

## **CHAPTER 1: BACKGROUND INFORMATION**

### **1.1 Introduction**

The capital market of Bangladesh is considered to be one of the emerging markets in the context of the global financial system. The market has immense potentials for country's industrialization, development of infrastructure in particular and economic growth in general. The extent of volatility in the capital market is more pronounced in Bangladesh than elsewhere in the world. The government and the Securities and Exchange Commission (SEC) have undertaken a good number of initiatives to meet Bangladesh's development financing requirements with a particular focus on developing long term infrastructure financing and strengthening financial stability through promotion of capital market. In this regard formulation of a Master Plan is of crucial importance.

Besides Planning, it is also of utmost significance to establish appropriate arrangements to ensure the successful implementation of the Master Plan for the development of Bangladesh capital market. A large number of reforms are necessary to put the capital market on a trail of sustainable growth. The implementation arrangements have to be robust so that timely and consistent implementations of policy actions can take place. It is also required to guard against policy reversal, where the implementation arrangements will come in action once more.

The arrangements must be flexible so that any unforeseen events can be properly addressed. In order to engage highly skilled knowledgeable human resources, adequate resources must be allocated. A monitoring and evaluation framework, with a feedback loop, must be at work to make the process accountable. This will allow the changes to be made to the plan when the situation demands. Trans-partisan commitment from the highest level of the government and all stakeholders is also necessary in this regard. This is a prerequisite for the successful implementation of the Master plan. Adequate technical assistance is required from time to time to support implementation and ensure consistency with international standards of best practices.

The master plan aims to achieve transparency, accountability and efficiency in the market and strengthen the Securities and Exchange Commission as a regulatory body. In this backdrop and having recognized the need for vibrant capital markets to meet the national growth targets, the Securities and Exchange Commission hereby adopts this Master Plan for Bangladesh capital market development.

## 1.2 Overarching Objective

To develop a balanced, stable and resilient capital markets in Bangladesh.

## 1.3 Five Strategic Objectives

We recognize that it is important to take an approach to the development of capital markets that addresses the problems that have surfaced during the last market cycle, accompanied by a broader plan to strengthen incentives for good behavior and against bad behavior, broaden and deepen the markets and strengthen market institutions.

This plan will have the following *Five Strategic Objectives*:

- To rehabilitate the SEC in terms of:
  - Securing crucial (operational and financial) independence for the SEC;
  - Strengthening its organizational structure;
  - Enhancing (the quality, quantity and skills of) its staff; and
  - Strengthening its (information and internal control) systems
- To strengthen the rules and regulations pertaining to the capital markets;
- To upgrade financial market infrastructure;
- To create a fertile environment to enable the orderly and sustainable emergence of new products (e.g. corporate bonds, asset-backed securities and derivatives);
- To ensure a fertile environment to enable the orderly and sustainable expansion of institutional investors' (e.g. mutual funds, insurance companies, pension funds) participation in the capital markets;

## 1.4 Seven Categories of Initiatives

Bangladesh Capital Market Development Master Plan (CMDPMP), summarized in Appendix 1 consists of 70 principal initiatives, organized in the following seven categories:

- Implementation arrangements ;
- Legal and Regulatory Initiatives ;
- Bond Market Initiatives;
- Financial Market Infrastructure Initiatives;
- Institutional Investor Initiatives;
- Derivatives and Securitization Initiatives;
- Taxation Initiatives

## CHAPTER 2: CAPITAL MARKET DEVELOPMENT INITIATIVES

### 2.1 Implementation Arrangements

The Securities and Exchange Commission will be the principal implementing agency for the Capital Markets Development Master Plan (CMDP). Initiatives 1 through 7 recognize the importance of establishing robust implementation arrangements to ensure the successful implementation of the Master Plan.

**Table 1 – Implementation Initiatives**

I #	Initiative	Time Frame	Responsible Party
11	Agree on implementation structure to include authorization, organizational structure, accountability, pay structure, staffing and resource allocations	Immediate – Short Term	SEC
12	Agree on implementation processes to include monitoring, evaluation (M&E), reporting of progress, and amending implementation plan to account for evolving circumstances	Immediate – Short Term	SEC
13	Appoint/engage and authorize Implementation Leader and Team	Short Term	SEC
14	Appoint Specialized/Expert Working Committees with considerable private sector/industry participation	Short Term	SEC
15	Develop and launch implementation (public accountability) website	Short Term	SEC
16	Monitor, evaluate and report on progress	Short Term – Long Term	SEC
17	Re-evaluate master plan/road map and modify based on lessons learned from M&E	Short Term – Long Term	SEC

We recognize that there will be a multitude of reforms necessary to put the capital markets on a sustainable growth/development path. This is a large task to undertake and finance. The costs of implementing these reforms are likely to be significant. Implementation is likely to be a complex process requiring political will, persistence, patience, adequate resources, flexibility and significant skill in managing the competing interests of all of stakeholders in the process. The implementation arrangements will be robust to ensure the timely and consistent implementation of policy actions, and to guard against policy reversal. These implementation arrangements will include:

- Built-in Flexibility – to account for unforeseen events/circumstances;
- Adequate funding/resource allocation – to allow engagement of highly skilled and knowledgeable local and international resources required to achieve successful implementation.
- A monitoring and evaluation framework with a feedback loop – to make the process accountable and allow for changes to be made to the plan in recognition of the evolving situation;
- “Trans-partisan” commitment from highest level of government and all stakeholders to hold (the present and subsequent) governments accountable
- Adequate technical assistance – to support implementation and ensure consistency with international standards of best practice.

Leading the implementation effort will be a complex task. The people in the leadership positions will need to be well-experienced in Bangladesh’s capital markets and well-respected by the industry. We recognize that it is unlikely that it would be possible to attract qualified persons to undertake such a

challenging task under the government pay scale, so arrangements need to be made to provide adequate compensation in order to attract and retain qualified leadership.

## **2.2 Legal & Regulatory Initiatives**

The preponderance (57%) of the initiatives comprising the CMDMP is in the category of Legal and Regulatory Initiatives, indicating the severity of the challenges in this area and the importance of squarely addressing them. Initiatives 8 through 47 listed below recognize the importance of implementing legal and regulatory reforms.

We recognize that the principal challenge of the supervisory regime is related to the enforcement of the laws and regulations that are already on the books. The present situation can be characterized as one of “under-enforcement”. This is the result of two principal factors: First, weaknesses at the SEC have prevented effective supervision of the markets and intermediaries and have hampered effective enforcement actions. A decade-long “brain drain” coupled with the inability to recruit and train new talent has sapped the SEC’s ability to effectively regulate the securities industry.

Second, the prevailing court system, in terms of time required to dispose the cases, has allowed offenders to tie up cases for lengthy periods – sometimes years, or even decades – frustrating the SEC’s enforcement efforts. We are, therefore, committed to rebuilding the SEC’s capacity to supervise the capital markets and to finding a solution to the challenge posed by the lengthy legal process.

