# Securities and Exchange Commission and its Affect on the Bangladeshi Capital Market

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## Acknowledgement

I am very pleased to accomplish the assign task given by our revered supervisor Dr. Tanbir Ahmed Chowdhury on the subject "Security Exchange Commission and its affect of Bangladeshi Financial Market". In preparing the report on the given subject I faced different problems such as – shortage of time and data. But I have been able to overcome the problems with direct and indirect assistance from many people. First of all I would like to thank the almighty Allah that we are enabling enough to do this term paper. I thank the Department of Business Administration, East- West University, who provided me with all the supportive materials for completing my task properly. I also acknowledge all of those web sites from which I have taken necessary helps.

Above all, I cannot refrain myself from giving heartfelt thanks to our course instructor Dr. Tanbir Ahmed Chowdhury, who helped me in completing this complex job. Finally, I am pleased to complete the report on the given subject properly and authentically.

## Letter of Transmittal

20th July, 2009

Dr. Tanbir Ahmed Chowdhury
Professor and Chairperson
Department of Business Administration
East West University
49 Mohakhali, Dhaka

Dear Sir,

This is to inform you that, I have prepared my BBA Project Report on 'Security Exchange Commission and its affect on the Bangladeshi Capital Market'. In this project I have tried my best to provide all the information that you have asked for.

I sincerely hope that you will accept this paper and also hope that my work will come up to the level of your expectations.

Thank you.

Sincerely yours,

**Sumaiya Tabassum Quader**
**2006-1-10-137**

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# Executive Summary

The Securities and Exchange Commission (SEC) was established on 8th June, 1993 to regulate the stock market and prevent corporate abuses relating to the offering and sale of securities and corporate reporting. The SEC was given the power to license and regulate stock exchanges. SEC has made every effort in strictly supervising the compliance of various laws, rules and regulations. Already they have developed some laws and made amendments to make the stock exchange function more effectively.

Bangladesh being a developing country, security market is very important source for the growth and development of the industrial section. SEC is working for a healthy economic capital, active administrated securities market. But SEC it self is not smooth & efficient. There are few problems has been arise after it established.

SEC is working on some new projects and plans. SEC introduce an online database called EDGAR from which investors can access this and other information filed with the agency. In the same online system also takes tips and complaints from investors to help the SEC track down violators of the securities laws.

Apart from the macro policy of contributing to the development of the national economy through harmonization with monetary policy, securities policy dealing with securities houses and markets, generally pursue three broad objectives- Firstly , to improve the efficiency of securities market. Secondly, to ensure the stability and soundness of the financial system. Thirdly, to protect investors rights.

In this paper I have shown the different departments and functions of the SEC. In the second and third section I have tried to discuss the reforms that SEC has made in the primary and secondary market. In the forth section I have discussed some of the amendments made by the SEC. In SEC four I have provided some recommendations for the improvement of regulatory systems of Bangladesh capital market finally, section five contains a conclusion.

# Objectives of the study

## Origin of the Report

This report has been prepared in respect of completing the senior project. I have been assigned to prepare this report by my honorable supervisor Dr.Tanbir Ahmed Chowdhury. The report will increase the knowledge of us to know about Security Exchange Commission.

## The Objective of the Report

Specific objectives of the report are as follows.

- To apprise the functions of SEC
- To apprise the activities of SEC for the development of primary and secondary stock market of Bangladesh.
- To analyze the different amendments made by SEC for progress of the Bangladeshi capital market.
- To identify the problems and make recommendations for the development of SEC.

## Scope and Methodology

To prepare this report I have gathered information from official website of Securities and Exchange Commission. I have also collected information from text books and valuable material provided by my instructor as well as paper cuttings from Financial Express.

## Limitations

I had to face some limitations

- Gathering information regarding the amendments was difficult
- Understanding the laws and sections related to different to the SEC was difficult.
- Time constrain

# ABSTRACT

Recently important structural changes are taking place in the demand structure in financial and capital markets as well as in the financial services. Along with these many developments have incurred in communication and technology which has facilitated the trading of securities and the movement of fund from the deficit to the surplus unit. If we look at the current financial situation it is evident that some structural reforms are necessary for investor's protection. Effective legal protection to investors is indispensable for the development of, and the restoration of public confidence in, the infant securities market of Bangladesh. In this paper we have made an attempt to examine the role of regulatory bodies in Bangladesh capital market. We have observed that the regulatory system during the Controller of Capital Issues (CCI) period was incapable of maintaining proper watch on the capital market. In 1993 the Securities and Exchange Commission (SEC) was constituted to foster a well regulated capital market including taking over of the Controller of Capital Issues (CCI). The main problems of Bangladeshi capital market are the malpractices of the companies, defective practices of brokers, unfair stock prices, non-transparency of the deals etc. All these have added to the investors problems. The paper reveals that important changes have taken place in the Bangladeshi capital market by the measures taken by SEC for the development of the primary and secondary market. The study identifies various regulatory problems that exist in the capital market of Bangladesh and some suggestions for a more fluid operation of the Bangladesh capital market.

# 1. About SEC

The Securities and Exchange Commission (SEC) was established on 8th June, 1993 under the Securities and Exchange Commission Act, 1993. The Chairman and Members of the Commission are appointed by the government and have overall responsibility to administer securities legislation. The Commission is a statutory body and attached to the Ministry of Finance.

### A. Members perform the following functions

- Serve as the members of the Commission and supervise its management.
- Provide policy direction to industry and staff and promulgate legally binding rules.
- Act as an administrative tribunal for decisions on the capital market.

### B. Mission of the SEC is to

- Protect the interests of securities investors.
- Develop and maintain fair, transparent and efficient securities markets.
- Ensure proper issuance of securities and compliance with securities laws.

### C. The Commission's main functions are

- Regulating the business of the Stock Exchanges or any other securities market.
- Registering and regulating the business of stock-brokers, sub-brokers, share transfer agents, merchant bankers and managers of issues, trustee of trust deeds, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the securities market
- Registering, monitoring and regulating of collective investment scheme including all forms of mutual funds.

- Monitoring and regulating all authorized self regulatory organizations in the securities market.
- Prohibiting fraudulent and unfair trade practices relating to securities trading in any securities market.
- Promoting investors' education and providing training for intermediaries of the securities market.
- Prohibiting insider trading in securities.
- Regulating the substantial acquisition of shares and take-over of companies.
- Undertaking investigation and inspection, inquiries and audit of any issuer or dealer of securities, the Stock Exchanges and intermediaries and any self regulatory organization in the securities market.
- Conducting research and publishing information.

**D. Departments**

- **Administration and Finance**

Administration and Finance department deals with human resources, all sorts of logistic activities, to carry out day to day executive functions as well as finance & accounts. As part of Administrative functions, administration officials performed activities regarding correspondence with concerned ministries, recruitment & training of human resources, procurement, motor pool etc. In connection with financial activities, finance & accounts officials prepare budget and financial statement of the Commission, collect revenue & disburse payments, maintain Gratuity/Pension fund, General & Contributory Provident Fund etc.

- **Capital Issue (Initial Public Offering has been renamed)**

Capital Issue Department of the Commission accords consent to issue equity and debt securities through initial public offer and also other than public offer. Public and private limited companies are required to take consent of the Commission for raising capital whose capital exceeds Tk. 10 million and 100 million respectively. This department also approves the issuance of listed companies' rights share and repeat public offer.

- **Capital Market Regulatory Reform and Compliance**

CMRRC department drafts amendments of securities laws, suggests reforms of the market and provides clarifications.

- **CDS**

Central depository System (CDS) department supervises activities of Central Depository Bangladesh Limited (CDBL), activities of depository participants, dematerialization of listed companies' shares under depository system, issue and transfer of securities in dematerialized form, beneficiary owners (BO) accounts, and issue order/notification etc. related to depository system, under the Depository Act, 1999, the Depository Regulation, 2000 and depository (User) Regulation 2003.

- **Chairmen's Office**

Function of the department is to conduct Commission Meeting and Coordination Meeting.

- **Corporate Finance**

The Corporate Finance Department (CFD) supervises and monitors the listed companies after issuance of primary shares in light of the securities laws. Activities of the department are oversight and reporting on issuers of listed securities related to on time submission of audited financial statements, half yearly financial statements and annual reports/minutes, examinations of the aforesaid financial statements and reports/minutes, appointment of statutory auditors in compliance with securities laws, utilization of fund(IPO & Rights), compliance of conditions of notification regarding corporate governance, compliance of other securities laws, supervision and follow-up of the special audits conducted by the Commission, and review of existing securities laws, rules and regulations concerning CFD and proposed amendments thereto.

- **Enforcement**

Under the Securities laws, the Enforcement Department takes legal measures including imposition of penalty against those who breach/violate securities laws in consideration of nature of crimes they commit. Prior to taking measures, it follows due process that includes giving the accused s opportunity of being heard. All departments of the Commission send referral to Enforcement Department if they see any violation of securities laws.

- **Law**

Functions of Legal department are assisting the lawyers engaged by the Commission to conduct the cases filed by or against the Commission in different courts, preparing written objection and statement on cases filed against the Commission, preparing para wise comments on writ petition filed against the Commission, signing case related documents with affidavit before the concerned officer of the court, preparing plaint/requisition for certificate cases, filing certificate cases and conducting those to realize the penalty imposed by the Commission, vetting the letters, orders, directives sent from different departments of the Commission and providing legal opinion on different matters sent from different departments of the Commission.

