STABILISING THE CAPITAL MARKET OF BANGLADESH

Addressing the Structural, Institutional and Operational Issues

CPD Working Paper: 95

Khondaker Golam Moazzem[*]
Md. Tariqur Rahman

[*]Authors would like to register their deep appreciation to *Professor Mustafizur Rahman*, Executive Director and *Dr Debapriya Bhattacharya*, Distinguished Fellow of the Centre for Policy Dialogue (CPD) for their valuable suggestions on the framework and the structure of the study. Authors are grateful to *Professor Rahman* for his valuable time to kindly edit the final draft.

Publisher

Centre for Policy Dialogue (CPD)
House 40/C, Road 32, Dhanmondi R/A
Dhaka 1209, Bangladesh
Telephone: (+88 02) 8124770, 9141703, 9141734, 9145090
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd
Blog: www.cpd.org.bd/Blog/

First Published March 2012

Tk. 70
USD 6

ISSN 2225-8175 (Online)
ISSN 2225-8035 (Print)

C42012_1WP95_MPA

The **Centre for Policy Dialogue (CPD)** was established in 1993 as a civil society initiative to promote an ongoing dialogue between the principal partners in the decision making and implementing process. Over the past 18 years the Centre has emerged as a globally reputed independent think-tank with local roots and global outreach. At present, CPD's two major activities relate to dialogues and research which work in a mutually reinforcing manner.

CPD dialogues are designed to address important policy issues and to seek constructive solutions to these problems. In doing so, CPD involves all important cross sections of the society including public representatives, government officials, business leaders, activists of grassroots organisations, academics, development partners and other relevant interest groups. CPD focuses on frontier issues which are critical to the development process of Bangladesh, South Asia and LDCs in the present context, and those that are expected to shape and influence country's development prospects from the mid-term perspectives. CPD seeks to provide voice to the interests and concerns of the low-income economies in the global development discourse. With a view to influencing policies CPD deploys both research and dialogue which draw synergy from one another.

CPD's research programmes are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include: *Macroeconomic Performance Analysis*; *Fiscal Policy and Domestic Resource Mobilisation; Poverty, Inequality and Social Justice*; *Agriculture and Rural Development*; *Trade, Regional Cooperation and Global Integration*; *Investment Promotion, Infrastructure and Enterprise Development*; *Climate Change and Environment*; *Human Development and Social Protection*; and *Development Governance, Policies and Institutions*.

CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns. With a view to promote vision and policy awareness amongst the young people of the country, CPD is also implementing a *Youth Leadership Programme*. CPD maintains a broad network with institutions working in common areas of interest, and has partnered with some of these in organising international events both in Bangladesh and abroad.

It may be of interest to note that in recognition of its track record in research, dialogue and policy influencing, CPD was selected as one of the awardees under the Think Tank Initiative (TTI) through a globally held competitive selection process. TTI is supported by a number of governments and foundations, and is implemented by the International Development Research Centre (IDRC), Canada.

Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out CPD Occasional Paper Series on a regular basis. It may be noted in this connection that since November 2011 the Series has been re-introduced as **CPD Working Paper Series**. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled **Stabilising the Capital Market of Bangladesh: Addressing the Structural, Institutional and Operational Issues** has been prepared by *Dr Khondaker Golam Moazzem*, Senior Research Fellow, CPD; and *Mr Md. Tariqur Rahman,* Senior Research Associate, CPD.

The paper was presented at the CPD dialogue on *State of the Capital Market and Recent Policy Initiatives* on 12 December 2011, at BRAC Centre Inn Auditorium, Dhaka by *Dr Khondaker Golam Moazzem*, Senior Research Fellow, CPD.

Assistant Editor: *Anisatul Fatema Yousuf,* Director, Dialogue & Communication, CPD
Series Editor: *Mustafizur Rahman,* Executive Director, CPD

Contents

List of Tables and Figures

Table

Figures

Appendix Tables

Appendix Figures

Annex Tables

Acronyms

ACC	Anti Corruption Commission
BO	Beneficiary Owner
CDBL	Central Depository of Bangladesh Limited
CPD	Centre for Policy Dialogue
CSE	Chittagong Stock Exchange
DGEN	DSE General Index
DSE	Dhaka Stock Exchange
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
ICAB	Institute of Chartered Accountants of Bangladesh
ICB	Investment Corporation of Bangladesh
IPO	Initial Public Offering
MoF	Ministry of Finance
NBFI	Non-bank Financial Institution
NBR	National Board of Revenue
NSD	National Savings Bond
P/E Ratio	Price/Earnings Ratio
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SMS	Short Message Service
TIN	Tax Identification Number

1. INTRODUCTION

The capital market of Bangladesh is passing through a period of extreme volatility, uncertainty and grave crisis. Following the bust of the bubble in December 2010, the market has lost values in terms of all major indicators. For example, as of 31 December 2011, DSE General Index (DGEN) dropped by 41 per cent; market capitalisation went down by 29 per cent; and total trade value of the Dhaka Stock Exchange (DSE) suffered erosion to the tune of 83 per cent from the peak on 12 December 2010, when DGEN attained 8918 points. Price/Earnings (P/E) ratio which rose to as high as 29.7 in November 2010, had come down to 13.68.

Whilst the bust in the market is itself a matter of grave concern, it is no less disconcerting that now that market has reached a level which matches pre-boom levels, investors are nonetheless coming back to the market. The market lost its vibrancy, low share prices have not been attracting investors, and total turnover has come down significantly. This could be interpreted as a reflection of loss of confidence in the market. It is to be noted here that, to restore market confidence, the government and the Securities and Exchange Commission (SEC) have undertaken a number of initiatives in the recent past; some of these initiatives are in the process of implementation. However, it has been argued in this paper that often these measures were chosen on the basis of 'false' premise, because of which, real problems that afflicted the market could not be appropriately addressed and tackled. The malgovernance that characterised the capital market, coupled with failure to undertake the needed steps, has made the capital market of the country, to a large extent, dysfunctional. The thrust of the arguments presented in this paper is that, putting the capital market of Bangladesh on a steady footing and correcting the malaise that afflicts its proper functioning will require stringent measures, so that the market will be a 'functional' one in the true sense of the word.

This paper has three-fold objectives: *first*, it provides a brief review of the problems that characterise the capital market in Bangladesh; *second*, it carries out a critical review of the initiatives taken till now (December 2011) to rescue the market and examines the implications of such measures for the market (if any); and *third*, the paper puts forward a number of concrete recommendations towards restoration of market confidence and stability. The paper includes six sections. Section 2 presents discussion with regard to the benchmark situation of the capital market, and particularly highlights factors which contributed to the dysfunctionality of the market. Section 3 deals with various measures undertaken by different organisations following the collapse of the market, and examines the effectiveness of those measures for restoration of stability and building of market confidence. Section 4 examines some of the recent measures undertaken by SEC and the Bangladesh Bank as per the directives of the Prime Minister of the country. Given the limited impact and effectiveness of various measures undertaken so far, Section 5 puts forward suggestions for a number of alternative measures with a view to restore and ensure stability in the market. The final section draws the conclusion to this paper.

2. BENCHMARK CONDITIONS IN THE CAPITAL MARKET

The dismal state of affairs that inhibit the proper functioning of Bangladesh's capital market can be clearly visible through a close examination of various aspects of the market operation. One will have to take into cognisance that this state of affairs defines the reference points and the benchmark conditions in the backdrop of necessary restructuring and reform measures to be undertaken to improve the current situation. Indeed, over the last 12 months a number of initiatives have been taken towards this; however, it is reckoned that lack of appreciation with regard to the true nature of the problems have undermined the efficacy of the measures, and consequently expected results could not be achieved.

Problem is not just of Market Inefficiency

The inefficient nature of the functioning of Bangladesh's capital market is well known and has been reported widely in various studies (Hassan *et al.* 2000; Mobarek and Keasey 2002; Ahmed and Imam 2007; Uddin and Khoda 2009; CPD 2010). Normally, in an inefficient market, movement of stock prices fail to adequately reflect the changes happening in the real economy (Beechey *et al.* 2000). Ali (2011) found DSE as an 'informationally inefficient market'; Alam *et al.* (2011) showed that changes brought about with regard to the functioning of the DSE did not improve the level of efficiency in the market. Others have argued that, capital market of Bangladesh continues to remain in its early stage of development and will have to mature further before it attains a semblance of stability (Rahman and Rahman 2011).

More importantly, the problem of the capital market appears to be not one of mere inefficiency, but one which is associated with the deeper malaise of malgovernance (CPD 2010; CPD 2011a; Probe Committee Report 2011). In this backdrop, major market fundamentals such as P/E ratio, earning per share, etc. may not provide a meaningful guidance with respect to the actual status of the market. Consequently, even a P/E ratio of 'near-10' which is otherwise considered to be a 'good' indicator of the 'market fundamental', did not prove to be attractive enough to generate demand even for the DSE 20 shares.

Lack of Transparency in BO Accounts

There is serious dearth of transparency in terms of using the Beneficiary Owner (BO) accounts. This includes use of multiple accounts by an accountholder over the authorised number of accounts, authenticity of information about the accountholders, and misreporting of income earned through capital market in the annual income statement submitted to the National Board of Revenue (NBR). CPD (2011b) reported that there was a tendency among a large number of market participants to hold accounts beyond the stipulated level (i.e. two accounts). This is maintained in order to take advantage of multiple transactions to make windfall gain. It was found among the samples selected by the Probe Committee that one investor was involved in DSE transactions through as many as 12 BO accounts. Appendix Table 1 explains how an investor could maintain so many multiple accounts with fictitious personal information. This tells serious procedural weaknesses involving registration and opening of accounts, process of scrutiny that is followed to check the authenticity of information about accountholders, and about absence of appropriate mechanisms to share information with the NBR. Establishing transparency in the use of BO accounts is one of the most critical challenges for the regulatory body of the capital market of Bangladesh.

Presence of Bull Cartels

The artificial rise in the share prices prior to the collapse of the market in December 2010, was influenced by a number of bull cartels as reported in the Probe Committee Report (CPD 2011b).[1] These cartels are reported to be formed with some members of DSE/CSE, officials of the SEC, political leaders, high-profile businessmen, officials of financial institutions, and owners of brokerage houses, etc.[2] Lack of proper monitoring of the various market-related activities such as trading operation at DSE or the Chittagong Stock Exchange (CSE), activities of merchant banks and brokerage houses, activities of officials of regulatory bodies, made the market by and large 'unprotected' from possible market manipulators. The weak regulatory role of SEC was further accentuated because of strong linkage of the bull cartels with various political parties, both ruling and opposition.

Book Building System Needs to be Monitored

Introduction of book building system in 2010 has unfortunately turned out to be a mechanism for manipulating the market prices. Instead of ensuring competition among large investors during the 'price discovery' stage, the system has been abused by market syndicates through placement shares at an artificially-induced high price. This artificial price was maintained for some time (particularly till the lifting of the lock-in period, i.e. 15 trading days), and following this, investors were found to offload their shares at a higher price (Appendix Figure 1). There are only three instances where book building system was practiced before the market collapse in December 2010, of which two companies were directly listed in the market. After much criticism, SEC has now postponed using this system, and has made necessary revision of the rules (i.e. Book Building Method under Public Issue, 2006). Since the revision of the rules, so far two companies have used the system to raise their funds.

---

[1] According to newspaper reports, the number of bull cartels operating in the stock market is more than 10. Such bull cartels were operational in 1996 as well, and played a major role in instigating the market crash at that time.

