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## BB moves to probe banks with links to stock scam

**SAJJADUR RAHMAN**

The central bank has launched an in-depth investigation into the financial institutions named in a probe report on the recent stockmarket crash, top officials of Bangladesh Bank (BB) said yesterday.

The BB has also written a letter to the government to amend a section of the Banking Companies Act 1991 that allows a bank to invest 10 percent of its liabilities (deposits) in the stockmarket.

If the proposal gets through, the new law will restrict banks' investment in the stockmarket by reducing the percentage of the deposits or fixing the rate in terms of equities (not deposits), which is an international standard practice.

"We have already ordered the related department to carry out a detailed investigation into the banks and non-banks that were

found responsible by the probe committee in the alleged scam," a top BB official told The Daily Star.

The central bank's decision came hours after the probe committee led by Bangladesh Krishi Bank Chairman Khondkar Ibrahim Khaled submitted its report to Finance Minister AMA Muhith on Thursday. The report recommended that the BB take action against the financial institutions in question.

The probe report said some banks pocketed huge profits violating the rules and regulations. Some of the banks were also involved in fuelling the stock prices last year.

Allegations have been made against some banks for taking high premium for rights and preference shares.

During the two-month investigation, the committee had talked to over 500 traders, including all members of Dhaka and

Chittagong stock exchanges, journalists, professors and researchers.

The probe panel has made a series of recommendations, including a major overhaul of the Securities and Exchange Commission (SEC) and an amendment to section 26 (2) of the Banking Companies Act 1991.

"We have responded promptly on our part," said the BB official on the investigation order against the financial institutions.

BB Governor Atiur Rahman confirmed the central bank's move.

"We have written to the government to amend section 26 (2) of the Banking Companies Act to restrict a bank's investment in the stockmarket," Rahman said.

"Ideally, it should be related with the capital, not with the liabilities," said the governor, citing examples of other countries.

**If the proposal gets through, the new law will restrict banks' investment in the stockmarket in line with an international standard practice**

According to the existing laws, if a bank has Tk 10,000 crore deposits, it can invest Tk 1,000 crore in the share market.

The BB found many banks were overexposed into the capital market last year. Some banks invested more than 10 percent of their liabilities and helped fuel the stock prices. Still a bank has more than 10 percent of its liabilities into the stockmarket, according to a senior official of the central bank.

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## Hasina reopens jute mill in Sirajganj

**UNB, Sirajganj**

Prime Minister Sheikh Hasina yesterday reopened Quami Jute Mills in Sirajganj, the largest state-owned mill in the north.

It was closed on July 31, 2007 by the military-backed caretaker government.

The prime minister restarted the operations of the jute mill after renaming it as Sirajganj National Jute Mills, to the cheers of local people.

Hasina directed the officials concerned to properly look after the mill as the fibre is regaining its lost glory.

The Quami Jute Mills was established in 1960 at Raipur in Sirajganj. In the 1980s, it started incurring losses. Later, the BNP-led four-party alliance government suspended funds to the mill.

Main products of the mill are hessian, sacking and jute carpet backing cloths.

Through the relaunch of the jute mill, a major election pledge of the AL led the grand alliance government was fulfilled.

About 4,000 people would get employment in the renamed mill.

The government has taken steps to reopen four jute mills, including Quami Jute Mills, aiming at revamping the jute industry, which witnessed brisk growth in the last fiscal year.

The four mills -- Quami Jute Mills in Sirajganj, MM Jute Mills in Chittagong and People's Jute Mills and Daulatpur Jute Mills at Khalishpur in Khulna -- will be operated under the state-run Bangladesh Jute Mills Corporation (BJMC).

BJMC has 24 jute mills, of which 16 are now operational.

The government is providing various facilities including easing the conditions of bank loans to the jute mills in both public and private sector that resulted in significant increase in production and export earnings.

## Body to select demutualisation model Tuesday

**SARWAR A CHOWDHURY and GAZI TOWHID AHMED**

Dhaka bourse authorities and a committee on demutualisation will sit on Tuesday to select a model of the much-talked-about demutualisation. The issue of demutualisation of stock exchanges was also a major recommendation in the stockmarket probe report submitted to the government on Thursday.

"We will sit for the third time with some proposals on the demutualisation of the stock exchanges," said Md Fayekuzzaman, head of the committee.

"Steps towards the demutualisation process will be discussed in the meeting. We have some models in hand, based on international practices. So, we will discuss those models and try to select one, and set a timeframe to complete the process," said Fayekuzzaman, also managing director of Investment Corporation of Bangladesh.

Demutualisation of a stock exchange transforms it from an entity owned by mostly brokerage-owning members into a for-profit company owned by shareholders. It ensures a sound corporate governance, alternative business models and operational efficiency.

A demutualised exchange can also freely trade on the market like any other public company.

Bangladesh's stock exchanges are now non-profit cooperative organisations, owned by the exchange members who are usually stockbrokers.

