



PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

Regd Office: Mezzanine Floor, Trading Hall, Stock Exchange Building, Stock Exchange Road,
Off I.I Chundrigar Road, Karachi.

Tel: 021-32401278, E-mail: secretariat@psba.pk, Web: www.psba.pk, Fax: 021-32401279

PSBA/Notice-039

June 25, 2021

NOTICE FOR MEMBERS

COMMENTS ON PROPOSED AMENDMENTS IN RELATION TO INTRODUCTION OF REGULATIONS GOVERNING MARKET MISCONDUCT AS A NEW CHAPTER 7A IN PAKISTAN STOCK EXCHANGE LIMITED (PSX) REGULATIONS

This refers to the notification PSX/N-783 dated June 25, 2021, whereby, the Exchange has invited the comments on proposed amendments in relation to introduction of Regulations Governing Market Misconduct as a new Chapter 7A in PSX Regulations.

In this regard, the members are requested to kindly submit the comments, if any, with the Association Office through email at psamail024@gmail.com latest by **July 02, 2021**, so that a consolidated response is submitted with the authorities for their consideration.

sd

BILAL FAROOQ ZARDI

Secretary General

Copy to:

1. All Members
2. PSBA Website



PAKISTAN STOCK EXCHANGE LIMITED
Stock Exchange Building, Stock Exchange Road, Karachi-74000
UAN: 111-001-122 Fax: 32437560
URL: www.psx.com.pk Email: info@psx.com.pk

PSX/N-783

NOTICE

June 25, 2021

INVITATION OF PUBLIC COMMENTS

PROPOSED AMENDMENTS IN RELATION TO INTRODUCTION OF REGULATIONS GOVERNING MARKET MISCONDUCT AS A NEW CHAPTER 7A IN PAKISTAN STOCK EXCHANGE LIMITED (PSX) REGULATIONS

This is to inform the public that the PSX, in exercise of power conferred upon it under section 7 of the Securities Act, 2015, is proposing to carry out amendments to PSX Regulations in relation to the introduction of Regulations Governing Market Misconduct as a new Chapter 7A in PSX Rulebook.

In order to ensure fair trading, orderly market, market integrity and enhance investors' confidence, it is imperative that a regulatory framework encompassing comprehensive surveillance, investigation and enforcement powers exists to detect and prevent unfair trading activities.

While drafting the framework, PSX took into consideration the relevant sections of the Securities Act, 2015 in relation to Insider Trading and Market Abuses and practices of other jurisdictions. Accordingly, PSX has inserted following key provisions in the draft regulatory framework:

1. Definition of key terms such as Inside Information, Insider Trading, Market Misconduct, Prohibited Transaction, Relevant Person and Related Person.
2. Applicability of the regulations on the persons to ensure that:
 - a. They maintain high standards of integrity, promptitude and fairness and exercise due care, skill and diligence while engaging in trading activities.
 - b. The fiduciary, regulatory and other obligations imposed are complied with at all times.
3. Responsibilities of TRE Certificate Holders and Listed Companies to ensure that they take appropriate measures and set-up adequate internal controls to deter Market Misconduct.
4. Prohibition of Insider Trading, Market Misconduct and various other Market Abuses.
5. Powers of PSX to:
 - a. Initiate inquiry and/or investigation;
 - b. Obtain explanation/information/documents in relation to inquiry or investigation;
 - c. Call-up Relevant Person(s) to appear in PSX for recording statements, examination etc.;
 - d. Obtain information for the purpose of creating and maintaining relevant database.
6. Provide opportunity of being heard to concerned Relevant Person prior to initiating any disciplinary actions.

7. Handling appeal filed by the aggrieved Relevant Person against the decision of PSX.
8. Initiate disciplinary action against Relevant Person when it is prima facie established that such person has breached any provision of Chapter 7A.
9. Refer case to Securities and Exchange Commission of Pakistan for further action in case the inquiry and/ or investigation reveals any prima-facie breach of Chapter 7A by a person other than Relevant Person.
10. Reporting of violations (Whistleblowing).
11. Preservation of confidentiality of information by PSX.

