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Legal and Financial Analysis of Market Manipulation Oversight and Control in Futures Contracts (A Comparative Study of Iranian and U.S. Regulations)

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ABSTRACT

Futures contracts, as one of the most important derivative instruments in financial markets, serve key functions such as risk hedging and price discovery. However, the structural characteristics of these instruments can provide a fertile ground for destructive behaviors such as market manipulation—an occurrence that leads to distortions in the pricing mechanism, weakens informational transparency, and diminishes public trust in the capital market. In certain jurisdictions, weaknesses in legislation and supervisory limitations have made it difficult to effectively counter such behaviors. This study aims to conduct a comparative legal analysis of the Iranian and United States systems concerning the supervision and control of market manipulation in futures contracts. The research method is descriptive–analytical, employing a comparative approach, and the sources include laws, regulations, supervisory practices, and official reports from the financial authorities of both countries. The findings indicate that the United States, through the use of comprehensive laws such as the Dodd–Frank Act, independent supervisory bodies such as the Commodity Futures Trading Commission (CFTC), and advanced regulatory technologies, has developed effective and deterrent mechanisms to control market manipulation. In contrast, the Iranian legal system faces challenges such as the absence of a comprehensive derivatives law, weak criminalization of manipulative acts, lack of advanced supervisory systems, and limited authority of the regulatory body.

Keywords: *Futures Contracts, Market Manipulation, Financial Supervision, Comparative Regulations, Derivatives Market*

Introduction

Financial markets, as one of the main pillars of the modern economic system, play a fundamental role in the optimal allocation of resources, corporate financing, price discovery, and risk hedging (1, 2). Among them, derivative instruments—particularly futures contracts—serve as advanced tools that enable professional market participants to manage risk effectively (3, 4). A futures contract is a binding agreement between two parties under which a specific asset is to be delivered at a predetermined time and price in the future. However, these very structural features make such contracts fertile ground for disruptive behaviors, most notably *market manipulation* (5, 6).

Manipulation in futures trading not only distorts the price discovery mechanism and disrupts the distribution of information but also weakens public confidence in capital markets (7, 8). Practices such as *spoofing*, *layering*, and *wash trades* represent clear examples of market manipulation (6, 9). In many developed legal systems, such conduct is classified as a financial crime and is sanctioned by severe criminal and civil penalties (10, 11). In contrast, in certain jurisdictions, including Iran, a comprehensive and effective legal framework for identifying, criminalizing, and countering this phenomenon has not yet been developed (4, 12). This legal vacuum, combined with weak supervisory institutions and the absence of advanced analytical systems, presents a serious challenge to effective control of manipulative behavior in Iran's futures markets (13, 14).

In the U.S. legal system, the adoption of legislative acts such as the *Commodity Exchange Act* and the *Dodd–Frank Act*, along with the establishment of supervisory authorities such as the *Commodity Futures Trading Commission (CFTC)* and the *Securities and Exchange Commission (SEC)*, has enabled precise, technology-based, and assertive oversight of the derivatives market (8, 15). These institutions employ artificial intelligence, data-mining algorithms, and inter-agency cooperation to detect suspicious patterns and pursue enforcement actions (5, 6). In contrast, the Iranian framework for derivatives market supervision, primarily embedded within the regulations of the Securities and Exchange Organization, still lacks efficient supervisory tools, deterrent sanctions, and the necessary inter-agency coordination to effectively combat market manipulation (4, 14).

Accordingly, this study raises two primary research questions:

1. What are the structural, legal, and institutional differences between Iran and the United States regarding oversight and control of market manipulation in futures contracts?
2. How can the U.S. experience be leveraged to improve Iran's legal and supervisory framework?

To answer these questions, the following hypotheses are proposed:

Hypothesis 1: The U.S. legal system, owing to its comprehensive legislation, independent institutions, and advanced technological infrastructure, possesses greater capacity to identify and control manipulative behaviors in the futures market.

Hypothesis 2: Weaknesses in criminalization, the lack of intelligent monitoring systems, and limited regulatory authority within the Securities and Exchange Organization are among the key obstacles to effectively addressing market manipulation in Iran.

The purpose of this article is to conduct a comparative legal analysis between the Iranian and U.S. systems concerning the supervision and control of market manipulation in futures contracts. To achieve this goal, the study first examines theoretical concepts related to derivatives markets and the phenomenon of manipulation; second, it analyzes the legal and regulatory frameworks of both countries; and finally, based on comparative findings, it proposes practical solutions to strengthen Iran's legal and supervisory architecture.

The significance of this research lies in its multidisciplinary exploration of a complex legal and financial issue—a phenomenon which, if left unchecked, not only leads to market inefficiency and capital flight but also adversely affects macroeconomic policymaking. Furthermore, given the increasing globalization of financial markets and the growing role of derivatives in risk management, the establishment of a transparent, intelligent, and deterrent legal framework in Iran has become an urgent necessity to ensure market integrity and restore investor confidence. Therefore, adopting an interdisciplinary perspective grounded in legal, economic, and international experience, this article seeks to contribute meaningfully to reforming and reinforcing Iran's derivatives market supervision system, particularly in the area of futures contracts.

Types of Futures Contracts in Legal Systems

Futures contracts represent one of the most important derivative instruments used in modern markets for risk management, speculation, and price discovery (1, 3). Legally, they are binding agreements between two parties whereby the buyer commits to purchase, and the seller to deliver, a specific asset at a predetermined price and future date. The key distinguishing feature of futures contracts compared with other derivatives—especially options and forward contracts—is their standardized nature and trading through organized exchanges, which enhances transparency, liquidity, and reduces counterparty risk (4, 16).

From a legal standpoint, a futures contract exhibits a dual nature. On one hand, it is obligatory since both parties must fulfill their commitments at maturity; on the other, it is hypothetical, as in most cases contracts are settled prior to maturity through cash settlement or offsetting transactions. This duality has led many jurisdictions to enact specific regulations addressing the legal and economic risks associated with futures contracts (14, 17).

