

INTERNSHIP REPORT

ON

The Role of Dhaka Stock Exchange.

SUPERVISED BY

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LETTER OF TRANSMITTAL

Date: Nov 22, 2018

Professor Dr. Mustafa Kamal

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Subject: Submission of Internship Report.

Honorable Sir,

I have got an opportunity to work practically in Dhaka Stock Exchange (DSE) and prepare an internship report on “The Role of Dhaka Stock Exchange”. I was assigned as a MBA student, which was part of my academic program. In the course of the preparation of this report, I have studied various documents and have also gathered practical knowledge.

In this report, I have tried to give my best effort. Besides this, there may be shortcomings. I would be grateful if you consider those from excusable point.

I pray and hope that you would be kind enough to accept my report for evaluation and oblige thereby.

Sincerely

.....

Md. Mohit Kabir

Id: 141-14-1366
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Declaration

I do hereby declared that the work presented in this internship report titled “The Role of Dhaka Stock Exchange” is an original work done by me under the supervision of Professor Dr. Mustafa Kamal, Professor, Department of Business Administration, Daffodil International University.

No part of this report has been previously submitted to any other institutions for academic certificate. The work I have presented does not breach any existing copyright and no portion of this report is copied from any work done by anyone.

Thanks & Regards

Yours Truly,

.....

Md. Mohit Kabir

Id: 141-14-1366
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CERTIFICATE OF APPROVAL

I am pleased to certify that the internship report on “The Role of Dhaka Stock Exchange” Conducted by Md. Mohit Kabir bearing Roll No: 141-14-1366, of the Masters of Business Administration, major in finance department of has been approved for presentation and defense/viva voce under my supervision. Md. Mohit Kabir worked with DSE MIC Department of Dhaka Stock Exchange Ltd. as an intern.

I am pleased to hereby certify that data and the findings presented in the report are the authentic work of Md. Mohit Kabir. I strongly recommend the report presented by Md. Mohit Kabir for further academic commendations and defense/viva voce.

Md. Mohit Kabir bears a strong moral character and a very pleasing personality. It has indeed been a great pleasure working with him. I wish him all success in life.

Supervisor

Professor Dr. Mustafa kamal

Professor, Department of Business Administration,
Faculty of Business & Entrepreneurship
Daffodil International University.

ACKNOWLEDGEMENT

I have incurred many debts of gratitude over the last two months while preparing this report. First of all I would like to pray my gratitude to the almighty God for giving me the ability to work hard. This is an effort to reflect three months study on the monitoring practice. Even the topic seems more concentrated on the maintenance of brokerage house of the company but true in sense it was an effort to understand how the real world business practices are going on.

My gratefulness goes to my supervisor for his direct contribution and directions in course of preparation of the report. So I would like to convey my special thanks to Professor Dr. Mustafa Kamal, Dean, Permanent Campus, for his endless support, suggestion, continuous encouragement and cooperation.

I also convey my thanks to-

Mr. Md. Ruhul Khaliq (DGM, MIC Department, DSE)

Mr. Saied Mahmud Zubayer (AGM, MIC Department, DSE)

Contributions from various part of the company was indispensable to carry out this report, and the report was brought into the light, with their direct efforts, suggestions and advice and data provided by them and their cordial attitude to make me understand relevant topics.

As well as my sincere gratitude goes to all other employees of Dhaka Stock Exchange Ltd. who directly and indirectly contributed to the report.

In spite of sincere and denoted efforts, there might be some mistakes in the report. I take the entire responsibility for such unintended careless errors.

.....

Md. Mohit Kabir

EXECUTIVE SUMMARY

Capital market is the promoter of economic development of a country engaged in exchange of capital instruments, like securities, bonds, treasury bills, notes etc. to achieve economic goals. It is the market for securities, where companies and governments can raise long term funds. Bangladesh capital market is one of the smallest markets in Asia but the third largest in the south-Asian region. The efficiency and effectiveness of the capital market and the progress of the overall economy largely depends on the role of the stock exchange. Bangladesh has two full-fledged automated stock exchanges namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Among the two stock exchanges, Dhaka Stock Exchange is the prime bourse of the country. The market at present offers trading facilities of 515 securities through 248 of its member companies and worth Tk.3000 crore which accounts for 19.26% of the GDP of the country.

This study is on “The Role of Dhaka Stock Exchange.”

This study includes eight chapters. The first chapter is introduction. The second chapter presents the overview of DSE and its various aspects. The third chapter highlights the overview of MIC department of DSE. The fourth chapter highlights how and why different monitoring activities of DSE are performed. The fifth chapter presents the investigation activities of DSE. The sixth chapter presents some compliance aspects. The seventh chapter discusses about the performance of Monitoring, Investigation & Compliance Department of DSE. The eighth chapter contains some problems of the department, some recommendations and the conclusions.

This was a great pleasure for me to get such an opportunity to work in prime bourse of the country and offered another chance for me to approach different department to know real scenario of operational procedure of DSE and easy to collect data and thereby enhanced my knowledge about this topic.

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ACCRONYMES

Sl. No.	Abbreviation	Elaboration
1	DSE	Dhaka Stock Exchange
2	MIC	Monitoring, Investigation & Compliance
3	BSEC	Bangladesh Securities Exchange Commission
4	CDBL	Central Depository Bangladesh limited
5	CEO	Chief Executive Officer

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CHAPTER ONE

INTRODUCTION

The Intrinsic Materials of the Section One

- 1.1 Title of the Study**
- 1.2 Origin of the Study**
- 1.3 Objectives of the Study**
- 1.4 Methodology**
- 1.5 Scope of the Study**
- 1.6 Limitations of the Study**

1.1 TITLE OF THE STUDY

This study titled “The functional area of monitoring, investigation and compliance department and its contribution to Dhaka Stock Exchange” is prepared to fulfill the requirement of the internship of MBA program. It is mandatory requirement of the program that require a student to work in a particular organization for maximum forty-five days. This study is presented to the concerned teacher as well as to the organization.

1.2 ORIGIN OF THE STUDY

This report is based on an internship of MBA program of Daffodil International University, to complete my MBA program I required to do a Report in the course Finance. This course is designed to give the business students an understanding of principles of Human Resource Management concept of an organizational set up. I have chosen a company “Eastern Bank Ltd.” for my report. By the selection of the company “Eastern BankLtd.” I have the intention to study on Human Resource Management regarding performance appraisal.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to study overall activities and operations of Dhaka Stock Exchange Ltd. as well as the Monitoring, Investigation and Compliance Department.

- To meet the requirement for partial fulfillment of MBA Program.
- To explore the practical field of business.
- To explore the theoretical and operational knowledge of Dhaka Stock Exchange and the overall performance of Monitoring, Investigation and Compliance Department
- To analyze the activities of Monitoring, Investigation & Compliance department of DSE through which the activities of member companies and enlisted companies of DSE are controlled.
- To evaluate the efficiency of the monitoring system of Dhaka Stock Exchange.
- To analyze some case studies to better understand how these activities are performed.
- To examine the lacking of these activities that should be minimized for improving its efficiency level

1.4 METHODOLOGY

Different data and information are required to meet the goal of this report. Those data and information were collected from various sources, such as primary secondary which is shown below.

1.4.1 Primary Sources

- Face to face conversation with the respective officers and staffs of Dhaka Stock Exchange Ltd.
- Open discussion with the employees of the department of Monitoring, Investigation and Compliance.
- Sharing practical knowledge of the staffs of the department.
- Observation and collection of data from the department of Research & Development(R & D) of Dhaka Stock Exchange Ltd.

1.4.2 Secondary Sources

- Different publications regarding Stock Exchange Function.
- Different newsletters of Dhaka Stock Exchange Ltd.
- Annual Reports of Dhaka Stock Exchange Ltd.
- Relevant file study provided by the respective employee
- Journals and Monthly reviews of Dhaka Stock Exchange Ltd.
- Library of Dhaka Stock Exchange.
- Website of Dhaka Stock Exchange Ltd.

1.5 SCOPE OF THE STUDY

To prepare this report I had a great opportunity to have real life knowledge about different Monitoring, Investigation and Compliance activities. I also tried to increase my knowledge about Monitoring, Investigation and Compliance activities and I think the information collected from different personnel will help me to understand the importance of these functions for Dhaka Stock Exchange.

1.6 LIMITATIONS OF THE STUDY

This report is subject to a number of limitations. These are:

- **Lack of Information:** As management systems are not disclosed clearly in a separate title in the annual reports, there is lack of sufficient information for analysis. For this reason it is difficult to analyze current situation of these reporting.
- **Confidentiality of Data:** Confidentiality of data is another important barrier that was faced during the preparation of this study. Every organization has their own secrecy that is not revealed to others. While collecting data on Dhaka Stock Exchange Limited, personnel did not disclose enough information for the sake of confidentiality of the organization.
- **Inexperience:** Furthermore, I carried out such an internship program for the first time. So, inexperience is one of the main factors that constituted the limitation of the study.
- **Time Limitations:** The time was not sufficient for such a study. The time period of the study is very short as I had only forty-five days in my hand to work as an intern in DSE which was not enough to have a practical experience about business activities. Most of the times, the officials were busy and were not able to give me much time.

Even I could not accumulate all the available information. However, I have tried my best to prepare my internship report as good as possible within these limitations.

CHAPTER TWO

AN OVERVIEW OF DHAKA STOCK EXCHANGE LTD.

The Intrinsic Materials of the Section Two

- 2.1 Introduction**
- 2.2 History of Dhaka Stock Exchange Ltd.**
- 2.3 DSE as an Organization**
- 2.4 Goal of the organization**
- 2.5 Strategy of the Organization**
- 2.6 The Functions of DSE**
- 2.7 DSE Membership**
- 2.8 Board of Directors of DSE**
- 2.9 Management of DSE**
- 2.10 Regulatory Structure Overview**
- 2.11 Organizational Structure of Dhaka Stock Exchange Ltd.**
- 2.12 DSE Indices**
- 2.13 Trading Session of DSE**
- 2.14 Problems of DSE**
- 2.15 Recommendations to Improve the Activities of DSE**

2.1 INTRODUCTION

A stock exchange is a place where secondary shares are bought and sold. The efficiency and effectiveness of the financial market and the progress of the overall economy largely

depends on the role of the stock exchange. The Dhaka Stock Exchange is the prime bourse of the country. Through its automated trading system, the exchange can offer facilities for smooth transparent and highly efficient provisions for secondary market activities of shares, debentures and wide varieties of other securities. Managed by a strong Board of Directors of 24 members, the overall operations of the exchange is professionally run by a team of qualified executives. The bourse at present offers trading facilities of 515 securities worth Tk.3000 million which accounts for 19.26% of the GDP of the country. The Dhaka Stock Exchange is the public meeting point for enterprises to raise capital in Bangladesh.