[2] It is alleged that they were involved in market manipulation through different activities such as offering placement shares for initial public offerings (IPOs) in curb market; by influencing regulatory body to lift lock-in period in favour of selected companies; being involved in speculative trading of shares of different companies including 'Z' category shares to artificially raise the share prices; by way of involvement in informal syndicated activities to influence book building system; and through involvement in fake transactions with the help of brokerage houses. There are rumours that these bull cartels with the support of share departments of the respective companies have access to companies' price-sensitive information prior to their public announcement, and prior knowledge about undisclosed and secret information of the company, such as information on buying and selling of shares.

Rampant Use of Placement Shares

The distribution of placement shares of different companies failed to follow market norms due to lack of proper rules, instead these shares were distributed among influential vested quarters. While SEC introduced a new rule regarding distribution of placement shares (on 31 May 2010), its effectiveness is yet to be tested. Given the presence of large number of unauthorised BO accounts with a scope for having placement shares beyond legally permitted level, the new rule may turn out to be not very effective in controlling illegal activities.

Serial Trading is a Popular Malpractice

Given the prevalence of unauthorised BO accounts, the opportunities to indulge in illegal activities such as serial trading is quite high. In the absence of proper monitoring, it is rather easy to manipulate market prices using several accounts with a view to create artificial demand for some shares at first, raise prices through hectic buying of the shares, and then selling those shares when small investors start to buy these shares, and thereby reap windfall gains within a short period of time (Appendix Figure 2 and Appendix Table 2).

Insider Trading is an Open Secret

Price-sensitive information are supposed to be made public through daily trading operations. However, it is seen that such information is leaked out earlier or rumours are intentionally spread to influence the market. It was reported that stock brokers and their employees, and sometimes even officials within the SEC were involved in spreading rumours. Leaking transaction-related information to influential quarters from different offices such as DSE/CSE, or monitoring, surveillance and information technology (IT) departments, and even from the Central Depository Bangladesh Limited (CDBL) was not uncommon. About 80 per cent business executives stated in a recent survey that insider trading is pervasive in the country's stock market (CPD 2011c). Weak monitoring and enforcement of existing rules as well as absence of specific rules related to these practices help manipulate the market, and act as a major obstacle for rule-based operation of the market.

Faulty Audit Reports of the Listed Companies

A major concern was raised in the Probe Committee Report and also in CPD (2011b) on the reliability and authenticity of audit reports. The submitted audit reports often did not reflect the actual financial situation of the company, and appeared to be prepared with an intention to manipulate the market behaviour (e.g. issuance of large number of right shares by several companies in 2010 through revaluation of assets which allowed these companies to mop up significant amount of cash. Appendix Table 3 shows, only 19 per cent of total listed companies were audited by firms that had official affiliation with international audit firms. About 60 per cent of listed companies were audited by firms which were enlisted with the NGO Affairs Bureau or Bangladesh Bank. Interestingly, more than one-fifth of the listed companies were audited by firms which had no affiliation other than the Institute of Chartered Accountants of Bangladesh (ICAB). Absence of accredited institutions to monitor reporting standards of the audited firms leaves ample opportunities and scopes to misuse the audit system, to the detriment of the common shareholders. In view of this, the Stock Exchange bodies (namely SEC, DSE and CSE) cannot avoid their responsibilities in failing to properly oversee the auditing practices. Lack of in-house capacity at the SEC as well as lack of proper rules to monitor audit firms (e.g. Reporting Act) creates an opportunity for misuse of the audit reports for purposes of market manipulation.

Faulty Operations of Excessive Number of Merchant Banks

Operations of the merchant banks should be examined on two accounts – *first*, whether their operations are properly followed by rules; and *second*, whether the capital market actually needs the presence of such a large number of merchant banks. According to the Probe Committee Report, a number of merchant banks were found to be involved in the disbursement of margin loans over the stipulated limit set by the Exchange Commission (Appendix Table 4). While merchant banks are supposed to be issue-manager of at least one IPO in a year, a number of these banks were not able to comply with this target. During FY2009-10, in total 23 IPOs were issued which is the highest number of IPOs floated in a year; to compare, the number was in FY2010-11 was 17. This would suggest that the number of merchant banks in operation in this market was higher than was required to service the market. While operation of merchant banks should be confined to portfolio management, often these are alleged to act as 'brokerage houses.'

Retailer-like Behaviour of Institutional Investors

Some of the institutional investors, particularly financial institutions, are found to be non-compliant on a number of counts, including participation in the secondary market as retail traders. It was found that there were wide variations among banks in terms of pattern of trading and capital gains (i.e. rate of return) received through such activities (Appendix Figure 3). Transaction of financial institutions with withdrawal-deposit ratio well over 1 indicates that they were most likely to be acting as retail traders in the capital market. Such trading behaviour allowed these institutions to enjoy significant gain from the market within a span of only one year. The allure of such high returns, received through this kind of retail trading, has induced certain financial institutions to bend and break some of the customary practices in the capital market. Evidently, there was an oversight with regard to ensuring responsible behaviour of institutional investors in the capital market.

Faulty Operations of Commercial Banks

Commercial banks failed to comply with rules and regulations related to their investment/involvement in the capital market. These include among others, failure to invest within the exposure limit (i.e. not more than 10 per cent of total liabilities), and failure to advance credit within the stipulated limit to a single party (i.e. not more than 75 per cent of bank's total advance to the market). Although most banks have reduced their investment within the stipulated level (banks' average exposure in the capital market was about 3 per cent in October 2011), a number of banks are yet to comply. There was an oversight on the part of the banks to monitor the actual use of fund which was borrowed in the name of investing in the real sector. It is alleged that a huge amount of fund were diverted from the banks to the capital market with a view to making short-term capital gains. Many banks are yet to enforce the required discipline to correct such anomalies.

Oversight of the Bangladesh Bank

There is no doubt that, it was the responsibility of the Central Bank to monitor involvement of commercial banks in the stock market, identify activities that were not in line with Central Bank's guidelines, and take appropriate legal measures in view of this. The Central Bank, however, did not exercise the expected due diligence and failed to take timely measures. It is also difficult to justify Central Bank's nod to allow a large number of banks to open respective subsidiary merchant banks without proper needs assessment, and without drawing effective legal framework particularly between subsidiaries and their commercial banks. The Central Bank perhaps could not fully appreciate and comprehend the extent of their oversight, and was 'hesitant' to take the required measures. When the situation was on the verge of getting out of hand, the Central Bank took only tentative measures to enforce discipline with regard to commercial bank's involvement in the capital market.

Participation of Small Investors in the *Keynesian Beauty Contest*

Before the collapse of the capital market in December 2010, there was an unexpected rise in the number of investors in the stock market. Total number of BO accountholders till 20 December 2010 was 3.21 million which had increased by 154 per cent between January to December 2010.[3] Since the collapse of the market about 0.5 million accountholders did not renew the registration of their BO accounts; this has resulted in the number of registered accountholders coming down to about 2.8 million. However, about only 1.1 million accountholders were found to be active in operation in October 2011. The fact, however, remains that only a small portion of these investors have the requisite knowledge about the market. Besides, prediction on future flow of fund in the stock market has encouraged investors to participate more actively in the short-term trading (e.g. 'greater fool theory') since return was higher. Table 1 shows that capital gain in short-term trading of shares (DSE 20 or Z category shares) was higher compared to that for the long-term investment, as well as investment in various savings certificates including the National Savings Bond (NSD). Low risk with high return in case of short-term trading has acted as a 'pull factor', and has encouraged investors (mostly noise traders) to divert funds from other sources to the stock market.

[3]A number of factors have encouraged the influx of investors in the stock market, such as opening of brokerage houses in different districts (590 branch offices of 238 brokerage houses of DSE are currently being operated in 32 districts), organisation of *Share Mela* in different districts, and introduction of internet-based trading operation. Also market-related information is easily accessed through electronic and print media as well as internet. According to a number of studies (Tetlock 2007; Tumarkin and Whitelaw 2001) different kinds of media reporting have also induced investors to participate more actively in short-term tradings.

Table 1: Capital Gains (Differences in Share Prices) from Different Categories of Shares

Category	FY2007-08			FY2008-09			FY2009-10		
	Highest	Average	Lowest	Highest	Average	Lowest	Highest	Average	Lowest
DSE 20	345.98	93.58	-21.51	99.39	11.78	-31.85	184.32	48.73	-25.85
Z-category	371.43	100.30	-6.82	330.77	78.68	-34.87	2198.73	341.10	-29.93

Source: Authors' estimation.

Faulty Operations at DSE/CSE

The Probe Committee Report mentioned a number of weaknesses with regard to operation of the Stock Exchange of the country. In case of listing of IPOs, DSE/CSE had direct influence on raising the initial price of some of the shares. Besides, there was conflict of interest with regard to DSE/CSE's involvement both as price fixer as well as being associated with enlistment of the companies, and also it was accused of engaging investigators from officials of alleged companies themselves. The SEC directives that were intended to improve trading operation were not easy to implement as DSE lacked the necessary updated softwares. This raised concerns about transparency and accountability of the DSE/CSE. There is a clear conflict of interest between the management board of DSE/CSE (e.g. directors) and brokerage houses which are owned by the directors.

SEC has Emerged as a Weak and Inefficient Regulator

During the period of boom and bust in the market over the last few years, the SEC has emerged as a weak institution which failed to regulate, monitor and enforce the appropriate measures adequately (Rahman and Moazzem 2011). At the time of crisis, SEC applied various instruments[4] which were either inappropriate or inefficient; moreover, some of its steps were perceived to be meant to appease a section of so called 'powerful' market players. Frequent changes in the rules regarding margin loans in 2010 brought about unnecessary volatility in the market. Application of lock-in period in case of sale of placement shares was not properly maintained by the Commission; in a number of instances it relaxed the rules to favour to vested quarters. Sometimes listed companies have offered right shares mainly to mop up money from the market, and SEC could not deploy due diligence in this regard.[5] The body did not use its authority to assess companies' actual motivation in offering the right shares. Insider trading could not be controlled and discouraged without strong monitoring and surveillance by the SEC.

[4]These include changes in margin loan ratio, application of lock-in period, use of circuit breaker, taking punitive measures against illegal operations of market players, and in extreme cases, delisting the companies from the stock market.

[5]One of the reasons for floating right shares by some companies was to comply with the requirement of minimum paid-up capital as per the rules of *BASEL II* and the *Insurance Act*. A total of Tk. 2,014.5 crore has been raised by 16 companies through announcing right shares between July 2010 and second week of December 2010. During FY2009-10, only two companies raised capital through offering right shares which was amounted to be Tk. 716.22 crore.

Weak Institutional Capacity of the SEC

SEC operates with only a limited office staff, with lawyers who often lack the required competence; service of chartered accountants is also not present at the disposal of the SEC.[6] There are 134 staff in the SEC of which only 47 are officers.[7] Only four persons were working in the law department to support the SEC on different legal issues. Its limited human resource capacity allows the Commission to monitor only two brokerage houses per month. Moreover, SEC has no surveillance software of its own; rather it uses the softwares of DSE and CSE to monitor the market. Proper surveillance of transactions becomes difficult when SEC is dependent on others for undertaking this task.[8] As per its current plan, SEC will set up necessary surveillance software by April 2012.

Lack of Enforcement of Rules and Regulations

SEC has demonstrated institutional weakness when drastic measures against fraudulent activities were called for. In most cases, SEC has merely warned the companies/persons involved (51 per cent), or has provided directives asking the companies to comply with the rules and regulations (Appendix Table 5).[9] The Commission should be legally empowered to enforce appropriate measures so that the market can work efficiently. Besides, SEC, Bangladesh Bank and NBR should work together in order to ensure transparency in financial transactions in different segments of the financial system.

Lack of Coordination

Lack of coordination among different financial markets including debt market, equity market and bond market, is a major weakness for sustainable growth of the capital market. There appears to be a serious misunderstanding with regard to the nature, role, function, management and governance of the capital market. As is known, the banking sub-sector has specific functions, of which, most importantly, mobilisation of deposit, advancing of credit, and thereby ensuring flow of money in the economy, are quite critical. Explicit support to other segments of the financial sector on the part of banks has undermined the discipline in the banking sub-sector.