INVITATION OF PUBLIC COMMENTS:

In terms of Section 7(3) of the Securities Act, 2015, all interested parties are invited to provide written comments on the proposed regulatory amendments, which are attached herewith as **"Annexure A"**. The comments can be submitted through any of the following modes latest by **July 05, 2021** in the manner as suggested in the 'Guidelines for Submission of Comments' attached herewith as **Exhibit A:**

| | |
|-------|--|
| Email | comments.rad@psx.com.pk |
| Mail | The Chief Regulatory Officer, Regulatory Affairs Division, 2 nd Floor, Administration Building, Pakistan Stock Exchange Building, Pakistan Stock Exchange Road, Karachi – 74000. |

AJEET KUMAR
Chief Regulatory Officer

Cc:

1. The Director/HOD (PRDD), SMD, SECP
2. All Listed Companies of PSX through PUCARS
3. The Chief Executive Officer, PSX
4. The Chief Executive Officer, CDC
5. The Chief Executive Officer, NCCPL
6. The Chief Executive Officer, PMEX
7. The Chief Executive Officer, IFMP
8. All Heads of Departments, PSX
9. PSX Website

“ANNEXURE A”

CHAPTER 7A: MARKET MISCONDUCT REGULATIONS

7A.1. DEFINITIONS:

7A.1.1. In this Chapter unless there is anything repugnant in the subject or context:

- (a) “Inside Information” shall have the same meaning as ascribed thereto under the Securities Act, which is stated below:**
 - i. Information that has not been made public, directly or indirectly, relating to issuer of Listed Security or Listed Security or Derivative Contracts and which, if it were made public, would likely to affect price and/ or volume of Listed Security or Derivative Contracts.**
 - ii. Orders conveyed by customer to the Securities Broker or its associated person and relating to customers pending orders.**
 - iii. Decision or intention of a person to trade in a Listed Security or Derivative Contracts.**
- (b) “Insider Trading” shall have the same meaning as ascribed thereto under the Securities Act.**
- (c) “Market Misconduct” for the purpose of this Chapter shall mean the following:**
 - i. Market Abuse; and**
 - ii. Insider Trading.**
- (d) “Prohibited Transaction” shall mean any transaction which constitutes Market Misconduct.**
- (e) “Relevant Person” shall mean a TRE Certificate Holder, Listed Company and their sponsors, directors, substantial shareholders, employees and Related Person.**
- (f) “Related Person” shall mean parents, siblings, spouse and children.**

7A.1.2. Words and expressions used but not defined in this Chapter shall have the same meaning as are assigned to them in the Securities Act.

7A.2. COMPLIANCE WITH ACTS/ REGULATIONS:

Every person shall comply with requirements of this chapter and all other applicable rules, regulations, policies, procedures, notices, directives, guidelines etc. issued by the Exchange or Commission, from time to time, to ensure that the fiduciary, regulatory and other obligations imposed on them are fully complied with at all times.

7A.3. INTEGRITY, DUE SKILL, CARE AND DILIGENCE:

Every person shall maintain high standards of integrity, promptitude and fairness and exercise due care, skill and diligence while engaging in trading activities.

7A.4. RESPONSIBILITY OF TRE CERTIFICATE HOLDERS AND LISTED COMPANIES:

Every TRE Certificate Holder and Listed Company, shall take appropriate measures and set up adequate internal controls and ensure from time to time that all reasonable measures are being taken to put in place proper safeguards in relation to prevention of Market Misconduct.

7A.5. PROHIBITION OF INSIDER TRADING:

7A.5.1. A person shall not indulge in Insider Trading by transacting any deal or trade directly or indirectly using Inside Information pertaining to issuer of Listed Security, Listed Security or Derivative Contracts or using others to indulge in such trades or deals.

7A.5.2. Insiders for the purpose of this Chapter shall include all persons as specified in the definition of Insiders under the Securities Act.

7A.6. MARKET ABUSE:

7A.6.1. *False trading and market rigging transactions:*

(a) A person must not engage in any activity that shall create or cause to be created a false or misleading appearance of active trading in any Listed Security and/ or Derivative Contracts or price of any Listed Security and/ or Derivative Contracts.

(b) Without limiting the general nature of what constitutes a false or misleading appearance of active trading under sub-clause (a) above, a false or misleading appearance of active trading in Listed Security and/ or Derivative Contracts is created for the purpose of this clause if a person:

- i. effect, take part in, be concerned in, or carry out any transaction to purchase or sell a Listed Security or Derivate Contracts, being a transaction that does not involve any change in the beneficial ownership of the Listed Security or Derivate Contracts.
- ii. effect, take part in, be concerned in, or carry out, offer to sell Listed Security or Derivate Contracts at a price that is substantially the same as the price at which he has made or proposes to make or knows that other person has made or proposes to make, an offer to buy the same or substantially the same number of them.
- iii. effect, take part in, be concerned in, or carry out, offer to buy Listed Security or Derivate Contracts at a price that is substantially the same as the price at which he has made or proposes to make or knows that other person has made or proposes to make, an offer to sell the same or substantially the same number of them.