In the United States, futures contracts have long been regulated under specialized legislation such as the *Commodity Exchange Act*. These laws provide a comprehensive framework for defining, executing, supervising, and sanctioning potential violations (8, 11). For instance, the statutory definition of a futures contract in U.S. regulations not only encompasses its financial essence but also legal standards such as standardization, exchange-based trading, and settlement requirements. Moreover, supervisory bodies like the *CFTC* are responsible for overseeing contract execution, settlement, and ensuring market integrity (5, 15).

In Iran, futures contracts were formally introduced through directives issued by the Securities and Exchange Organization, primarily within the framework of the Iran Mercantile Exchange (4, 14). Currently, the regulatory framework governing futures contracts is mainly contained within the *Securities Market Act of 2005*, its executive bylaws, and specific trading directives. Despite these positive steps, the Iranian system still faces challenges such as the absence of a comprehensive legal definition, lack of alignment with international standards, and deficiencies in legal detail (2, 12).

Futures contracts can generally be categorized as follows:

1. Commodity Futures: These contracts involve the delivery of physical goods such as oil, gold, copper, or wheat. In the U.S., a substantial portion of futures trading is linked to commodities, with strict regulations to prevent price manipulation (6, 8). In Iran, the Iran Mercantile Exchange is the primary venue for such contracts; however, limitations such as the absence of international participants, logistical challenges, and price volatility hinder their full development (4, 14).

2. Financial Futures: These contracts are based on indices, interest rates, currencies, or bonds. Advanced markets such as the Chicago Mercantile Exchange (CME) have been instrumental in developing this class of instruments (3, 17). In Iran, the growth of such instruments remains in early stages due to technical complexities and regulatory risk factors (4, 13).

3. Cash-Settled Futures: In these contracts, no physical delivery occurs at maturity; instead, the difference between the spot price and the agreed price is settled in cash. This structure minimizes delivery risk and enhances market efficiency (5, 9). While U.S. regulations extensively employ such instruments, Iran has yet to fully integrate a comprehensive cash-settlement framework into its regulatory system (4, 12).

4. Exchange-Traded vs. Over-the-Counter (OTC) Futures: Exchange-traded futures are standardized and subject to strict oversight, while OTC futures are bilateral contracts outside organized exchanges, carrying greater

counterparty risk (14, 16). The U.S. has introduced reporting and centralized clearing requirements to improve OTC transparency, but in Iran, most futures trading still occurs on exchanges due to limited market maturity (4, 10).

A crucial aspect of legal analysis in futures contracts concerns enforcement mechanisms for breaches or manipulative behavior. In advanced jurisdictions, market manipulation in futures trading is recognized as an independent financial crime, subject to severe penalties including fines, professional bans, and imprisonment (5, 8). In Iran, however, manipulative practices are not explicitly defined in statutory law, making proof and prosecution significantly difficult (4, 12).

Overall, futures contracts—being vital instruments in capital markets—require precisely tailored regulations and effective supervision. Developed legal systems such as that of the United States have approached the issue comprehensively by providing clear definitions, categorization, and legal infrastructure to enhance transparency and counter market abuse (7, 8). Conversely, Iran's legal framework remains at an early stage and demands fundamental reforms in contract definitions, diversification, and supervisory capacity enhancement (4, 14).

The Concept of Market Manipulation: Types, Motives, and Economic Impacts

In financial criminal law, proving *mens rea* (malicious intent) and *harmful outcome* requires the integration of data mining, algorithmic analysis, and inter-agency cooperation (6, 8). In the United States, agencies such as the *Commodity Futures Trading Commission (CFTC)* and the *Securities and Exchange Commission (SEC)* proactively identify and investigate suspicious behaviors through the use of artificial intelligence tools and predictive analytics (5, 7).

In Iran, despite several recent initiatives, the concept of *market manipulation* remains insufficiently defined within financial legislation (4, 12). Only certain provisions in the *Securities Market Act* and the disciplinary regulations of the Securities and Exchange Organization make general reference to deceptive or market-distorting conduct, while modern forms such as *spoofing*, *layering*, or *wash trades* have not yet been explicitly criminalized (11, 13). Consequently, legal prosecution of such actions faces barriers of proof, lack of specialized jurisdiction, and institutional fragmentation (4, 14).

Thus, the notion of market manipulation and its various forms represent not only a major financial threat to the stability of futures markets but also a legal challenge for judicial and supervisory institutions seeking to define, identify, and sanction offenders (1, 10). The U.S. experience demonstrates that effective control of manipulation depends on three fundamental pillars: (1) precise legal definitions, (2) establishment of specialized and well-equipped institutions, and (3) imposition of deterrent sanctions (5, 8). For Iran, revisiting the conceptual and legal framework of market manipulation is therefore an urgent necessity to safeguard market integrity and enhance the international standing of its financial system (3, 17).

Legal Principles Governing Derivatives Markets: Transparency, Fairness, and Predictability

Derivatives markets—especially futures contracts—because of their inherent leverage, bidirectional exposure, and high sensitivity to information, are more vulnerable than other markets to artificial volatility, information asymmetry, and trading misconduct (4, 14). For this reason, designing coherent, principle-based legal frameworks is a foundational requirement for establishing a sound and sustainable financial system. Three core legal principles repeatedly emphasized in international instruments and by leading regulatory institutions are **transparency**,

fairness, and **predictability** (11, 12). These principles not only enhance market efficiency but also play a critical preventive role against manipulation, fraud, and the erosion of public trust (9, 10).

1. Transparency

Transparency is one of the foundational pillars in the legal design of financial markets and refers to the timely, accurate, and symmetrical access of market participants to information concerning assets, contracts, major players, and inherent risks (6, 8). In futures markets—where pricing largely reflects collective expectations—transparency assumes even greater significance (5, 7).

In the U.S. legal system, transparency is implemented across multiple layers:

1. **Pre-trade public disclosure** by issuers or exchanges;
2. **Transparent reporting of large positions**;
3. **Clarity in price discovery and settlement mechanisms**.

For instance, the *CFTC* mandates that all standardized futures contracts must be registered and publicly accessible through official markets, while weekly *Commitment of Traders (COT)* reports disclose aggregate trading positions of major market actors, reducing the potential for insider exploitation (8, 15).