- **Management Information System**

Functions of the MIS department are development of automation for assisting different departments' activities, development of capital market monitoring system based on computerized data analysis, informing all about securities laws and other related matters through its website www.secbd.org , Planning , operating, administering and supporting IT infrastructure at the SEC and assisting the Commission in related areas.

- **Mutual Fund and Special Purpose Vehicle**

Mutual Fund & Special Purpose Vehicle Department deals with registration of mutual funds and special purpose vehicles, their monitoring, supervision and compliance, and any other function related to them.

- **Registration and Licensing**

Registration Department looks after registration and renewal of all stock brokers, stock dealers, merchant bankers, credit rating agencies, depository participants, authorized representatives, asset management companies, trustees, custodians, and permission regarding branch opening of stock brokers. Licensing of intermediaries help the Commission to discharge its oversight functions more effectively.

- **Research and Development**

Research and Development Department of the Commission conducts investors' education program twice a months for the general investors, organize capital market related presentation/seminar for various government and non-government organizations, deals with the Commission's various publications like annual report (Bangla & English), Quarterly report (Bangla & English), quarterly Bangla news letter- Parikrama, furnishes various reports and information to the government and other institutions including Ministry of Finance and different regulatory authorities.

- **Supervision & Regulation of Markets and Issuer Companies (SRMIC)**

SRMIC Department supervises stock exchanges and deals with complaints lodged against issuer companies as per securities laws. The functions include monitoring of declaration about sale/purchase/transfer of securities by the sponsors/directors of the listed companies, monitoring of monthly shareholding position of sponsors/directors, monitoring of disclosure of price sensitive information of listed companies, approval of transfer of shares of listed companies outside the stock exchange, monitoring all activities of stock exchange (except securities transactions), taking effective measure to address complaints against issuer, monitoring of AGMs/EGMs and dividend payments for all listed companies.

- **Supervision & Regulation of Intermediaries (SRI)**

Function of SRI Department is supervision of performing activities of merchant bankers, stock dealers/stock brokers, depository participants, security custodian banks, merchant bankers, security lenders & borrowers and other market intermediaries.

- **Surveillance**

Surveillance Department keeps vigil on securities transactions in Bangladesh. To identify unlawful trading activities, surveillance department watch and analyze the trading in both the stock exchange through on-line and off-line surveillance system and prepare daily, weekly & monthly trade reports at the end of trading by pointing market condition and observation of surveillance officials. In order to ensure proper compliance of securities related laws, surveillance department conducts investigation and enquiry against involving parties regarding market manipulation, insider trading & other malpractices, if any. The main purpose of the said activities are to ensure fair-trading and build-up confidence of investors in the securities market.

**2. Primary Markets**- The **primary market** is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering; though it can be found in the prospectus.To develop the primary stock market SEC has taken different measures. These are analyzed below.

### 2.1 IPO- the Process

The unlisted companies are required to complete certain procedures to get listing at DSE (Exchange). The present process/way of listing, in short, may describe as follows:

1. Every company intending to enlist its securities to DSE by issuing its securities through IPO is required to appoint Issue Manager to proceed with the listing process of the company in the Exchange;
2. The Issue Manager prepares the draft prospectus of the company as per Public Issue Rules of SEC and submit the same to the SEC and the Exchange(s) for necessary approval;
3. The Issuer is also required to make agreement with the Underwriter(s) and Bankers to the Issue for IPO purpose;
4. After receiving the draft prospectus, the Exchange examine and evaluate overall performance as well as financial features of the company which may have short term and long term impact on the market;
5. The Exchange send its opinion to SEC within 15 days of receipt of draft prospectus for SEC's consideration;
6. After proper scrutiny, SEC gives it consent for floating IPO as per Public Issue Rule;

7. Having consent from SEC, the Issuer is required to file application to the Exchange for listing its securities within 5 days of issuance of its prospectus;
8. On successful subscription, the company is required to complete distribution of allotment/refund warrants within 42 days of closing of subscription;
9. After 100% distribution of shares/refund warrants and compliance of other requirements, the application for listing of the Issuer is placed to the Exchange's meeting for necessary decision of the Board of DSE;
10. The Board of DSE takes the decision regarding listing/non-listing of the company which must be completed within 75 days from the closure of the subscription.

If an issuer wants to raise capital through public offering of securities it has to comply with the Securities and Exchange Commission (Public Issue) Rules, 2006. these rules require engagement of an issue manager registered with the commission and gets the proposed issue underwritten by an underwriter who is also registered with the Commission. Intending issuer in association with the issue manager prepares prospectus and collects necessary documents that are required to be filed with the Commission along with the draft proposal.

The draft prospectus, among other things, must disclose name of the company and business in which it is engaged along with description of property and competition, types, number and price of securities being offered, information about issue manager, underwriters, directors and key officials along with their compensation and information about related party transactions, risk factors, financial conditions, use of proceeds, lock in provision and subscription opening, closing and refund provision in the event of either cancellation of offering or unsuccessful in getting shares applied for. Price of the securities offered is determined by the issuer in association with issue manager. However, issue price must be substantiated to the Commission. Although, the Commission accords consent to publish prospectus on full discloser basis, yet it ensures certain requirements in according said consent so the investor's interest could be protected.

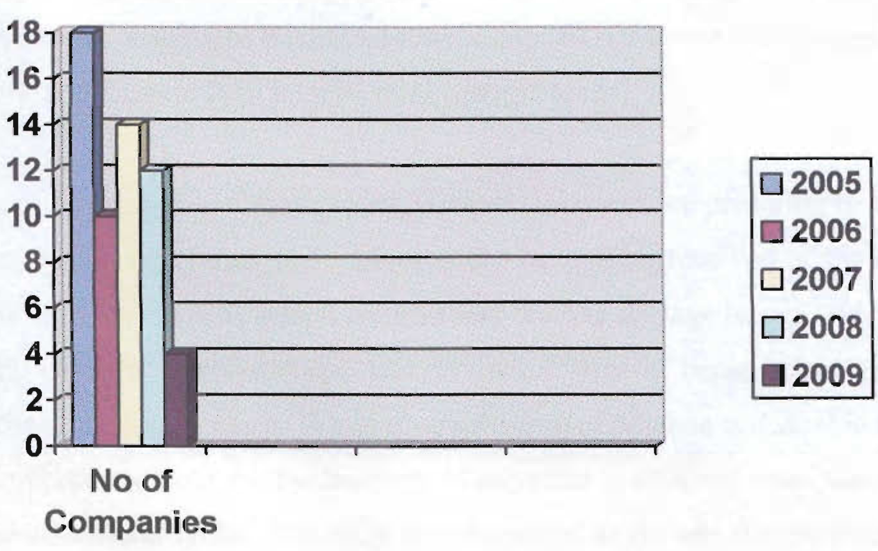
During the FY 2006-2007, the Commission accorded consent to 10 companies to raise capital of Tk.3863.30 million through initial public offering. The subscription for shares of the above 10 companies was Tk.33873.40 million against offer of Tk.3863.30 million. The application money of 10 companies was 8.77 times more than the amount of public issue. It appears that there is a lot of demand for securities in the primary market. (Financial Express)

Table No 1

**Number of companies offered IPO from 2005-2009**

| Year | No of Companies | No of companies that issued at premium |
|---|---|---|
| 2005 | 18 | 2 |
| 2006 | 10 | 1 |
| 2007 | 14 | 0 |
| 2008 | 12 | 0 |
| 2009 | 4 | 0 |

Graph No 1



If we look at the above chart we can see that there is a declining trend in the number of companies going for IPO every year. In 2005 18 companies went for IPO whereas only $ companies went for IPO in 2009. Also it can be noticed that in 2005 two of the companies issues their share at premium.

**2.2 Merchant Bankers**

Merchant bank plays a significant role as an intermediary in the capital market. In Bangladesh they carry out issue management, underwriting and portfolio management functions. Under Securities and Exchange Commission (Merchant Banker and Portfolio manager) Rules, 1996, till the end of June 2007, the Commission issued registration certificates in favor of 29 companies to perform as merchant bankers. Among 29 merchant bankers, 22 operate as Issue Manager, underwriter and Portfolio Manager, 6 as Issue manager and 1 as Portfolio Manager.

Until recently commercial banks have been involved in the capital markets mainly through ownership of brokerage businesses. Seventeen banks operate brokerage businesses as members of the Dhaka Stock Exchange (DSE). Historically revenue from securities business was low compared to a bank's core business of deposit-taking and term-lending. With a rising share market, contribution to revenue from the brokerage businesses has risen significantly. This has provided a much needed respite to many banks in the midst of reduced lending and trading activities. Most banks generated this extra revenue by lending to Beneficial Ownership (BO) accounts of investors against their stock portfolios at high interest rates (margin loans).

Because of a perception of easy profits, commercial banks are preparing to enter into the securities market on a larger scale. Many banks have either received or applied for merchant banking licenses, which would allow them to manage issues, underwrite public offerings, and offer wealth management services. Currently, banks hold 10, out of a total 31 merchant banking licenses. While diversification of revenue is desirable for banks, it is also important to note that the business of securities is different from that of banking, and presents different risks. The foray of commercial banks into the securities market raises some concerns, both from risk management and competitiveness perspectives.

**Risk to investors**: A portfolio created out of borrowed funds magnifies the risk of losses. A 10% market correction causes as much as 25% loss to an investor who is leveraged 150%. An investor not only absorbs losses incurred on his own money, but also on the money borrowed, as the lender does not assume any market risk. If significantly leveraged, an investor may lose a large part of his savings during a big market correction.

