

Internship Report on Demutualization of Dhaka Stock Exchange

Supervised by

Salma Karim, Ph.D.

Professor in Accounting

School of Business & Economics

United International University

Prepared by

Sadia Alam

ID: 111 141 093

School of Business & Economics

United International University

Date of Submission

20th July, 2018



United International University
QUEST FOR EXCELLENCE

Letter of Transmittal

20th July, 2018

Salma Karim, Ph.D.
Professor in Accounting
School of Business & Economics
United International University

Subject: Submission of the Internship Report.

Dear Madam,

With due respect, I would like to state that I have completed internship report on the “Demutualization of Dhaka Stock Exchange” at Dhaka Stock Exchange as a partial requirement of the BBA program.

To prepare this report, I have tried to devote my best effort and conducted extensive analytical work to find out the study relevant materials. It gives me the opportunity to enlighten myself with Bangladesh Capital Market. During the process of preparation, due to various constraints there may be some mistakes. I would be grateful if you consider those from excusable point.

Finally, I hope that, you will enjoy going through this report as I have felt great pleasure to prepare it.

Sincerely yours,

.....

Sadia Alam

ID: 111 141 093

School of Business & Economics
United International University

Acknowledgement

I would like to convey my thanks to Internship Supervisor Dr. Salma Karim, Professor in Accounting, School of Business, United International University, for her support, counselling to make this report. Without the cooperation of personnel of Dhaka Stock Exchange it was impossible for me to complete this internship report. I am immensely grateful to Syed Al Amin Rahman (DGM), Haroon or Rashid (Manager), Human Resources Department, Dhaka Stock Exchange Ltd., for guidance and advice to finalize the report.

I delightedly acknowledge the valuable & thoughtful information of Hosne Ara ferdousi (Executive), Rakib Hasan (Executive), Mr. Md. Kazi Mamun and all the members of Human Resources & TREC Affairs Department. I am also grateful to all the employee of DSE.I got essential advice, cooperation from them to finish this task. I am grateful to Dhaka Stock Exchange.

Executive Summary

Stock exchange is one of the most important financial institutions of any economy as well as Bangladesh. A stock exchange is a form of exchange which provides for stock brokers and traders to buy or sell stocks, bonds and other securities. Stock exchange did not begin as the super sophisticated, simultaneous, worldwide trading exchanges like today. It was not until 1531 when the first institution roughly approximating a stock market emerged in Antwerp (Belgium). In the 1500s, stocks were not transacted in a simultaneous global fashion. Brokers and moneylenders would meet there to deal in business, government and even individual debt issues. But there was no official share that changed hands.

Now-A-Days stock exchange is one of the most important and biggest financial institutions of any economy. Bangladesh has two stock exchanges, Dhaka Stock Exchange, established in 1954 and Chittagong stock exchange, established in 1995. Recently Government and BSEC decided to demutualization of Dhaka Stock Exchanges. DSE is the first and biggest stock exchange of the country.

Demutualization is the modern, popular and current trend among stock exchanges all over the world. Bangladesh has started its journey to get their exchanges demutualized in 2011. Previous record of Demutualization of other stock exchange (Like: London Stock Exchange), the performance of demutualized exchanges have improved in terms of operational profitability and efficiencies along with governance scale. But there are some challenges and risks associated with demutualization.

There are many reasons of the demutualization of Dhaka Stock Exchange (DSE). The main reason of the demutualization of Dhaka Stock Exchanges (DSE) is Stock market crash in 1996 and finally in 2010-11. December-2010 and January-2011 was the historical month of the economy of Bangladesh stock market. Then Government and BSEC take necessary steps to demutualize their stock exchanges. Demutualization is shifting a non-profit organization into a profit oriented organization, controlling functions are detach from controller's functions, empowering controller and taking decisions are not motivated by the market. Different stake holders of capital market and civil society also support and demand for demutualization of exchanges. The exchanges Demutualization bill was passed by the parliament on 29th April, 2013 and the same received the

assent of the honorable president on May 02, 2013 and the Exchanges Demutualization Act, 2013 was published in the Bangladesh Gazette on the same date and came into effect immediately.

Nowadays Demutualization is a widespread global phenomenon. It has been looked to as a means of meeting developmental and competitive challenges and even to address failure to carry out credible operations. The extent of movement toward a demutualized structure is also related to the competitive threat. Demutualization of DSE's success depends on the authority who must carefully consider the impact of the demutualization on the viability of the exchange as a key institution and the impact on the regulatory structure.

Table of Content

Letter of Transmittal	i
Acknowledgement	ii
Executive Summary	iii-iv
Introduction	1
Objective of the Study	2
Literature Review	2-3
Methodology of the Study	4
Limitation of the Study	4
1. Overview of Bangladesh Capital Market	5-11
Capital Market: A Brief History	5-6
Characteristics of the Market	6-8
Reasons for Underdevelopment	9
Securities Market: The Present Scenario	10-11
2. Overview of Dhaka Stock Exchange	12-20
Brief History	12-13
Organizational Structure & Management	13-14
Automated Trading System	14-15
Major Departments & Their Functions	15-19
The Hierarchy of the Dhaka Stock Exchange	120
3. Demutualization of Stock Exchange	20-27
Demutualization of Stock Exchange	20-22
Demutualization of Dhaka Stock Exchange	22-27
Process of Demutualization of DSE	26
4. Benefits, Challenges, Risk of Demutualization	28-31
Benefits of Demutualization	28-29

Challenges of Demutualization	29-30
Risk Associated with Demutualization	30-31
5.Impact of Demutualization on the Performance of Dhaka Stock Exchange	31-36
Impact of Demutualization on the Board of Director	35
Performance of Demutualization of DSE	35-36
Recommendations	37
Conclusion	38
References	39

Introduction:

Capital market is the sponsor of economic development of a country. Capital Market is the group of interrelated markets, where company and government can raise short term & long term funds and capital instruments like securities, bond, treasury bills, notes etc. to earn economic goals. Bangladesh capital market is one of the smallest markets in Asia but the third largest in the South Asian region. The better performance of the stock exchange provides overall growth of economic development and efficient capital market. Bangladesh has two automated stock exchange namely Dhaka Stock Exchange Ltd. (DSE) and Chittagong Stock Exchange Ltd. (CSE). Between the two stock exchanges, Dhaka Stock Exchange Ltd. is the ultimate bourse of the country. The stock market is the place where the stocks and equities are issuing and trading. Bonds-bills and other classes of securities are also taken place here. Those trade is done by formal exchanges or over-the-counter (OTC) marketplaces. The stock market is also renowned as the equity market, which is fundamental elements of a free-market economy.

Demutualization can be characterized as procedure of converting mutual exchange into another exchange which owned by the shareholders and modifying lawful management system into a business corporation. Opposed to, the members of mutual stock exchange get monopoly power & it is non-profitable. Here, the owners and clients share their profit on the basis of their stakes portion in the market. Both (mutual & demutualized) stock exchange gives same type of services but their management structure is different. Demutualization is complicated process that includes transitioning a company's financial structuring from a mutual company structure to a shareholder supported structure. The members of mutual stock exchange always try to work on interest of them only. This custom became very frequent and the stakeholder doesn't get their rights of on capital market. When stock exchange become demutualized it separate the ownership into members and outsiders, brokres.As a result ,there have a balance, decrease conflicts of interest and transparency.. The consensus decision making of a mutual governance model becomes sluggish and cumbersome. Bangladesh has initiated to get its exchanges demutualized in 2011. On October 9, 2012, the cabinet endorsed the draft of "The Exchanges (Demutualization) Act, 2012". Dhaka Stock Exchange and Chittagong Stock Exchange both have already expressive improvement in this perspective.

Objectives of the Study

The purpose of this study is to check out the impact of corporate ownership structure on inclusive performance of stock exchange. This study has analysed in particular mutual ownership versus demutualized ownership. The research aims the findings of an empirical investigation on the impact of demutualization on the performance of Stock Exchange in terms of financial performance, market performance and non-financial performance.