### **2.2.1 Independence of SEC:**

The *independence* of the SEC is crucial to its ability to fulfill its public policy mandate. We recognize that the SEC must be free from political influence from a policy-making perspective, and it must be able to manage its own affairs from an administrative perspective. It is important that the Chairman of the SEC and its Members are able to carry out their duties and responsibilities in the best interest of the investors and market. It is also important for the SEC to have financial independence, i.e. control its own operating budget.

Initiatives no. 9-12 are intended to ensure the SEC’s operational and financial independence. This is an IOSCO requirement, and is also widely recognized to be a *sine qua non* for effectively-regulated capital markets – a most crucial foundational building block in the absence of which an effective legal/regulatory framework cannot be established.

While recognizing the importance of *independence*, we note that it must be counterbalanced with *accountability*. A number of arrangements are already in place to ensure the SEC’s *accountability* to the Government as well as the public at large. In summary, the SEC is accountable as a result of a requirement to produce (pursuant to Section 15 of the SEC Act) an Annual Report (to the Government and, through it, to the National Assembly) and other reports that the Government may require from time to time, and because it is subject to a statutory audit by the Auditor General of Accounts under Section 128 of the Constitution.

## 2.2.2 SEC Staffing:

The SEC is understaffed, underpaid and undertrained. **Staffing levels** at the SEC are lower than in comparable regulatory agencies. We recognize that a weak and demoralized SEC is unable to effectively oversee the capital markets and that this may be one of the most important deficiencies inhibiting the orderly and sustainable development of Bangladesh’s capital markets. To **attract and retain qualified personnel**, the SEC must be able to offer compensation packages to its employees that are comparable to the private sector it regulates. With compensation levels at the regulated entities oftentimes multiple times higher, the SEC faces an uphill battle in recruiting experienced, well-qualified, knowledgeable and effective staff. To be sure, raising SEC salaries will be difficult, but a way must be found to compensate well-qualified and well-performing personnel at competitive rates.

**Table 2 – Legal & Regulatory Initiatives**

I #	Initiative	Time Frame	Responsible Party
I18	Develop and implement an awareness-raising program to sensitize key MOF officials to the crucial importance of SEC independence	Immediate – Short Term	SEC
I19	Amend (Parliament) section 3 of the SEC Act to enhance SEC independence*	Immediate	Parliament
I10	Amend (Parliament) section 5 of the SEC Act to enhance SEC independence*	Immediate	Parliament
I11	Amend (Parliament) section 9 of the SEC Act to empower SEC to appoint requisite number of staffs	immediate	Parliament
I12	Institute a program and establish a forum for high level coordination of the SEC and BB*	Immediate	SEC & BB
I13	Execute MOU between SEC and BB on the collection and sharing of supervisory information	Short Term	SEC & BB
I14	Authorize SEC to enter MOUs with foreign regulators within parameters	Short Term	MoF/MoF A
I15	Activate “Joint Inspection Team” and conduct joint inspections of jointly-regulated institutions (e.g. merchant banks, etc.)	Immediate – Long Term	SEC & BB
I16	Develop uniform margin standards applicable to entire financial sector*	Immediate	SEC & BB
I17	Codify the securities laws	Short Term	SEC
I18	Present laws, rules, regulations and notifications in English as well as Bengali	Medium Term	SEC
I19	Establish an office of Chief Counsel and recruit attorneys	Short Term	SEC
I20	Undertake intensive training in stock exchange oversight	Short Term	SRMIC/SEC
I21	Begin testing Authorized Representatives’ proficiency and Principals’ knowledge of responsibilities as a basis for licensing	Short Term	SEC/BICM
I22	Adopt rule to hold senior management of intermediaries responsible for failure to supervise	Short Term	SEC
I23	Publish guidance/guidelines for IPO Applications	Short Term	SEC
I24	Acquire and implement an electronic data gathering and retrieval (EDGAR) system	Short - Medium Term	SEC
I25	Conduct comprehensive inspections of the exchanges	Short Term	SEC
I26	Submit plans to SEC for protecting investors given new incentive structure created by demutualization	Short Term	Exchanges
I27	Authorize SEC direct access to banking records	Medium Term	BB/MoF
I28	Increase number of non-broker inspections (e.g. merchant banks, portfolio managers, etc.)	Short –Long Term	SEC

I #	Initiative	Time Frame	Responsible Party
I29	Adopt market conduct rule for intermediaries addressing account statement, internal controls, KYC, and compliance monitoring by third parties	Short Term	SEC
I30	Begin strict enforcement of laws against insider "short swing" profits	Short Term	SEC
I31	Revisethe Takeover Rules	Medium Term	SEC
I32	Develop better-calibrated risk-based capital requirements*	Short – Medium Term	SEC
I33	Begin the transition to risk-based supervision and utilizationof early warning systems to minimize risk of failure of an intermediary	Short – Long Term	SEC
I34	Discontinue practice of disclosing investigations	Immediate	SEC
I35	Enhance investigation and enforcement capacity by recruiting and training lawyers and investigators	Short Term	SEC
I36	Establish a specialized "Capital Market Tribunal" (CMT)*	Immediate – Short Term	Parliament
I37	Adopt a Financial Reporting Act (FRA)*	Immediate – Short Term	Parliament
I38	Develop and implement a comprehensive, coordinated public information and education program	Short Term	SEC
I39	Simplify organizational structure and combine related functions into one of four departments	Short Term	SEC
I40	Transition Members/Commissioners from operational to policy focus	Medium Term	SEC
I41	Establish the Office of Chief Accountant and recruit & train accountants*	Short Term	SEC
I42	Conduct a vulnerability assessment	Short Term	SEC

It is recognized that the SEC's ability to perform the five essential functions of a regulator must be strengthened, and we are committed to undertaking a number of initiatives to enhance the SECs abilities in these five areas, namely:

- Making rules and developing legislation;
- Authorizing participants and practices;
- Monitoring and investigating market participants;
- Enforcing laws and regulations; and
- Developing the market, informing and educating

### 2.2.3 Making Rules and Developing Legislation

Few initiatives are intended to strengthen the SEC's ability to make rules and develop legislation.

One of the factors contributing to the market volatility of 2010/11 was the lack of coordination between the SEC and Bangladesh Bank. Several initiatives in the attached Plan of Action are designed to help improve this interagency coordination. It is expected that implementing these recommendations will result in better coordination among the financial sector regulators that will remove the scope for regulatory arbitrage and improve the supervision of jointly regulated institutions such as merchant bank subsidiaries of commercial banks and the securities market activities of non-bank financial institutions regulated under the Financial Institutions Act, 1993.

Presently, laws and regulations governing the securities industry are widely dispersed and fragmented, making it difficult for regulated entities (and just as importantly those potentially wanting to enter the various regulated businesses) other market participants, and those evaluating Bangladesh's capital mar-

kets (e.g. potential international institutional investors) to assess/evaluate compliance with the various laws and regulations (this is especially the case with respect to rules, regulations, orders and directives). Some Initiatives are intended to address this problem.