**Risk to banks**: Although margin loans are secured by shares purchased, banks take on significant risk through such lending. A 40% correction in the market would wipe off the entire equity of the investor and expose the margin lender to losses. This risk is reflected in the new banking supervision rules; under Basel II framework, investment in equity should be risk weighted at 100%. In other words, no matter the quality of share, the margin loan disbursed against such security would have to be fully risk-weighted.

**Risk to the market**: Margin lending exacerbates market volatility. A rising market lowers margin ratio allows further borrowing and encourages more buying. This in turn drives up the share prices. In a falling market, brokers call for more collateral to cover margin, often forces investors to sell, which pushes prices down, and creates further selling pressure. Such increase in volatility is detrimental to market stability.
(Financial Express, Tuesday July 21st, 2009)

Table No 2

**List of Registered Merchant Banks**



| **Sl No.** | **Name of the Merchant Banks** | **Authorized Functions** |
|---|---|---|
| 1. | Industrial Development Leasing Company of Bangladesh Ltd | **Full-fledged MB** |
| 2. | Uttara Finance and Investment Limited | DO |
| 3. | Banco Trans World (Bangladesh) Limited | DO |
| 4. | Fidelity Assets and Securities Company Ltd | DO |
| 5. | Capital Market Services Limited | DO |
| 6. | Bay Leasing and Investment Limited | DO |
| 7. | Swadesh Investment Management Limited | DO |
| 8. | LankaBangla Finance Limited,20, | DO |
| 9. | Grameen Capital Management Limited | DO |
| 10. | South Asia Capital Ltd | DO |
| 11. | Prime Finance & Investment Ltd., | DO |
| 12. | EC Securities Ltd | DO |
| 13. | Mercantile Securities Limited | DO |
| 14. | GSP Finance Company (Bangladesh) Ltd | DO |
| 15. | Bangladesh Mutual Securities Ltd | DO |
| 16. | Equity Partners Limited | DO |
| 17. | Prime Bank Limited | DO |
| 18. | Arab Bangladesh Bank Ltd | DO |
| 19. | ICB Capital Management Ltd | DO |
| 20. | Export Import Bank of Bangladesh Ltd. (EXIM Bank) | DO |
| 21 | Union Capital Limited | DO |
| 22. | AAA Consultants and Financial | **Only Issue Manager** |
| | Alliance Financial Services Ltd | DO |
| 24. | Business and Management Co. Ltd. | **Only Portfolio Manager** |
| 25. | Citigroup Global Markets Bangladesh Private | **Full-fledged MB** |

| | | |
|---|---|---|
| | Limited | |
| 26. | Trust Bank Ltd | **Full-fledged MB** |
| 27. | Janata Bank Limited | **Full-fledged MB** |
| 28 | Sonali Bank Limited | **Full-fledged MB** |
| 29 | Agrani Bank Limited | **Full-fledged MB** |
| 30 | Southeast Bank Ltd | **Full-fledged MB** |
| 31 | Standard Bank Ltd, Head Office, | **Full-fledged MB** |

## 2.3 Compliance Officer:

As per securities laws every intermediary institution has to designate an officer as compliance officer whose main responsibility is to ensure particular firms compliance with securities laws. As a primary regulator, if an intermediary does not comply with the laws properly the compliance officer has to report to the chief officer of the related intermediary. If violation of securities laws continues then the compliance officer shall report to the Commission.

## 2.4 Book Building Method:

Book Building Process of IPO pricing is a free pricing regime that values the company on its performance, both past and future, keeping in minds its investments, earning forecasts, economic scenario etc. The Commission is examining the possibility of introducing book Building System for IPO pricing on selected basis.

### Draft rules of Book Building Methods

The Securities and Exchange Commission approved the draft rules of book building method, a modern mechanism for price fixing of IPOs. The commission set the month of December to pay the annual fees against BO accounts and made mandatory for the investors to provide national identification number with applications for primary shares from the beginning of 2009.

The commission also decided, in principle, to withdraw the loan exposure limits of banks and non-banking financial institutions. SEC executive director Farhad Ahmed also announced that the draft method will be published in the national dailies for seeking opinions and recommendations from members of the public before giving it the final shape. The practical opinions and suggestions will be included in the draft rules which will come into effect after issuance of the gazette notification.

The method will be introduced to attract national and multinational companies and to increase the number of quality stocks in the market. Moreover the method will fetch fair IPO prices for the companies.

Under the draft rules, the book building process will have two stages-price discovery and book building by eligible institutional investors and public offer based on price found out through book building process. The commission will also retain the existing fixed price method of IPO.

The SEC has decided, in principle, to withdraw the limit on loan exposure of banks and NBFIs to improve the liquidity situation in the market. The withdrawal of loan exposure limit will enhance the capacity of merchant banks in financing their clients. The executive director of SEC also said that once the amendments to the rules are made, the banks and NDFIs will have no limit for portfolio exposure.

Currently, banks and NBFIs are allowed to provide margin loans in portfolio investment to their client's upto five times of their respective paid-up capital.

The provision of mentioning the national ID numbers has been introduced apparently in an effort to curb the practice of submitting IPO applications in fake names. Putting national ID numbers in the IPO applications along with other details will bring more transparency in the process and help remove any dispute concerning the applicants. But a non- resident Bangladeshi will not have to provide such ID number. The ID is applicable both for local individuals and joint applicants.

The BO account holders will now pay the annual fee of TK.300 in advance against their accounts. In case of new BO account to be opened in the year 2009, the fee will have to be paid while opening the account and the particular BO holder will have to pay the fee for the year 2010 in December 2009.

(Financial Express)

### 2.5 Securities Issue through private Placement

Rules that are required to be complied with for issuance of securities through private placement is Securities and Exchange Commission (issue of capital) Rules, 2001 under which applicants has to furnish certain information and documents to the Commission. While according consent the Commission imposes conditions that include timely preparation of financial statements and furnishing of the same to the Commission, execution of all transactions except petty cash items through company's bank account. These conditions help issuer companies elevate their corporate governance status and make them ready for raising capital through public offering.

## 3. Secondary Market-

SEC has not only worked for reforming the primary market but is also working in improving the secondary market which provides liquidity to the investors. The following reforms have been made by SEC.

### 3.1 Trading of Securities in the Exchange

In DSE and CSE trading of securities is done through automated system. As a result volume of transactions has increased substantially over the years. Now trading is done in the following four market segments:

a. Public market
b. Spot market
c. Block market
d. Odd- Lot market

### 3.2 O-T-C Markets

Securities and exchange Commission (Over The Counter) Rules, 2001 was issued in 2002 under which securities de-listed from the exchanges and securities not listed with the exchanges but have been issued obtaining consent from the Commission could be traded. CSE has provided the platform but this faculty has not yet been used.

Dhaka Stock Exchange (DSE) is going to establish an over the counter (OTC) market within the next two months to facilitate the trading of the junk shares suspended by the regulatory body in recent period.

Innocent investors, whose money remained stuck-up with the suspension of the trading of the junk shares of 28 listed companies, will be allowed to take part in the trading once the OTC is established.

Giving a bright outlook of the growing stock market of the country, the DSE president said the market will see a good flow of new shares worth Tk about 40 billion within the next six months.

He said apart from a good number of mutual funds, public limited companies like Malancha Holdings Ltd (United Group's energy company), Hosaf Power and Westin Dhaka will float their shares for general public subject to the approval of the SEC within the next few months.

(Financial Express, $8^{th}$ July 2009)

### 3.3 Private Public Partnership (PPP)

Welcoming the companies under the public private partnership (PPP), the DSE chief said they should float shares for the general public.

Finance Minister Mr AMA Muhith for the first time has allocated **Tk 25 billion** for the public-private partnership initiative to implement different projects in infrastructure, health and education sectors.

The budget also presented a position paper to the Parliament on "New Investment Attempts in Public Private Partnership Initiative".

Out of the total Tk 25 billion allocation, Tk 21 billion is for ensuring government

partnership in equity and loan assistance from the government to different projects.
The government in the position paper identified seven projects for "very urgent" basis implementation under the proposed public-private partnership (PPP) budget.
Except the construction of a deep-sea port in Chittagong, the rest of the projects are estimated to cost $13.85 billion.
The PPP projects are Dhaka-Chittagong Access Control Highway at an estimated cost of $3.02 billion, construction of a sky rail around Dhaka city at a cost of $2.8 billion, construction of a Dhaka city underground railway at a cost of $3.1 billion, Dhaka city elevated expressway at a cost of $1.23 billion, Dhaka-Narayanganj-Gazipur-Dhaka Elevated Expressway at a cost of $1.90 billion, four gas or coal-fired 450 megawatt power stations at a cost of $1.80 billion, and the construction of Chittagong Deep-Sea Port.
Mr Rakib said DSE will take a fresh move to expedite the finalisation of a proposed guideline that compels public limited companies to raise certain amount of funds from the stock market.
The move launched in 2005 came to a halt in early 2007 in view of opposition from the leading entrepreneurs.