However, more specific objectives are–

- To get inclusive concept about the capital market of Bangladesh.
- To examine the fundamental idea about Dhaka Stock Exchange and its activities.
- To figure out about demutualization and the factors those are leading to demutualization;
- To explore the benefits, challenges and risk for Dhaka Stock Exchange in the process of demutualization.
- To find out impact of demutualization on the performance of DSE.

Literature Review

Some studies state that some support demutualization at the same time few are opposing it. Those who are the proponents of demutualization, they believe it can improve the stock exchange to acquire good governance, renovate its technology, ensure financial decision-making fairly, fake out concentration of ownership power in a distinct group of stock exchange participants and ensuring that resources are allocated to business initiatives and ventures that strengthen shareholders' value.

Cospormac and Altaf (2009) point out that mutually stock exchanges is under performer than Demutualized stock exchanges. Demutualized stock exchanges contribute a strong operating performance and perform efficiently.

Demutualized stock exchanges provide a preferred quality market than mutualized stock exchanges. Stock exchanges must operate for-profit in order to complete the performance accurately. The latest technological changes have made the members' ownership structure become less fair (Domowitz and Steil 1999). To compete efficiently exchanges must add capital and investor ownership is the better solution to solve mismanagement (Hansmann 1988)

Aggarwal (2002) examined the performance of three demutualized stock exchanges, these are the Australia Stock Exchange, the London Stock Exchange, and Deutsch, Brose. She found that the stock-price & performance of the three exchanges that have been directing as publicly traded companies for at least one year is encouraging & supportive. These publicly traded exchange face dramatic change on advance technology & intense global competition.

Lee, (2002) says that through demutualization the stock exchange can initiate a flexible management system, renovate its technology and, can invest capital and grant to access the capital. It also help to make financial decision by allocating resources to business initiatives and ventures that raise the stockholders' value.

According to Otchere and Oldford (2011) to improve the performance of the exchange corporatization of the exchange is must needed. They found that mutually-owned exchanges less efficient & profitable than both member-owned exchanges and publicly traded exchanges. On the other side, opponent to demutualization argue that demutualization may not be achieved in reality the expected benefits. According to Hart and Moore (1996) with few conditions, those may be attainable under a mutual or cooperative system.

In such way, demutualization could be below in comparison to the welfare that can be achieve from the existence of brokers with ownership interests in the exchange. In many developing countries, the establishment of any financial institution is badly hard, and the establishment of investors is often harder than, the establishment of the brokers (Lee, 2002). According to Worthington and Higgs (2006), when the stock exchange is under a mutual structure that was safe but demutualization may also allow for new risky businesses.

Methodology of the Study

In this report both type of data were used which are shown as follows:

Primary Data: The primary data were collected by open conversation with the officers of DSE, open discussion with the employees of the Trading Right Entitlement Certificate (TREC) Affairs Department, sharing practical knowledge of the staffs of the department.

Secondary Data: In this report, mostly used secondary data which was assemble from other studies. These are

- Different publication & newsletters regarding Dhaka stock Exchange Ltd.
- Annual report of Dhaka stock Exchange.
- Journals & Monthly reviews of Dhaka Stock Exchange Ltd.
- Website of Dhaka Stock Exchange Ltd.
- Research papers, Articles from the Library of DSE.

Limitation of the study

Some limiting factors were faced while carrying out the study & preparing the report. These factors are:

- Confidentiality & Secrecy of documents creates a major problem to retain the information's.
- Basically, the report has been prepared as a descriptive report. There was a little scope for analysis. For that the report has become a little monotonous.
- I could not assemble all the information. After all, I have tried my best to prepare this report as good as possible within these collected information.

1. Overview of Bangladesh Capital Market

Capital market can be defined as the originator of raising capital, which accelerates industrialization and the process of privatization through evolution of scattered resources and their allocation to appropriate areas. Basically, capital market means the share and stock markets of the country. It is a market for long term fund, with the emergence of the need for infrastructural development projects, for setting up of new industries for entrepreneurial attempts. The liquidity, solvency and efficiency of the economic system of a country can be attained by a coherent capital market. Participants in the capital markets are many. They include the commercial banks, mutual saving banks, credit unions, security companies, saving and loan associations, finance companies, merchant bankers, discount houses, venture capital companies, leasing companies, investment banks & companies, pension funds, stock exchanges, underwriters, portfolio-managers, and insurance companies. It acts as an intermediary between investors and corporate seeking additional capital financing. Therefore, a dynamic capital market is likely to signal a booming economy. While lending by commercial banks and support from venture capital funds add a beneficial basic support for corporate growth, a developed bond/ equity market is an important pre-requisite to move into mature growth phase with more sophisticated conglomerates.

Capital Market: A Brief History

Capital market of Bangladesh was in a dormant stage during the decades of sixties, seventies and ancient part of eighties. During that period, few companies' entrance in capital market & investors were not interested or familiar in corporate securities. The market registered a massive growth particularly from late eighties to mid-nineties.

The ancestor of the Stock Market in Dhaka goes back to 1954 when a Stock Exchange was formed in Narayanganj. Then in 1958 the Stock Exchange was transferred to Dhaka. The Companies Act 1913 and the Capital issues (Continuance of Control) Act 1954 were two pieces of legislation governing the Stock Market in the country. Later the Securities & Exchange Ordinance was promulgated in 1969. This Ordinance required the companies to take permission from the Controller of Capital Issues (CCI) for issuing capital and making public offer to securities. It also required the companies to submit annual reports and to provide information as required. In addition, this ordinance required the stock exchange to take registration from the CCI.

The capital market in Bangladesh made momentous growth until the independence of the country. The era of opening up the economy began in 1976 & the activity of the exchange restart in that year. The Securities & Exchange Rules 1987 defined, more than one decade after the reopening the Stock Market, disclosure requirements by the company. Although the CCI was responsible for monitoring the securities market. In practice, it failed to do its proper work because of lack of significant powers. In spite of the existence of legislation, many companies did not behave properly to serve the interest of the investors. Delayed holding of annual general meeting (AGM), delayed payment of dividend & refund warrants, lack of timely reporting & non-compliance with disclosure requirements were common experiences. This era ended with the adoption of SEC Act in 1993. By this major piece of legislation, SEC came in existence to monitor the securities market & to protect the interest of the investors. At the same time, the SEC Act 1993 repealed the Capital Issues Act. The formation of SEC brought the listed companies under the supervision of SEC.

With its power to make regulations, the SEC promulgated two pieces of regulations, namely, the Securities & Exchange (insider trading) Regulation 1994. Another major development in the legislation was the enactment of the Companies Act 1994.

Characteristics of the Market

The Capital Market of Bangladesh has some noticeable characteristics. Some important characteristics of the Capital Market of Bangladesh is given below:

Insufficient Tradable Financial Instruments: Currently, most of our instruments are equity instruments. Liquidity is comparatively enhance by the absence of varied tradable financial instruments. Municipal bonds, mutual funds as well as derivative markets need to be developed to fill in the gap. Investment in mutual funds is relatively less risky conflicting investments in equity shares. For the new entrants in the stock markets, mutual funds could be safe & secure instruments for profitable investments. Again, to develop mutual funds, market growth is required. Otherwise, opportunity would be limited to the fund managers within a few instruments to form portfolio.