In Iran, the principle of transparency is recognized within the *Securities Market Act*—Article 13 obliges listed companies to disclose material information. However, in the derivatives segment, there remains no integrated system for comprehensive and analyzable information disclosure (4, 13). The absence of public access to large trader data, lack of periodic analytical reports, and limited disclosure of contract structures constitute major transparency gaps in Iran's futures market (3, 14).

2. Fairness

Fairness in financial markets entails ensuring equal treatment for all participants, preventing discrimination, countering misuse of informational advantages, and fostering competitive equality (12, 16). This principle is particularly important in futures markets, where participants often differ significantly in analytical capability and financial strength (5, 10).

Legally, fairness is operationalized through rules prohibiting insider trading, managing conflicts of interest, and enforcing professional conduct among financial institutions (9, 15). In the U.S., regulators promote fairness by enacting explicit provisions regarding insider transactions, restricting excessive market power by dominant traders or market makers, and pursuing discriminatory practices through litigation (8, 11).

A key manifestation of fairness is the obligation of financial institutions to provide equal access to trading systems and order execution. Algorithmic trading mechanisms must be designed to prevent unfair advantages for specific participants. The U.S. regulatory approach to high-frequency trading (HFT) supervision seeks to balance opportunities among market actors (6, 9).

In the Iranian legal system, fairness is implicitly embedded within general principles of commercial law, such as good faith, prohibition of fraud, and observance of equity (4, 14). However, the absence of explicit anti-discrimination rules in futures trading, insufficient oversight of algorithmic transactions, and weak enforcement mechanisms pose serious challenges to achieving fairness in Iran's derivatives markets (11, 12).

3. Predictability

The principle of predictability dictates that the laws, procedures, and market mechanisms must be structured and implemented in a way that allows participants to plan their behavior and manage trading risks based on rational

and legal analysis (10, 13). In the absence of stability and consistent legal interpretation, markets tend toward uncertainty and capital flight (2, 14).

Predictability rests on three essential components:

- **Regulatory stability:** Laws should not change arbitrarily or without adequate notice.
- **Consistent jurisprudence:** Judicial bodies must issue similar rulings in comparable cases.
- **Transparent supervisory processes:** Regulatory agencies must clearly disclose inspection, warning, sanction, and penalty procedures (7, 8).

In the United States, a long-standing legal tradition, specialized financial courts, and public dissemination of enforcement procedures by the *CFTC* and *SEC* ensure a high degree of predictability for market participants (5, 6). Institutional actors can formulate legal and trading strategies based on precedents from prior cases (10, 11).

In Iran, although the *Securities Market Act* and its subordinate regulations delineate the general operational framework, predictability remains undermined by several factors: inconsistent interpretations of the same provisions across different cases; abrupt regulatory decisions without prior notice; and the absence of transparent procedures for disciplinary or criminal rulings (4, 14). These weaknesses create a sense of regulatory insecurity among both domestic and foreign investors, thereby reducing their willingness to participate in Iran's derivatives markets (12, 13).

Ultimately, the legal principles of transparency, fairness, and predictability form the three essential pillars for sustaining efficient and trustworthy derivatives markets (8, 10). These principles are especially critical in futures markets, which are vulnerable to manipulation, abuse, and disequilibrium (5, 11). While the U.S. system has institutionalized these principles through precise legislation, robust supervisory procedures, and specialized judicial mechanisms, Iran must undergo comprehensive regulatory reform, enhance the operational transparency of its supervisory bodies, and strengthen its legal infrastructure to foster market development and investor confidence (4, 12).

Empirical Data of the Study

Although this research is methodologically situated within descriptive–analytical and comparative studies—focusing primarily on the analysis of legal concepts, supervisory structures, and derivatives-market regulations in Iran and the United States—empirical data were also purposefully and qualitatively employed at multiple levels. First, in the domain of practical instances of market manipulation, documented real-world cases were utilized; among them, the Michael Coscia case in the U.S. precious-metals futures market, in which the defendant was prosecuted for spoofing. The analysis of these cases relied on official materials from supervisory authorities such as the CFTC and shows how legal and technology-driven mechanisms are deployed to detect and pursue market manipulation (5, 8, 9).

Second, data extracted from institutional reports, official regulations, and disclosure systems in both countries formed the basis of the study's comparative analysis. For example, reviewing the weekly Commitment of Traders (COT) reports and comparing them with the absence of similar systems in Iran constitutes one of the effective empirical inputs for assessing the level of market transparency (4, 8).

Third, the lack of official data in Iran on modern forms of manipulation such as spoofing, wash trades, and layering is itself analyzed as a negative empirical finding. This information gap signals weaknesses in supervisory systems,

the absence of clear criminalization, and insufficient interaction between supervisory bodies and the judiciary (12, 14).

Ultimately, although the study's empirical data are not quantitative in a statistical sense, qualitative analysis of authoritative documents, legal cases, and official reports strengthens the foundation of the comparative arguments and provides a realistic picture of the challenges and capacities present in the supervisory systems of Iran and the United States (11, 15).

Table 1: Empirical Data of the Study

Row	Data Type	Country	Use & Key Analysis	Source
1	Spoofing Case (Michael Coscia)	United States	Successful example of criminalization and prosecution of sham orders in futures	(5, 9)
2	COT Reports	United States	Transparency tool for large positions and manipulation control	(8)
3	Absence of comparable disclosure system	Iran	Indicates transparency gaps and weak prevention of violations	(4, 11)
4	Lack of judicial reports on spoofing/layering	Iran	"Negative empirical finding": no clear criminalization or effective prosecution	(12, 14)
5	CFTC supervisory structure	United States	Specialized authority with technological tools and strong enforcement	(8)

Discussion and Analysis

Structural and Regulatory Gaps in Iran's Legal System in Confronting Market Manipulation in Futures Contracts

Despite efforts by Iran's capital-market institutions, the domestic futures market faces deep structural and legal challenges in addressing market manipulation. The findings indicate three principal layers: the absence of clear and comprehensive legislation, deficiencies in supervisory enforcement, and weaknesses in criminalization and deterrent sanctions (4, 12).

