




# Presentation on Surveillance System of SEC

Presented By:  
Anwarul Kabir Bhuiyan  
Executive Director  
Securities and Exchange Commission



# Market Surveillance:

- SRO surveillance
- Monitoring market watch surveillance system
- Market intelligence and contact
- Supervision of stock exchange market surveillance function
- Investigation into market manipulation, malpractices and possible insider dealing
- Investigation into suspected misconduct of registered persons



What is surveillance and which organization should mainly responsible for market surveillance?

- ***Surveillance***: Surveillance is the process of collecting and analyzing information concerning markets in order to detect unfair transactions that may violate securities related laws, rules and regulations.
- ***Which organization are responsible for surveillance***: The following are the organization should be mainly responsible for market surveillance:



# Purpose of Market Surveillance

- => Securities and Exchange Commission
  - => Self Regulatory Organization (Stock Exchanges)  
and
  - => Securities Company (Merchant Banker, Stock- broker/stock-dealer)
- I) To ensure fair trading in the securities market by detecting unfair trading
  - II) To maintain the confidence of investors in these markets



## Function of market surveillance

- Market surveillance has the following functions.
  1. Collecting market information from public.
  2. Conducting a day to day monitoring by requesting detailed transaction reports from securities companies and collecting relevant materials.
  3. Watching on-line trading from non trading and surveillance workstation of both the stock exchanges.



## Gathering information from the public

- Information provided by the general public via telephone, visitation, mail, fax or internet may have been used as clues of criminal investigations, inspections and surveillances.
- Therefore the SEC has been developing system for and has been in a positive attitude for receiving information from the general public.




# Market Intelligence

The surveillance function cannot be effective and successful unless it is coupled with strong market intelligence. Signals of weakness or suspected irregularities come to the knowledge of the market players much before it gets detected or noticed by the SEC officials. The surveillance department through its wide information source should gather information from the market sources. The rumors floating in the market are to be verified and reported. This enables the exchange to avert market problems before it causes serious damage.



# Day to day monitoring market activities

- Surveillance department of SEC conducts a day to day monitoring of market activities as follows:
  - **Step 1) Daily market watch:**
  - => Movement of share-prices/trading volumes
  - => Press releases and news from listed company

- 
- => Tips from market participants
  - => Internet
  - => Complaints and information from investors
  
  - ***Check point***
  - **Insider dealing:** Stock prices or trade volumes fluctuation just before the announcement of influential information from the company.
  - **Market manipulation:** Sudden stock prices rises or falls without obvious reason.



## Step 2. Analysis:

Why share price moved?

- => Recommended by an analyst or an investment adviser?
- => Influence by press release?
- => Information or complaints are credible?


## Step 3. In depth Analysis:

- => Require transaction report and documents from securities companies
- => Reconstruct trading board, who placed buy or sale order, when, what price?
- => Legal analysis



## Outline of daily market surveillance


1. Picking up certain stocks, including those listed below:
  - => Stocks whose price shows a rapid rise or decline without any particular reasons.
  - => Stock on which critical facts that would extremely influence investment decision have been emerged.
  - => Stocks that are frequently mentioned in newspapers, magazines or on the internet.

- 
- => Stocks about which information is sent to SEC by the public.
  - 2. Requiring securities companies to report the detailed trading information or to submit relevant documents, if necessary.
  - 3. Conducting detailed analysis and reviews, the facts of suspicious transaction.
  - 4. If a problem is found as result of the reviews, the case will be transferred to the enforcement department.




# Surveillance System Of SEC

- There are two types of surveillance system of SEC which are mentioned below:
  1. Online Surveillance
  2. Offline surveillance
- 1. On-line Surveillance system:
  - I) Non-trading workstation of DSE
  - II) Non-trading workstation of CSE


- 
- III) Surveillance workstation of DSE
  - IV) Surveillance workstation of CSE

2. Off-line surveillance system: Securities and Exchange Commission Automated System (SECAS)




## Surveillance System of stock-broker/stock-dealer

- ⇒ Surveillance activities of stock-broker/stock-dealer
  - ⇒ To open account of clients properly both for trading and BO
  - ⇒ To ensure fair trading within the member firm
  - ⇒ To compliance all securities related laws, rules and regulations
  - ⇒ To provide better customer service to the clients by complying all securities related laws, rules and regulations

- 
- ⇒ To maintain books & records as required by laws, rules and regulations
  - ⇒ To provide information, documents etc. as per requirement by SRO and SEC etc.

