



How to cite this article:

Ghasemi, H., Habibi Tabar, M., & Vafaei, M. (2026). Analysis of the Legal Status of Sham Transactions (Wash Trades) in the Stock Exchanges of Iran and the United States. *Journal of Historical Research, Law and Policy*, 4(3), 1-16. <https://doi.org/10.61838/jhrp.238>



Article history:
Original Research

Dates:

Submission Date: 07 November 2025
Revision Date: 07 February 2026
Acceptance Date: 14 February 2026
Publication Date: 01 May 2026

Analysis of the Legal Status of Sham Transactions (Wash Trades) in the Stock Exchanges of Iran and the United States

1. Hossein. Ghasemi ¹: Department of Law, Sav.C., Islamic Azad University, Saveh, Iran
2. Mohmoud. Habibi Tabar ²: Department of Law, Sav.C., Islamic Azad University, Saveh, Iran
3. Masoud. Vafaei ³: Department of Law, Sav.C., Islamic Azad University, Saveh, Iran

*corresponding author's email: habibitabarmahmoud@iau.ac.ir

ABSTRACT

Sham transactions, commonly referred to as wash trades, constitute a significant threat to the integrity and efficiency of capital markets by creating artificial trading activity without genuine transfer of beneficial ownership. This study provides a comparative legal and economic analysis of the regulation of sham transactions in Iran and the United States. The research examines the theoretical foundations of competition and securities regulation, evaluates the doctrinal classification of wash trades as market manipulation, fraud, and anti-competitive conduct, and analyzes the effectiveness of enforcement mechanisms in both jurisdictions. The Iranian legal framework, grounded in the Capital Market Law and the Law on Implementation of Article 44 policies, addresses manipulative conduct through general provisions but lacks an explicit statutory definition of wash trades and a structured disgorgement mechanism. In contrast, U.S. law, particularly under the Securities Exchange Act of 1934 and Rule 10b-5, provides a more detailed regulatory structure supported by established judicial precedent, strong disgorgement practices, and advanced surveillance technologies. The study further compares institutional capacities, detection mechanisms, sanction severity, and restitution approaches, demonstrating that enforcement effectiveness is closely linked to market maturity, technological infrastructure, and procedural clarity. Economically, sham transactions distort price discovery, generate artificial liquidity, increase systemic risk, and erode investor confidence, thereby raising the cost of capital. The findings indicate that while both jurisdictions recognize the harmful nature of sham transactions, differences in institutional coordination, statutory specificity, and remedial design significantly influence deterrence outcomes. The study concludes by proposing reforms aimed at enhancing regulatory coherence, strengthening restitution mechanisms, and modernizing supervisory tools, particularly within the Iranian capital market context.

Keywords: *Sham Transactions; Wash Trades; Market Manipulation; Capital Market Law; Competition Law; Securities Regulation; Disgorgement; Investor Protection; Comparative Law*

Introduction

Stock exchanges occupy a central position in modern economies as institutional platforms through which savings are mobilized, capital is allocated, and corporate governance is indirectly shaped. In contemporary financial systems, stock exchanges are not merely trading venues but highly regulated infrastructures that facilitate price discovery, liquidity formation, and risk distribution across the economy. The theoretical foundation of capital markets rests on the assumption that transparent information, dispersed participation, and competitive trading lead to



efficient allocation of resources, an assumption that underlies both competition law and securities regulation. The interaction between competition law and capital market regulation has been specifically examined in the Iranian context, where it has been argued that the organized and structured nature of the stock exchange does not negate the applicability of general competition principles (1). In parallel, the broader theoretical boundaries of competition law emphasize that market structures—whether competitive or concentrated—must be evaluated in light of their impact on efficiency and consumer welfare (2). These insights are reinforced in comparative antitrust scholarship, which highlights that competitive processes serve as the primary mechanism for disciplining economic actors in both product and capital markets (3).

The integrity of stock exchanges is fundamentally tied to investor confidence. Market participants must believe that prices reflect genuine supply and demand conditions rather than artificial distortions or collusive arrangements. The preservation of investor trust requires a coherent regulatory framework capable of preventing informational asymmetries, insider exploitation, and coordinated manipulation. Iranian legal scholarship has emphasized that regulatory supervision styles are critical for maintaining capital market health, particularly in markets characterized by evolving institutional capacity (4). Similarly, doctrinal analysis of capital market law in Iran demonstrates that the regulatory structure seeks to balance efficiency with investor protection, yet faces structural challenges in enforcement (5). From a comparative perspective, the governance function of gatekeepers—such as auditors, underwriters, and compliance officers—plays a decisive role in maintaining market credibility, as argued in corporate governance theory (6).

Anti-competitive and manipulative practices in securities markets represent a convergence point between competition law and financial regulation. Manipulative conduct may distort pricing mechanisms, restrict entry, or artificially inflate trading volumes, thereby undermining allocative efficiency. Classic antitrust theory cautions against excessive formalism while acknowledging that certain coordinated behaviors inherently threaten competitive processes (7). In capital markets, such behaviors often manifest in subtler forms, including coordinated trading schemes, informational rent-seeking, and artificial liquidity generation. Empirical analysis of stock market manipulation demonstrates that wash trading and similar practices can generate misleading signals that attract uninformed investors into distorted markets (8). These practices do not necessarily involve overt price-fixing but may operate through volume inflation and artificial activity, complicating regulatory detection.