We recognize that the SEC is, at its core, a law enforcement agency, yet it does not have a General Counsel, and has very few lawyers on its staff. This is a serious deficiency which significantly reduces the SEC's effectiveness, not only in making rules and developing legislation, but in conducting investigations and in enforcement. Initiative 23 is intended to rectify this problem.

#### **2.2.4 Authorization of Participants and Practices**

Given the preponderance of individual, relatively unsophisticated investors in the capital markets (indicating a low capacity to gather and analyze information), and the general lack of transparency (indicating a high cost of obtaining information), it can be argued that one of the most important functions of the SEC is to act in its capacity to authorize market participants<sup>1</sup> and their practices. The challenges facing the SEC in this regard range from a lack of internal capacity to oversee the stock exchanges to the lack of a complete, comprehensive and credible system of assuring the professional integrity, knowledge and proficiency of market professionals and holding them accountable for their actions.

Initiatives 18 through 24-27 are intended to address these challenges. Consumers should be able to rely on the SEC's certification and authorization process to "weed out" bad actors (i.e. those who are poorly trained, ill-informed, unprofessional and/or unethical). SEC intends to enhance the professionalism, integrity and accountability of the brokerage industry. While professionals in the brokerage industry are already required to obtain training, they are not required to demonstrate their proficiency and knowledge, and they are not held accountable in the event they (or their subordinates) fail to adhere to professional standards. We recognize that this is a standard international best practice, and that its adoption in Bangladesh will raise the standards of our capital markets.

The SEC also authorizes the issuance of securities by issuers. This process has tended to be excessively slow in Bangladesh and it has often been pointed out as a factor contributing to the stock market bubble, as it had the effect of constraining the supply of securities in the face of strong demand stimulated by excess liquidity and lax margin rules. The primary factor contributing to this delay appears to be the lack of adherence of submissions to the SEC's requirements. Initiative 28 is intended to provide a mechanism to clearly communicate and provide guidance to the issuer community on the SEC's requirements with respect to the issuance of securities, and will enhance transparency in this regard.

#### **2.2.5 Demutualization of Exchanges:**

Traditionally stock exchanges operate as a club of brokers which offers secondary securities trading services to the investing community as monopoly operator serving under a mutual governance structure. The broker community act as owner, trader and manager of the exchanges which sometimes posses serious "conflict of interest" environment. Regulator and investors at large are raising their voice to put an

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<sup>1</sup> In this context the term "market participant" refers to market professionals, intermediaries, market operators (i.e. the stock exchanges), and securities issuers.

end to this culture. Consequently, around the globe stock exchanges are now increasing changing their business model and restructuring themselves through demutualization.

Demutualization, which separates the trading rights from the ownership and management of exchanges, is widely practiced form around the globe to improve the governance structure of the exchanges. We believe that exchanges should be subject to higher governance standards than is the norm currently practiced. The creation of a board structure with balanced representation from trading community and independent category shall bring in smooth functioning culture combing the business need as well as upholding the public interest.

The separate functioning of a chief regulatory officer within the demutualized exchange is expected to offer better investor friendly structure and at the same time shall ensure more confidence from the investing community resulting in higher business volume for the members of the exchanges. Initiative 26 is undertaken aiming to resolve the mentioned governance issue of stock exchanges.

#### **2.2.6 Monitoring and Investigating Market Participants**

Having certified that a market participant has reached a standard to qualify for an authorization, there is an implied obligation on the SEC to monitor the holder of that authorization to ensure that (s)he or it maintains those standards. *Monitoring* is the sustained and routine observation of participants and relies on information that is publicly available or voluntarily made available. Monitoring includes both off-site supervision activities (i.e. reviewing reports and documents filed with the SEC) and on-site inspection activities (i.e. inspecting the operations regulated entities). Its goals are to ensure that the protections afforded under the laws, rules and regulations are in place and are operating well.

*Investigations* are conducted to determine whether or not a violation of the law is, has or is about to be committed. They rely on the use of the SEC's statutory or contractual powers to obtain information that otherwise would not be available to it. A regulator's investigative capacity depends on the investigative tools available to it (i.e. ability to subpoena relevant records and documents, compel testimony under oath, etc.), its skill and expertise in conducting investigations (i.e. controlling documents, examining witnesses, etc.) and evaluating the information collected.

With inclusion of the provision of direct access to banking records, the SEC possesses adequate powers and tools for both monitoring and investigating. The challenge facing the SEC is one of a lack of capacity – the lack of knowledgeable well-trained staff in sufficient quantities, and the lack of adequate information systems to support monitoring and investigating teams in their efforts.

#### **2.2.7 SEC Information System**

At present, SEC's *information systems* are outdated and inadequate. As a result, it is unable to receive broker/dealer reports (for offsite supervision) or regular filings from listed companies electronically or to sufficiently perform surveillance of trading on the DSE and CSE. With assistance from ADB (ADB TA No. 2322-BAN: Improvement of Capital Markets Governance), the SEC has undertaken the acquisition of a

new surveillance system, and we are committed to the immediate implementation of this system. We are also committed to implementing an electronic data gathering and retrieval system to enable the SEC to receive regular reports from brokers/dealers (for offsite supervision) and receive and disseminate regular (corporate disclosure) filings from listed companies. Initiative 29 is designed to accomplish this.

We recognize that implementing Initiative 30 and 31 in conjunction with 25 will strengthen the SEC's ability to oversee the stock exchanges. I18 is for the SEC's department responsible for monitoring the stock exchanges (SRMIC) to undergo intensive training in stock exchange oversight. SEC shall begin conducting comprehensive examinations of the two exchanges in Bangladesh for the stock exchanges to develop and submit to the SEC their plans for protecting investors in view of their new governance and incentive structures adopted as a result of their demutualization. It is expected that the implementation of these recommendations, along with the SEC's expected adoption of a comprehensive state-of-the-art surveillance system and procedures<sup>2</sup>, and a climate of stricter enforcement resulting from the implementation of initiatives to enhance enforcement discussed below, will result in a more closely, and effectively supervised and regulated securities market; one in which the abuses of the recent past are less likely to recur.

On-site inspection of intermediaries has suffered as a result of the SEC's resource constraints. As a matter of necessity, there has been a lack of emphasis on the inspection of non-broker intermediaries. Once the SEC is staffed at higher levels it will increase its on-site inspection activities, especially with respect to non-broker market participants (e.g. merchant banks, mutual funds, issue managers, etc.).

In addition to the limited inspection capability caused by lack of resources, much needs to be done in terms of basic protections for investor when dealing with brokers. They relate to the right to periodic customer account statements; know-your-customer (KYC) suitability protections; anti-money laundering protections; internal systems and controls that are designed to ensure that a firm is properly managed and customers' interests are protected; supervisory responsibility rules that hold the officers and managers liable for failure to supervise and strengthened risk adjusted capital adequacy rules tailored to the level and type of risks to which a firm is exposed. Initiative 37-39 are designed to address these issues.

