

A 10-point plan for capital market development



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Executive compensation based on stock options and warrants will mitigate agency conflicts.

It is simply said that after 53 years of independence, the securities regulator and stock exchanges have yet failed to introduce basic options for trading on the stock exchanges. A DSE-30 index option and standard option contracts can be introduced with reference to the blue-chip stocks listed with the stock exchanges. A number of top brokers can be entrusted with the job of market-making for this

purpose. The fear that investors will be exposed to risky leveraged positions in options is unwarranted. Instead, this new market segment in option contracts will significantly improve market dynamics, price discovery, and market liquidity.

4) A prudential regulatory framework is imperative so that mergers and acquisitions (M&A) of companies can be implemented based on market pricing or fair valuation, supported by verifiable inputs. Any listed company should be open for acquisition by another company, either for strategic reasons or to gain an

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advantage in ongoing markets. Of course, an M&A should be subject to competition rules, compliance with exchange regulations, other securities laws, and ultimately the approval of the courts. A substantial acquisition of shares of a listed company by any foreign entity (or entities under their control) should be subject to instantaneous disclosure and certain other conditions.

5) The role of institutional investors, including brokers, merchant bankers, and asset management companies, is dysfunctional in the active capital

management of companies. Trading rules need to be redefined so that institutional investors can easily acquire (or exit from) substantial shareholdings in listed companies. The institutional role of brokers to tap retail investors in the primary market must be expanded. The objective is to push corporations away from banks and towards the capital market for long-term financing.

The performance of the asset management industry is frustrating for investors. The return from fixed-income instruments such as government securities and term deposits with banks and financial institutions has consistently exceeded long-term returns from mutual funds and other collective investment schemes in Bangladesh. This problem is genuine and a barrier to attracting high-net-worth individuals and institutional investors to the capital market.

6) Enquire, investigate, and prosecute material market manipulations and financial crimes across listed companies, broker companies, merchant banks, asset management companies, and stock exchanges in order to protect the interests of investors. The potential costs of manipulative stock trading must outweigh the potential benefits. The external auditing of financial statements of listed securities is effectively very little regulated. While the Financial Reporting Council (FRC) needs to enforce prudential standards for improving auditing practices, BSEC is obliged to enforce securities laws against material audit failures for listed securities.

7) A high-level inter regulatory coordination mechanism is necessary so that the capital market regulator can enforce differential reporting and governance regulations for listed companies and capital market intermediaries. Specifically, Bangladesh Bank is the primary regulator of banks and financial institutions, and many of their accounting, financial reporting, and government disclosures are non-standard and conflict with IFRSs and global best practices.

We have observed that the Bangladesh Bank and BSEC have fundamental divergence in their regulatory frameworks regarding financial and governance reporting.

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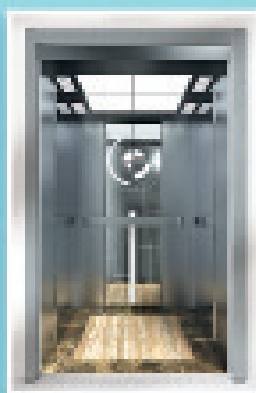
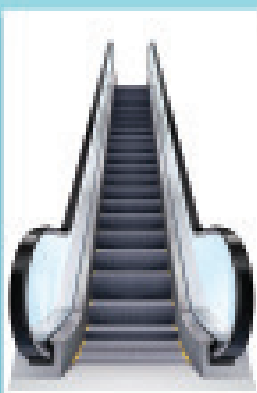

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