SEC/Enforcement/909/2011/ **September , 2011**

Order

Whereas, as per section 2(i) of the Securities and Exchange Ordinance, 1969 (XVII of 1969), National Bank Limited is a member of Dhaka Stock Exchange Limited;

Whereas, the Securities and Exchange Commission issued Stock Broker Registration Certificate to National Bank Limited under avi 10(1) of the wmwKDwiwUR I G·‡PÄ Kwgkb AvBb, 1993, read with wewa 5 (5) of the wmwKDwiwUR I G·‡PÄ Kwgkb (÷K-wWjvi, ÷K-‡evKvi I Ab‡gw`Z cwZwbwa) wewagvjv, 2000, to conduct securities trading related activities under certain terms & conditions stipulated in the said certificate;

Whereas, on the basis of the investigation report of Dhaka Stock Exchange Limited, a show cause-cum-hearing notice No. SEC/Enforcement/909/2011/149 dated March 13, 2011 was issued to National Bank Limited (Stock Broker) to appear at the hearing. In the show cause-cum-hearing notice among others following were mentioned;-

"Whereas, as per the Commission's Directive No. SEC/CMRRCD/2001-43/47 dated July 08, 2010, the members of the stock exchanges shall not extend credit facilities to their approved clients beyond one time of clients margin/clients deposit (i,e credit facilities shall be on 1:1 basis) under the Margin Rules,1999.

Whereas, the investigation team reported that "in respect of the client code# 2151, 1517 and 30003 National Bank Ltd.(Member No. 203) has extended credit facilities beyond the maximum limit, details of which are given below:

Portfolio Date	Name	Code	Portfolio Value (Tk)	Ledger Bal. (Tk)	Margin (Deposit) (Tk)	Margin Ratio	Maximum Limit as per SEC Directive
18/8/2010	Md Jamshed Alam	30003	35,383,875.00	(22,822,054.04)	12,561,821.00	1:1.82	1:1
23/8/2010	Md Jamshed Alam	30003	36,012,480.00	(23,044,541.50)	12,967,938.50	1:1.78	1:1
20/7/2010	A K M Yeasin Uddin	1517	14,885,500.00	(8,601,364.21)	6,284,135.79	1:1.37	1:1
13/9/2010	Md Babul Hossain	2151	15,295,850.00	(7,902,834.91)	7,393,015.09	1:1.07	1:1

Contravention: National Bank Limited has violated Commission's Directive No. SEC/CMRRCD/2001-43/47 dated July 08, 2010 by providing margin loan to it's clients beyond the permitted limit to purchase shares of Aftab Automobiles Limited."

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Whereas, hearing was conducted on the March 29, 2011. Mahmud Al Hasan (CEO-cc) attended the hearing on behalf of National Bank Limited. They submitted a reply letter No. NBLSL/SEC/2011/065 dated March 29, 2011 to the Commission .In the letter among others they stated that

" 1.Directive No. SEC/CMRRCD/2001-43/47 dated 08.07.2010 was issued by the Commission to bring down the ratio of the loan and equity from 1:1.5 to 1:1. The Directive came into force on 11.07.2010. Therefore, all stock brokers including the Bank were under an obligation not to provide margin loan beyond the permitted limit (i.e. 1:1) from 11.07.2010 and also to bring down the loan and equity ratio of the existing clients from 1:1.5 to 1:1.

2. Our Bank complied with the terms of your above Directive by not providing new margin loan beyond the permitted limit (i.e. 1:1) from 11.07.2010 to the clients. However, in bringing down the limit of the clients who were availing loan at a higher ratio, the Bank could not but consider the difficulties of the clients existing at the time of issuance of the Directive. We take this opportunity to mention here that at the time of issuing the Directive the price of the securities fell down. Therefore to implement the Directive the securities were required to be sold at a lower price (than the price for which the securities were bought) to the serious prejudice of the clients.

3. In such situation with a view to reducing the limit of the clients gradually, the clients were allowed to make trading in such a manner that the aggregate selling amount remains higher than the aggregate buying at the end of the day. Thus the equity of the clients began to grow and ultimately the objective was achieved within a short time without any loss to the clients.

4. In the backdrop of the facts mentioned in Clause 2 and 3 above, we would like to explain the alleged trade as under:

a) although the margin ratio stood at 1:1.82 on 18.08.2010 and 1:1.78 on 23.08.2010 against the client code **No. 30003**, the same was **reduced to 1:1.38 on 31.08.2010.** The margin ratio against the said client was brought down to the desired level i.e. **1:1 on 16.09.2010 (Portfolio Statements dated 31.08.2010 and 16.09.2010 are enclosed);**

b) The margin ratio against the client **code No. 01517** was brought down to the desired level i.e. 1:1 **on 22.07.2010 (Portfolio Statement dated 22.07.2010 is enclosed).**

c) similarly margin ratio against the client **code No. 02151** was brought down to the desired level i.e. 1:1 on **14.09.2010 (Portfolio Statement dated 14.09.2010 is also enclosed).**

5. Although we could not implement the Directive within the stipulated time, our sincere effort was always there to reach the objective within the shortest possible time.

6. In view of the above, our humble submission is that if the Regulation is interpreted literally and strictly without having any regard to the prevailing market condition, then the non-compliance of the

Directive can hardly be questioned. We agree that we had to deviate a bit from the terms of the Directive, but we want to say unequivocally that the said deviation was not intentional.

In the premises stated above we would like to leave ourselves at your kind disposal. We can only say that the execution of the trade, as alleged in the Notice, was not deliberate. Despite our above explanation if our step is considered/held wrong then our humble prayer to you to consider the same as a step with marginal error in a falling market.

We, therefore, fervently request you to exonerate us from the allegations. Your prudence guidance shall enable us to provide service in the sector more efficiently."

Whereas, their aforesaid written statement proves that the mentioned allegation of violating Commission's Directive No. SEC/CMRRCD/2001-43/47 dated July 08, 2010 by providing margin loan to it's clients beyond the permitted limit to purchase shares of Aftab Automobiles Limited against National Bank Limited (Stock Broker) is correct. Their explanation is not acceptable to the Commission.

Whereas, the aforesaid activities are tantamount to non-compliance of securities law, deliberate and clear contravention of the stated Directive issued under Securities and Exchange Ordinance, 1969. The said violations attract penal provision of section 22 of the Securities and Exchange Ordinance, 1969.

Whereas, to protect the discipline and transparency of the capital market along with it's development the Commission deems it appropriate and necessary to impose penalty upon National Bank Limited (Stock Broker) for the stated violations.

Now, therefore, Securities and Exchange Commission, in exercise of the power conferred by section 22 (amended by the Securities and Exchange (Amendment) Act, 2000) of the Securities and Exchange Ordinance, 1969 (XVII of 1969) hereby imposes penalty for Tk.2 (Tk. Two) Lac upon National Bank Limited (Stock Broker)which is to be deposited to the Commission in the form of Bank Draft/Payorder favouring 'Securities and Exchange Commission' within 15 days from the date of issuance of this order.

By order of the Securities and Exchange Commission

Professor Dr. M. Khairul Hossain
Chairman

Distribution:
National Bank Limited
DSE's Membership No.203
18, Dilkusha C/A
Dhaka-1000