Few Listed Securities: The number of listed companies in general is very narrow in Bangladesh in contrast with that in our neighboring countries. About 1330 public companies and more than 160,000 private companies registered with the Registrar of Joint Stock Companies. Number of listed companies in Dhaka Stock Exchange

No.	Name of the Industry	Quantity
1	Bank	30
2	Cement	7
3	Ceramics Sector	5
4	Corporate Bond	1
5	Debenture	8
6	Engineering	36
7	Financial Institutions	23
8	Food & Allied	18
9	Fuel & Power	19
10	Insurance	47
11	IT Sector	8
12	Jute	3
13	Miscellaneous	12
14	Mutual Funds	37
15	Paper & Printing	2
16	Pharmaceuticals & Chemicals	29
17	Services & Real Estate	4
18	Tannery Industries	6
19	Telecommunication	2
20	Textile	50
21	Travel & Leisure	4
22	Treasury Bond	221
Total Companies:		572

Small Number of Investors: The Bangladesh stock markets are characterized by a few number of investors. Around 80% of the total demands come from institutional investors. Such distinct fact is inductive to the cohesion of a share market in consequence that the regularity of share transactions by retail investors is high, and most of them invest on a short time basis due to small capital and a desire to earn immediate capital gains. At present, the total number of BO accounts (27th January, 2017) is 2,949,652, up from 2,920,029 in November, 2016. A total of 2,142,509 BO accounts belong to males, 796,013 to female investors and 11,130 to companies. There are currently 1,840,553 individual accounts, 1,097,969 joint accounts and 11,130 company accounts. So, there are excessive potentialities of the Bangladesh Stock Market for an increase of the number of retail and institutional investors.

Low Foreign Portfolio: Foreign Portfolio Investments (FPIs) have a deep impact on stock markets and country's resource constrain for development finance. Portfolio investment can contribute towards creating additional funds for industrial finance, modern management skills & technology, improving the efficiency & quality of services. To bring in such benefits of FPIs, Bangladesh Stock Market was opened on April, 1992. But the reason that the Bangladesh Stock Markets have not been competent to attract sufficient amount of FPIs in Bangladesh has been attributed to the lack of quality securities, the absence of sound handling of the bourses, inadequate dissemination of sensitive information and so on. Moreover, the share market crash in late 1996 had particularly leave behind foreign portfolio investors.

Low Liquidity Level: Many capital markets in the World suffer from serious thinness of trading. If the market for a security is thin, any attempt at selling a relatively large quantity will cause a large decrease in prices (like, decrease of capital value) thus contributing to illiquidity. The Capital Market in Bangladesh is identify as thin market having small market capitalization ratios & low level of liquidity. A small but active market will have small capitalization but high turnover ratio. Liquidity, represented by the turnover ratio, is measured as the value of total shares traded divided by market capitalization.

Reasons for Underdevelopment

It is no longer to be said that the capital market of Bangladesh is still underdeveloped. Basically, the reasons behind this underdevelopment can be summarized as below:

Information Unevenness: The access to high quality and credible corporate information remains a major problem in the market. While a handful of institutional investors may enjoy the advantage of having an investment/research group protected with qualified officers. Lack of self-sufficient research houses and filtering of information among distinct types of investors, retail investors endure more vulnerable to manipulation.

Supply Side Constraints: The market faces inadequacy number of fundamental stable securities.

Focus should be single-owned enterprises by public offerings in the stock market.

Lack of Professional Portfolio Management: The government decreased the rate of interest on savings instruments. In spite of, this market is still barred to individual investors the commercial banks does not have approach to these important instruments.

Weak Corporate Governance: The international standard level of corporate governance is inadequate in Bangladesh. Multinational institutions operate in Bangladesh, often observe to very high international regulation agreement regimes. The domestic market has to stand by and completely carry out a standard corporate governance structure to assure for all level investors.

Valuation Disparity: Bangladesh capital markets is contemplation of fair value of securities. This is not perfectly available in present situation, resulting in lack of attention of essential segment of both foreign and local investors.

The Present Scenario of Securities Market

Basically, the Capital market in Bangladesh has made significant progress since mid-nineties. The trauma of 1996 may still be in the mind of few but the stage of development is obviously remarkable. If we highlight some key elements of market statistics we can conclude that Bangladesh capital market is now gained its initial footings to move forward. During this period, especially since late 2003, the market witnessed gradual development in terms of trading volume, market capitalization, earnings, securities inclusions and overall participation. Some of these factors are highlighted below:

1. The number of securities listed in 1996 was around 339 million. The number is increased now to 2.8 billion by the end of December 2008. This is due to inclusion of significant numbers of new companies being listed (including those through direct listing) and issuance of significant numbers of stock dividend and right offers by banks and major pharmaceutical companies.
2. The daily turnover in terms of number of contracts has increased significantly over the years. During 1996, the average of such contracts was less than two thousands while the recent transactions were within the range of 68 to 84 thousands.
3. The market capitalization has increased significantly over the years from a range of 67 billion taka to a level of tk. 1 trillion.
4. Involvement of about 30 commercial banks, NBFIs, insurance companies and foreign institutional investors in the market either with their portfolio or through related client based accounts brought structural change in the trading pattern.
5. The capital market outreach has been taken to not only Divisional headquarters but 12 district level towns through Wide Area Network (WAN) and robust automated trading system of DSE.

In the year 2008 the securities market of Bangladesh passed an eventful year. Heavy inflow of liquidity and entry of fresh investors in the first half of 2008 helped Bangladesh's stock market

sustain the Bull Run it witnessed in 2007, surpassing all the records in market indicators made during a boom from January 14 in the previous year, the first trading day under the state of emergency. The market, however, spiralled down towards the yearend, due to a low fund-flow to the market ahead of the national polls held on Monday. But, the closing week of 2008 saw a rebound at the Dhaka and Chittagong stock exchanges.

A total of 15 companies got listed with the country's bourses, floating IPOs and offloading shares on the bourses through direct listing regulations. The total paid up capital for these companies are 16,675.58 million. The total market capitalization of DSE till March, 2018 at 3,915,344 million whereas the total number of listed securities in Dhaka Stock Exchange is 412.

A strong capital market acts as a vehicle for growth of the economy. Therefore, it should be the joint responsibility of the regulators, the exchanges, Securities & Exchange Commission and Government to properly discharge their due roles. At the same time, there must also be adequate, update and relevant information flow from the listed companies to the investors at the joint initiatives of the stock exchanges and the SEC after checking and rechecking them properly. Concerned agencies should also educate the investors. In addition, investment facilities and law and order situation of the country need improvement. Although, the government has sophisticated plan but it has not been that effective for the revival of foreign investment. Moreover, the market intermediaries including the financial intermediaries must fulfill their responsibilities to boost the capital market in an organized way.

2. Overview of Dhaka Stock Exchange

The Stock Exchange gives safe & reliable securities market and here shares can be sold and bought. It arrange the listed companies with effective capital fund from the public and also provides the stockholders & the investors a location to buy and sell shares of the listed companies. The authorities also investigate the market to assure that working efficiently, properly and transparently. There are two Stock Exchanges in Bangladesh. First: Dhaka Stock Exchange Ltd. and Secondly: Chittagong Stock Exchange Ltd.

The Dhaka Stock Exchange is the prime bourse of the country. Through its nonstop highly fault tolerant screen based automated trading system the Exchange is offering facilities for transparent and highly efficient provisions for secondary market activities of securities. The management of the Exchange is vested with the Board of Directors comprising 12 members elected from the shareholders of DSE, 12 non-elected independent Directors representing different Institutions, Chambers and professional bodies and the CEO of the Exchange.

Brief History

The Dhaka Stock Exchange was established as The East Pakistan Stock Exchange Association Limited on April 28, 1954 after realizing the necessity of establishing such bourse by the then Government in 1952. Formal trading of the bourse began in 1956. On June 23, 1962, it was renamed as East Pakistan Stock Exchange Ltd. the name of the Stock Exchange was once again changed to Dacca Stock Exchange Ltd. on May, 13, 1964.

If we look back to the beginning, it was learnt that the Calcutta Stock Exchange prohibited the transactions in Pakistani shares and securities. The provincial industrial advisory council soon thereafter set up an organizing committee for the formation of a Stock Exchange in East Pakistan. The then Central Government proposal regarding the Karachi Stock Exchange opening a branch at Dhaka, did not find favor with the meeting who felt that East Pakistan should have an independent Stock Exchange. It was suggested that Dhaka Chamber of Commerce & Industry should approach its members for purchase of membership cards. The location of the Exchange was thought to be Dhaka, Narayanganj or Chittagong. An organizing committee was appointed consisting of leading commercial and industrial personalities of the province with Mr. Mehdi Ispahani as the convener in order to organize the Exchange.