We recognize that an effective takeover regime that allows minority shareholders with legitimate grievances to discipline management and other insiders provides an important incentive to company insiders (management and controlling shareholders) to manage the company in the best interest of *all* of its shareholders. This is especially important in Bangladesh because of its weak disclosure incentives. The Takeover Rule in Bangladesh has been suspended pending a review. We are committed to completing this review and implementing an effective Takeover Rule as soon as practicable.

Direct access to banking records is a key investigative tool for a securities regulator. It is also an IOSCO requirement. Initiative 31 (Authorizing SEC direct access to banking records) is crucial to complete the SEC's investigative toolkit. The SEC has proposed an amendment to the SEC Ordinance to that effect and this amendment will be adopted by Parliament as soon as practicable.

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<sup>2</sup> As recommended under ADB TA No 2322-BAN: Improvement of Capital Markets Governance

A final matter with respect to investigations is the common practice of the SEC of disclosing investigations to the public before any determination of wrongdoing has been made. This practice unfairly subjects persons or firms under investigation to unwarranted and unfair publicity and can bring the subject of such an investigation into disrepute regardless of whether such investigation has any merit. We recognize that the best international practice is to only disclose an investigation after a violation has been determined, and to not disclose ongoing investigations or those that do not result in a determination of a wrongdoing.

### **2.2.8 Enforcing Laws and Regulations**

The capital markets in any country present an abundance of opportunities for bad actors to defraud investors in securities. As mentioned earlier, the problem in Bangladesh is not so much related to the absence of laws designed to protect investors, as there are abundant laws designed to govern the capital markets and protect investors. The problem in Bangladesh is more the lack of a climate of strict enforcement in which there is zero tolerance for such behavior. Few initiatives are intended to strengthen the SECs enforcement capabilities and to promote such a climate of strict enforcement.

As a regulatory agency with a principal objective of enforcing the securities laws, the lack of lawyers and qualified investigators is likely to be hindering the SEC's enforcement capability. In recognition of this, we commit to implementing initiative 33 (I33), which is intended to address this weakness.

We recognize that one of the principal impediments to the effective enforcement of securities laws and regulations in Bangladesh is the court system itself. Cases may drag on for years and sometimes decades in the court system. There were reportedly a large number of securities cases pending in the court system as today, some of which stem from the stock market crash of 1996. Part of the problem is that ordinary court dockets are seriously overcrowded, resulting in cases not being heard for months or even years. A second part of the problem is that defendants can sabotage the enforcement process by filing endless appeals. Initiative 40 will insure the establishment of a specialized Capital Market Tribunal (CMT) that is appropriately constituted to ensure that its jurisdiction, functioning, status, the selection and training of judges, and its appeal procedures would facilitate the timely and effective adjudication of securities cases and help to improve the effectiveness of the SEC's enforcement process.

Two factors significantly impede the SEC's ability to sanction auditors who are not effectively monitoring issuers of securities. First, the SEC's efforts to discipline auditors pursuant to 12(b) (3) of the SEC 1987 Rules have been frustrated by the requirement to refer disciplinary actions against auditors to the Institute of Chartered Accountants of Bangladesh (ICAB). A Financial Reporting Act (FRA) has been under discussion for the better part of the last decade, and we recognize that its adoption is long overdue. Initiative 41 is intended to address this matter. Second, the SEC does not have an Office of Chief Accountant; an office which can monitor the performance of accountants who practice before the SEC (i.e. who prepare and audit the financial statements of issuers of securities), and sanction them for poor performance. Initiative 46 is intended to address this matter.

### **2.2.9 Market Development and Promoting Education & Understanding**

The SEC is mandated by law and by its own policy to actively promote the development of Bangladesh's capital markets and to contribute to the education and understanding of capital markets with respect to the community it regulates as well as the broader general public. It presently does this through four principal means – through publishing an Annual Report; through its website; through its investor education programs; and through public statements such as press releases, speeches at industry events, etc. The SEC's Annual Report is informative and useful albeit lagging real-time events considerably; its website is considerably inferior to those of other regional financial regulators with respect to organization, content, ease of use, etc.; its investor education program is not well-targeted or actively promoted; and the effectiveness of its public statements in promoting understanding and education is limited.

An Initiative is planned to develop a comprehensive, well-designed, well-coordinated and well-executed public information and education program which incorporates at least two key elements: A completely revamped website with the objective of making it one of the primary vehicles for executing the SEC's mandate concerning promoting understanding and education of the securities markets; and a completely revamped investor education program, potentially with significant involvement of the Bangladesh Institute for Capital Markets (BICM).

Financial education deals with information and learning. It is essential to help people of the country to better manage their financial life and favorable choices that will contribute to increase their well-being too. Financial education should go hand-in-hand with financial inclusion. If mass people do not have financial literacy, they will not be interested to the formal financial system and if they come forward without financial literacy, there is every possibility that they will not be able to get the benefits.

Financial education should be started from the school level to make it effective. To include the financial education in our text curriculum, a national policy may be taken. Organisation for Economic Cooperation and Development (OECD) started their campaign for financial education since 2008, which has stressed to adopt 'National Policy for Financial Education' by every member country and to start financial education from school level.

### **2.2.10 Organizational Challenges**

The SEC's present organizational structure fragments authority and responsibility, separates closely related functions that would be better coordinated if reporting to the same Member, and requires six of the seven Executive Directors to report to two different Members. As constituted, it sometimes, creates possible conflicts, does not allow the SEC to take advantage of natural synergies, and hinders coordination and consistency of policies. Initiative 14, an initiative to simplify and consolidate the organizational structure, is intended to address this problem.

A longer range organizational enhancement that would encourage the development of a strong and independent professional executive staff and further insulate the SEC from political influence is to enhance the executive role and responsibilities of the Executive Directors and to transition the role of the Members/ Commissioners to that of a policy-making, deliberative body. Under this structure, the Members/Commissioners would set policy, hear/adjudicate cases, and respond to staff initiatives and recommendations. Executive Directors, rather than Members/Commissioners would have full responsibility for the day-to-day operation of the various SEC departments.

Finally, we recognize the crucial importance of the SEC's integrity assurance programs - i.e. the measures the SEC has in place for detecting and deterring misconduct by SEC Members and staff and the actions taken to detect and deter such conduct – to the integrity of the markets and to the confidence of market participants. The business of regulating the securities markets is complex and this complexity will only increase in the future as the market develops and becomes more diverse. These changes will also create new ethical challenges for the SEC. It is absolutely necessary that the SEC have a central set of guiding principles to act as a legal and ethical compass for its staff and Members. The present SEC Code of Conduct is incomplete. Therefore, we commit to undertaking a comprehensive Vulnerability Assessment (VA) to assess where the vulnerabilities for misconduct lie and the effectiveness of existing control mechanisms. Based on this assessment, a strategic analysis of the problem will be formulated and a range of programs will be identified and implemented to address the issue of integrity in a customized and effective way (i.e. a comprehensive Integrity Assurance Program).

