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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.



“Despite an increase in remittance inflows and export profits, reserve growth has been impeded by large overdue and current import payments”



— Imran Mahmud, Lecturer, BICM & Md. Adnan Ahmed, Lecturer, BICM



Economy of Bangladesh

Following a \$1.5 billion payment to the Asian Clearing Union against import bills for September and October, Bangladesh's gross foreign exchange reserve, as determined by the International Monetary Fund, has fallen to \$18.46 billion. [Fig-01].

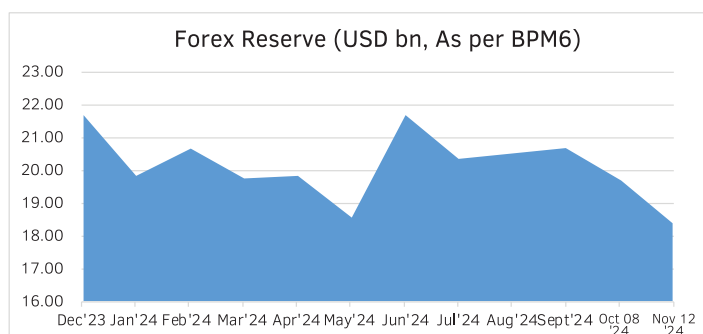


Figure-01 Forex Reserve

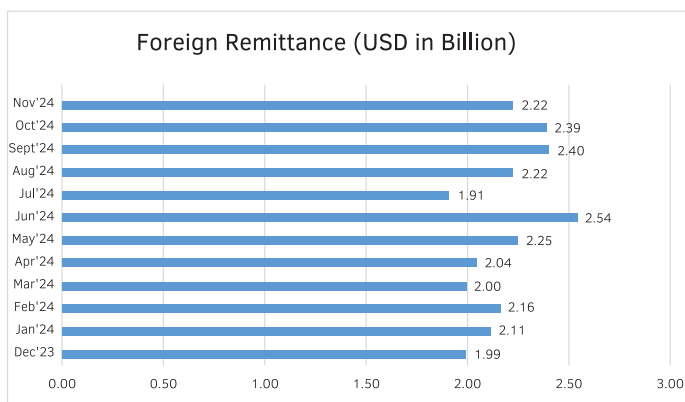


Figure-02 Foreign Remittance

In November, remittances from Bangladeshis living outside increased 14% year over year to \$2.2 billion. [Fig-02].

Average inflation as of November soared to 11.38%, significantly above the target of 7.2%. [Fig-03].

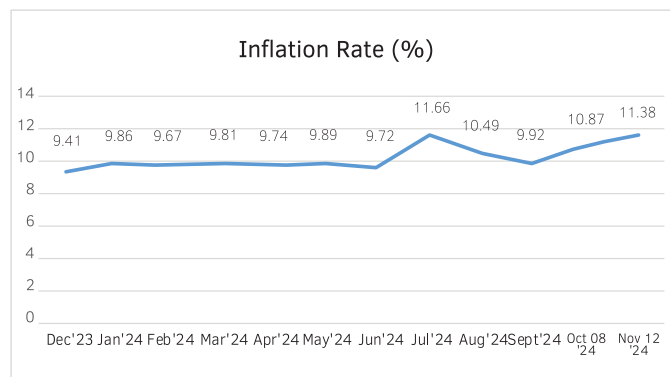


Figure-03 Inflation Rate

A Visual Tour of the Key Statistics

As of December 3rd, yields of government securities stood at 11.71%, 11.90%, 11.99%, 12.30%, 12.45%, 12.55%, 12.69%, and 12.78% for the tenures of 91-day, 182-day, 364-day, 2-year, 5-year, 10-year, 15-year, and 20-year, respectively. [Fig-04].

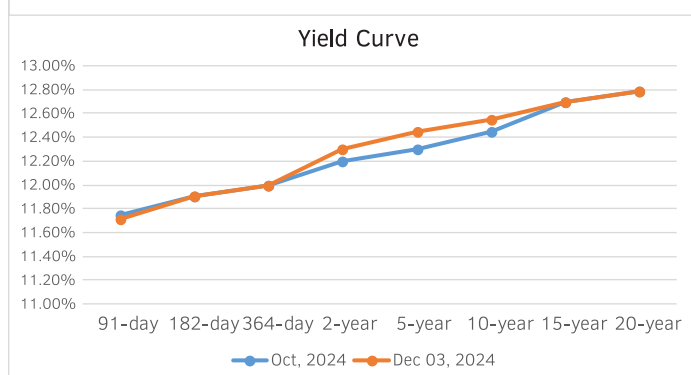


Figure-04 Yield Curve

The average call money rate reached 10.02% in November, compared to 9.91% in October. [Fig-05].