Among the various manipulative practices, sham transactions—commonly referred to as wash trades—have emerged as a particularly problematic phenomenon. Wash trades involve transactions in which there is no genuine change in beneficial ownership and no authentic economic intent beyond influencing market perception. Theoretical discussions of competition and securities law convergence suggest that when the market mechanism itself is simulated rather than genuinely operative, the foundational assumptions of competitive efficiency collapse (9). In the Iranian context, the absence of explicit statutory definitions addressing informational rent-seeking and sham trading has been identified as a legal gap that may allow exploitative practices to persist (10). At the same time, comparative competition law analysis underscores that merger control and market dominance doctrines must be supplemented by behavioral oversight mechanisms to effectively address dynamic manipulative conduct (11).

Sham transactions generate significant legal and economic risks because they undermine both market transparency and allocative efficiency. Legally, they may fall within the ambit of fraud, market manipulation, or anti-competitive conduct, depending on the regulatory framework applied. Economically, they distort price discovery and create artificial liquidity, encouraging misinformed investment decisions. The theoretical limits of antitrust

enforcement, as discussed in foundational literature, reveal that not every market distortion can be addressed solely through structural remedies (7). Instead, behavioral monitoring and financial regulatory intervention become necessary complements. Iranian capital market regulation has evolved in response to such challenges, yet doctrinal analyses indicate that enforcement mechanisms remain fragmented (12).

A core tension arises between competition law and securities regulation in addressing sham transactions. Competition law traditionally focuses on preserving competitive market structures, while securities regulation emphasizes transparency and investor protection. In some circumstances, regulatory interventions designed to protect investors may appear to restrict competitive flexibility, raising questions about institutional coordination (13). The Iranian experience reflects this duality, as the stock exchange operates under a two-tier regulatory structure in which both competition authorities and securities regulators may assert jurisdiction (1). Comparative scholarship on convergence between competition law and securities law warns that jurisdictional overlap may lead to inconsistent enforcement standards (9).

Structural characteristics of the Iranian and U.S. capital markets further complicate this issue. The U.S. market is characterized by high liquidity, advanced surveillance technology, and developed enforcement institutions. Antitrust policy in the United States has historically emphasized economic analysis and deterrence-based sanctions (3). In contrast, the Iranian capital market, while institutionally structured, faces challenges related to state influence, informational asymmetry, and enforcement capacity (5). Regulatory supervision styles in Iran have been described as evolving but still confronting limitations in technological monitoring and coordination (4). These structural differences shape both the incidence of sham transactions and the regulatory responses available.

Detection and enforcement present further challenges. Wash trades may be executed through complex trading patterns that mimic legitimate transactions, making evidentiary proof difficult. Economic research demonstrates that manipulators often exploit thinly traded securities or periods of low market scrutiny to inflate trading volumes (8). From a legal standpoint, the question of arbitrability and forum selection may arise when disputes intersect with economic regulatory frameworks (14). In Iran, the lack of explicit restitution provisions addressing unlawful gains derived from sham transactions may limit deterrence (10). By contrast, U.S. regulatory practice incorporates disgorgement mechanisms and civil penalties designed to eliminate illicit profits and reinforce deterrence (6).

This study is guided by a set of interrelated research questions designed to clarify the doctrinal and economic dimensions of sham transactions. The first question concerns how sham transactions are legally defined in Iran and the United States, and whether statutory or judicial interpretations explicitly address the absence of genuine intent to transfer ownership. The second question examines the economic and regulatory implications of such transactions, particularly their impact on market efficiency, transparency, and investor protection. The third question evaluates the effectiveness of enforcement mechanisms in both jurisdictions, with attention to institutional capacity, sanction severity, and restitution frameworks. The final question seeks to identify reforms capable of enhancing regulatory coherence and deterrence, especially in systems characterized by overlapping jurisdiction between competition authorities and securities regulators.

This study advances several hypotheses. First, sham transactions in both legal systems involve the absence of genuine intent to transfer beneficial ownership, rendering them economically artificial and legally problematic. Second, U.S. law provides stronger enforcement and disgorgement mechanisms, thereby enhancing deterrence relative to the Iranian framework. Third, Iranian law lacks explicit restitution mechanisms specifically tailored to recover unlawful gains derived from manipulative trading, resulting in a potential enforcement gap.

The primary objective of this research is to identify the legal framework governing sham transactions in Iran and the United States and to clarify their doctrinal classification within competition and securities law. A further objective is to compare enforcement structures and assess their relative effectiveness in deterring manipulative conduct. The study also aims to analyze the economic consequences of sham transactions, particularly their effects on market integrity and investor confidence. Finally, the research seeks to propose reform strategies that enhance regulatory coherence and strengthen deterrence mechanisms in the Iranian capital market while drawing lessons from comparative experience.

Theoretical and Legal Foundations

Concept of Competition and Market Integrity

Competition in capital markets performs a foundational economic function that extends beyond the traditional product-market paradigm. In securities markets, competition ensures that trading venues, intermediaries, and issuers operate within an environment where prices reflect genuine supply and demand conditions rather than strategic distortions. The economic theory underlying competition law emphasizes that competitive processes maximize efficiency and consumer welfare by disciplining market actors and preventing the accumulation of excessive market power (3). While this classical antitrust logic was initially developed for goods and services markets, its relevance to capital markets has become increasingly evident, particularly in systems where trading infrastructures are concentrated and institutional entry barriers exist. The Iranian doctrinal debate has recognized that stock exchanges, despite their structured and organized nature, cannot be considered immune from the normative principles of competition law (1).

