities manipulating A-shares through Cayman accounts or conducting matched trading through the Shanghai-Hong Kong Stock Connect involve differing regulatory standards between mainland China and Hong Kong. Mainland China follows the dual jurisdiction principle of "location of behavior + location of results," while Hong Kong focuses more on whether there is a substantial impact on the local market. This difference can result in some cross-border manipulation behaviors falling into a "regulatory vacuum." If the matched trading does not significantly affect the Hong Kong stock market, Hong Kong may not take action, whereas mainland China insists on dual jurisdiction, leading to discrepancies in liability recognition.

Next, the significant barriers to evidence collection severely restrict enforcement efficiency. Cross-border accounts often operate matched transactions through overseas companies and coordinated operations between domestic and foreign accounts. Core evidence typically needs to be obtained through judicial assistance, but international procedures are cumbersome and take an average of more than six months, allowing wrongdoers to move assets or cover their tracks, significantly weakening regulatory timeliness.
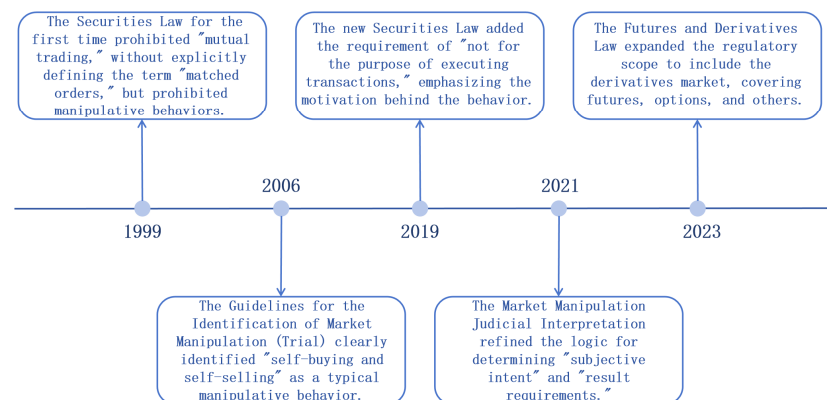
Lastly, the existing cross-border regulatory cooperation mechanisms are insufficient, with prominent information barriers, making it difficult to form a timely collective effort. Scholars suggest drawing on the EU's Market Abuse Regulation (MAR) experience to promote the signing of multilateral regulatory memorandums, establish cross-border data-sharing platforms, and unify the "substantial impact" standard to enhance the effectiveness of combating and deterring cross-border matched transactions.

III. Legislative Evolution and Comparative Legal Perspective
1. Dynamic Improvement of the Chinese Legal System

China's regulation of matched orders has evolved from a general prohibition to a more detailed and precise determination process (see Figure 2):

Legislative Process of Matched Trading Regulation

1999: The Securities Law for the first time prohibited "mutual trading," without explicitly defining the term "matched orders," but prohibited manipulative behaviors.

2006: The Guidelines for the Identification of Market Manipulation (Trial) clearly identified "self-buying and self-selling" as a typical manipulative behavior.

2019: The new Securities Law added the requirement of "not for the purpose of executing transactions," emphasizing the motivation behind the behavior.

2021: The Market Manipulation Judicial Interpretation refined the logic for determining "subjective intent" and "result requirements."

2023: The Futures and Derivatives Law expanded the regulatory scope to include the derivatives market, covering futures, options, and others.

2. Regulatory Experience from the US and EU

A. United States

The Securities Exchange Act of 1934 Rule 10b-5 is the core regulation against market manipulation, explicitly prohibiting any false statements or fraudulent trading practices. Under this provision, matched orders are considered a form of market manipulation through the creation of fictitious supply and demand signals.

In regulatory practice, the U.S. Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) typically assess both behavior patterns and subjective intent. Simple trading errors or routine strategies (such as arbitrage or hedging) do not constitute violations, but if it can be proven that the trader "knew or should have known" that their actions might mislead the market, it may be deemed manipulation.