## **2.3 Bond Market Initiatives**

A well-functioning domestic debt market is essential to the efficient allocation of capital to support rapid and sustainable growth. By facilitating the effective use of domestic savings, it reduces dependence on external borrowing for government and corporations. Bond financing is generally less expensive than commercial bank loans and can be structured to meet the needs of institutional investors. While this is generally recognized, the establishment of such markets has received inadequate attention in many countries, and Bangladesh is no exception.

### **2.3.1 Government Bond Market Initiatives**

We recognize that private/corporate bond markets depend crucially upon a well-functioning government bond market. A well-developed government benchmark yield curve that accurately reflects the cost of funds at different borrowing horizons; price discovery about inflation prospects and other macroeconomic fundamentals is indispensable for pricing of private sector debt instruments. Studies have shown that in those emerging markets that do not have efficient government yield curves, the corporate bond markets are very small.

Since it is widely recognized that the development of private bond markets depends critically on the unfettered, market-driven operation of government securities markets, we will support a number of initiatives that focus on this subject and are designed to stimulate the development of a reliable risk free yield curve.

We recognize that when interest rates on government securities are suppressed, financial institutions are compelled to purchase government securities at a lower than market-determined yield, and secondary markets lack transparency, the government yield curve is not able to signal the true level of risk-free rates in the economy or accurately reflect the cost of funds at different borrowing horizons, inflation prospects and other macroeconomic fundamentals. In such a situation, pricing of corporate bonds becomes an exercise in uncertainty which significantly impedes the development of corporate bond markets. SEC is aware that Bangladesh Bank is taking measures to facilitate establishment of a reliable reference “benchmark” yield curve.

### 2.3.2 Corporate Bond Market Initiatives

A second set of initiatives will focus on the corporate bond markets and are designed to reduce the costs and uncertainties associated with issuing corporate bonds and to raise market awareness. We recognize that one of the significant impediments to the issuance of corporate bonds has been the high level of interest rates throughout the economy.

Another significant impediment to issuing corporate bonds has been the issuance process itself. Long delays in the approval/registration process often result in changes in market conditions, or in the needs of the issuer which lead to a withdrawal of the issuance application and a failed issuance effort. The cost of issuance is also comparatively high in Bangladesh, some of which is undoubtedly attributable to the length of time it takes for approval. Initiatives 48-49 are intended to address these problems.

Finally, as bonds are comparatively complex securities both from the perspective of issuers as well as investors, we are committing to undertake a series of “road shows”, perhaps jointly sponsored by the SEC and the private sector, that may be beneficial in raising awareness of the intricacies of bonds and bond markets. Initiative 50 is intended to address this issue.

**Table 3 – Bond Market Development Initiatives**

I #	Initiative	Time Frame	Responsible Party
I43	Publish anonymized results of trading in T-Bills & T-Bonds	Short Term	BB
I44	Increase issuance on shorter end of maturity spectrum	Short Term	BB & MoF
I45	Reduce devolvement government debt *	Immediate – Short Term	BB & MoF
I46	Monitor effect of DOS Circular No. 02 and consider further measures to stimulate trading of government securities as required	Immediate – Short Term	BB
I47	Adopt a policy of creating liquid benchmark issues	Short Term	MoF& BB
I48	Reduce and eventually eliminate fiscal deficits	Short – Long Term	MoF
I49	Develop separate clear and comprehensive rules for issuing corporate bonds	Short – Medium Term	SEC
I50	Develop streamlined regime for “private issuance” of corporate bonds to qualified investors *	Short Term	SEC
I51	Develop and implement a market awareness-raising campaign for corporate bonds	Medium Term	SEC

## **2.4 Financial Market Infrastructure Initiatives**

We recognize that while the current clearing, settlement and custody processes in Bangladesh's capital markets work for the current level of market development, these processes only work as a result of a number of workarounds that reduce efficiency and increase risk. We further recognize that the current infrastructure does not provide an adequate platform for future market development, and that without reform, the development of the markets will be held back. Five areas of weakness are recognized, namely:

- Duplication of clearing and settlement infrastructure at DSE and CSE;
- Lack of DVP for indirect market participants;
- The need for participants to provide cash and securities 2 days ahead of settlement date;
- The payment of cash dividends from issuers to end investors, rather than flowing through the depository, causing delay, uncertainty and inefficiency; and
- Lack of 'straight through processing' (STP), leading to manual rekeying of orders and file transmission, and increasing operational risk.

### **2.4.1 Duplication of clearing and settlement functions**

Clearing and settlement is provided by each of Bangladesh's two exchanges, which send provisional and final securities settlement instructions to the Central Depository of Bangladesh Limited (CDBL) and manage cash transfer at the paying banks. There is, thus, duplication of systems, staffing, risk management, and cost. We recognize that fragmented clearing and settlement increases risk, holds back enhancements and prevents establishment of new services such as a central counterparty (CCP). We further recognize that the creation of a single settlement organization allows the netting of cash and securities obligations (e.g. a participant may be long on one exchange and short on another), and that this makes for more efficient use of resources and increases arbitrage opportunities, leading to more efficient markets overall. It also facilitates the eventual introduction of a central counterparty system (CCP), which effectively eliminates settlement risk, provides trading anonymity, and makes settlement operations more efficient.

### **2.4.2 Lack of delivery-versus-payment (DVP) for indirect market participants**

The current process in Bangladesh provides a quasi-DVP between direct market participants (although it does not correspond to the BIS models). However, DVP with indirect participants is not possible. This is because custodians and other institutions are not participants in the stock exchange clearing processes, which is the only process that co-ordinates both the cash and securities elements of settlement. Therefore movements between broker and custodian can only be made on a free of payment (FOP) basis, not DVP. Under the current system, either investors (and their custodians) must take broker risk or the broker must pre-fund for 1-2 days. This makes trading more costly and puts pressure on the settlement timetable, as custodians, for example, wait for confirmation of receipt of cash before releasing securities. To achieve true DVP, cash and securities settlement need to be securely linked. We recognize that this is most easily done if settlement of cash and securities are controlled by the same entity.

### **2.4.3 The need for brokers to provide cash and securities two days ahead of settlement date**

For purchases, the buying broker must provide cash to the stock exchange clearing house on T+1; for sales, the selling broker must ensure that securities are available at the CDBL by T+1. The need to provide cash and securities 2 days in advance of settlement date means that (i) cash is inefficiently used, and (ii) turnaround trades, where the same security is bought and sold for the same settlement date, are not possible unless there is an existing balance in that security. We recognize that both of these factors inhibit trading and hence lead to lower market liquidity and efficiency.