In capital markets, competition manifests in several dimensions: competition among issuers for capital, among intermediaries for clients, and among trading venues for liquidity. The absence of competitive discipline may result in inflated transaction costs, reduced innovation in trading technology, and diminished investor confidence. The scope of competition law in both competitive and non-competitive markets has been examined in Iranian legal scholarship, which suggests that even markets with inherent regulatory oversight require competition-sensitive interpretation to prevent structural distortions (2). From a broader perspective, international competition law analysis indicates that cross-border capital flows and globalized financial systems require coordination between domestic antitrust norms and financial regulatory regimes (13).

Market integrity, closely linked to competition, refers to the assurance that prices are formed through legitimate transactions and that participants operate under conditions of informational symmetry. Transparency and equal access to information are indispensable to capital market efficiency. When information is asymmetrically distributed or deliberately manipulated, the allocative function of markets collapses. Regulatory scholarship in Iran has emphasized that capital market supervision must be designed to safeguard informational balance and prevent distortive practices that undermine public trust (4). The foundations and methods of capital market regulation within the Iranian legal system highlight that transparency is not merely a procedural requirement but a substantive guarantee of fairness and efficiency (12).

The relationship between competition law and securities regulation is inherently complementary yet occasionally tension-filled. Competition law traditionally addresses structural issues such as monopolization and collusion, whereas securities regulation focuses on disclosure obligations, insider trading, and investor protection.

Nevertheless, both frameworks converge when market behavior distorts competitive processes or misleads investors. The convergence and potential conflict between competition law and stock exchange regulation have been explicitly analyzed in Iranian scholarship, which underscores that regulatory overlap must be carefully managed to avoid inconsistent standards (9). In this context, the broader debate on the limits of antitrust cautions against expanding competition doctrine beyond its core objectives while recognizing that financial markets present unique vulnerabilities requiring adaptive interpretation (7).

Definition of Sham Transactions (Wash Trades)

Sham transactions, commonly referred to as wash trades, represent a specific category of market conduct characterized by the absence of genuine economic substance. Legally, a wash trade occurs when the same beneficial owner effectively buys and sells the same security, directly or indirectly, without a real transfer of ownership and without exposure to market risk. Although statutory language may differ across jurisdictions, the central element is the simulation of trading activity for deceptive purposes. Empirical research on stock market manipulation demonstrates that wash trades are often employed to inflate trading volumes and create the illusion of liquidity, thereby misleading investors and influencing price formation (8).

From an economic standpoint, wash trades are problematic because they generate artificial signals that distort the informational content of prices. In efficient market theory, trading volume and price movements serve as indicators of underlying market sentiment. When trading activity is artificially manufactured, these indicators lose reliability. The economic characterization of such conduct aligns with broader concerns about informational rent-seeking in financial markets, where actors exploit structural loopholes to gain unfair advantage (10). The absence of genuine intent to transfer beneficial ownership distinguishes wash trades from legitimate speculative trading, in which participants assume market risk and seek profit through price fluctuations.

Speculative trading, although sometimes criticized for short-termism, remains economically legitimate because it contributes to liquidity and price discovery. The key distinction lies in economic substance. In speculative transactions, traders acquire and dispose of securities with real exposure to gain or loss; in wash trades, the transaction is circular and riskless. This distinction reflects the broader legal principle that form must not override substance. In the context of competition and securities law convergence, it has been argued that regulatory analysis must penetrate beyond formal transaction structures to assess their competitive and economic reality (9).

The absence of genuine profit motive further defines sham transactions. While manipulators may ultimately seek indirect financial gain through price inflation or investor deception, the immediate transaction lacks independent economic rationale. This feature aligns wash trades with manipulative schemes rather than competitive trading strategies. The legal classification of such conduct often depends on proving intent to deceive or manipulate. Antitrust scholarship emphasizes that economic intent plays a crucial role in distinguishing competitive from exclusionary behavior (3). In securities regulation, intent similarly becomes central in determining whether conduct constitutes fraud or market manipulation.

Legal Nature of Sham Transactions

Sham transactions may be legally characterized in multiple ways depending on the applicable regulatory framework. First, they may constitute anti-competitive conduct if they distort market conditions and impede fair competition among traders or intermediaries. Although competition law traditionally focuses on structural

dominance and collusion, behavioral practices that undermine competitive pricing mechanisms may also fall within its purview. The theoretical scope of competition law in both competitive and regulated markets suggests that practices which artificially distort market entry or pricing signals may justify antitrust scrutiny (2).

Second, sham transactions are widely regarded as a form of market manipulation. Manipulation involves intentional interference with market processes to create false or misleading appearances of trading activity or price movement. Empirical evidence confirms that wash trades are frequently used to simulate liquidity and attract uninformed investors into manipulated securities (8). Within the Iranian legal framework, discussions of capital market health emphasize that supervision must address behavioral distortions alongside structural concerns (4). The doctrinal foundations of capital market regulation similarly recognize manipulation as a central threat to investor protection (12).

Third, sham transactions may qualify as fraud. Fraud typically requires misrepresentation or deceptive conduct intended to induce reliance. By creating artificial market signals, wash trades may deceive investors into believing that genuine demand exists. Corporate governance scholarship underscores the importance of gatekeepers in preventing fraudulent financial behavior, highlighting that oversight failures can enable systemic abuse (6). The criminalization of informational rent-seeking in financial markets further demonstrates that deceptive trading schemes may warrant penal sanctions (10).