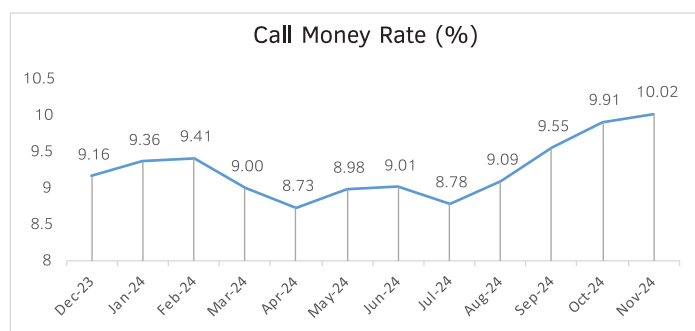


Figure-05 Call Money Rates

The table shows changes in monetary components, with currency outside banks decreasing by 3.04% month-over-month (MoM) but growing significantly by 11.85% year-over-year (YoY). Deposits of financial institutions with the central bank dropped sharply by 6.91% MoM and 2.50% YoY. Demand deposits with banks showed a slight 0.59% decline MoM but grew 3.45% YoY, while time deposits increased marginally by 0.71% MoM and 7.75% YoY. Overall, money supply (M1) declined 2.07% MoM but rose 8.28% YoY, while M2 remained stable MoM (0.04%) with a YoY increase of 7.88% [Table-01].

Components	Money Supply			Percentage Changes	
	Sep, 2024	Aug, 2024	Sep, 2023	Sep'24 over Aug'24	Sep'24 over Sep'23
Currency outside banks	2,835,534.00	2,924,344.00	2,535,054.00	-3.04	11.85
Deposits of Fis with BB	5,862.00	6,297.00	6,012.00	-6.91	-2.50
Demand deposits with DMBS	1,923,236.00	1,934,719.00	1,859,107.00	-0.59	3.45
Time deposits with DMBS	15,486,855.00	15,377,888.00	14,372,285.00	0.71	7.75
Money supply (M1)	4,764,362.00	4,865,360.00	4,400,173.00	-2.07	8.28
Money supply (M2)	20,251,487.00	20,243,248.00	18,772,458.00	0.04	7.88

Table-01 Money Supply

As per following graph, the trade deficit decreased from \$7,542 million in FY24 to \$6,658 million in FY25. The current account deficit narrowed significantly, dropping from \$3,160 million in FY24 to \$752 million in FY25. Additionally, the financial account turned positive, increasing from a deficit of \$873 million in FY24 to a surplus of \$1,187 million in FY25 [Fig-06].

Bangladesh's external position showed improvement in the early months (July–August) of FY25 compared to the same period in FY24. The trade deficit narrowed from USD 3,044 million to USD 2,754 million. The current account balance shifted from a deficit of USD 610 million in FY24 to a surplus of USD 111 million in FY25. However, the financial account balance declined slightly, from USD -1,337 million to USD -145 million [Fig-07].

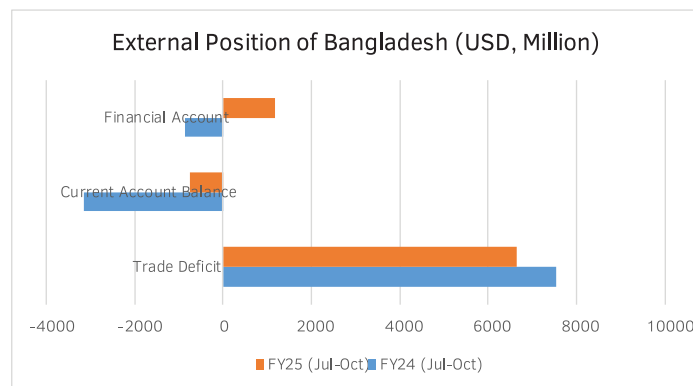


Figure-06 External Position of Bangladesh

Insights from Numbers

- ▶ Despite an increase in remittance inflows and export profits, reserve growth has been impeded by large overdue and current import payments. These transfers have forced banks to use dollars, preventing further accumulation of the reserve volume. In order to fulfill its responsibilities to the government, the BB has sourced dollars from the interbank market rather than selling them straight from its reserve to banks. This prevents reserve building by requiring banks to pay for all imports with their own foreign currency.
- ▶ Since August of this year, remittance inflows have been increasing, which has reduced the strain on the nation's foreign exchange reserves. In the first five months of current fiscal year, the amount of money sent home by Bangladeshi migrants was 26.4 percent greater than during the same period in the previous fiscal year.
- ▶ Inflation in November soared up mainly driven by rise in food inflation which jumped to 13.80 percent from 12.66 percent.
- ▶ Persistent rise in treasury bills yield will also increase the government's expenditure of interest payments.
- ▶ High call money rate accompanied by rising policy rate increased the cost of borrowing for the banks. Therefore, businesses became worried as cost of doing business kept rising, which eventually would affect business production and profitability.
- ▶ Money supply scenario suggests a cautious monetary environment where short-term liquidity (M1) is tightening MoM, likely reflecting reduced immediate cash availability and lower financial institution deposits, while long-term stability (M2) remains robust due to steady growth in time deposits. This indicates a shift towards savings over spending, which may reflect economic uncertainty or deliberate monetary policy actions.
- ▶ External position of Bangladesh indicates a significant improvement in external sector dynamics in FY25 (Jul-Oct) compared to FY24. The trade deficit narrowed, the current account balance moved closer to equilibrium, and the financial account shifted to a surplus, reflecting improved trade performance and increased foreign financial inflows. This suggests strengthening external stability and possibly better policy management or favorable external conditions.

