

Daily

FT

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COMMITTEE TO PROBE TREASURY, CB, COMPANY REGISTRAR AND ICASL

THE Government is to appoint a committee to probe the conduct of the Treasury, Central Bank, Registrar of Companies and Institute of Chartered Accountants (ICASL) with regard to applying statutes and regulations to the securities market, commercial banks and finance companies.

The committee will inquire into whether these

four institutions have carried out their fiduciary duties and functions including judicial functions and powers with regard to statutes and regulations of the securities market, commercial banks and financial institutions.

The report on the findings of the committee will be tabled in Parliament for greater transparency and accountability.

Dear Ranil,

Re – your recent focus on the Stock Market and need for proper functioning thereof;

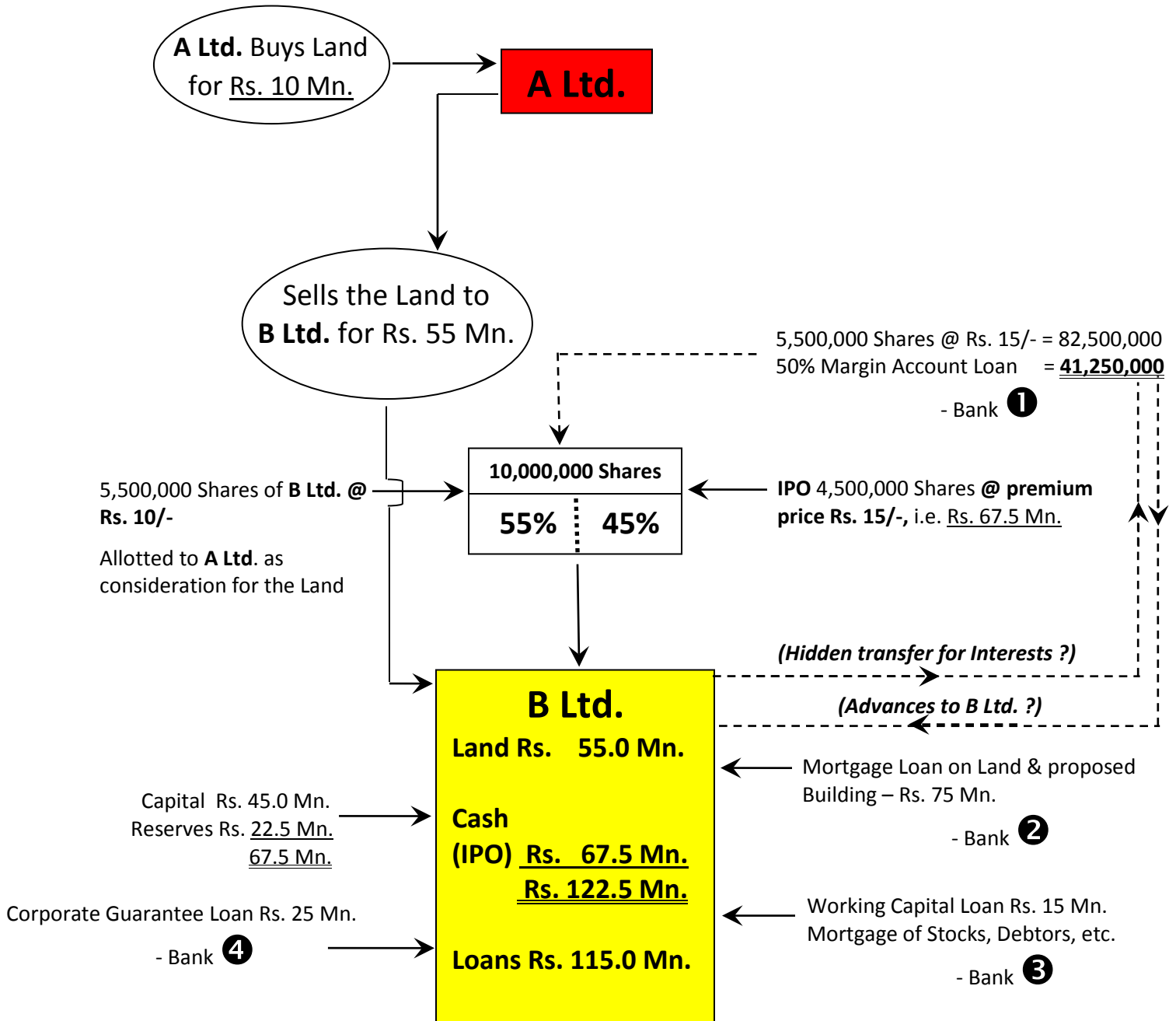
1. Attached is an illustrative diagram depicting how a corporate structure with Rs. 10 Mn., could be 'ballooned-up' to a market capitalization of Rs. 250 Mn. ! This is a fiction, which cannot survive on the long term ! Regretfully media misleadingly refers to individuals as 'high net worth investors', without ascertaining, as to whether their 'net worth' is 'positive' or 'negative' ?
2. Attached also is a Chart illustrating how 'pumping and dumping', with market manipulation occurs. Also copy of same published in the Business Times sometime back.
3. SEC, as you are aware, is a quasi-judicial body for surveillance of and regulation for the trading of securities in an orderly and fair manner, protecting the interest of investors, with ability to even receive complaints on the professional conduct of listed public companies, and to investigate complaints, with power to prosecute or impose fines.
4. As intended by the Legislature specified members – Deputy Secretary to the Treasury, Registrar of Companies, President, Institute of Chartered Accountants and Deputy Governor of Central Bank are included in the Commission, obviously to ensure compliance with the Statutes and Regulations enforced by the respective authorities.
5. Market manipulation should be detected by the Auditors, since auditing of the Share Ledger is a basic part of an audit, and this should disclose 'manipulative repetitive transactions', amongst a 'close circle of parties'. Prospectus and Offer Sale Documents also are required to be subsequently verified. The Institute of Chartered Accountants has not performed its role effectively !