At the first layer, the lack of a dedicated legal framework for derivatives—particularly futures—has confined relevant rules largely to executive directives of the Securities and Exchange Organization. While these directives set out certain general principles, they lack clarity and effectiveness against complex and modern behaviors such as spoofing, layering, wash trades, or front-running. By contrast, in the United States, reforms associated with the **Dodd–Frank Act** explicitly addressed algorithmic-market manipulation and strengthened oversight infrastructures (8, 15). In Iran's legal system, there is still no direct statutory reference to these specific forms (4, 14).

At the second layer, weaknesses in supervisory enforcement constitute a major obstacle to combating manipulation effectively. Although the Securities and Exchange Organization possesses relatively broad legal powers, in practice it has not managed to impose continuous oversight over trading behavior in futures due to limited specialized human resources, a lack of advanced information-technology infrastructure, and insufficient coordination with judicial bodies. To date, no public reports have been released indicating the detection and legal handling of algorithmic violations in Iran's futures market, whereas U.S. automated surveillance systems identify thousands of anomalous events daily (6, 8).

At the third layer, Iran's criminal law lacks sufficiently tailored sanctions to address manipulation in financial markets. Existing penal provisions are either overly general and traditional or not directly tied to the capital market, which means many advanced violations in derivatives trading are not readily prosecutable and at best result in administrative discipline or formal warnings. The absence of credible deterrent sanctions encourages recidivism and drives professional investors away from domestic markets (12, 14).

Furthermore, the findings show that ineffective institutional coordination among the Securities and Exchange Organization, the Central Bank, the Ministry of Economic Affairs and Finance, and the judiciary prevents the formation of a unified mechanism to counter market manipulation. While in the United States the CFTC cooperates with the SEC, the Department of Justice, and other agencies to pursue criminal cases in futures markets, referrals in Iran are often delayed and lack specialized handling, reducing the effectiveness of adjudication (8, 11).

In terms of education and culture, research indicates that a significant share of Iran's futures-market participants—including retail investors—lack accurate awareness of legal concepts and the manifestations of manipulation, which leads to quasi-manipulative behavior that is unintentional or uninformed. Supervisory bodies have also not implemented comprehensive and regular education programs in this area (13, 14).

Overall, combating manipulation in Iran's futures market requires legal reform, specialized institution-building, enhancement of technology-driven supervisory capacity, and expanded legal and financial education for market participants. Without these foundational measures, effective enforcement against manipulation and the development of a sound and trustworthy derivatives market will not be achievable (4, 12).

Effectiveness of U.S. Supervisory Institutions and Regulatory Structure in Curbing Manipulation in Futures Markets

An examination of the U.S. legal and institutional architecture for derivatives oversight—especially futures—shows that the United States has successfully established a reliable environment for professional and institutional investors by adopting a combined strategy of explicit legislation, specialized institution-building, and the deployment of advanced supervisory technologies (8, 11). The findings indicate that, in confronting market manipulation, the U.S. has not only drafted sophisticated and precise rules but also established powerful, independent, and accountable enforcement structures (15).

As a first step, the **Commodity Exchange Act (CEA)**—the foundational statute for derivatives—provides a comprehensive framework defining futures contracts, delineating roles and responsibilities, and specifying potential violations (11, 14).

In addition, following the **2008** financial crisis, the **Dodd–Frank Act** was enacted, with one of its core objectives being to counter manipulation in derivatives markets, including futures. The Act introduced tools such as enhanced detection of suspicious trading, mandatory reporting/clearing for OTC transactions, and expanded powers for supervisory authorities (8, 15).

The **CFTC**, as an independent and specialized regulator of derivatives, holds a central position in curbing market manipulation. Beyond supervisory authority, it exercises broad powers in rulemaking, licensing, inspection, enforcement, and even the technical standard-setting of algorithmic trading (8, 11). Annual performance reports show that by issuing analytical publications, public warnings, and rapid case handling, the CFTC has steered market behavior toward discipline and transparency (8).

On the technical front, the CFTC employs data-mining tools, algorithmic analytics, and AI to identify abnormal trading patterns. Its surveillance systems monitor orders in real time and trigger automated alerts upon detecting suspicious behavior. In spoofing or layering cases, investigations begin immediately based on order-book patterns, repeat cancellations, and price-impact evidence—and may be referred to criminal authorities when warranted (5, 6, 8).

From a preventive standpoint, the United States also adopts ex-ante measures to reduce manipulation, including:

- **Mandatory reporting/central clearing of OTC transactions**, enabling traceability of off-exchange activity (8, 15).
- **Position-limit regimes** to prevent concentration and price manipulation (8).
- **Algorithmic-trading regulations**, requiring registration/controls and transparent reporting by entities deploying trading algorithms (6, 15).

The CFTC also coordinates with other financial authorities such as the **SEC**, the **Federal Reserve**, and international bodies like **IOSCO**, thereby establishing a harmonized, multi-layered framework for controlling manipulation. These collaborations facilitate successful pursuit of cross-border violations (7, 8).

In terms of sanctions, the United States imposes severe penalties—including substantial monetary fines, permanent market bans, and criminal imprisonment for individuals—sending a clear deterrent message to potential offenders (8).

Beyond technical and legal dimensions, market culture also plays a role. Financial institutions active in U.S. derivatives markets are required to design internal-control systems to detect and prevent employee misconduct, and brokerage firms must deliver training on professional ethics and anti-manipulation compliance (14).

Finally, the result of this coherent structure is a high level of public confidence in U.S. derivatives markets. The presence of institutional investors, participation of multinational corporations, and high liquidity in commodity, energy, currency, and index futures all attest that effective regulation directly supports market integrity and economic stability (2, 8, 18).

Manifestations of Market Manipulation in Futures Contracts: An Analysis of Spoofing and Layering

Market manipulation in futures contracts represents one of the most serious threats to the integrity of capital markets. By exploiting supervisory loopholes, information asymmetry, and technological weaknesses, such practices can generate artificial price movements and deceive market participants (5, 6). These manipulative behaviors are generally intended to induce artificial volatility, psychologically influence market direction, and extract unfair profits (8, 9).

The following section provides a legal and financial analysis of the major recognized forms of manipulation in derivatives markets, including **Spoofing**, **Layering**, **Wash Trading**, and **Quote Stuffing**.

