

## Recommendations for Reform in Book Building Method under SEC (Public Issue) Rules 2006:

### A. General Issues:

Sl No.	Existing Clause	Existing rule	Proposed rule	Rationale
1	16(4)(h)	Prospectus will have to be posted on the websites of the Commission, stock exchanges, issue manager and issuer at least two weeks prior to the start of the bidding to facilitate investors to know about the company and all aspect of offering.	<p><b>We may add the following after the existing para:</b>  Hard copy of draft prospectus <b><i>without mentioning the indicative price</i></b> shall physically be sent to the following institutions/associations at least five working days prior to the Road Show. Name of the associations are as follows:</p> <ol style="list-style-type: none"> <li>a. Bangladesh Merchant Bankers Association</li> <li>b. Dhaka Stock Exchange</li> <li>c. Chittagong Stock Exchange</li> <li>d. Bankers' Association</li> <li>e. Bangladesh Leasing &amp; Financial Companies Association (BLFCA)</li> <li>f. Insurance Association of Bangladesh</li> <li>g. Association of Asset Management Companies</li> </ol>	This will ensure that the hard copy of the draft prospectus will be available to the EIs in due time to conduct the financial analysis of the issue.
2		nil	1. DSE's and CSE's representatives may participate in the road show as observer.	This will ensure more disclosure to the bourses wherein the security will eventually be listed.
3		nil	1. The Issuer Company, its subsidiaries and any institution where Directors/Promoters/Sponsors of Issuer Company have interest under related party definition of International Accounting Standard, Issue Manager and any private	This will eliminate possibility of fixing the security valuation by the related parties.

			placement holder of the said issue will not be eligible to participate in the Road Show and the bidding process.	
4	16(4)(j)	Institutional bidding period will be 3 to 5 (three to five) working days which may be changed with the approval of the Commission	The bidding time may be reduced to 48 hours	This will expedite the process.
5		Nil	1. The Company and The Issue Manger shall submit the status of bidding and the Cut Off price along with the final draft prospectus to the Securities & Exchange Commission within 48 hours from the closing day of the bidding.	The will expedite the process.
6	16(4)(q)	There shall be a time gap of 25 (twenty five) workings days or as may be decided by the Commission between closure of the bidding by EIs and subscription opening for general investors	1. Existing time gap of Twenty Five (25) days between closer of bidding and subscription opening may be reduced to fifteen (15) days.	This will expedite the process.
7	16(5)	"Size of total issue"	"Issue size in face value"	Eliminate confusion.

**B. Eligible Institutional Investor (EIs) Related Issues:**

SI No.	Existing Clause	Existing rule	Proposed rule	Rationale
1	16(3)	Asset Management Companies are not included in the EI category	We may include Asset Management Companies as one of the Eligible Institutional Investors	Since AMC's have strong research team, their participation in determining indicative price is expected to add more value in the process.
2		Nil	While submitting the indicative price, the concerned EIs will also mention the number of shares they are willing to buy at that price, and at least 10% (ten percent) of the total issue size at face value must be intended to buy, aggregately by the EIs supporting the indicative price.	This will ensure the commitment of the EIs in the quoted indicative price.
3	16(5)	EIs quota, as follows: Issue Size Tk. 30 to 50 crore-20% Issue Size over Tk.50-100 crore-30% Issue Size over Tk. 100-500 crore-40% Issue Size over Tk. 500 crore-50%	EIs quota should be, Issue Size Tk. 30 to 50 crore-40% Issue Size over Tk.50-100 crore-50% Issue Size over Tk. 100 crore-60%	More institutional quota will ensure proper valuation of the issue, as institutions are expected to be more cautious before investing their own money. (In India Qualified Institutional Bidders quota is 60%)
4	16(4)(i)	No institutional investor shall be allowed to quote for more than 10% (ten percent) of the total security offered for sale, subject to maximum of 5 (five) bids.	1. Maximum limit for one EI in the bidding may be reduced to 5%, instead of existing 10%.	This will ensure that only few EIs will not be able to jack up the Cut Off price collectively.