It was also decided that membership fee would be Rs. 2000 and the subscription rate Rs. 15 per month. The Exchange was to consist of not more than 150 members. A meeting of the promoters was held at the chamber on 03.09.1953. It was decided to appoint Orr Dignam & Co., solicitors to draw up the Memorandum and Articles of Association of the Stock Exchange based on the rules of Stock Exchange existing in other countries and taking into account local conditions.

In 1958 it was shifted to Dhaka and started functioning at the Narayanganj Chamber building in Motijheel C/A. On 01.10.1957 the Stock Exchange purchased a land measuring 8.75

Katha at 9f Motijheel C/A from the government and shifted the Stock Exchange to its own location in 1959. The service on the Stock Exchange continued uninterrupted until 1971. The trading was suspended during the Liberation War and resumed in 1976 with the change of economic policy of the government.

Since then the bourse did not look back and continued its journey contributing its journey contributing to the development activities of the nation. On August 10, 1998 the DSE introduced screen-based state-of-the-art automated online real-time trading through Local Area Network (LAN) and Wide Area Network (WAN). DSE upgraded its Automated Trading System on August 21, 2005. Central Depository System (CDS) for electronic settlement of share trading made a debut in the DSE. Later on, the Exchange became a full Depository Participant (DP) of CDBL to facilitate the trading of its non-DP members. Government Bonds made a debut on the DSE on 1st January, 2005. In its 50-year journey the Dhaka Stock Exchange has made significant contribution to the economy of Bangladesh providing the unique venue to raise investment from the members of the public.

The Stock Exchange is in a relentless process of modernization and up-gradation of its systems and facilities to home in latest technologies available. Over the years, the bourse has earned confidence of the investors. The SEC approved the Dhaka Stock Exchange Direct Listing Regulations-2006 as proposed by the DSE which paved the way for direct listing of large and profitable companies with the DSE. A new listing Regulation is also at final stage to accommodate the changing needs of the economy. After the introduction of automation on August 21, 2005 brokers of DSE have been conducting trading of securities from Chittagong, Sylhet, Rajshahi, Comilla, Narayanganj, and Uttara. Within very much short time trading of securities will start in different divisional and district level cities.

Organizational Structure & Management

The Dhaka Stock Exchange is registered as a Public Limited Company and its activities are regulated by:

- Articles of Association;
- Rules, Regulations & Bye-Laws;
- The Securities And Exchange Ordinance, 1969;

- Companies Act 1994;&
- Securities & Exchange Commission Act, 1993.

The day to day affairs of the DSE are run by a highly qualified and trained executive team and professionals who work independently under the policies set by the Board of Directors. The DSE Board comprises of 12 members of whom 4 are elected through direct election from the 250 shareholders (members) of DSE.

The remaining 13 board members are Ex-Officio. They include 7 representing distinguished personalities from different key economic and social arena of the country. The CEO is also a Director of the Board. One Chief Financial Officer, Head of ICT and GM (Admin.) & Secretary assist the CEO to manage day to day affairs of the bourse. Manager, Senior Executive, Executive, Junior Executive & some other lower ranks such as Senior Office Assistant, Office Assistant & Junior Office Assistant are department-wise employees of the bourse.

The Board also includes one Executive Director of Bangladesh Bank & Managing Director of Investment Corporation of Bangladesh, one member representing investors in listed securities and one member representing Listed Issuer Companies & the remaining eight (8) members are selected from the elite and other distinguished persons who are not associated either with the Exchange or with any of its members of the Exchange.

Automated Trading System

All over the world Information & Communication Technologies (ICT) have initiate a new occurrence in the securities or exchange market procedure. Globally stock exchanges have realized the importance & potentiality of ICT and install the electronic trading systems. So, DSE also adopt upgrade technology to assure clarity of management, timeliness and satisfaction in customer service. All things considered DSE fix up Automated Trading System on 10th August 1998. In contrast, the trading floor shifted into the member's office premises where shareholders started to place buy/sell orders.

Considering market growth, the Automated Trading System has been a subject to continuous upgradation for time to time. December, 2010 Dhaka Stock Exchange Ltd. has added new CPUs (HP Nonstop S78010) increasing its daily average transaction capacity to minimum 5, 00,000 transactions from its existing 15,000 per day effective from August, 1998. DSE Automated Trading System is running on fault tolerant, highly available, scalable, hot swappable, upward compatible and online maintainable Mainframe Server of HP Nonstop S78070.

It ensured transparency and efficiency in securities market. In 2008(December) the mainframe HP Nonstop S780 is able to handle the above 150,000 number of transactions per day. Earlier the transaction capacity of DSE was upgraded to 100,000 in March 2008 from 50,000 in 2005 by improving the capacity of CPU. Before 2008, the main Trading Server was HP Nonstop 7802 mainframe Server which was implemented during 2005. The System was capable to handle 50,000 trades per day.

The WAN (Wide Area Network) setup Connectivity has been further expanded by incorporating another 3 (three) Network Service Provider (NSP) named “Ranks ITT Ltd.”, “Link3 Ltd.” and “Royal Green Online Ltd.” in addition to earlier four NSP (“X-Net”, “Metro Net Ltd.”, “DNS Ltd.” & “Dhaka Com Ltd. ”) to different area of Dhaka City and others major cities of Bangladesh through Dial-up, ADSL, Radio Link Wi-MAX and Optical Fiber connectivity. More than 165 members have already established their Branches/offices away from DSE building by using this data communicating connectivity. “Brac Net Ltd.” is also in process to be incorporated to DSE network. Currently members are trading from approximately 480 locations of 14 districts.

Major Departments & Their Functions

Basically, there are four Divisions of Dhaka Stock Exchange Ltd. The Divisions are: Information & Communication Technologies (ICT) Division, Finance Division, Administrative Division and Operation Division. There are different departments under these four divisions. Among them some major departments and their functions are as follows:

Clearing Accounts & Exchange DP: This Department is under the Finance Division. With a vision of adopting an online system for settlement this department has been working continuously from the year 1996. The major functions of this department are to have the financial settlement of the traded shares, to maintain the member margin, and to settle any kind of defaulter case.

Clearing House & Special Clearing House: Another major Department of Dhaka Stock Exchange is Clearing House & Special Clearing House. It is also under the Finance division. Some major functions of this department are receiving, posting, sorting, reconciliation & delivery of shares, printing of buyer & seller advice and prepare the defaulter list for physical share.

DSE Full Service DP: With a vision to further develop the modus-operandi DP clearly the Full Service DP department was established on 20th January, 2004. Some of the major functions of this department are Receiving the request for DEMAT share and then doing the setup, uploading & posting in register, giving input to DEMAT bills, opening & closing BO accounts, doing inquiry for BO account status, receiving BO accounts annual fee and to deposit to the accounts department. Keeping liaison with the CDBL is another major function for this department.

HRM, Administration & Training Affairs: On October 2005, the HRM department was established under the Administration division. The vision of this department is to achieve the organizational goal and develop the capital market through the best squad talents. There are four committees under this department namely:

- A. Selection & Disciplinary Committee for Officers,
- B. Selection Committee for Staffs,
- C. Human Resources Development Committee and finally,
- D. New CEO Recruitment Committee.

Some major functions are Employee recruitment, promotion, control, confirmation, training and terminating. Supervision of the DSE Branch offices is another major activity of this department.

Department of Listing Affairs: the main focus of this report is based on this particular department. So, elaborate discussion will be done later.

Logistics, Protocol & Maintenance Department: With a great vision to run DSE smoothly and fulfill the acute needs of different departments with immediate effect and present the department as an effective, energetic, successful & vibrant to the Organization this particular department was established in 2003 under Operations Divisions. Conducting different meetings of DSE, processing the VISA for organizational purpose, conducting national international road shows, seminars and workshops, surveying the market and to prepare & approve purchase requisition for procurement goods based on the requirements of different departments (consumable & capital) are some of the major functions of this department.