The relationship between SEC, the Ministry of Finance (MoF)[10] and other market-related institutions have worked against the interest of market regulation. The Parliamentary Standing Committee for the MoF, in some instances, has taken an 'advisorial position', thus creating unwarranted pressure on SEC's functioning. The relationship between two leading

[6]SEC outsources the services of checking companies' audit reports to selected audit firms.

[7]SEC has recently recruited 19 deputy directors and some additional directors against an announcement of about 60 posts.

[8]The automated trading was initiated on 10 August 1998, while DSE 20 Index was introduced on 1 January 2001. The Central Depository System was initiated on 24 January 2004.

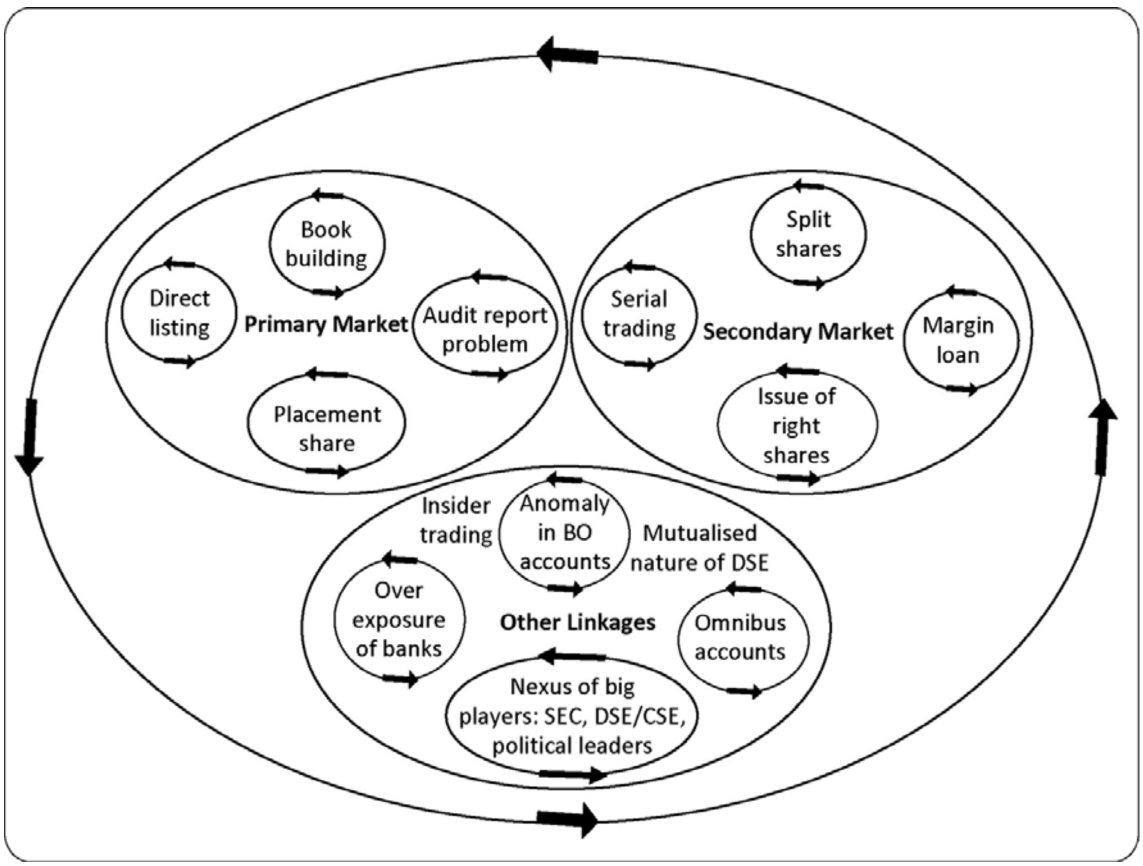
[9]There were very few cases over the years where companies have been fined, or the Chief Executive has been imprisoned or suspended.

[10]The SEC is a statutory body and is attached to the MoF.

regulatory bodies of the financial sector, Bangladesh Bank and SEC, is still not clearly defined, and has acted against the development of the financial sector of Bangladesh.[11]

The above discussion reveals a number of structural, operational and management-related weaknesses in the functioning of the capital market of Bangladesh. Without removing these problems, the market will continue to be a 'toxic' one because of various types of fraudulent activities which have made it 'dysfunctional' in the first place (Figure 1). Under this circumstance, addressing one or two elements of this toxic combination by an individual regulatory authority will not bring any tangible improvement to the sorry state of affairs prevailing in Bangladesh's capital market.

Figure 1: Toxic Elements in the Capital Market



Source: Authors' elaboration.

3. MEASURES TAKEN AFTER THE COLLAPSE IN DECEMBER 2010

Since the collapse of the market in December 2010, a number of initiatives were undertaken by MoF, SEC, Bangladesh Bank and DSE/CSE with a view to 'stabilising the market'. Many of

[11]For example, possible diversion of industrial credit to the capital market was anticipated by the Bangladesh Bank in its Monetary Policy Statement for July-December 2010; but necessary surveillance came only at a much later stage. Further, the margin rule instrument available to SEC appears to have been applied without proper assessment of overall money supply and demand in different sectors.

these initiatives were suggested by experts (e.g. Probe Committee Report 2011; CPD 2011a; CPD 2011b). Regrettably, however, most of those measures were not put into practice or were not enforced properly.

Measures Announced by the Ministry of Finance

As per the suggestions put forward by the experts (Probe Committee Report 2011; CPD 2011a; CPD 2011b), government replaced the previous Executive Committee of the SEC. The Probe Committee and the MoF came up with a list of 36-point measures which were to be implemented in three phases (i.e. immediate, short and medium-term). A total of 14 of these measures were related to investigation of various allegations on market manipulation. Government has decided to take actions against people who were involved in malpractices and manipulation. A Task Force was to be formed to supervise the implementation of the Probe Committee's recommendations.

Later, MoF constituted a four-member Advisory Committee with a view to get advisorial support towards a properly functioning capital market. However, it is not clear how this new committee will work and contribute towards development of SEC, in the presence of a 17-member Advisory Committee that is already there to support the Exchange Commission. Although members of the SEC Advisory Committee should not have any stake in the market, 12 out of these 17 members represent different associations related to the capital market.

Measures Supposed to be Taken by the Securities and Exchange Commission (SEC)

SEC was supposed to take some actions as per the measures announced by the government. These included action against three persons for their fraudulent activities, investigation of allegations against the SEC officials who indulged in market manipulation, examination of assets of some of the companies alleged to have been involved in illegal trading, and initiation to probe allegations against several companies.[12] Criminal investigation against a number of companies and persons which was supposed to be carried out by the Anti Corruption Commission (ACC) has begun, but without much visible progress.

SEC under its new management has also prepared a 29-point work plan.[13] Of these, eight activities were identified as 'top urgent', three as 'urgent', 14 as 'short term tasks' and four as 'medium term tasks' (Appendix Table 6). As part of 'top urgent' tasks, responsibilities of senior officials of the Commission have been shuffled and appointment of technical personnel has been initiated. As per the work plan, SEC has prepared a revised guideline on book building method. Amendments of a number of rules (1969 Ordinance and 1993 Act, mutual fund and corporate governance guideline, etc.) have been drafted which are posted on SEC's website for getting public reaction on the propositions. Amendments of rules need to be completed in a speedy manner. Besides, appropriate rules are needed to be put in place to address some of the critical concerns, such as transparency in the omnibus account, and rules related to distribution of placement shares and preference shares. On the other

[12] The Daily Star (2011).

[13] SEC has shared its work plan with newly formed Advisory Committee in their first meeting held on 25 July 2011.

hand, investigation against SEC officials involved in various kinds of manipulation and fraudulent activities has remained dormant.

Measures Taken by the Central Bank

The Central Bank took a soft stance with respect to the involvement of commercial banks in the capital market. Immediately following the collapse, the Central Bank extended the timeline for commercial banks to reduce their investment within the authorised limit (not more than 10 per cent of bank's total liabilities); extended the timeline for several times to reduce commercial bank's credit to a single party within the exposure limit (at present the revised timeline is December 2013); and allowed them time to make necessary adjustments in case funds were diverted to the capital market.

Fallacy of Liquidity Approach

One of the most important measures undertaken before and after the collapse related to injection of funds in the secondary market. This type of fund flow was found to be effective in other countries when the market suffered from a scarcity of capital. In contrast, one can safely argue that the malaise afflicting Bangladesh's capital market was not related to scarcity of funds in a defining manner.

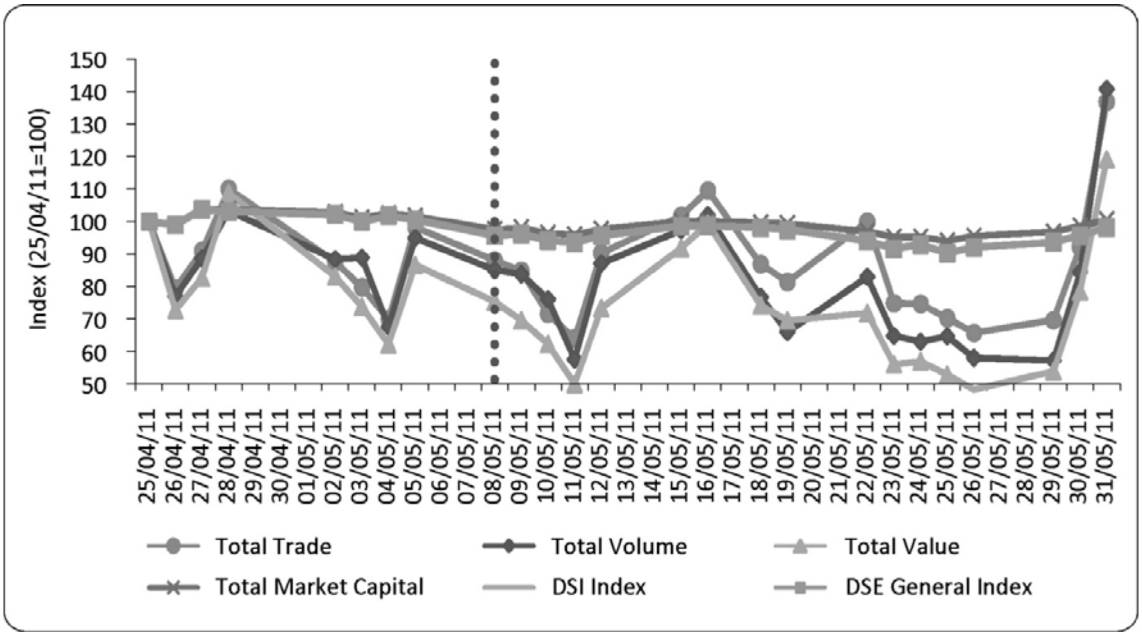
The government took a number of measures to inject money in the market. This included Tk. 600 crore worth of funds distributed to the state-owned banks and Investment Corporation of Bangladesh (ICB), and formation of a mutual fund titled *Bangladesh Fund* with an initial resource of Tk. 1,500 crore. The latest attempt in line with this was the initiative of private sector to set up a *Market Stabilization Fund* with a fund-size of Tk. 5,000 crore.[14] A number of questions can be raised with regard to the effectiveness of these aforesaid measures. In a fundamentally weak market, where there is wide prevalence of fraudulent trading practices by some vested market interests, injection of fund could hardly play an effective role to stabilise the market. It is also not clear how transparently and efficiently these mutual funds are being managed by the various organisations involved, particularly by the ICB.

