

SEC/Enforcement/336/2005/1126
October 15, 2006

By Special Messenger

CMSL Securities Limited
(DSE & CSE stock dealer)
Suite # 702, (7th Floor)
28, Dilkusha C/A
Dhaka-1000

Attention: Managing Director, CMSL Services Limited

Sub: Non-compliance with securities related laws: In connection with the shares of IDLC at CSE:
Warning

The Commission constituted an enquiry committee vide Order No. SEC/Surveillance/2003-0118/024 dated 6th March 2005 under aviv 17K of ঐনশাসনমালা, 1993 and section 21 of the Securities and Exchange Ordinance, 1969 (XVII of 1969) to hold and conduct an enquiry into the transactions in the securities of IDLC at CSE and any other incidental matter thereto wherefrom it appeared that:

1. The CMSL Securities Limited (stock-broker) sold total 115 shares during 7th October to 13th October 2005 of Industrial Development & Leasing Company Ltd for Mr. Md. Abdullah (Client code # 410 & BO ID # 120170000038919) without having any demated shares. The said client's stock report with the stock-broker showed 280 shares in stock, but BO-ISIN holding report did not show any IDLC's shares in stock at that time.
2. All the said 115 shares of IDLC sold for Mr. Md. Abdullah were procured from BO account of Mr.A.K. Mohiuddin (BO ID 1201750000125962), son of Mr. Md. Abdullah (Client code No. 410).
3. German Investment and Development Company (DEG) issued sale order for 37,500 shares of IDLC on 27th September 2004 whereas Capital Market Services Ltd. (Client Code # 600) issued buy order for 37,500 shares of IDLC on 6th October 2004, but CMSL Securities Ltd. did not place these orders before 14th October 2004. In this connection, the said stock-dealer informed the committee that the transaction was a large one and they had to pre-arrange the transaction and match both the buyer and the seller on 14th October 2004.
4. A foreign investor placed a sell order for 37,500 shares of IDLC to CMSL Securities Ltd. to sell at Tk.800 or better price. CMSL Securities Ltd. sold small lots, i.e., 20, 5, 80, and 10 shares, gradually reducing price of IDLC shares at CSE to execute trading 37,500 of IDLC at Tk. 800 per share. During 7th to 14th October 2004, the share price of IDLC fell from Tk.1,032.50 to Tk.800. It is worth that during this period the same share at DSE rose from Tk.1,149 to Tk.1,178. On 14th October 2004, the big lot of 37,500 shares was sold to Capital Market Services Ltd. at Tk.800, a sister organization of the CMSL Securities Ltd. Then, the buyer sold it on 28th October 2004 to another person at Tk.1,000 per share. In this regard, it is clear that the stock-broker (CMSL Securities Ltd. prepared the market by artificially pulling down the price of the share for executing trade for 37,500 shares at Tk. 800 per share.

From the above, it appeared that the CMSL Securities Limited has contravened rgulation 13 of the Settlement of Stock Exchange Transactions Regulations, 1998 and চাঁদা 24 I 42 of ঐনশাসনমালা (চাঁদা) চাঁদা, 2003.

A show cause cum hearing notice No. SEC/Enforcement/336/2005/173 dated February 23, 2006 was issued to CMSL Securities Limited for explanation for the alleged contraventions of the securities related laws and also to provide to it an opportunity of being heard. The hearing was conducted on March 2, 2006.

Mr. Maruf, Managing Director of CMSL Securities Limited appeared at the hearing and submitted written explanation vide letter dated March 2, 2006 stating, among others, the following:

- (i) Mr. Abdullah (client code no. 410) maintained power of attorney (POA) for 9 accounts which includes his son Mr. A.K. Mohiuddin's account also. Mr. Abdullah under the POA made demate request for 280 shares on behalf of various accounts and CMSL Securities Ltd. acknowledged 280 shares in favour of Mr. Abdullah for the control purpose although respective BO accounts were distinctly credited as per demat request.
- (ii) Said 115 shares which had been sold by Mr. Abdullah belongs to and were in the possession of his son Mr. A.K. Mohiuddin. Mr. Abdullah holds POA and operates the account on behalf of his son Mr. A.K. Mohiuddin.
- (iii) Although the seller forwarded the sales order on the 27th September, 2004, it was only reconfirmed by the seller on the afternoon on 4th October, 2004 against specific buy offer from the buyer. Therefore, buy order to CMSL Securities Ltd. could not be given earlier to 4th October, 2004. After ensuring funds placement and other documentations at the end of Capital Market Services Limited, CMSL Securities Limited was given the buy order on 6th October, 2004. Declaration for sale was only made by German Investment and Development Company (DEG) on the 13th October, 2004 and, therefore, transactions could not be carried out earlier than the date of declaration.
- (iv) Trade was executed at the price where both seller and the buyer were willing to do the transaction. Transactions were duly notified to the market and to the regulator.

