



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

*International Affairs, Communication & Coordination (IACC) Department*

***PRESS RELEASE***

**FOR IMMEDIATE RELEASE**

## **SECP to take measures to curb front-running**

ISLAMABAD, July 15: Integrity, transparency and fairness in the capital markets are critical for protection of investors and enhancing their confidence. However, market abuses and unfair trading practices such as front-running/insider trading negatively affects this basic essence of the markets. Front-running, a form of insider trading arises when a person engaged in processing or making investment decision/order in his official capacity uses that information for his personal benefit directly or indirectly.

This undesirable activity usually takes place in institutions active in the capital markets such as brokerage houses, mutual funds, financial institutions and entities having large investments in the capital markets. These institutions either process investment orders of their clients like brokerage houses or manage their own or third party portfolio like banks, DFIs (development finance institutions), insurance companies, mutual funds, pension funds, etc. In these institutions investment order/decision of the client or of the institution itself could be front run by the person processing or taking investment order/decision. The basic purpose of front running is to take advantage of the price movement caused by the large trading order once it is executed in the market.

The market monitoring and surveillance activities of the SECP highlight and identify such market misconduct, for which enforcement actions are taken and the enforcement orders for which are also placed on the website of the SECP regularly for information of general investing public. In addition to regulatory enforcement, it is vital to obtain a lucid view of

determinants of control systems adopted and implemented by institutions to detect and prevent irregularities including front-running/insider trading.

In view of the same, the SECP constituted an internal committee to look into various aspects of front-running/insider trading. The committee analyzed the regulatory and legal framework governed by the SECP to prohibit this offence. Additionally, the controls and policies adopted by various institutions were also assessed. As a result of the analysis and findings, the committee made recommendations for developing a Code of Business Conduct for trading/investment practices aimed at strengthening the regulatory and legal framework to detect and prohibit such improper trading practices. The said code is intended to be implemented at all major institutions which actively trade in the stock markets including brokerage houses, non-banking financial companies, insurance companies, banks and development financial institutions.

The committee also made recommendations with respect to enhancing the control structure of institutions and market participants specifically in the areas of investment decision-making and execution of trades in addition to overseeing the trading activities of their employees. The analysis by the committee has fully emphasized the importance of internal audit function to review and assess the effectiveness of control structure. Respective regulatory body or ministry of these institutions would be taken on board for effective implementation of the code and control measures.

The implementation of these recommendations will encourage and facilitate self-regulation by market participants and institutions to control and prevent unfair trading practices, which is in line to augment the prime objective of the SECP to promote fairness and enhance efficiency in the capital markets.

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