“Steady gains amid mixed sentiment in November 2024”

Faima Akter [Lecturer, BICM] &
Gourav Roy [Lecturer, BICM]



Capital Market

In November, capital market of Bangladesh showed a mixed performance, with some indices showing modest gains while others faced slight declines, reflecting cautious investor sentiment. The benchmark DSEX index experienced a negligible rise of 0.03%, closing the month at 5,192.59, signaling stability but limited enthusiasm in the broader market. Overall, November 2024 reflects a cautiously optimistic market environment, with resilience in selective indices counterbalancing challenges in others.

After analyzing the stock market snapshot for November 2024, it is evident that all DSE market indices have demonstrated mild positive changes from the previous month. The DSES, representing Shariah-compliant stocks, gained 1.72%, indicating increased investor interest in ethical investments. Similarly, the DSMEX index of small and medium-cap stocks outperformed with a robust 6.38% growth, driven by optimism in these sectors. Meanwhile, the blue-chip DS30 index rose by just 0.04%, signaling steady performance among leading companies. Conversely, the CDSET index of the Chittagong Stock Exchange declined by 0.85%, highlighting regional challenges. Overall, the market exhibited a cautiously optimistic sentiment, with targeted growth in select segments balancing broader stability.

Index Name	1-Nov-24	30-Nov-24	Change	% Change
DSEX	5,190.86	5,192.59	1.73546	0.03%
DSES	1,147.15	1,166.89	19.74	1.72%
DS30	1,915.44	1,916.23	0.79798	0.04%
CDSET	1,063.67	1,054.59	-9.08	-0.85%
DSMEX	1,026.04	1,091.49	65.45	6.38%

Table: 01 DSE Market Indices

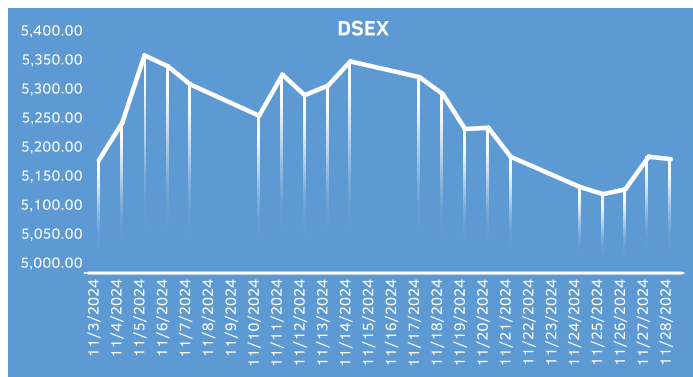


Figure-01 DSEX

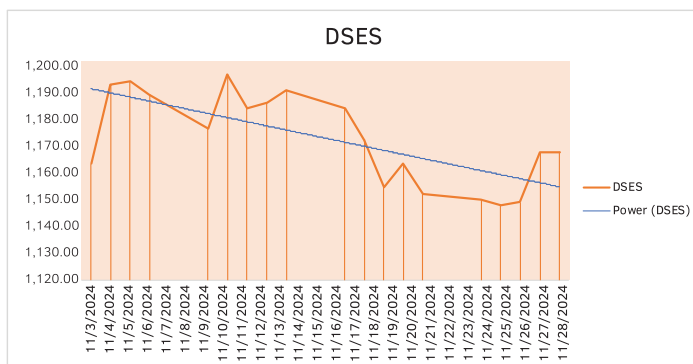


Figure-02 DSES

During November, on average, only 155 issues advanced, 185 issues declined, and the remaining 52 issues closed unchanged. Based on the Advance-Decline (AD) ratio, which compares the number of stocks that increased in value to the number of stocks that decreased in value, it is clear that November's 20 trading days represented a downward trend line throughout the month, with the AD ratio peaking during the last week of the month [Figure-03].

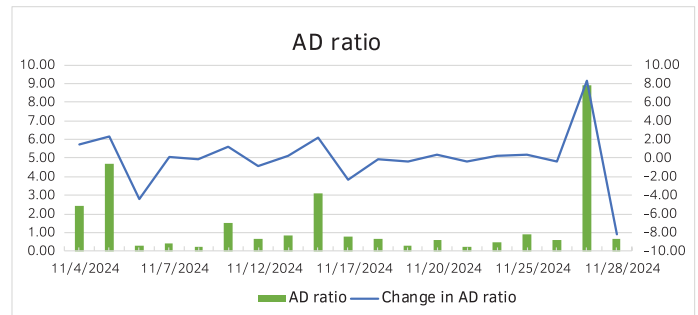


Figure-03 Advance Decline Ratio

In November 2024, the Bangladesh capital market saw increased activity across key metrics. Average market capitalization rose by 0.56%, while average traded value surged 36.06%. The average number of trades and trade volume grew by 26.22% and 21.25%, respectively, reflecting heightened investor participation and market liquidity.

	31 October 2024	28 November 2024	Change	% Change
Average Market Capital (TK Million)	6646042.3	6,683,581.2	37,538.8	0.56%
Average Traded Value (TK Million)	3648.2	4,963.9	1,315.7	36.06%
Average Number of Trades	127310.8	160,691.6	33,380.9	26.22%
Average Trade Volume	143936533.9	174,517,094.7	30,580,560.8	21.25%

Table: 02 Market Aggregates

The macroeconomic landscape of Bangladesh has significantly impacted its capital market, with several key factors shaping investor behavior and market performance. Inflation remains a critical concern, causing increased operational costs for businesses. High inflation, coupled with rising bank interest rates, has led to a tightening of liquidity, making it more expensive for companies to borrow. This, in turn, puts downward pressure on corporate profits, reducing investor confidence in the stock market. Additionally, fluctuations in the foreign exchange rate have complicated the market's outlook. The taka's depreciation against major currencies, along with limited foreign currency reserves, has led to a decrease in foreign investments, further contributing to market volatility.

BSEC has taken several steps to make the market convivial. A series of meetings were held with entities such as the Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE), and other related bodies. The goal was to develop a comprehensive roadmap for improving market transparency and fostering a more prosperous market environment. This action highlights the BSEC's commitment to addressing the concerns of investors and market participants amid fluctuating market conditions. Furthermore, the commission has been taking steps to monitor market activities, ensuring compliance, and swiftly addressing irregularities like market manipulation.

Currently, there are 14 Initial Public Offerings (IPOs) in the pipeline awaiting approval from BSEC. Out of these, 6 IPOs are applying for the SME board, while the remaining 8 companies are applying for the main board.

On average, the market PE ratio of the Dhaka Stock Exchange Limited this month was 17.95 [Figure-04]. NRBBANK and EMERALDOIL emerged as the top companies with the highest turnover and return respectively, over the month. On the other hand NEWLINE was the top loser [Table-03]. In terms of sector return, maximum sectors showed negative returns except for insurance, fuel and service sectors [Figure-05]. In terms of sectoral turnover, bank, pharmaceuticals, textile, and food sectors have higher contributions [Figure-06].

Turnover				Gainer		Loser			
SI	Stock	Turn Over	Total (%)	SI	Stock	Return (%)	SI	Stock	Return (%)
1	NRBBANK	780.47	15.32%	1	EMERALDOIL	26.10%	1	NEWLINE	-24.61%
2	LOVELLO	550.96	-1.44%	2	INTRACO	21.21%	2	PHOENIXFIN	-11.11%
3	BSC	505.11	2.74%	3	HRTEX	19.26%	3	EPGL	-10.49%
4	AGNISYSL	477.12	3.49%	4	DOREENPWR	16.95%	4	ALLTEX	-9.09%
5	MIDLANDBANK	454.63	8.94%	5	BIFC	16.67%	5	NFML	-8.99%

Table-03 Top Five Turnover, Gainer and Loser

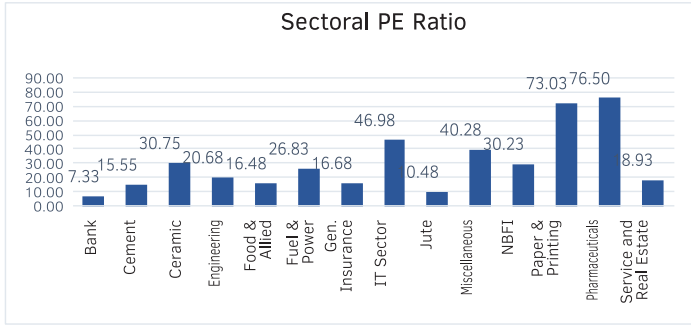


Figure-04: Market PE Ratios

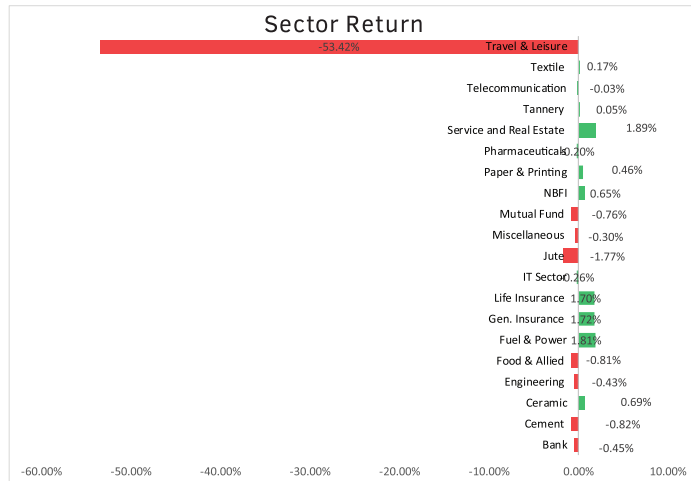


Figure-05: Sector-wise Market Return

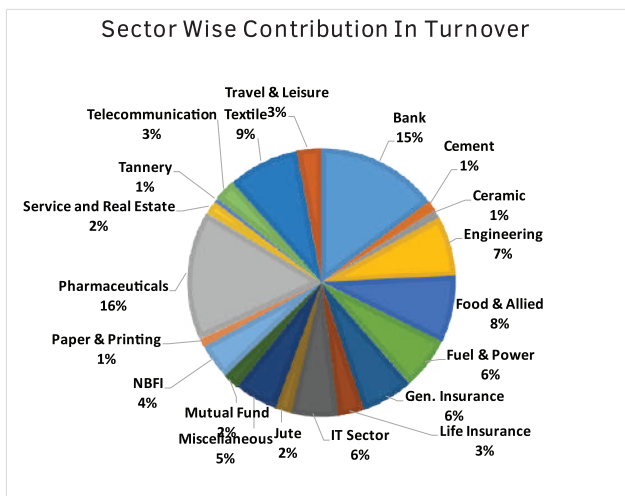


Figure-05: Sector-wise Contribution in Turnover

In November 2024, global stock indices showed varied performances. The DOWJONES in the USA led with a significant gain of 6.80%, while the FTSE 100 in the UK rose by 1.35%. Japan's Nikkei 225 increased by 0.41%, and India's BSESENSEX saw a modest rise of 0.10%. In comparison, Bangladesh's DSEX remained nearly flat, up by just 0.03%. This reflects stronger market growth in developed economies compared to Bangladesh's relatively stable market performance. [Table-04]. Natural gas was the top performer with a return of 10.93%, showing an increase in value during the month. In contrast, Soybean experienced the largest drop with a return of 2.69%. Other commodities exhibit increase, including Gold with a return of 1.25%, Cotton with .90%, and Crude oil with a return of 0.07% [Table-05].

Country	Index Name	Return
India	BSESENSEX	0.10%
USA	DOWJONES	6.80%
Japan	Nikkei 225	0.41%
UK	FTSE 100	1.35%
Bangladesh	DSEX	0.03%

Table 04 Performance Comparison of the World's Major Index

Commodity name	Return
SUGAR	2.44%
NATURAL GAS	10.93%
COTTON	0.90%
SOYBEAN	-2.69%
GOLD	1.25%
CRUDEOIL	0.07%

Table 05 Performance Comparison of Commodity Futures

In summary, November 2024 saw a relatively stable yet cautious performance in Bangladesh's capital market. While there was increased trading activity, investor sentiment remained subdued amid market fluctuations. BSEC continued its regulatory efforts to enhance market transparency and address investor concerns, reflecting a long-term strategy for market stability. However, to fully restore investor confidence and promote sustainable growth, addressing macroeconomic challenges and ensuring the effective implementation of these reforms will be crucial for the market's resilience and recovery.

Source: DSE website and LankaBangla Financial Portal



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Recommendation to Reform: A New Horizon for the Capital Market of Bangladesh



Insights

1. Reforms in Market Ecosystem and Broaden Stakeholder Mindset

Reforms To Restore Trust in The System and Improve Governance

All out efforts needed to restore trust and improve governance, the keys to the development of the financial market. We need to formulate and implement strong corporate governance policies to improve governance in all levels such as issuer companies, auditors, market intermediaries, tax authority and regulatory body etc.

Regulators' focus should be improving the regulatory environment and policy making. The KPI of the regulators of every financial market is upholding public trust through transparent systems and accountability.

No Impediment for Free Market Trade

Any impediment to free trade is against the basic notion of secondary market. Liquidity is the primary reason behind the secondary market formation. Floor price, abnormally low circuit breaker limit and closure of market, severely impacts the market liquidity. This floor price has severely damaged the Bangladesh stock market reputation to the foreign investors' community. We need to ensure that floor price will never introduce in the market. To restore confidence of foreign investors, regulator may consider giving a circular/notification that this kind of 'floor price' will never impose again.

Frequent Policy Changes Need to Be Stopped to Ensure Predictability

Frequent changes in the policies tarnish the trust in the system. We experienced several ad-hoc policies be it on floor price, circuit breakers, allowable margin loan ratios, or stock categorization since long. Besides, there have been four (4) amendments to the Public Issues Rules owing to various requirements. These sort of ad hoc changes to serve short term agenda needs to be stopped. It is important for investors, local & foreign, to have a predictable economic environment so that their systematic risks can be hedged away.

Broaden mindset of Investor and Media

In Bangladesh, there is an ongoing perspective that the sign of a good capital market is an ever-increasing index. People believe that any fall in the index signals that the shareholders have been misled. This becomes a more concerning issue considering that the Bangladesh market is heavily individual retail investor focused. A sharp price fall in the market results in the news media outlets also widely circulating the issue. This further creates a negative impression on the market. In every market, stock price goes up or down depending on many economic, financial and company level factors.

Coordination Between Regulator and Stakeholders

Without consulting with the relevant stakeholders, any decision taken by the regulator can create an imbalance in the market. Any policy making should be consulted with the relevant stakeholders such as AMCs, merchant banks or brokerages, issuer companies etc. In addition, different professional bodies such as CFA Society, ICMAB and ICAB community should be engaged for policy formulation. Besides, there should be a permanent coordination committee between regulatory authorities like BSEC, Bangladesh Bank, National Board of Revenue and the stock exchanges to ensure better coordination with regards to the issues having impact on the market.

2. Resolve IPO Market Issues to Attract Good Companies

When considering the IPO market dynamics, one needs to consider Issuer, Regulator and other stakeholders' perspective.

2.A Issuer Perspective (Supply Side)

Upgrade the Valuation Method

In Bangladesh, regulator is more concerned about the secondary market performance of a listed companies.

Hence, they are conservative in IPO valuation. The present regulator prescribed valuation model is too much restrictive and discouraging for the good companies.

Comparison with Other Markets: To assess the valuation methods in other markets, we have explored the situations of four countries – India, Sri Lanka, Pakistan and Singapore. The current scenario and valuation methods in these countries are outlined below:

Country	Types of IPO	Responsible Party for Valuation	Valuation Process
India	Fixed Price & Book-building	Issuer and Issue Manager	Fixed Price: Price determined using relevant valuation models. Book-building: Floor Price determined using relevant valuation models. Price band set within a 20% range of Floor Price for; Strike Price determined through bidding.
Sri Lanka	Fixed Price	Issuer and Issue Manager	Price determined using relevant valuation models
Pakistan	Fixed Price & Book-building	Issuer and Issue Manager	Fixed Price: Price determined using relevant valuation models Book-building: Floor Price determined using relevant valuation models. Price band set within a 40% range of Floor Price; Dutch Auction Method for Strike Price determination.
Singapore	Mainboard and Catalyst	Issuer and Issue Manager (Mainboard) Issuer and Sponsor (Catalist)	Price determined using relevant valuation models, with Strike Price being determined through bidding in book-building process.

We recommend reintroduction of the Dutch Auction and let the eligible institutional investors discover the fair price. The Issuer and Issue Manager may have the flexibility to propose an indicative price by assessing institutional investors views through roadshows. Ultimate price will be determined by demand and supply of investors.

Shorten the Time Required for Listing

Where a bank loan can be availed within 2 months in Bangladesh, a company requires 6-8 months from application to BSEC, to receiving money, if they choose to raise capital through IPO. This makes receiving a bank loan a much swifter option for companies. In addition, during the 6-8 months of IPO approval, economic and business environment may change which may demand change in the IPO fund utilization plan. To do that, the company needs to get approval from BSEC and conduct an EGM – a process that requires additional 3 months' time. In India, the entire process is much more streamlined. The table below showcases the different phases involved.

Phase	Timeline
Planning	2 weeks
Due diligence	4-5 weeks
DRHP Preparation	1 week
SEBI Approval	4-8 weeks
RHP Submission	2-3 weeks
IPO Launch	Minimum 3 days
Allotment	Within 1 day of issue closure
Listing	Within 3 day of issue closure
Post issue activities	2-3 weeks

Table 02: IPO issuance timeline

Tilt the IPO Distribution pie towards Institution

Bangladesh’s IPO allocation is heavily retail investor focused, with a 75%-25% division for GPs and EIs. Both India and Sri Lanka have a much greater allocation in IPO towards institutional investors – the most informed investor base in the market. In India, QIB enjoys at least 50% allocation under the Profitability route (meeting eligibility criteria) and at least 75% allocation under QIB route (special route if eligibility criteria not met). In Sri Lanka, Unit Trusts and non-retail investors are allocated at least 60% of the issue for IPOs less than LKR 3 billion. Institutions usually have the capacity to assess the IPO prospects and are better positioned to absorb the IPO price fluctuations compared to retail investors.

Bring more flexibility on IPO Proceed Utilization

In Bangladesh, there are restrictions on the utilization of IPO proceeds, with only one-third of the fund raised being usable for loan repayment. However, in India, there are no such restrictions.

Sufficient Tax Incentives to Offset the Cost of Listing

If any company becomes listed, the only benefit is the tax saving at 5%. However, many companies do not find it lucrative considering issues of high level of corporate governance i.e. reporting to regulatory authority, disclosure of financial statement, scrutiny of financial statement by regulator, corporate governance etc. In addition, there exists a general perception among entrepreneurs that they will have to pay VAT & Tax more accurately if they become listed. This pressure can cause an unwillingness to conduct an IPO. We may introduce reduced tax rate for 3-5 years to reduce the burden for newly listed companies, as seen in Sri Lanka.

We need to appreciate that no tax incentive will work if there is a scope to evade tax. Hence tax evasion loopholes need to be corrected. The government has already established DVS to ensure a single financial statement of any company. NBR needs to ensure transparency in VAT & Tax submission and compel companies to pay VAT & Tax properly.

2.B Regulatory Perspective

Conservativeness of the Regulator

In Bangladesh, sometimes the regulator is conservative about the IPO valuation due to possible loss in secondary market performance. They are concerned about the secondary market performance, hence want to keep IPO price as low as possible. In capitalist economy, pricing is totally a function of demand and supply interaction among investors. In India, in FY24, 22.36% issues experienced negative returns, and this was seen as normal operation of the market.

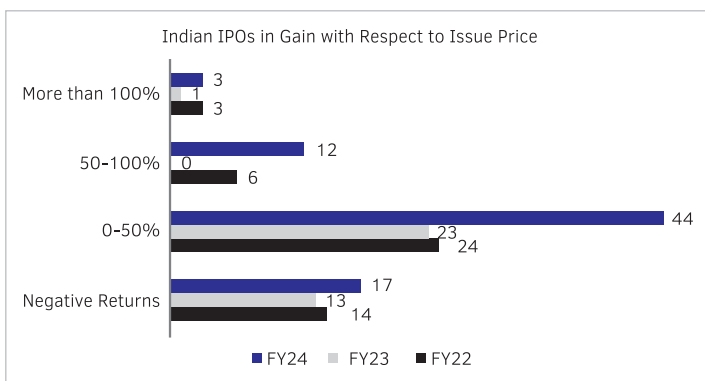


Fig 01: Indian IPOs in gain with respect to issue price

Excessive Documentation Requirement

Our public issue rule and subsequent letters from BSEC seeks many documents from companies due to lack of confidence in the audited financial statement of the company. This might deter many companies from engaging with the public listing process, as the costs of complying with the logistics may be greater than the benefits. To improve this, we have to improve audit quality.

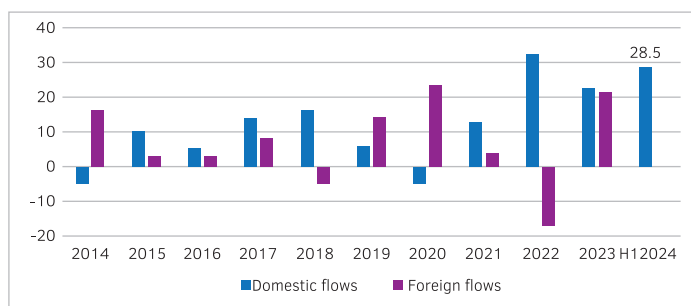
2.C Investor and Other Stakeholders Perspective

High IPO Allocation Time

From an investor point of view, there is a 2-4-week period from money deposit for IPO application to obtaining refund for non-allocation. With regards to bidding process, India’s Application Supported by Blocked Amount (ASBA) system, developed by the Securities and Exchange Board of India (SEBI), represents a best practice in this regard. This process ensures no additional time delay for refund takes place.

3. Increase Institutional Investment through Popularizing Mutual Fund

Bangladesh stock market is predominantly retail focused. We have very small institutional segment which is not healthy. For those reasons, we have witnessed too much volatility and irrationality in the market. We need to take steps immediately to popularize mutual funds to increase institutional pie. We have seen in our neighbor country in India that Mutual fund acted as stabilization forces and driver of sustainable market growth, reflecting necessity of having strong mutual Fund Industry. Foreign sell-off in India in 2018 and 2022 were fully offset by the inflows of Mutual funds.



Source: Association of Mutual Funds India

Bring Asset Allocation Flexibility for Asset Management Companies (AMCs)

The current regulations such as minimum equity exposure requirement, sectoral limits, individual stock limit etc. do not allow Asset Management Companies (AMCs) the required level of discretion over asset allocation to allow them to navigate changing market conditions more effectively and thus generate a decent return for the market. We propose below changes in the regulations –

- Introduce separate asset allocation policies based on fund nature (equity, fixed income or Shariah).
- Increase single stock exposure limit from 10% to 15%. This is necessary as we don’t have many consistent high profit and cash flow generating companies which can ensure good return for the investors beating high yielding fixed income securities over long time. This would give fund managers required flexibility to invest in high-performing companies without being restricted by limits.
- Increase industry exposure limit from 25% to 30%. In tandem, review the sector definition in line with global norms. For example – Pharma, Chemicals and Consumer are considered as one sector. Improper sector definition is an impediment for prudent risk management. It also reduces flexibility of fund manager to take enough exposure to promising sectors such as consumers and Pharma as both are considered as one sector.
- There shouldn’t be maximum limit for investment in treasury securities as it is a risk-free instrument

Popularizing Mutual Fund Needs Restoration of Investor Trust

We need to ensure that investors get their money back at the maturity of close-end funds. No term extension should be allowed. In addition, liquidation/ conversion can only be decided by the unitholders. On top of that we need to strengthen periodic regulatory oversight to stop irregularities in mutual fund industry.

Introduce Fiscal Incentives to Popularize Mutual Fund Investments

We may consider imposing lower tax rate in Capital gain and dividend income from mutual fund compared to direct investing. In the initial phase of mutual fund development in India, we have seen similar tax incentive.

There is another pressing change required in tax rebate space. Currently, there is no upper limit on tax rebates for investments directly in the stock market, while mutual fund investments have a BDT 500,000 cap for investment rebate. The cap should be withdrawn to attract investors to invest in Mutual Funds.

Introduce Enough Scope for Life Insurance and Provident Funds to Invest in Mutual Fund

To further strengthen the mutual fund industry, it is essential to create a legal and regulatory framework that allows life insurance companies and provident funds to invest in mutual funds, which is absent in Bangladesh. These institutions are critical components of the financial system and can provide a reliable source of long-term capital to the mutual fund industry.

Enhance Investment Limits in Mutual Funds for Banks

Currently, banks are allowed to invest up to 5% of their paid-up capital in open-ended mutual funds and 15% AUM of any open-end mutual fund. We propose to increase the limit (5% of their paid-up capital to 10% and 15% of AUM in any specific open end Mutual fund to 50%). Allowing banks to invest up to 50% of any individual open end mutual fund's total AUM (from the current 15%) is particularly necessary during launching phase of Open-end Mutual Fund when fund size usually remains very low. Hence, 15% of AUM in the launching phase is very insignificant compared to Banks capital.

Withdraw Unnecessary Dividend Declaration Requirement for Open-End Mutual Funds

The current requirement for dividend declarations in open-end mutual funds is outdated and unnecessary. Open-end mutual funds offer investors the option to surrender their units at any time at Net Asset Value, making dividend declarations less relevant. If anyone needs cash, he/she can surrender units without any hassle. This mandatory provision has brought operational hassle for the open-end Mutual Fund. We have observed that many investors withdraw fund before record date to avoid cash dividend and deposit the fund again after record date. For this reason, AMCs need to keep substantial free cash during cash dividend entitlement period. This prevents the fund to make investment for longer period and thus fund loses return opportunity. Dividend decision should be delegated to Trustee, who will take the decision by assessing the preference of the majority investors of the fund.

Allow Mutual Funds to Use Financial Intermediaries (Banks, Brokerages, MFS, Insurance Companies) To Act as The Selling Agents

Mutual funds should be allowed to partner with a wider range of financial intermediaries such as banks, brokerages, Mobile Financial Services (MFS), insurance companies, and other financial intermediaries as selling agents to expand their reach to a broader base of potential investors. In addition, in line with the global standard practice, commissions for selling agents should be allowed to charge to the fund within a limit of overall expense ratio.

Enhance Technology Infrastructure

One of the challenges faced by retail investors in the mutual fund space is the lack of a seamless and unified technology platform. Solving this issue would require a stronger technological infrastructure from the backend. In addition, BSEC may take a proactive role in developing a central technology infrastructure that would connect brokers with the AMCs to create opportunity to easily purchase or sell mutual funds by a brokerage firms.

Popularizing Mutual Fund Demands Country Wide Branding Initiatives Government can initiate an awareness campaign throughout the country to popularize the mutual fund like 'Mutual Fund Sahi Hai' in India.

4. Enhance Disclosure and Auditing Quality

Investors make decision based on disclosures. Therefore, timely and quality disclosure is crucial for establishing a robust capital market. Both the issuer companies and auditors should be held accountable for any misrepresentation and fabrication. Only top-rated audit firms should be allowed to conduct audits of listed firms. The roles of Financial Reporting Council (FRC) need to be strengthened. All IPOs approval, investment decisions are based on audited report. Hence, if a weak company's promoters fabricate the financials which is signed by the CFO and certified by the auditor – creates a huge problem – as regulators and investor community don't do audit but they rely on audited reports. So, some exemplary punishments may be given for fabricated financials by promoters and certified by auditors.

We may also consider centralizing publication of corporate disclosures in a common platform and make them available within 24 hours of the announcements.

5. Establish Vibrant Bond Market

The Bangladesh capital market is almost entirely equity focused. As bond investment carries less risk than equity investment, a vibrant bond market is indispensable for establishing a functional capital market. Over the last few years, we witnessed some development in the bond market space. However, liquidity is very insignificant. We think bond market trading process needs to be reviewed urgently to bring liquidity in the bond market.

6. Robust Surveillance and Timely Enforcement

Lack of punishment enforcement potentially led to more manipulations. Any possible violation of the law should be investigated and penalized within 90 days of the event. For this purpose, BSEC should increase its surveillance capacity with knowledgeable, well-trained staff. Regulators should take lessons from the practices of global and regional regulators. Additionally, the department should generate a monthly report which BSEC can take as a guidance to improve governance in the market. With limited people in BSEC, it is difficult for them to look after surveillance. So, Stock Exchanges should have a broader role in the surveillance process for stronger monitoring.

7. More Engagement of Stock Exchange

The primary regulator BSEC should be more concerned with policy making instead getting involved in day-to-day activities. Here stock exchanges could play a vital role. The Stock Exchange expertise can be utilized for market governance. They should be able to physically verify listed and potential listed companies, examination of financial reporting and networking with potential IPO companies.

8. Analyst And Expert's Ability to Publish 'Equity Research Report' to Counter Rumors

As more and more experts and analyst share their view publicly there will be less chance of stock manipulation and that would also counter stock rumor. Purchase decisions by dealers, fund managers, and users of any special funding facilities should be backed by detailed investment research.

9. Review Margin Loan Rules and Practices

Our experience suggests that most of the margin loan investors make substantial losses in their margin loan portfolio. Even margin loan lenders also make losses from negative equity. Hence the margin loan policy needs to be updated immediately to escape from the vicious cycle. Absence of proper provisioning fabricates true profitability of lenders. Awareness should be spread among investors and intermediaries that margin loan is not for everyone.

Conclusion

Bangladesh's capital market has vast untapped potential. Despite strong demand for corporate funding, companies have historically preferred bank loans due to faster disbursement and fewer restrictions compared to capital market options.

With the right reforms and initiatives, Bangladesh can close the gap with regional markets, providing businesses with greater access to capital and investors with a broader range of opportunities

We strongly recommend that the commission should conduct meeting with relevant market stakeholders and develop a set of short term and medium term KPIs that need to be achieved to develop a strong and sustainable capital market in Bangladesh. It is important to publish the deadlines for each KPI achievement so that local and foreign investors can understand what value they can create by investing in Bangladesh capital market.

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