A six-member committee comprising of central bank high officials, SEC and stock exchanges had framed a guideline but there was no progress to make it a regulation since early 2007 after a caretaker government headed by former Bangladesh Bank Governor Fakhruddin Ahmed assumed office.
If the guideline is approved the companies seeking more than Tk 250 million or above in loans have to raise 25 per cent of funds from the stock market and as much from sponsor shareholders.
The companies can seek the remaining 50 per cent of funds from banks or financial institutions.
The government took the initiative to formulate guideline on debt-equity ratio in 2005 to make the share market vital for industrial financing instead of banks.
According to the guideline, a company has to go public and ensure a triple B credit rating and a minimum credit risk grading of -ACCPT (acceptable) to be eligible for applying for

large bank loans.

It proposed to fix the debt-equity ratio at 50:50 for different projects.

The projects include infrastructure, coal exploration, pharmaceuticals and ceramic, hospital and tourism, IT, basic chemicals and industrial raw materials manufacturing industries, business expansion of existing industries, projects promoted by women entrepreneurs and non-resident Bangladeshi (NRB) entrepreneurs, commercial plantation and horticulture.

Apart from local big companies, foreign and multinational companies will also be encouraged to go public.

The manufacturing sector of the country will be largely benefited once the proposed guideline comes into being.

Financing of big projects like Padma Bridge would be much easier with the proposed guideline coming into being.

(Financial Express, 8th July 2009)

### 3.4 Trustee of Asset Backed Security Issue

An **asset-backed security** is a security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors; a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

To act as the trustee of asset-backed security, regulation is required under Securities and Exchange Commission (Asset Backed Security Issue) Rules, 2004. During the period under review, the Commission issued registration certificate in favor of Bangladesh

General Insurance Company and eastern Bank Ltd. To act as trustee of asset backed security. The Commission also made mandatory to have compliance officer by the trustee. It is worth mentioning that till the end of 2007 the Commission issued registration certificate in favor of Investment Corporation of Bangladesh (ICB), Bangladesh General Insurance Company (BGIC) and eastern bank Ltd. Under aforesaid rules to perform as trustee of asset backed security.

**Table No 3**

List of Trustees of Asset Backed Securities and Mutual Funds

| SL. No | Name of Company | Date of Issuance of Registration Certificate |
|---|---|---|
| 1 | Investment Corporation of Bangladesh (ICB) | 31/10/2004 |
| 2 | Bangladesh General Insurance Company (BGIC) | 14/09/2005 |
| 3 | Grameen Fund | 26/06/2005 |
| 4 | Eastern Bank Ltd. | 23/04/2006 |

**3.5 Issuance of Security Custodian Registration Certificate**

Security Custodian is a bank which holds securities on behalf of investors. The tasks typically performed by a custodian include: safekeeping of securities, clearing trades and collecting principal, interest or dividend payments on held securities.

Registration is required under the Securities and Exchange (Security Custodial Service) Rules, 2003 to act as a security custodian. The Commission issued security custodian registration certificate to Standard Chartered Bank, Honk Kong Shanghai Banking Corporation and Dhaka Bank Ltd. During the period the Commission issued security custodian registration certificates in favor of South East Bank Ltd. and Bangladesh Bank Ltd. and IDLC of Bangladesh.

Table No 4

**List of Security Custodians**

| Sl. No. | Name of the Company | Date of Issuance of Registration Certificate |
|---|---|---|
| 01. | Standard Chartered Bank | 19/06/2003 |
| 02. | Hongkong and Shanghai Banking Corporation Ltd. (HSBC) | 17/06/2003 |
| 03. | Dhaka Bank Ltd. | 18/05/2006 |
| 04. | Southeast Bank Ltd. | 10/01/2007 |
| 05. | Arab Bangladesh Bank Limited. | 22/01/2007 |

### 3.6 Securities trading in the Exchanges through Borrowing

Buying on margin is borrowing money from a broker to purchase stock. You can think of it as a loan from your brokerage. Margin trading allows you to buy more stock than you'd be able to normally. To trade on margin, you need a margin account. This is different from a regular cash account, in which you trade using the money in the account. By law, your broker is required to obtain your signature to open a margin account. The margin account may be part of your standard account opening agreement or may be a completely separate agreement.

In a bullish market securities price continues to increase and the investors may opt for investing more that his own equity availing loans from the brokers. As per DSE/CSE (Member's Margin) Regulations, 2000 investors could invest more than his own resources and help reaping profit from the bullish market.

Likewise supply of securities could also be increased through short-sale mechanism. Short-sale refers to selling of securities that the seller does not own. As per Dhaka Stock Exchange (short-sale) regulations, 2006 any person with a securities borrowing arrangement could sell securities without owning it. This mechanism helps increasing supply of securities and could be a win-win situation for seller, lender and brokerage firm.

### 3.7 Bond Market

The capital market of Bangladesh mainly depends on equity securities. At present there are eight listed debentures in DSE with an issued amount of Tk.140 million. Bangladesh Government issues Five-Year and Ten-Year maturity government bonds under the Bangladesh Government Treasury Bond Rules, 2003. These bonds are transferable and now are traded on O-T-C basis. In order to popularizing the government bond and increasing the depth of market secondary market trading was allowed in stock exchange with effect from 1 January, 2005. A decision has been taken to form a committee consisting representatives of SEC, Bangladesh Bank, NBR and Finance Division, Ministry of Finance to suggest measures to overcome the bottleneck and develop bond market in Bangladesh.

Before independence, the use of bonds as a means of resource mobilization was virtually non-existent in Bangladesh. Immediately after liberation, the government of Bangladesh reissued long-term bonds accepting the liabilities of the Income Tax Bonds and the Defense Bonds of the Pakistan government held by Bangladeshi nationals and institutions. The government also issued a 5% non-negotiable bond to Bangladeshi shareholders of nationalized industries. In addition, savings bonds were also issued to pay for the value of demonetized 100-taka notes in 1974. Most of these bonds are held by Bangladesh bank.

The first effort to mobilize savings for use of development expenditure was the issue of Wage Earners Development Bonds in 1981 to be sold to Bangladeshi wage earners abroad. Later, a two-year special treasury bond was issued in January 1984 to be sold to individuals, public and private sector organizations including banks. In December 1985, another instrument, the National Bond, was issued to be sold to non-bank investors.

During the implementation period of the financial sector reform programmed that took effect from 1990, Nationalized commercial banks, specialized banks and development financial institutions had to make considerable provisions for huge classified loans. As a result, the capital base of those banks and financial institutions eroded severely and their viability was seriously threatened. In this situation, the government issued a series of bonds to restructure the capital base of these banks and financial institutions as well as to assume the liabilities of the bad loans made to a number of public sector organizations.

Marketability of bonds issued in the country is very limited. The bulk of these bonds are held by the nationalized commercial banks. The few specialized and some private banks hold a part of them. Individuals and non-bank financial institutions also hold some of these bonds. Therefore, the main market of these bonds so far is being provided by the banks which hold them due to the government allocation system, as well as to maintain statutory liquidity requirements (SLR). Many of these bonds are non-negotiable. As there is no secondary market in the country, the holders of these bonds have to wait till the date of maturity for their encashment.

(Financial Express)

### 3.8 Junk Bonds

A junk bond is typically a high-interest loan with relatively unfavorable terms to compensate for a high risk of default. Junk bonds are a type of high-yield debt, and by far the most common.

The Securities and Exchange Commission on the first day of the current financial year decided to put the trading of 28 listed stocks, which are placed in the non-performing 'Z' category, on hold, at least, for the time being.
The Dhaka Stock Exchange (DSE), the prime bourse of the country, earlier, on its own suspended trading of 13 more junk shares.
The reason for the SEC taking the latest action was that the prices of the junk shares doubled in just two months on the back of the current market up-trend. There exists a strong suspicion that an unscrupulous section of people operating in the bourses are trying to dupe the innocent investors by spreading rumors about the junk stocks.
It is thus surprising that the prices of the shares of these companies have doubled over the last two months when the situation demands that there should be only sellers, no buyers of the same in the market. Only plausible reason behind the increase in the prices of junk stocks is that an organized group has been pulling the string from somewhere. The bourses may or may not be aware of this unholy act.

Though many would appreciate the SEC move to suspend the trading of 28 junk stocks to avoid cheating by an unidentified group of market manipulators, there are a few skeptics who hold a different view. The latter allege that the move is a ploy to let these errant companies, which have mobilized a large sum of money from the market, to go scot-free. The SEC last week halted the trading of shares belonging to 28 non-performing companies on the plea that prices of the same had been going up for the last two months

for no justifiable reason. But what worries the investors most is that these companies might get themselves de-listed, following the footsteps of 42 companies which has de-listed earlier. The condition of other listed stocks placed under the 'Z' category is also bad and some of those might anytime apply for de-listing.
(Financial Express Monday July 6th, 2009)

### 3.9 Mutual Funds

A **mutual fund** is a professionally managed type of collective investment scheme that pools money from many investors and invests it in stocks, bonds, short-term money market instruments, and/or other securities. The mutual fund will have a fund manager that trades the pooled money on a regular basis. The net proceeds or losses are then typically distributed to the investors annually.

The country's securities regulator has fixed the minimum size of mutual funds (MFs) at Tk 500 million by amending mutual fund rules.
No mutual funds having size below Tk 500 million will be allowed to float in the stock market .
The commission has approved the amendment of the mutual fund rules to make the funds financially viable, he added. Under the previous rules, there was no restriction about the size of the funds.
Earlier, the country's prime bourse Dhaka Stock Exchange (DSE) made the same proposal regarding size of mutual funds. This is a good move, as it will be cost-effective. Issue and management cost of a small size mutual fund is disproportionably higher. So, the SEC move will help make the mutual funds financially viable.
Currently, 17 mutual funds, having a total issued paid-up capital of $48 million or Tk 3,316 million, are listed with the bourses.

