

## **Press Release**

***4<sup>th</sup> August 2005, Islamabad*** – The Stock Market Task Force was constituted by the Securities and Exchange Commission of Pakistan (SECP) in April of this year in order to review the stock market situation of March 2005. It was the first time in the history of the SECP that not only did it constitute an external Task Force of its own will but also presented itself for scrutiny. The idea behind constituting such an external Task Force was to bring an impartial and independent view point on the market situation. Reform begins at home, and that is why the SECP submitted itself for the scrutiny of the Task Force. This speaks for SECP's strength, confidence and its commitment to creating transparency, public answerability and good governance in public institutions.

The Report has made several recommendations which are of an operational as well as policy and structural nature. Further, the Report places the responsibility on the SECP to undertake a number of follow-up actions. It provides pointers to the SECP for completing detailed forensic investigations where required and prosecuting those responsible for violating any laws and regulations. Cases of insider trading, wash trades and price manipulation by withdrawal of funds have been identified for the SECP to investigate further. In this regard, the SECP has already initiated actions in these cases. After preliminary investigation, show cause notices have been issued to individuals alleged to have been involved in insider trading and wash trades. Since the report identifies a large number of brokers, the SECP decided to start with the ones with the highest number of wash trades and will investigate each and every case. At the same time, the SECP is deliberating upon changes in the existing system and regulations that will make it difficult for manipulators to engage in such market abuses.

The Task Force Report indicates how Badla funds may have been used to manipulate the market. This was one of the main reasons why the SECP in consultation and with the agreement of the various stakeholders decided to phase-out Badla financing. Given that many players have multiple roles to play, the COT mechanism gives an individual or a group of individuals the power to move the direction of the market in his favour. The pointers or leads provided by the Task Force in its Report are being used to investigate

the withdrawal of funds by the Badla providers with the intent to manipulate prices. To do this requires a detailed investigation and as soon as the same is completed, necessary action will be taken against those found to be involved in manipulation.

The Report also recommends several policy and structural reforms deemed necessary to check the occurrence of such events in the future. The steps that need to be taken by the Stock Exchanges and the SECP in this regard are also highlighted. The proposed reforms include demutualization of the exchanges, appointment of a non-broker chairperson on the Board of Directors of the Stock Exchanges, strengthening of the National Clearing Company, strengthening of capital adequacy requirements and introduction of a code of conduct for investment advisers, research analysts and media commentators. The Report further recommends the creation of a free float index, enhancing the existing surveillance capacity, re-writing of proprietary trading rules, redesigning of futures contracts and development of market transaction Data Warehouse.

The SECP appreciates the work done by the Task Force and respects the recommendations put forth in its Report. The SECP is cognizant of the issues and challenges it faces and in this regard, several of the recommendations contained in the Report have already been initiated by the SECP well before the Task Force was constituted and form part of the SECP's on-going capital market reform agenda.

The SECP realizes that there is still a long way to go in reforming our capital markets in order to bring them at par with the developed markets. In this regard, the SECP continues to remain steadfast in its aim of achieving capital market reform despite all the challenges and impediments which it faces. We realize more than anyone else that to be declared "the best performing markets" means nothing until the confidence of investors in the markets is established and vulnerability to manipulation is completely eliminated. However, despite institutional limitations we continue to move in the right direction.

The SECP has fulfilled its commitment of making the report public. The report can be found on the SECP website [www.secp.gov.pk](http://www.secp.gov.pk).