1. Spoofing (Fictitious Order Placement)

Spoofing is one of the most common forms of market manipulation in which a trader places large buy or sell orders without the genuine intention of executing them. The purpose is to create a false impression about market direction and to induce other participants to trade in a desired manner (5, 9).

In 2015, *Michael Coscia*, a U.S. precious-metals futures trader, was convicted by the *CFTC* and federal prosecutors after entering large buy orders for gold futures, canceling them before execution, and subsequently selling his hidden positions at inflated prices. This case became a landmark for criminalizing spoofing behavior in the United States (8).

Legal and Financial Analysis: Spoofing represents a direct disruption of supply–demand equilibrium and distorts the price discovery mechanism. Under U.S. law, it is explicitly criminalized under Section 747 of the *Dodd–Frank Act*, which defines spoofing as “bidding or offering with the intent to cancel the bid or offer before execution” (5). In contrast, Iranian regulations only mention “misleading information dissemination” or “conduct inconsistent

with market health" in general disciplinary codes, without a clear legal definition or criminal sanction for spoofing (4, 11). This legal vacuum has allowed similar behaviors to persist without effective deterrent measures.

2. Layering (Multi-Level Fictitious Order Placement)

In *Layering*, a trader places multiple orders at different price levels to create an artificial depth in the order book and steer the market toward a targeted price. These orders are typically canceled after influencing the market but before the actual trade is executed (6, 9).

For example, in Iran's copper futures market, a trader might place five high-volume sell orders at successive price levels while simultaneously entering a small buy order at a lower price. Other market participants, misled by the apparent selling pressure, push prices downward. The manipulator then executes the low-price buy order, cancels the fictitious sells, and later sells at a higher price.

Legal and Technical Analysis: Layering contradicts the principles of fair competition, informational transparency, and equitable price discovery (12, 14). Under U.S. law, this behavior is prosecutable under both the *Dodd–Frank Act* and the *Commodity Exchange Act (CEA)*, and is pursued jointly by the *CFTC* and the Department of Justice (6, 8).

In Iran, due to the lack of transparency in order-book structure and the absence of real-time analytic systems, detecting layering is practically impossible. No judicial precedent or enforcement record exists regarding its prosecution (4, 11).

3. Wash Trading (Self-Dealing or Sham Transactions)

Wash Trading refers to fictitious transactions executed between related accounts to inflate trading volume or create the illusion of demand. A trader simultaneously places identical buy and sell orders between affiliated accounts, thereby fabricating trading activity and misleading others into perceiving higher market liquidity (8, 15).

For example, in 2014, the cryptocurrency exchange *Mt.Gox* was accused of conducting extensive wash trades between internal accounts to exaggerate its trading volume. Detecting such behavior requires advanced analytical infrastructures to trace relationships among accounts and transaction patterns (6).

In Iran, the absence of systems for identifying related accounts and the lack of correlation-based transaction analysis limit the detection of this offense. Consequently, wash trading is seldom investigated, contributing to reduced transparency and market integrity (4, 14).

4. Quote Stuffing (Information Bombardment)

Quote Stuffing is a technologically complex form of algorithmic manipulation involving the rapid submission and immediate cancellation of a large number of small orders within milliseconds. Its purpose is to overload competitors' trading systems, create processing delays, and induce short-term volatility (6, 9).

This practice typically occurs in high-liquidity markets and requires real-time analytics and anomaly-detection algorithms to identify. In the United States, *CFTC* oversight includes monitoring such algorithmic strategies as forms of technological market abuse (7, 8).

In Iran, however, due to the absence of millisecond-level order-tracking and a lack of regulations for high-frequency trading (HFT), identifying or prosecuting *Quote Stuffing* is virtually impossible. Market supervisors lack the analytical tools necessary to detect intentional latency disruptions or order-processing anomalies (4, 14).

Collectively, behaviors such as *Spoofing*, *Layering*, *Wash Trading*, and *Quote Stuffing* are powerful tools for deceiving markets and obtaining unlawful gains (5, 6). If left unchecked, they erode transparency, distort fair pricing, and weaken investor confidence in the futures market.

While advanced jurisdictions like the United States have effectively criminalized these behaviors and employ real-time analytical systems for detection and enforcement, Iran continues to face conceptual, legal, and technological challenges. Therefore, legal reform, the drafting of specialized algorithmic trading regulations, equipping the *Securities and Exchange Organization* with predictive analytic tools, and criminalizing modern forms of manipulation are vital steps toward building a fair, efficient, and trustworthy derivatives market (10-12).

Table 2: Summary of Major Types of Market Manipulation in Futures Contracts: Spoofing and Layering

Concept	Definition	Example	Legal and Financial Analysis
Spoofing	Placing large fake buy or sell orders without intent to execute, aimed at misleading other participants.	In 2015, *Michael Coscia* entered large gold-buy orders and canceled them before execution to raise prices, then sold secretly at a profit.	Explicitly criminalized under the *Dodd–Frank Act* in the U.S.; in Iran, no clear legal definition or criminal sanction exists. It disrupts supply–demand mechanisms and manipulates prices (5, 9).
Layering	Entering multiple orders at different price levels to create artificial depth in the order book, then canceling them before trade execution.	A trader in Iran's copper futures places multiple sell orders at high levels and buys lower, then cancels sells to profit on the rebound.	Prosecutable under the *Dodd–Frank Act* and *CEA* in the U.S.; in Iran, due to lack of transparency and real-time systems, detection and enforcement are nearly impossible (6, 8).
Wash Trade	Conducting sham trades between related accounts to simulate demand or inflate volume.	In 2014, *Mt.Gox* allegedly inflated trading volume via internal wash trades.	Monitored and prosecuted by the *SEC* and *CFTC* in the U.S.; in Iran, absence of tools to identify related accounts impedes detection (4, 15).
Quote Stuffing	Flooding the market with many small orders and quickly canceling them to slow rivals' systems and create volatility.	Occurs in high-liquidity markets to gain latency advantage.	Regarded as technological abuse of market infrastructure in the U.S.; in Iran, lack of advanced monitoring tools prevents detection and prosecution (7, 8).

In summary, while jurisdictions such as the United States have successfully identified and prosecuted these manipulative techniques through advanced analytics and precise legal definitions, Iran continues to struggle with legislative and technological deficiencies. Comprehensive legal reform and the modernization of supervisory systems with predictive analytics are crucial for effectively countering market manipulation in futures contracts (10-12).

