

Merchant banks need investment guidelines

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It is commonly believed that stockmarket is a risky investment place. But, it did not appear that way in Bangladesh stockmarket, especially in 2010. With entry of millions of people into the stockmarket with thousands of crores of taka in hands, share prices went up beyond their fundamentals and the market was overheated. The limited supply was not enough to match the huge demand, rather the gap between demand and supply had widened.

Apart from the common people, the institutional investors also followed the suit and became greedy, forgetting the general investment principles. They had no investment strategy or guideline. Even they misused their own fund management policies.

However, the market faced a debacle early this year due to inevitable and massive correction in share prices that gave rise to debate about investment guidelines, especially for merchant banks, which are considered the key institutional investors.

Apart from their own portfolios, the merchant banks also manage investment portfolios of institutions, individuals and foreign funds.

Market experts, merchant bankers and regulators feel that there should be "prudential investment guidelines" for merchant banks. They said the prudential guidelines will help increase professional investment in the stockmarket.

They also said the Securities and Exchange Commission (SEC) should come up with an "Investment Prudential Guideline" after discussion with the market stakeholders, keeping the latest debacle in mind.

Prudential investment guidelines can be defined as legislated investment guidelines intended to ensure a conservative investment spread, to protect the investors from loss of value due to risky investment selection.

"If the SEC formulates and issues a specific guideline for all merchant banks then they can play a good role in the market," said Mirza Azizul Islam, a former finance adviser and a former chairman of the SEC.

He said, considering the present price earning (P/E) ratio of the market, it is the perfect time to do investment and the guideline will help them a lot. "The merchant banks will behave rationally by following the new investment guideline to make new investment in the market," Islam added.

As of last week, the market P/E ratio was 16, the lowest in the last two years. The highest market P/E was 30.51 on December 5 last year.

Professor Mahmud Osman Imam, who teaches finance at Dhaka University, said: "The regulatory body should issue a standard and prudential investment guideline for all merchant banks to increase professionalism and



Angry investors hold a rally in front of the Dhaka Stock Exchange building in January after share prices suffered a steep fall.

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accountability towards their investment."

Imam, also a member of Dhaka Stock Exchange (DSE) index development committee, said, "In different countries of the world merchant banks are following a specific investment guideline to make investment decisions."

Referring to the absence of specific guidelines on margin loan or share credit, he said the margin loan guideline is yet to be finalised.

The margin loan is the credit provided by merchant banks against securities held by investors. During the last two years, the SEC frequently changed margin loan ratio to control the liquidity flow in the highly volatile market.

But, the SEC's frequent changes in decisions on margin loan created more volatility in the market, instead of bringing stability, and the market experts were stressing specific guidelines on margin loan.

After that, the SEC asked the merchant banks to come up with recommendations on margin loan guidelines. Although the merchant banks did so, the SEC is yet to take any decision on it.

Saiful Islam, vice-chairman of BRAC-EPL Investment, a merchant bank, said if the SEC introduces a specific guideline for investment

by merchant banks then a qualitative change will be seen.

"Our capital market is a growing one and a specific investment guideline will ensure further growth," said Saiful, also managing director of BRAC-EPL Stock Brokerage.

M Shakil Islam Bhuiyan, chief executive officer of LankaBangla Investments Ltd, said: "There is a need for a specific guideline for all merchant banks, as most of the countries have unique investment guideline for all merchant banks."

It will not only help the merchant banks, but also the retail investors who can follow the guidelines and investment strategy of the merchant banks, he said, adding: "The investment risk will come down when we will follow a specific guideline."

The market regulator said it would take decision on the guidelines both for merchant banks and margin rules after its restructure. The regulator was almost inactive in making policies following a share market probe committee's recommendation on its restructure.

As part of the restructuring process, chairman and two members of the SEC stepped

down recently, while the government appointed a new chairman and a member to the commission.

But, the core body of the commission is yet to get a shape, as it still needs three more members.

"After the SEC is restructured, we will take decisions and issue a specific prudential guideline for the merchant banks, including margin loans for the greater interest of market and investors," said Professor Helal Uddin Nizami, newly appointed member of the SEC.

Nizami, who was teaching accounting and information management at Chittagong University prior to his new assignment at the SEC, said: "We asked them [merchant banks] to submit to us a set of recommendations on the guideline, including margin loan."

After getting the recommendations, the commission will discuss those with merchant banks, Dhaka Stock Exchange and Chittagong Stock Exchange to finalise the guideline on merchant banks' investment and margin loan, he added.

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Share buyback yet to take shape

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THE Securities and Exchange Commission (SEC), Bangladesh Bank and Bangladesh Association of Publicly

Listed Company are yet to come up with a precise final proposal on buyback programme, though the commerce ministry has been repeatedly reminding them of doing so.

The ministry had asked the three on April 15 to submit their written positions on stock buybacks.

Commerce Secretary Ghulam Hussain said: "We reminded them through a letter two weeks back to submit a final proposal on buyback system to the ministry."

"We will finalise the stock buyback guidelines after obtaining the final proposals from the institutions concerned."

The commerce ministry has spelt out its stance on the issue as it is linked to the Companies Act.

Former caretaker government adviser Mirza Azizul Islam, also a former SEC chairman, said the purpose of a buyback is to put unused cash to use, raising the earnings per share, increasing internal control over the company and obtaining stocks for the employees' stock option plans or pension plans.

In the context of Bangladesh, most investors consider buyback as a process to stabilise the companies' share prices as the government has already used the phrase to stabilise the prices



Police move in on Motijheel after stock investors took to the streets to protest a fall in share prices early this year.

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of MJL Bangladesh and MI Cement Factory to reduce the risks for small investors, said an SEC official.

The SEC decided that if the market prices of MJL and MI Cement are poised below the offer prices within six months of trading, the companies must go for a buyback of shares from general investors intending to sell the

shares at the 'offer price'.

The government decided to launch a share buyback scheme at a time when the market experienced a steep decline. In a recent parliamentary session, Finance Minister AMA Muhith said a buyback programme would be introduced to prop up the stockmarket.

"For the greater interest of the market we will finalise the guidelines after sitting with the Dhaka Stock Exchange and Chittagong Stock Exchange," said SEC member Helal Uddin Nizami.

Nizami, also a former teacher of Chittagong University, said: "We will take all the initiatives after the govern-

ment completes restructuring the SEC."

Market analysts observed that Companies Act contradicts the SEC-proposed new guidelines on buybacks.

The government should amend the Companies Act to issue directives on the buyback programme, said an analyst.

Earlier, the stockholders on March 15 decided to send a draft proposal to the finance ministry on how to implement a new regular buyback programme. The finance ministry sent the proposal to the commerce ministry to take proper action regarding the buyback method.

According to the draft proposal, a company will not be able to buy back shares worth more than 25 percent of its paid-up capital, and the company could buy back shares by using 10 percent of security premium and free reserve.

"Before going for a buyback, the company must publish a disclosure for the shareholders mentioning why the company has decided to go for a buyback and which shares and in what quantities it would like to buy back. The disclosure must mention the importance and duration of the buyback period," said the proposal.

The proposal also said if a company decides to buy back shares, it will have to get the decision approved by its shareholders in a general meeting, and a company will be able to go for a buyback once in a 365-day period.

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