- Who are responsible for Market Surveillance activities of stock-broker/stock-dealer
  - ⇒ MD/CEO/Proprietor
  - ⇒ Compliance authority/compliance officer
  - ⇒ Authorized representative



⇒ Others official of stock-broker/stock-dealer

● Market Surveillance Function of stock-broker/stock-dealer

⇒ Before trade


⇒ During the trade

⇒ After trade



## Surveillance activities before trade


- ⇒ Customer account information form duly filled in as per 8(1) (ccc) SER 1987
- ⇒ Signature of the authorized person to form an contractual agreement
- ⇒ Client code number
- ⇒ Introducer's information
- ⇒ Terms & condition attached in the form
- ⇒ Register of clients with code, address etc.
- ⇒ Receive written buy/sale order

- 
- ⇒ Receive telephonic order made by the client recorded properly
  - ⇒ Shares receiving records maintained with the signature of the authorized representative
  - ⇒ Declaration given in respect of sponsor shares trade etc.



## Surveillance activities during the trade


- ⇒ Order submitted at touchline prices
- ⇒ Trade executed as per order submitted by the clients
- ⇒ Ignore of submission aggressive prices buy bid and sale offer
- ⇒ Fund balance position check before submit buy order
- ⇒ Check shares in vault before submit sale order
- ⇒ In case of demat share, transfer shares from BO account to DP's clearing account before sale order submit


- 
- ⇒ Trade executed by registered authorized representatives
  - ⇒ Given opportunity to the clients for market information
  - ⇒ Strictly prohibited clients present in front the trading workstation
  - ⇒ Not to give any advise to the client by the authorized representative



## Surveillance activities after the trade


- ⇒ Trade confirmation report/note sent to the clients
- ⇒ Office copy of the confirmation report with recipient's signature preserved
- ⇒ Any transaction carried by the member and report submitted filling in the form "D"
- ⇒ Recorded of transaction done properly in register
- ⇒ Maintenance of separate customer bank account

- 
- ⇒ Maintenance of company account
  - ⇒ Maintenance of cash book, bank book, general ledger, client financial ledger, stock register script wise and client wise
  - ⇒ Maintenance of money receipt note and payment voucher
  - ⇒ Separate preservation of clients securities
  - ⇒ Shares delivery records maintained with the signature of clients
  - ⇒ Determine net capital balance and to be submitted to stock exchanges within third working days of each month etc.



## Common fraudulent practices in the capital market

**Insider trading**: *Securities trading made by any insiders, as defined in the SEC based on insider information. Insider trading involves one or more transaction by person or persons in possession of material insider information in breach of duty to trust of confidence.*




● **Market manipulation:** *Securities trading made by a group of persons in co-operation so as to mislead other persons into trading any securities. Intentional interference with the free forces of supply and demand. There must be an actual transaction, which causes a rise or fall in price, with the purpose of inducing other persons to buy or sell to defraud them.*

**Misstatement:** *Rumors or fault information to mislead the public in making securities trading decision.*



Institution subject to SEC Inspection and Enquiry

- \* ***Issuing Companies***
- \* ***Stock Exchanges***
- \* ***Stock-brokers and stock-dealers of stock exchanges***
- \* ***Merchant Bankers***
- \* ***Institutional Investors***
- \* ***Individual investors***
- \* ***Directors/Sponsors/Sponsor director of issuing companies***
- \* ***Foreign investors***
- \* ***CDBL***
- \* ***Depository Participant (DP)***
- \* ***Credit Rating Companies***



# Types of Inspection


**General Inspection**: At the beginning of each Financial year, the surveillance department makes a program of inspections. The number and types of the companies to be inspected are determined by the basic inspection policy of the year.