Fourth, sham transactions may involve breach of fiduciary duties, particularly when executed by insiders or intermediaries entrusted with client assets. Fiduciary obligations require loyalty, good faith, and avoidance of conflicts of interest. When brokers or managers engage in self-dealing or manipulative wash trading, they violate duties owed to investors. The interplay between fiduciary principles and market regulation reflects the broader convergence of corporate governance and securities oversight (6).

The Intersection of Competition Law and Securities Law

The intersection between competition law and securities law creates a regulatory duality that is both necessary and complex. Competition authorities focus on preserving market structure and preventing dominance, while securities regulators concentrate on transparency, disclosure, and investor protection. In some circumstances, these objectives overlap; in others, they may conflict. Iranian legal analysis has highlighted that the structured nature of the stock exchange does not exclude the application of general competition principles, yet regulatory overlap can produce ambiguity (1).

Institutional competence becomes a critical issue in determining which authority should address sham transactions. Securities regulators possess technical expertise in trading surveillance and disclosure requirements, whereas competition authorities specialize in economic analysis of market power and collusion. The comparative study of merger control demonstrates that institutional design influences enforcement effectiveness (11). In cross-border contexts, international competition law scholarship emphasizes the need for coordinated regulatory approaches to prevent jurisdictional fragmentation (13).

Potential jurisdictional conflicts arise when conduct simultaneously implicates both competition and securities norms. For example, if wash trading artificially restricts market access or misleads investors about liquidity, it may fall under both anti-competitive and manipulative categories. Scholarship addressing the conflict between competition and stock exchange regulation warns that inconsistent standards can undermine legal certainty (9).

Moreover, debates on the limits of antitrust caution against expanding competition doctrine into areas more appropriately governed by sector-specific regulation (7).

Ultimately, the theoretical and legal foundations of sham transaction regulation reveal that effective oversight requires coordinated interpretation of competition and securities principles. Competition ensures that market structures remain open and efficient, while securities law guarantees that trading behavior is transparent and honest. Sham transactions undermine both objectives simultaneously. By analyzing their economic substance and legal classification through an integrated lens, this study seeks to clarify doctrinal boundaries and propose a coherent regulatory approach capable of preserving market integrity in both Iran and the United States.

Legal Analysis of Sham Transactions in Iran and the United States

Iran

The legal framework governing capital markets in Iran is primarily anchored in the Capital Market Law, which establishes the institutional structure of market supervision and defines a range of prohibited conduct aimed at preserving transparency and investor protection. The statute does not expressly define sham transactions or wash trades in a technical sense; however, it contains provisions addressing market manipulation, dissemination of misleading information, and abuse of market mechanisms. Iranian doctrinal analysis emphasizes that the Capital Market Law must be interpreted in light of broader economic law principles to ensure consistency with competition norms (5). At the same time, scholarship exploring the relationship between competition law and the capital market in Iran has underscored that sector-specific regulation does not displace general competition principles, particularly when market behavior distorts competitive processes (1).

The Law on Implementation of General Policies of Article 44 of the Constitution provides an additional layer of competition oversight by empowering the Competition Council to address anti-competitive practices across economic sectors. Although this statute was primarily designed to regulate privatization and prevent monopolistic concentration, its principles may intersect with securities market behavior where manipulative practices distort market competition. The theoretical scope of competition law in regulated markets has been analyzed as extending beyond structural dominance to include behavioral distortions that undermine efficiency (2). The convergence between competition and securities law in the Iranian context has been described as both necessary and tension-laden, particularly where institutional boundaries are not clearly delineated (9).

The Securities and Exchange Organization functions as the primary regulatory authority responsible for monitoring trading activity, enforcing disclosure obligations, and imposing administrative sanctions. Regulatory supervision models in Iran have been evaluated as evolving but constrained by structural and technological limitations (4). The Competition Council, by contrast, focuses on broader market structure and anti-monopoly enforcement. The coexistence of these institutions creates a dual regulatory structure in which overlapping jurisdiction may arise. Comparative research on merger control suggests that institutional coordination is critical to avoid inconsistent or duplicative enforcement (11). In practice, however, sham transactions are more frequently addressed through securities law mechanisms than through direct competition proceedings.

A central difficulty in the Iranian framework is the absence of an explicit statutory definition of sham transactions. The law does not employ the terminology of wash trading, leaving regulators to rely on broader manipulation or fraud provisions. The doctrinal foundations of capital market regulation in Iran indicate that manipulation is

interpreted as conduct that creates a misleading appearance of trading activity or price formation (12). Under this interpretive approach, sham transactions fall within the ambit of market manipulation because they simulate liquidity and distort price signals. However, the lack of textual specificity may create uncertainty in enforcement and judicial review.

The interpretation of sham transactions through fraud provisions requires demonstration of deceptive intent or misrepresentation. Iranian legal analysis of informational rent-seeking has highlighted the necessity of criminalizing exploitative practices that rely on artificial market signals (10). Nevertheless, the evidentiary burden associated with proving intent and economic substance often complicates prosecution. Unlike jurisdictions with well-developed case law defining wash trades, Iranian jurisprudence remains comparatively limited, relying primarily on administrative disciplinary decisions rather than extensive judicial precedent.

Enforcement mechanisms in Iran include administrative sanctions such as fines, suspension of trading privileges, and revocation of licenses. The Securities and Exchange Organization may impose disciplinary measures when market participants engage in manipulative conduct. These sanctions serve both punitive and deterrent purposes, yet their effectiveness depends on detection capacity and procedural efficiency. The broader literature on capital market law in Iran suggests that enforcement outcomes are influenced by institutional resources and interpretive consistency (5). Criminal liability may also arise where manipulation constitutes fraud or deliberate deception, though such prosecutions remain relatively infrequent.