### **2.4.4 Lack of centralized cash dividend payments**

At present, issuers must make all cash dividend payments directly to investors or to their agents. We recognize that it would be more efficient for the CDBL to make these dividend payments, as it would be better equipped than most issuers to process these payments in a timely manner. This would also reduce the burden on issuers who would only need to make a single payment to the CDBL for all their dematerialized shares. We further recognize that this method is overwhelmingly preferred by most market participants.

### **2.4.5 Lack of straight-through processing (STP)**

Presently STP in trading and settlement does not exist in Bangladesh. Thus data in one system must be rekeyed into another system, or files must be manually sent from one system to another. The key objective of STP is to avoid the need for human involvement in processing, as this can be costly, time-consuming and error prone. In Bangladesh, broker orders must be manually rekeyed into the stock exchange systems. After the trading session, a file of settlement instructions must be sent manually by the exchanges to CDBL.

Initiatives 54-56 are intended to address the above-mentioned weaknesses in Bangladesh's financial market infrastructure.

In the year ended 30 June 2012, Central Depository Bangladesh Limited (CDBL) had operating income of BDT 1,995 million against operating and administrative expenses of only BDT 107 million. The big discrepancy between operating income and expenses suggests that fees may be higher than they need to be. Initiative 57 is to review and rationalize the CDBL's fees is intended to address this issue.

As the market in Bangladesh develops and more sophisticated and complex products are offered (i.e. derivatives), consideration will be given to establishing a central counterparty (CCP). The main role of a CCP is to become the legal counterparty to all qualifying trades shortly after they have been executed, allowing trading participants to settle all trades with the CCP rather than with each other. We recognize that a CCP reduces counterparty risk, provides trading anonymity, and improves the efficiency of the overall settlement process. Initiative 60 is intended to address this issue.

**Table 4 – Financial Market Infrastructure Initiatives**

I #	Initiative	Time Frame	Responsible Party
152	Upgrade systems to improve participant connectivity	Short Term	CDBL
153	Centralize and improve settlement guarantee and investor protection funds	Short Term	CDBL, SEC
154	Centralize distribution of cash dividends (at CDBL)	Short Term	CDBL
155	Consolidate the post-trade clearing functions of the two exchanges under a separate entity	Short Term	
156	Enhance CDBL systems to enable DVP settlement between broker and investor	Short– Medium Term	
157	Remodel the post-trade process so that movement of cash and securities both take place on settlement date	Medium Term	
158	Review and rationalize CDBL fees	Short Term	SEC
159	Evaluate costs and benefits of a central counterparty (CCP) for cash equity securities and derivatives (when introduced)	Medium – Long Term	SEC, CDBL Exchanges

## 2.5 Initiatives to Expand the Institutional Investor Base

Institutional investor participation in Bangladesh’s capital markets has been limited. We recognize the need to improve the enabling environment through the adoption of policies that stimulate the expansion of the institutional investor base specifically with respect to three types of institutional investors: mutual funds, insurance companies, and pension and provident funds.

In the case of *mutual funds* we recognize that the legal and regulatory framework governing these collective investment schemes (CIS) may be overly restrictive and constraining and commit to undertaking a comprehensive overhaul of the mutual fund rules to broaden participation (of investors as well as operators), increase the variety of mutual funds, improve protections for investors, and eliminate the preferential treatment of state-sponsored mutual funds to remove distortions and create a level playing field between state-owned and private sector asset management companies. We also recognize the importance of establishing a mutual fund industry association to, among other things, promote the development and professionalization of the industry.

Initiatives 61-64 are intended to address the above-referenced issues.

We also recognize that a 10% tax credit for investments in ICB open-end mutual funds gives ICB an unfair competitive advantage over the other (private sector) operators of open-end mutual funds, and commit to take appropriate measure which will help to promote a level playing field between ICB and the private sector.

There are a very few *pension and provident funds* in existence in Bangladesh, and, to the extent they do exist, they are largely unregulated. We recognize that Bangladesh trails its peers with respect to pension reform, and that most of the countries in the region have already initiated the process of pension reform. We commit to commencing a national conversation on pension policy that includes reforming the public sector pension schemes and introducing pensions in the formal private sector, possibly in the form of defined contribution plans. Over time, this would create large pools of liquidity that would, due to the nature of the obligations, find their way to the capital markets.

One of the major impediments of our capital market is that our retail investors are not aware of the risks associated with the market. If the investors are not aware of the risks, they often involve themselves with risky speculations and rumor-based decision making. As a result, not only the retail investors incur huge losses, but it also damages the basic structure of the market, because our market is still dominated by the retail investors. So, to retain them as well as to increase their participation, both financial education and financial inclusion are required.

Financial inclusion is required to bring mass people into the formal financial markets so that they can enjoy the benefits of modern systems, safeguard themselves from deprivation and develop their savings habits to contribute to the national economy. But at the same time, they should be protected from competitions with bigger capitals, so small investors should be accommodated by institutional framework and provided with basic financial education.

**Table 5 – Initiatives to Expand the Institutional Investor Base**

I #	Initiative	Time Frame	Responsible Party
160	Require ICB Funds to comply with mutual fund rules concerning conflicts of interest	Short Term	SEC
161	Adopt new legal/regulatory regime for mutual funds that broadens participation, allows introduction of different types of mutual funds, strengthens investor protections, and eliminates preferential treatment of state-sponsored mutual funds	Short - Medium Term	SEC
162	Assist the mutual fund industry in structuring and registering a mutual fund association	Short Term	SEC
163	Develop plan for achieving industry-wide compliance with minimum capital requirements	Short Term	IDRA
164	Amend IDRA Act to provide for independence of IDRA	Short Term	IDRA
165	Adopt investment (and other) regulations as required by the IDRA Act 2010 and Insurance Act 2010	Immediate - Medium Term	IDRA
166	Acquire and implement an electronic data gathering and retrieval (EDGAR) system	Short - Medium Term	IDRA
167	Begin a national discussion on pension policy to include reforming the public sector pension schemes and introducing pensions in the formal private sector	Short - Medium Term	MoF
168	Adopt a national pension policy	Medium Term	MoF
169	Determine/allocate responsibility for regulating pensions	Medium Term	MoF
170	Undertake reform of public pension plans/schemes	Medium Term	MoF, Pension Regulator
171	Introduce defined contribution pension plans/schemes for the private sector	Medium - Long Term	Pension-Regulator

## 2.6 Initiatives to Promote Derivatives and Securitization

**Asset securitization** has been tried in Bangladesh with limited success. The current legal framework and tax code make it difficult to achieve a “true sale” status in securitization transactions, and thus to achieve “bankruptcy remoteness”, and to enable the removal of the securitized assets from the issuer’s balance sheet, two of the principal objectives of asset securitization. Without these, issuers cannot achieve the full effects and benefits of asset securitization.