2.2 Background OF DHAKA STOCK EXCHANGE (DSE)

The Dhaka Stock Exchange (DSE) was established as East Pakistan Stock Exchange Association Limited on April 28, 1954. Formal trading of the bourse began in 1956. On June 23, 1962, it was renamed as East Pakistan Stock Exchange Ltd. The name of the stock exchange was once again changed to Dacca Stock Exchange Ltd on May 13, 1964. The stock exchange continued its service uninterruptedly until 1971. The trading was suspended during the liberation war. Trading on DSE resumed in 1976 with the change in economic policy of the government. Since then the bourse did not look back and continued its journey contributing to the development activities of the nation. On August 10, 1998 DSE introduced screen-based automated online trading through Local Area Network (LAN) and Wide Area Network (WAN). On January 24, 2004, Central Depository System (CDS) for electronic settlement of share trading made debut in the DSE. The Dhaka Stock Exchange has become a full Depository Participant (DP) of CDBL to facilitate the trading of its non- DP members. In its 50-year journey, the stock exchange has made significant contribution to the economy of Bangladesh providing the unique venue to raise investment from the public. The stock exchange is in a relentless process of modernization of its systems and facilities in latest technologies available.

History of Dhaka Stock Exchange

Incorporated as East Pakistan Stock Exchange Association Ltd.	28 April, 1954
Started Formal Trading	1956
Renamed as East Pakistan Stock Exchange Ltd.	23 June, 1962
Renamed as Dacca Stock Exchange Ltd.	13 May, 1964
Trading Suspended Under new Trade Policy	16 December, 1971
Trading Restarted in Bangladesh	16 August, 1976
Starting of Automated Trading	10 August, 1998
Start of CDS through CDBL	24 January, 2004
Starting of Govt. Bond Market	01 January, 2005
DSE Chittagong Office Inaugurated	22 November, 2007
DSE Sylhet Office Inaugurated	30 March, 2008
Web Based Trading Software-MSA Plus Introduced	10 June, 2012
Signed an agreement with NASDAQ OMX and FlexTrade Systems to provide the world leading trading system :	21st March 2014
Inauguration of Upgraded Version of DSE Official website:	12th April 2015
Launch of Mobile App "DSE INFO":	25th November 2015
Inauguration of "New Book Building Software":	26th May 2016
Achievement of ISO 9001:2008	30th October 2016
DSE received money from Chinese consortium for selling its 25% Share	3rd September 2018
25% Share of DSE has been transferred to Chinese consortium, DSE's Strategic Partner	4th September 2018

Source: DSE Website

2.3 DSE AS AN ORGANIZATION

The Dhaka Stock Exchange Ltd. is registered as a Public Limited Company under the Companies Act 1994. It is a self-regulatory organization and its activities are regulated by:

- Memorandum & Articles of Association,
- Own (set of) rules and regulations and bylaws,
- Companies Act 1994,
- Securities and Exchange Ordinance 1969,
- Securities and Exchange Rules 1987 and
- Other relevant laws of Bangladesh.

DSE has two tier of organizational setup- the Board of Directors and the Management Committee. The members of the Board of Directors are responsible for policy making. The members of the Management Committee are responsible for conducting day to day operations and internal management of DSE and also for implementing the policies as formulated by Board of Directors.

2.4 GOAL OF THE ORGANIZATION

The main goal of the organization is to establish a stable and sound securities market based on equitable principle of trade as well as to conduct the business giving due concerns to the public interest. The exchange provides the listed companies an opportunity to seek capital from the public and at the same time it provides the investors a place to buy and sell the shares of the listed companies.

2.5 Tactics OF THE ORGANIZATION

- Performance appraisals are systematic ways of measuring, reviewing and analyzing employee performance over a given period of time and using the information gathered to plan Employees are the most significant resource of any business, and performance appraisals reflect the organization's commitment in developing this important resource of human capital. Performance appraisals grant upper management an opportunity to reward excellent performance or reprimand unsatisfactory performance. This powerful managerial
- To ensure steady and sustainable growth of market capitalization

- To ensure a better monitoring and investigation system to find out the limitations and weaknesses of DSE regarding market operation.
- To adapt a new technology in trading system like online trading using internet.

2.6 THE FUNCTIONS OF DSE

The major functional areas of DSE are as follows:

- ❑ Listing of companies.
- ❑ Providing the market place for trading of listed securities.
- ❑ Providing the screen based online automated trading of listed securities.
- ❑ Settlement of trading (As per Settlement of Transaction Regulations).
- ❑ Administration and control of market.
- ❑ Market surveillance.
- ❑ Monitoring the activities of listed companies.
- ❑ Investors' Grievance Cell (Disposal of complaint by-laws 1997)
- ❑ Investors Protection Fund (As per Investors protection fund Regulations 1999)
- ❑ Gifting of shares / granting approval to the transaction / transfer of shares outside the trading system of the exchange. (As per Listing Regulations 42)
- ❑ Publication of daily index and monthly review etc.

2.7 DSE MEMBERSHIP

DSE has now 248 members who are the shareholders of this Public Limited Company. Bangladesh Securities and Exchange Commission (BSEC) issues licenses for conducting trading as stock dealer or broker to the members. Membership of the bourse is open to foreigners. A statistical overview of DSE Membership is as follows:

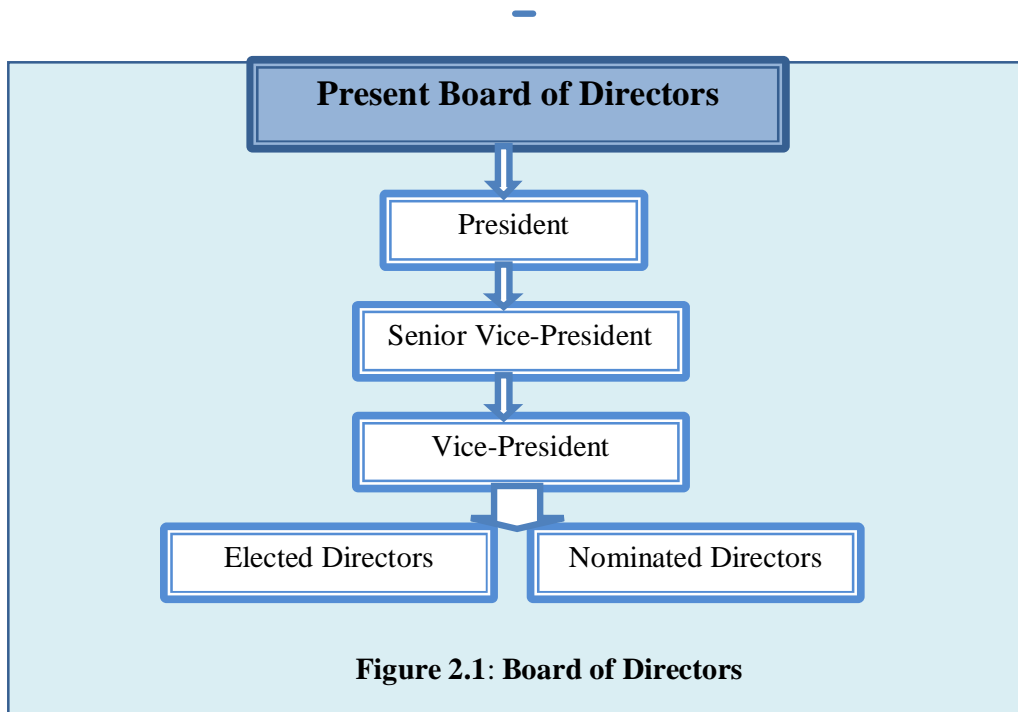
Year	Total Number of Members
2003	195
2004	230
2007	235
2008	238
2012	248
2013	250

Total Number of Members of DSE

Source: DSE Website

2.8 THE BOARD OF DIRECTORS OF DSE

The number of the board members of DSE should not be less than 5 and more than 25. The DSE board comprises of 24 members of whom 12 are elected through direct election from the 250 shareholders of DSE. The other 12 board members are ex-officio in status. They include 12 members representing a wide range of distinguished personalities from different key economic and social arena of the country and the CEO of the exchange.



Source: Monthly Review

2.9 MANAGEMENT OF DSE

A highly qualified and trained team of executives runs the day to day affairs of DSE who report direct to the CEO. The management runs independently under policies set by the highest policy making body, the Board of Directors. Ahead IT Secretary, Deputy Finance controllers assist the CEO in managing day to day affairs of the bourse.

2.10 REGULATORY STRUCTURE OVERVIEW

DSE is one of the most important institutions of the capital market in Bangladesh. However, the functions of DSE is supervised by the regulatory authorities regarding the capital market decision makers including the Parliament of Government of Peoples Republic of Bangladesh and Ministry of Finance. It performs the duties as per the rules and regulations of Bangladesh Securities and Exchange Commission (BSEC).

