

SEC asks merchant banks to diversify business

STAR BUSINESS REPORT

The stockmarket regulator yesterday advised merchant banks to diversify their business, now limited to margin loans.

"Apart from convincing investors to take loans, which maximise the merchant banks' profits, they should provide advisory and research services to clients," said Professor M Khairul Hossain, chairman of Securities and Exchange Commission.

Margin loan is the credit that a merchant bank provides to its client to purchase shares from the secondary market.

Hossain spoke at a seminar on "Role of Merchant Bankers in Capital Market" organised by Bangladesh Merchant Bankers Association (BMBA) at a city hotel.

Hossain said there were allegations that the merchant banks,

while managing a new issue or initial public offering (IPO), want to uphold benefits of entrepreneurs, not general investors. "But it should be a win-win situation for both entrepreneurs and general investors."

Pointing out the merchant banks' weak role in previous times, especially when the market overheated and then crashed, he said: "Forget about the past, look to the future and play your due role diligently."

After the price debacle in the stockmarket, the SEC chief said, it has been identified where the problems were, which regulations were weak, which policy was faulty and where the market intermediaries failed to play their due role. "We are working to address those loopholes."

Arif Khan, a member of the SEC, said although there are lots

of issues to address further, merchant banks are playing great roles for the development of the capital market.

He however said it is believed that merchant banks were involved in lending activities, instead of issue management and underwriting, and due to their over lending exposure the market got overly heated in 2010.

Apart from loan activities, he said, the merchant banks should focus more on issue management, new IPOs, and underwriting. "Many also believed that merchant banks do not follow their own code of conduct. Now ask yourself what you should do," he said, adding that the association also should also look into the matter.

The commission is going to open up advisory and research services for merchant banks so that the merchant banks can

diversify their operation, he said.

Referring to the price debacle in 2011, he said whenever the market faces a crash, it brings new opportunities. "After the Hong Kong riot following a crash in its share market, everything was changed within 11 days," he cited.

A Salam Sikder, another member of the SEC, said: "We have received allegations that many people committed irregularities under omnibus accounts with the help of merchant banks, but it should not be so."

Merchant banks should strictly follow the rules and regulations that exist in Bangladesh for merchant banking operation, he suggested.

Another SEC member, Amzad Khan, said although there are some 40 merchant banks in active operation, many of them

are managing their clients' portfolio only. "They do not create any investment portfolio for themselves."

"The merchant banks should create their own investment portfolio and manage it properly. If they do so, it will increase institutional investors for our market," he added.

Mohammed A Hafiz, president of the BMBA, Shakil Rizvi, president of Dhaka Stock Exchange, Al Maroof Khan, president of Chittagong Stock Exchange and MH Samad, managing director of Central Depository of Bangladesh Limited, also spoke at the seminar, while Khaled Yusuf Farazi, managing director of BRAC-EPL Investment and Md Moniruzzaman, managing director of IDLC Finance, presented two separate papers on merchant banks' roles.



MEENA BAZAR
Kazi Anis Ahmed, chief executive officer of Meena Bazar, opens the chain's new outlet at Shantinagar area in the capital recently. Kazi Inam Ahmed, director of Gemcon Group, was also present.

Stocks plunge in quiet trade

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Stocks plunged yesterday as investors did not park fresh funds in the market.

The benchmark General Index, the gauge of Dhaka Stock Exchange, closed at 5,031.99 points, after falling 82.50 percent or 1.61 percent at the 3pm close.

"The market has experienced its downturns due to lack of fresh funds in the market," said Ahasanul Islam, senior vice-president of DSE.

Islam said margin holders and providers also failed to participate in trade actively as most ran short on "purchasing power".

He also said news on the bad economic situation also pushed down the investors' confidence so they are observing the market carefully.

"The week started with another losing streak confronting the worsening economic situation," LankaBangla Securities said in its daily market analysis.

Moreover, upcoming contractionary monetary policy and liquidity shortage frightened investors, LankaBangla Securities said.

Turnover declined 24.5 percent compared to the previous day.

A total of 0.83 lakh trades generated Tk 247.53 crore in turnover with 49.93 crore shares changing hands on DSE.

The market started the day on a negative note and lost more than 30 points in the first trading session and finally closed positive.

Of the 254 issues that changed hands: 29 advanced, 215 declined and 10 remained unchanged.

Most of the major sectors ended the day in negative territory. The power, non-bank financial institutions and banks lost more than 1.6 percent each, while telecoms and pharmaceuticals both lost more than 1.3 percent.

Grameenphone, which represents the telecoms sector, topped the turnover leaders with 6.42 lakh shares worth Tk 11.10 crore changing hands.

Progressive Life Insurance rose 4.51 percent as a top gainer of the day. Saiham Textile was the worst loser of the day, slumping by 8.30 percent.

The Chittagong Stock Exchange also declined yesterday. The Selective Categories Index went down 166.33 points or 1.77 percent, to end the day at 9,229.34.

Losers beat gainers 167 to five with five securities remaining unchanged on the port city bourse. More than 73.35 lakh shares and mutual fund units were



EXIM BANK
Md Nazrul Islam Mazumder, chairman of EXIM Bank, speaks at the bank's annual business development conference at Emmanuelle's Banquet Hall in Dhaka recently. Md Fariduddin Ahmed, managing director, was also present.



PRIME BANK
Md Shirajul Islam Mollah, chairman of Prime Bank, launches a medical camp of the bank for the participants of Biswa Ijtema in Tongi recently. Isbahul Bar Chowdhury, deputy managing director, was also present.