Kind regards,


Nihal

20.3.2015

THE 'BUBBLE' – CAN IT WORK ?



Note : If Market Price of Shares pushed up to Rs. 25/- per Share, then Market Capitalization - Rs. 250,000,000/- !

		Rs. Mn.
Loans -	Share Margin Loan	<u>41.25</u>
	Mortgage Loan	75.00
	Working Capital Loan	15.00
	Corporate Guarantee Loan	<u>25.00</u>
		<u>115.00</u>
Equity/Debt	122.5 / 115.0	

MARKET MANIPULATION - 'PUMPING & DUMPING' OF SHARES

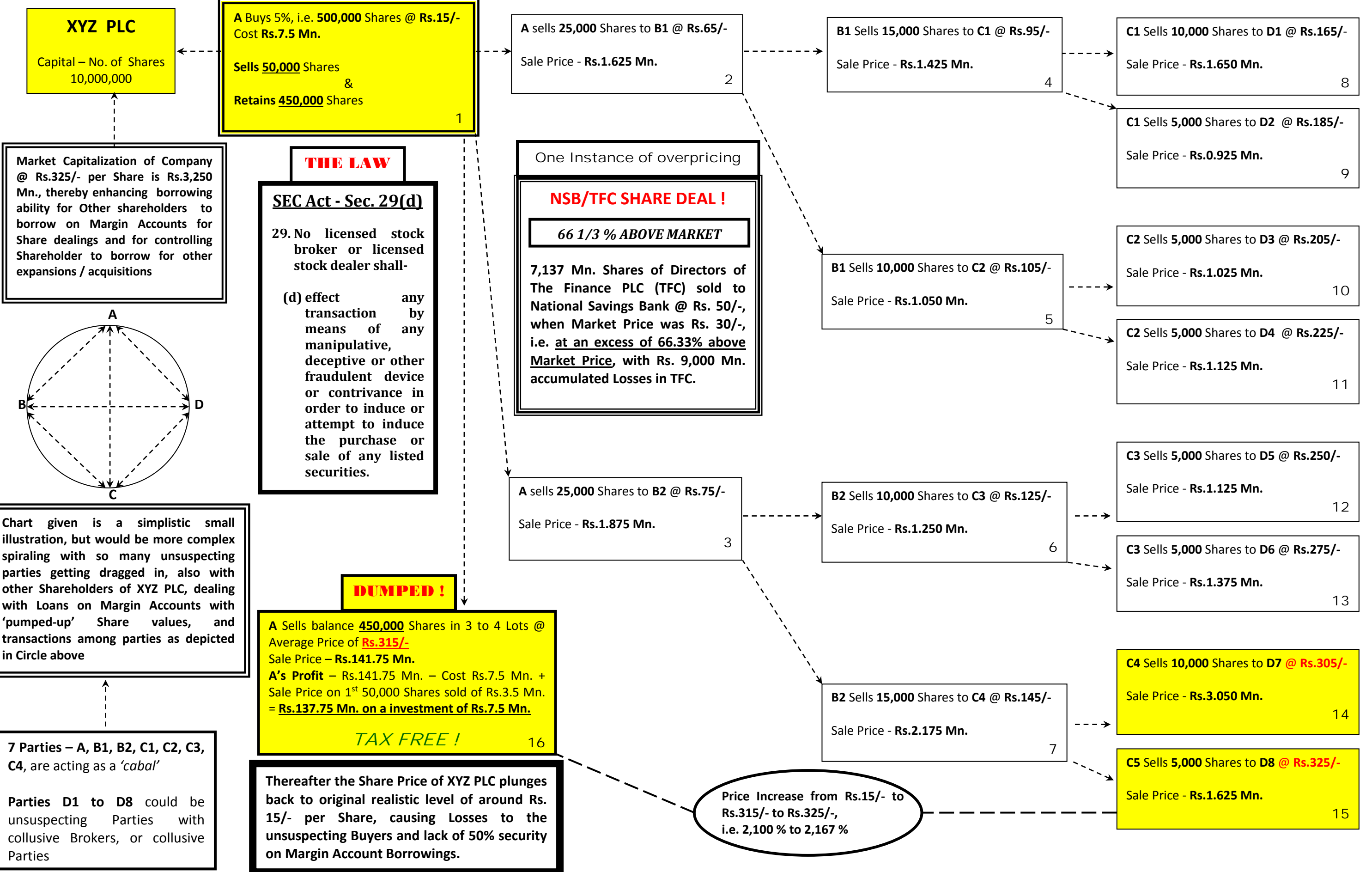
Tax Free!

Monitoring Money Laundering?

No Price Band Restriction

Loans on Margin Accounts 50% of Share Values

Sequence of Transactions → 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
 Price 'pumped-up' sequentially from Rs. 15/- to Rs.65/- to Rs.75/- to Rs.95/- to Rs.105/- to Rs.125/- to Rs.145/- to Rs.165/- to Rs.185/- to Rs.205/- to Rs.225/- to Rs.250/- to Rs.275/- to Rs.305/- to Rs.325/- 'Dumped' at Rs. 315/-



XYZ PLC
 Capital – No. of Shares
 10,000,000

1
 A Buys 5%, i.e. 500,000 Shares @ Rs.15/-
 Cost Rs.7.5 Mn.
 Sells 50,000 Shares
 &
 Retains 450,000 Shares

Market Capitalization of Company @ Rs.325/- per Share is Rs.3,250 Mn., thereby enhancing borrowing ability for Other shareholders to borrow on Margin Accounts for Share dealings and for controlling Shareholder to borrow for other expansions / acquisitions

THE LAW
SEC Act - Sec. 29(d)
 29. No licensed stock broker or licensed stock dealer shall-
 (d) effect any transaction by means of any manipulative, deceptive or other fraudulent device or contrivance in order to induce or attempt to induce the purchase or sale of any listed securities.

One Instance of overpricing
NSB/TFC SHARE DEAL !
66 1/3 % ABOVE MARKET
 7,137 Mn. Shares of Directors of The Finance PLC (TFC) sold to National Savings Bank @ Rs. 50/-, when Market Price was Rs. 30/-, i.e. at an excess of 66.33% above Market Price, with Rs. 9,000 Mn. accumulated Losses in TFC.

