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Star BUSINESS

DHAKA MONDAY JULY 15, 2013, e-mail: business@thedailystar.net

BB gains some control over state banks

Parliament passes new banking companies law

STAR BUSINESS REPORT

The government has finally empowered Bangladesh Bank to remove any chief executive officer of state banks to prevent activities harmful to depositors.

However, the authority to remove the chairmen and directors of the banks remains at the hands of the government.

The changes came in the Banking Companies (Amendment) Bill, which was passed in parliament yesterday. Under the existing law, only the government can take actions against the chief executives of the state banks.

The amendment was made under the conditions of the Extended Credit Facility loans of the International Monetary Fund.

The IMF had recommended the central bank should have the authority to remove the boards of the state banks, like the private banks.

Presently, if the boards or higher management of the state banks are involved in fraudulent activities, the BB can only advise the government on what to do, but cannot take any action.

Before various scams were unearthed in different state banks, the BB had sent letters to the government several times, urging it to take action against the boards of the banks, but the government had not taken any action.

In this context, the IMF had recommended empowering the central bank with the authority to take actions against the state banks, their boards and other higher authorities.

According to the amendment, banks' exposure to the capital market has been lowered to 25 percent of their total regulatory capital. The existing law allows banks to invest 10 percent of their deposits in the stockmarket.

Besides, according to the amendment, if any bank purchases shares of other companies it will not be more than 5 percent of the bank's paid-up and reserved capital.

The number of directors at any bank will not exceed 20 including three independent directors, the amendment says. If the number of directors is less than 20 in any bank, the number of independent directors will be 2.

However, the number of directors has to be brought down to the limit one year after the amendment comes into effect.

The independent directors will be appointed within three years after the act takes effect. Before appointing them, permission has to be taken from Bangladesh Securities and Exchange Commission.

Though the existing law does not specify the number of directors, the finance ministry had earlier tried on several occasions to bring down the number to 15.

The amendment also brings stringent measures to curb frauds in fund collection from people in the name of deposits.

If any non-bank organisation collects deposits from the public, it will have to take approval from the central bank, according to the amendment.

PROVISION	EXISTING	AMENDMENT
NUMBER OF DIRECTORS	No limit	20 including 3 independent directors
BB'S CONTROL OVER STATE BANKS	No authority to remove boards, MD	BB can remove only the MD
STOCKMARKET EXPOSURE	Banks invest in stockmarket 10pc of deposit	Banks invest 25pc of total capital

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Children accompanied by their guardian check out clothes on display at a shop in Bashundhara City shopping mall in Dhaka yesterday. Shoppers are visiting different markets to buy gifts for their loved ones ahead of Eid-ul-Fitr.

LOAN SCRAPPING WB's decision was wrong: Muhith

UNB, Dhaka

Finance Minister AMA Muhith has said the World Bank took a wrong, unnecessary and uncalled for decision to cancel its \$1.2 billion loan for the Padma bridge project on June 29 last year.

"The bank in our view without any valid reason was in a hurry to take a decision as the term of the incumbent president was expiring."

Muhith made the comments in a letter to Luis Moreno Ocampo, chief of external panel of experts for the project, in response to the report of the panel.

The website of the World Bank's integrity vice presidency has published the letter of the dated June 20 this year following the minister's desire.

In the past, the Integrity Office carried out investigation into seven cases in Bangladesh and the projects were never held up during investigation, Muhith said in the letter.

Some of the investigations resulted in withdrawal of the World Bank from financing certain components of a project.

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18 companies trade with abnormally high PE ratio

GAZI TOWHID AHMED

A total of eighteen companies listed on the stockmarket are trading with an abnormal price-to-earnings (PE) ratio, more than 50, indicating the stocks have become overheated.

Of the companies, six are trading with a PE ratio of more than 100, according to Dhaka Stock Exchange.

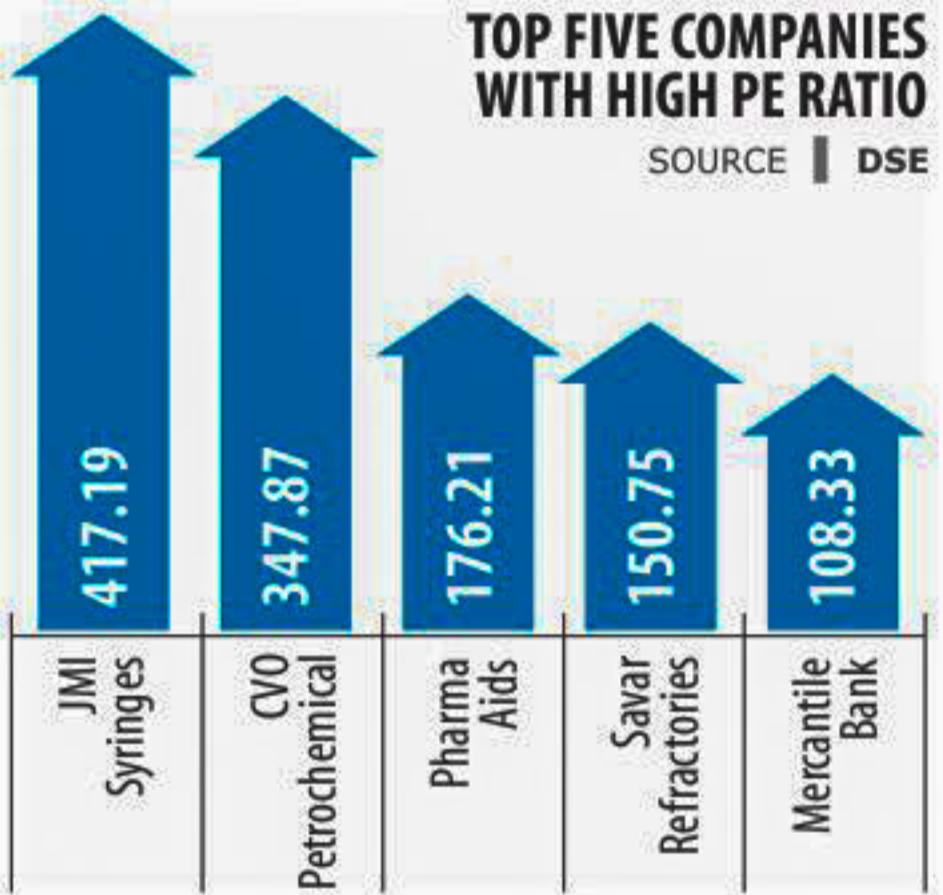
If a company has a PE ratio of more than 20, its stocks are considered overheated and investors should not pour money in them.