Key case law includes Ernst & Ernst v. Hochfelder (1976), in which the U.S. Supreme Court established that securities fraud must be accompanied by subjective intent (scienter), and negligence alone is not sufficient for liability. Additionally, in 2023, the SEC introduced Rule 9j-1, explicitly bringing certain behaviors in the derivatives market (such as manipulating settlement prices on the last trading day) under the scope of matched order regulation.

B. European Union

Legal basis: Article 12 of the Market Abuse Regulation (MAR) explicitly prohibits "false or misleading transactions," directly including matched orders. Unlike the U.S., EU regulations focus more on whether the trading results reflect real supply and demand, rather than fully relying on the subjective intent of the actor.

Regulatory logic: The EU adopts the "objective effect + reasonable explanation" model. If a transaction lacks a real economic purpose, such as hedging or risk transfer, and is merely intended to create trading volume or price signals, it may be presumed to be a false transaction. The actor can present evidence to prove that their trading purpose was legitimate, providing a defense.

Technological tools: The European Securities and Markets Authority (ESMA) strongly promotes the use of regulatory technology, leveraging big data and AI to monitor repeated transactions between accounts, fixed-price transactions, and other characteristics. Machine learning is used to identify "account clusters" and improve the efficiency of detecting suspicious cross-border and cross-market transactions.

C. Comparison and Evaluation of Chinese and International Experiences

1. Differences in Regulatory Philosophy

China: From "prohibiting mutual trading" to "emphasizing subjective intent and result requirements," reflecting an evolution from vague prohibitions to a balanced approach of considering both motivation and outcome.

United States: Primarily case law-driven, focusing on "subjective intent," with strict regulatory standards but significant difficulty in proving cases.

European Union: Regulations directly define "false trading," focusing more on the objective effects, which makes enforcement more operational and feasible.

2. Expansion of the Scope of Application

China: In 2023, regulation was extended to futures and derivatives, gradually aligning with international markets.

United States: SEC Rule 9j-1 specifically targets manipulation in the derivatives sector.

European Union: MAR has always covered a broad range of markets, including securities and derivatives.

3. Technology and Regulatory Models

China: Focuses on legal revisions and judicial interpretations, relying primarily on traditional inspections and manual assessments, with a need for enhanced regulatory technology.

United States: Emphasizes investigations and evidence gathering by enforcement agencies, relying on professional compliance systems.

European Union: Leads in applying AI and big data for monitoring, enhancing early-warning and detection capabilities.

4. Comprehensive Evaluation

China's approach combines the subjective intent standard of the U.S. and the objective effect standard of the EU, reflecting a "compromise" legislative approach.

Compared to the U.S., China has reduced some of the proof burdens; compared to the EU, there is still room for improvement in terms of technological advancements and preemptive control.

Direction for Learning: In the future, China could strengthen the use of regulatory technology, maintain flexibility in judicial interpretations, and learn from both the U.S. and the EU to ultimately achieve a balance between efficiency and fairness.

IV. Representative Academic Literature and Regulatory Countermeasures
1. Basic Theoretical Literature

Author	Title of the Literature	Core Argument
Weng Fu	"Matched Orders — The Most Tempting Manipulation Techniques of Market Makers"	Matched trading is an important technique for market makers, with objectives including stimulating trading activity, attracting trend-following investors, pushing up stock prices for easier exit, and confusing investors. Among these, the tactic of pushing up stock prices to reduce positions is highly significant for investors, as it is essential to identify such behaviors in order to avoid losses, while also considering market conditions. It is recommended that investors prioritize risk avoidance: those with high positions should reduce their holdings during a market rebound, while those with low positions should hold cash and wait for opportunities.
Li Xin	"Analysis of Money Laundering Risks in Futures Matched Trading and Prevention Recommendations"	Matched trading in futures carries money laundering risks, as money launderers manipulate different accounts to create a false appearance of profit and loss, thereby transferring illicit funds. While some measures have been implemented, it is necessary to further strengthen customer identification, improve risk classification, and establish cross-institutional coordination mechanisms to prevent risks.
Jiang Aoli and Li Ziyang	"How to Determine the Amount of Crime in Using Stolen Stock Accounts for Matched Trading"	When using someone else's stock account for matched trading, the amount of theft should be determined based on the actual profits gained by the perpetrator, while the victim's loss amount can serve as a reference for sentencing. Using the loss amount as the standard neither aligns with the definition rules for theft nor is practical. Using the cumulative transaction amount as the standard could lead to double-counting and conflicts with the logic of continuous offenses. Adopting the profit amount for conviction and the loss amount for sentencing aligns with the spirit of judicial interpretation and the criminal law principle of unity between subjective and objective elements.

