

THE LAW OF INSIDER TRADING IN PAKISTAN

by

Samia Maqbool Niazi

LL.B. (Hons.), LL.M.

FEDERAL LAW HOUSE

.....	25
.....	27
.....	28
.....	30

Published by the Federal Law House,
Head Office: Mian Plaza, Chandni Chowk, Rawalpindi,
Pakistan. Tel. No. (051) 4843011, 4571229
Branch: 7, Turner Road, Near High Court
Lahore, Pakistan. Tel. No. 0322-4843011

First Published: 2007

©2007 by Samia Maqbool Niazi.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

ISBN 978-969-557-025-8

Printed in Pakistan
by
Haji Hanif & Sons
Lahore, Pakistan.

TABLE OF CONTENTS

LIST OF APPENDICES	iv
ABBREVIATIONS	v
LIST OF FIGURES	vi
DEDICATION	vii
PREFACE	viii
CHAPTER	
I. Introduction: The Emergence of Insider Trading Law	1
1.1 The Meaning of Insider Trading	6
1.2 Insider Trading and Market Manipulation	8
1.3 The Justification for Insider Trading Law	10
1.4 Summarising the Arguments for Regulation and Deregulation	22
1.5 The Scheme of the Study	24
II. Insider Trading Law in the United States	25
2.1 The Meaning of Insider Trading in the United States	25
2.2 The Development of Insider Trading Law in the United States	27
2.3 Prevailing Legal Theories of Insider Trading Liability	32
2.4 The Impact of the Law on the Meaning of Insider Trading	39

III. Adoption of Insider Trading Laws by the Rest of the World	41
3.1 The Implementation of Insider Trading Laws in Different Countries	41
3.2 Insider Trading Law in Europe, Especially the UK	42
3.3 Insider Trading and Hong Kong	47
3.4 Insider Trading Law in India	49
3.5 Comparing the Definitions of Insider Trading in Different Jurisdictions	55
IV. The Law of Insider Trading in Pakistan	59
4.1 The Sources of Insider Trading Law in Pakistan	60
4.2 The Link Between Market Abuse and Insider Trading—Stock Market Crises	61
4.3 Analysis of the Provisions of the Ordinance and the Guidelines	67
4.4 Penalties and Liability for Insider Trading	77
V. Conclusion and Proposals for Improvement	81
5.1 Conclusions	81
5.2 Proposals for Pakistan	87
APPENDICES	91

LIST OF APPENDICES

Appendix

- A. The Securities & Exchange Ordinance 93
- B. Listed Companies (Prohibition of Insiders Trading) Guidelines 117
- C. Speech by SEC Staff: Insider Trading—A U.S. Perspective 127
- D. Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 1992 153

ABBREVIATIONS

- CFR** Code of Federal Regulations (USA)
- EEC** European Economic Community
- EU** European Union
- FEA** Federal Exchange Act, 1934 (USA)
- FSA** Federal Securities Act, 1933 (USA)
- FSMA** Financial Services and Markets Act, 2000 (UK)
- IDD** Insider Dealing Directives (EEC)
- ISDA** International Swaps and Derivatives Association
- KSE** Karachi Stock Exchange
- MAD** Market Abuse Directives (EEC)
- SEC** Securities and Exchange Commission (USA)
- SECP** Securities and Exchange Commission of Pakistan
- SEO** Securities and Exchange Ordinance, 1969
- SEBI** Securities and Exchange Board of India

LIST OF FIGURES

Figure

1.1	Theories of Insider Trading	11
2.1	The Three Prevailing Theories in the US	39
3.1	Meaning of Insider—India	54
4.1	Person Associated With Company	68
4.2	Unpublished Price Sensitive Information	69
4.3	Person Connected With the Company	71
4.4	The Insider in the Law of Pakistan	72
4.5	Civil Liability for Insiders and Others	74