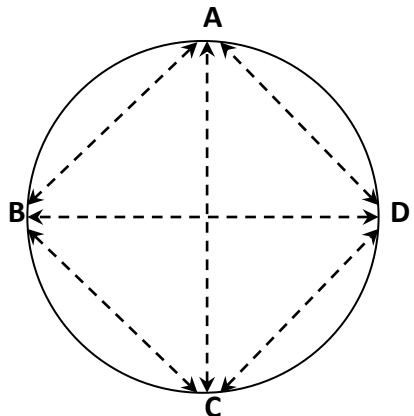


Chart given is a simplistic small illustration, but would be more complex spiraling with so many unsuspecting parties getting dragged in, also with other Shareholders of XYZ PLC, dealing with Loans on Margin Accounts with 'pumped-up' Share values, and transactions among parties as depicted in Circle above

DUMPED !
 A Sells balance 450,000 Shares in 3 to 4 Lots @ Average Price of **Rs.315/-**
 Sale Price – Rs.141.75 Mn.
 A's Profit – Rs.141.75 Mn. – Cost Rs.7.5 Mn. + Sale Price on 1st 50,000 Shares sold of Rs.3.5 Mn. = **Rs.137.75 Mn. on a investment of Rs.7.5 Mn.**
TAX FREE !

Thereafter the Share Price of XYZ PLC plunges back to original realistic level of around Rs. 15/- per Share, causing Losses to the unsuspecting Buyers and lack of 50% security on Margin Account Borrowings.

7 Parties – A, B1, B2, C1, C2, C3, C4, are acting as a 'cabal'
 Parties D1 to D8 could be unsuspecting Parties with collusive Brokers, or collusive Parties