Under the national budget of FY2011-12, government announced a number of incentives to revitalise the capital market. Some of these were – re-introduction of tax rebate facilities, tax-free facilities for mutual funds, time extension for non-bank financial institutions (NBFIs) to adjust their investment in stock market (revised timeline is December 2013), and adjustment of single borrower exposure limit by the commercial banks (revised timeline is December 2013). All these budgetary measures have direct and indirect implications for raising fund for the ailing capital market.

[14]Nine months after the collapse of the market, country's apex trade body, the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), owners of the listed companies, two Stock Exchanges and a platform of retail investors came up with a proposal of Market Stabilization Fund on 25 October 2011. This will be a mutual fund where both investors and merchant banks, if they wish so, will be free to transfer their portfolios against margin loans by accepting the terms and conditions of the Fund. The initiative has failed to create any significant positive impact on the market.

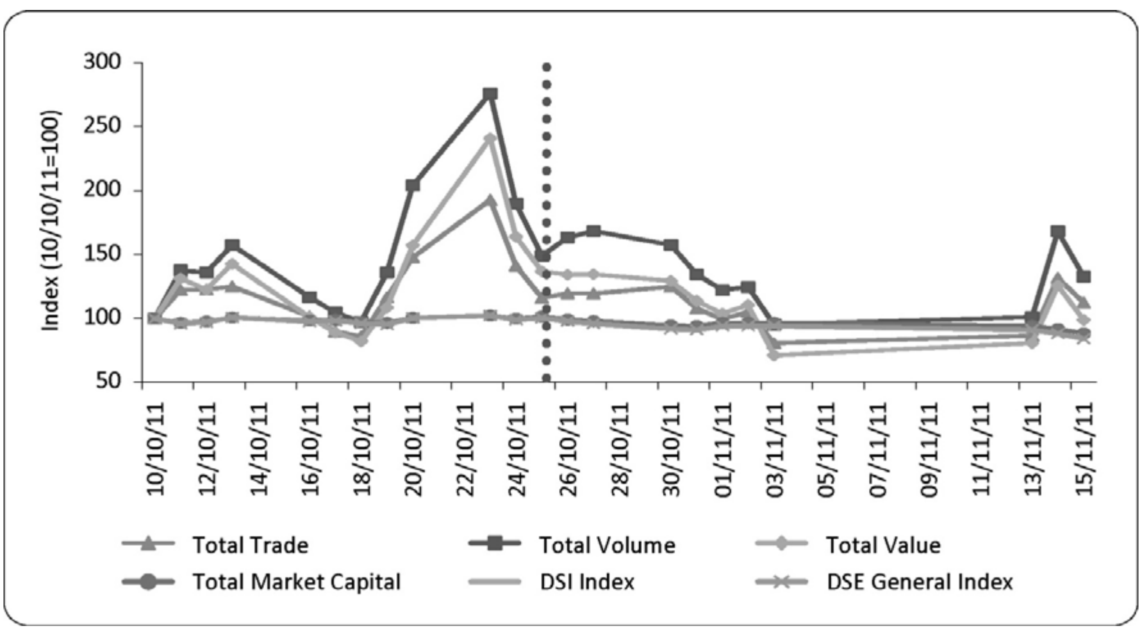
Figure 2 and Figure 3 indicate that there were hardly any positive movements in the market indices of DSE (understood to be the same for CSE) immediately following the announcement of establishing Bangladesh Fund and Market Stabilisation Fund. This would indicate that scarcity of capital was not the major problem inhibiting the market. This, in other words, could be termed as the *Fallacy of Liquidity Approach.*

Figure 2: Market Movement in DSE before and after the Introduction of Bangladesh Fund



Source: Dhaka Stock Exchange (DSE).

Figure 3: Market Movement in DSE before and after the Announcement of Market Stabilization Fund

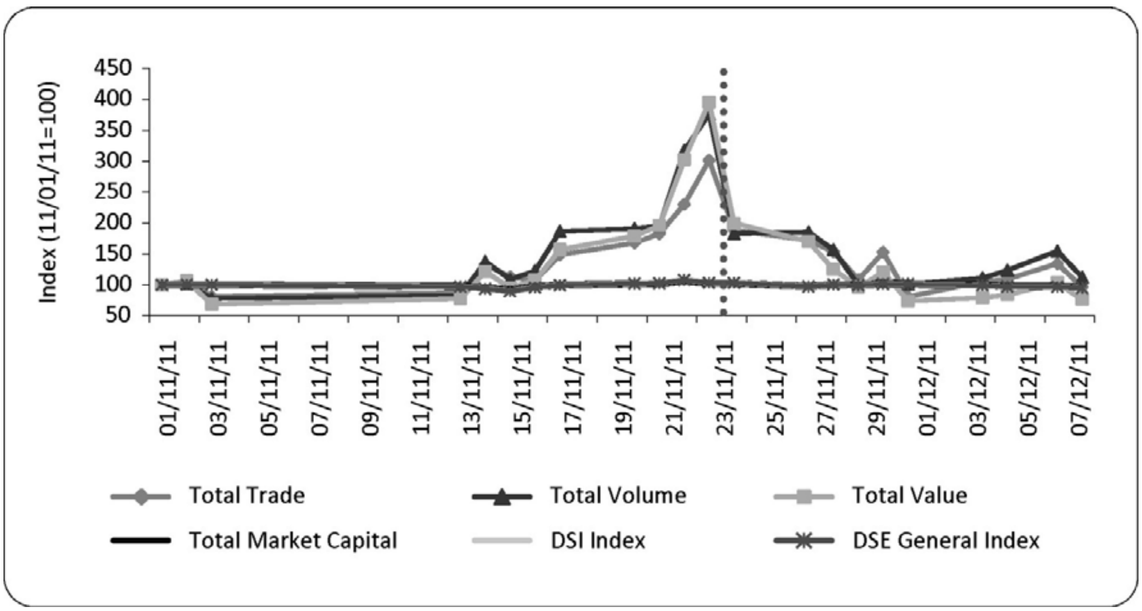


Source: Dhaka Stock Exchange (DSE).

4. RECENT MEASURES UNDERTAKEN BY SEC AND BANGLADESH BANK

In the backdrop of the severe crisis afflicting the capital market of the country, the Hon'ble Prime Minister, in an unusual step, met with major stakeholders and put forward a number of directives with a view to stabilise the market. As part of this process, the MoF along with SEC and other stakeholders, prepared the much-hyped *Market Rejuvenation Package* (Appendix Table 7). This 21-point package focuses on greater participation of banks and other financial institutions in the stock market, besides setting up a 'special scheme' to provide support to small investors who lost their capital.[15] A number of medium-term measures were also announced with a view to improve the state of governance in the capital market, which includes preparation of corporate governance guideline, enactment of financial reporting act, and upgradation of rules to control insider trading. It was hoped that this will have some positive impact on the market; however, the market did not react positively following the announcement of these measures (Figure 4).

Figure 4: Movement of Selected Market Indicators before and after the Announcement of Rejuvenation Package



Source: Dhaka Stock Exchange (DSE).

The initiative on the part of the Prime Minister is indicative of the seriousness of the crisis in the capital market. However, if the regulatory authorities (SEC and MoF) had been adequately equipped and able to deal with the attendant issues, this type of intervention would not have been needed. Some of the initiatives that were taken earlier were not found to be effective (e.g. proposal of commercial banks and insurance companies to increase investment in the stock market). More importantly, a number of those measures were taken at the behest of major market players which was unlikely to have long-term implications for the market (e.g. relaxing the definition and term of 'market exposure' for commercial banks,

[15] A six-member committee will be formed to oversee the implementation of the scheme. The committee will submit a full report on the issue within two months to the Banks and Financial Institution Division of the MoF.

opening the opportunity for fund collection by merchant banks beyond their parent companies from other sources, to name for instance). Question remains with regard to the fate of earlier measures announced by MoF and SEC, since new measures did not include a number of the much-needed initiatives declared earlier. The timelines suggested for implementation of various initiatives such as 'short-term' measures to be initiated immediately, 'medium-term' to be completed in three months, and 'long-term' measures to be completed in six months – appears to be unfeasible.

A major 'faulty' initiative would be providing financial support to small investors who lost their equity capital in the market. This initiative raises a number of questions with regard to justification, identification of small investors, operational modality to implement the measures, and its future implications. *First*, how ethical is it to use government's revenue for providing financial support to a section of small investors who participated in the 'Keynesian Beauty Contest?' *Second*, how the small investors and their amount of losses are to be defined (e.g. what would be the benchmark for defining small investors or the amount of losses; which should be the period to be considered).[16] *Third*, will the initiative of the government serve as precedence in the future if and when the government could face a similar situation?

5. SUGGESTED MEASURES WITH A VIEW TO ENSURE MEDIUM TERM STABILITY IN THE CAPITAL MARKET

In the name of 'market stability', measures have been announced by different organisations which could best be termed as 'measures not for bringing long-term stability, but for creating short-term hype' in the market. The analysis put forward in the previous sections raises question about the understanding of the regulatory bodies regarding the actual causes of the market failure. This particular view persists since a majority of these initiatives have proven largely ineffective in the past.

The Probe Committee, formed by the MoF, as well as the Centre for Policy Dialogue (CPD) have reported a few recommendations regarding the governance of country's capital market (Annex Table 1). These measures are related to structural issues, operation and monitoring issues, management issues and legal issues. The regulators may consider the following initiatives to restore confidence and stability in the country's capital market. Since reinstating discipline in a predominantly malfunctioned market is always difficult and painful, it will require time to make necessary reforms and adjustments before the country's capital market recovers from the current state of paralysis and work properly.

5.1 Measures Addressing the Structural Issues

The problems of the capital market are needed to be considered beyond the 'political' stance, and more importantly, should be dealt with within the framework of a 'market' where the 'rules of the game' will be reinstated.

[16] Recently, the Committee formed to identify 'small investors', has begun some exercise with regard to the number of small investors who have lost substantial amount of capital in the market.

Establish SEC's role as the Regulatory Authority of the Capital Market

The SEC, following the reforms, is yet to show its 'teeth' as the supreme regulatory authority of the capital market. Its dealings with MoF, with market players, operational modality to handle critical issues, and application of instruments against improper activities have raised doubt about its ability and strength as an 'independent' statutory authority. This perception and reality will need to be changed. SEC should make it clear on the nature of working relationship it will maintain with the stakeholders in view of its role as the main statutory body. The Commission should come out from its existing approach of maintaining 'a relationship of dependence' with the Ministry, and overcome its 'compromised' relationship with some of the players. Short of this, the SEC will fail to make any significant impact on the market as a regulatory body.

Ministry of Finance should Facilitate Statutory Authority to be Exercised by the SEC

Government will need to concede that the market will not function properly through mere injection of fund if the existing structural loopholes continue to exist. In this context, MoF should discourage any initiative related to raising capital, or distorting existing rules, to artificially stimulate participation of market players. The Ministry, particularly the concerned officials, should ensure that SEC's decision making process is not constrained in any manner. It should ensure that all decisions of the SEC are properly implemented, and more importantly, MoF should provide full administrative and political backing in support of SEC's measures, no matter how harsh those measures may appear. The Parliamentary Standing Committee of the MoF could play an important role in overseeing the function of the Ministry, but their advisory role should not create any conflict of interest with regard to the primary task of maintaining discipline in the capital market. It is expected that the Committee will work within the parameters of its mandate.

Maintaining Financial Discipline in the Money Market and Strengthening its Coordination with the Capital Market

There appears to be a serious misunderstanding, which continues to pervade, with regard to the nature, role, function, management and governance of the capital market. This often explains some of the measures and policy positions taken by relevant institutions including the Ministry of Finance. The banking sub-sector of the financial market has a specific function to perform: mobilising deposit and lending money, and in general, maintaining steady flow of money in the economy. Policy stance and policy support to other segments of the financial sector should not be at the cost of weakening the financial discipline in the banking sector. Any measure targeting the capital market needs to be properly assessed by taking cognisance of its impact on the banking sector.