Panel defines index method

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Earlier on December 26, the SEC formed a committee to set the definition of free-float and asked it to submit a report in 15 workdays. The committee, led by SEC Member Arif Khan, submitted the report yesterday.

At present, both Dhaka and Chittagong stock exchanges have three types of indices. The indices of the premier bourse are DSE General Index, DSE All Share Price Index and DSE-20, while those of the port city bourse are CSE All Share Price Index, CSE Selective Categories Index and CSE-30.

Earlier, another regulatory committee on index had asked the SEC to introduce a new index with a base point of 1,000 eliminating the existing ones that contain inflated points due to faulty computation.

The committee had also recommended that the commission formulate the new index based on free-float shares of listed companies and introduce sectoral indices.

MRDI, MTB to provide education funds for char children

STAR BUSINESS DESK

Management and Resources Development Initiative (MRDI) yesterday signed a deal with Mutual Trust Bank (MTB) and Sharifpara Temporary Registered Primary School of Char Fashion, Bhola to help flourish the school.

The bank will provide funds for renovating the school and payment of two years' salary of teachers as part of its corporate social responsibility.

MRDI will supervise and monitor the progress of the activities.

The programme is a part of MRDI and Manusher Jonno Foundation's initiative with an objective to use CSR funds as an alternative social development support.

Anis A Khan, MTB managing director; Hasibur Rahman, executive director of MRDI, and Md Abul Kashem, headmaster of the school, inked the deal.

Rokia Afzal Rahman, former caretaker government adviser and adviser to MRDI's CSR team, was present at the ceremony as the guest of honour.

Rokia Rahman stressed the need for widening policy support to encourage the corporate sector to come forward with CSR activities that directly address poverty and thanked MTB for joining MRDI in this initiative.

"Broad-based financial inclusion of poor and marginalised people should be recognised as an important component of CSR," she said.



MRDI
Anis A Khan, second from right, managing director of Mutual Trust Bank, exchanges documents with Hasibur Rahman, executive director of Management and Resources Development Initiative, after signing a deal to provide education funds under corporate social responsibility to a school at Char Fashion in Bhola. Rokia Afzal Rahman, centre, former caretaker government adviser, is also seen.

Khan applauded the role of MRDI in connecting corporate sector with the community and facilitating proper use of CSR money in addressing priority needs.

"MTB takes pride in extending support to education of deprived children and hopes that other institutions would also come forward to help further the educational requirements of the children of remote char areas."

Involvement of the corporate sector in such

development programmes can substantially contribute to the achievement of annual development plans of the government and millennium development goals in the long run, said Hasibur Rahman.

The school's headmaster expressed his gratitude to MTB and MRDI for seeking out the remote village, which is deprived of the benefits of all developmental programmes and providing educational facilities for its children.



PREMIER BANK
HBM Iqbal, chairman of Premier Bank, attends the bank's annual management conference at Radisson Hotel in the capital recently. Ihsanul Aziz, managing director, was also present.

Japan frets over EU downgrades

AFP, Tokyo

Japanese Finance Minister Jun Azumi on Sunday expressed worries over his nation's own sovereign debt rating after Standard and Poor's downgraded nine debt-laden EU countries, including France.

"Unless Japan shows that we are swiftly securing stable financial conditions and rebuilding fiscal policies...it will be us next time," Azumi told reporters.

His comments came after Prime Minister Yoshihiko Noda also voiced concerns.

"The crisis in Europe is not a fire on the other side of a river," he said during a TV programme on Saturday. "Even France's rating was lowered. If Japan continues its current fiscal policy, we will find ourselves under the spotlight. We must tackle

this issue with a great sense of urgency."

Japan's debt stands at around 200 percent of GDP after years of pump-priming measures by governments trying in vain to arrest the economy's long decline.

Noda's government and the ruling Democratic Party of Japan have mapped out a plan to double the current five percent sales tax, but the premier faces a tough battle to drive through the unpopular plan.

Ratings agency Standard & Poor's has downgraded nine EU countries, stripping France and Austria of their top triple-A rating.

Only Germany escaped unscathed, as all other eurozone members were either downgraded -- some by two notches -- or else warned their current ratings were being re-examined.

How ratings agencies work

AFP, Paris

Downgrades of credit ratings can lead to shifts of billions of dollars in investments, but the decisions come down to the work of a couple of analysts who use largely public sources of information.

A credit rating is assigned to a company or country to describe the likelihood of it defaulting on its debts.

The three main agencies are Moody's, Standard and Poor's and Fitch.

They have an important role in the modern financial system as many funds which invest savings and pension money are contractually required to invest only in bonds above certain ratings from the main agencies.

Typically, a team of at least two analysts from a ratings agency will sift public information to determine an entity's creditworthiness.

Agencies generally assign a "primary analyst" to evaluate a country or company's solvency and its risks of debt non-payment. Ratings vary from a top AAA+ to D, for an entity in default.

Along with a colleague, the primary analyst speaks to the debt issuer, including the financial director and other executives if it is a company, and finance ministers in the case of a country.

In smaller countries, ratings agents work directly with heads of government.

About three or four days of meetings usually follow, typically with various officials who share recent fiscal statistics and projections.

"It's fairly short compared to when the International Monetary Fund prepares annual reports, which takes two or three weeks," said Norbert Gaillard, a World Bank consultant and author of a book on credit rating agencies.

The two analysts then give a report that recommends whether the agency should affirm, raise or lower a rating. The report is evaluated by a small ratings commission, which discusses the recommendations internally.

Soon after, the country or business is notified of the decision, but generally only hours before it's made public.

They can object, but protests often fall on deaf ears.

Ratings are reviewed at least once a year, though