Price Increase from Rs.15/- to Rs.315/- to Rs.325/-, i.e. 2,100 % to 2,167 %

2
 A sells 25,000 Shares to B1 @ Rs.65/-
 Sale Price - Rs.1.625 Mn.

4
 B1 Sells 15,000 Shares to C1 @ Rs.95/-
 Sale Price - Rs.1.425 Mn.

8
 C1 Sells 10,000 Shares to D1 @ Rs.165/-
 Sale Price - Rs.1.650 Mn.

9
 C1 Sells 5,000 Shares to D2 @ Rs.185/-
 Sale Price - Rs.0.925 Mn.

5
 B1 Sells 10,000 Shares to C2 @ Rs.105/-
 Sale Price - Rs.1.050 Mn.

10
 C2 Sells 5,000 Shares to D3 @ Rs.205/-
 Sale Price - Rs.1.025 Mn.

11
 C2 Sells 5,000 Shares to D4 @ Rs.225/-
 Sale Price - Rs.1.125 Mn.

3
 A sells 25,000 Shares to B2 @ Rs.75/-
 Sale Price - Rs.1.875 Mn.

6
 B2 Sells 10,000 Shares to C3 @ Rs.125/-
 Sale Price - Rs.1.250 Mn.

12
 C3 Sells 5,000 Shares to D5 @ Rs.250/-
 Sale Price - Rs.1.125 Mn.

13
 C3 Sells 5,000 Shares to D6 @ Rs.275/-
 Sale Price - Rs.1.375 Mn.

7
 B2 Sells 15,000 Shares to C4 @ Rs.145/-
 Sale Price - Rs.2.175 Mn.

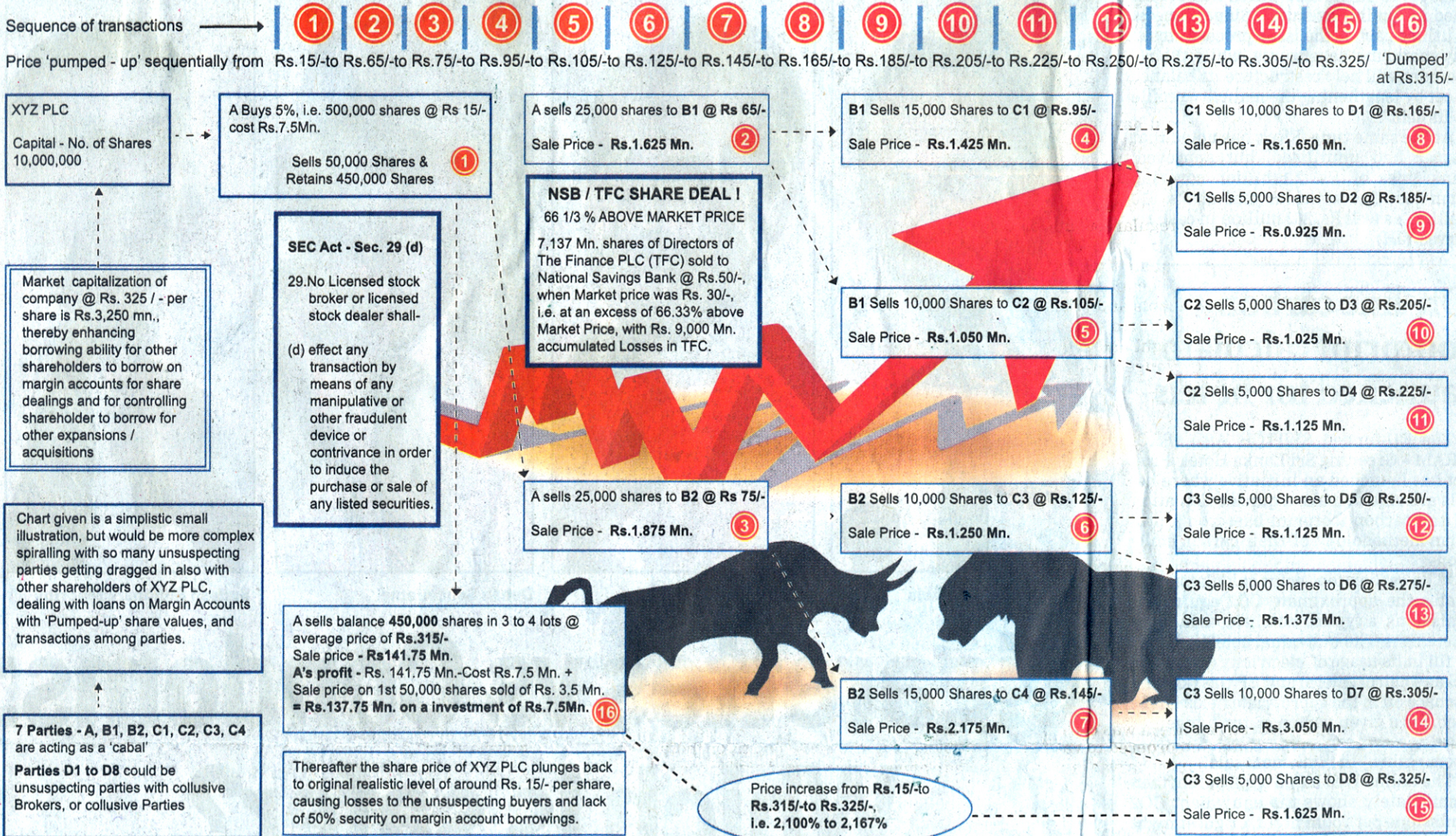
14
 C4 Sells 10,000 Shares to D7 @ Rs.305/-
 Sale Price - Rs.3.050 Mn.

15
 C5 Sells 5,000 Shares to D8 @ Rs.325/-
 Sale Price - Rs.1.625 Mn.

Pumping and Dumping at the Colombo Stock Exchange

MARKET MANIPULATION / 'PUMPING & DUMPING'

No price band restriction - Loans on margin accounts 50 % of share values



ST Graphic by I.Jayasuriya

The chart above provides a clear and descriptive explanation of how 'pumping and dumping' has taken place at the Colombo Stock Exchange.

The Securities and Exchange Commission is probing many trades, details of which are on Page 1. The information and an explanation of how this 'system'

works was provided by Nihal Sri Ameresekere/Consultants 21 Ltd at the request of the Business Times. Follow the transactions in the

numbered series 1 -16 to understand the sequence of price pumping and thereafter dumping (of shares). Once set in motion, this underlying transaction gets more

complex, spiralling with other parties in the market joining in without realizing the implications.