

## Order

Whereas, as per definition given in Section 2 (T) of the Securities and Exchange Commission Act, 1956, Capital Market Services Limited is a Merchant Banker (hereinafter referred to as “ Merchant Banker”);

Whereas, at the request of the said merchant banker, the Commission, on March 25, 1998, has issued to Capital Market Services Limited (CMSL) the registration certificate No. GC/1.018/98-11 under Section 11A of the Securities and Exchange Commission Act, 1956, to conduct functions of issue manager/underwriter/portfolio manager;

Whereas, the Commission, through Inspection Order No. SEC/SRMID/2000-970/865 dated August 06, 2005, issued under Section 32 of the Securities and Exchange Commission Act, 1956 appointed Mr. ATM Tariquzzaman, Director and Mr. Ripon Kumer Debnath, Deputy Director of Securities and Exchange Commission to conduct inspection about activities of the Capital Market Services Limited;

Whereas, it is revealed from the inspection report concerned, that:-

- (1) Total 3,360 accountholders of Capital Market Services Limited (CMSL) have applied for IPO of Meghna Life Insurance Company Limited amounting to TK: 1,68,00,000.00 through Omnibus Account.
- (2) Capital Market Services Limited stated that since the portfolio accounts are the discretionary accounts (DA) of CMSL, buy/sale orders from the respective accountholders are not required. CMSL also stated that the company receives money from accountholders collectively, not from the individual client and Mr, Md. Maksudur Rahman bearing Account No. 1201 is the introducer and operator of about 300 portfolio accounts.
- (3) CMSL has stated that portfolio accounts are operated by the discretionary authority of the merchant banker, but in favor of this authority CMSL do not have any agreement. CMSL has stated that the terms and conditions are treated as agreement, which is not legally tenable without due execution of the requisite agreement.
- (4) Proper books and records in respect of depositing money of the accountholders are not maintained client wise.
- (5) The inspection team verified the existence of the randomly selected accountholders bearing Account Nos. 4494, 4403 and 4384 at their respective addresses, but none of them has been found at those addresses.

Whereas, the relevant provisions of the Securities and Exchange Act of 1934 (the "Act") and the Securities Exchange Act of 1934 (the "Exchange Act"), 1934, requires, among others, the following:

“Section 26(1): The Exchange Act requires that every issuer of securities who is required to file reports with the Commission shall file such reports in accordance with the rules and regulations prescribed by the Commission under this section.”

30(8) : The Exchange Act requires that every issuer of securities who is required to file reports with the Commission shall file such reports in accordance with the rules and regulations prescribed by the Commission under this section.

The Commission has found that the issuer, GB Securities, Inc., has violated the Exchange Act, 1934, and the Commission has issued a show cause notice to the issuer under Section 33 of the Exchange Act, 1934.

35(1)(K): The issuer has violated the Exchange Act, 1934, and the Commission has issued a show cause notice to the issuer under Section 33 of the Exchange Act, 1934.”

Whereas, from the above, it appeared that the Capital Market Services Limited has contravened Section 26(1), 30(8) and 35(1)(K) of the Securities and Exchange Act of 1934 (the "Act") and the Securities Exchange Act of 1934 (the "Exchange Act"), 1934, attracting provisions of Section 33 of the Securities and Exchange Act of 1934 (the "Act") and the Securities Exchange Act of 1934 (the "Exchange Act"), 1934;

Whereas, a show cause notice No. SEC/Enforcement/363/2005/427 dated August 22, 2005 was issued to CMSL for submission of written explanation for the aforementioned contravention, as provided in Section 33 of the Securities and Exchange Act of 1934 (the "Act") and the Securities Exchange Act of 1934 (the "Exchange Act"), 1934;

Whereas, in reply to the show cause, CMSL vide letter dated September 4, 2005 has mentioned, among others, the following:

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1. CMSL's accounting software has four level accounting systems which restricts to incorporate more than 999 accounting heads under one specific sub account. The omnibus account being larger in number (over 999 accounts) it was not possible to incorporate all portfolio accounts in the computerized accounting system as soon as the accounts are opened. Instead, CMSL maintain separate memorandum record for each of omnibus portfolio client at the time of account opening and up to the point when the applications are made. On success of specific applications (i.e. allotment of shares) CMSL incorporate only those successful portfolio accounts in the computerized accounting systems.
2. Each introducer consolidated the application/account opening money on behalf of his introduced portfolio account holders, which are then collected by CMSL from the introducers and cleared in our bank account specifically maintained for portfolio operations. The consolidated receipts from those introducers are, however, shown in our computerized accounting systems.

3. Client wise deposit of money was not particularly possible. But client wise memorandum records and consolidated accounting entry in to the systems were duly maintained according to individual portfolio omnibus client and introducer respectively.
4. CMSL not only maintain separate books and records for other type of portfolio accounts it also maintain separate bank account (along with separate cheque books) for each of the client. This was done on the understanding as per Sec 29(2) of the regulation of the SEC.
5. CMSL maintained memorandum with the client-cum-introducer detailing the terms and conditions of maintaining the portfolio accounts. The terms and conditions detailed in the overleaf of the portfolio account opening application form is treated by CMSL as agreement with clients as both the parties have signed while accounts were opened accepting the terms and the clients have no objections in this regard.
6. CMSL refrained from applying for shares through the omnibus portfolio accounts under question much before SEC intimated about its concern and inspection in this respect.”

Whereas, CMSL vide letter dated September 4, 2005 has further mentioned that it has complied with all the rules and regulations enforced by the Commission from time to time, the points in the show cause letter has occurred completely unintentionally and assured SEC to be more vigilant and complaint to relevant rules and regulations in future;

Whereas, prior to taking any measures, an opportunity of being heard for contravention of the above mentioned securities law was given to CMSL, as provided in ~~rule~~ 33 of the ~~Securities Act~~ 1956 (Gvt P.U. e'vsKvi | tcvUfcdwj | g'vtbRvi) ~~1956~~, 1996, through notice of hearing No. SEC/Enforcement/363/2005/503 dated September 15, 2005, and that the hearing was conducted on September 28, 2005;

Whereas, Mr. Al Maruf Khan, Managing Director of Capital Market Services Limited appeared at the hearing wherein he has confirmed that all omnibus portfolio accounts through portfolio management under the CMSL Investors' account were closed regardless of the documentation status.

Whereas, explanations submitted in response to the show cause and during hearing were not considered acceptable to the Commission because it was the responsibility of CMSL to perform its activities in accordance with the provisions of the registration conditions mentioned hereinabove;

Whereas, the Commission is satisfied that such activities of the merchant banker affect the investors at large and the capital market as well; and

Whereas, the Commission is of the opinion that in order to maintain discipline in the capital market, appropriate action against Capital Market Services Limited should be taken for the aforesaid contraventions of securities laws.

Now, therefore, in exercise of power conferred by section 33 of the Securities and Exchange Commission Act, 1996., the Securities and Exchange Commission hereby suspends the effectiveness of the Commission's registration certificate No.GS-1.018/98-11 dated March 25, 1998 in respect of portfolio operation of Capital Market Services Limited for 1 (two) week from the service of this order.

**On behalf of the Securities and Commission**

**Dr. A B Mirza Md. Azizul Islam**  
**Chairman**

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