Table No 5

## LIST OF MUTUAL FUNDS

| Sl. No | Name of The Mutual Fund | Date of Issuance of Registration Certificate |
|---|---|---|
| 1 | ICB | |
| 2 | 1st ICB Mutual Fund | |
| 3 | 2nd ICB Mutual Fund | |
| 4 | 3rd ICB Mutual Fund | |
| 5 | 4th ICB Mutual Fund | |
| 6 | 5th ICB Mutual Fund | |
| 7 | 6th ICB Mutual Fund | |
| 8 | 7th ICB Mutual Fund | |
| 9 | 8th ICB Mutual Fund | |
| 10 | 1st BSRS Mutual Fund | |
| 11 | AIMS First Granted Mutual Fund | 27.01.2000 |
| 12 | Grameen Mutual Fund One | 27.08.2001 |
| 13 | Grameen One: Scheme Two | |
| 14 | ICB AMCL 1st Mutual Fund | 24.05.2003 |
| 15 | ICB AMCL Islamic Mutual Fund | 24.08.2004 |
| 16 | *ICB AMCL Unit Fund(Open end)* | 03.06.2003 |
| 17 | ICB AMCL Pension Holder Unit Fund(Open end) | 15.09.2004 |
| 18. | ICB AMCL First NRB Mutual Fund | 01.11.2006 |
| 19 | ICB AMCL Second NRB Mutual Fund | 17.03.2008 |

# 4. Amendments made by SEC

## 4.1 Amendment of Securities and Exchange Commission (Public Issue) Rules-2006

No. SEC/CMRRCD/2006-159/Admin/Admin/01-34-In exercise of power conferred by section 33 of the Securities and Exchange Ordinance, 1969 , the Securities and Commission made, after prior publication , the following amendments in Securities and Exchange Commission (Public Issue) Rules, 2006, namely :

1. The proviso under para (5) of sub-clause (b) of Clause (16) of the sub rule "B" under rule 8 shall be replaced by the following new proviso, namely:

"Provided that premium on public offering shall not exceed the amount of premium charged on shares issued (excluding the bonus share) within immediately preceding one year"

This notification was given on 24th July, 2008.

## 4.2 Amendment of Capital Issue Rule, 2001

No. SEC/CMRRCD/2009-193/Admin/03-33- Whereas, the Securities and Exchange Commission deems it appropriate that the consent already accorded by the Commission to the issue of capital in Bangladesh by the listed companies should be subject to certain further conditions in the interest of the investors and the capital and securities market.

Therefore the Securities and Exchange Commission, in exercise of power conferred by section 2CC of the Securities and Exchange Ordinance, 1969 , imposed the following further conditions to the consent already accorded by it to the issue of capital in Bangladesh by the listed companies namely :

The Security (except debt security without conversion feature) including the equity security issued in part or in full against any convertible security by a listed company for which the consent has already been accorded under the Securities and Exchange Commission (issue of capital) Rules, 2001, shall be subject to a lock in of (a) 3 years in case of directors and those who hold 5% or more shares, and (b) 1 year in case of others, from the date of issuance of such security, or from the date of issuance of consent, whichever is later:

Provided that the time involved in between the issuance of convertible security and converted equity security shall be counted for the lock in period:

Provided further that the said lock in shall also be applicable for issuance of equity security against loan or debt security having no predetermined conversion feature if such equity security is not issued at a price equal to last six months weighted average market price at the stock exchange.

This notification was given on July 9th, 2009.

### 4.3 Amendments about the Financial Statements

The companies listed with any Stock Exchange of Bangladesh, should be subject to certain conditions, to increase transparency in the state of affairs of said companies and in the interest of investors and the capita; market.

According to the power conferred by section 2CC of the Securities and Exchange Ordinance, 1969, the Commission imposed the following further conditions to the issue of capital by the companies listed with any stock exchange in Bangladesh.

The issuer company shall include the following statements/explanations in its yearly and periodical financial statements:

(a) A clear and unambiguous statement of the reporting framework on which the accounting policies are based.
(b) A clear statement of the company's accounting policies on all material accounting areas
(c) An explanation of where the accounting standards that underpin the policies can be found
(d) A statement that explains that the financial statements are in compliance with International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB), if this is the case, and
(e) A statement that explains in what regard the standards and the reporting framework used differs from IFRS, as issued by the IASB.

**4.4 Amendment to the Direct Listing Regulations**

The Securities and Exchange Commission (SEC) is set to amend the existing direct listing regulations, allotting 10 per cent shares to the institutional investors, which will bid to fix a base price for the new share, official sources said.

A nine-member review committee constituted by the SEC has already recommended for amending the direct listing regulations where the financial institutions, merchant banks and mutual funds will take part actively in setting up the prices of the company shares to be listed directly in the bourses. Under the amendment the institutional investors will set the share prices of the directly listed companies during a half-an hour session, a day before the company's trading debut in the stock markets. The financial institutions, merchant banks and mutual funds will bid for 10 per cent of the total shares to be offloaded during the half-an hour session.

The public trading of a directly listed company shares will make debut based on the market price. But the price will have a circuit breaker from the day one. The directly listed companies will have to offload their entire shares within 30 days of its debut trading as per the proposed amendment. But, under the existing regulations, these companies now offload, under the existing regulations, only 10 per cent of the total number of shares. The respective companies, whose shares are listed directly, sell their shares to public at unspecified rate through their designated brokers.

Now, there is no circuit breaker on prices during the initial three days of the share trading.

The current regulations has made room for abnormal fluctuations in the prices of the directly listed companies, which have badly affected the small investors, a senior Dhaka Stock Exchange (DSE) member said referring to erratic price movement of Jamuna Oil shares.

He said the Jamuna oil share, having the face value of Tk 10 only, have already traded between Tk 952 and Tk 265 in the stock markets, which is unfortunate. A lot of small investors lost their capital purchasing this company shares due to absence of a proper regulation.

Only four companies, all state-owned, -- Dhaka Electricity Supply Company (DESCO), Power Grid Company of Bangladesh (PGCB), Jamuna Oil and Meghna Petroleum - have, so far, been directly listed and initiated trading of their shares in the bourses.

Many more companies, including the state-owned Titas, Teletalk and a number of infrastructural projects, are in the pipeline for direct listing.

Besides, a number of multinational companies, including the country's largest mobile phone company GrameenPhone, also planned for listing on the stock exchanges.

## 4.5 Amendment: Portfolio Management limit for Banks

The Securities and Exchange Commission (SEC) has amended some rules meant for merchants banks and portfolio managers to gear up their activities in the share market.

Under the amended rules, the Commission has made it mandatory for the merchant banks to bring at least one new issue in two years instead of one year. The change comes into effect from January next.

A merchant bank will have to build up five additional portfolios every year besides managing their own portfolios in order to net more clients, which will ultimately help improve fund flow to the market.

Under the existing rules, no merchant bank or non-banking financial institution (NBFI) or bank is allowed to manage portfolios exceeding five times of their paid-up capital and free reserve.

NBFIs and banks have been excluded from such restriction under the amended rules. Thus, there will be no limit for the NBFIs and banks in managing portfolios.

The SEC has amended the merchant bank and portfolio manager rules to expedite the activities of the financial institutions in the stock market and to increase fund flow as well.

If they fail to bring new issues within stipulated period they will face cancellation of license as per securities rules.

The rules were amended against the backdrop of allegation that the merchant bankers generally preferred to invest in the secondary market rather than bringing in new issues after receiving their license.

Currently, 30 merchant banks are operating in the market. Only a few of them are now active and most of them have shown unsatisfactory performance in the capital market, with a number of them even appeared reluctant to start operations, SEC sources said.

Responsibilities of a full-fledged merchant bank include underwriting, issue management, portfolio management and lending to stock investors.

So far, the Commission has **cancelled the licenses of six merchant banks** because of violation of securities rules or their inaction after taking license. They are the First Securities Services Ltd, the Raspit Securities and Management Limited, the Pangaea Partners (BD) Ltd, the Prime Securities, and Financial Services Ltd, the Mercantile Securities Ltd, and the Equity Valuation Research and Distribution Ltd.
(Financial Express, Sunday April 19th, 2009)

### 4.6 Amendments to the Credit Rating Companies Rule 1996

THE Securities and Exchange Commission (SEC) has taken much awaited initiative to amend the Credit Rating Companies Rule 1996 for which a draft amendment has been published in the Financial Express recently for eliciting public opinions. The draft amendment has initiated a good number of proposals to ensure more transparency, control and monitoring of the credit rating companies along with development of capital market. However, it is suggested to incorporate credit rating for all the listed securities of the bourses, specially the corporate entities and mutual funds, to help develop an efficient capital market and protecting the interest of the investors.
Under the existing Credit Rating Companies Rules 1996, all issues of debt securities, or public issue of shares (including rights share) at a premium shall have to be rated by a credit rating company. However, no initial public offerings (IPOs) at par is required to be rated. The existing law also does not include the rating of mutual funds.