Central Bank should Ensure its Primary Responsibility of Maintaining a Sound Banking System

Bangladesh Bank should convince other relevant authorities of the financial market that improper and excessive use of banking sector instruments for the purpose of stabilisation of the capital market will further weaken the financial system of the country. The Central Bank should strictly monitor the investment limit of each of the banks. In this context, the *Bank Company Act* should be revised with a view to placing further restrictions on banks' liabilities to be invested in the capital market. The Bank should take necessary legal measures against merchant banks which were involved in illegal activities. It should place necessary directives to commercial banks regarding diversion of bank advances to the capital market, and put up a timeline regarding the realisation of those funds.

Commercial Banks and Insurance Companies should not Get Diverted from their Primary Jobs

Even though banks are eligible to invest 10 per cent of their total liabilities in the capital market, given the high volatility and poor condition of the capital market, banks should refrain from additional investment in the market. More importantly, it is unethical for banks to make short-term gains using depositors' money (a common rule is that depositors' deposit is not to be exposed to unnecessary risks, particularly for speculative purposes). Insurance companies should also not go for excessive investment in the capital market.

Visible Actions Needed with regard to Investigation of Fraudulent and Illegal Activities

A major test case in making the capital market a functioning one would be its ability as an oversight body to safeguard small investors from the manipulation of bull cartels, illegal activities of listed companies, and unethical practices of operators.[17] The government should immediately form a Task Force to initiate investigation with regard to the fraudulent practices in country's bourses. The Task Force will undertake investigation on the alleged issues mentioned in the Probe Committee Report. Considering the power relations maintained by the big players within and outside the government, such investigations should be undertaken by the authority of the MoF; after the investigation, necessary legal measures may be taken under the SEC laws.

5.2 Measures Addressing the Operational and Monitoring Issues

Enforce Disciplinary Measures against Improper/Illegal Activities

SEC should take disciplinary measures against its officials who were involved in various kinds of illegal activities, such as spreading rumours and involvement in short buy/sale, halting transaction of shares showing abnormal rise/fall of the prices. Besides, SEC should penalise the brokerage houses and/or cancellation of their licenses if settlement of account is not done properly.

Strengthen the Surveillance Mechanism of SEC

Given the weak surveillance system, SEC should complete the tendering process for setting up the modern surveillance mechanism on an urgent basis. It is expected that the body will

[17] The Probe Committee has identified a number of cases of fraudulent activities including: a) direct listing of companies in the IPO; b) revaluation of companies' shares; c) fixation of share value at a high level; d) improper use of book building system; e) providing placement shares to selected persons/companies where issuers, issue-manager, valuer, auditor, dealer, brokers were involved; f) involvement of the dealers, brokers, investors in the secondary market operations of circular trading, block trading and unexpected transactions.

procure the most advanced surveillance system with a view to identify anomalies in the transactions at different trading points. Current strength of officials of the SEC needs to be increased to monitor operations of the brokerage houses on a regular basis. The Commission should strengthen its legal advisory support system as well as financial auditing and monitoring system by appointing skilled and experienced professionals with high moral authority and integrity.

Transparency in Transaction through BO Accounts

SEC should review the trading practices in the secondary market using the existing BO accounts. In order to reduce the 'fictitious' transactions through fake or illegal BO accounts, the Commission should immediately take measures to ensure transparency in BO accounts. In this context, SEC should review the personal information of each of the BO accounts and cross-check with other official information relating to each of the accountholders (such as information which is maintained by NBR).

BO Accounts should be Tagged with TIN

SEC should make it mandatory to have Tax Identification Number (TIN) for all existing BO accountholders; currently this is an option. To recall, this requirement was announced earlier, but was not implemented. This measure will establish not only the transparency in financial transactions of each of the accountholder, but also increase the number of taxpayers. More importantly, this may be an important source for raising revenue by the exchequer.

Proper Measure to Reduce Insider Trading

Government's recent initiative to upgrade rules relating to the insider trading needs to be completed quickly. Upgradation of this rule should include identification of activities related to insider trading at all levels, and undertaking of quick and stern measures against people involved in insider trading. It may be mentioned in this connection that Securities and Exchange Board of India (SEBI) follows specific rules titled *Prohibition of Insider Trading Regulations, 1992* in order to control insider trading activity in the stock exchanges.

Review the Current Practices of Evaluating the Audit Reports of Listed Companies

The SEC, DSE/CSE should review the current practices of evaluating the companies' financial reports. Misreportings, false statements and various other unethical practices that afflict many company's financial reports need to be curbed through appropriate measures. Audit firms which were involved in deploying such malpractices need to be identified and 'black listed.' Without having strong in-house capacity in the SEC to examine these reports properly, the above mentioned fraudulent practices will continue in the future. There should be a proper standard for financial reporting, as per the proposed *Financial Reporting Act*, with provision for punishment for wrongdoing. SEC may like to consult the audit reporting standard followed by the SEBI (provisions in SEBI's audit reporting standard are presented in Sections 3.3.1 and 3.3.2).

Injection of Funds should not be the Measure to Stabilise the Market

All measures that will directly and indirectly lead to injection of money in the market should be suspended. In this context, operation of existing Bangladesh Fund and Market Stabilization Fund should be halted. Government should review its stands regarding the provision for allowing undisclosed money in the capital market, since it violates the existing Money Laundering Act, as well as Asia Pacific Group of Money Laundering standard. More importantly, such an option will create obstacles in the way of undertaking investigations against illegal trading by big players. Given the situation of the market, offloading of government's shares in the public companies is unlikely to help much to strengthen the operations of the capital market.

Discourage Short-term Trading in the Stock Market

Imposition of capital gains tax on short-term trading, which is currently applicable on institutional investors, can be extended to private investors as well.[18] This can be a good source for revenue generation. Advanced trading software needs to be installed both in SEC as well as in brokerage houses to estimate capital gain arising out of each transaction and the related revenue should be paid to the NBR.

Strengthen Educational Programmes for New Investors

SEC should undertake more educational programmes through its newly established Capital Market Institute to inform new investors with respect to such areas as market fundamentals, market operations, market players and their role, anomalies and irregular practices in the market and their impact on the market, and how these should be avoided.

5.3 Measures Addressing the Management-related Issues

Strengthen the SEC Management

SEC should include a group of personnel who have wide public exposure and acceptance and possess good reputation with respect to competence. They should be honest, of high morale, and should have the ability to take stern measures against misdeeds and illegal practices. The high profile of the management body of SEBI could serve as an example for Bangladesh in its efforts to restructure the management of the SEC.

Reform of the SEC's Advisory Board

The Advisory Board of the SEC should comprise of eminent persons who do not have any stake in the market. The overexposure of market-related institutions and market players in the committee should be reduced with a view to get more disinterested and practical advisory support. Formation of small advisory committees to provide back up to SEC, as in

[18]At present capital gains tax is imposed on companies (10 per cent), sponsor shareholders or directors (5 per cent), and premium value shares of companies (3 per cent).

the case with SEBI, could be an option. However, given the size of the market in Bangladesh, this may not be required at present.

Demutualisation in DSE/CSE with Strong Monitoring of the SEC

The separation of ownership and management of DSE/CSE from brokerage houses is required primarily to reduce conflict of interest associated with the day-to-day operation at the Stock Exchanges. After the enactment of demutualisation, there is a need for strong monitoring of the operation of the bonuses. The process of demutualisation should be completed within the stipulated timeframe.

5.4 Strengthening the Legal Framework of the Capital Market

The Probe Committee Report speaks of a number of fraudulent practices in the capital market which appeared to be unethical but not illegal, because of the absence of appropriate legislation. To address some of these (e.g. placement shares and preference shares) new legal provisions will need to be introduced. Provisions should also be made to monitor transactions under the omnibus accounts.

Although Bangladesh, as is the case with many other countries, has the required laws in place to deal with most of the illegal activities, and the punishment under these laws is also not much different than in other countries, it is the enforcement of the laws that remains the major concern in Bangladesh (Annex Table 2). However, it is true that introduction of new laws may be necessary in view of the emergent situation to address certain specific concerns.

5.5 Review of Information Dissemination and Promotional Measures

It needs to be appreciated that newspaper reportings, electronic media reportings, various web-based reportings through tweets, chats, facebook, and mobile-based reportings through short message service (SMS) alerts and group SMS are likely to have 'non-neutral' impact on the market. There are in-depth global studies (Balakrishnan et al. 2008; Aman 2010; Engelberg and Parsons 2011; Peress 2011) that deal with the role of media in the capital market. It emerges from these studies that media has a strong role to play through its reportings on market trends and market-related information, its comments with regard to future trends, likely impacts of important events, and also its take on the state of financial governance and operational practices. Nonetheless, in parallel to this, reports instigated by vested quarters could lead to market manipulation and corrupt practices. In this context, actions pursued by media houses/individual entrepreneurs concerning media reporting, biased analysis, leading interpretations and dissemination through web-based sources may need to be reviewed and examined whenever SEC has a suspicion of foul playing. This is needed in order to encourage healthy role of the media that is supportive to establishment of an efficient capital market in Bangladesh.

6. IN LIEU OF CONCLUSION

This analysis will not do full justice to the state of affairs with regard to Bangladesh's capital market if it fails to take into cognisance of a number of important developments that have taken place since the draft of this paper was prepared in December 2011. These include preparation of draft corporate governance guideline and draft rules for providing investor advisory services, enforcement of rules regarding face value harmonisation of all shares at Tk. 10, consideration of new method for calculation of share price index and a number of others. As part of the Market Rejuvenation Package announced in November 2011, government has recently decided to write off 50 per cent interest charged over the investment of 'small' investors (those who invested not more than Tk. 10 lakh during January 2011 to June 2012) and to provide preferences of 20 per cent IPOs to be offloaded in 2012 and 2013. However, this particular decision has raised a number of questions including, among others, the rationale and justification to support the so called 'small' investors, and benchmark level that was used to define 'small' investors. Moreover, although SEC has recruited a number of officers at the entry-level, existing provisions for recruitment do not allow the Commission to recruit legal and audit-related specialists which is a major bottleneck in building its in-house expertise. As part of the market monitoring, SEC took measures against several brokerage houses for their involvement in illegal transactions. However, investigation of fraudulent practices and illegal activities that took place during 2009-2011 is yet to be initiated, except for a few cases. The fact remains that, by and large, the government is still trying to address the crisis through 'market-based' approach and mechanisms. In pursuance of the case that was built up in the preceding sections of the paper, one cannot reemphasise with greater force and urgency that the policymakers should give equal attention to the structural, operational and management-related matters concerning the capital market of Bangladesh if the confidence of investors is to be restored, stability is to be ensured, and the capital market is to perform its primary role as a mobiliser of equity funds for investment purposes, so critical for a developing country such as Bangladesh.

References

Ahmed, M.N. and Imam, O.M. 2007. "Macroeconomic Factors and Bangladesh Stock Market: Impact Analysis through Co-integration Approach." *International Review of Business Research Paper*, 3 (5): 21-35.

Alam, M.M., Yasmin, S., Rahman, M. and Uddin, M.G.S. 2011. "Effect of Policy Reforms on Market Efficiency: Evidence from Dhaka Stock Exchange." *Economics Research International*, 2011 (Article ID: 864940). Available at: http://www.hindawi.com/journals/econ/2011/864940/

Ali, M.B. 2011. "Impact of Micro and Macroeconomic Variables on Emerging Stock Market Return: A Case on Dhaka Stock Exchange (DSE)." *Interdisciplinary Journal of Research in Business*, 1 (5): 8-16.