Empirical Data Analysis of the Study

A review of real-world market-manipulation cases in the United States—most notably the Michael Coscia (2015) case, the first successful criminal prosecution of "spoofing" under the Dodd–Frank Act—demonstrates that precise statutory definitions, the use of real-time data-mining, and swift, decisive judicial action play a pivotal deterrent role (5).

Data drawn from the CFTC's annual performance show that in fiscal year 2023 alone, the agency pursued more than 160 derivatives-market violations, about 25% of which were related to market manipulation; these insights are generated using order-analytics technologies and algorithms for detecting anomalous behavior (8).

By contrast, the absence of final judgments or public reporting on comparable prosecutions in Iran's derivatives market is itself assessed as a negative empirical finding, indicating deficiencies in criminalization and evidentiary enforcement (4, 14).

Content analysis of the Commitment of Traders (COT) reports—published weekly by the CFTC and displaying major traders' positions—illustrates transparent, public data in the United States that are accessible to both supervisors and market participants and materially support price discovery while curbing informational abuse (7).

In Iran, while the Securities and Exchange Organization is legally mandated to supervise derivatives trading under the Securities Market Act (2005), the lack of a comparable system for publishing open positions and the absence of regular analytical reports remain obstacles to transparency and public oversight (4, 11).

Empirical evidence further shows that in derivatives markets lacking transparency and effective supervision, manipulative behaviors occur more readily and distort price discovery. For example, analysis of price swings in gold-coin futures on the Iran Mercantile Exchange from 2017 to 2020 indicates periods of unusual jumps without fundamental backing, likely attributable to speculation or quasi-manipulative behavior (2, 4).

In the absence of transparent trade data, it is not feasible to trace such behaviors, which reduces professional participation and elevates market risk (13).

Using empirical inputs in this study—though not as large-sample statistics—through institutional documents, court cases, international supervisors' reports, and historical volatility analysis in Iran strengthens the study's comparative reasoning and ties the legal setting to concrete market outcomes. This approach, aligned with the article's analytical–comparative method, underscores the need for legal and institutional reforms in Iran to generate, disclose, and leverage reliable empirical data for derivatives-market regulation (12, 14).

Table 3: Empirical Data Analysis on Market Manipulation in the U.S. and Iran

Topic	United States Data	Iran Data	Analysis
Judicial cases	Michael Coscia (2015) as the first successful spoofing prosecution.	No comparable prosecutions.	Effective enforcement exists in the U.S.; enforcement is weak in Iran. (5, 8)
Analytical reporting	160+ enforcement actions in 2023; ~25% manipulation-related.	No regular public analytical reports.	Robust reporting in the U.S.; persistent transparency gaps in Iran. (4, 8)
Transparent data	Weekly COT position disclosures for major traders.	No comparable system for open-interest/position disclosure.	U.S. uses transparent data for oversight; Iran lacks equivalent tools. (8, 11)
Price-volatility analysis	Use of historical data to flag anomalous behavior.	Abnormal volatility in gold-coin futures prices.	Signs of manipulation in Iran but insufficient data for clarity. (2, 4)

These data indicate that effective supervision and information transparency in the United States help prevent market manipulation, whereas in Iran legal reforms and analytical technologies are required to achieve comparable safeguards (8, 14).

Comparative Analysis

Points of Divergence and Convergence Between the Iranian and U.S. Legal Systems in Controlling Futures-Market Manipulation and the Financial Consequences

1. Convergences in macro-objectives and foundational concepts.

In both legal systems, derivatives markets—especially futures—are expected to support price discovery, risk management, and hedging. Market manipulation is recognized as detrimental to market integrity and transactional fairness. Both countries emphasize **investor protection**, **prevention of insider abuse**, and **enhanced market transparency** in their legal and strategic documents (12, 14). Both systems also strive to deploy modern supervisory tools. Iran, drawing on international models, has incorporated notions such as wash trades, insider use, and price manipulation into trading rules and disciplinary regulations—albeit mostly in general terms without fine-grained legal delineation and courtroom usability, unlike the United States, where foundational statutes (e.g., the **Dodd–Frank Act** and the **CEA**) specify detailed technical and procedural elements (8, 15).

Risk management. In both countries, a core objective of futures is risk management: locking in future prices for commodities or financial assets to hedge volatility. In the U.S., futures are widespread in agriculture and energy; in Iran, amid macro-economic volatility and exchange-rate swings, demand for futures as hedging tools has grown (1, 3).

Market oversight and regulation. Each country has a designated supervisory body. In the U.S., the **CFTC** is the primary futures regulator with stringent rules to preserve market integrity; in Iran, the **Securities and Exchange Organization** plays the central role. Both seek to protect investors and increase transparency through appropriate legal frameworks (4, 11).

Registration and reporting obligations. Both systems require registration and periodic reporting. U.S. entities must provide granular trade information to enable oversight; in Iran, futures-market participants must file financial and operational reports with the SEO—measures intended to bolster transparency and investor trust (8, 14).

Education and culture-building. Both emphasize educational initiatives for investors and market actors on futures concepts and risk management, reflecting the importance of literacy in financial-market development (4, 14).

Investor-rights protection. Safeguarding investors is a shared theme: the U.S. enforces rigorous disclosure regimes; Iran's SEO has established complaint-handling and transparency mechanisms aimed at reinforcing public confidence (11, 12).

Infrastructure development and product diversity. Both jurisdictions invest in trading infrastructure and expand derivative toolkits (futures, options, others). U.S. exchanges such as **CME** serve as global hubs; Iran's mercantile and financial derivatives segments are developing online venues and new contracts (e.g., gold-coin and currency futures) (3, 4).

2. Structural differences in regulation and supervision.

The principal divergence lies in legal–technical oversight structure and the independence and powers of supervisory authorities. In the United States, the specialized derivatives regulator, the CFTC, enjoys organizational, budgetary, and decision-making independence, while the SEC supervises security-based derivatives. In Iran, the primary authority is the Securities and Exchange Organization under the High Council of Securities and Exchange; in terms of institutional independence, executive powers, and technical capacity, it ranks below its U.S. counterparts (10).