Department of Market Operations: Our market is expanding with a great speed. As a result, numbers of listed companies/ securities are increasing day by day. To ensure that the listed securities are operating by maintaining the security laws, the Market Operation department was established. The vision of this department is to be one of the most vibrant departments of the Exchange & to ensure 100% compliance of securities laws by the listed companies for the development of the capital market. Basically, this department is a highly sensitive department with some major functions of preparing & disseminating of on-line news covering wide range of information of listed companies, regulators, stock Exchange & others, maintaining correspondence with listed companies regarding the compliance of relevant securities rules & regulations & other issues, making query to all listed companies for unusual price hike, maintaining database & taking necessary actions for spot trading/ trade suspension/ resumption/ price limit open of the listed companies following record date/book-closure and maintaining database relating to different types of non- compliance companies and take necessary action.

Monitoring, Investigation & Compliance Department: To ensure compliance with SEC Rules & Regulations to mitigate any fraudulent activities in securities market operation and to attain a high level of efficiency in all of its operations through effective & efficient management of human resources & proper utilization of time are the visions of this department. Smooth capital market operating is another vision of this department. There are three sub-division of this department namely A. Monitoring B. Investigation & C. Compliance. Formal monitoring of Members Companies, Investigation of the companies (enlisted) and ensuring compliance with the SEC rules & regulations are the major functions of this department. Beside this, this department assists DSE in various legal matters like as dealing with outside solicitor if any litigation arises as against DSE and settling of any dispute between the Members and the Stock Exchange.

Public Relations Department: Proper handling of media people including providing them with different sorts of data, news and securities market related information, press release presentation and provide information to different stakeholders on demand and reply to the query of investors are the major functions of this department.

Publication Department: After establishment in 1993, the Publication Department is working to publish Monthly Reviews, Half Yearly Reviews, Year- End Reviews, Annual reports, Diary, Magazines, and Cards for different occasions. This department also publishes all DSE Rules & Regulation & makes it ready for DSE Website. To prepare & update member & company information, daily disclosure and other information & data for DSE Website & addresses of renowned companies & organizations for invitation & greetings is another major function of this department

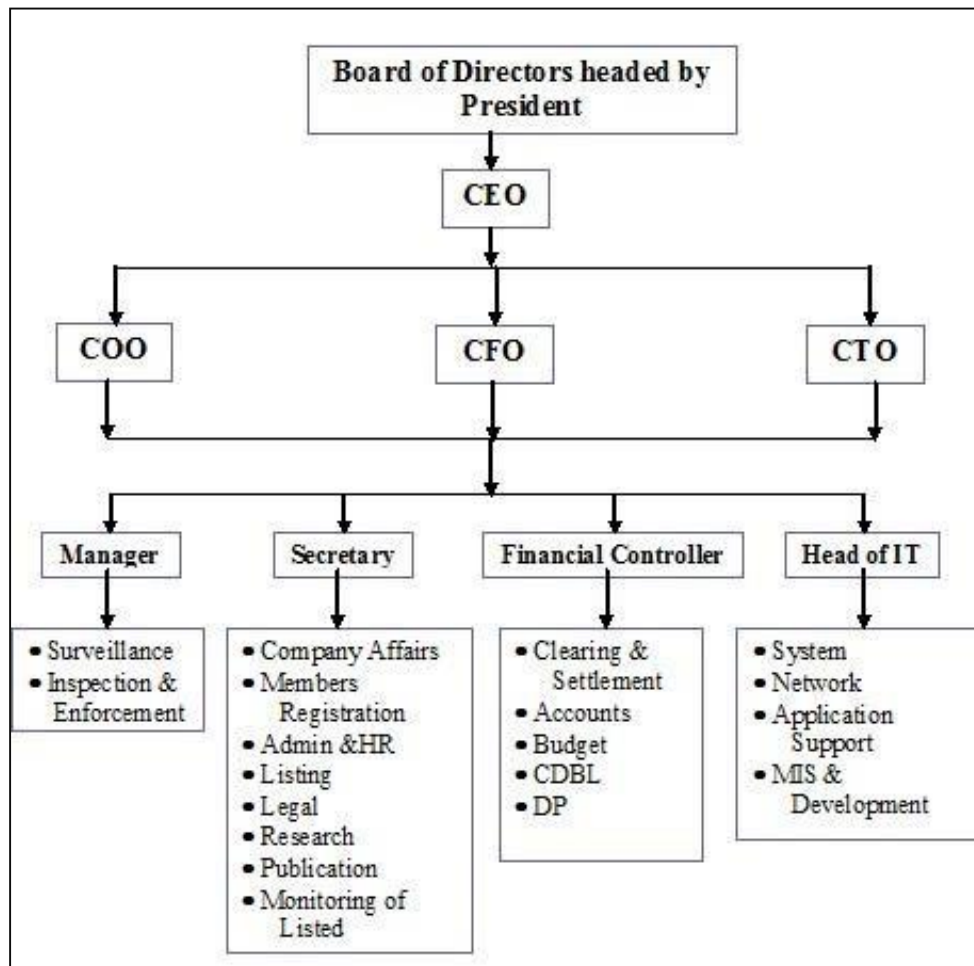
R & D and Information Department: The department which is working from the beginning of establishment of Dhaka Stock Exchange is R&D Department. To guide the investors efficiently on their day to day business operations fully supported by furnishing the listed companies' financials as apparent as possible is the vision of this department. Updating the DSE Website with different

relevant data and providing necessary information to different authorities as well as to the investors are some major functions of this department.

Surveillance: For ensuring the smooth operations of the capital market the surveillance department was established in February, 2000. Price monitoring, position monitoring, on-line real time surveillance, verifications, investigation, reviews, monitoring the price movements of newly listed securities, giving warning to members and penalizing them if they are involved in irregularities of the market are some major functions of this department. The vision of this department is to improve the standard of this department to international level.

Basically, all the departments are working very hard to keep the market as it should be and assure the performance of due job responsibilities for the respective departments.

The Hierarchy of the Dhaka Stock Exchange is provided in the following chart:



3. Demutualization of Stock Exchange

Mutual stock exchanges was unsuccessful to confirm liquidity needs & flexibility. For that reason the profit-seeking investors became de-motivated & dishearten, so they seek other stock exchanges to invest. Demutualization has been a latest concern about the financial sector of Bangladesh and

that new issue can break down this trend. Stock exchanges of Bangladesh has been proceeds necessary actions to change them from traditional mutual stock exchanges to demutualized stock exchange. Basically, demutualization is converting a non-profit organization into a profit-oriented organization. A mutual organization is owned by members and changes itself into a company that's ownership is held by shareholders. Ownership rights and trading rights these two types of member's right is distinguished by demutualization.

An impressive changes in the economic and potential framework of the securities industry is directly in development. Even though striving from traditional markets to electronic trading markets can be the accelerate reason of this major change, in addition technology is compelling these adjustment. Globally, stock exchange trading volume is upgrading and also global integration of the capital markets is increasing. Decimalization is now in progress, will additionally cut the current trading increment to a penny or less. In addition, exchanges equivalently have been bumped through global competition and technological change.

Before 1990s, most of world stock exchanges were non-profit organization and owned by their members. Securities market innovate demutualization in stock exchanges it almost 20years and it was a new experience in the economic world. Their most important characteristic of these is active, solid and close identity within the clients and the owners of the stock exchange. Usually, the owners are concurrently its clients, the profits of shares are distributing likewise the level of their assistance in the ownership. As a result of most recent technology developments and competing circumstance changes, both new opportunities & new threats are generated for stock exchanges.