Aman, H. 2010. *An Empirical Analysis of the Effect of Media Coverage on Stock Price Crashes: Evidence from Japan*. Paper presented at The Spring 2010 Meeting of the Japan Society of Monetary Economics, 15 May, Hong Kong.

Balakrishnan, K., Ghose, A. and Ipeirotis, P. 2008. *The Impact of Information Disclosure on Stock Market Returns: The Sarbanes-Oxley Act and the Role of Media as an Information Intermediary*. Proceedings of the Workshop on "Economics and Information Security" (WEIS 2008), 25-28 June, USA.

Beechey, M., Gruen, D. and Vickery, J. 2000. *The Efficient Market Hypothesis: A Survey*. Research Discussion Paper. Australia: Economic Research Department, Reserve Bank of Australia.

CPD. 2010. *Bangladesh Economy in FY2009-10: An Interim Review of Macroeconomic Performance*. Dhaka: Centre for Policy Dialogue (CPD).

CPD. 2011a. *State of the Bangladesh Economy in FY2010-11 (First Reading)*. CPD Occasional Paper 92. Dhaka: Centre for Policy Dialogue (CPD).

CPD. 2011b. *Bangladesh Economy in FY2010-11: Second Interim Review*. Dhaka: Centre for Policy Dialogue (CPD).

CPD. 2011c. *Release of WEF's Global Competitiveness Report 2011-12 and Bangladesh Business Environment Study 2011*. Presentation released to the media by the Centre for Policy Dialogue (CPD), 8 September, Dhaka. Available at: http://www.cpd.org.bd/downloads/GCR%202011.pdf

Engelberg, J.E. and Parsons, C.A. 2011. "The Causal Impact of Media in Financial Markets." *The Journal of Finance*, 66: 67-97.

Hassan, M.K., Islam, A.M. and Basher, S.A. 2000 (revised June 2002). *Market Efficiency, Time-Varying Volatility and Equity Returns in Bangladesh Stock Market*. Working Paper No. 2002(6). Canada: Department of Economics, York University.

Mobarek, A. and Keasey, K. 2002. *Weak-Form Market Efficiency of an Emerging Market: Evidence from Dhaka Stock of Bangladesh*. Paper presented at the ENBS Conference, May, Oslo. Available at: http://e-m-h.org/MoKe00.pdf

Peress, J. 2011. *The Impact of the Media in Financial Markets: Evidence from Newspaper Strikes*. Paper presented at the "Workshop in Economics & Finance – 2011 (8e)." 24 May, Paris. Available at: http://www.parisschoolofeconomics.eu/IMG/pdf/jperess_1105.pdf

Probe Committee Report submitted to the Ministry of Finance (MoF). Available at: http://www.mof.gov.bd/en/index.php?option=com_content&view=article&id=169&Itemid=1

Rahman, A. and Rahaman, M.M. 2011. "Performance of Stock Market of Bangladesh: An Empirical Study on Chittagong Stock Exchange (CSE)." *Asia Pacific Journal of Research in Business Management*, 2 (1): 1-16.

Rahman, M.T. and Moazzem, K.G. 2011. "Capital Market of Bangladesh: Volatility in the Dhaka Stock Exchange and Role of Regulators." *International Journal of Business and Management*, 6 (7): 86-93.

Tetlock, P.C. 2007. "Giving Content to Investor Sentiment: The Role of Media in the Stock Market." *The Journal of Finance*, 62 (3): 1139-1168.

Govt to recast SEC. *The Daily Star*, 1 May 2011. Available at: http://www.thedailystar.net/newDesign/news-details.php?nid=183902

Tumarkin, R. and Whitelaw, R. 2001. "News or Noise? Internet Postings and Stock Prices." *Financial Analysts Journal*, 57 (3): 41-51.

Uddin, M.G.S. and Khoda, A.K.M.N. 2009. "An Empirical Examination of Random Walk Hypothesis for Dhaka Stock Exchange: Evidence from Pharmaceutical Sector of Bangladesh." *International Research Journal of Finance and Economics*, 33: 87-100.

Appendix Tables

Appendix Table 1: Multiple BO Accountholders

Particulars	BO 1	BO 2	BO 3	BO 4	BO 5	BO 6	BO 7	BO 8	BO 9	BO 10	BO 11	BO 12
Account's status	Single	Single	Single	Single	Single	Single	Single	Joint	Single (C)	Single	Joint	Single
Person(s) identity	X	X	X	X	X	X	P2	X+ P2	C1= X+P4	P2	X+ P5	X
Address of the person(s)	A1	A2	A3	A4	A1	A1	A2	A2	A5	A2	A2	A2
Profession of the person(s)	Pr 1	Pr 2	NA	NA	NA	NA	Pr 4	Pr 2+ Pr 3	C	Pr 3	Pr 2+ NA	Pr 1
Bank information of the person(s)	B1	B2	B1	B3	B4	B5	B5	B1	B6	B3	NA	B5
Brokerage house for trading	Br 1	Br 2	Br 2	Br 3	Br 4	Br 5	Br 2	Br 2	Br 3	Br 5	Br 5	Br 5
Authorisation for operating the account	X	P2+ P3	X	X	X	X	X+ P3	P3	C1	P2	X	X

Source: Based on the information collected from various relevant documents.
Note: X: Sample person; P1, P2, P3, P4 and P5: Relatives/known persons of X; C: Company; A1, A2, A3, A4 and A5: Addresses used for opening BO accounts; Pr 1, Pr 2, Pr 3 and Pr 4: Professions of the BO accountholders; B1, B2, B3, B4, B5 and B6: Bank information in different accounts; Br 1, Br 2, Br 3, Br 4 and Br 5: Brokerage houses.

Appendix Table 2: Control over Daily Trading through Transaction in Multiple Accounts

Sample Day	Total Trade of Sample Company	Total Trade Using Multiple Accounts	Percentage of Total Trade of Sample Company
1	97700	14500	14.84
2	95040	22000	23.15
3	418990	277780	66.30
4	204590	120	0.06
5	255970	109200	42.66
6	218089	35780	16.41
7	276980	59680	21.55
8	200470	47340	23.61
9	162880	48460	29.75
10	173126	43500	25.13
11	192529	36880	19.16
12	142240	37400	26.29
13	211545	47700	22.55
14	318926	1000	0.31
15	211202	59420	28.13
16	257340	1400	0.54
Total	3437617	842160	24.50

Source: Based on the information collected from various relevant documents.

Appendix Table 3: Listed Companies Audited by Different Types of Affiliation of Audit Firms

Affiliation Type	Number of Listed Companies	Percentage of Listed Companies
Internationally reputed firms	56	18.86
Nationally reputed organisations	177	59.60
Only with ICAB	64	21.55
Total	297	100.00

Source: Based on the information collected from various relevant documents.

Appendix Table 4: Disbursement of Margin Loans over the Limit (on a Particular Day) by Sample Banks

Sample Bank	Margin Limit As per SEC	Range of Margin Ratios	Number of Overdrawn Accounts
1	1:1.5	1:2.0 - 1:7.5	6
2	1:1.5	1:1.7 - 1:2.0	22
3	1:1.5	1:1.6	1
4	1:1.5	1:1.7 - 1:1.3	15
5	1:1.5	1:1.7 - 1:3.1	4
6	1:1.5	1:1.6 - 1:4.0	6
7	1:1.5	1:3.4 - 1:6.2	19
8	1:1.5	1:1.8 - 1:19.5	3
9	1:1.5	1:3.5 - 1:30.2	5
10	1:1.5	1:5.0 - 1:17.9	14
11	1:1.5	1:2.8 - 1:91.1	15
12	1:1.5	1:1.9 - 1:3.7	14
13	1:1.5	1:2.8 - 1:23.9	10
14	1:1.5	1:2.1 - 1:2.5	6
15	1:1.5	1:1.8 - 1:3.4	13
16	1:1.5	1:2.0 - 1:7.7	14
17	1:1.5	1:2.3 - 1:3.6	7
18	1:1.5	1:1.8 - 1:38.2	18
19	1:1.5	1:2.4 - 1:40.2	12

Source: Based on the information collected from various relevant documents.

Appendix Table 5: Various Legal Measures Undertaken by SEC against Different Complaints

(in Per cent)

Year	Legal Measures										
	Stage 1 (Investigation Stage Only)	Stage 2 (Show Cause)	Stage 3 (Warning)	Stage 4 (Directive Issued to Comply)	Stage 5 (Suspension/ Cancellation)	Stage 6 (Fine Imposed/ Installment Payable)	Stage 7 (Prison Sentence)	Stage 8 (Petition Rejected)	Stage 9 (Accused Acquitted/Case Withdrawn	Stage 10 Reduction in Penalties/Other Concessions	Total
2002	0.0	0.0	14.3	0.0	0.0	60.7	0.0	25.0	0.0	0.0	100.0
2003	0.0	0.0	70.2	14.0	3.5	7.0	0.0	1.8	3.5	0.0	100.0
2004	0.0	7.1	21.4	45.2	0.0	14.3	0.0	2.4	9.5	0.0	100.0
2005	0.0	4.4	56.3	36.3	0.0	0.0	0.0	0.7	2.2	0.0	100.0
2006	0.0	0.0	59.7	31.2	0.0	0.0	0.0	3.0	3.3	2.7	100.0
2007	0.4	0.4	36.1	47.7	0.0	0.4	0.0	3.9	7.0	4.2	100.0
2008	0.0	0.0	58.9	28.3	0.0	4.6	0.0	1.7	6.4	0.0	100.0
2009	0.1	0.9	51.6	35.6	0.2	1.9	0.0	2.6	4.9	2.1	100.0
2010	0.0	6.3	46.6	29.4	0.0	0.0	0.0	10.9	6.7	0.0	100.0
Total in 10 years (%)	0.1	1.5	50.6	34.6	0.2	2.4	0.0	3.8	5.1	1.8	100.0

Source: Securities and Exchange Commission (SEC).

Appendix Table 6: SEC's Work Plan (Prepared on 7 July 2011)

Sl No.	Item	Priority
1	SEC restructuring Plan	Top Urgent
2	Stock Exchange demutualisation	Top Urgent
3	Recruitment of 49 positions	Top Urgent
4	Building foundation	Top Urgent
5	Book Building rules	Top Urgent
6	Price Fixation Committee under Fixed Price Method	Top Urgent
7	Amendment of 1969 Ordinance and 1993 Act	Top Urgent
8	Formation of Advisory Committee	Top Urgent
9	Omnibus account	Urgent
10	Convening first meeting of the Coordination Committee	Urgent
11	Procurement of required logistics	Urgent
12	Investigation against SEC officials	Short Term
13	Private Placement Rule	Short Term
14	Rule of Preference Share	Short Term
15	Changes of mutual fund industry	Short Term
16	Decision of undersubscribed portion of right issue	Short Term
17	Changes of stock broker branch approval policy	Short Term

(Appendix Table 6 contd.)

(Appendix Table 6 contd.)

Sl No.	Item	Priority
18	Certification Course inauguration by BCIM	Short Term
19	Increase frequency of supervision on stock brokerage branches	Short Term
20	Index fixation	Short Term
21	Corporate Governance Guideline	Short Term
22	Guideline on Foreign Portfolio Management	Short Term
23	Panel of legal counsel	Short Term
24	Panel of accounting firms	Short Term
25	Panel of auditors	Short Term
26	Amendment of Right Issue Rules	Medium Term
27	Review of repeat Public Offer Rule	Medium Term
28	Policy on investment advisor and research	Medium Term
29	Procurement and installation of surveillance software	Medium Term

Source: Securities and Exchange Commission (SEC).