7A.6.2. Market Manipulation:

A person must not deal in a Listed Security or Derivate Contracts by himself/ itself or in connivance with other(s) person(s)/ or transaction(s) in a manner that:

- (a) will or may have the effect of increasing, reducing, stabilizing, the price of the Listed Security or Derivate Contracts with the intent to induce other persons to subscribe for, purchase or sell or refrain from purchasing, selling or subscribing, as the case may be, the Listed Security or Derivate Contracts.**
- (b) has the effect of misleading investors who trade in Listed Security or Derivate Contracts on the basis of Closing Price.**
- (c) induce, dissuade, effect, prevent, influence or turn to his advantage the sale or purchase of any Listed Security or Derivate Contracts by:**
 - i. making any fictitious quotation.**
 - ii. creating a false and misleading appearance of active trading in any Listed Security or Derivate Contracts.**
 - iii. effecting any transaction in such Listed Security or Derivate Contracts which involves no change in its beneficial ownership.**
 - iv. entering into an order or orders for the purchase and sale of Listed Security or Derivate Contracts which will ultimately cancel out each other and will not result in any change in the beneficial ownership of such Listed Security or Derivate Contracts.**
 - v. effecting a series of transactions in any Listed Security or Derivate Contracts to create the appearance of active trading therein or of raising of price for the purpose of inducing its purchase by others or depressing its price for the purpose of inducing its sale by others.**

7A.7. OTHER MARKET ABUSES:

7A.7.1. It is prohibited for a person to engage in a series of transactions in order to create actual or apparent active trading in a Listed Security or Derivative Contracts or to depress the price of a Listed Security or Derivative Contracts for the purpose of inducing the purchase or sale of the Listed Security or Derivative Contracts by others. Thus, Short Sale and/or Blank Sale effected to manipulate the price of a Listed Security or Derivative Contracts are prohibited.

7A.7.2. A person shall not engage in suspicious or unusual trade rectifications and/ or deals recorded in negotiated deals market which may possibly lead to Market Misconduct.

7A.8. POWERS OF THE EXCHANGE:

7A.8.1. Power of the Exchange to inquire and/ or investigate:

Where the Exchange, on the basis of the information available or made available to it or has reasonable cause to believe either on its own motion or as a result of a complaint or referral, is of the opinion that it is necessary to inquire or investigate into

a matter of prima facie breach of any provision of this Chapter, the Exchange shall have investigatory powers that are necessary for the exercise of its functions. It shall exercise such powers either directly or, where appropriate, in collaboration with the Commission.

7A.8.2. Power of the Exchange to obtain information, records and documents:

- (a) The CRO or an authorized officer of RAD may, by notice in writing, direct any Relevant Person to furnish with Exchange such information, records and documents as may be required within such time and in such manner as it may specify, for the purpose of:
 - i. determining whether any Market Misconduct has taken place;
 - ii. identifying any person who is indulged in the Market Misconduct; or
 - iii. determining the amount of profit gained or loss avoided as a result of any Market Misconduct that may have taken place.
- (b) The CRO or an authorized officer of RAD may, by notice in writing, require any one or more of the persons referred to in sub-clause (a) above to appear before him for recording statement and/ or examination in relation to such inquiry and/ or investigation.
- (c) The persons referred in sub-clause (a) above:
 - i. Shall be bound to respond to relevant questions in truth;
 - ii. May be asked to make a statement of the facts which shall be reduced into writing and signed by him or affixed with his signature or thumb print;
 - iii. Shall provide relevant information and documents to the Exchange as may be required.

7A.8.3. Power of the Exchange to maintain database:

The Exchange shall have the power to obtain information for the purpose of creating and maintaining relevant database to ensure effective conduct of monitoring, surveillance, inquiry or investigation.

7A.9. HEARING AND APPEAL PROCEDURES:

7A.9.1. The Exchange may initiate disciplinary actions against Relevant Person after providing opportunity of being heard in the manner as provided in Chapter 20 of these Regulations.

7A.9.2. Appeal filed by an aggrieved Relevant Person against the decision of the Exchange, shall be handled in the manner as specified in Chapter 20 of these Regulations.

7A.10. DISCIPLINARY ACTION:

7A.10.1. The Exchange may initiate appropriate disciplinary actions against Relevant Person(s) in accordance with Chapter 20 of these Regulations when it is prima facie established that such person has breached any provision of this Chapter.

7A.10.2. If the finding reveals breach of any provision of this Chapter by a person other than Relevant Person, the Exchange may, in such case, forward the matter to Commission for further appropriate action as per the applicable law in force.

7A.11. WHISTLEBLOWING OR REPORTING OF MARKET MISCONDUCT:

Where a person is aware of or has reasonable grounds to believe that a Market Misconduct has been committed or attempted to be committed, such person should report that instance to the Exchange along with supporting documentary evidences.