**Special Inspection**: We implement inspections on specific topics timely when misconduct might be committed.



# Flows on SEC inspection

1. **Before on-site inspection**: *Collect and check the following information in order to get to know the business activity of the company to be inspected; (a) Application forms, business reports, financial statements, accident reports, lawsuit reports etc. (b) The information from securities houses, markets and the general public collected by the market surveillance office like as complaints from investors and information from the employees. (c) The materials got from Internet, newspapers and magazines etc.*

- 
- **On-site Inspection**: *On-site inspection conducted by the following way:*
    - Visit the company with no prior-notice.*
    - Request to set up the inspection place.*
    - Have interviews with the key persons of sales, trading, compliance, research etc. and check their belongings and the inside of cabinets in order to get a clue for fraud.*



## Flows on SEC inspection, cont...


*(d) Request to submit legal slips (Trade tickets, daily transaction blotter, proprietary account statements, customer account statements, safekeeping securities records, account ledger etc.), E-mail and phone call records of the staff of sales, trading, compliance, research, minutes of management meetings, company internal rules and compliance manual, list of PO and IPO that the company was involved as an underwriter, term sheets of structured products, account list of the proprietary and group of companies accounts, analyst reports, accounting records.*



## Flows on SEC inspection, cont...

*(e) Investigate the actual conditions of the sales activity and internal management by interviews with the staff and check the documents submitted by the company thoroughly.*

*(f) Scrutinize whether the company violates laws and regulations or not by focusing on the followings: I. Securities trading meant to create an artificial market that does not the actual state of the market. II. False statement about securities trading. III. Misleading statements about important investment factors.*



● *IV. The act soliciting business with promise to provide special benefits. V. Customer identification. VI. Interest of conflict on analyst reports.*

*(g) Proof that the company violates laws and regulations if any suspicious case is found. This process involved (i) Collect the documentary evidence (ii) Have interviews with the person who are involved (iii) Get the transaction records from the stock exchange and reproduce the price board in order to get to know the impact of the suspicious transaction to the market for creating an artificial market if necessary (iv) Discuss the suspicious case in detail and clear the point at issue.*



## Flows on SEC inspection, cont...

***After on-site inspection:*** *After on-site inspection involved the following activities :*

*(a) Prepared the inspection report for the inspection result.*

*(b) Referred to enforcement department for required administrative actions against contravention of securities related laws, rules and regulations.*

*(c) Referred to court for criminal prosecution.*



# **FRAUDULENCE BY BROKER COMMUNITY**

- **Involve price manipulation among brokers**
- **Influence clients**
- **Financial fraud with clients**
  
- **Use clients securities for taking personal loan**
- **Fake reporting to the client regarding their trade and portfolio position**
- **Release phony information or rumor**



# **FRAUDULENCE BY INSTITUTIONAL INVESTORS**

***Create artificial price through Syndication  
Manipulation by involving with issuer  
companies***

***Influence issuer companies to inflate  
financial report and declaring  
artificial dividend***

***Influence individual investors  
Not follow the proper analysis***



# **FRAUDULENCE BY INDIVIDUAL INVESTORS**

***Manipulation through syndication***

***Spread phony information in the market***

***Misguide other investors***

***Open more than one account in different***

***brokers and merchant banks***



## **FRAUDULENCE BY MERCHANT BANKER**

***Due diligence is not follow properly  
Suppressed actual position of the issuing  
company***

***Not follow the obligations of  
Underwriting rules & regulation***

***Unhealthy competition among the  
merchant bankers***



## MEASURES TO CONFINE

***Current Rules & Regulations of Securities and Exchange Commission are sufficient to confine the fraudulence practice by the Issuers, Auditors, Brokers, Institutional & Individual Investors***

***Securities and Exchange Ordinance, 1969***

***Securities & Exchange Rules, 1987***

***Securities & Exchange Commission (stock dealer, broker and authorized representative) Regulations, 2000***

- 
- ***Securities & Exchange Commission  
(merchant banker and portfolio  
manager) Regulations, 1996***
  - Securities & Exchange Commission  
(market maker) Regulations, 2000***
  - Securities & Exchange Commission  
(mutual fund) Regulations, 2001***
  - Securities & Exchange Commission  
(substantial shares acquisition)  
Regulations, 2002***
  - Margin Rules, 1999***



THANKING YOU