One of the most significant limitations in the Iranian framework concerns disgorgement and restitution. While administrative fines may penalize wrongful conduct, the recovery of unlawful gains is not always explicitly structured as a disgorgement mechanism comparable to that found in other jurisdictions. The criminalization of informational rent-seeking reflects recognition of economic harm (10), yet doctrinal development regarding restitution remains underdeveloped. This limitation potentially weakens deterrence because offenders may retain indirect economic benefits even after administrative penalties.

Institutional challenges further complicate enforcement. The dual regulatory structure between the Securities and Exchange Organization and the Competition Council may generate ambiguity regarding jurisdictional competence. Theoretical discussions of regulatory overlap in the Iranian stock exchange context emphasize that structured markets do not eliminate the applicability of competition principles (1). Political-economic influence, including state ownership in certain listed entities, may also affect enforcement priorities. Technological limitations in surveillance systems constrain the detection of sophisticated trading schemes. Empirical research on manipulation underscores that wash trades often exploit periods of low scrutiny or thin liquidity (8). Where monitoring infrastructure is insufficiently advanced, such schemes may remain undetected for extended periods.

Insufficient transparency exacerbates these challenges. Market health supervision requires reliable data analytics and cross-institutional coordination. Regulatory models emphasizing capital market health in Iran highlight the need for modernized monitoring and enhanced disclosure oversight (4). Without advanced surveillance tools, identifying circular trading patterns indicative of wash trades becomes technically demanding. Consequently, enforcement in Iran remains primarily reactive rather than proactive, focusing on detected anomalies rather than predictive monitoring.

United States

The United States provides a more explicit statutory and doctrinal framework for addressing sham transactions. The Securities Exchange Act of 1934 constitutes the principal legislative instrument governing securities trading and market manipulation. Section 9(a) specifically targets manipulative practices that create false or misleading appearances of active trading. This statutory language directly encompasses wash trades by prohibiting transactions executed for the purpose of inducing others to trade. The economic foundation of U.S. antitrust policy, as articulated in leading scholarship, underscores that competition enforcement must be grounded in economic analysis and deterrence principles (3).

Rule 10b-5, promulgated under the Securities Exchange Act, further prohibits fraudulent schemes and deceptive practices in connection with the purchase or sale of securities. The application of Rule 10b-5 to wash trading rests on the premise that simulated transactions misrepresent market reality. Corporate governance theory highlights the role of regulatory gatekeepers in preventing deceptive financial conduct (6). In U.S. enforcement practice, wash trades are treated as inherently manipulative because they undermine the informational efficiency of markets.

Antitrust statutes such as the Sherman Act and Clayton Act may become relevant when sham transactions are part of broader collusive schemes designed to restrict competition or manipulate market structure. The theoretical limits of antitrust enforcement caution against overextension, yet acknowledge that concerted manipulation affecting competitive processes may warrant intervention (7). The intersection between securities regulation and competition law in the United States is therefore context-dependent, with securities statutes serving as the primary enforcement tool in most wash trading cases.

Judicial treatment of wash trades in the United States has emphasized the requirement of scienter, or intent to deceive, manipulate, or defraud. Federal courts evaluate whether transactions lacked economic substance and whether they were executed with manipulative intent. Empirical research on stock market manipulation supports the conclusion that wash trades generate artificial liquidity signals that mislead investors (8). The economic substance doctrine reinforces that transactions devoid of genuine risk exposure may constitute deceptive schemes.

Enforcement mechanisms in the United States are comparatively robust. Civil penalties may be imposed by the Securities and Exchange Commission, including monetary fines proportionate to the gravity of the offense. Criminal prosecution may be initiated by the Department of Justice where conduct meets statutory thresholds for fraud. Disgorgement of profits represents a central deterrent mechanism, ensuring that violators do not retain unlawful gains. Corporate governance scholarship has underscored the importance of disgorgement in reinforcing accountability within financial markets (6).

Injunctions and trading bans are frequently employed to prevent future violations. Courts may prohibit individuals from serving as officers or directors of public companies. Whistleblower programs incentivize insiders to report misconduct, thereby enhancing detection capacity. The economic orientation of U.S. antitrust and securities enforcement reflects a commitment to deterrence through both punitive and preventive measures (3).

Institutionally, the Securities and Exchange Commission serves as the principal enforcement authority for securities violations, while the Department of Justice prosecutes criminal cases. FINRA, as a self-regulatory organization, monitors broker-dealer conduct and may impose disciplinary sanctions. Advanced monitoring technologies, including algorithmic surveillance and data analytics systems, enhance detection of circular trading

patterns. Regulatory scholarship emphasizing capital market health suggests that technological modernization significantly improves oversight capacity (4).

The U.S. framework demonstrates a comparatively integrated approach in which statutory clarity, judicial precedent, institutional specialization, and technological infrastructure collectively reinforce deterrence. While challenges remain in proving intent and economic substance, the existence of explicit statutory provisions addressing manipulative trading provides doctrinal stability. By contrast, the Iranian framework relies more heavily on interpretive extension of general manipulation and fraud provisions. The comparative analysis reveals that although both jurisdictions recognize the harmful nature of sham transactions, the United States employs a more detailed and deterrence-oriented enforcement architecture.