"We want demutualisation of our stock exchanges after selecting an international stockmarket as a model and considering the perspective of Bangladesh market," said Shakil Rizvi, president of the Dhaka bourse.

"The DSE is already a semi-demutualised bourse; now we are looking for a complete demutualisation," he said.

The probe report on the recent stockmarket scam that was submitted to the finance minister on Thursday said: "Conflict of interests occurs if businessmen take the role of regulators and impasse surfaces while executing regulatory duties."

The probe committee, headed by Bangladesh Krishi Bank Chairman Khondkar Ibrahim Khaled, also put forward 30 more suggestions to make the stockmarket and its regulator more transparent and accountable.

Khaled said, "It is necessary to demutualise the stock exchanges. Market players and regulators should be separated."

He also said India has already done demutualisation, and so the Bangladeshi stocks should also be demutualised as soon as possible.

Ahasanul Islam, senior-vice president of DSE, said: "After choosing an international model, we will start the demutualisation process."

Market analysts said several times that the member-based exchanges are currently managed by the board of elected and non-elected directors. As a result, the bourses have a lack of proper corporate management and the chief executive officers often get influenced by leading members, they said.

The DSE in February formed the 10-member demutualisation committee following immense pressure from the government.

Previously, Finance Minister AMA Muhith had said there is no alternative to demutualisation and it must be completed within this government's tenure.



**STAR**  
From left, Nihad Kabir, vice president of Metropolitan Chamber of Commerce and Industry; Shafique Ahmed, law minister; Mahbubur Rahman, chairman of Bangladesh International Arbitration Centre (BIAC); Mashiur Rahman, an adviser to the prime minister; Asif Ibrahim, president of Dhaka Chamber of Commerce and Industry; and Paramita Dasgupta, representative of IFC, are seen at the inauguration of the BIAC in Dhaka yesterday.

## Arbitration centre takes off amid high hopes

**STAR BUSINESS REPORT**

The Bangladesh International Arbitration Centre (BIAC) yesterday began journey with a promise to help settle commercial disputes in a quick, transparent and cost-effective manner.

Law and Parliamentary Affairs Minister Shafique Ahmed inaugurated the centre for arbitration, the first of its kind in Bangladesh, at a ceremony at Suvastu Tower in Dhaka.

The International Chamber of Commerce -- Bangladesh (ICC-B), Dhaka Chamber of Commerce and Industry (DCCI) and Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka, have set up the centre for alternative disputes resolution, with support from Bangladesh Investment Climate Fund that is managed by International Finance Corporation.

BIAC is a registered, not-for-profit organisation to provide an environment where clients can meet their arbitration needs effectively and efficiently. Its work revolves around the best ways to

adapt arbitration to the fundamental changes in the economy.

Later, at another ceremony at Bangabandhu International Conference Centre, Mashiur Rahman, adviser to the Prime Minister on economic affairs, said as the country's economy is expanding, the businesses are increasingly dealing with parties from many other countries.

"We are involved in a complex situation. So, we need an efficient system to settle disputes, which should not at all be cumbersome. The arbitration process widens opportunity to reach goals for which contracts have been signed. It also reduces cost in settling disputes," Rahman said.

Speaking as the chief guest, Law Minister Shafique Ahmed said cases are piling up each year in the courts, resulting in a situation where people get frustrated. "Something needs to be done to resolve the cases out of the court. In this case, arbitration has a very important role to play."

The minister said the arbitration process could still end up in courts, if any aggrieved party

does not accept a verdict in the end and prefers going to the court for a decree.

"Here mediation can be the best course," he said adding that 97 percent of cases in Canada are settled through mediation.

He said the government plans to amend laws to make mediation compulsory. He also said the government would take steps to train up judges and senior advocates about the mediation system.

The minister urged the BIAC authority so that rules of the arbitration centre do not contradict the Arbitration Act 2001.

DCCI President Asif Ibrahim said with the progress in globalisation and acceleration of foreign trade, foreign businessmen and investors are exposed to new partners in new countries in different cultural settings and established trade practices.

"We hope BIAC will help bring in more transparency and reliability in the arbitration process and provide a more cost-effective, quick and efficient solution for companies, which

otherwise would have to go overseas to settle disputes."

Paramita Dasgupta, representative of International Finance Corporation (IFC) to Bangladesh, said BIAC would add a new paradigm in settling commercial disputes in the country.

Mahbubur Rahman, chairman of BIAC, said Bangladesh is already over-burdened with thousands of existing cases pending with courts. "As a result, business suffers."

He said arbitration is the most formal system in the ADR regime.

Nihad Kabir, vice president of MCCI, said with Bangladesh's increasing involvement with international trade, the country needed a cost-effective ADR facility.

BIAC Chief Executive Toufiq Ali said parties might use their own rules or follow the rules of BIAC for settling disputes. "In either case, they will be able to use the facilities of the centre."

Diplomats, former judges, leaders of various associations and chambers, were present on the occasion.

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