Appendix Table 7: 21-Point Market Rejuvenation Package

Sl No.	Measure	Status	Comment
Short-term (to be implemented immediately)			
1	Loans provided by banks to their capital market subsidiaries will not be taken into account while estimating their 'exposure to stock market'	Bangladesh Bank has released the circular with necessary instructions	
2	Long-term equity investment made by a bank in any company will not be considered as 'capital market exposure'	Bangladesh Bank has released the circular with necessary instructions	Confusing and unnecessary as most banks' exposure are at much below the level
3	Repatriation of commission money, which has to be paid to foreign brokerage firms in case of foreign investment, will be made speedier, subject to submission of relevant documents	Currently in official procedure at the SEC	
4	10 per cent tax imposed on the profits earned by investments by foreign institutions and non-resident Bangladeshis will be withdrawn	SEC has released the circular on it	
5	The Central Bank will consider the banks' exposure limit to the stock market on a 'net-off' basis, instead of 'marking to market' basis	Bangladesh Bank has released the circular with necessary instructions	
6	Deadline for adjusting single borrower exposure limit of banks has been extended by another two years, up to 31 December 2013	Bangladesh Bank has released the circular with necessary instructions	
7	Commercial banks have agreed to make more investment in the stock market in line with the advice given by Finance Minister	Put on request to commercial banks	
8	Insurance companies (life and non-life) have agreed to inject their surplus funds to the stock market	Put on request to insurance companies	

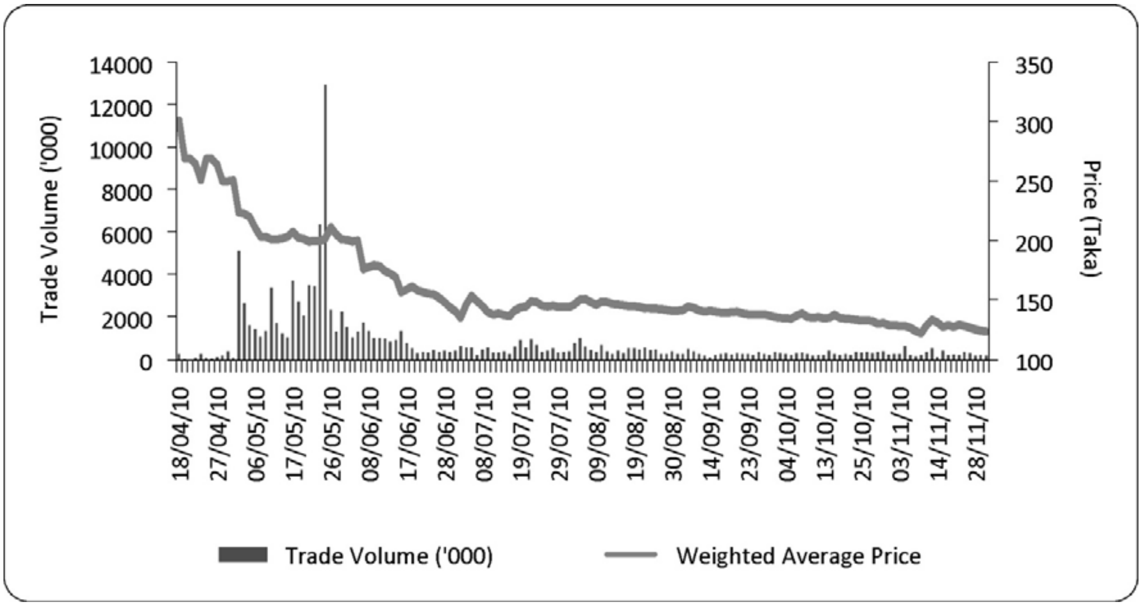
(Appendix Table 7 contd.)

(Appendix Table 7 contd.)

Sl No.	Measure	Status	Comment
9	Sponsor-directors of listed companies will have to own at least 30 per cent stakes of their respective companies	SEC has released the circular on it	SEC has already relaxed necessary rules to accommodate the new provision
10	Merchant banks and other subsidiaries have so far collected 99-100 per cent of their funds from their parent companies, which are banks, NBFIs and insurance companies; from now on, the merchant banks and other subsidiary firms will be allowed to mobilise 49 per cent of their funds from sources beyond their parent companies	SEC has released the circular on it	Lack of transparency may create a situation to have transactions of large market players
Medium-term (within three months)			
1	The securities regulator will take initiatives to launch the 'Investment Advisory Service' to make the market an informed one; for this, brokerage firms will have to employ professional and expert investment managers	Under process	It is unclear whether it would be possible within the stipulated time
2	The securities regulator will make available 'Equity Research Publication' to ensure access to information by investors, academicians and policymakers	SEC is ready to give permission to other interested firms	
3	A corporate governance guideline will be formulated to ensure transparency and accountability of the listed companies	It is already there; SEC will update it soon	
4	The securities regulator will immediately take measures to increase the capital of merchant banks and other subsidiary firms	Already started to take steps	
Long-term (within four months)			
1	Financial Reporting Act will be formulated in a bid to increase the quality accounting and auditing disclosure by listed companies	Not yet started	There is a confusion regarding the proper authority to prepare the draft of the Act; difficult to be implemented within timeline
2	The present 'insider trading' rules will be upgraded and stricter	On process	
3	The regulator will make the 'Small Investor Protection' law more time-befitting	On process	
4	The proposed demutualisation of the two Stock Exchanges will be completed very soon to ensure their corporate governance	DSE will submit it to MoF soon; DSE has already appointed a consultant (financed by the Asian Development Bank (ADB))	The document should be submitted to SEC also
5	Necessary measures will be taken to strengthen the mutual funds and make those more attractive to investors	Rules have already been relaxed	
6	The securities regulator will further strengthen the monitoring activities in the stock market by establishing improved surveillance system	Currently at tender evaluation process; expected date: June 2012	

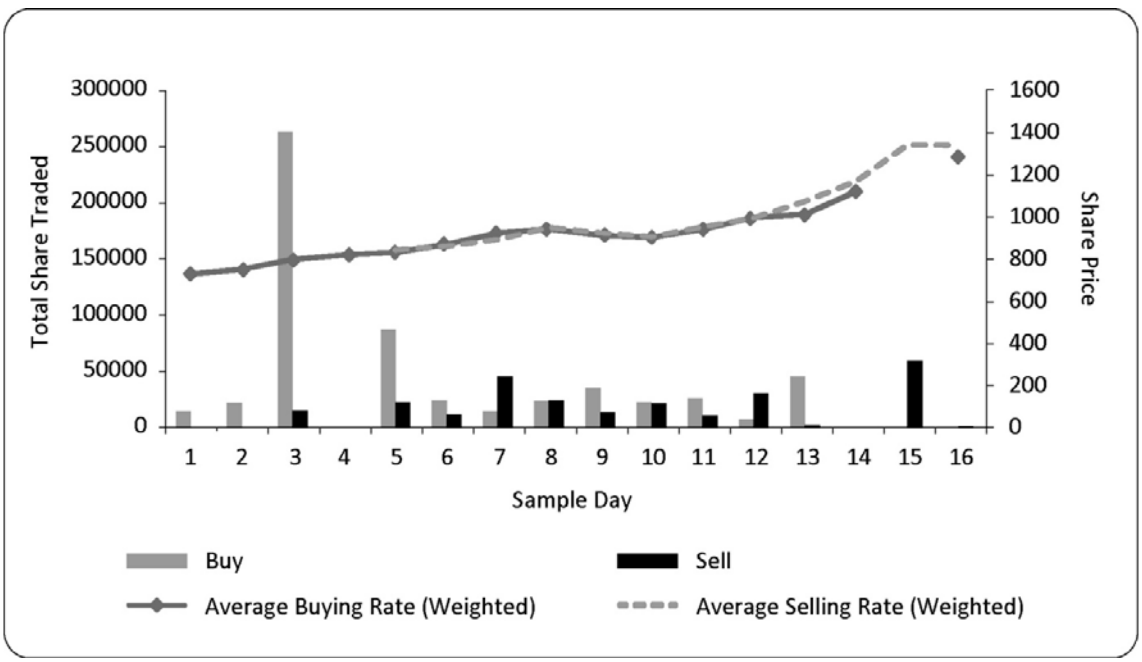
Source: Securities Exchange Commission (SEC) and the Financial Express.

Appendix Figure 1: Daily Share Price of Company X following Book Building System



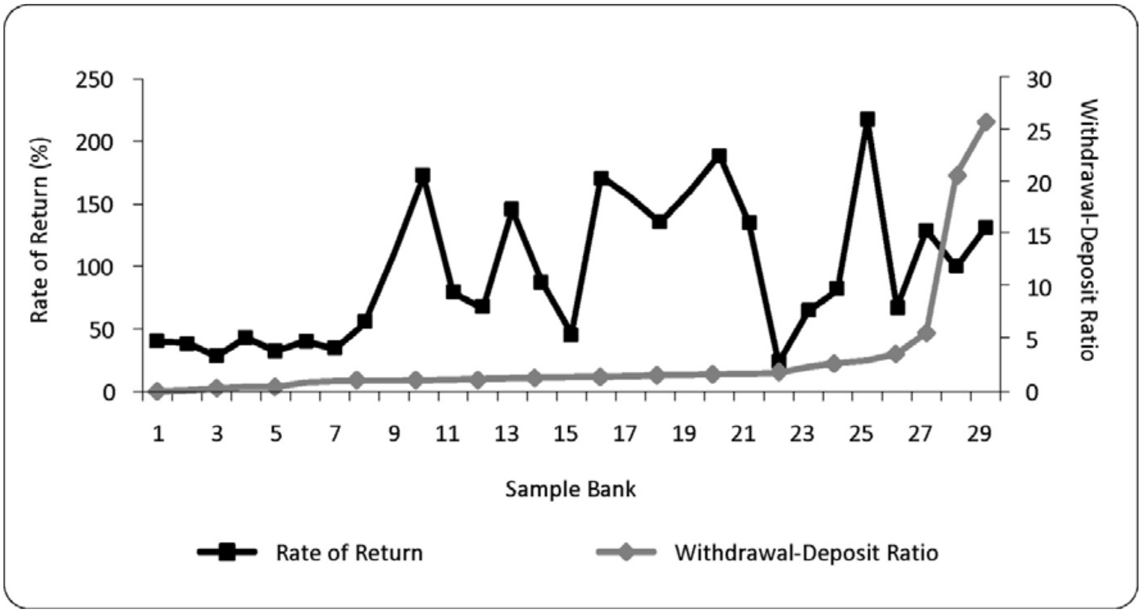
Source: CPD (2011a).

Appendix Figure 2: Serial Trading Behaviour of Multiple BO Accountholders



Source: Based on the information collected from various relevant documents.

Appendix Figure 3: Withdrawal-Deposit Ratio and Rate of Return of Some Selected Banks



Source: Based on the information collected from various relevant documents.