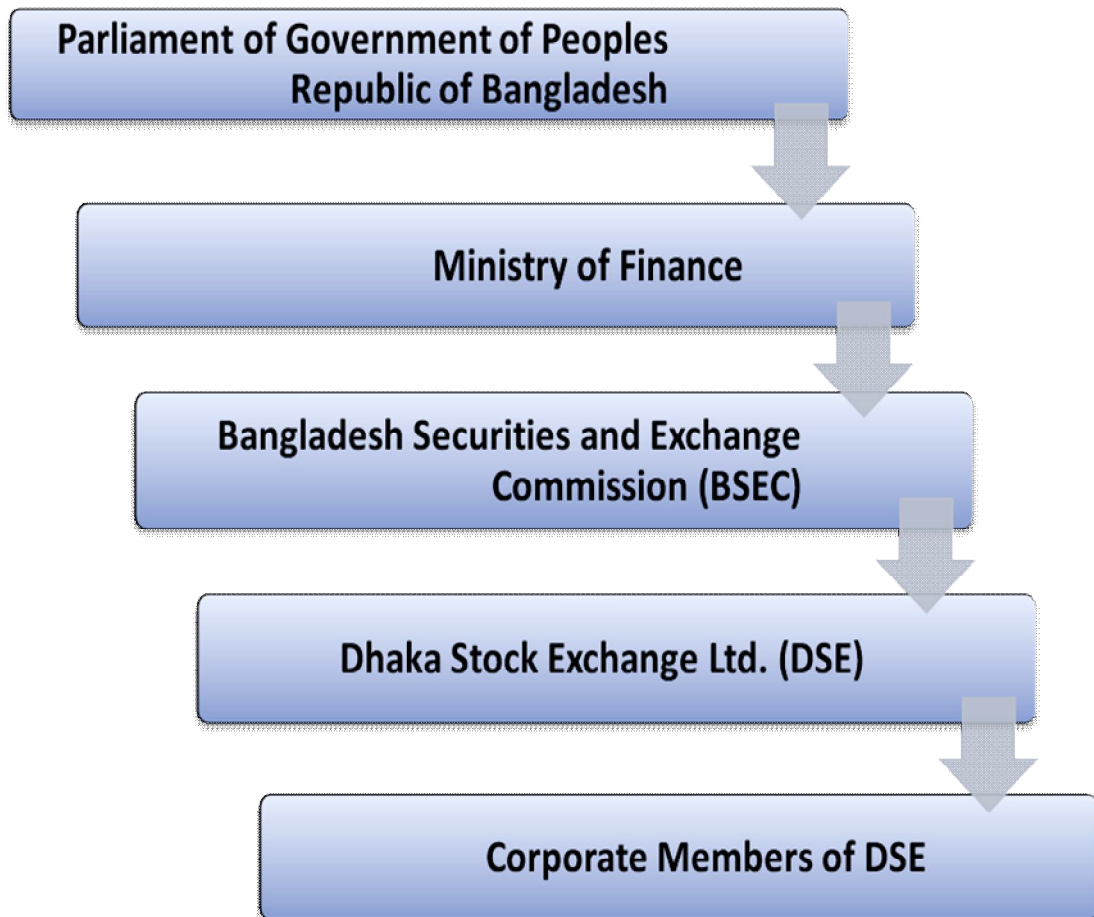


Figure: The Regulatory Structure of DSE

2.11 ORGANIZATIONAL STRUCTURE OF DHAKA STOCK EXCHANGE LTD. (DSE)

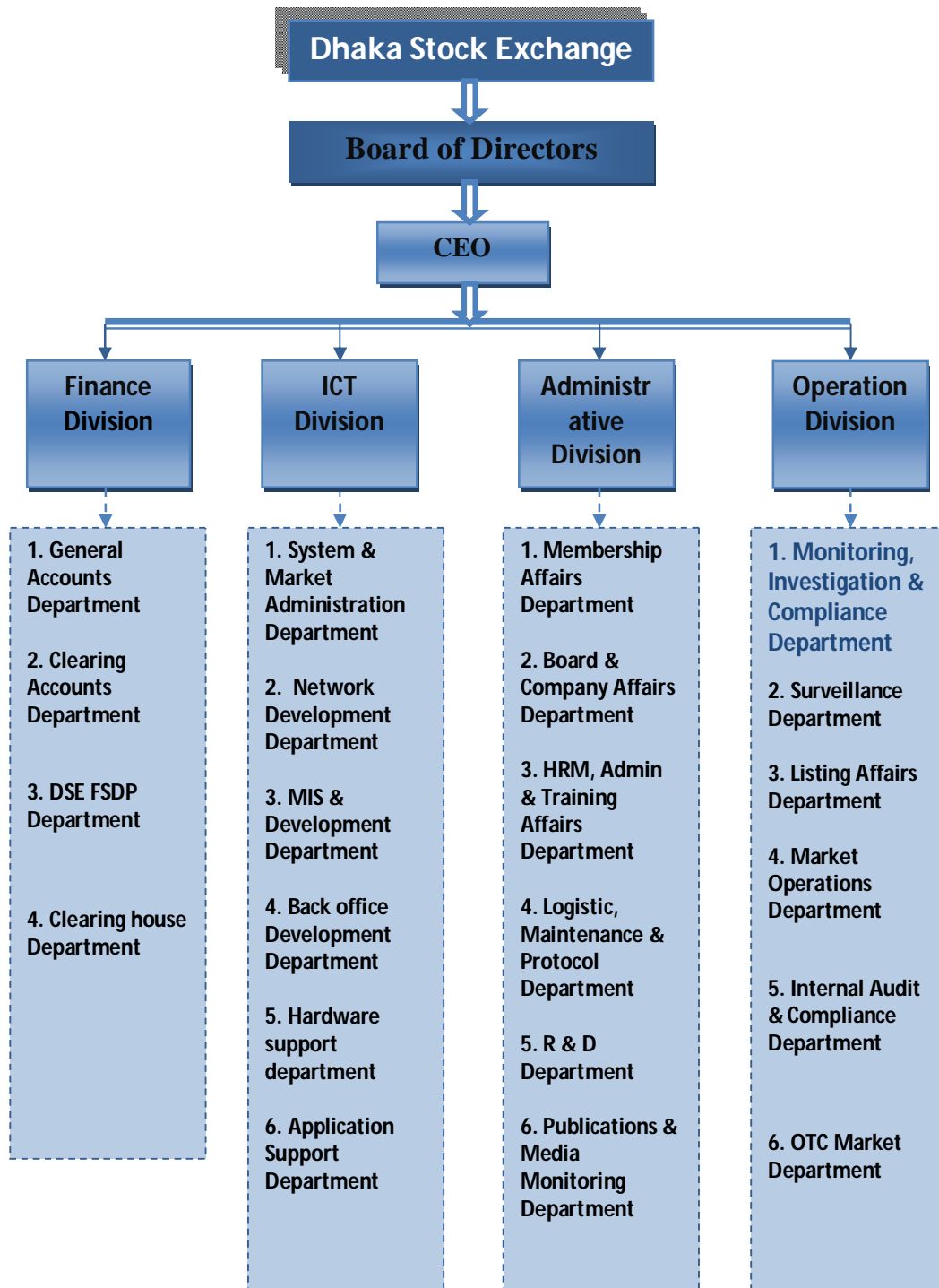


Figure: Organizational Structure of Dhaka Stock Exchange

Source: DSE Website

2.12 DSE INDICES

The Dhaka Stock Exchange presently computes three indices. These are as follows:

Sl.No	Index Name	Base Index
1	DSI (all shares)	350 (as on 01-11-1993)
2	DGEN (A, B, G & N)	817.63704 (as on 24-11-2001)
3	DS20	1000 (as on 01-01-2001)

Table : DSE Indices

1. DSI: All share price index of DSE.

2. DGEN: General Price index of DSE for A, B, G & N category companies.

- **A category companies:** Companies which are regular in holding the Annual General Meetings (AGM) and have declared dividend at the rate of 10 percent or more in a calendar year.
- **B category companies:** Companies which are regular in holding the AGM but have failed to declare dividend at least at the rate of 10 percent in a calendar year.
- **G category companies:** Greenfield Companies.
- **N category companies:** All newly listed companies except Greenfield companies are being placed in this category and their settlement system would be like B category companies.

3. DS20: Price index of top 20 companies of DSE.

But none of these indices include mutual funds, debentures and bonds. So DSE introduces two new indices which are:

1. DSEX: DSE broad index which will reflect 97% of the total market capital.

2. DS30: Price index of top 30 companies. It will reflect around 51% of the total market capitalization.

2.13 Working Hour OF DSE

Dhaka Stock Exchange Ltd. is open for trading from Sunday to Thursday between 10:30am – 2:30pm BST, with the exception of holidays declared by the Exchange in advance. In the month of Ramadan, the exchange is open for trading between 10:30am - 1:30pm BST.

2.14 PROBLEMS OF DHAKA STOCK EXCHANGE

- **Price Manipulation:** It has been observed that the share values of some profitable companies have been increased fictitiously. Some times that hampers the smooth operation of Dhaka Stock Exchange.
- **Delays in Settlement:** Financing procedures and delivering of securities sometimes take an unusual long time for which the money is blocked for nothing.
- **Irregular Payment of Dividends:** Some companies do not hold annual general meeting and eventually declare dividends that do not reflect the real or actual financial position of the company and ultimately shareholders become confused.
- **Selection of Membership:** Some members being the directors of listed companies of Dhaka Stock Exchange look for their own interest using the internal information of share market.
- **Improper Financial Statement:** Many member companies of Dhaka Stock Exchange do not focus real position of the companies as the audit firms involves in corruption while preparing financial statements. As a result the shareholders as well as investors do not have any idea about position of the company.
- **Lack of Skilled Manpower:** Lack of skilled manpower in Dhaka Stock Exchange as well as financial and nonfinancial institutions involved in the securities market is a serious problem.
- **Lack of Proper Policy:** Absence of framework that provide incentives and protection to investors exists in Dhaka Stock Exchange.

2.15 RECOMMENDATIONS TO IMPROVE THE ACTIVITIES OF DHAKA STOCK EXCHANGE

- To force the listed companies to publish their annual reports with actual and proper information that can ensure the interest of investors.
- To introduce automated monitoring system that may control price manipulation, malpractices and inside trading.
- To introduce full computerized system for settlement of transactions.
- To force the listed companies to declare and pay regular dividends through annual general meeting.
- To take remedial action against the issues of fake certificates.
- Banks, insurance companies and other financial institutions should be encouraged to deal in share business directly.
- To punish the member brokers for breaching of contract.

CHAPTER THREE

AN OVERVIEW OF MONITORING, INVESTIGATION AND COMPLIANCE (MIC) DEPARTMENT

The Intrinsic Materials of the Section Three

3.1 History of the MIC Department

3.2 Vision

3.3 Purposes

3.4 Functional Areas of MIC Department

3.5 Human Resources of MIC Department

3.6 Allocation of manpower

3.7 Organizational Hierarchy of MIC Department

3.8 Flow Chart of departmental activities

3.1 HISTORY OF MONITORING, INVESTIGATION & COMPLIANCE (MIC) DEPARTMENT

Monitoring, Investigation and Compliance (MIC) department is one of the most important departments of the operations division. The Department starts its activities in the year of 2003 with only two members. At the time of initiation, the name of the department was Monitoring, Investigation and Grievance. With the passage of time to cope pace with the expanding capital market, the size of the department also increases. In 2005, the name of the department is changed as Monitoring, Investigation & Compliance department. To establish a professional and competent department, at present, there is a team of ten Executives, eight Senior Executive, one Manager, one Assistant General Manager (AGM) headed by Deputy General Manager (DGM).

3.2 VISION

- Ensuring Bangladesh Securities & Exchange Commission rules & regulations to mitigate any fraudulent activities in securities market operation.
- Attaining a high level of efficiency in all of its operations through effective and efficient management of human resources and proper utilization of time.
- More cautious about the activities of branch offices of member companies countrywide.
- Promoting a professional environment within the department where personal growth of the employees can be ensured.
- Ensuring the smooth functioning of the capital market of Bangladesh.

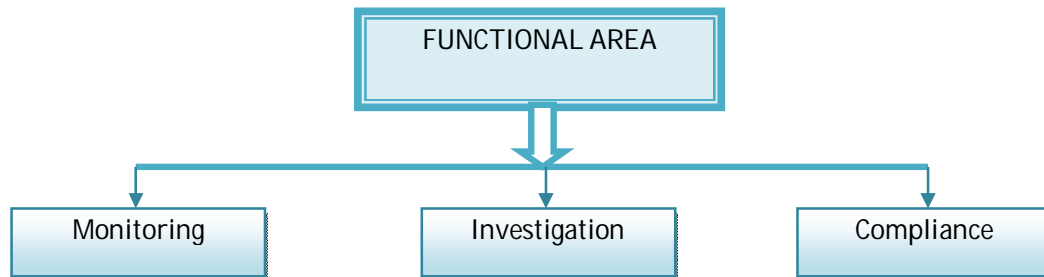
3.3 PURPOSES

The purposes of MIC department of DSE are:

- To inspect, monitor and feedback the member house in compliance with securities rules and regulations.
- To settle dispute between investor and member house.
- To provide support to settle distorted investors' claims against brokerage house.
- To monitor other activities of the exchange such as activities of DSE DP regarding timely pay in/ pay out, and other legal matters of the exchange.

