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*Ahmed Rashid Lali  
Vice President, DSE*

**Q** If I ask you to summarize the achievements and limitations of DSE in 2012, what you like to include in this cart?

**A** DSE has seen some major accomplishments in the year 2012. The massive decision of DSE to go for demutualization of the exchange can be regarded as one of its most valuable achievements. DSE with the aid of BSEC (Bangladesh Security Exchange Commission) and the government has played a prominent part in developing the preparatory work of the act and creating awareness among the members. In the total 58 years of DSE since its inception, the demutualization process is its biggest historical decision. DSE had previously abolished the 13 to 14 different committees that existed including the listing committee. With the listing committee being eliminated, DSE had taken a revolutionary decision of creating a neutral panel for the listing committee consisting mainly of Chartered Accountants. The prime responsibility of this panel is to inspect the listing related prospectus and drafts and present it to the board, which are then sent to the BSEC for approval. The decision to abolish the committees was based on a few factors. Firstly, post demutualization there were chances of conflict of interest among the committees. Due to the brokers being involved in the committees there are chances of a strong perception that the brokers are responsible for the market condition. Thus, to get rid of this perception the abolishment of committees was decided. The third most valuable decision on part of DSE was the implementation of an Executive Committee under the board. The formation of the executive committee is similar to that of the board consisting of 4 broker directors and 4 independent directors. The duty of the executive committee is to inspect the overall activities of DSE and then present it to the board. The executive committee has a two- fold impact: it prevents any disruptions in the activities of DSE and it saves the time of the board. We have also submitted a reform proposal to the BSEC in 2012 after a through session of discussion. 2012 also saw the launching of a new software called the MSA Plus which enables i-Trading system or internet trading. We have succeeded in developing an index with S&P which will be launched in the coming January. The methodology of the index is complete and it is under trial, awaiting the approval of the BSEC. The methodology of the index has been well appreciated by the BSEC as well. One of our most important accomplishments has been the creation of the Investors' Settlement Guarantee Fund. The guidelines for the fund have been sent to the BSEC for approval. In addition, DSE has already placed BDT 25 crore in the fund and once DSE approves the guidelines for the fund, all

the brokers will contribute to this fund according. This fund will act as a major booster of the confidence levels of the local and international investors.

Failure is an inherent phenomenon. Everyone has to face some sorts of hurdles and barriers in their way of achievements. While developing and launching the MSA Plus software we had to combat some difficulties which we have overcome to a great extent. Still now some of the cosmetic changes are pending which will hopefully be resolved in the month of February. Rather than this, there were no such prominent failures of DSE in 2012.

**Q** Can we expect any structural changes in the market? Will these changes affect the market in the upcoming year?

**A** We are pondering over introducing Derivatives option in the market. With the arrival of the derivatives the market will be able to add another product to its basket. Post demutualization, the introduction of derivative will act as a catalyst to enhance the profitability of the stock exchanges, thereby providing the investor community with an additional option and boosting up their overall confidence. 2013 being an election year is bound to have some political uncertainties. However, the ups and downs of the market have no correlation with the structural changes being implemented, neither in practical sense nor in perception. The demutualization is in its last phase of approval. The Demutualization Act will be effective within 6 months of being passed by the Parliament. The election year will have not impact the demutualization process and we hope to complete the process within the stipulated time.

**Q** 2011 started off with a drastic fall in the stock market which continued in 2012 as well. What reasons may be behind this downtrend?

**A** The downfall of the market starting from 2011 and continuing in 2012 can be attributed to several factors. The financial sector constitutes 45 percent of the total capitalization in the market. In the past years the financial sector has undergone some major reforms including the transition of Basel 2 from Basel 1 for the banks and the increase in paid up capital for the insurance companies. The market is credible for funding these reforms. The paid up capital criteria for the Basel 2 have been raised from the capital market through the right issue of shares. Thus, we cannot ignore the fact that a lump sum amount has been withdrawn from the capital market by the financial sector to fulfill these reforms. Secondly, to control the inflationary pressures the

Bangladesh Bank had adopted a conservative monetary policy which has been on run for almost one and half years. This had resulted in a liquidity crisis in the market and thereby prolonging the time frame of the debacle. The third cause of the downtrend is the direction of the Bangladesh Bank to the banking sector to reduce their investment in the secondary market, limiting it to 10 percent of their total liabilities. That was the time when the market went into this debacle. The basic role of this debacle was of the banks who sold off their investments to match the Bangladesh Bank criterion and unfortunately the market failed to bear this large sell-off and hence crashed.

**Q** As Demutualization has already been passed in 2012 and is going to be implemented in 2013, how is demutualization going to affect the stock market in 2013? Tell us both benefits and threats after demutualization of DSE in 2013.

**A** The Demutualization Act has been approved by the Cabinet and in the upcoming month of January or February the Parliament will supposedly pass the act. Meanwhile, we are at the last phase of negotiating and choosing our dedicated Consultant. Also, we have prepared a scheme which includes the action strategies that we will undertake after demutualization and the implementation process of demutualization. This scheme has been based on the Cabinet approved Draft of Demutualization Act and is subject to further improvising after the approval of the BSEC.

The major threat after demutualization will be the existence of a professional management who can lead the organization in the future in the same manner as we are doing. If we fail to create such a team then perhaps this will be quite problematic for the capital market after demutualization. The second threat may encircle the profit making motive of DSE. Post demutualization DSE will become a profit centric organization and hence in order to enhance the profit margin DSE may resort to dilution of many old norms. For instance, DSE may introduce the phenomenon of fine in order to earn more profit. These are the two main obstacles that the Exchange will have to combat post the implementation of demutualization.

The benefits that demutualization will tag along itself will surely act as a breather for the capital market. It will act as a confidence booster for both the international as well as the local investors. Another important thing is that there is strong perception regarding the conflict of interest which will diminish with the implementation of demutualization.

**Q** 2013 being an election year may have some political uncertainties. Do you think that the political instability may hinder the goals or plans of Exchange?

**A** It will not be wrong to say that 2013 will be a challenging year for the capital market. The main hurdles in the upcoming year will be encircling the completion of the demutualization process and maintaining the market stability amidst the hassles of the elections. However, we can hope to combat these challenges with the cooperation of all the involved stakeholders.

**Q** Are you expecting any government incentives for stabilizing the market? How do you plan to combat the challenges of 2013?

**A** It is not possible to stabilize the market with the inflow of money under the present circumstances. Till September 2012 the economy had undergone crucial liquidity crisis but henceforth the crisis has been somewhat subdued. The institutions are slightly lagging behind in regard to the margin loans. On the other side, the local high net-worth investors are holding large amounts of fund but they are waiting for the entry point to the market. I believe that at some point of time they will invest this money in the market. Secondly, the institutions are coming forward as the liquidity crisis is nearly resolved. On an average the banks are investing about 2 percent to 3 percent of capital in the secondary market and they have a good scope of investing in this market. The only problem is the debate regarding the banks' level of investment in the secondary market. Once the debate between the government and the donors is mitigated, some decision can be taken. While the government is demanding 40 percent of the equity to be allowed to be invested in the secondary market by the banks, the donors are obstinate on 25 percent of equity investment. The on-going conflict between the two parties has put the banks in a limbo. The sooner this issue is negotiated the quicker the banks will be able to participate in the market in full swing. In recent times, huge enthusiasm by the Foreign Institutional investors is being seen. They are sending large number of enquires to us and some of them have also visited Bangladesh. In my perspective, the foreign investors may come up with some of their activities in 2013. We can combat the challenges of 2013 easily if we are able to bring these three groups of investors into our market.

*Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.*

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