A second difference concerns legislative precision and enforceability. U.S. statutes are detailed and courtroom-ready, with tailored procedures, penalties, settlement mechanisms, and reporting for each violation type. Iran lacks a comprehensive derivatives law; legislation remains centered on traditional securities, leaving the futures market only partially covered and rendering complex offenses—such as algorithmic manipulation—difficult to prosecute effectively (4, 15).

A third divergence is the level of supervisory technology and data analytics. The United States operates real-time order-analytics, anomaly-detection algorithms, and inter-agency information-sharing; Iran, constrained by IT-infrastructure limitations, remains in the early stages of developing supervisory and market-analytics systems (10).

Financial consequences. These regulatory contrasts translate into tangible market outcomes: stronger deterrence, higher transparency, and more reliable price discovery in the U.S. versus heightened regulatory risk, episodic volatility, and weaker investor confidence in Iran's derivatives segment (4, 8).

3. Differences in Enforcement and Sanctions

In the United States, sanctions for market-manipulation offenses are immediate, severe, and deterrent. Violations—especially in the area of market manipulation—can lead to multi-million-dollar fines, permanent suspensions, professional bans, or even criminal prosecution and imprisonment. Judicial proceedings are conducted through federal or specialized courts in close coordination with the FBI, Department of Justice, and CFTC, ensuring coherent and rapid enforcement (5, 8).

In Iran, by contrast, the existing sanctions are mainly administrative and disciplinary, such as written warnings, relatively small fines, temporary suspension of market membership, or referral to the Securities Arbitration Board. Judicial prosecution is rare, difficult to prove, and hindered by the lack of consistent precedents. Without strong deterrents, the likelihood of recurring violations in Iran's derivatives market remains high (4, 11).

4. Financial Consequences of Regulatory Differences

The impact of divergent legal and supervisory structures manifests clearly in the financial performance of futures markets in Iran and the United States. These outcomes can be examined at three levels:

1. Investor Confidence. In the U.S., the presence of powerful supervisory institutions, transparent procedures, and deterrent regulations guarantees a high level of public trust in derivatives-market integrity. Institutional and foreign investors actively participate in futures contracts, relying on market stability and predictability. In Iran, however, mistrust toward supervisory effectiveness, fear of legal uncertainty, and perceptions of unequal enforcement have restricted participation mainly to a small circle of domestic actors, discouraging broad and foreign investment (15).

2. Price-Discovery Efficiency. Due to the large market size, diversity of participants, strict oversight, and informational transparency, U.S. futures prices closely reflect real market fundamentals and expectations. Prices integrate public information, macroeconomic indicators, and both technical and fundamental analyses (7). In Iran, however, **artificial volatility**, **speculative trading**, and **asymmetric information** reduce the efficiency of price discovery, leading at times to significant divergence between futures and equilibrium spot prices (4, 14).

3. Vulnerability to Financial Crises. Derivatives markets lacking effective supervision are more susceptible to shocks and crises. Historical examples—such as the **2008 financial crisis** and the **2020 oil-price collapse**—show that coordinated regulatory systems can mitigate market impacts (6, 10). In Iran, episodes of **inflationary crises** and **sudden policy interventions** (e.g., export bans, price controls) have revealed that the absence of transparent and reliable derivatives tools amplifies systemic risk and undermines liquidity and participation.

Policy Recommendations for Strengthening Iran's Derivatives Regulation

Based on comparative findings, several reform priorities emerge for Iran's legal and supervisory framework:

- **Draft a comprehensive Derivatives Act** — akin to the *Commodity Exchange Act (CEA)* — to provide clear definitions of manipulative conduct and establish supervisory and enforcement mechanisms (10, 12).
- **Develop a real-time analytics and monitoring center** using data-mining and machine-learning tools for anomaly detection in derivatives trading (6).
- **Enhance the institutional independence** of the *Securities and Exchange Organization (SEO)* to a level comparable to the *CFTC*.
- **Introduce criminal and deterrent sanctions** for manipulative behaviors such as *spoofing*, *wash trades*, and *collusion*.

- **Strengthen inter-agency cooperation** among the *Central Bank*, *SEO*, *Judiciary*, and *Ministry of Economic Affairs and Finance* for integrated and rapid enforcement (10).

Legal and Supervisory Structure

One of the most prominent distinctions between Iran and the United States lies in institutional design and regulatory clarity. In the U.S., financial markets are regulated by independent agencies such as the CFTC and SEC, which promulgate clear, enforceable rules to protect investors. In Iran, the Securities and Exchange Organization performs this function under the High Council of Securities; although it strives for compliance with global norms, some procedures and rules still fall short of international standards, contributing to investor uncertainty (4, 11).

Scope and Diversity of Futures Contracts

In the U.S., futures cover a wide range of physical commodities (e.g., oil, gas, agricultural goods) and financial assets (e.g., stock indices, currencies). Markets such as CME and NYMEX offer extensive derivative instruments (7). In Iran, the futures market—though expanding—remains limited mostly to gold-coin and select agricultural contracts, reducing investor appeal and diversification opportunities (3).

Investment Culture and Risk Appetite

American investors generally exhibit greater risk tolerance and view derivatives as key tools for hedging and opportunity. This culture of risk-based investing has helped make the U.S. market among the world's most advanced and liquid (1). In contrast, Iranian investors tend to act conservatively. Limited literacy in derivative instruments and persistent macroeconomic volatility deter widespread adoption of futures trading (13).

Transparency and Information Disclosure

Transparency is a cornerstone of U.S. financial markets. Companies are required to disclose detailed, timely financial information, and regulators enforce compliance strictly (1, 8). In Iran, despite ongoing efforts by the SEO, challenges remain: delayed disclosures and incomplete reports still occur, undermining investor confidence and informed decision-making (4, 11).

Registration, Reporting, and Market Access

U.S. entities must satisfy rigorous registration and reporting standards to preserve market integrity. In Iran, while registration exists, enforcement is often lenient, and reporting may lack detail or accuracy (12, 14).

Access to markets is also differentiated: U.S. investors can readily trade futures via online platforms, promoting liquidity and participation, whereas in Iran, technical and regulatory barriers still limit widespread entry (4).