3.4 FUNCTIONAL AREAS OF MIC DEPARTMENT

The main functional areas of the department are as follows:



3.5 HUMAN RESOURCES OF MIC DEPARTMENT

The overall activities of Monitoring, Investigation & Compliance Department of DSE is fully charged and controlled by Chief Executive Officer (CEO). Under his supreme control and guideline this department conducts its activities. The members of the team are as follows:

Human Resource of MIC

Existing Manpower		Designation
1	Md. Ruhul Khaliq	AGM
2	Saied Mahmud Zubayer	Manager
3	Qamruzzaman Mazumder	Sr. Executive
4	Md. Wasi Azam	Sr. Executive
5	Syed Foysal Abdullah	Sr. Executive
6	Sharif Giass Uddin Alam	Sr. Executive
7	Ananta Kumar Sarker	Sr. Executive
8	Md. Arifur Rahman Chowdhury	Sr. Executive
9	Shahedul Azam	Sr. Executive
10	Md. Din Islam Molla	Sr. Executive
11	Muhammad Delwar Hossain	Executive
12	Ragib Kumar Roy	Executive
13	Gias Uddin	Executive
14	Asfia Afrin	Executive
15	Syfol Islam	Executive
16	Mohammad Ikram Hossain	Executive
17	Quazi Rafikul Islam	Executive
19	Fahmida Khaton	Executive
20	Md. Rokibul Islam	Executive
21	Md. Atikur Rahman	Executive

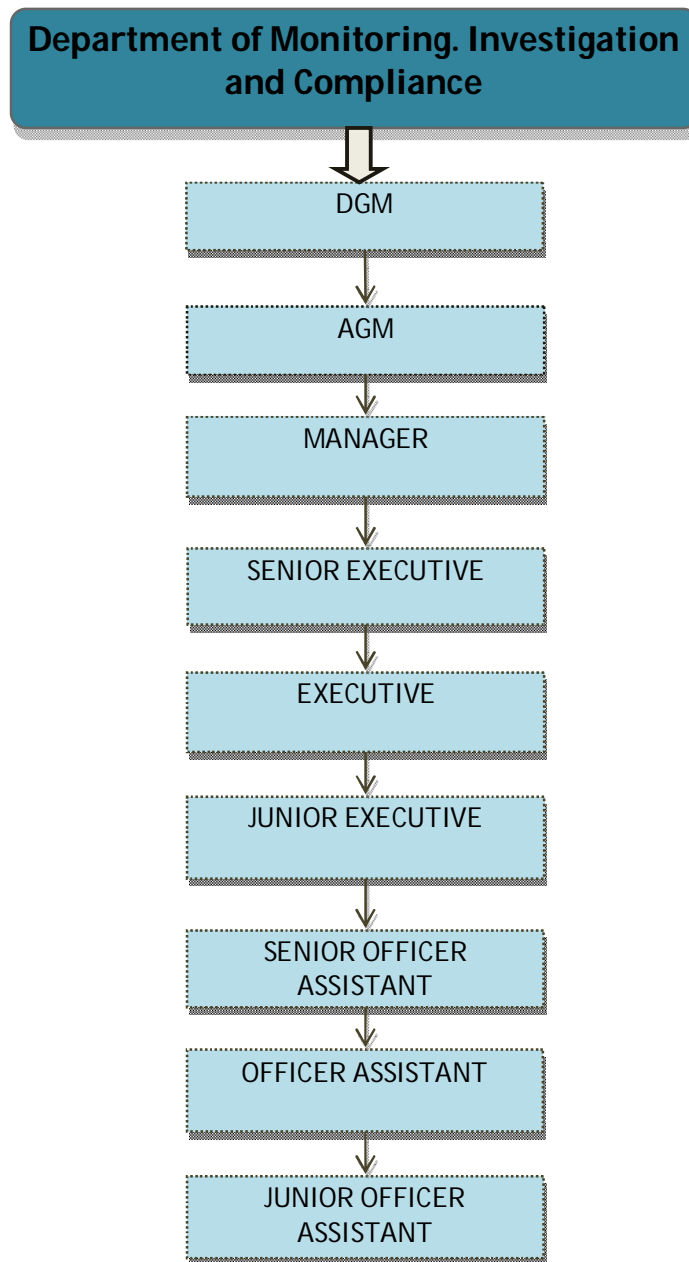
Source: DSE Website

3.6 ALLOCATION OF MANPOWER

Allocation of Manpower

EXISTING MANPOWER		
Monitoring	Group-1	Group-2
	<ul style="list-style-type: none"> • Sharif Giass Uddin Alam • Muhammad Delwar Hossain • Mohammad Ikram Hossain • Md. Atikur Rahman 	<ul style="list-style-type: none"> • Md. Wasi Azam • Md. Rokibul Islam • Shahedul Azam • Gias Uddin
Compliance	<ul style="list-style-type: none"> • Saied Mahmud Zubayer • Qamruzzaman Mazumder • Ananta Kumar Sarker • Syfol Islam 	
Investigation	Group-1	Group-2
	<ul style="list-style-type: none"> • Syed Foysal Abdullah • Fahmida Khatoon • Quazi Rafikul Islam • Ragib Kumar Roy 	<ul style="list-style-type: none"> • Md. Arifur Rahman Chowdhury • Mr. Mainur Reza • Mrs. Asfia Afreen
DSE Chittagong Branch	<ul style="list-style-type: none"> • Debasish Roy 	
DSE Sylhet Branch	<ul style="list-style-type: none"> • Bimal Chandra Mondal 	

3.8 ORGANIZATIONAL HIERARCHY OF MIC DEPARTMENT

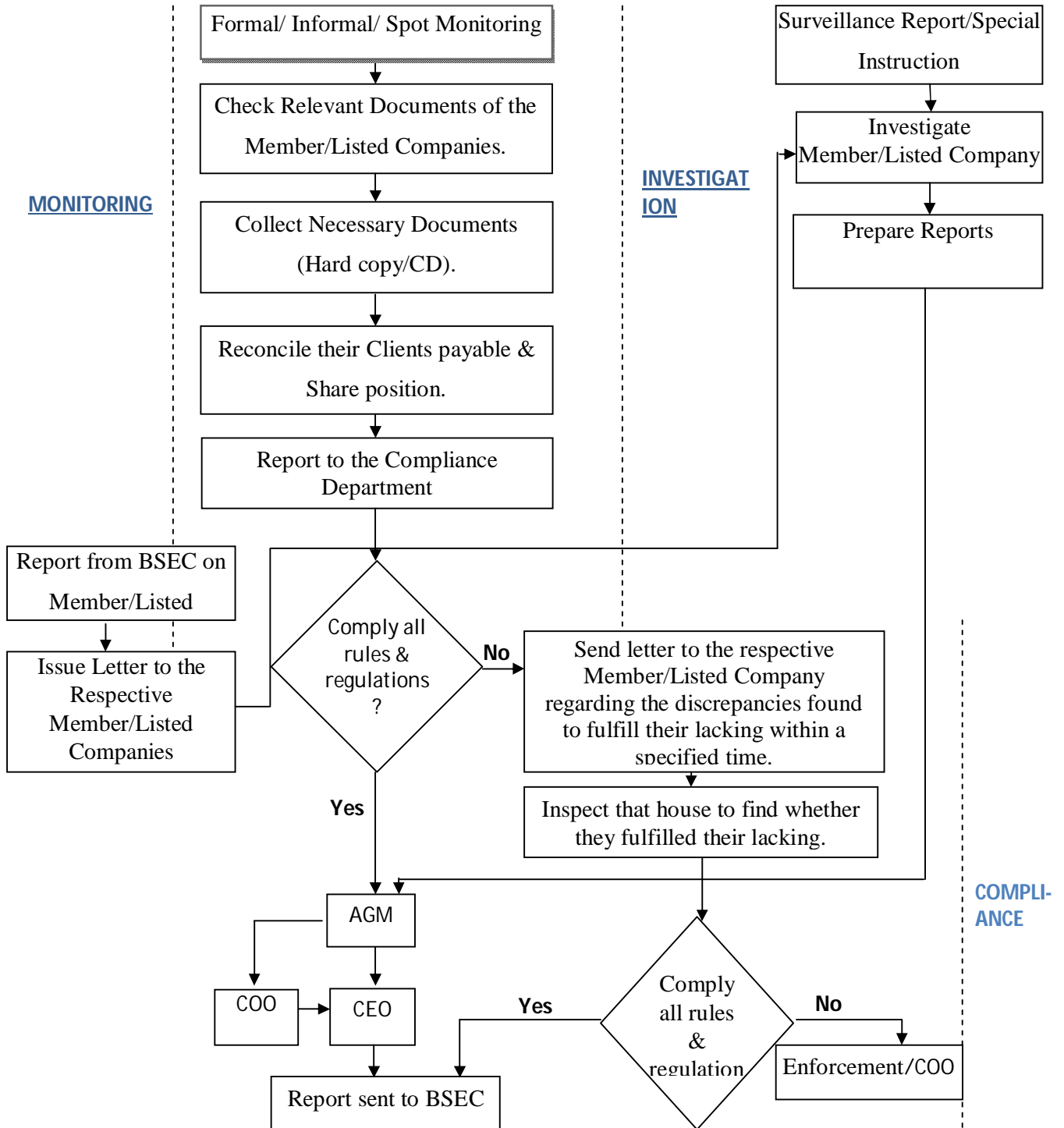


Organizational Hierarchy of MIC Department

Source: DSE Website

3.9 FLOW CHART OF DEPARTMENTAL ACTIVITIES

Dhaka Stock Exchange Ltd. Monitoring, Investigation & Compliance



Flow Chart of Departmental Activities

CHAPTER FOUR

MONITORING ACTIVITIES OF DHAKA STOCK EXCHANGE

The Intrinsic Materials of the Section Four

4.1 Monitoring Activities by Surveillance Cell

4.2 Monitoring Activities by Monitoring Cell

4.3 Different Types of Monitoring Activities

4.3.1 General Monitoring

4.3.2 Special Monitoring

4.3.3 Other Monitoring

Monitoring activities are very much important for smooth operation of capital market. At present Dhaka Stock Exchange have 248 member companies. Again these member companies have more than 620 branch offices. The activities of these member companies and their branch offices are under close monitoring of Dhaka Stock Exchange through the following cells:

- Surveillance Cell
- Monitoring Cell

4.1 MONITORING ACTIVITIES BY SURVEILLANCE CELL

The main objective of the surveillance function of the Exchange is to promote market integrity in two ways-

- By monitoring price and volume movements (instability) as well as by detecting potential market abuses with a view to minimizing the ability of the market participants to influence the price of the scrip/scrip's in the absence of any meaningful information.
- By managing default risk by taking necessary actions timely.

Market Abuse is a broad term which includes abnormal price or volume movement, artificial transactions, false or misleading impressions, insider trading, etc. In order to detect unusual behavior or movement, it is necessary to know the normal market behavior. The department carries out investigation, if necessary, based on the preliminary examination or analysis and suitable actions are taken against members involved based on the investigation. All the instruments traded in the market come under the surveillance umbrella of DSE.

Surveillance activities at the Exchange are divided broadly into two major segments which are-

- **Price Monitoring:** Price monitoring is mainly related to the price movement/ abnormal fluctuation in prices or volumes etc.
- **Position Monitoring:** The position monitoring relates mainly to abnormal positions of members in order to manage default risk.