The first exchange to demutualize was the Stockholm Stock Exchange in 1993. The end of the year 2000, many new stock exchanges had demutualized, including the Amsterdam Stock Exchange, the London Stock Exchange, the Paris Bourse and the CME. The authorities of Dhaka Stock Exchange has decided to demutualize the organization consciously contain the influence of brokers on February 2, 2011 .The decision came from the finance minister's affirmation that those operating the brokerage houses were business and also leading the DSE. Dhaka bourse owners, were forced to form a ten-member committee headed by Md Fayekuzzaman, managing director of Investment Corporation of Bangladesh (ICB), recently on demutualization of exchange under the boundless

pressure of the government. The Finance Minister said that there is no substitute to demutualization and it must be completed with the regime of this government. This committee and Dhaka bourse authorities have been trying to select a model based on international practices and setting a time frame to complete the process.

Demutualization, this trend is modernistic, popular and latest trend amidst stock exchanges all over the world. Bangladesh has started its journey to get their exchanges demutualized in 2011. Previous record of Demutualization of other stock exchange (Like: London Stock Exchange), the performance of demutualized exchanges have improved in terms of operational profitability and efficiencies along with governance scale. But there are some challenges and risks associated with demutualization. Bangladesh has two stock exchanges, Dhaka Stock Exchange, established in 1954 and Chittagong stock exchange, established in 1995. Recently Government and BSEC decided to demutualization of Dhaka Stock Exchanges. DSE is the first and biggest stock exchange of the country.

Demutualization of Dhaka Stock Exchange

The issue of a new discussion of the financial sector of Bangladesh is the feasibility demutualization. Like other stock exchange around the world, the stock exchanges of Bangladesh have also taken steps to convert their traditional mutual stock exchanges to a demutualization stock exchange. Generally, the demutualization becomes a non- profit organization in a profit based organizations. A mutual organization, owned by the member's changes it-self shareholder owned company. The company may be listed or listed companies that can be kept intact or publicly. Demutualization shares the rights of members in two one is ownership rights and another is trading rights. In addition to trading rights, members gain theirs ownership rights, which have a market value. Therefore, demutualization converts a mutual owned organization into a company, which is owned by shareholders.

The basic differences between a mutual- owned organization and a demutualized organization- the function of ownership, management and trading. These functions for mutual exchange are managed by a group but in a demutualized exchange three functions are separated and managed by different

organization. Demutualization transformation of the legal framework of mutual exchange from a business entity. Legal framework for a traditional stock exchange: its close relationship between ownership and direct access to trading. Net profits are shared according to their proprietary portion. The decision is made democratically, and each member has a right to vote. Sometimes the member organizations are represented by the committee who represents. The ownership rights of mutual exchange are not freely exchangeable, and if a member announces his membership, his rights also will be discontinued.

Another vital aspect of traditional exchanges is that it may specifically approve a non-profit system and it doesn't allocate any surpluses. In case that a traditional mutual exchange converts itself into a demutualized exchange, it will have diverse classification for trading, management and ownership. Through elections, the board of directors are choose by the shareholders. Shareholders also have voting rights by depending on their economic interest in the corporation. Exchange have the right to gather new capital from different sources. A semi-government institution does conversion of memberships into shares. This system may or may not be a public issue of shares. Like a profitseeking and publicly traded company, trading facilities and ownership are fully distinct. Brokers are not owners, they are just customers like others.

From the perspective of the property rights theory, property right is a consequence of the bargaining power of the interested parties. Property rights are frequently adjusted to bypass financial crisis and to improvement latest perception and possibilities. The property rights will be changed if there is higher possibilities to losses the corporate society. There is remarkable change of the elementary structure of the stock exchanges into the demutualized stock exchanges which is inspired by expressive global competition and improvement of technology. Demutualization process and listing authorization of the stock exchange to gather more capital by selling shares and also inspire the management to take adequate business initiatives.

All the categories of business studies- finance, accounting, marketing, human resource management, management information system and besides economics and sociology also have rely on this theory. The agency theory state that there are two parties- agency and principal. The relationship between them is agents work as the representative of the principal. Agency theory

focused on the situation like if there is a conflict of interest between the activities or goal of the principal and those of the agents, what will happen. Problems rise from the immediate system of monitoring the agent, risk sharing behavior of the both parties (agent & principal) and difference between their activities.

According to the agency theory it is clear that, demutualization is necessary for enlarging the transparency and implementing an effective corporate governance. Demutualization isolates the trading, management activities and ownership, which support to attain independence. Management will work for profit maximization, will work for best interest of the shareholders that is connected with the interests of the owners. To assure transparency, demutualized stock exchange is bound to report to its shareholders.

Demutualization can linked itself with transaction costs theory. Transaction costs theory describe that organization attempt to keep lower transaction costs and try to higher the number of trade. As a result of new electronic structure, an expeditious changes seen in the transaction system that gives a clear signal to move towards demutualization. This indicate technological improvement in the stock exchanges has driven to lower transaction costs of trading, assisted to detect fair price of trade and reduced the chances of market manipulation.

Dhaka Stock Exchange has changes itself into a demutualized stock exchange and submitted its concept paper to the commission & parliament of Bangladesh has disclosed the Gadget on the Demutualization Act after the approval of the President. Memorandum of Association is submitted by the DSE to the Registrar of the Joint Stock Companies to initiation its operation as a public limited company.

Access to Capital: It has state in the Memorandum of Association that Dhaka Stock Exchange will be a Public Limited Company with Authorized share capital of Taka 25,000,000,000 and that will be divided into 2,500,000,000 shares with a face value of Taka 10 each. And Exchange has the right to convert its shares into different classes and increase or decrease its capital.

Business Expansion: The demutualized exchange gain the power to establish its subsidiary, to procure any domestic or foreign company or to take part in control of any multinational companies. By this, business will be expand.

Diversification of Ownership Risk: Demutualization is more diversified than the traditional exchanges and ownership risk lies only on the members. Any individual (not the strategic investor) can hold only 5% issued shares and the Strategic Investor this limit is 25% that is clearly remark in the Demutualization Act. And any company holding the TERC (Trading Right Entitlement Certificate) and registered with the commission can't govern more than 40% shares issued by the exchange.

Superior Decision Making: A demutualized exchange attempt for the improvement of its shareholders & the institution. So, members cannot push to take any settlement or decision for their personal interests, unlike mutual exchanges.

Ensuring Corporate Governance: Demutualization of Dhaka Stock Exchange experience it to go for profit motive. It also make sure higher flexibility in decision making. Dhaka Stock Exchange Limited will be capable of high performing, enlarge its business in another business fields and also will be oblige to its shareholders for its achievement & performance. It will install an Investor Protection Fund to secure the interests of the investors that assure transparency management system.

It is anticipate that demutualization will be a blessing for Dhaka Stock Exchange. It will appeal to foreign investments over the exchange and assure productive corporate governance.

Demutualization can take many shapes, forms and the experience varies considerably across the world. There are many reasons of the demutualization of Dhaka Stock Exchange. The main reason of the demutualization of Dhaka Stock Exchanges is Stock market crash in 1996 and finally in 2010-11. December-2010 and January-2011 was the historical month of the economy of Bangladesh stock market. It is evident from figure given below that the bullish market fall sharply and consequently, the DGEN decreased by 3,715 transformed into bubble within a very short period

between point, and reached to 5,203 point from 8,918 point just 3 October 15, 2009 and December 05, 2010. The bubble busted months back.

Then Government and BSEC take necessary steps to demutualize their stock exchanges. Different stake holders of capital market and civil society also support and demand for demutualization of exchanges.