The PE ratio determines the time an investor needs to wait to get back the invested amount. It is an indicator for considering the extent of risks an investment might entail. The PE ratio is the valuation of a company's current share price compared to its earnings per share.

The indicator is also important to better understand what happens in the market after a large gain or decline. It is also one of the best gauges to know how expensive or cheap the overall stockmarket is at a certain moment.

The stocks with abnormal PE ratio became overheated and risky for investment, but investors are injecting fresh funds into these stocks, which may cause financial losses to them, said Maruf Matin, managing director of Alliance Capital Asset Management Company, an investment firm.

The regulator should look into how the



prices of these companies have increased so much, Matin said.

"We always advise investors to invest in stocks considering the fundamentals of a company, such as its future earnings and growth prospect," said Ahasanul Islam Titu, president of the Dhaka bourse.

"If the companies have a high PE ratio but low growth, investors may suffer losses," he said. But people can invest in companies that have a higher PE ratio with a huge growth prospect, he said.

Among the major sectors, jute has the highest PE ratio of 45.9 as of Thursday, followed by cement at 32, non-bank financial institutions 28, ceramic 26.1, paper and printing 26 and information technology 25.7.

Dhaka bourse to erase old index this month

STAR BUSINESS REPORT

The old and flawed general index of the Dhaka Stock Exchange will be eliminated this month, after facing a two-month delay.

The DGEN, which contains inflated points due to faulty calculation, was scheduled to continue on the trading board until April, after the launch of a new index in January.

The new index known as DSEX, designed by Standard and Poor's, was formally launched on January 28, based on the free-float methodology used by the world's major indices.

The DSE authorities had announced to continue the DGEN for the next three months to April, but it has not been removed from the trading board till now.

"We will place the issue at our upcoming board meeting next week and hope we can take a decision," said Ahsanul Islam Titu, president of the premier bourse.

The DGEN was kept only to help retail investors get used to the new index, he said. "There is no logic behind keeping the old index for an indefinite period."

The DSEX has a total of 199 listed companies, which is 93 percent of total market capitalisation.

Market capitalisation under the free-float methodology is calculated by taking the equity's price and multiplying it by the number of shares readily available in the market.

Instead of using all the shares outstanding as in full-market capitalisation, which DGEN follows, the free-float method excludes locked-in shares held by promoters and governments.

Meanwhile, the DS 30 Index will also be revised this month in line with the S&P methodology that refers the bourse to adjust the index two times in a year.

New player in WiMAX

Regulator sends recommendation to ministry

ABDULLAH MAMUN

The telecom regulator has decided to hand over a WiMAX licence at a price of Tk 215 crore to the internet service provider that operates under the name of OLOO.

Bangladesh Telecommunication Regulatory Commission has recently sent the proposal to the telecom ministry for approval.

OLLO's operator, Bangladesh Internet Exchange Ltd (BIEL), now provides fixed WiMAX with its current frequency. Once it gets the 40 megahertz (20 upload+20 download) spectrum in the 2,500-2,600 MHz band, it will get mobility with the service.

The regulator informed the ministry in the proposal that two new WiMAX licences can be provided.

BTRC also said the WiMAX operators in Bangladesh will be able to use long-term evolution (LTE), the latest technology for high-speed wireless data transfer, after taking permission and paying extra charges to the regulator.

WiMAX, short for Worldwide Interoperability for Microwave Access, essentially provides high-quality broadband access and has high penetrability, in that the microwaves it emits can be accessed at every nook and corner of its large coverage area.

At present, there are two active WiMAX

licence holders, Banglalion Communications and Augere Wireless, both of whom paid Tk 215 crore at the auction held in September 2008.

BIEL applied for the licence in April while another company Mango Teleservices also applied for the licence earlier.

Yulia Aksyutina, managing director of BIEL, would not give details on the latest development regarding the licence.

Mir Masud Kabir, managing director of Mango Teleservices, said, "If the government gives the licence in a business friendly way, he may take the opportunity to go for WiMAX services."

However, industry insiders said the government takes Tk 215 crore upfront as a licence acquisition fee, and it is tough for the operators to further invest on network development.

"It's time to give away the idle WiMAX licences, as it would not be possible to hold another auction," Sunil Kanti Bose, chairman of BTRC, had earlier told The Daily Star.

"If any party is willing to pay the amount, sure, they can have the licence," he added.

BIEL, a subsidiary of Multinet Group, said in its application that it is prepared to pay the sum the other two private bidders paid in the auction.

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