Bangladesh Bank, in its effort to streamline the activities of the commercial banks, made credit rating mandatory since 2006 with annual surveillance. In the same year, the Controller of Insurance also made credit rating mandatory for the insurance companies with annual surveillance for general insurance companies and bi-annual surveillance for life insurance companies. The above regulatory framework of rating covers around 30% of the listed companies with the Dhaka Stock Exchange (DSE). With the implementation of Basel-II in the banking sector, non-banking financial institutions (NBFIs) will automatically be under rating net. Hence, comprising of banks, NBFIs, and insurance companies, the total rating framework will cover around 40% of the listed securities. While these three regulated sectors are under rating framework, the corporate sectors, being unregulated, are urgently required to be under rating net to reflect their true financial health among the stakeholders

Table No 6

**List of Credit Rating Companies**

| Sl. No. | Name of the Company | Date of Issuance of Registration Certificate |
|---|---|---|
| 01. | Credit Rating Information and Services Ltd (CRISL) | 21/08/02 |
| 02. | Credit Rating Agency of Bangladesh Ltd (CRAB) | 24/02/04 |

## 5. Directives Given By SEC

### 5.1 Directive to DSE and CSE

In exercise of the power conferred by section 20A of the Securities and Exchange Ordinance, 1969 and in super session of the Commissions Directive Number SEC/CMRRCD/2001-07/96 dated December 01, 2008, the Securities and Exchange Commission directed Dhaka Stock Exchange Ltd and Chittagong Stock Exchange Ltd to the following:

1. To carry out transactions of physical shares in the spot market only during one complete cycle immediate prior to the book-closure date and also to keep transaction of such shares suspended on the day immediate prior to the starting date of book-closure.
2. Not to apply circuit breaker to the securities concerned on the trading day immediately following the record date in respect of demat securities and on the starting date of book-closure in respect of physical securities.

3. Instead of suspending trade of a listed security instantly upon closure of operation of the listed company, the stock exchange shall regularly disseminate on the trading monitor to the effect that if the situation of the company which failed to hold its Annual General Meeting(s) and issue Annual Report(s), and simultaneously the operation of the company remains closed for more then six months, is not improved within the next six months from the 1st date of such dissemination, the stock exchange shall de-list the security upon completion of the said six months of dissemination.

This Directive was issued on June 24th, 2009.

### 5.2 Directive on Branch opening for stock broker

In exercise of power conferred by section 20A of the Securities and Exchange Ordinance, 1969, the Securities and Exchange Commission hereby directs the Dhaka Stock Exchange Ltd and The Chittagong Stock Exchange Ltd and their stock brokers to comply with the following:

Sub-clause (b) of clause 2 of the Directive No SEC/CMRRCD/2002-90/34 dated July 29, 2008 shall be replaced by the following new Sub-clause (b) :

The stock broker will be allowed to open up to three branch offices to operate trading activities. For opening each branch beyond the said three branch offices, Tk. 50 Lac as additional paid up capital will be required.
It is possible only when the net worth of the broker is fifty percent of the paid up capital.
A stock broker may open a maximum of fifteen branch offices.

### 5.3 SEC to urge Bangladesh Bank for raising lending capability of brokerage houses

The Securities and Exchange Commission will urge the central bank for enhancing the lending capacity of the brokerage houses to increase fund flow to the market. Currently, as per Bangladesh Bank Rules 2001, a broker is allowed to give loans upto TK 10 million to their clients for buying securities.
SEC will urge Bangladesh Bank for raising lending capability of brokerage houses to improve the liquidity problem. The enhancement of credit limit is necessary under the present perspective as the market's size and its daily transaction have widened to a greater extent now then in 2001.
The commission has also given efforts to issue more licenses for the merchant bankers in a move to bring an end to the monopoly of the few merchant bankers. Most of the investors are not well aware about the fundamentals and basic issues of the companies they are investing in, so it underscored the need for gearing up awareness building programs.

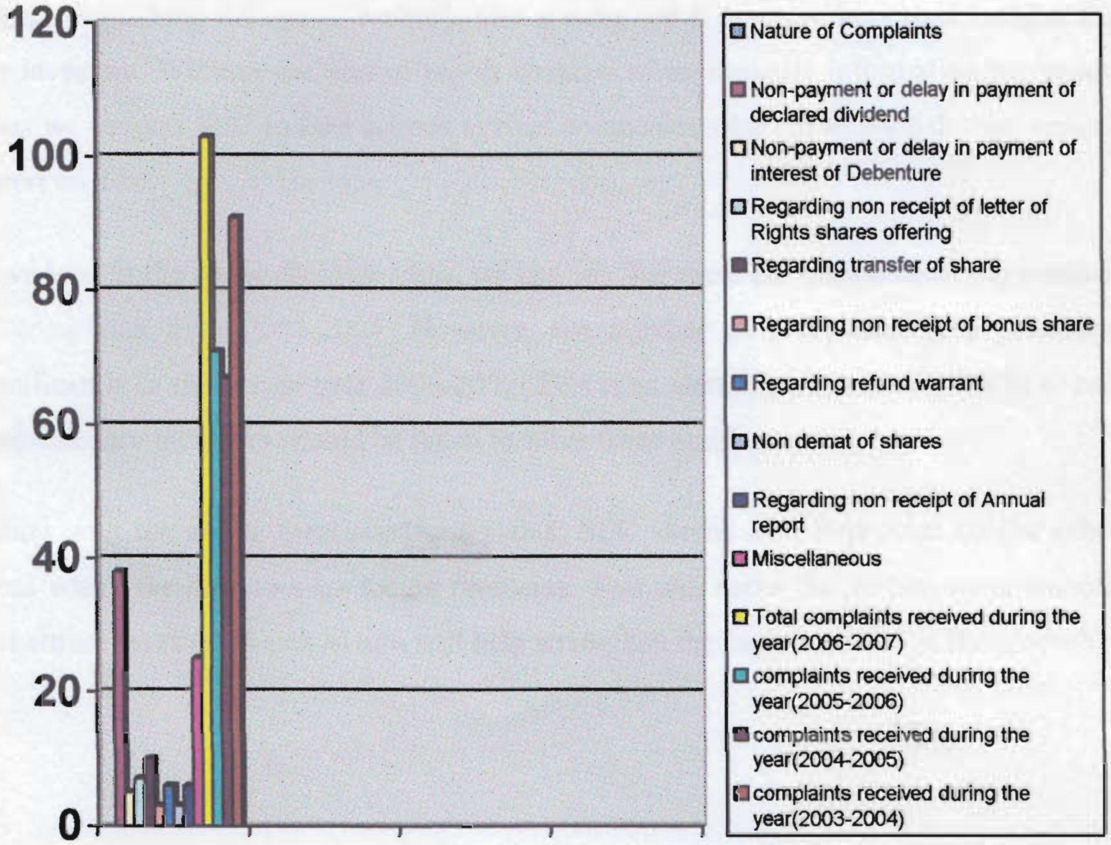
## 6. Analysis of SEC's Performance

### 6.1 Complaints received during 2006-2007 Against listed companies

Table No 7

| Nature of Complaints | No of Complaints | Under Process | Referred for Enforcement Action | Resolved |
|---|---|---|---|---|
| Non-payment or delay in payment of declared dividend | 38 | 1 | 10 | 27 |
| Non-payment or delay in payment of interest of Debenture | 5 | - | 4 | 1 |
| Regarding non receipt of letter of Rights shares offering | 7 | 1 | - | 6 |
| Regarding transfer of share | 10 | - | 4 | 6 |
| Regarding non receipt of bonus share | 3 | - | - | 3 |
| Regarding refund warrant | 6 | - | - | 6 |
| Non demat of shares | 3 | - | - | 3 |
| Regarding non receipt of Annual report | 6 | - | - | 6 |
| Miscellaneous | 25 | - | 1 | 14 |
| Total complaints received during the year(2006-2007) | 103 | 2 | 19 | 82 |
| complaints received during the year(2005-2006) | 71 | 1 | 8 | 62 |
| complaints received during the year(2004-2005) | 67 | 1 | 30 | 36 |
| complaints received during the year(2003-2004) | 91 | 55 | 13 | 23 |

Graph No 2




If we look at the graph we can see that maximum number of complaints are regarding the Non payment or delay in payment of the declared dividend. It is very important that SEC takes serious measures to combat this situation. Any company that does not pay the dividend within two months of declaration (as required by law) should be penalized or delisted.

Also there are complains against transfer of shares. For the improvement of the capital market and to attract investors SEC should ask the stock exchanges to improvise on quick transfer of shares.

Also significant complains have been received regarding refund warrant and non receipt of annual report. To attract investors it is very important that these two areas are improved. The investors should not be constrained from investing because of fear of late refund. Publishing the annual report is also a must and it provides important insights for the investors. Without the annual report chances of asymmetric information increases. Thus we suggest SEC to take actions against companies who fail to publish their annual report on time.

If we look at the comprehensive view, we can see that there has been a declining number of complains from 2003-2006. However, the number of complains have increased significantly in the annual year 2006-2007. This is an alarming situation for the SEC and precautionary measures should be taken to solve these problems.