We recognize that because of ambiguities in the law, asset securitization remains under a cloud of uncertainty, requiring a risk premium in the pricing of such transactions that makes them less attractive. We commit to reform the legal regime for asset backed securities to allow for the “true sale” status of assets transferred in connection with a securitization, and to remove the legal ambiguities with respect to the “bankruptcy remoteness” of such transactions (Initiative 69). We also commit to revising the tax code to recognize the “pass-through” nature of such transactions, and to remove stamp duties (or substantially reduce them) on the transfer of assets from the originator to the SPV. Finally, we recognize that asset-backed securities are complex instruments and that potential issuers and investors alike need to be informed of the advantages and drawbacks of issuing and investing in them. We commit to undertaking an awareness-raising campaign, perhaps jointly between the SEC and the private sector.

While **derivatives** tend to improve the functioning of the price discovery mechanism and provide hedging and risk management tools to financial and non-financial firms, we recognize that their introduction should be undertaken only after their respective underlying cash markets have achieved a certain degree of maturity, otherwise, they are likely to have a destabilizing effect on the markets. Some of the issues that will need to be addressed for the introduction of derivatives in Bangladesh include the legal framework and regulatory structure governing derivatives markets, the types of derivatives that are likely to be successful in Bangladesh, the conditions under which their introduction would be advisable, and the actions that can be taken to prepare for their introduction. As starting point, we will commission (initiative 65) a study to measure the potential demand for three basic types of derivatives (financial, equity and commodity).

Once it is determined which types of derivatives are likely to succeed and a plan is devised to sequence their introduction, a decision will be made about regulatory structure. Some of the questions that will be considered in this regard are:

- Should there be a specialized regulator or should the task be assigned to existing regulators?
- If the task is assigned to existing regulators, should all derivatives be regulated by a single regulator or should there be multiple regulators?
- If multiple, how should the division of responsibilities be made – by instrument type, or by type of regulated entity?

Once the matter of regulatory responsibility is determined, we will ensure that the responsible regulator will undertake to develop and oversee the adoption of comprehensive, specialized dedicated legal framework to govern derivatives. We will also ensure that the tax authorities will recognize the special nature of hedging transactions and will allow for income/losses from a hedge to be offset with income/losses from the asset it was employed to protect, and that the accounting profession will be prepared for hedge accounting under IAS 39.

**Table 6 – Initiatives to Promote Derivatives and Securitization**

I #	Initiative	Time Frame	Responsible Party
172	Commission study to estimate the demand for 3 basic types of derivative instruments – Financial (i.e. interest rate, currency), Equity (i.e. index, single stock), and Commodity (i.e. rice, jute, tea)	Medium Term	SEC & BB
173	Determine regulatory structure & assign responsibility - appoint high-level commission to study the matter and make recommendations	Medium Term	SEC & BB
174	Adopt a comprehensive, specialized, dedicated legal framework for derivatives	Medium – Long Term	Designated Regulator
175	Adopt provisions/amendments to the tax code to address/facilitate introduction of derivatives	Medium – Long Term	NBR
176	Conduct readiness assessment for hedge accounting in accordance with IAS/BAS 39 and develop and implement awareness campaign for accountants and auditors	Medium – Long Term	ICAB
177	Develop and implement campaign to raise awareness of derivatives among potential users and market practitioners	Medium – Long Term	Designated Regulator
178	Reform legal/regulatory regime for ABS to include, “true sale” status of transferred receivables, SPV as “pass-through” entity, “bankruptcy remoteness” of transaction.	Medium Term	SEC & BB
179	Develop and implement campaign to raise awareness of ABS among potential issuers and investors	Medium Term	SEC, BB & Pvt Sector

## 2.7 Taxation Initiatives

We recognize that the taxation of financial instruments and institutions in Bangladesh will need to move toward best international practice. At 37.5%, the corporate tax rate in Bangladesh is one of the highest in the world. To further add to the tax burden, inter-company dividends are taxed, which may result in tax rates as high as 70%. We recognize that this creates strong incentives for companies to underreport income to evade taxes, and that the resulting inaccuracies in financial information may be the single strongest disincentive to investing in the capital markets in Bangladesh.

Financial institutions (FIs) are taxed at an even higher flat rate of 42.5% (a 5% surtax) which may be hindering financial intermediation in Bangladesh. Currently there is a 3% tax on “IPO premiums”. This tax is imposed on the difference between the face value and the sale price of the IPO. This tax was introduced in the Finance Act of 2010 and is administered by the SEC.

There is also a transaction tax on securities of 0.1% (0.05% on the seller; 0.05% on the buyer). This is an ad-valorem tax and is levied as a percentage of the total value of the transaction (both on the sale and the purchase) of stocks and bonds. There are also a variety of taxes (in the form of stamp duties) that are attracted by asset securitizations which discourage the sale of assets as part of a securitization. We recognize that transactions taxes may discourage financial innovation and secondary trading of financial instruments and are not consistent with best international practice.

We are committed to the elimination of multiple taxation of corporate income/dividends, the phasing out of the 5% surtax on financial intermediation, the elimination of the 3% tax on “IPO premiums”, the

removal of the 0.1% ad valorem transaction tax on bonds and the elimination or substantial reduction of stamp duties on transfers of assets in connection with securitizations .

Finally, a 10% tax credit for investments in ICB open-end mutual funds gives ICB an unfair competitive advantage over the other (private sector) operators of open-end mutual funds. Initiative would be taken to ensure a level the playing field between ICB and the private sector.

**Table 7 – Taxation Initiatives**

I #	Initiative	Time Frame	Responsible Party
180	Eliminate 3% tax on “IPO Premiums” *	Short Term	MoF/NBR
181	Remove tax credit for all tax-advantaged mutual (i.e. ICB open-end) funds	Short Term	MoF/NBR
182	Eliminate multiple taxation of income/dividends	Short – Medium Term	MoF/NBR
183	Eliminate transaction tax on bonds *	Short Term	MoF/NBR
184	Eliminate or substantially reduce stamp taxes on transfers of assets (e.g. receivables) in connection with asset securitizations *	Short Term	MoF/NBR
185	Eliminate surtax on financial intermediation – reduce corporate income tax rate for FIs to general CIT level of 37.5%	Medium Term	MoF/NBR

# Appendix 1 –Capital Market Development Master Plan Matrices

## Matrix 1: Implementation Arrangements

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
01	Implement structure to include authorization, accountability, staffing and resource allocations	√	√					
02	Implement processes to include monitoring, evaluation (M&E), reporting of progress, and amending implementation plan to account for evolving circumstances	√	√	√	√	√	√	√
03	Appoint/engage and authorize Implementation Leader and Team		√					
04	Appoint Specialized/Expert Working Committees with considerable private sector/industry participation		√					
05	Develop and launch implementation (public accountability) website		√					
06	Monitor, evaluate and report on progress		√	√	√	√	√	√
07	Re-evaluate master plan/road map and modify based on lessons learned from M&E			√	√	√	√	√

## Matrix 2: Legal and Regulatory Initiatives

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
08	Develop and implement (SEC) an awareness-raising program to sensitize key MOF officials to the crucial importance of SEC independence	√	√					
09	Amend (Parliament) Sections 3 of the SEC Act to Enhance SEC independence	√						
10	Amend (Parliament) Sections 5 of the SEC Act to Enhance SEC independence	√						
11	Amend (Parliament) Sections 9 of the SEC Act to Empower SEC to appoint requisite number of staffs	√						