4.1.1 Price Monitoring

The functions of the price monitoring are broadly divided into following activities:

- **On-Line Surveillance:** It is for detecting potential market abuses at a nascent stage to reduce ability of the market participants to unduly influence the price and volume of the scrip's traded at DSE by accessing into orders and trades of members.
- **Off-Line Surveillance:** It is the monitoring of
 - High/ low difference in prices,
 - Percentage change in prices over a week/month and
 - Trading in infrequent traded scrip

Surveillance Actions

- **Warning to members:** The department may issue verbal/written warning to member/s when market irregularities in the scrip are suspected.
- **Imposition of penalty/suspension:** The department, through the CEO, imposes penalty or suspend the member/s who are involved in market irregularities, based on the evidence available from investigation report.
- **Rumor verification:** Liaising with compliance officers of companies to obtain comments of the company on various price sensitive corporate news items appearing in selected newspapers and comments received from the companies are disseminated to the market by way of online news bulletin.

4.1.2 Position Monitoring

With a vision to become the bank of choice and to be the most valuable financial brand in Bangladesh, Eastern Bank Ltd. (EBL) began its journey in 1992. Over the years EBL has established itself as a leading private commercial bank in the country with undisputed leadership in Corporate Banking and a strong Consumer and SME growth engines. EBL's ambition is to be the number one financial services provider, creating lasting value for its clientele, shareholder, employees and above all for the community it operates in.

The following key areas are examined to assess the market risk involved:

- ❑ Online Monitoring of Brokers Position
- ❑ B/S Statement of Trading Members
- ❑ Concentrated B/S
- ❑ Verification of Institutional Trade
- ❑ Verification of Foreign Trade
- ❑ Verification of Dealers Own Trades
- ❑ Verification of Sponsor's Trade
- ❑ Market Intelligence
- ❑ Review List of Settlement Failures
- ❑ Verification of Company Accounts
- ❑ Review of Media Information
- ❑ Monitoring of Newly Listed Stock

4.2 MONITORING ACTIVITIES BY MONITORING CELL

DSC believes in relationship building and focuses on sustainable and long term growth – both for the bank, its clients and the community it operates in. Despite the constant threat of the global economic recession and its subsequent effect on the Bangladesh market in 2015, EBL's Profit after tax grew by 67% last year. The Non-Performing Loan Ratio dropped to 1.13% from 2.46%. The same year, earning per Share (EPS) had increased by around 60% and Cost to Income ratio remained 34.68% which is one of the lowest in the industry.

& Compliance Department is divided into two monitoring teams. These monitoring teams are formed by order of chief executive officer according to BSEC direction no BSEC/SRMID/94-231/688 dated June21, 2003.

4.3: Different types of Monitoring Activities by Monitoring Cell

The core functions of the monitoring department are to conduct various types of monitoring activities. Some foremost types of monitoring are:

- General Monitoring ordered by BSEC and directed by CEO
- Special Monitoring ordered by BSEC and directed by CEO
- Other Monitoring
 - Formal Monitoring of Member Companies
 - Spot Monitoring of Member Companies
 - Branch Office Monitoring of Member Companies

4.3.1 General Monitoring

⇒ **General Observation:** (General documents related with share trading). It includes-

- Account Opening Form
- Buy/Sale Order Slip
- Trade Confirmation Statement
- Buy/Sale Order Register
- Money Receipt
- Payment Voucher
- Share Receive and Delivery Certificate
- Client Ledger
- Stock Report
- Bank Account Statement
- Net Capital Balance Position
- Compliance Report
- Compliant Register

⇒ **Special Observation:** (Monitoring house activities as depository participant)

- BO Account Opening Form
- Pay in Slip
- Pay out Slip

- BO Stock Report
- Finding discrepancies & variability of houses' activities & generating report
- Informing the concerned house about their discrepancies
- Final report submitting to Bangladesh Securities and Exchange Commission about house status

4.3.2 Special Monitoring

The modern appraisal philosophy states that the managerial emphasis should be on the performance of the employees and the future goals of the organization, rather than on the employee traits, deficiencies and abilities. Eastern Bank Ltd. (EBL) strictly believes in this philosophy. The management of Eastern Bank Ltd. is very serious about the current performance of the employees and provides all necessary supports to them. Securities and Exchange Commission (BSEC). Beyond this conventional report, BSEC conducts monitoring on some house randomly. If BSEC finds any irregularity then it sends a directive report to DSE monitoring department to conduct further monitoring to recheck missing points. Such type of monitoring is called special monitoring. Some other special monitoring that is conducted includes:

- ❑ Monitoring of a member company in case of fire incidence in that member company.
- ❑ Monitoring of a member company before the sale of the membership of the member company.

4.3.3 Other Monitoring

There are some other types of monitoring except the general and special monitoring which are as follows:

4.3.3.1 FORMAL MONITORING

Defining Formal Monitoring: The management of Eastern Bank Ltd. provides the feedback in a formal session with each individual employee. This session works as the appraisal interview. This appraisal interview holds in two steps: An employee faces it after the end on a significant task and again at the end of the year. In both cases, the managers provide an extensive feedback, which includes evaluation of past performance, problem solving etc. The manager also asks for input and opinion on new projects of Eastern Bank Ltd.

Obligation of Conducting Formal Monitoring: Formal monitoring is conducted on a monthly basis to comply with the directive of Bangladesh Securities and Exchange Commission (BSEC) whereby the commission has ordered the exchange to conduct the formal monitoring on regular basis and report to the commission on monthly basis. Besides the Monitoring, Investigation & Compliance Department has set a target of monitoring approximately twelve member companies in a month and submitting positive monitoring report to the Bangladesh Securities and Exchange Commission (BSEC) of at least seven member companies each month. This is also an internal obligation of the Monitoring, Investigation & Compliance Department regarding formal monitoring.

Purposes of Formal Monitoring: To inspect, monitor and feedback the member house in compliance with securities rules and regulations is the main purpose of formal monitoring. Dhaka stock Exchange is the guardian of the member companies. It is the responsibility of DSE to ensure proper compliance of rules and regulations in the member companies.

Items that are Checked and Verified under Formal Monitoring: Monitoring team generally examines the following documents while conducting a formal monitoring to a member company:

- Books and Records.
- A/C reconciliation.
- Share reconciliation.
- Compliance of rules, regulation and CDBL bylaws.

Procedure of Formal Monitoring:

a) Activities before Monitoring

- i. Formation of Monitoring Team:** The first step before conducting monitoring activities is the formation of monitoring team by order of Chief Executive Officer according to BSEC direction no BSEC/SRMID/94-231/688 dated June21, 2003.
- ii. Selection of Member Companies:** In this stage, ten to fifteen member companies are selected which will be monitored under formal monitoring. This selection is made mainly according to the serial numbers of the member companies.
- iii. Informing the Member Companies:** After selecting member companies for formal monitoring for a particular month, the selected members are then informed about the formal monitoring. A letter duly signed by the CEO is sent to the member companies seeking permission to monitor their houses by DSE officials.
- iv. Getting Permission from the Member Companies:** In this stage the member companies give consent to conduct formal monitoring to their companies verbally or in written in response to the letter of the CEO of DSE.
- v. Making and Finalizing Time Schedule for Formal Monitoring:** After getting permission of the member companies a time schedule and distribution of monitoring team for formal monitoring is prepared. The monitoring teams and their respective members are then informed about the schedule after finalizing it.

b) Activities during the Monitoring Period

- i. Examining/Verifying the Books and Records:** Reaching to the member company, the members of monitoring team starts their monitoring activities and examines/verifies all the books and records intensively. This process normally includes the following:
 - ❖ Interviewing the compliance officer and other responsible officers using the questionnaire of formal monitoring.
 - ❖ Verifying all the books and records as per requirements.

- ❖ Filling up of questionnaire form.
- ❖ On the spot discrepancies identification and recording noticing the concerned officers.
- ❖ Collecting documents from the member company as testimony of recordings in the questionnaire form.

ii. Collecting Documents for Accounts Reconciliation and Share Reconciliation:

The monitoring team also collects all the necessary documents and records as per requirement from the member companies for the purpose of accounts reconciliation and share reconciliation.

c) Activities after Monitoring

- i. Accounts Reconciliation and Share Reconciliation:** Returning to the department after formal monitoring, the monitoring team prepares the Accounts Reconciliation Report and Share Reconciliation of the member company.
- ii. Submitting the Formal Monitoring File to the Compliance Team:** After completing the accounts reconciliation and share reconciliation the monitoring team submits the whole file along with the documents to the compliance team of the department.
- iii. Preparation of Report:** In this stage, the compliance team prepared the formal monitoring report of the member company highlighting the discrepancies and also notifies the respective violation of laws and regulations by the member company.

4.3.3.2 SPOT MONITORING

Defining Spot Monitoring: Other purposes of performance appraisal of Eastern Bank Ltd. are to label as Judgmental and Developmental orientation. Judgmental orientation focuses on past performance and is concerned mainly with the measurement of performance and also with the uses of information generated. They use this part to control behavior, rewarding desired behaviors with wage raises, promotions, and entrance into high-potential employee development programs and warn undesired behaviors and sometimes take actions like transfers and layoffs or denial in wage increases. On the other hand, when Eastern Bank Ltd. uses performance appraisal for developmental purpose, they focus on future performance and use the information resulting from

Obligation of Conducting Spot Monitoring: Spot Monitoring is conducted whenever required. There is no specific directive of Bangladesh Securities and Exchange Commission (BSEC) as to when and how spot monitoring is to be conducted. Sometimes the BSEC gives instructions to DSE about conducting spot monitoring. In this case, spot monitoring is done according to the instruction of the BSEC. Besides, to ensure the proper compliance of rules and regulations and to prevent any fraudulent activities by the member companies, Monitoring, Investigation and Compliance department conducts this spot monitoring on sudden basis. Thus in most of the time, spot monitoring is not an obligation; rather it is a requirement of the monitoring cell. But sometimes it becomes an obligation.

Purposes of Spot Monitoring: The purpose of spot monitoring is to fulfill some specific target points that are subjected to be checked by the monitoring team. The objective is to verify only one or few of the items that are monitored in formal monitoring. Another purpose of spot monitoring is to convey the message to the member company that the monitoring cell is always vigilant and active in the capital market to ensure the proper compliance of rules and regulations.

Procedure of Spot Monitoring:

- a) **Selecting Item to be checked:** The first step of conducting spot monitoring is to select the item or group of items to be verified. The items are selected according to the demand of the situation, or sometimes it is preselected by BSEC.

b) Selecting the Member Companies to be monitored: After selecting the item of spot monitoring, some member companies are selected by the monitoring cell. Normally they are selected based on their past record following the securities related rules and regulations.

c) Finalizing Schedule of Manpower Distribution for Spot Monitoring: In this stage, the manpower distribution is finalized for spot monitoring. Normally, the groups for formal monitoring are redistributed into smaller groups according to the pattern of monitoring need.

d) Conducting Field Monitoring: In this stage the actual field monitoring is conducted to the member companies to fulfill the specific requirements.

e) Collecting Supporting Documents: Supporting physical documents are also collected by the monitoring team as evidences or for further verification.

f) On-Spot Suggestion Giving if Required: The monitoring team also gives suggestion to the member company if required about the compliance of rules and regulations.