Comparative Economic and Regulatory Evaluation

Structural differences between the Iranian and United States capital markets profoundly shape both the incidence of sham transactions and the capacity of regulators to respond effectively. Market maturity constitutes the most evident distinction. The United States capital market has developed over more than a century within a complex framework of federal securities legislation, antitrust doctrine, and judicial interpretation. Its scale, liquidity, and technological sophistication produce an environment in which trading patterns are continuously monitored and subjected to layered oversight. The intellectual foundation of U.S. antitrust and market regulation emphasizes economic analysis, efficiency, and deterrence (3). In contrast, the Iranian capital market, though institutionally structured and legally organized under the Capital Market Law, remains comparatively younger and structurally evolving. Iranian scholarship examining the relationship between competition law and the capital market underscores that institutional development remains ongoing and that regulatory coordination is still consolidating (1).

Ownership structure further differentiates the two systems. In the United States, dispersed shareholding and strong private institutional investment characterize much of the market. Corporate governance theory emphasizes the role of dispersed ownership and independent gatekeepers in mitigating manipulation and ensuring accountability (6). In Iran, by contrast, a considerable proportion of listed entities retain varying degrees of state or quasi-state ownership. The Law on Implementation of Article 44 aimed to expand privatization and enhance competition, yet doctrinal analysis indicates that state influence continues to shape market dynamics (2). This structural difference affects incentives and enforcement. Where ownership remains concentrated or state-linked, regulatory neutrality may be more complex to maintain.

State influence interacts closely with transparency mechanisms. In the United States, disclosure obligations are extensive and backed by decades of interpretive jurisprudence. The doctrinal convergence between securities law and corporate governance reinforces the expectation of transparency and accurate reporting (6). In Iran, regulatory scholarship addressing capital market health has emphasized that supervision models must continuously evolve to strengthen transparency and disclosure oversight (4). The foundations of capital market regulation within the Iranian legal system reflect recognition of transparency as a central objective, yet practical enforcement often depends on institutional resources and technological capacity (12). These structural conditions influence the vulnerability of each market to sham transactions. In less mature or less technologically integrated systems, artificial trading patterns may be more difficult to detect promptly.

Comparative enforcement effectiveness depends heavily on detection capability, procedural efficiency, litigation duration, and sanction severity. In the United States, sophisticated surveillance technologies, algorithmic trading analysis, and data aggregation tools enhance detection of circular trading patterns and anomalous volumes. Empirical research on stock market manipulation demonstrates that wash trades often manifest through repetitive patterns that can be identified through quantitative analytics (8). The institutional commitment to economic analysis within U.S. enforcement agencies supports rapid assessment of suspicious activity (3). In Iran, detection capability is improving but remains constrained by technological infrastructure and inter-agency coordination challenges. Regulatory discussions of supervision styles acknowledge that modernization of monitoring systems is essential to safeguarding market integrity (4).

Procedural efficiency also varies significantly. U.S. securities enforcement benefits from established administrative procedures within the Securities and Exchange Commission, combined with the possibility of parallel civil and criminal actions. Corporate governance literature highlights that credible enforcement depends not only on statutory authority but also on procedural clarity and institutional autonomy (6). Litigation duration in the United States may still be lengthy in complex cases, yet the existence of structured settlement mechanisms and plea agreements often accelerates resolution. In Iran, enforcement proceedings may involve administrative disciplinary processes followed by potential judicial review, extending timelines and increasing uncertainty. The broader debate on the limits of antitrust cautions that excessive procedural complexity may undermine deterrence if enforcement becomes unpredictable or inconsistent (7).

Sanction severity constitutes another distinguishing factor. U.S. law permits substantial civil penalties, disgorgement of profits, and criminal prosecution, creating a multilayered deterrence structure. The economic rationale underlying deterrence-based sanctions aligns with broader antitrust theory, which emphasizes removal of illicit gains and imposition of penalties sufficient to offset expected benefits of misconduct (3). In Iran, while fines and trading suspensions are available, the absence of a consistently structured disgorgement mechanism reduces the certainty that unlawful gains will be fully recovered. Scholarship addressing informational rent-seeking in Iranian financial markets highlights the necessity of more explicit criminalization and sanction calibration to address economic harm (10).

Restitution and disgorgement represent a pivotal comparative dimension. In the United States, disgorgement has become a central enforcement tool in securities cases, designed to deprive violators of profits derived from manipulative schemes. Corporate governance analysis underscores that disgorgement reinforces market discipline by ensuring that wrongful conduct does not yield economic advantage (6). The presence of structured restitution mechanisms enhances investor protection and restores confidence. By contrast, the Iranian system does not uniformly institutionalize disgorgement as a distinct remedy. While administrative fines may penalize offenders, the recovery of profits attributable to sham transactions may not be systematically calculated or redistributed. The absence of structured restitution can weaken investor confidence because victims may not perceive tangible remediation. The foundations of capital market regulation in Iran emphasize fairness and protection, yet the operationalization of restitution remains comparatively limited (12).

The economic impact of sham transactions is significant in both jurisdictions, though structural differences influence magnitude and consequences. Artificial liquidity generated through wash trades distorts volume metrics, misleading investors regarding genuine demand. Empirical analysis confirms that manipulated trading volumes can temporarily inflate prices and attract speculative capital (8). Price distortion undermines allocative efficiency by

diverting capital toward securities whose apparent performance is artificially enhanced. In markets with high technological sophistication and liquidity, detection may mitigate long-term distortion; however, short-term volatility and reputational damage may still occur.