2. Regulatory Countermeasures and Frontier Research
A. Addressing Technical Challenges:

Zhang Shouwen (2021) proposed the "DeepTrade Algorithm Model," which automatically flags suspicious matched trading by monitoring transaction frequency, account associations, and price deviations in real-time.

The CSRC's document [2022] No. 38 pilot program introduced a "regulatory sandbox," allowing stock exchanges to test AI detection tools within a controlled environment.

B. Innovation in Cross-Border Collaboration:

It is suggested to establish a "Shanghai-Hong Kong-Shenzhen Data Sharing Pool" to integrate trading, capital, and account information from the three regions, allowing real-time comparison of abnormal trading patterns, referencing the EU's MAR "rapid warning system."

C. Frontier Directions:

Zhou et al. (2023) in the Journal of FinTech proposed a "Blockchain Proof + Smart Contract Interception" solution: by recording transaction data on the blockchain for proof and automatically freezing suspicious matched trading instructions via smart contracts. Leveraging the immutable and traceable

nature of blockchain technology, this ensures the authenticity, integrity, and credibility of data while enabling real-time monitoring and judgment of specific transactions or operations.

Li Shuguang (2023) pointed out that with quantitative trading now exceeding 30% of market activity, matched trading is showing a trend of "algorithmic collusion," requiring additional provisions in the Algorithm Supervision Management Regulations.

V. Suggestions for the Improvement of Chinese Law

1. Refining Legislative Standards for Identification

It is recommended to revise Article 2 of the Market Manipulation Judicial Interpretation to set quantitative judgment standards. If the matched transaction volume of a single stock on a given day exceeds 15%, and the transaction price deviates by ±3% from the average price of that period, it can be presumed to constitute market manipulation. This standard draws from both European and American regulatory practices and aligns with China's recent enforcement efforts. Furthermore, it is suggested to add a "legitimate market-making exemption clause," which allows registered market makers to conduct necessary matched transactions during liquidity provision without being held liable, provided they meet conditions such as strategy transparency and effective risk control.

2. Optimizing the Allocation of Burden of Proof in Supervision

It is recommended to introduce a "tiered burden of proof" rule in securities administrative litigation. When regulatory authorities initially prove objective anomalies such as fund connections, IP overlaps, or synchronized trading orders between accounts, the burden should shift to the investigated party to prove the legality of their transactions. This mechanism draws from the EU's Market Abuse Regulation approach and aligns with China's regulatory sandbox pilot reforms.

3. Strengthening Cross-Border Regulatory Cooperation

It is suggested to sign special regulatory memoranda with markets such as Hong Kong and Singapore to unify the standards for identifying the "substantial impact" of cross-border matched trading. For example, it could be agreed that a joint investigation would be triggered if cross-border trading causes a market disturbance or price abnormality exceeding 10% in either party's market. Additionally, a cross-border regulatory technology platform could be co-built, integrating transaction data from the three

regions and utilizing intelligent algorithms to screen for abnormal trading clusters in real-time. This would draw on the EU's market surveillance alliance chain governance experience and enhance cross-border regulatory efficiency.

Research Outlook

As algorithmic and high-frequency trading becomes more widespread, matched trading behavior is evolving from "manual manipulation" to "algorithmic collusion." Future research should focus on:

1. The variations of matched trading in quantitative trading scenarios, such as automatically matching reverse orders via algorithms;
2. The design of specific regulatory provisions for matched trading in the Algorithm Supervision Management Regulations;
3. The unification of global matched trading regulatory standards under the framework of the International Organization of Securities Commissions (IOSCO).

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