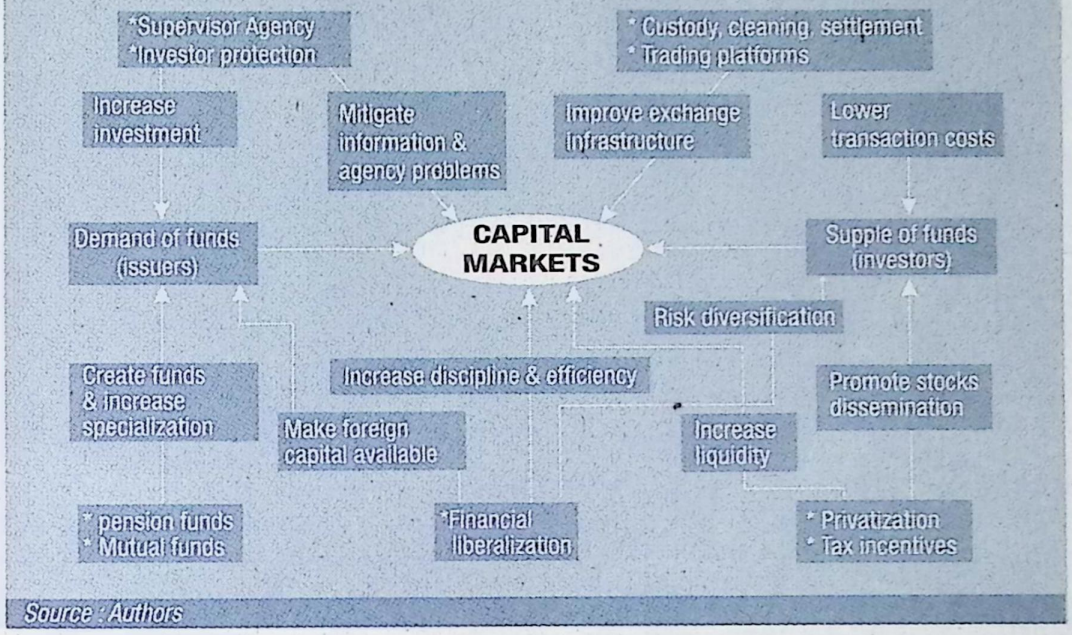
## FIGURE 2.7 RELATION BETWEEN REFORMS AND CAPITAL MARKET DEVELOPMENT




*Source : Authors*

developed markets, where analysts and investors have firm expectations on optimal sector and company capital structures. Listed companies with excessive leverage, and indeed companies not availing debt optimally, are often punished by the markets in developed economies with reduced valuations. As the Bangladesh capital market becomes more institutionalised with professional asset managers managing pools of capital, one will inevitably see a more systematic assessment of balance sheet risk and its impact on equity value.

**Measures to Stimulate Increased Equity Issuance**

Prior to the Grameenphone (GP) IPO last year, it was estimated that around 90 per cent of corporate Bangladesh was not yet listed on the stock market and this was reflected in Bangladesh having a relatively low market capitalisation/GDP ratio relative to India and a majority of other bourses in the region. However, there are a number of measures already underway and some others that we believe are worth considering in motivating more companies to come to market. Among others, we would highlight:

**Fairer IPO pricing with the adoption of the book-building method:** One ongoing concern preventing a number of companies from listing has been what they have perceived as an inequitable IPO pricing mechanism, with the substantial premium new issues traded on listing reflecting a low valuation assigned by the regulator. In a simplified sense, companies did not have an incentive beyond the tax we highlight below to sell themselves "cheaply" on the stock market. However, with the adoption of book-building, companies are likely to be incentivised to come to market

**Regulations and tax incentives for increased free float:** The SEC and Ministry of Finance have come up with a series of minimum direct listing requirements. However, we would recommend that they consider amending the existing tax incentive of 10 per cent corporate tax differential for non-financial listed companies to a differentiated tax incentive that increases the benefits for those companies over a certain size with a greater free float in the market place.

**Accounting irregularities as a constraint on listing:** A more challenging and controversial issue is that some companies that understate their earnings and assets to minimize their tax liability might be dissuaded from listing given