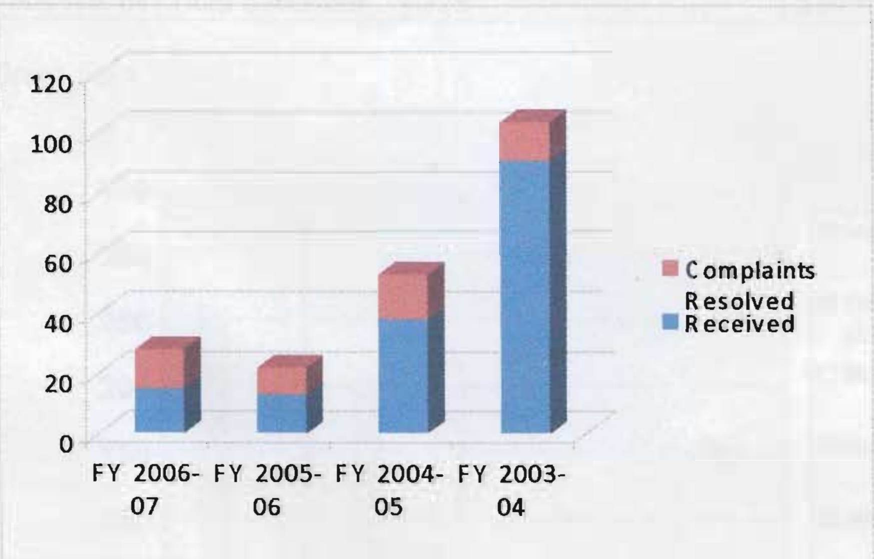
Along with the above mentioned complains, SEC should also improvise on the other areas where the investors are facing problems. This will make the process more smooth and attract investors which in turn will help strengthen the capital market of Bangladesh.

**6.2 Analysis of the Efficiency of SEC**

Table No 8

| Nature of Complaints | No. of Complaints | Under Process | Referred for Enforcement Action | Resolved |
|---|---|---|---|---|
| Non delivery of clients share through broker/dealer | 2 | | | 2 |
| Non payment of clients money | 4 | | | 4 |
| Regarding non transfer of shares in the link BO account | 3 | | | 3 |
| Miscellaneous | 6 | 1 | 1 | 4 |
| Total Complaints received during the year (2006-07) | 15 | 1 | 1 | 13 |
| Received Complaints during the Year (2005-06) | 13 | 3 | 1 | 9 |
| Received Complaints during the Year (2004-05) | 38 | 3 | 20 | 15 |
| Received Complaints during the Year (2003-04) | 91 | 76 | 2 | 13 |

Graph No 3




If we look at the following bar chart we can see that the number of complaints received in 2003-04 is 6 times more than that received in 2006-07. This is a remarkable improvement for SEC and indicates that the investors are more satisfied with the service received thus implying that SEC has been able to monitor the DSE and CSE properly. Also it is worth noticing that in 2006-07 almost 86.7% of the complaints received have been resolved. This is again much higher than the 6% resolved during the 2003-04 period. Such improvements signifies the efficiency of the SEC in performing its duties and also that it is trying to incorporate any practical suggestions that the investors might have in functioning of the stock exchanges more smoothly.

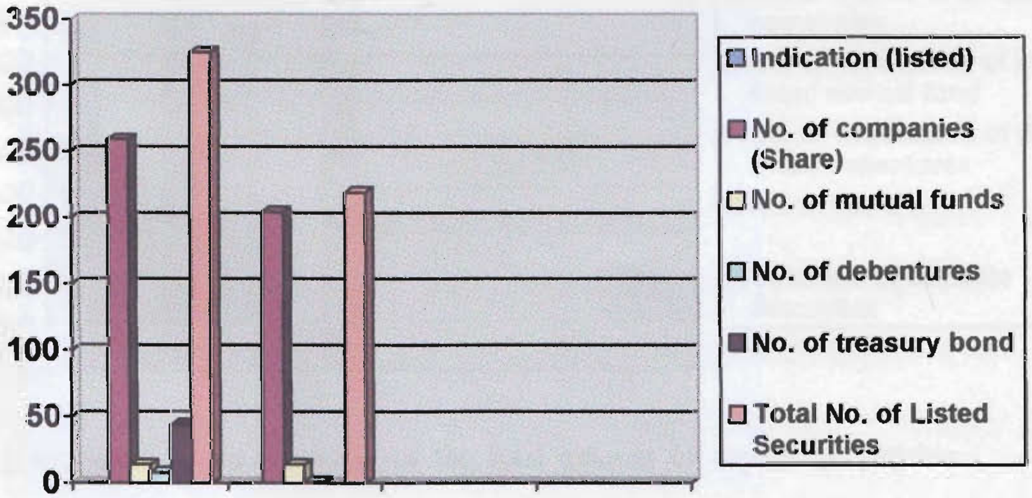
### 6.3 Capital Market Summary, 2007

**Summary of Companies listed with the DSE and CSE**

Table No 9

| Indication (listed) | Dhaka Stock Exchange | Chittagong Stock Exchange |
|---|---|---|
| No. of companies (Share) | 259 | 204 |
| No. of mutual funds | 14 | 14 |
| No. of debentures | 8 | 1 |
| No. of treasury bond | 44 | - |
| Total No. of Listed Securities | 325 | 219 |

Graph No 4



From the above graph we can see that total number of securities listed in DSE in much higher then in CSE. 325 companies are listed with the DSE of which 259 are companies' shares with only 14 mutual fund and 8 debentures. From this scenario we can also understand that the bond market needs further developments and SEC can work to improve this sector of the capital market.

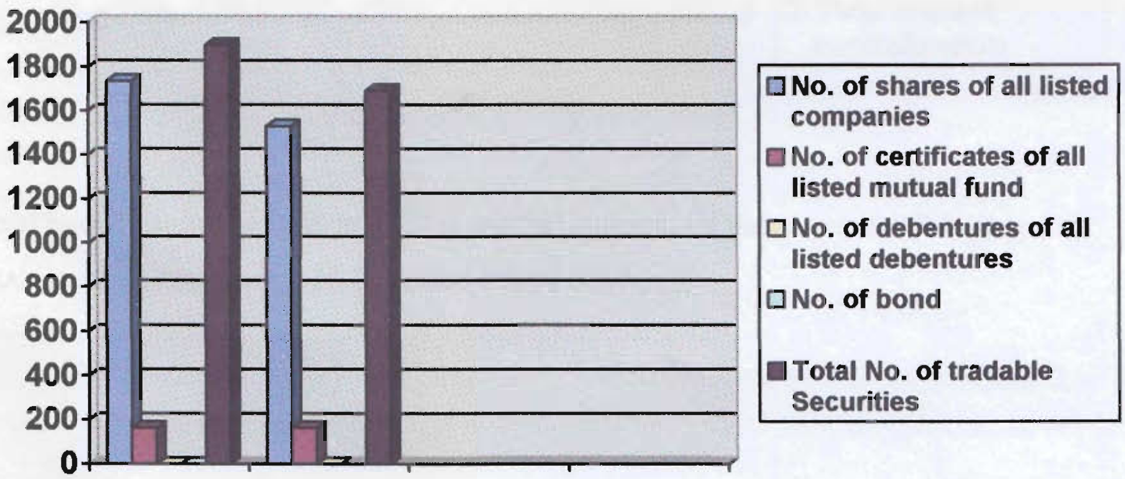
**6.4 Number of shares of all listed companies**

Table No 10

**Figures in million**

| | | |
|---|---|---|
| No. of shares of all listed companies | 1735.00 | 1530.10 |
| No. of certificates of all listed mutual fund | 162.00 | 162.20 |
| No. of debentures of all listed debentures | 0.40 | 0.05 |
| No. of bond | 0.80 | - |
| Total No. of tradable Securities | 1898.20 | 1692.35 |

Graph No 5




This graph gives us an overview of the total amount of capital of tradable securities. Again it can be seen that more companies can be encouraged to issue debentures.

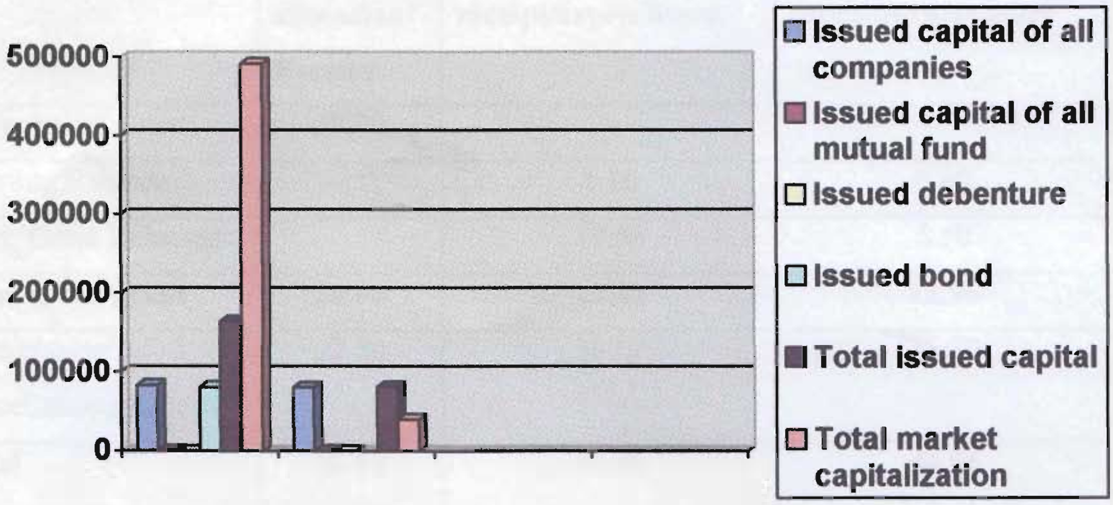
**6.5 Issued capital of all the Companies**

Table No 11

**Figures in million**

| | | |
|---|---|---|
| Issued capital of all companies | 82751.00 | 80185.10 |
| Issued capital of all mutual fund | 835.00 | 835.00 |
| Issued debenture | 140.00 | 12.80 |
| Issued bond | 80533.00 | - |
| Total issued capital | 164279.00 | 81032.90 |
| Total market capitalization | 491684.00 | 39849.90 |

Graph No 6




Total issued capital of DSE in 2007 is 491684 million. Of these only 0.028% is total issued debenture and 16.38% total issued bond.