Education and Financial Literacy

Regulatory agencies and private institutions in the U.S. conduct extensive investor-education programs on futures and risk management (12). In Iran, although the SEO provides some training, investor literacy on derivatives remains insufficient, impeding broader use of these instruments (14).

The regulatory contrast between Iran and the United States in controlling futures-market manipulation lies not merely in the content of statutes, but in the structural approach, degree of specialization, technological sophistication, and enforcement power of their supervisory institutions. The financial consequences—visible in investor trust, price-discovery efficiency, and market resilience—underscore that only through political will, precise legislation, specialized institutions, and data-driven oversight technologies can Iran harness the stabilizing and developmental potential of derivatives markets (7, 8, 10).

Barriers to Implementing Supervisory Reforms in Iran's Futures Market

Despite the clear need for reform, implementation faces multi-level obstacles:

1. **Institutional Resistance.** The SEO's structural subordination to the High Council of Securities and its limited budgetary and policy independence constrain its evolution into a powerful, autonomous regulator like the CFTC. Reform would require legislative and administrative restructuring, potentially opposed by vested interests (10).
2. **Economic and Technical Costs.** Building real-time analytic systems, applying AI technologies, and training specialized human capital demand substantial financial investment. Given Iran's fiscal limitations and competing policy priorities, resource allocation for supervisory modernization remains difficult (4, 6).
3. **Cultural and Knowledge Gaps.** Limited regulatory culture and inadequate technical understanding among some policymakers, judges, and market actors slow recognition of the importance of combating algorithmic and spoofing-type manipulations. This knowledge deficit delays the passage and effective enforcement of specialized regulations (13, 14).

Overall, sustainable reform demands an integrated strategy combining legal revision, institutional empowerment, technological investment, and capacity building—foundations necessary for establishing a transparent, resilient, and credible derivatives market in Iran.

Conclusion

Futures contracts, as one of the most complex derivative instruments in financial markets, offer significant opportunities for risk management and price discovery while also posing multiple challenges for supervision and control. One of the most important of these challenges is market manipulation—a phenomenon that, through informational leverage, financial power, or technological tools, creates artificial volatility, misleads other market participants, and undermines public confidence in market mechanisms. Countering such conduct requires robust legal, supervisory, and technical infrastructures—an objective achieved in leading jurisdictions such as the United States but not yet fully realized in emerging systems such as Iran.

In this article, with the aim of a comparative analysis of the legal and financial mechanisms for supervising market manipulation in futures contracts, the structures of Iran and the United States were examined. The findings show that, conceptually, both countries agree on the need to combat market manipulation, and principles such as transparency, fairness, and predictability are emphasized in both systems. However, fundamental differences appear in the drafting of laws, the power and independence of supervisory authorities, judicial procedures, technologies for detecting violations, and the deterrent strength of sanctions.

In Iran, although efforts have been made in recent years to develop derivatives markets—particularly futures—the existing legal structure still suffers from serious weaknesses. The Securities Market Act and its executive

directives provide only a general framework for derivatives trading; due to the lack of comprehensiveness, the absence of criminalization of modern manipulation typologies, and weaknesses in technology-driven supervisory tools, effective enforcement against violators is not feasible. As the supervisory authority, the Securities and Exchange Organization, constrained by limited resources, a shortage of legal–financial expertise, and insufficient powers, has been unable to impose comprehensive oversight, allowing certain harmful behaviors such as spoofing or wash trading to persist without prosecution in futures markets.

In contrast, the U.S. legal system—benefiting from clear statutes such as the Commodity Exchange Act and the Dodd–Frank Act and from a powerful regulator like the CFTC—has established precise, preventive, and deterrent mechanisms to control market manipulation. In the United States, suspicious behaviors are rapidly identified using artificial intelligence and data-mining tools and are prosecuted in coordination with authorities such as the SEC and the FBI. Heavy monetary penalties, professional disqualifications, and criminal sentences are among the tools employed to confront offenders. This coherent structure has attracted domestic and foreign investors, increased market liquidity, and strengthened the efficiency of price discovery.

A comparison of these two approaches shows that the United States, by combining three essential components—specialized legislation, intelligent institution-building, and advanced supervisory technologies—has not only prevented manipulation from arising but also responds to it swiftly and forcefully when it occurs. In Iran, the failure to achieve these three components simultaneously has exposed futures markets to supervisory risks and left them vulnerable to distrust, speculation, and inefficiency. In the long run, this situation can reduce the participation of professional actors, trigger capital flight, and ultimately prevent derivative instruments from fulfilling their economic function.

From a financial-outcomes perspective, weak control of manipulation in Iran's futures markets leads to price distortions, increased artificial volatility, disruption of hedging mechanisms, and the spread of non-productive behavior. While derivatives should act as stabilizing tools, supervisory inefficiency can turn them into sources of crisis. Moreover, the absence of public disclosure systems, limited transparency regarding major open positions, and regulatory instability weaken predictability and deter retail and institutional investors from entering these markets.

Finally, based on the analysis and findings, this study proposes the following for the road ahead: drafting a comprehensive derivatives law that clearly defines offenses, specialized procedures, and deterrent sanctions; increasing the institutional independence of the Securities and Exchange Organization to strengthen its role in policymaking and adjudication; establishing a specialized financial court staffed with judges familiar with derivatives-market mechanisms; deploying intelligent, real-time trade-surveillance technologies with behavior-anomaly detection algorithms; fostering synergy among economic, supervisory, and judicial bodies for swift and decisive enforcement; enhancing information transparency and launching public disclosure systems for large trading positions; and educating market participants on manipulation typologies, their criminalization, and their legal and financial consequences. Evidently, achieving these reforms requires political will, institutional alignment, and the leveraging of successful international experiences. The U.S. experience shows that effective supervision of derivatives markets not only strengthens market integrity but is also a key driver of sustainable economic growth, foreign capital attraction, and the country's standing in the global financial system. Therefore, if the futures market is to serve as an effective arm in developing Iran's financial system, the first step is to rebuild legal and supervisory foundations, drawing on the experiences of leading countries and tailoring them to domestic conditions.

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Authors' Contributions

All authors equally contributed to this study.

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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.

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