Increased systemic risk arises when manipulative practices proliferate undetected. Competition law theory emphasizes that competitive markets rely on credible enforcement to maintain structural integrity (2). Where manipulation becomes widespread, investor confidence deteriorates, leading to withdrawal of capital and heightened volatility. The reduction in investor confidence has macroeconomic implications, potentially raising the cost of capital for issuers. In emerging markets, where confidence is particularly sensitive to regulatory credibility, sham transactions may have disproportionate effects. Iranian regulatory scholarship highlights that maintaining market health is essential to sustaining investor participation and preventing capital flight (4).

The cost of capital implications are particularly salient. When investors perceive markets as susceptible to manipulation, they demand higher risk premiums. Antitrust and competition scholarship underscores that distortions in competitive processes ultimately reduce efficiency and increase economic costs (3). Sham transactions compromise the informational function of prices, thereby impairing capital allocation decisions. The economic harm extends beyond individual investors to the broader financial system.

Regulatory tensions further complicate comparative evaluation. In the United States, the implicit immunity doctrine has occasionally limited the application of antitrust law where securities regulation occupies the field. The theoretical debate regarding the limits of antitrust intervention reflects concern about regulatory duplication and inconsistent standards (7). The convergence and potential conflict between competition and securities law illustrate that regulatory overlap must be carefully balanced (9). While securities law primarily governs wash trading, antitrust principles may become relevant where coordinated manipulation affects competitive market structure.

In Iran, regulatory overlap manifests differently. The dual authority of the Securities and Exchange Organization and the Competition Council may generate jurisdictional ambiguity. Scholarship examining the relationship between competition law and the capital market notes that structured markets do not negate the relevance of competition norms, yet institutional coordination remains essential (1). International competition law analysis further suggests that cross-border financial integration requires harmonized regulatory approaches to prevent fragmentation (13).

Balancing investor protection and competition objectives requires nuanced regulatory design. Excessive intervention may stifle legitimate trading innovation, while insufficient oversight invites manipulation. Corporate governance theory emphasizes the importance of proportional enforcement that deters misconduct without discouraging market participation (6). In both Iran and the United States, sham transactions represent a convergence point where investor protection and competition principles align. Artificial trading undermines both transparency and competitive integrity, necessitating coordinated regulatory responses.

Comparatively, the United States benefits from statutory clarity, structured disgorgement, and advanced detection infrastructure, which collectively enhance deterrence and investor confidence. Iran, while possessing a formal legal framework addressing manipulation, faces structural and institutional challenges that limit enforcement effectiveness. Strengthening restitution mechanisms, clarifying jurisdictional boundaries, and modernizing surveillance technology would likely enhance regulatory coherence and deterrence in the Iranian context. The comparative evaluation demonstrates that while both systems recognize the harmful nature of sham transactions, differences in market maturity, institutional capacity, and enforcement architecture significantly influence outcomes.

Conclusion

Sham transactions, commonly known as wash trades, represent a fundamental challenge to the integrity and credibility of capital markets. By simulating trading activity without a genuine transfer of beneficial ownership or assumption of economic risk, such practices undermine the foundational assumptions upon which securities markets operate. The comparative analysis undertaken in this study demonstrates that while both Iran and the United States recognize the harmful nature of manipulative trading practices, their regulatory architectures, enforcement mechanisms, and institutional capacities differ significantly in both design and effectiveness.

At a conceptual level, sham transactions distort the core economic functions of stock exchanges. Capital markets depend on accurate price discovery, transparent information flows, and competitive participation to allocate resources efficiently. When artificial liquidity is introduced through wash trading, the informational content of prices becomes unreliable. Investors may interpret inflated volumes and manipulated price movements as signals of genuine demand, leading to misallocation of capital and heightened volatility. Over time, repeated manipulation erodes investor confidence, increases perceived risk, and raises the cost of capital for issuers. In emerging or structurally evolving markets, these effects may be even more pronounced, as investor trust remains sensitive to regulatory credibility and enforcement consistency.

The legal treatment of sham transactions in Iran and the United States reflects differing stages of institutional development and regulatory philosophy. In Iran, the Capital Market Law and related regulatory instruments provide a framework for addressing market manipulation, yet the absence of an explicit statutory definition of wash trades creates interpretive reliance on broader provisions concerning fraud and deceptive conduct. This interpretive approach allows regulators to address sham transactions within existing legal categories, but it may also produce doctrinal ambiguity and inconsistent enforcement outcomes. The dual regulatory structure involving the Securities and Exchange Organization and the Competition Council further complicates jurisdictional clarity. While this duality reflects the theoretical convergence between competition law and securities regulation, it also necessitates careful coordination to avoid overlap, gaps, or conflicting standards.

By contrast, the United States benefits from a more explicit and historically developed statutory regime addressing manipulative practices. The Securities Exchange Act of 1934 and related rules provide clear authority to sanction conduct that creates a false or misleading appearance of active trading. Judicial precedent and administrative enforcement practice have further refined the legal understanding of wash trades, particularly with respect to scienter, economic substance, and deceptive intent. This doctrinal clarity strengthens enforcement predictability and reinforces deterrence. Additionally, the integration of civil penalties, criminal liability, and disgorgement mechanisms ensures that violators are not only punished but deprived of unlawful gains.

One of the most striking differences between the two systems lies in the treatment of restitution and disgorgement. In the United States, disgorgement functions as a central remedial tool designed to eliminate economic incentives for manipulation. By requiring violators to surrender profits derived from illicit conduct, regulators reinforce the principle that wrongdoing must not be economically beneficial. In Iran, while administrative fines and sanctions are available, the absence of a consistently structured disgorgement mechanism may weaken deterrence. Without systematic recovery of unlawful gains, enforcement may fail to fully neutralize the financial incentives underlying sham transactions. Strengthening restitution frameworks would therefore represent a meaningful reform avenue within the Iranian context.