5	16(6)	There shall be lock-in of 15 (fifteen) trading days from the first trading day on the security issued to the eligible institutional investors.	The lock-in for EILs may be increased to 6 (six) months	The will ensure more commitment from the EILs.
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**C. Price Discovery for determining indicative price:**

Sl No.	Existing Clause	Existing rule	Proposed rule	Rationale
1	16(4)(b)	Issuer in association with issue manager and eligible institutional investors shall quote an indicative price in the prospectus and submit the same to the Commission with copy to the Stock Exchanges	<p>1. The issuer and issue manager shall send the draft prospectus to EILs <b><i>without mentioning the indicative price.</i></b> The Indicative Price should be disclosed by the Issuer and Issue Manager after the Quotation received from the EILs. The said indicative prices should be supported by at least 20 EILs including at least five quotations from each of the following category:</p> <ul style="list-style-type: none"> <li>a. Merchant Banks</li> <li>b. Commercial Banks</li> <li>c. Asset Management Companies</li> </ul> <p>Taking arithmetic mean of all obtained quotation may be discontinued.</p> <p>EILs who support the indicative price, in aggregate, should intend to buy at least 10% of the total issue size at face value and these EILs should participate in the electronic bidding process, at least with their intended quantity and indicative price.</p> <p>As long as the total intended quantity by the EILs, who support the indicative price, does not reach 10% of the total issue size, the indicative price shall not be treated as discovered.</p>	This will ensure more reasonable discovery of price as each of these categories is expected to have strong research team and financial analysts.

2	nil		<p>The indicative price will be such that it does not exceed the following yardstick:</p> <ul style="list-style-type: none"> <li>Fifteen (15) times of Weighted average Earnings Per Share of the preceding three years or three (3) times of Net Asset Value (NAV), whichever is lower but not less than Net Asset Value per share</li> </ul>	<p>This will limit the maximum possible valuation of the share. Although conceptually there should not be any cap in the Book Building method, but considering our unique situation, we may consider this.</p>

**D. Disclosure in the Draft Prospectus:**

Sl No.	Existing Clause	Existing rule	Proposed rule	Rationale
1	20	nil	<p>While preparing the financial statements International Accounting Standards and Bangladesh Accounting Standards should be followed. Earnings Per Share (EPS) should also be disclosed on fully diluted basis (with the total existing number of shares) in addition to the current practice of weighted average number of shares basis.</p>	<p>This will reflect EPS of the company on fully diluted basis, immediately before going to IPO. Without fully diluted basis, the EPS can be shown significantly higher than the actual and thereby price distortion may cause.</p>
2		nil	<p>Future projected Net Income should not be considered while</p>	<p>Since future is more or less uncertain and may be significantly different from the</p>

			calculating the weighted average EPS.	projections. To safeguard the investors, projection based EPS should not be taken into account while calculating EPS in the draft prospectus. (In India also, the regulator prohibited all analysts to use future projected earnings while evaluating any IPO).
3		nil	All extra-ordinary income or non-recurring income coming from other than core operations should be shown separately while showing the Net Profit as well as the Earnings Per Share in draft prospectus.	This will ensure proper disclosure of sustainable earnings which should be used in price discovery.
4		nil	Quarterly or Half yearly EPS should not be annualized while calculating the EPS for the purpose of presenting in the IM or prospectus.	This is not permitted as per applicable accounting standards.
		nil	Any issuer who has revalued its assets within 12 months preceding the IPO shall show the Net Asset Value (NAV) with revaluation reserve and without revaluation reserve.	This will ensure more disclosure for the potential investors. This may also discourage the propensity to revalue the assets immediately before the IPO aiming to jack up the NAV and thereby the security value.

**E. Committee for Verification of Audited Financial Statements:**

Sl No.	Existing Clause	Existing rule	Proposed rule	Rationale
1		nil	<p>1. To scrutinize and verify the audited financial statements submitted in connection with an IPO, a committee may be formed as follows:</p> <ul style="list-style-type: none"> <li>a. President/representative of ICAB, who has no interest in the Issuer Company;</li> <li>b. President/representative of ICMAB who has no interest in the issuer Company;</li> <li>c. CEO/representative of Dhaka Stock Exchange;</li> <li>d. CEO/representative of Chittagong Stock Exchange;</li> <li>e. Chairman/one representative Professor from the Department of Finance/Accounting &amp; Information Systems of the University of Dhaka;</li> <li>f. Capital Issue department head of SEC will remain as an observer in the aforesaid committee;</li> <li>g. The committee must submit its comments/observations, if any, within ten days of the requisition.</li> </ul>	<p>This will ensure better evaluation of the financial statements as the committee is composed of experts in this regard.</p>