Annex Table 1: Identified Problems and Suggested Policies for Reform of the Bangladesh Capital Market by CPD and the Probe Committee

Sl No.	Issue	Nature of Problems	Suggested Policies
1	Direct listing in primary Issue		• Direct listing system should be rejected (Former DSE Members)
2	Assets revaluation/ valuer/auditor	• Manipulation starts from accounts (DSE Management) • Lack of expertise in case of auditing (CPD) • Financial analyst is a cry need for stock market (DSE Management)	• Re-counting is necessary (DSE Management) • Dividend of companies given from unrealised income needs to be examined (CSE)
3	Issue manager		• Investment of mutual fund should be increased (estate management company)
5	Involvement of dealer		• Artificially rise of Z category share price should be taken into consideration (public listed companies)
6	Right share	• Nine companies collected Tk. 12,000 crore from the market through right/bonus shares (DSE brokerage house)	
7	Preference share	• There is no definite regulation for the issue of preference share (reporters outside the Forum)	
8	Book building	• High value of share in book building method (Probe Committee)	
9	Serial/block trading and scam		• Enquiry will be carried out on the secondary market's contribution to price spiral, block placement and 50 overvalued stocks in 2009 and 2010 (Government short-term)
10	Uniform of face value of share	• Changing face value of shares from Tk. 100 to Tk. 10 (public listed companies) • 81.5 per cent of the market has been distorted due to stock splitting (Probe Committee)	
11	IPO process	• 30 lakh new BO accounts, 590 branches of 238 brokerage houses have been opened in the last four years (public listed companies) • 13 lakh new investors entered in the market (Reporters Forum) • SEC accepts any asset in spite of unrealistic re-estimation value; this gives rise to inflation in creation of Kerb market and placement of IPO (Probe Committee)	• Transparency of IPO placements (Probe Committee) • Provision for TIN number for opening of BO accounts (Probe Committee) • Submission of TIN will be made mandatory for opening BO account (Government short-term)

(Annex Table 1 contd.)

(Annex Table 1 contd.)

Sl No.	Issue	Nature of Problems	Suggested Policies
12	Placement share	• Application of lock-in period in case of sale of placement shares (CPD) • Five companies collected Tk. 1,552 crore through private placement (reporters outside the Forum) • In most cases, placements are authorised at a lower value than IPO value (Probe Committee)	• Private placement should be closed (CSE) • Placement should not be more than 25 per cent of IPO share value (Probe Committee)
13	Omnibus account	• It is difficult to identify placement holders, and omnibus accounts bear the names of merchant banks (estate management company) • In one omnibus account, there can be up to 12,000 scribers included (Bangladesh Merchant Banks Association)	• There should be separate BO accounts that were included in omnibus account; trading of shares should be done through BO accounts. Merchant banks can keep a shadow account (Probe Committee)
14	Banking investment in stock market		• Regulations for bank's investment in the stock market should be set taking consideration of the neighbouring countries' guideline and also BASEL (Probe Committee) • The government suggests that Bangladesh Bank take actions against the banks that were overexposed (Government medium-term) • Amendment of the banking companies laws with regard to investment in the stock market (Government medium-term)
15	Demutualisation of stock exchange		• Though DSE has formed a demutualisation committee but no timeframe was provided. The government can advise DSE to provide three months time for the report • The government can also seek advice from other organisations regarding demutualisation planning (Probe Committee)
16	Restructuring of SEC	• Inadequate capacity of SEC: frequent changes of rules and regulations, delay in implementation of guidelines, weak monitoring and surveillance system (CPD) • Continuous changing of decision by SEC is a problem for market distortion (DSE brokerage house)	• Strengthened management of SEC, demutualisation of Stock Exchanges (CPD) • Restructuring of top management. A 'restructuring plan' prepared by the SEC can be placed to the government. There should be a powerful inspection division who would monitor all dealers, brokerage houses, merchant bankers, asset management companies, etc. (Probe Committee)

(Annex Table 1 contd.)

(Annex Table 1 contd.)

Sl No.	Issue	Nature of Problems	Suggested Policies
			• Filing of departmental cases against top SEC officials for their reported involvement in manipulation (Government immediate-term)
17	Monitoring of implementation		• Formation of a study team to make a to do list for overlapped activities and grey areas of Stock Exchanges and SEC (Probe Committee) • There can be a market stabilisation fund (CSE) • No employees of Bangladesh Bank, SEC, DSE, CSE and CDBL should be involved in share trading. However they can make investment in shares (Probe Committee) • Institutional arrangements are needed to coordinate actions of the bourses, SEC and Bangladesh Bank (Government immediate-term) • The government will look into the Probe Committee's recommendations on omnibus accounts, serial trading and manipulation, suspected transactions of top players, shadow accounts of individuals and institutions that trade under omnibus accounts and the players who sold out their shares in December and January (Government short-term)

Source: Various documents.

Annex Table 2: Different Measures Undertaken against Fraudulent/Illegal Activities in the Capital Market of Selected Countries

Sl No.	Attribute	Penalty Measures/Punitive Scopes				
		India	Pakistan	Thailand	Sri Lanka	Bangladesh
1	Insider trading	• Fine of up to 250 million rupees or three times amount of profit made; and including prison sentence	• Fine of up to 10 million rupees or three times profit made; and cancellation of registration; and extra fines may be imposed	• Fine of 100,000 baht or more, and daily fine of 300 baht per day for duration of offence	• Fine up to 1 million rupees; and prison sentence of two to five years	• Imprisonment of five years; and fine of Tk. 5 lakh
2	Fraudulent/unfair trade practices	• Fine of 25 crore rupees or three times amount of profit made	• At least two years fine and prison sentence of to three years can be expected	• Three years in prison; and up to 300,000 baht fine	• Cancellation of license/registration; and fine of up to 1 million rupees may be imposed	• Imprisonment of up to five years with/or fine of at least Tk. 5 lakh
3	Non-compliance with regulatory framework	• Penalties of up to 1 crore rupees or/and a prison sentence	• Up to five years imprisonment; and fine of 500,000 rupees	• Up to five years imprisonment; and fine of 500,000 baht	• Non-registration/no granting of license	• Fine of Tk. 1 lakh; and in case of continuing default, Tk. 10,000 per day
4	Business takeover rules	• Fine of up to 25 crore rupees	• Penalties of 50 million rupees; and 200,000 rupees per day in case of continuing default	• Cancellation of license; 100,000 baht fine; and 3,000 baht per day for duration of offence	• All firms are strictly mandated to follow	• N/A
5	Failure to furnish information, return, etc.	• Fine of 1 crore rupees or more	• Fine of 1 million rupees; and prison sentence of up to three years	• Six months imprisonment; and fine of 60,000 baht or more	• Suspension of license; and fine of 1 million rupees; and/or a prison sentence	• Fine of Tk. 1 lakh; and in case of continuing default, Tk. 10,000 per day
6	Failure to comply with listing provisions	• Fine of up to 25 crore rupees; and prison sentence of up to 10 years	• Up to five years of imprisonment; and up to 5 lakh rupees fine	• Up to five years prison sentence; and up to 5 lakh baht fines	• Liable to penalising by fines	• All firms are strictly mandated to follow; penalties and fines in place as well
7	Non-inclusion of key words in name/use of such words without authorisation	• N/A	• Fine of up to 5 lakh rupees; and 10,000 rupees per day for length of offence	• Fine of up to 1 lakh baht; and 3,000 baht per day for the length of offence	• Fine of up to 1 million rupees may be imposed	• N/A

(Annex Table 2 contd.)

(Annex Table 2 contd.)

Sl No.	Attribute	Penalty Measures/Punitive Scopes				
		India	Pakistan	Thailand	Sri Lanka	Bangladesh
8	Stock brokers/players failing to discharge responsibilities	• Suspension of certificate; and fine of 1 lakh rupees for length of continuing offence	• Up to five years of prison; and 5 lakh rupees fine	• Fine of 1 lakh baht; and a 3,000 baht per day fine in case of continuing offence	• Cancellation of license/registration	• Strictly forbidden
9	Registered/paid up capital not in amounts prescribed	• N/A	• N/A	• Up to 1 lakh baht; and in case of continuing offence a daily fine of 3,000 baht is imposed	• N/A	• N/A
10	Capital/market manipulation	• Strict penalties in place	• Fine of up to may be 2 million rupees may be imposed	• Penalties of 1 lakh baht; and possible prison sentence	• N/A	• N/A
11	Auditing irregularities	• Fine of 1 crore rupees or 1 lakh rupees for length of offence	• Up to 1 lakh rupees; and a further fine if offence is a continuing one	• Imprisonment of two to five years; and a fine of 2-5 lakh baht	• Strictly forbidden; liable to penalties	• Liable to penalties
12	Offence for which there is no specific penalty	• Fine of up to 1 crore rupees	• Fine of up to 1 million rupees; and another fine of 1 lakh rupees in case of continuing offence	• N/A	• Fine of up to 50,000 rupees; and a prison sentence of up to five years	• N/A
13	Certain default in case of mutual funds	• Fine of 1 lakh rupees for length of offence	• N/A	• N/A	• N/A	• N/A
14	Flotation of rules intended for Modaraba firms	• N/A	• Fine of up to 1 lakh rupees; and a further fine of 1,000 rupees per day for continuing offence	• N/A	• N/A	• N/A
15	Fraud by officers of firms gone into liquidation	• N/A	• Imprisonment of up to two years may be imposed	• N/A	• N/A	• N/A

(Annex Table 2 contd.)

(Annex Table 2 contd.)

Sl No.	Attribute	Penalty Measures/Punitive Scopes				
		India	Pakistan	Thailand	Sri Lanka	Bangladesh
16	Accounting/book keeping irregularities	• Fine extending up to 1 crore rupees can be imposed	• Fine of 1 million rupees to be imposed; and a further fine of 10,000 rupees for each day for continuing offence	• Fine of 1 lakh baht; and 3,000 baht per day for length of continuing offence	• Liable to be penalised by fines; and possible prison sentence	• Liable to be penalised by fines
17	Transaction of insurance business on other than stated terms	• N/A	• Fine of up to 2 million rupees can be imposed on the guilty party	• N/A	• N/A	• N/A
18	Violation of rules/regulations relating to borrowing/receiving money from public	• N/A	• N/A	• 1 lakh baht and a further fine of 3,000 baht each day if offence is continuing	• N/A	• N/A
19	Proportion of company shares to be held by nationals	• N/A	• N/A	• Violation of this rule means a fine of up to 1 lakh baht	• N/A	• N/A
20	Failure to answer before authorised person	• Fine of up to 1 lakh rupees can be imposed	• Fine of up to 50,000 rupees can be imposed	• Prison sentence of up to six months; and fine of up to 60,000 rupees may be imposed	• Prison sentence of up to five years; and fine of up to 1 million rupees can be imposed	• Liable to be penalised by fines
21	Non-authorisation in setting up office of a foreign established company	• Strictly prohibited; potentially liable to fines	• Strictly prohibited; potentially liable to fines	• Up to three years of imprisonment; and fine of up to 60,000 and also additional fines can be imposed	• Strictly prohibited; potentially liable to fines	• Strictly prohibited; potentially liable to fines
22	Carrying on of 'ultra-vire' business	• N/A	• For transaction made beyond firm's power, fine of 5 lakh rupees may be imposed	• N/A	• N/A	• N/A
23	Failure to modify company capital within mandated time	• N/A	• N/A	• Imprisonment of up to three years; and fine of up to 3 lakh baht; and	• N/A	• N/A

(Annex Table 2 contd.)

(Annex Table 2 contd.)

Sl No.	Attribute	Penalty Measures/Punitive Scopes				
		India	Pakistan	Thailand	Sri Lanka	Bangladesh
				also other fines may be imposed		
24	Contravention regarding number of shareholders/directors in company	• N/A	• N/A	• Fine of up to 1 lakh baht may be imposed in addition to further fines	• N/A	• N/A
25	Wrongful obtaining or withholding of property	• N/A	• Up to 1 million rupees fine; and a prison sentence of up to two years	• N/A	• N/A	• N/A
26	Fictitious and multiple applications for new issues	• Strictly prohibited; penalties may be imposed	• Strictly prohibited; penalties may be imposed	• Strictly prohibited; penalties may be imposed	• Strictly prohibited; penalties may be imposed	• Strictly prohibited; penalties may be imposed
27	Failure to segregate securities/money of client(s)	• N/A	• 1 crore rupees fine may be imposed	• N/A	• N/A	• N/A
28	Short selling	• Greatly restricted in India; liable to penalties	• Liable to penalties	• Penalties of up to 50,000 baht may be imposed	• Liable to penalties	• Strictly regulated; liable to penalties

Source: Various documents collected from various websites.