4.3.3.3 BRANCH OFFICE MONITORING

Defining Branch Office Monitoring: Branch Office Monitoring is defined as the monitoring of only the branch offices of a member company by giving a prior notice to the head office of the member company about the monitoring. The monitoring procedure is same as the formal monitoring.

Obligation of Conducting Branch Office Monitoring: Branch office monitoring is conducted to comply with the section 5 (1) of the directive of Bangladesh Securities and Exchange Commission (BSEC) No. SEC/CMRRCD/2002-90/34 dated July 29, 2008, where it is written that “Stock exchanges shall inspect on cause and on routine basis all branch offices of the stock brokers at least in every three months’ and report to the Commission on regular basis”. According to the direction of BSEC, DSE monitoring teams visit all branch offices of the member companies of DSE at every three month.

Purposes of Branch Office Monitoring: The purpose of branch office monitoring is to inspect the real state of affairs of said branch office whether the branch is compiling the corresponding rules and regulations or not. Recently, BSEC has given importance to the proper monitoring of the branch offices and set more control over branch office activities of member companies.

Items that are Checked and Verified under Branch Office Monitoring: Monitoring team generally examines the books and records regarding compliance of rules and regulations by the branch office of the member companies. Generally, the following documents are checked and verified:

- Account Opening Form
- Buy/Sale Order Slip
- Trade Confirmation Statement
- Buy/Sale Order Register
- Money Receipt
- Payment Voucher
- Share Receive and Delivery Bill Book
- Authorized Registration Certificate
- Signboard at the Entrance of the Member Company
- Branch Approval of Member Company
- Updated Price Sensitive News in the Notice Board
- Client Ledger
- Customers' Stock Status Report (Client wise)
- Customers' Stock Status Report (Instrument wise)
- Cashbook & Bank Book
- A.R. Yellow Card (by DSE)
- Staff List Based on Duties & Responsibilities
- Compliant Register
- Customer Register
- Trade Order Status Report from TESA
- Trade Status Report.
- Preservation of Separate Customer's Securities of Physical Share
- BO Account Holder's List (With name, address, BO ID numbers)
- BO Account Opening Form
- Pay-in Slip

Procedure of Branch Office Monitoring: The procedure of branch office monitoring is same as the formal monitoring. As a result, same steps are followed for branch office monitoring too.

CHAPTER FIVE

INVESTIGATION ACTIVITIES OF DHAKA STOCK EXCHANGE

The Intrinsic Materials of the Section Five

5.1 The Investigation Cell

5.2 Different Types of Investigation Activities

5.1 THE INVESTIGATION CELL

A successful performance appraisal system is based on strong commitment from the entire organization, especially top management. This commitment is made manifest in the objectives of the performance appraisal system. Eastern Bank Ltd. management is very conscious about this and they communicate their objectives to those responsible for developing and managing the system, as well as to all employees covered by system. Clear objectives and strong organizational commitment give everyone in the organization confidence that the time and effort they devote to performance evaluation is worthwhile and give employees more interest in using the evaluations to change behaviors and improve performance.

For conducting investigation activities on different issues, the Monitoring, Investigation & Compliance Department of DSE has two investigation teams.

5.2 DIFFERENT TYPES OF INVESTIGATION ACTIVITIES

The function of the investigation cell is to conduct various types of investigation activities. Some foremost types of investigation are:

- Member Companies Investigation.
- Enlisted Company Investigation.
- Investigation on Clients' Complaints.
- Investigation on Companies Applied for DSE MDS Connectivity.
- Investigation on Market Manipulation.
- Investigation as per the Instruction of Bangladesh Securities Exchange Commission (BSEC).

5.2.1: MEMBER COMPANIES INVESTIGATION

The most frequent and common type of investigation is the member companies investigation. Member companies investigation activities of investigation cell can be divided into two broad categories. They are:

- a) Regular Investigation as per the Note of Surveillance Department and Instructed by CEO
- b) Special Investigation as per Special Instruction of the Management of DSE or BSEC

a) Regular Investigation as per the Note of Surveillance Department and Instructed by CEO:

It is the responsibility of investigation cell to carry on the investigation activities as per the note of surveillance department and instructed by CEO. The primary responsibility of detecting violation of rules and regulations made by the brokerage houses or listed companies of DSE and primary inquiry rests on surveillance cell. After conducting primary inquiry, if the surveillance cell feels that further investigation is needed, then the surveillance cell hands over the file to the investigation cell by issuing a note and duly signed and marked by the CEO. The surveillance note usually contains requirement for investigation on the following types:

- Aggressive Buy
- Aggressive Sell
- Short Sale
- Settlement Failure

b) Special Investigation as per Special Instruction of the Management of DSE or BSEC:

The Investigation team also conducts some special investigations to the member companies as per instruction of BSEC or the management of DSE in special situation. Some mentionable special situations are as follows:

- Sale of client's share without informing the client.
- Irregular pay in of shares.
- Operating of TWS by person other than the Authorized Representative (AR).

- Operating of branch office or TWS without permission of DSE.

5.2.2: Enlisted Company Investigation:

Another important task of investigation cell is to investigate the enlisted companies as per instruction of CEO. Enlisted companies under Z Category are most often investigated. The investigation cell and the listing department jointly make this visit to the enlisted companies. The joint team verifies the following:

- Price sensitive information
- Audited financial report (According to BAS)
- Minutes of board of directors
- Minutes of AGM
- Register of directors
- Register of shareholders
- Register of share transfer
- Joint venture agreement
- Partnership agreement
- Investigation of fraudulent agreement and information that leads the price of shares
- Investigation on fake shares.

5.2.3: Investigation on Clients' Complaints:

Investigating clients' complaints is an important responsibility of the investigation cell. The main task of the Monitoring, Investigation & Compliance Department is to safeguard the investors' interest. And to ensure the interest, the investigation team investigates this issue very sincerely. Much importance is given to this type of investigation by the investigation team as well as by the DSE management.

Varieties of complaints are received from the clients against the member companies as well as against the enlisted companies. Some of the most common complaints are as follows:

- ❑ Sell of client's share without informing the client.
- ❑ Irregular payment or delayed payment by the member company.
- ❑ Nonpayment of money from the sale of shares.
- ❑ Non carrying of client order in a timely manner by the member company.
- ❑ Stock dividend is not disbursed to the BO Account.
- ❑ Misuse of fund by the enlisted company.

5.2.4: Investigation on Companies Applied for DSE MDS Connectivity:

Many companies apply to DSE for real time data of DSE server. In this case, Market Data Server (MDS) connectivity is required by the company. The following are mainly verified:

- Purpose for MDS connectivity,
- Paid up capital of the company,
- Structure and size of the company etc.

To verify the above, DSE investigation team asks to the member company for some documents. These include:

- Certificate of Incorporation.
- Copy of Memorandum of Association and Articles of Association.
- Full Address of the Registered Office of the Company.
- List of Directors.
- Name and Address of Directors.
- Share Position of the Directors.
- Principal Place of Business in Bangladesh.
- Pattern of Business of the Company.
- Authorized Capital.
- Paid up Capital.
- Minutes of the Last Three AGMs.

- The Purpose and Uses of MDS Facility.
- Certified Copy of Annual Return along with Particulars of Directors (Form-12, Schedule-10, and Return of allotment- Form 15).
- Up to Date Income Tax Certificate.
- Financial Statements for the Last Three Years (Balance Sheet, Cash flow Statement, Income Statement).

After collecting the above-mentioned documents, the investigation team justifies the interest of the company for MDS connectivity and at the same time the company infrastructure for getting the connection. If the team thinks that MDS connectivity may be given to the company, then the team prepares positive report for submitting it before the board meeting. The final decision as to whether MDS connectivity will be given or not to the respective company applied for connectivity is taken in the board meeting.

5.2.5: Investigation on Market Manipulation: Manipulation is a common word heard in the capital market now a day. When the share price of a listed company increases or decreases abnormally without any price sensitive information, then the share price of the company is suspected to be manipulated. Investigation on market manipulation is a very difficult task. It takes much time since a lot of documents are to be collected and verified to find out any sort of market manipulation. To detect any type of manipulation, the following steps are generally followed:

- ⇒ **Detection of Abnormal Price Increase/Decrease:** The first step of identifying manipulation is detection of abnormal price increase or decrease. But in most of the cases, manipulation of price increase is investigated for the detection of manipulation.
- ⇒ **Decision of Detecting Market Manipulation if any:** After close observation of the items subject to abnormal price increase or decrease, decision is taken to investigate if there is any price manipulation.
- ⇒ **Collection of Necessary Documents by Investigation Team:** DSE investigation team collects the following documents from the member houses and merchant banks and examines accordingly:
 - BO A/C opening form
 - Buy / Sell order record

- Financial ledger
 - Instrument ledger (client wise)
 - Trade confirmation statement
 - Trade execution status
- ⇒ **Observation of Trading Nature:** In the last stage, the investigation committee observes the nature of the clients in trading of the major trading items.

CHAPTER SIX

COMPLIANCE ACTIVITIES OF DHAKA STOCK EXCHANGE

The Intrinsic Materials of the Section Six

6.1 Compliance Functions

6.2 Duties and Responsibilities of a Compliance Officer of the Member Company

6.3 Stock Dealer/Broker, Company Related Compliance Issues

6.4 Guidelines for Branch Office of the Brokerage Houses

6.5 Compliance with Securities & Exchange Rules, 1987

6.6 Compliance with Dhaka Stock Exchange Automated Trading Regulation, 1999

6.7 DP Related Compliance Issues

6.8 Company Related Compliance Issues

6.9 Compliance with the Securities related Ordinance, Act, and Rules & Regulations

The compliance department assists to settle dispute between client complaints as against member house, arrange necessary legal procedure to settle investors' claims. The department also assists in arrangement of hearing of complaints and also takes necessary steps and correspondence.

6.1 COMPLIANCE FUNCTIONS

The main function of compliance department of Dhaka Stock Exchange Limited is to ensure some significant rules and regulation regarding capital market which should be complied by a compliance officer and his or her respective member house. Compliance of departmental activities is also the responsibility of the compliance cell. The list of them and details of few of them are as below:

- Duties & responsibilities of a compliance officer of the member company;
- Stock dealer/broker, company related compliance issues;
- Guidelines for branch office of the brokerage houses;
- Duties & responsibilities of branch in charge/manager of brokerage house;
- Pre-requisite for setting up a new branch office/TWS of brokerage houses;
- Settlement of claim and investors' service;
- Compliance with Securities & Exchange Rules, 1987;
- Compliance with The Dhaka Stock Exchange (Member's Margin) Regulations, 2000;
- Compliance with the Margin Rules, 1999;
- Compliance with Dhaka Stock Exchange Automated Trading Regulations, 1999;
- Compliance with The Settlement of Stock Exchange Transactions Regulations, 1998;
- Depository participants (DP) related compliance issues;
- Compliance with the listing regulations;

- Compliance with The Banking Companies Act, 1991;
- Settlement of claim and investors' service;
- Investor's awareness programs;
- Training programs of authorized representative(s);
- Report to the anti-corruption commission as per their requirements;
- Submission of various reports like Report of Affected Investors, Report of Financial Netting and Loan amount of Brokers, Report on investment of Dealers, Branch Summary Report etc.