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
12	Amend (Parliament) Sections 13 of the SEC Act to Empower SEC to prepare their own budget without Ministry's approval	✓						
13	Amend (Parliament) Sections 16 of the SEC Act to restrict Govt's power to give direction to SEC except policy matters	✓						
14	Restructure organizational structure and pay structure at least to make equivalent to Central Bank's pay structure	✓	✓					
15	Institute a program (SEC & BB) and establish a forum for high level coordination of the SEC and BB *	✓						
16	Execute MOU between SEC and BB on the collection and sharing of supervisory information	✓						
17	Authorize (MoF/MoFA) SEC to enter MOUs with foreign regulators within parameters	✓						
18	Activate (SEC & BB) "Joint Inspection Team" and conduct joint inspections of jointly-regulated institutions (e.g. merchant banks, etc.)	✓						
19	Develop (SEC & BB) uniform margin standards applicable to entire financial sector *	✓						
20	Codify (SEC) the securities laws	✓	✓	✓				
21	Present (SEC) laws, rules, regulations and notifications in English as well as Bengali	✓	✓	✓				
22	Simplify (SEC) organizational structure and combine related functions into one of four departments	✓	✓	✓				
23	Establish (SEC) an office of Chief Counsel and recruit attorneys	✓	✓	✓				
24	Undertake (SRMIC/SEC) intensive training in stock exchange oversight	✓	✓					

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
25	Begin testing (SEC/BICM) Authorized Representatives' proficiency and Principals' knowledge of responsibilities as a basis for licensing	√	√	√				
26	Demutualization of Exchanges	√	√					
27	Adopt (SEC) rule to hold senior management of intermediaries responsible for failure to supervise	√	√	√				
28	Publish (SEC) guidance/guidelines for IPO Applications	√	√					
29	Acquire (SEC) and implement an electronic data gathering and retrieval (EDGAR) system	√	√	√				
30	Conduct (SEC) comprehensive inspections of the exchanges and plans to protect investors given new incentive structure created by demutualization	√	√	√				
31	Authorize (MoF) SEC direct access to banking records	√						
32	Increase (SEC) number of non-broker inspections (e.g. merchant banks, portfolio managers, etc.)	√	√	√				
33	Adopt (SEC) market conduct rule for intermediaries addressing account statement, internal controls, KYC, and compliance monitoring by third parties	√	√	√				
34	Begin (SEC) strict enforcement of laws against insider "short swing" profits	√						
35	Revise (SEC) the Takeover Rules	√	√					
36	Develop (SEC) better-calibrated risk-based capital requirements	√	√	√				
37	Begin the transition to risk-based supervision and utilization (SEC) of early warning systems to minimize risk of failure of an intermediary	√	√	√				
38	Discontinue (SEC) practice of disclosing investigations	√						

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
39	Enhance (SEC) investigation and enforcement capacity by recruiting and training lawyers and investigators	√	√	√				
40	Establish (Parliament) a specialized "Capital Market Tribunal" (CMT)*	√						
41	Adopt (Parliament) a Financial Reporting Act (FRA)*	√	√					
42	Develop (SEC) and implement a comprehensive, coordinated public information and education program	√	√					
43	SEC proposal to the Govt. to adopt "National Policy on Financial Literacy"	√	√					
44	Introduce (MOF/MOE) financial literacy course from school/college level	√	√	√				
45	Transition (SEC) Members/Commissioners from operational to policy focus	√	√	√	√			
46	Establish (SEC) the Office of Chief Accountant and recruit & train accountants*	√	√	√				
47	Conduct (SEC) a vulnerability assessment	√	√	√				

### Matrix 3: Bond Market Initiatives

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
48	Develop (SEC) streamlined regime for "private issuance" of corporate bonds to qualified investors*	√						
49	Develop (SEC) separate clear and comprehensive rules for issuing corporate bonds	√	√					
50	Develop (SEC & private stakeholders) and implement a market awareness-raising campaign for corporate bonds	√	√	√	√	√		

## Matrix 4: Financial Market Infrastructure Initiatives

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
51	Upgrade (CDBL) systems to improve participant connectivity	√	√	√				
52	Centralize and improve settlement guarantee (CDBL) and investor protection (SEC) funds	√	√	√				
53	Centralize distribution of cash dividends (at CDBL)	√	√	√				
54	Consolidate the post-trade clearing functions of the two exchanges under a separate entity, i.e. clearing corporation	√	√					
55	Enhance CDBL systems to enable DVP settlement between broker and investor	√	√	√				
56	Remodel the post-trade process so that movement of cash and securities both take place on settlement date	√	√	√	√			
57	Review (SEC) and rationalize CDBL fees	√	√					
58	Install a state of the art surveillance software at SEC with online data feed from stock exchanges & depository	√						
59	Install state of the art surveillance software at stock exchanges		√					
60	Evaluate (SEC jointly with D/CSE & CDBL) costs and benefits of a central counterparty (CCP) for cash equity securities and derivatives (when introduced)						√	√

## Matrix 5: Institutional Investors Initiatives

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
61	Ensure level playing field for all AMC and Mutual Funds (for both Govt. and private sectors)	√	√	√				
62	Adopt (SEC) new legal/regulatory regime for mutual funds that broadens participation, allows introduction of different types of mutual funds, strengthens investor protections, and eliminates preferential treatment of state-sponsored mutual funds	√	√	√				
63	Assist (SEC) the mutual fund industry in structuring and registering a mutual fund association	√	√	√				
64	Chanelize retail investors into institutional means (Mutual Fund/Portfolio Investment)	√	√	√				

## Matrix 6: Derivatives and Securitization Initiatives

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
65	SEC & BB to study to estimate the demand for 3 basic types of derivative instruments – Financial (i.e. interest rate, currency), Equity (i.e. index, single stock), and Commodity (i.e. rice, jute, tea)	√	√	√	√			
66	Determine (SEC & BB) regulatory structure & assign responsibility - appoint high-level commission to study the matter and make recommendations	√	√	√	√			

I #	Working Plan of SEC	Imme- diate	Short Term		Medium Term			Long Term
		2012	2013	2014	2015	2016	2017	2018-2022
67	Adopt (regulator) a comprehensive, specialized, dedicated legal framework for derivatives	√	√	√	√	√	√	
68	Develop (designated regulator & private sector) and implement campaign to raise awareness of derivatives among potential users and market practitioners	√	√	√	√	√	√	
69	Reform (Govt.) legal/regulatory regime for ABS to include, "true sale" status of transferred receivables, SPV as "pass-through" entity, "bankruptcy remoteness" of transaction.	√	√	√	√			
70	Develop (SEC, BB & private sector) and implement campaign to raise awareness of ABS among potential issuers and investors	√	√	√	√			

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