Perfect balancing is the key

Newly appointed SEC member tells The Daily Star how to stabilise the stockmarket

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There should be a perfect balance among the Securities and Exchange Commission, Bangladesh Bank, bourses and investors to restore the investors' confidence in a bid to stabilise the capital market.

Newly appointed member of the SEC Helal Uddin Nizami, a professor of Accounting and Information System Department of Chittagong University, said this in an interview with The Daily Star.

"To restore the sagging confidence of the investors, we need a perfect balance between stockholders and investors," said Nizami. "We will make a work plan as per the government recommendations to bring back normalcy in the market."

The member's appointment came as part of a major restructuring of the SEC announced by Finance Minister AMA Muhith on May 2 when he released the full report on the recent stockmarket debacle.

Upon joining the SEC on Thursday for a three-year term, the professor talked about his work plan and said, "The SEC should adopt an investor friendly policy, which is essential for the stockmarket." Now it has become an important sector for the government, he added.

He said the market faced the debacle in January as a result of a lack of coordination and balance among the SEC, central bank, bourses, and the SEC policy in January prevailed through a prolonged period.

A need to reform the existing policies and issuance of directives following the demand and supply of the market also suffered due to the absence of timely action, he added. Lack of manpower at the SEC is crucial and another reason of the market failure because the surveillance capacity of the SEC was inadequate to do justice to the big capital market.

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Helal Uddin Nizami

Recently, the SEC is trying to develop the surveillance capacity of the commission as a part of development. The Asian Development Bank (ADB) and the SEC are handling a project jointly for the purpose.

As the existing policy created opportunities for the manipulators to attempt illegal profiteering, the government should now formulate a proper work plan to reform the securities law, the professor added.

For instance, he referred to the book building system, which was allegedly used as a tool for overpricing some issues in the initial offering stage, causing huge losses to the general investors.

A stalemate was created over the listing of MJL Bangladesh Ltd and MI Cement Factory Ltd that used the book building method for its IPO after the stockmarket regulator suspended the method in January following a government instruction.

A volley of criticisms came from economists, market experts, analysts and stakeholders over the misuse of the mechanism. The SEC ordinance should be reformed and the government should appoint experts to work for the commission, Nizami said.

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As it had happened, prior to the January crash, some people pressured the SEC for issuing some ill-conceived directives, which makes it imperative that the moral strength of the SEC officials should be bolstered, Nizami said.

He also said, "The government should re-investigate some events strictly and properly to find the market manipulators." It is a good decision of the government, he added.

The bourses should go for demutualisation to increase corporate governance practice at the bourses, which was a strong recommendation of the probe committee, said the professor.

He said demutualisation of a stock exchange transforms it from an entity owned by mostly brokerage members into a for-profit company owned by shareholders. It ensures a sound corporate governance, alternative business models and operational efficiency. The bourses can then freely trade on the market like any other public company.

The probe report said: "Conflict of interests occurs if businessmen take the role of regulators and an impasse surfaces while executing regulatory duties."

Market analysts said repeatedly 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 government should establish new bourses to increase competition among them, the newly appointed member of the SEC said. The professor observed that all the weaknesses in the existing rules, regulations and policies should be removed to make the commission more efficient in guiding the country's stockmarket in the right path.

Besides, he said there are some areas of policy and legal reforms, which are not under the jurisdiction of the SEC. But, it is expected that the planned taskforce will address the issues guiding the SEC and other authorities concerned to make the market investment friendly, Nizami added.

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LVMH-backed fund hunts for emerging Asian brands

AFP, *Singapore*

A $650-million private equity fund backed by the world's top luxury retailer LVMH is on the prowl for emerging Asian brands in the hope of transforming them into global names.

The L Capital Asia fund has so far spent a total of $90 million on minority stakes in two Singaporean fashion companies and a Hong Kong-listed watch and jewellery company.

It is in advanced talks with a fashion-related firm from China and another from India and hopes to make an announcement about the investments in the next few months, said Ravi Thakran, the fund's managing partner.

Unlike its parent group LVMH, which concentrates on the top tier of the luxury sector, he said the fund focuses exclusively on promising Asian labels looking for a big breakthrough, particularly in the Chinese and Indian markets.

"The primary engine not only for Asia-Pacific, but for the whole world today, is this twin propeller of China and India," Thakran said.

"So we are looking for those smart entrepreneurs who have a great product, very differentiated DNA, something very different in their category."

He said the fund will look at China, India and Southeast Asia, where promising labels would benefit from an extra push from a partner such as LVMH.

Paris-listed LVMH is one of the world's most successful luxury retailers, with a portfolio of brands that includes Louis Vuitton, Parfums Christian Dior and Guerlain perfumes alongside Moet and Chandon and Dom Perignon champagnes.

In 2010 it posted record sales of 20.3 billion euros ($30 billion) and a profit of 3.03 billion euros, as demand for its high-end products rose among Asia's growing ranks of affluent and brand-conscious consumers.

L Capital does not just offer money, Thakran said -- the fund also brings

Two women are looking at a Louis Vuiton luxury handbag displayed at a retail store window showcase in Singapore. AFP

parent company LVMH's experience and expertise in developing little-known companies into household names.

The demographics of the massive Chinese and Indian markets make them natural magnets for almost any company, analysts said.

"They have this propensity to upgrade their lifestyles as well, and this applies to fashion and lifestyle," said Vishnu Varathan, a Singapore-based economist with the Capital Economics consultancy.

Singaporean designer Wykidd Song, whose creations have been sold at Harrods in London and Barneys in New York, said investor interest would boost the Asian fashion industry.

"It's a great motivational factor," said Song, who launched his own men's wear label called WYKIDD in February.

Brokerage firm CLSA predicts Chinese consumers will be the largest luxury goods buyers by 2020, accounting for 44 percent of worldwide sales.

L Capital's Thakran said the sector one tier below the top luxury market will grow faster because their prices appeal to a larger consumer base.

"The top end is growing but the lower end is even bigger and will grow more," Thakran said.

Ladies shoe and handbag retailer Charles and Keith, one of two Singaporean companies that L Capital Asia has invested in, said the partnership ties in with its ambitions.

"The only reason why I feel we can come together is both companies share very similar values," said Charles Wong, the chief executive of Charles and Keith, already popular in Southeast Asia for its European-inspired designs at affordable prices.

"We are very hungry to learn, and we are very hungry to grow."

L Capital Asia has also invested in Singapore's Sincere Watch and a Hong Kong-listed company, Emperor Watch and Jewellery.

Thakran said LVMH can turn "rough diamonds" into star brands.

"The key thing is we use the DNA (of LVMH), the knowledge to connect and the experience of building luxury brands, bring them to the aspirational play in Asia, and help them (companies) grow faster more profitably," he said.

He said LVMH contributed less than 10 percent of the $650 million raised by the fund, with the bulk coming from US and Asian investors keen to tap into Asian luxury consumption.

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