Due to limitation of time and volume of report details compliance points of some selected ground from above stated rules and regulation are presented here chronologically:

6.2 DUTIES AND RESPONSIBILITIES OF A COMPLIANCE OFFICER OF THE MEMBER COMPANY

The appointment of compliance officers in member companies in the capital market has been set in motion in order to ensure the protection of the investors and increase market integrity. The compliance officer's basic responsibility is to secure internal control and an active segregation of duties between trading and operational functions within the firm. And as such the compliance officer should have good knowledge about securities related rules and regulations and proper educational qualifications as well. The duties and responsibilities of a compliance officer are as under:

- Observation
- Inspection
- Reporting
- Corrective action taken.

6.3 STOCK DEALER/BROKER, COMPANY RELATED COMPLIANCE ISSUES

- **Preservation of the Broker/Dealer Registration Certificate** (Original/ Photocopy) as per Rule-3 of BSEC (Stock dealer, Stock Broker & Authorized Representative) Rules, 2000.

- ❑ **Preservation of Registration Certificate of Authorized Representative** (Original / Photocopy) as per Rule-3 of BSEC (Stock dealer, Stock Broker & Authorized Representative) Rules, 2000.
- ❑ **Maintenance of Customer Account Information Form** as per (Form-IA) Rule 8(1) (CCC) of BSEC Rules, 1987.
- ❑ **Maintenance of Customer Register** (With Customers name, code, BO ID & address with phone etc.) as per Rule-13 (ka) of BSEC (Stock Dealer, Stock Broker & Authorized Representative) Rules, 2000.
- ❑ **Maintenance of Statement of Receivable and Payable with Customer** as per Rule-8 of BSEC Rules, 1987.

6.4 GUIDELINES FOR BRANCH OFFICE OF THE BROKERAGE HOUSES

- ⇒ The in-charge of a branch office should be an authorized representative.
- ⇒ The in-charge of a branch office should send his/her compliance report to the compliance officer of the principal office each month comprising all activities of the branch office.
- ⇒ Maintenance of customer registers (with client code, BO ID, client name, client address, client phone etc.)
- ⇒ Any material or other changes of the branch office by the brokerage house or itself, if necessary, the authority of the house must send the report to the exchange within 30 working days.
- ⇒ If the brokerage house desires to close any branch office, then the authority of the house must inform the same to the exchange within 30 working days.
- ⇒ Preservation of the photocopy of the Stock Broker/Dealer registration certificate and the registration certificate of authorized representatives.
- ⇒ Appointment of sufficient office staff and authorized representative and should maintain an alternative authorized representative.
- ⇒ Preservation of all records and documents for at least 7 years.

Apart from the above, the branch offices of the member company must act in accordance with the provisions of the Bangladesh Securities & Exchange Commission Rules, 1987; Bangladesh Securities & Exchange Commission (Stock Dealer, Stock Broker &

Authorize Representative) Rules, 2000; Settlement of Stock Exchange Transactions Regulations, 1998; Depository Regulations, 2003 and other securities related rules and regulations.

6.5 COMPLIANCE WITH SECURITIES & EXCHANGE RULES, 1987

- ❑ **Net Capital Balance** as per Rule-2(C) of BSEC Rules, 1987.
- ❑ **Settlement of Customer Dues** as per Rule-3(1A) of BSEC Rules, 1987.
- ❑ **Maintenance of Net Capital Balance** as per Rule-3 (2, 3 & 4) of BSEC Rules, 1987.
- ❑ **Maintenance of Customer Account Information Form** as per (Form-IA) Rule 8(1) (CCC) of BSEC Rules, 1987.
- ❑ **Maintenance of Buy / Sale order Slips of the Customer** as per Rule-4 of BSEC Rules, 1987.
- ❑ **Maintenance of Trade Confirmation Statement** as per Rule-4 (5) of BSEC Rules, 1987.
- ❑ **Maintenance of Statement of Receivable and Payable with Customer** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of Statement of Receivable and Payable with DSE** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of General Bank Account** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of Consolidated Customers Bank Account** as per Rule-8 (A) of BSEC Rules, 1987.
- ❑ **Maintenance of Customers' Stock Status Report (client wise)** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of Customers' Stock Status Report (instrument wise)** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of Separate Customer Ledger Account** as per Rule-8 of BSEC Rules, 1987.
- ❑ **Maintenance of Share Delivery and Receiving Records** as per Rule-8 of BSEC Rules, 1987.

- **Maintenance of Money Receipt Bill & Money Payment Voucher** as per Rule-8 of BSEC Rules, 1987.

6.6 COMPLIANCE WITH DHAKA STOCK EXCHANGE AUTOMATED TRADING REGULATIONS, 1999

- **Touch Line Price:** Touch line price means the lowest sale price and highest buy price for a security which is the best offer (sale) and best bid (buy) price for that security amongst all orders in the order book. -As per **Regulation 2(O)** of Dhaka Stock Exchange Automated Trading Regulations, 1999.
- **Qualifications for Trading:** A member shall qualify himself for trading if he -
 - a) obtains a registration certificate from BSEC issued under regulation 5(4) of the Bangladesh Securities and Exchange Commission (Stock-Dealer, Stock-Broker and Authorized Representative) Regulations, 1994;
 - b) Becomes a member of the DSE Clearing House. -As per **Regulation 5** of Dhaka Stock Exchange Automated Trading Regulations, 1999
- **Exposure Limit:** DSE shall regulate the net limit for a member. If a member exceeds the limit at any point of time such member shall be automatically suspended by the system under immediate intimation to BSEC. -As per **Regulation 19** of Dhaka Stock Exchange Automated Trading Regulations, 1999.

6.7 COMPANY RELATED COMPLIANCE ISSUES

- Maintenance of audited financial report (According to BAS).
- Holding of meeting of board of directors at least once in every three months.
- Holding of AGM once in every calendar year.
- Maintenance of record of minutes of board of directors.

- Maintenance of record of minutes of AGM.
- Maintenance of register of directors.
- Maintenance of register of shareholders.

6.8 DP RELATED COMPLIANCE ISSUES

- **Maintenance of BO Account Holder's List** (with name, address, BO ID number) as per Regulation-7 (1c) of The Depository (User) Regulations, 2003.
- **Maintenance of BO Account Opening Form** as per CDBL By-Laws.
- **Maintenance of Pay-in Slips** as per CDBL By-Laws.
- **Maintenance of Stock Status of Clearing Account.**
- **Maintenance of DP Report - 77, 78, 79 & 80.**
- **Maintenance of the Information about Security Transfer from BO Account to Clearing Account** as per Regulation-7 of the Depository (User) Regulations, 2003.
- **Providing DP Report-A6 to Customers** (monthly/quarterly/half yearly/yearly).
- **BO Account Opening** as per Regulation-26 (1) of the Depository (User) Regulations, 2003.
- **Control on Accounts by Depository Participants** as per Regulation-32(1, 4, 5) of the Depository (User) Regulations, 2003.
- **Preservation of Records & Documents etc. by Depository Participants** as per Regulation-34 of the Depository (User) Regulations, 2003.
- **Transfer of Security Ownership from One Account to Another** as per Regulation-42 of the Depository (User) Regulations, 2003.
- **Transfer of Securities to Nominee Account** as per Regulation-42(7) of the Depository (User) Regulations, 2003.
- **Securities Held at Record Date** as per Regulation-46(6) of The Depository (User) Regulations, 2003.
- **Power of Attorney** as per CDBL bylaws.

6.9 COMPLIANCE WITH THE SECURITIES RELATED ORDINANCE, ACT, AND RULES & REGULATIONS

- Securities Act, 1920;
- Securities and Exchange Ordinance, 1969;
- Securities and Exchange Rules, 1987;
- Margin Rules, 1999;
- BSEC (Stock dealer, Stock Broker & Authorized Representative) Rules, 2000;
- Depository (User) Regulations, 2003;
- The Settlement of Stock Exchange Transactions Regulations, 1998;
- Dhaka Stock Exchange Automated Trading Regulations, 1999;
- The Listing Regulations of Dhaka Stock Exchange Limited;
- The Dhaka Stock Exchange (Member's Margin) Regulations, 2000;
- CDBL Bylaws;
- Stock Exchange Bylaws;
- Short Sale Regulations, 2006;
- Notifications & Directives issued by Regulatory Authorities;
- Other Securities related Rules and Regulations, if any.

CHAPTER SEVEN

THE CURRENT PERFORMANCE OF MONITORING, INVESTIGATION AND COMPLIANCE DEPARTMENT

The Intrinsic Materials of the Section Seven

7.1 A Statistical Overview of Departmental Activities in 2011 & 2012

**7.2 Some Special Services of Monitoring, Investigation & Compliance
Department**

7.3 Achievements of the Department

7.4 Future Vision of the Department

7.5 Role of MIC Department in DSE

7.1 A STATISTICAL OVERVIEW OF DEPARTMENTAL ACTIVITIES IN 2016 & 2017

Types of Monitoring	Years (Number of Member House)	
	2016	2017
Formal Monitoring	50	35
Spot Monitoring	50	15
Special Monitoring (BSEC related)	30	30
Branch Office Monitoring	60	60
TWS set up Monitoring	50	50

Table 7.1: Major Monitoring Activities in 2016 & 2017

Categories of Companies	Quantity (2016)	Quantity (2017)
Banks & NBFIs	03	02
IT Sector	04	03
Textile	01	0
Engineering	02	03
Foods & Allied	04	02
Tannery Industries	02	02
Total	16	12

Table 7.2: Major Companies Investigated in 2016 & 2017

7.2 SOME SPECIAL SERVICES OF MONITORING, INVESTIGATION & COMPLIANCE DEPARTMENT

7.2.1 Authorized Representative Training Program:

The head of the department used to play the role of lecturer in the training program for the development of authorized representative.

7.2.2 Authorized Representatives Interview Program:

Authorized representatives are selected through interview program.

7.2.3 Direct Services to Investors:

One of the main responsibilities of Monitoring, Investigation & Compliance Department is to ensure the settlement of claim and safe investment of investors in the capital market. With this purpose Monitoring, Investigation & Compliance Department provides diversified services to the investors that are discussed as follows:

- Account opening procedure.
- Procedure of link account.
- Ensuring the claim of investors.
- BO account closing procedure.
- Handling different complaints against member houses.
- Instruction for the safe participation in capital market.

7.2.4 Activities as per the Instruction of Taskforce:

- Finding out the shares position and capital investment of different politicians, businessmen, former government high officials & other general public as per the instructions of taskforce.

