

TOWARDS BUILDING A MODERN ECONOMY



DHAKA TUESDAY
FEBRUARY 20, 2018
FALGUN 8, 1424 BS

41

For a vibrant financial sector

CONTINUED FROM PAGE 38

developing a market for corporate bonds.

Given the public's lack of confidence and awareness about the benefits of investing in debt instruments, this is a lot easier said than done. A reform agenda on this front will require an enabling regulatory environment with tax incentives, issuing benchmark bonds, creating a rating system that educates investors on the quality of a bond (which is essentially a reflection of the health of the firm issuing the bond), establishing effective trading platforms and finally establishing a derivatives market with instruments of long maturities to hedge against interest rate, exchange rate and default risks.

Another long-standing disappointment is the complexity of regulations that govern the overall process of raising funds from the market. It is this complexity, together with lower financial incentives, that resulted in only seven IPOs (Initial Public Offering) last year—the lowest during the 2009-2017 period. Then again, market participants will generally agree that even simple matters like purchasing treasury securities are a tedious and cumbersome task, let alone IPOs! In hindsight, we could have and should have fixed this issue long ago. Streamlining these processes must now become a top priority.

In the past, we have heard and read reports that blamed lack of expertise of professional mutual fund managers that played a role in the unhappy state of the market. Several quarters, including those in top policymaking positions, alleged in print media that these funds lack professional expertise and so it should be no surprise that they failed to raise investor confidence. What they perhaps failed to recognise is that a professional, any professional, is only as

strong as his weakest link. In a market stymied by lack of quality stocks with almost zero variety in terms of asset classes where money can be parked, where will the mutual fund manager go? By criticising these funds in public, regulators are reducing—instead of raising—public confidence in an asset class that has the potential to shape the future of the entire industry. This must change and regulators need to educate the public about the benefits of parking

their money with professional fund managers.

But that is only the tip of the iceberg. Fund managers have to be given more diversity and flexibility in terms of where they can invest their funds. With the bond market still nascent, one option could be to allow a small portion of these funds to be invested in overseas financial assets (stocks or bonds). Of course this option should be considered only after proper due

diligence is carried out and profitability of the investment accurately reported to BSEC and the central bank.

It would be remiss not to recognise that the extent to which these reforms can be carried out will go hand in hand with how much political will regulators can generate. It's sometimes said that recognising the problem is winning half the battle. Sadly though, that is not the case for stock market reform in Bangladesh. Still, we recognise all the

constraints our regulators face but we will continue to count on them to change the scenario eventually so that the stock market can play a pivotal role in Bangladesh's journey to greater shared prosperity.

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