The Commission, considering the submissions made by the broker, has decided to dispose off the proceedings against the broker for the stated contravention by placing on record the Commission's dissatisfaction on the defaults made by the dealer, with a warning to ensure strict compliance of all securities related laws in future. Please note that this disposal does not absolve the dealer from its lawful responsibilities/obligations to the persons, if any, affected as a result of the dealers' above said defaults.

For and on behalf of
the Securities and Exchange Commission

(Mansur Alam)
Executive Director

CC:

Chief Executive Officer, Dhaka Stock Exchange
Chief Executive Officer, Chittagong Stock Exchange
Executive Director (R&D), SEC
Executive Director (Registration), SEC
Director (MIS), SEC
Chairman's Office, SEC

SEC/Enforcement/336/2005/1127
October 15, 2006

By Special Messenger

Capital Market Services Limited (Merchant Banker)
Suite # 702, (7th Floor)
28, Dilkusha C/A
Dhaka-1000

Attention: Managing Director, Capital Market Services Limited

Sub: Non-compliance with securities related laws: In connection with the shares of IDLC at CSE:
Warning

The Commission constituted an enquiry committee vide Order No. SEC/Surveillance/2003-0118/024 dated 6th March 2005 under section 17K of the Securities and Exchange Ordinance, 1969 (XVII of 1969) to hold and conduct an enquiry into the transaction in the securities of IDLC at CSE and any other incidental matter thereto wherefrom it is appeared that:

1. There are two types of portfolio account in the Capital Market Services Limited (Merchant Banker); these are discretionary portfolio account and non-discretionary portfolio account. All trade of discretionary and non-discretionary portfolio accounts is executed under code 600 in the CMSL Securities Ltd.
2. The portfolio client Mr. Hafiz Feroz Choudhury who maintains a non-discretionary account (Account # 607) and a discretionary account (Account # 606) with Capital Market Services Limited. The said client sent written instruction to buy shares at Tk.800 per of 37500 shares of IDLC under his non-discretionary account (Client code 607). But the Capital Market Services Ltd. gave order to CMSL Securities Ltd under portfolio manager general code 600 instead of non-discretionary clients code.
3. Same Bank account is used for discretionary and non-discretionary portfolio account of the Capital Market Services Limited.

From the above, it appeared that the Capital Market Services Limited has contravened clause 30 I 35 of the Securities and Exchange Ordinance, 1969.

A show cause cum hearing notice No.SEC/Enforcement/336/2005/174 dated February 23, 2006 was issued to Capital Market Services Limited (Merchant Banker) for explaining the alleged contraventions and to provide to it an opportunity of being heard; the hearing was conducted on March 2, 2006.

Mr. Maruf, Managing Director of Capital Market Services Limited (Merchant Banker) appeared at the hearing and submitted written explanation vide letter dated March 2, 2006 stating, among others, the following:

1. Mr. Hafiz Chowdhury maintains two accounts i.e. discretionary (code-606) and non-discretionary (code-607). Separate ledgers are maintained for both accounts. Clients specifically instructed that the order to be transacted through his account code 607.

2. The merchant banker maintains separate bank accounts for portfolio management services to deal with the banking strictly for portfolio operations. It also maintains separate bank accounts for its own operations and investments. Both these accounts are duly reflected in the financial statements.
3. Whenever a portfolio client gives specific order that is taken in the written form addressed to the merchant banker. The merchant banker Capital Market Services Limited maintains one brokerage account with CMSL Securities Limited, brokerage code being 600 which transacts all merchant banker transactions through the accounts. With except of one or two, majority of the portfolio accounts of Capital Market Services Limited are client discretionary account, code 607 being on of such, therefore there is no problem in allocating the transactions carried out through brokerage code 600.
4. There is no separate code maintained with brokerage house for discretionary and non discretionary accounts.
5. As for the transaction in question, all payment received on account of portfolio account code 607 were deposited in the Portfolio Management Bank Account separately maintained for the clients, orders was received in writing from the client discretionary portfolio account (607), receipts recorded in the specific client ledger (607) prior to the execution of trade, order placed to the brokers in the account maintained for merchant banker(600) money receipts issued by brokerage prior to the execution of trade, executed transactions was allocated and reflected in full in the name of the specific client ledger(607).

The Commission, considering the submissions made by the merchant banker, has decided to dispose off the proceedings against the merchant banker for the stated contravention by placing on record the Commission's dissatisfaction on the defaults made by the merchant banker, with a warning to ensure strict compliance of all securities related laws in future.

Please note that this disposal does not absolve the dealer from its lawful responsibilities/obligations to the persons, if any, affected as a result of the dealers' above said defaults.

For and on behalf of
the Securities and Exchange Commission

(Mansur Alam)
Executive Director

CC:

Executive Director (R&D), SEC
Executive Director (Registration), SEC
Director (MIS), SEC
Chairman's Office, SEC