## Financial Statements of the Commission

### Securities and Exchange Commission

### Statement of Affairs

### June 30, 2007

(Figure in Million Taka)

| Particulars | FY 2006-2007 | FY 2006-2007 | FY 2005-2006 |
|---|---|---|---|
| | Budget allocation/ Receipt | Actual receipt/expenditure | Actual receipt/expenditure |
| Government Grant | 30.00 | | |
| Opening Balance | | 4.16 | 6.46 |
| Govt. Grant Released | | 19.66 | 6.50 |
| **Total Govt. grant** | **30.00** | **23.82** | **12.96** |
| Commission's miscellaneous income | 22.50 | 33.67 | 31.70 |
| **Total allocation/Receipts** | **52.50** | **57.49** | **44.66** |
| **Payment/expenditure** | | | |
| Revenue expenditure | 45.41 | 36.22 | 35.65 |
| Capital expenditure | 5.69 | 4.75 | 4.47 |
| Loan/Advanced disbursed | 1.40 | 0.78 | 0.38 |
| **Total** | **52.50** | **40.175** | **40.50** |
| **Closing Balance (unspent fund)** | | **15.74** | **4.16** |

Securities and Exchange Commission is under the revenue Budget of the government. All of its expenses are met from the government revenue budget. The Commission maintains a fund which consists of the government allocation and revenue generated by the Commission itself. Income of the Commission includes registration and renewal fees, fees received in connection with application and consent fees for raising of company's capital, recovery of penalty etc. The government fund is released in accordance with the budget allocation adjusting net of the income generated by the SEC.

The Commission has generated considerable income during the last few years. It has met 78.27% and 80.65% of its total annual expenses from its own income generation during the financial years 2005-2006 and 2006-2007 respectively. In financial year 2006-2007, Commission's own income was Tk. 33.67 million. The commission also received as grant from the government Tk. 23.82 million, including last year's unspent balance of Tk. 4.1 million and the total receipts was Tk. 57.49 million through which it met all of its expenses. On the other hand, the Commission's total income and government allocation Revenue expenses and capital expenditure of the Commission in 2006-2007 was Tk. 41.75 million. The amount of expenditure incurred in 2005-2006 fiscal year was Tk. 40.50 million.

## Miscellaneous Income of SEC

## 30 June 2007

| Particulars | Amount in Million Tk | Amount in Million Tk |
|---|---|---|
| **Income** | **June, 2007** | **June, 2006** |
| Stock Dealer/Broker registration fees | 4.05 | 3.31 |
| Merchant Bank Registration fees | 0.276 | 0.186 |
| Mutual Fund registration fees | 0.76 | 0.68 |
| Authorized Representative registration fees | 0.69 | 0.43 |
| IPO,Application,Filing & Consent fee | 23.71 | 23.64 |
| Recovery of Penalty | 1.06 | 0.76 |
| Sale of publication | 0.00095 | 0.0024 |
| Sale of tender schedule | 0.0025 | 0.02 |
| Sale of scrap materials and old vehicle | 0.60 | 0.003 |
| Depository Participant Fee/ CDBL registration fee | 1.27 | 1.39 |
| Bank interest on deposit money | 0.14 | 0.17 |
| Notice pay | | 0.06 |
| **Total Income** | **32.58** | **30.66** |
| **Others Recovery** | | |
| Recovery of House Building loan | 0.61 | 0.52 |
| Recovery of Computer loan | 0.15 | 0.28 |
| Recovery of Motor car/Motor Cycle loan | 0.31 | 0.18 |
| Others Receipt | | 0.04 |
| **Total Others Receipt** | **1.08** | **1.02** |
| **Gross Income** | **33.67** | **31.68** |

## 7. Problems of Security Exchange Commission

SEC can make a strong economic support for a less develop country like Bangladesh But from our study has found that the function of SEC is not smooth & efficient. So there is not any other option except to overcome these problems of SEC. SEC of Bangladesh may consider the following points for formulating the new capital market regulations.

- The process of Prospectus Disclose is not upto the mark and to strict enough.
- Mechanism for underwriting is not efficient and fast.
- Foreign institutional investor's regulations discourage investment by them in the capital market thus reducing the volume of transaction.
- Misrepresentation and Omission of important information about securities which misleads the investors to purchase stocks of poor performing companies.
- Manipulating the market prices of securities which mislead the investors.
- Stealing customers' funds or securities and causing harassment to the investors discourages the investors to make any further investment.
- Merchant Banker regulations should be updated so that it can facilitate the trade of securities.
- Mutual Fund Regulations needs update for better transaction and also to encourage these investors.
- Broker-dealers' responsibility to treat customers fairly is violated which discourages the investors.
- Insider trading (violating a trust relationship by trading on material, non-public information about a security) is one major problem that SEC faces. This should be stopped to protect the investor's interest.
- There is corruption in file transfer and there is a lack of experienced employee which makes the transfer process much slower.
- The SEC also faces complain regarding sale of unregistered securities. This violates the investors and discourages further investment.

## 8. Laws that need to be changed

It is unfortunate that despite adoption of an "Accounting Standard" by many Asian countries including India and Pakistan, to improve the standards in the world of accounting, Bangladesh is still lagging behind. Accounts are being prepared by the auditors following the "Bangladesh Accounting Standards" as required by Securities Exchange Commission (SEC) and as adopted by the Institute of Chartered of Accountants of Bangladesh (ICAB). But tax practitioners are facing tough opposition from the tax officials in the case of assessing tax on accounts based on such standard.

As such, immediate adoption of the "Bangladesh Accounting Standard" (BAS) and insertion of appropriate provisions in section 35 of the Tax Ordinance 1984 have become an imperative. A law has to be enacted to restrain outright rejections of some claims by the tax officials. Bangladesh is part of the global economy and if it has to keep abreast with developments or attract investment, it has to follow global standards. Seen from this perspective, the sooner we adopt the "Accounting Standard", the better for us.

As issuers of securities, companies will be able to access investors more easily, audit firms will be better able to assure quality of audit and national audit agencies and regulators will benefit from the greater consistency and quality of information.

Accounting bodies throughout the world are striving to achieve a reasonable degree of uniformity in the accounting policies and have adopted the "Accounting Standard" in line with Bangladesh Financial Reporting Standard (BFRS).

The International Financings Reporting Standard (IFRS) have assumed great importance in the recent times for the following reasons:

(a) Globalization of the economy has led to companies in Bangladesh expanding their operations across the borders and this calls for uniformity in accounts.

(b) Foreign investors would give more weightage to the accounts of those companies which are based on IFRS.

In view of the above situation, it is necessary to adopt "Bangladesh Accounting Standard" for which some amendments may be made in the Income Tax Ordinance 1984. (Financial Express).

## 9. Upcoming Development Projects

- **ADB Project: Improvement of Capital Market Governance**

  The project is a loan project financed by Asian Development Bank under the Improvement of Capital Market and Insurance Governance Project ADB TA Loan-2232 BAN. Main objective of the project is development of the capital market in Bangladesh.

  The TA Loan will support the development of a sound and efficient capital market and insurance sector to help accelerate economic growth and poverty reduction. It will also provide the foundation for future reforms anchored on stronger market confidence and enhanced market institutions.

- **World Bank Project**

## 10. Recommendations

In view of the activities of SEC of Bangladesh the following recommendations have been prescribed to improve the regulatory system of Bangladeshi capital market.

1. Investigation on the activities of the stock exchanges should de done frequently to hind any loopholes that might exist.

2. According to the Company Law prevalent in Bangladesh declared dividend should be paid within two months. It is recommended that if a company fails to do so the Stock exchange should fine those companies or delist them.

3. Delisting of companies may be done by Stock Exchanges or they may be fined by SEC, if the company does not follow the rules. Constant follow up action is needed for companies in default.

4. Stock Exchange management should perform its operations more efficiently, like transaction of shares reduction of transfer time.

5. SEC should also strengthen the disclosure rule to maintain good quality securities.

6. SEC should strive to prohibit the malpractices prevailing in the market such as insider trading, kerb trading etc.

7. SEC should create a proper atmosphere required for raising money from the capital market.

8. Sec should protect the investors interest and should take measures to listen to their complain and solve them more effectively.

9. SEC should take actions against stealing customers' funds or securities, Prospectus Disclosure, Mechanism for underwriting, foreign institutional investors regulations issues.

## 11. Conclusion

The Securities and Exchange Commission can play a vital role in the development of capital market. So the setting up of SEC is in the right direction in consonance with the globalization of Bangladesh economy. But it seems clear that the regulatory system of Bangladesh is in a process of change with the inclusion of new rules over the relative position and strictly delineated functions of various types of capital market institutions. For this, the Securities and Exchange Commission Ordinance, 1969 and the Securities and Exchange Commission Act 1993 need amendments to make stronger the SEC. if necessary; foreign expertise can be appoint for the betterment of SEC. The commission must employ more resourceful, competent and qualified people. Regulation should apply to all sales of securities, both public and private. SEC must stop rude practices like false and misleading documents insider trading, commingling etc.

## Bibliography

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