Technological capacity and surveillance infrastructure also distinguish the two jurisdictions. Advanced monitoring systems, data analytics, and algorithmic detection tools in the United States enhance the ability of regulators to identify circular trading patterns and anomalous volume behavior. These technologies enable proactive detection rather than purely reactive enforcement. In Iran, while regulatory supervision has improved, technological limitations and resource constraints continue to affect detection capability. Investment in modern surveillance tools and inter-agency data integration would significantly enhance the ability to identify sophisticated trading schemes.

The broader regulatory tension between competition law and securities regulation emerges as a recurring theme in both systems. Competition law seeks to preserve market structure and prevent anti-competitive conduct, while securities law prioritizes transparency, disclosure, and investor protection. Sham transactions sit at the intersection of these domains because they distort both competitive processes and informational integrity. Effective regulation therefore requires coordinated interpretation rather than rigid compartmentalization. In the United States, jurisprudential doctrines have occasionally limited antitrust intervention where securities regulation provides comprehensive oversight, reflecting a desire to prevent duplicative enforcement. In Iran, regulatory overlap remains an evolving issue, requiring clearer delineation of institutional competence.

From an economic perspective, the harms associated with sham transactions extend beyond individual investors. Artificial liquidity and price distortion may propagate systemic risk, particularly when manipulative practices coincide with broader market volatility. In markets characterized by state influence or concentrated ownership, manipulation may carry additional governance implications. Conversely, in highly liquid and technologically advanced markets, manipulation may be detected more rapidly but can still generate reputational harm and short-term instability. In both contexts, preserving market integrity is essential not only for investor protection but also for macroeconomic stability and sustainable capital formation.

The comparative findings of this study suggest several key implications. First, explicit statutory recognition of sham transactions enhances legal clarity and enforcement predictability. Second, structured disgorgement mechanisms play a decisive role in strengthening deterrence by removing economic incentives for manipulation. Third, technological modernization and data-driven surveillance significantly improve detection capability. Fourth, institutional coordination between competition authorities and securities regulators must be carefully calibrated to ensure coherent oversight. Finally, investor confidence depends as much on visible enforcement credibility as on formal legislative provisions.

In conclusion, sham transactions represent a convergence point where economic theory, competition policy, and securities regulation intersect. The comparative experience of Iran and the United States illustrates that while legal recognition of manipulative conduct is a necessary foundation, effective deterrence depends on institutional capacity, procedural efficiency, technological infrastructure, and remedial design. Enhancing clarity, strengthening restitution mechanisms, and fostering regulatory coordination would contribute to a more resilient capital market framework. Ultimately, safeguarding market integrity requires continuous adaptation to evolving trading strategies and technological innovation, ensuring that capital markets remain credible, transparent, and competitive in an increasingly complex financial environment.

Acknowledgments

We would like to express our appreciation and gratitude to all those who helped us carrying out this study.

Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

Funding

This research was carried out independently with personal funding and without the financial support of any governmental or private institution or organization.

References

1. Sardooi Nasab M, Ghanbari F. The Relationship Between Competition Law and Capital Market in Iran. *Judicial Legal Perspectives Journal*. 2018.
2. Sadeghi M. Scope of Competition Law in Competitive and Non-Competitive Markets. Tehran, Iran: Majd Publishing; 2016.
3. Hovenkamp H. Federal Antitrust Policy: The Law of Competition and Its Practice. St. Paul, MN, USA: West Academic Publishing; 2018.
4. Yazdan Panah M, Ahmadi Mousavi SM. Legal Supervision Styles for Capital Market Health. *Dynamic Management and Business Analysis*. 2023;2(3):196-207. doi: 10.22034/dmbaj.2024.2037208.1063.
5. Soltani M. Capital Market Law: Samt Publications; 2021.
6. Coffee JC. Gatekeepers: The Professions and Corporate Governance. Oxford, UK: Oxford University Press; 2015.
7. Easterbrook FH. The Limits of Antitrust. *Texas Law Review*. 1984.
8. Aggarwal R, Wu G. Stock Market Manipulations. *Journal of Business*. 2006.
9. Bagheri M, Javadi S. Convergence and Competition in Stock Exchange Markets: Conflict Between Competition Law and Securities Law. *Law Quarterly Review*. 2008.
10. Pourghasemi R, Moridi H, editors. Criminalization of informational rent-seeking in Iranian financial markets: Necessities and legal obstacles. The 9th International Conference on Jurisprudence, Law, Advocacy and Social Sciences in the Horizon of Iran 1404; 2025; Mashhad.
11. Haqiqi M. Comparative Study of Merger Control in Competition Law. *Commercial Law Review*. 2016.
12. Jalali M, Mezinanian S. Review of the Foundations and Methods of Capital Market Regulation in the Iranian Legal System. Tehran: in; Economic Law Association, Faculty of Law, Shahid Beheshti University, Capital Market Law in the Light of Economic Law Mizan Legal Foundation Publications; 2019.
13. Vakili-Moghaddam MH. International Competition Law and Cross-Border Market Regulation. *International Trade Law Journal*. 2016.
14. Bagheri M. Arbitrability of Economic Law Disputes: Competition and Securities Law Cases. *Legal Research Journal*. 2007.