

AIC Brief - 2015

Risk and Regulations in Capital Markets and Securities Trading (fraud)

The text discusses the potential for volatility in financial markets due to activities such as layering or quote stuffing, which are fraudulent strategies for market manipulation. There are concerns about the risk to personal data in the current complex reporting systems. The text suggests that an issuer may face challenges in determining the date of origin of inside information, particularly if related to serious fraud, termination of a significant contract, or matters out of their control.

The main focus is on the various legal requirements, detections, and deterrent mechanisms related to fraudulent practices, insider trading, and market manipulation in the Pakistani Capital Market set by the Securities and Exchange Ordinance. It covers conditions to be met for executing business in the financial sector, including having credible directors, rules regarding securities trade, registration, and reporting requirements.

It also outlines the procedures to be followed for registration, inspection, and penalties for breaches of laws. Additionally, it identifies stipulations needed for roles in the financial industry such as brokers and data reporting service providers. Finally, the text mentions that users of crowdfunding websites are able to quickly identify and address fraudulent campaigns, proving an active role in financial vigilance.

Administrative Burden and Costs in the Changing Trading Market (nist)

With the introduction of transparency requirements being delayed, some concerns such as a potential decrease in trading market competition arise due to a rise in opportunistic traders. Additional costs and administrative tasks may also surface in selecting outsourcing providers, managing the implementation of outsourcing agreements, and setting up approvals for offering Direct Electronic Access (DEA) to various trading venues. The administrative responsibility also extends to the obligation of due diligence on prospective clients by members or participants of a trading venue. There is a highlighted impact on Approved Publication Arrangements (APAs), trading venues, and Approved Reporting Mechanisms (ARMs) due to changes in administrative burdens. Although EU's MiFID II regulation reduces the complexity by setting a single threshold for all asset classes, it increases administrative work particularly concerning trading compliance and conflict of interest prevention. The proposed benchmark regulation will also shift information provision responsibilities mainly to benchmark administrators. The final draft RTS aids in easing unnecessary administrative burdens on market participants, however, it implies significant challenges for larger firms in creating a centrally administered algorithm identification system.

Regulatory Requirements for AIFMs Regarding Code of Ethics and Personal Securities Trading (ethics)

Those AIFMs (Alternative Investment Fund Managers) registered with US SEC (Securities and Exchange Commission) must establish a code of ethics as per their regulatory requirements. This code of ethics lays out a conduct standard for employees and insists on compliance with federal securities laws. The code demands that 'access persons' of the AIFM, or employees privy

to particular data types, periodically report their personal securities transactions and holdings to the Chief Compliance Officer or relevant authorities. These reports are subject to obligatory review. In contrast, non-US SEC-registered AIFMs, who do not cater to US clientele, are exempted from the requirement to adhere to policies for protection of material non-public data, code of ethics rule, proxy voting rule, and compliance rule as part of regulatory requirements.

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