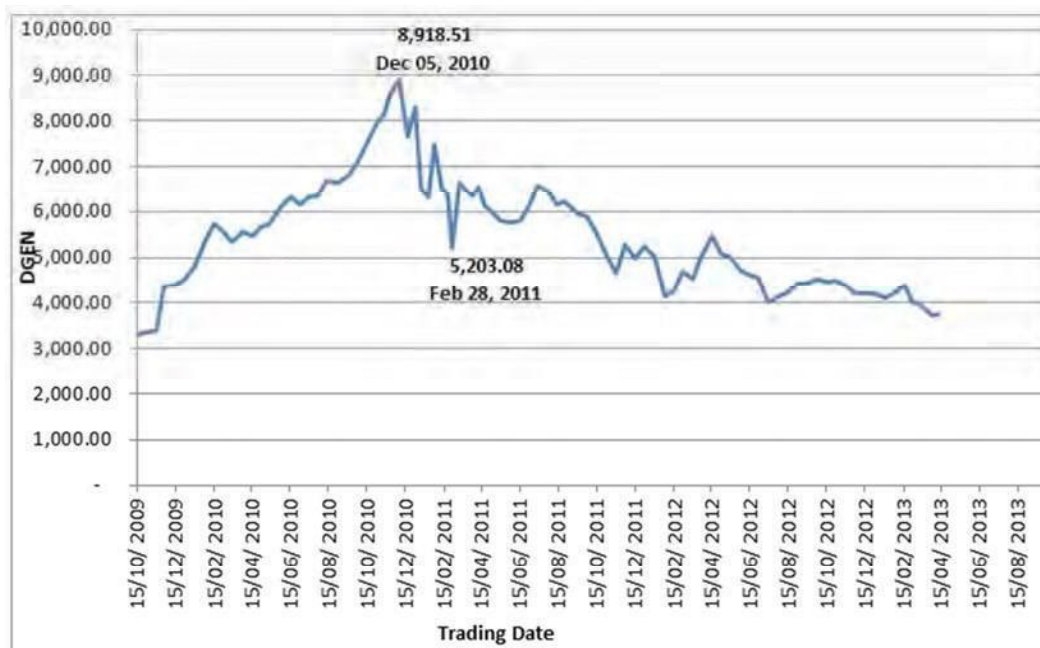


Figure: DSE General Index.

The main differences between a mutually owned organization and a demutualized company are the functions of ownership, management and trading. These three functions are handle and managed by particular entities in demutualized exchange, on the other hand a mutual exchange, these activities are handled by a single party. The lawful system of mutually stock exchange is transfer to a business entity that is demutualization. Now the managers & the customers are the owners. According to the percentage of their ownership, net gains are shared. One voting right is for Particular member. Most of the decisions are made democratically, sometime decisions are made by panel member. In mutual exchange the ownership rights are in transferable but some cases any individual member can close out his membership.

In Today's business environment, there have been remarkable changes in the competitive environment facing stock exchanges. With regarding to the changes of competitive environment of stock exchanges, many stock exchanges decided to demutualize the stake. The decision of demutualization was undertaken when the older mutual ownership structure failed to provide the flexibility and financing needed to respond to the recent global competitive pressures.

In an attempt to demutualization will bring better financing and allow for more flexible decision mechanism and expand into new businesses. Bangladesh has started its journey to get their exchanges demutualized in 2013. Previous record of Demutualization of other stock exchange (Like: London Stock Exchange), the performance of demutualized exchanges have improved in terms of operational profitability and efficiencies along with governance scale. But there are some challenges and risks associated with demutualization.

Process of Demutualization of DSE

The following scheme of arrangement has been followed in Demutualization of Dhaka Stock Exchange.

Paid-Up Capital: The post-demutualization paid up capital of the Dhaka Stock Exchange is now Taka 18.03 billion.

Valuation Methodologies: Under the provisions of the Exchanges demutualization act, 2013 a re-valuation of the assets and liabilities of Dhaka Stock Exchange as at 31st march, 2013 was to be prepared by a firm of Chartered Accountants approved by the Commission.

Allotment of Shares: The shares are allocated to the initial shareholders, as described in bellow.

Particulars	Unit	March 31, 2013
Paid-up Capital after Re-valuation	BDT	18,037,765,000
Face Value per Share	BDT	10
Total Share	No.	1,803,776,500
Initial Shareholders	No.	250
Shares Alloted to Each Shareholder	No.	7,215,106
Equity per Shareholder	BDT	72,151,060

TABLE: Allotment of shares to initial shareholders

4. Benefits, Challenges, Risk of Demutualization

Benefits of Demutualization

Global competition and advances in technology costs are causing stock exchanges around the world to examine their business models and become more entrepreneurial. Most of the exchanges have converted in demutualizing, that is bringing about major shifts in corporate governance and ownership structure. Demutualization is expected to strengthen the corporate governance of the exchanges & exchanges expand and enforce market conduct rules. Market conduct rules include prohibitions on market manipulation, front running of clients and insider trading as well as the accurate marking of trades to honour the allocation method used on the exchange. An exchange may also develop and enforce business and sales conduct rules, which govern the relationship between the client and the dealer.

A shift from not-for-profit mutual organization to for-profit organization with ownership separated from access to trading may allow the exchange to respond more effectively to competitive pressure and to act separately from the interests of individual members thereby creating a more streamlined and market-oriented exchange.

Some of the benefits of demutualization are given below -

- A mutual exchange with governance structure handle only one stakeholder and broker. To be successful in market listed companies & investors participation is meaningful. They are incapable in case that not assigned as “public” or “independent” members of the board of directors. They believe the exchange as a “private club” or their interests or not having a preference to treat their involvement as a supremacy.
- Mutual exchange unable to raise enough capital for equity markets. They also incapable to connect equity markets for that they have restraint facility to entry debt markets and corporations. This may expose the members to burden wrapping their costs or shortfalls, while they have no other option.

- The motto of demutualization in the new competitive environment is that the shareholders get benefits of a latest corporate governance framework, which is effective than before. Inclusive of necessary capital is needed for investment in updated technology.
- Likewise, demutualized exchanges may use stocks to increase equity capital. For example mergers, currency in acquisitions. For management and staff, essential compensation instruments may be stock option or purchase plans. Demutualization in Hong Kong and Singapore facilitated the merger of stock and futures exchanges. Demutualization of the Pacific Stock Exchange (PSE) facilitated an alliance with Archipelago, an alternative trading system that operates the PSE's now fully automated equity market and which, it has just been announced, is to merge with the New York Stock Exchange (NYSE).

Challenges of Demutualization

Demutualization is a new regulatory structure which needs a change in the regulation of the stock exchanges. The first challenge to face is to convert the mutual exchange into a demutualized exchange. If proper guideline cannot be assured in this process it cannot bring the transparency it was directed to. As a public company, it will converted to a profit oriented and competitive company which is accountable to its shareholder. It will also become the subject to discipline of the market and it has to maintain some regulations for example reporting to shareholders, maintaining profitability, proper management, publish news to the market and so on. As a profit oriented organization stock exchanges should have to face the threat & challenge to make them self-sustaining and profitable.

Dealing with part of regulator and commercial operation simultaneously is a great affairs. Although it can ensure transparency but if the regulatory body finds it's profitable to make money at the cost of substandard supervision then it would be a big challenge. Stock exchanges may charge the trading participant for slight rule deficiencies. Moreover if it cannot sustain confidential information of the market participant information then its role as a regulator will be questioned& investigated.

This manipulated earning will cause more damage in the long run. Like other developing countries Bangladesh stock exchanges may also be able to go through a situation of share price decrease after

demutualization. Financial viability is a great concern at post demutualization period. If the brokers will not find confidence in demutualization then it will be a serious problem for the exchanges after demutualization. Although the possibility of this happening is very low but it can be a threat as the investors do have other alternatives. If it happens then demutualize exchanges will have to compete with the alternatives the investors think better.

Risk Associated with Demutualization

Mutual stock exchange faced huge problems. When stock exchange converted demutualized exchange, it solve few necessary problems but all problems are not finished yet. Including this, few risks are associate in the procedure of demutualization of DSE are as follows –

- First one is once stock exchange is demutualized, it convert into ambitious organization accountable to its shareholders & mercantile. In case that stock exchange additionally turn into a public exchange, it may have the power to control the market, publish both fake and real news, get periodic and financial reporting responsibilities and achieve market profit earnings, which was expected. Abounding stock exchanges endorse two phase of demutualization process, initially issued shares are non-transferable for a fixed period of time. This was provide time to change its in-house structure.
- Secondly, stockholders & brokers are disloyal to the share market and they may choose alternatives like, domestic or foreign markets trading systems. They may establish another trading systems to incorporate their order flow rather than grant it to the stock exchange.
- Finally, demutualization also brings new risk that is conflicts of interest .A exchange ensuing business favourable circumstances may discover itself in rivalry with one or more of its listed companies. Restraining the ability of trading member to trade somewhere else that is known as anti-competitive rules, the exchange may adopt that rules. Because of insufficient return on investment, the exchange may not have sufficient fund for its

administrative activities. Confidential information about trading participants' activities could be exposure to the business side.

