

A. B. Ispahani & Co.
(DSE Membership No. 001)
Ispahani Building
14-15 Motijheel C/A, Dhaka - 1000

Attention: The Proprietor

Subject: Non-compliance of securities laws - WARNING

Based on an inspection on books of accounts, records and documents of A. B. Ispahani & Co. (DSE membership No. 001) as provided under section under section 6(1) of the Securities and Exchange Ordinance, 1969 and rules 15 and 16 of the Securities and Exchange Commission (S&EC) Rules, 2000, following, among others, have been revealed:

- ✍ The broker did not maintain account-opening form of its customers properly with material information in most of the cases. As a result, all information like signature & name of introducer of the customers were not available in the forms. Two account opening forms were kept for the same customer No. 138.
- ✍ The broker did not maintain the buy/sell order of the customers.
- ✍ The buy/sell orders were not entered in the order-register properly to reflect the name and address of the customers who placed order with the period for which the order is to be valid.
- ✍ Telephonic orders for buy or sell given by customers were not properly recorded in the order-register and the written confirmations thereof were not obtained from the customers.
- ✍ The broker maintained money ledger, stock ledger, client's balance position in computer, but all such records were not updated. The relevant software seems to be faulty.
- ✍ The authorized representative of the broker has informed that the broker did not give credit facilities to their customers and, as such, they did not have margin agreement. But, debit balance was shown in certain customers' ledger. Mentionable that debit balance was also shown in the customer's ledger of Mr. Dewan Nehaz Ahmed (Client code 41) who is also authorized representative of the broker.
- ✍ The broker did not maintain any record to ascertain its risk-based capital adequacy requirement on daily basis.
- ✍ The broker did not maintain the customers' complaint register, customer securities register, etc.
- ✍ The broker could not show the records of compliance report on daily activities of the broker prepared by the compliance authority.

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Stock-broker's and the authorized representative's aforementioned activities lead to contravention and non-compliance of the provisions of rule 4, 8 (1) (ccc), and 15 of the Securities and Exchange Rules, 1987; rule 3 of the Margin Rules, 1999; rule 4 of the Securities and Exchange Commission (S&EC) Rules, 2000; and rule 10 of the Securities and Exchange Commission (S&EC) Rules, 2000; and rule 2,3,6 of the Securities and Exchange Commission (S&EC) Rules, 2000.

Show cause notice No. SEC/Enforcement/237/2004/253 dated July 31, 2004 was issued to the stock broker for explaining the contraventions and non-compliances of the above provisions. In reply to the show show-cause, A. B. Ispahani & Co. vide letter reference No. Nil dated July 05, 2004 has submitted following explanations for the alleged contravention and non-compliance.

“Quote

Para:1 We usually maintain account opening forms of customers as required by DSE with all the information's. Your findings about signature & name of introducer of few customers not available in the forms as the customers were personally known to us and introduced by us. However those forms have already been duly filled up. Reference two account opening forms of same customer No. 138, please be advised that said customer changed his authorized person in a fresh form to avoid overwriting thus we kept the previous form along with fresh form with a cross “X” mark for our future reference and the above was brought to the notice of your inspection team.

Para-2 we were maintaining buy/sell order book from the very beginning which was discontinued since July 2002 because in the new system a customers scope to react instantly with the market has widened and in most of the cases customer amends both price/quantity 5/10 time a day. This was also brought to the notice of your inspection team and our stock of buy/sell order book was shown to them. Presently we are keeping printout record of Daily Order Status & Trade Status Report of the customer from TESA and obtain customers signature on order status report are maintained in the file. At the end of the day we record same in the Order Register Book.

Para-3 From the very beginning we are maintaining buy/sell order register. sometimes there might be some lapses in recording name, address, order period etc. From now on we shall abide by the rules.

Para-4 Lapses observed not to properly record each telephonic order have been noted and steps have already been taken. About written confirmation of telephonic order we always obtain signature in the order register & order status report of TESA. Also at the bottom of the confirmation bill preferably the same day, if not available positively on the next morning we obtain customers signature as a token of their acceptance.

Para-5 We have upgraded our software and money ledger, stock ledger, client balance position are all updated. We submit that our software may not be the latest but not faulty.

Para-6 Debit balances shown in the customer ledger represents the defaulter customers of 1998-99 not the present trading customer. Ref. debit balance of Mr. Dewan Nahaz Ahmed, (Client Code-41) kindly be informed that Mr Nahaz signed agreement as our Authorized Representative on 3rd October 2001 as per DSE Circular DSE 161/23001/1225 dated 17.9.01 and the debit balance shown was the carry forward balance prior to 3rd October, 2001. Further there have been no transactions in his name. However his above debit balance has already been settled.

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October 24, 2005

Para-7 The matter has been noted and necessary steps are being taken.

Para-8 It may be mentioned that till date we have not received any complaint for our customer. However, ref. your findings we have opened customers complaint register. We maintain customers security register in the Computer and supply print out to customer on demand also maintain customer wise monthly security stock print out in our respective files.

Para-9 We were not aware of maintaining records of compliance report on daily activities of the compliance authority. shall contract DSE and comply. Unquote.”

A. B. Ispahani & Co. has also mentioned that above mentioned findings of contraventions and non-compliance of securities laws are simple omissions from their part.

Prior to taking any measures, an opportunity of being heard for the contraventions and non compliances of the above mentioned securities law was given to A. B. Ispahani & Co , as provided in Article 12 of the Securities and Exchange Act, 1993, read with the provisions of section 10(3) of the Securities and Exchange Ordinance, 1969, through notice of hearing No. SEC/Enforcement/237/2004/370 dated July 20, 2005, and that the hearing was conducted on August 01, 2005.

Mr. Kazal Debnath, Finance Manger, Ispahani Group of Industries/Companies and Mr. Dewan Nahar Ahmed, A. B. Ispahani & Co. (DSE Membership No. 001) appeared at the hearing and mentioned that lapses observed have been noted and steps have already been taken for rectification, and has assured for compliance of all securities laws in future.

The Commission, considering your submissions, has decided to dispose of the proceedings against you by placing on record the Commission's dissatisfaction on the defaults/contraventions made by you, with a warning to ensure compliance of all securities related laws in future.

Please note that this disposal does not absolve you from your lawful responsibilities/obligations to any person, if affected as a result of your above said defaults.

For the Securities and Exchange Commission

Mansur Alam
Executive Director

Copy for information:
Chief Executive Officer, Dhaka Stock Exchange Ltd.
Executive Director (R&D), SEC
Executive Director (Registration), SEC
Director (MIS), SEC

Mansur Alam
Executive Director