7A.12. PRESERVATION OF CONFIDENTIALITY:

The Exchange shall preserve confidentiality with regard to information in its possession relating to any persons under this Chapter.

**CONSEQUENTIAL AMENDMENTS TO PSX REGULATIONS PURSUANT TO INTRODUCTION OF
NEW CHAPTER 7A GOVERNING MARKET MISCONDUCT**

| EXISTING REGULATIONS | PROPOSED AMENDMENTS | RATIONALE |
|---|--|--|
| Chapter 7: PROPRIETARY TRADING REGULATIONS | | |
| <p>7.6. MARKET INTEGRITY:</p> <p>7.6.1. INSIDER DEALING:</p> <p>No Securities Broker shall, directly or indirectly, deal in any listed security or cause any other person to deal in securities of such company if he has information which:</p> <p>(a) is not generally available; and (b) would, if it were so available, be likely to materially affect the price of those securities.</p> | <p>7.6. MARKET INTEGRITY:</p> <p>7.6.1. INSIDER DEALING:</p> <p>No Securities Broker shall, directly or indirectly, deal in any listed security or cause any other person to deal in securities of such company if he has information which:</p> <p>(a) is not generally available; and (b) would, if it were so available, be likely to materially affect the price of those securities.</p> | <p>These sub-clauses have been covered in proposed chapter 7A. Hence, the same are proposed to be consequentially removed.</p> |
| Chapter 20: DISCIPLINARY ACTIONS AGAINST TRE CERTIFICATE HOLDERS REGULATIONS | | |
| <p>20.14. DISCIPLINARY ACTIONS IN RESPECT OF SHORT SALE/BLANK SELLING ACTIVITIES:</p> <p>20.14.2. It is prohibited for a Broker and a client to engage in a series of transactions in order to create actual or apparent active trading in a security or to depress the price of a security for the purpose of inducing the purchase or sale of the security by others. Thus, Short Sale and/or Blank Sale effected to manipulate the price of a security are prohibited. If investigation apparently reveals that the price of a security has been manipulated or attempted to be manipulated, the matter may be referred to the Commission for further investigation and action.</p> | <p>20.14. DISCIPLINARY ACTIONS IN RESPECT OF SHORT SALE/BLANK SELLING ACTIVITIES:</p> <p>20.14.2. It is prohibited for a Broker and a client to engage in a series of transactions in order to create actual or apparent active trading in a security or to depress the price of a security for the purpose of inducing the purchase or sale of the security by others. Thus, Short Sale and/or Blank Sale effected to manipulate the price of a security are prohibited. If investigation apparently reveals that the price of a security has been manipulated or attempted to be manipulated, the matter may be referred to the Commission for further investigation and action.</p> | <p align="center">-do-</p> |

End of proposed amendments

“EXHIBIT A”

GUIDELINES FOR SUBMISSION OF COMMENTS

1. PSX invites the interested parties to provide their comments and views with specific reference to the subject matter of the proposed amendments to PSX Regulations notified in this Notice.
2. At the time of submission of comments, respondent is advised to provide the information, as per **Table-A** below, so that PSX may contact him/her for clarification or deliberation on the comments, if needed. Anonymous responses may be disregarded by PSX.

Table-A

| TO BE FILED BY THE RESPONDENT | |
|--|--|
| Name of respondent | |
| Name of company (if applicable) | |
| Designation (if applicable) | |
| Contact Number | |
| Email Address | |

3. The respondent may request confidential treatment for his/ her identity and all or any part of comments due to their proprietary, confidential or commercial nature, by clearly marking the information in **Table-B** below:

Table-B

| DISCLOSURE OF IDENTITY AND COMMENTS |
|---|
| Please check the box(es) if you wish to be remain confidential: <input type="checkbox"/> I wish to have my identity remain confidential. <input type="checkbox"/> I wish to keep all or any part of my comments confidential. |

If respondent wishes to keep any part(s) of comments confidential, then he/she is required to clearly specify such part(s) of comments.

4. To ensure quality and promote transparency, PSX will publish the relevant comments of respondents and its management’s response thereon in the form of a **Response Paper** on its website, within a reasonable timeframe, after close of public consultation session, unless the respondent has made a confidentiality request.
5. Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, respondents should note that notwithstanding any confidentiality request, PSX will share all their response(s) with the Securities and Exchange Commission of Pakistan (Apex Regulator).
6. By submitting comments, respondents are deemed to have consented to the collection, use and disclosure of data that is provided to PSX, unless respondents wish to have their identity or comments remain confidential.