7.2.5 Activities as per the Instruction of Bangladesh Securities Exchange Commission (BSEC):

- Investigating the listed companies regarding price sensitive information, different joint venture and partnership agreement, bilateral and multilateral agreements.
- To investigate the brokerage houses as per the instruction of BSEC.

7.3 ROLE OF MIC DEPARTMENT IN DSE

The Operations Department of DSE runs with the goal of providing possible assistance to all other departments in their smooth operation. The number of member companies in DSE has been increased from 238 to 248 in recent days. The DSE has also launched upgraded trading system recently. As a result of such expansion and up gradation of DSE, the activities related to MIC increased by a considerable degree.

And for the efficient operation of stock exchange, the MIC department provides various assistances to the member companies. The following activities have concerned by this side:

- Ensuring the compliance of securities related rules and regulations.
- Ensuring the compliance of the orders/notifications/directives of the BSEC and regulatory bodies.
- Serving the member companies.
- Ensuring the interest of investors.
- Transferring membership of DSE.
- Preserving all documents of all members.
- Updating the database of membership affairs.
- Keeping ledgers (or other comparable records) reflecting asset, liability, reserve capital, income and expense accounts.
- Keeping separate customer ledgers (or other comparable records) reflecting the customers' assets and liabilities which shall include, among others, the following namely:
 - Chronological and customer-wise record of money received and paid;
 - Chronological record of transactions made in a consolidated customers' account;
 - Record of all balance of all ledger accounts in the form of trial balances to be prepared at least once at the end of the six months of every year of account;
 - Record of transactions with the banks;

- The books of accounts and other documents referred above shall be preserved for a period of not less than five years.

7.4 ACHIEVEMENTS OF THE DEPARTMENT

- Monitoring, Investigation & Compliance Department settled 2000 clients' complaints as against one member firm bearing membership no.156 of Tk.15crore
- The department successfully completed investigation of Task Force, Anti-Corruption Commission, the Income Tax Commission & BSEC Inquiry and simultaneously submitted report to the concerned authority.

7.5 FUTURE VISION OF THE DEPARTMENT

- ⇒ To monitor at least 20 member houses per month,
- ⇒ To monitor at least 5 listed companies per month,
- ⇒ More cautious about the activities of branch offices of member houses countrywide,
- ⇒ To ensure securities and exchange rules and to mitigate any fraudulent activities in respect of securities market operations,
- ⇒ To attain a high level of efficiency in all of its operations through effective and efficient management of human resources and proper utilization of time and
- ⇒ To promote an environment within the department where personal growth of the employees can be ensured.

CHAPTER EIGHT

FINDINGS, RECOMMENDATIONS and CONCLUSIONS

The Intrinsic Materials of the Section Nine

8.1 Findings

8.2 Recommendations

8.3 Conclusion

8.1 FINDINGS

During the study about Monitoring, Investigation and Compliance department of DSE, some consequences or problems are found while performing the monitoring, investigation and compliance activities. Some are as follows:

- **Lack of Manpower:** For lack of manpower, the activities of Monitoring, Investigation & Compliance activities are hampered. Present manpower of the department is very few compared to the requirement.
- **Difficulty in Controlling Activities:** To control the activities of the member companies is one of the objectives of the monitoring, investigation and compliance activities. The members of the member companies are the owner of DSE. Therefore it becomes very much difficult to do the work properly.
- **Influential Role by Others:** Some powerful and influencing members sometimes try to influence the investigation process of investigation team.
- **Delay in Investigation:** In case of investigation on market manipulation, it takes a long time to complete the investigation because of shortage of manpower. In some cases, it is too late to control the market when after a long period, the investigation is completed.
- **Lack of Logistics Facilities:** The logistics facilities are also not proper for performing the Monitoring, Investigation & Compliance activities.
- **Limited Power:** DSE has very limited power to punish the member company or the enlisted company. For this reason the strong control sometimes becomes difficult.
- **Lack of Training Facilities:** Training facilities for employees are also very much limited in DSE that may increase the efficiency level of an employee.

8.2 RECOMMENDATIONS

The problems mentioned in the earlier section cannot be solved in a day. It will take long time to remove all the problems. Indeed, full removal is not possible. Besides, it is also true that some of the problems can easily be solved if the management looks into it very seriously. Here is given some suggestions regarding solving the problems of performing monitoring, investigation & compliance activities:

- **Increase Sufficient Manpower:** First and foremost, the manpower should be increased in the respective departments of monitoring, investigation & compliance activities.
- **Improved Corporate Culture:** The corporate culture of the organization should be improved so that a clear understanding is possible that ownership and management is different.
- **Increase no. of Investigation:** More and more investigation should be conducted on a regular basis so that the controlling activities have a consistency.
- **Logistics Facilities:** Proper logistics facilities should be provided so that the monitoring, investigation & compliance activities as well as their timely reporting are ensured
- **Provide Empower:** The BSEC should give more power to DSE regarding monetary punishment to the member companies. This will ensure more controlling power of the DSE.
- **Training Facilities:** The system of giving training to the employees on regular basis should be developed so that the efficiency level of employees improves in conducting monitoring, investigation & compliance activities.
- **Increase Remuneration:** Switching of manpower should be minimized through better remuneration structure and other benefits.

8.3 CONCLUSIONS

With the passage of time, Capital Market is increasing and improving. Besides, the risks of investors are also increasing with this improvement. It is easy to manipulate the market when it becomes large. To keep pace with the expanding capital market, the monitoring, investigation and compliance activities of Dhaka Stock Exchange Ltd. should be increased. At the same time, the procedure of conducting monitoring, investigation and compliance activities should be modernized. The Monitoring, Investigation and Compliance department is already modernized to meet the demand of the situation. The department has already set its future vision. Now time has come to make sure that the department could fulfill its future vision. The need of monitoring, investigation and compliance activities cannot be denied in safeguarding the investor's interest. Thus we may say that the future prospect of Dhaka Stock Exchange depends to a large extent on the proper functioning of monitoring, investigation and compliance activities. The DSE management should think the matter carefully and take necessary steps to improve and modernize the monitoring, investigation and compliance activities.

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APPENDIX

1. Format of Monitoring

Dhaka Stock Exchange Limited
9/F Motijheel C/A
Dhaka- 1000

Name of the Brokerage Company :
Member Code :
Visiting Date & Time :
Location :

1. List of Employee with parents name, address and responsibility

- a) Provided (Attached)
- b) Not provided

Comments:

2. List of authorized representative, compliance officer and branch managers

- a) Provided (Attached)
- b) Not provided

Comments:

3. List of directors and holding position

- a) Provided (Attached)
- b) Not provided

Comments:

4. Customer register maintained with Name, address, Client Code and BO ID

- a) Maintained in manual registrar
- b) Maintained in Computer
- c) Maintained in computer but not printed
- d) Not maintained at all

Comments:

5. List of Foreign Clients, Institutional Clients and Margin Clients

- a) Provided (Attached)
- b) Not provided

Comments:

6. Account opening Form

- a) Filled up properly
- b) Not filled up properly
- c) Some fields are not filled in properly like...

Comments:

7. Buy/Sell Order slip-

- a) Maintained with clients and AR signatures
- b) Maintained with only clients signature
- c) Some slips were found without clients/AR signature

Comments:

8. Pay in slip-

- a) Maintained with clients and DP signatures
- b) Maintained with only clients signature
- c) Some slips were found without clients/DP signature

Comments:

9. Telephonic register-

- a) Maintained with AR signatures
- b) Maintained without AR signature
- c) Not maintained

Comments:

10. General Bank Account

11. Consolidated Customer Bank Account

12. Order status and trade status

- a) Maintained hard copies
- b) Maintained soft copies
- c) Not maintained

Comments:

13. Money receipt and payment vouchers

- a) Maintained properly with signatures
- b) Not maintained with signatures

14. Cash book and bank book-

- a) Maintained properly
- b) Not maintained

Comments:

15. Margin Agreement-

- a) Maintained properly
- b) Not maintained

Comments:

16. Amount of Margin fund-

Comments:

17. Clients receivable and payable-

- a) Provided
- b) Not provided

Comments:

18. Net capital Balance

- a) Maintained
- b) Not maintained

Comments:

19. Source of Margin fund-

Comments:

20. Name of dealer bank account-

Comments:

21. Stock, ledger and other documents of the Dealer account –

- a) Maintained properly
- b) Not maintained properly

Comments:

22. Separate Authorized Person for the dealership TWS-

Comments:

23. Source of Dealership Fund-

Comments:

24. Transfer and transmission report-

- a) Maintained properly
- b) Not maintained properly
- c) N/A

Comments:

25. Pledge & unpledged report

- a) Maintained properly
- b) Not maintained properly
- c) N/A

Comments:

26. Customer Complain register

- a) Maintained properly
- b) Not maintained properly

Comments:

27. Total number of clients

28. Name of the Compliance Officer

Member Company Representative Details at the time of inspection

Name:

Designation:

Contact No.:

Signature:

2. Questionnaire of Corporate Compliance

Dhaka Stock Exchange Limited
9/F, Motijheel C/A
Dhaka-1000

Name of the Member Company :

Member Code :

Visiting Date & Time :

1. Authorized Capital of your Company

.....

2. Paid up Capital of your Company

.....

3. Have you Submitted Tax Return of your company for last year?

a. Yes b. No

Comment:

4. If any new Director appointed in your company as per 5(Ka) of BSEC rules of “Stock Dealer/Stock Broker/Authorized Representative”

a. Yes b. No

Comment:

5. Is your company has any subsidiary Company?

a. Yes b. No

Comment:

6. Is Memorandum and Articles of Association preserving properly? Is it updated?
(Certified Copy)

a. Yes b. No

Comment:

7. Have you preserving the documents of Chairman, Managing Director and Company Secretary with their name and designation which is approved by the Board Meeting?

- a. Yes b. No

Comment:

8. Are you maintaining latest certified copy of “Form XV” during the issue of Stock Dividend, Right Issue or New/Fresh Share Issue?

- a. Yes b. No

Comment:

9. Maintaining of Share Holder Register

- a. Yes b. No

Comment:

10. Maintaining of Share Transfer Register/Director Register and is it updated?

- a. Yes b. No

Comment:

11. Which audit firm audited your company last year?

.....

Comment:

12. Is Board Meeting of your company held within end of every 3(three) months?

- a. Yes b. No

Comment:

13. Are you preserving the Notice and Minutes of Board Meeting?

- a. Yes b. No

Comment:

14. Are you maintaining the attendance register of Board Meeting?

- a. Yes b. No

Comment:

15. AGM and EGM (When Company Requires) of the Company are held regularly in every year?

a. Yes b. No

16. Are you maintaining the notice and minutes of AGM and EGM properly?

a. Yes b. No

Comment:

17. Is there any change in Directors of the company, the change is inform to the RJSC within specified time?

a. Yes b. No

Comment:

18. Have you submitted Share Allotment Return of your Company to RJSC within certain period?

a. Yes b. No

Comment:

19. Submission of Annual Report of the Company to the RJSC within the specified period.

a. Yes b. No

Comment:

Member Company Representative Details at the time of inspection

Signature

Name:

Designation:

Contact No: