

Financial statement fabrication a big influence on market volatility

STAR BUSINESS REPORT

Fabricated financial statements is one of the main causes behind the volatility of Bangladesh's stock market, according to industry analysts.

When an analyst or potential investor evaluates fabricated or misleading data, then he or she will not be able to make a proper forecast.

"This is how they lose money and in turn, the market becomes volatile," said M Khairul Hossain, chairman of the Bangladesh Securities and Exchange Commission (BSEC).

Hossain made these comments during a seminar titled, 'Financial Statements Analysis and Detection of Fraud', which was organised by the Bangladesh Academy for Securities Market (BASM) at the BSEC headquarters in Dhaka yesterday.

Globally, most companies provide factual information on their financial statements so that interested parties can effectively decide whether to invest or not. However, the case is opposite in Bangladesh.

BSEC, the regulator of the Dhaka Stock Exchange and Chittagong Stock Exchange, oversees both listed and non-listed companies and many market intermediaries. However, the organisation has only 84 officers to run their operations.

On the other hand, Bangladesh Bank, which solely regulates the banking sector, have seven to eight thousand people in

employment.

"So, we are powerful but helpless as a regulator," Hossain said.

To ensure accountability and trust on financial statements, BSEC recently realised its long-standing plan to form a Financial Regulatory Council (FRC), he added.

The government established the FRC in 2016 under the Financial Reporting Act with the intention to ensure transparency

in financial reports submitted by listed and non-listed companies.

A company's financial statements reflects how well the business is doing but seeing as most companies in the country provide false information, investors do not trust their statements.

The FRC is trying to find out why companies continue this malpractice and how to fix the situation. Since auditors are

appointed by the companies, the chairmen of those firms can dictate the report.

"So, we are trying to have auditors appointed by the FRC so that they can work freely," said Mohammad Mohiuddin Ahmed, executive director of the Financial Reports Monitoring Division at the FRC.

Farhad Ahmed, executive director of the BSEC, echoed the same, saying that if listed companies provide good financial reports, it reflects how well the country's stock market is doing.

"That is why there is no alternative to the truth for trustworthy financial reports," he said. At the event, the BSEC chairman also revealed the statistics page of the Customer Complaint Address Module (CCAM), an online portal for stock investors to share their grievances, so that people could see how many issues had been resolved.

In the last six months (September to February), 206 complaints were submitted, of which 94.7 per cent, or 195 complaints, have been addressed.

The average amount of time required to settle each complaint is about 15 days.

Mahbubul Alam, director general of BASM, Shuvra Kanti Choudhury, managing director of Central Depository Bangladesh, Hasan Imam Rubel, president of Capital Market Journalists Forum, Mohammad Salahuddin Chowdhury, Assistant professor Finance Department of Dhaka University, also spoke at the event.



M Khairul Hossain, chairman of the Bangladesh Securities and Exchange Commission (BSEC), speaks at a seminar on 'Financial Statements Analysis and Detection of Fraud' organised by the Bangladesh Academy for Securities Market at the BSEC headquarters in Dhaka yesterday.

Asif Ibrahim new chairman of CSE

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Asif Ibrahim has recently been elected as the chairman of Chittagong Stock Exchange (CSE) for the next three years.

He will replace Maj Gen (retired) Mohammad Shamim Chowdhury, the port city bourse said in a statement.

Earlier, Bangladesh Securities and Exchange Commission (BSEC) approved a list of seven independent directors of the CSE.

On Wednesday, the independent directors along with shareholder directors in a board meeting chose Ibrahim—vice chairman of Newage Group of Industries—for the top post.

As per the BSEC's approval, Professor SM Salamat Ullah Bhuiyan and SM Abu Tayyab will continue as independent directors while M Abdul Malek, Sohail Mohammed Shakoor, Md Liaquat Hossain Chowdhury, Asif Ibrahim and Barrister Anita Ghazi Islam were nominated afresh as independent directors.

Ibrahim was one of the recipients of the "Commercially Important Person" status in 2007, 2012 and 2014 for his contribution in national export.

He is also a former president of Dhaka Chamber of Commerce and Industry and the founder chairman of Business Initiative Leading Development.



Asif Ibrahim

Bank commission not materialising any time soon: Kamal

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Finance Minister AHM Mustafa Kamal yesterday gave his reassurance on forming a bank reform commission but stated that it would take time.

"We must form the bank reform commission," he told journalists after a meeting of the cabinet committee on economic affairs at the cabinet division.

Recent media reports say the government was likely to form the commission and it would be headed by noted economist Wahiduddin Mahmud.

In anticipation of the move, civil society think-tank Centre for Policy Dialogue also placed some recommendations on forming the commission through a press conference on Saturday.

Kamal said the government was yet to take any decision regarding who would lead the commission but the media was publishing reports about it in advance, which was not a wise thing to do.

Without mentioning any names, he said one organisation was already stating what the commission's responsibilities and activities would be.

The ministry's officials said Kamal had already talked to some former bankers, bureaucrats and economists, whom one ministry official believes were probable chairman and member candidates of the commission.

Kamal also talked to Mahmud to make him the head of the commission, said one ministry official.

While unveiling the budget for fiscal 2019-20 in June last year, Kamal said a banking commission would be formed at the earliest.

Some eight months have gone by but the commission is yet to be formed.

His predecessor AMA Muhith had several times announced that he would form the commission. Bangladesh's banking sector has been deteriorating for the last couple of years owing to increasing default loans and corruption.

The amount of default loans stood at Tk 94,313 crore at the end of 2019. The actual size of bad loans is, however, more than double the officially recognised figure, according to a recent report of International Monetary Fund.

Experts and economists say the bad loan situation would not improve without good governance in the banking sector.

Meanwhile, Kamal exchanged views with chairmen and managing directors of four state-owned banks on forming a public asset management company to take over banks' soured loans.

The finance ministry has already prepared a draft act titled "Bangladesh Asset Management Company Act" to purchase default loans from banks and sell them off to individuals or corporate entities.

MIDAS reelects chairman



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Anjan Chowdhury has been re-elected chairman of the Micro Industries Development Assistance and Services (MIDAS) at the 344th meeting of its board of directors.

Managing Director ASM Mashi-ur-Rahman and board members Rokia A Rahman, SM Al-Husainy, Parveen Mahmud, Abdul Karim, M Hafizuddin Khan, Zahida Ispahani, Ali Imam Majumder and SM Akbar were present, says a press release.

Chowdhury, a freedom fighter, is one of the key stakeholders of Square Group, a leading business conglomerate in Bangladesh.

He is the chairman of Maasranga

Productions, Sun Communication, Vision Technology, Oracle Travels, Sun Distribution and the Society for the Promotion of Bangladesh Art.

He is also the managing director of Square Toiletries, Square Food and Beverage, Square Air, AEGIS Services and Mediacom and director of Square Pharmaceuticals, Square Textile, Square Hospitals, Square Informatix, Square Fashion and Square Knit Fabrics.

Chowdhury is holds the post of president of the Association of Television Channel Owners and Airline Operators Association of Bangladesh and of vice president of Bangladesh Olympic Association.

Chowdhury studied management at the University of South Florida.

ILFSL swindlers barred from travelling abroad by SC

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His name came to the limelight during the anti-casino operation. The ACC opened investigation against 43 people, including Halder. He was asked to appear at ACC for interrogation on November 14 last year. But he never showed up.

The government issued a travel ban on him on October 3. But he managed to flee the country nevertheless.

The four institutions grabbed by PK Halder are ILFSL, People's Leasing and Financial Services, FAS Finance and Investment and

Bangladesh Industrial Finance Company. The authorities in July last year appointed a liquidator to liquidate Peoples' Leasing due to alarming deterioration of its financial health over the several years.

Halder is also involved with Simtex Industries, Rahman Chemicals and Northern Jute Manufacturing Company.

Loans amounting to Tk 170 crore had been taken from ILFSL in the names of Simtex, Rahman Chemicals and Northern Jute, documents show.

ILFSL began its journey in 1996.

top sector in the stock market in terms of market capitalisation its impact would be expansive, he added.

Among the 30 listed banks, the stock prices of 22 fell yesterday and five stayed unchanged.

Besides, the order from the court that Grameenphone, the largest listed company on the bourse, will have to pay another Tk 1,000 crore within the next three months also dampened the mood of the stock market, said another leading merchant banker.

Grameenphone had deposited Tk 1,000 crore to the state coffer just the previous day. The payments will eat into the operator's reserves, meaning the Grameenphone board might decide to announce lower cash dividend come next year.

New Dhaka Bank MD sets sight on quality growth

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Dhaka Bank is largely known as a corporate lender. Huq has targeted to change the image: he wants to expand the bank's small- and medium-sized enterprises loan portfolio and retail banking operations.

"We will set up more sub-branches in cities and villages to bring more people under the coverage of the banking sector," he said, adding that the bank would also increase its home loans. Set up in 1995, Dahak Bank has 106 branches.

Before joining Dhaka Bank in 1998, Huq worked at Eastern Bank and Credit

Africa Bank in Zambia. He obtained his Bachelor of Commerce with Honours in Management from the University of Dhaka.

During his long tenure with Dhaka Bank, Huq served in various key positions, including deputy managing director for business banking.

Shares of Dhaka Bank, which made its debut on the premier bourse in 2000, closed 4.1 per cent lower at Tk 11.70 yesterday.

Its earnings per share in the first nine months of 2019 was Tk 1.26, up from Tk 1.19 a year earlier, according to the bank's unaudited financial statement.

Policy reforms needed

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It also triggers investments to finance micro, small and medium businesses, he added.

According to Hussain, about 75 per cent of small businesses in Bangladesh are yet to enjoy services from the formal financial sector.

However, financial institutions have little incentives to serve small businesses as capital constraints, conservative boards and a harsh regulatory environment discourage investment in the high-risk sector.

In some cases, small businesses do not choose formal financial services as they are not well-informed, Hussain said.

The BFP-B invested 25 million pounds in Bangladesh throughout the last seven years to create economic opportunities for small businesses by changing the behaviour of market influencers in the financial sector, said Eamon Cassidy, managing director of Nathan Associates.

The total number of small to medium enterprises (SME) in the country is estimated to be about eight million. SMEs account for 25 per cent of Bangladesh's GDP and employ over 50 per cent of the working population, said Ahmed Jamal, a deputy governor of the Bangladesh Bank.

The central bank has taken a number of initiatives to facilitate the growth of SMEs through special funding schemes and the expansion of SME-focused institutions, he added.

Interest rate cap can blow up in BB's face

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Default loans in banks stood at Tk 42,725 crore in 2012, up 90 per cent from three years earlier.

The government realised the folly of its ways in 2011 and requested Mansur to give a presentation depicting the situation.

Mansur described the adverse impact of the interest rate capping at a meeting in presence of then Finance Minister AMA Muhith in the first week of March 2011. Both the central bank and the government accepted the proposal and started to withdraw the cap from March 9, 2011. And all types of cap were lifted in January 2012.

"The central bank has done the same mistake. This will not bring any good for the banking sector," Mansur added.

The BB instructed banks on Sunday to set a maximum 9 per cent interest rate on all loan products except credit cards from April 1.

However, credit growth may not see an expansion this time as many banks will face liquidity crunch due to the 6 per cent interest cap on fixed deposit schemes, according to Salehuddin Ahmed, a former central bank governor.

Back in 2009, there was no ceiling for the interest rate on savings.

"So, there is a little scope for increasing private sector credit growth," he added.

The latest central bank decision will create the same problem that the financial sector faced during 2009-2011, said Zahid Hussain, former lead economist of the World Bank's Dhaka office.

Small and medium enterprises (SME) will face the most hurdles as banks will shy away from disbursing loans to them. In that case, both the country's employment generation and economic growth will be hampered.

The SME loan amount per borrower is way lower than corporate loans', so banks have to impose a relatively high interest rate to minimise their operational and monitoring costs.

Banks have to bear more cost for a SME client than a large borrower.

Lenders do not hesitate to hand over Tk 100 crore to corporate clients but such an amount can be disbursed more than 100 customers in the form of SME loans.

The country had followed a fixed interest rate model before the 90s. But from 1991, under the financial sector, the interest rate was left to the interaction of demand and supply of

who were entitled to the benefit were not getting it. Instead, others benefited."

The automation has already taken place at banks. This has cut the scope for misuse.

"None will be able to exceed the investment limit in savings certificates," he said.

The ceiling for the highest investment in savings certificates doubled to Tk 50 lakh for individuals and Tk 1 crore under joint names. The investment ceiling for pensioner savings certificates will double to Tk 1 crore.

When asked why people retiring from private jobs have been discriminated in favour of people retiring from public services, the finance minister said: "We will not be able to afford all of them."

Prior to the briefing of Kamal, the Directorate of National Savings (DNS),

funds.

"We cannot go back to the old method as banking sector was completely dominated before 90s by the government. And there were a few private banks."

Besides, the country's private sector has significantly flourished in recent years, he said.

"A haphazard situation will be created if we now follow a fixed interest rate model," Hussain added.

Large loan disbursement by lenders will go up significantly as banks will have to follow the latest central bank's instruction.

From this year, banks also cannot cut back on their lending to the industrial sector to less than their three-year average for the segment, said the central bank notice.

Banks had faced a liquidity crunch when credit growth went up during 2010-11, said Nurul Amin, the then chairman of Association of Bankers, Bangladesh, a forum of managing directors of banks.

"Default loans escalated. Banks had to deal with the repercussions until 2015," said Amin, also a former managing director of both National Credit and Commerce Bank.

which oversees savings certificates and deposits in Post Office Savings Bank, clarified that the interest rates for savings certificates have not been reduced.

The interest rates on the ordinary and fixed deposits in postal savings bank have been cut in line with a government directive, which is seeking to bring down the lending rates at banks to single digit with a view to encouraging investment.

The deposits in the Post Office Savings Bank were more than a fifth of Tk 83,630 crore of investment made by people in various types of savings certificates, bonds and government schemes in fiscal year 2018-19, data from the DNS showed.

The deposits accounted for 14 per cent of the government's accumulated liabilities as of June 30 last year.