The demutualized exchange required lengthy periods for approved its changing rule and policy .At the same time alternative trading systems can also put into action at exact time..

5. Impact of Demutualization on the Performance of Dhaka Stock Exchange

Demutualization has brought a significant change in the business model of Dhaka Stock Exchanges. In Bangladesh, demutualization of both the exchanges is at the center of the current reform actions taken by the government surrounding the capital market. In line with the government's agenda, both the stock exchanges have made significant progress in this respect. Once demutualized, a stock exchange becomes absolutely exposed to market forces like any other business. Therefore the aspect of the regulator and the level of co-operation and trust between the regulator and the exchange being demutualized are absolutely vital. Measures taken without consensus between all the stakeholders seldom achieve as expected especially for something as sensitive and complex as exchange demutualization. In order to succeed, policy-makers should adopt a consultative and consensus-seeking approach.

In many countries, the demutualization process was facilitated by legislative enactment. In some countries, comprehensive legislations have addressed the demutualization issue at the fundamental company or securities law level, e.g. the Australian Corporations Law and the Philippines Securities Regulations Code. In India, exchange demutualization has been embedded into the principle securities legislation. In our country, changes to existing law can be made to incorporate demutualization issues or a separate and independent Act can be enacted. However, a single new Act may not be enough to properly implement the process. Changes to some existing Acts, rules, regulations and other by-laws will be required.

The mode and process of demutualization varies considerably from jurisdiction to jurisdiction. Depending on the legal and regulatory framework, conversion can take many forms and routes. Mutual exchanges operate like clubs or associations. In that case the first step is corporatization; that is, the exchange is converted into a company limited by shares from whatever legal entity it was before. In common law jurisdictions, this process may become cumbersome without special law since company law usually does not address the issue of conversion to a company limited by shares from other forms of business entities. Demutualization should not in any way adversely affect the exchange's continuity of operation, functions, undertakings or liabilities. The new law should address this issue especially if the exchange needs to be registered or re-registered as a company.

Once corporatized, a proper valuation of the exchange needs to be carried out, preferably by internationally reputed organizations for greater acceptability. Following valuation, other matters like the capital, number of shares, number of share allotments, mode of offerings, composition of the board of directors etc. will need to be determined. The memorandum and articles of association of the exchange is likely to go through major revisions to incorporate these changes. There are also issues like voting procedures, accounting, taxation and reporting requirements, dividend policy, rules and regulations for governance, future plans for commercial and regulatory functions etc. to deal with.

By demutualization, the ownership of the exchange is separated from the right to trade in the exchange. Thus trading rights entitlement becomes a distinct issue. Existing members essentially become trading rights holders irrespective of whether they own any shares or not. A major concern for traders in pre-demutualization is the protection of their interests. Members generally want to be adequately compensated if they give up their ownership of an exchange.

Impartial, a member has right to conduct & handled as a trader by different criteria in the exchange. It will not be essential for a trader to become a member of an exchange. The trading services of the exchange will come under separate licensing mechanism as prescribed by the regulator and should not have any relation with ownership or management. A moratorium or suspension on granting of new trading licenses is sometimes applied. In such a case, new trading licenses are not granted during that time. The total number of trading license holders at any given time also can be fixed.

These measures are taken to ensure that small brokers are protected against the competitive impact resulting from new entrants.

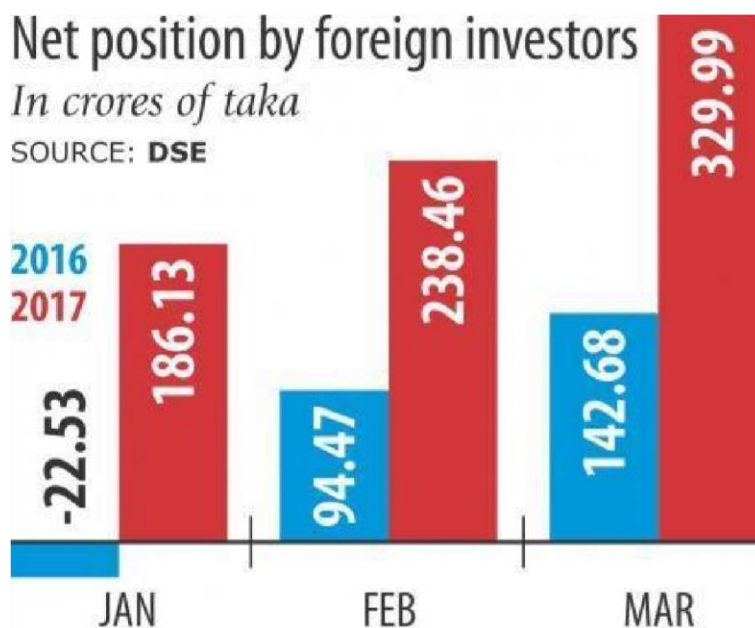


In line with profit-making organizations, a demutualized exchange will have separate and independent management body. This body will be diversified and in principle should not be dominated by traders/brokers as in the case of traditional exchanges, resulting in increased accountability and transparency – two of the expected benefits of demutualized exchanges. Ownership will shift from the existing members to the shareholders who will buy the shares of the exchange. Exchanges sometimes choose to enter into partnerships with big investors to boost growth by offering a certain portion of total shares. This can be a well reputed foreign exchange or other entities designated by the regulator. Stock exchanges in Bangladesh can greatly benefit from such an alliance if done properly. Many demutualized exchanges offer shares to the public through self-listing or through other exchanges. In case of self-listing, the main market regulator usually supervises the whole process. Enlistment on overseas exchanges is also a possibility.

Demutualized or not, all stock exchanges inherently exercise regulatory functions. Dealing with conflict of interests between an exchanges’ regulatory and commercial function is a major issue.

This can be facilitated by creating new subsidies. This ought to be thoroughly thought out and planned before-hand. Another major challenge will be to make the exchange profitable and self-sufficient after demutualization. Unfortunately, it is not uncommon for demutualized exchanges in the emerging markets to show a tendency to resist growth after demutualization. This could be a major area of concern and stock exchanges in our country will need to address this issue.

Diversification of services and attracting foreign investors could be a good starting point.



In both regulatory and business perspectives demutualized stock exchange is dispute affair. A major challenge in the process is to balance different interests and objectives of the relevant stakeholders without compromising the purpose. The experience of demutualization will differ appreciably across the world and it may become many forms. A proper co-operation with the stockholders, better understanding of all the issues and acceptance the latest approaches of is the basis to prosper demutualization.

Impact of Demutualization on the Board of Director

Before demutualization

The management and operation of Dhaka Stock Exchange was entrusted on a 25 members Board of Director. Among them 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The CEO was the 25th ex officio member of the board.

After demutualization

At present the management and operation of Dhaka Stock Exchange is entrusted on 12 members Board of Director. Among them 4 are independent directors elected from DSE members, another 7 are selected from different trade bodies and relevant organizations and 1 Managing Director. The following organizations are currently holding positions in DSE Board:

- Bangladesh Bank
- ICB
- President of Institute of Chartered Accountants of Bangladesh
- President of Federation of Bangladesh Chambers of Commerce and Industries
- President of Metropolitan Chambers of Commerce and Industries
- Professor of Finance Department of Dhaka University
- President of Dhaka Chamber of Commerce & Industry (DCCI)

Performance of Demutualization of DSE

1. Lower Risk and Transparency

- Demutualization will lower the risk for the investors.
- Demutualization of Dhaka Stock Exchange Ltd. will bring transparency to the capital market.

2. Shareholders Wealth Maximization

- Shareholders wealth will be maximized due to Demutualization of DSE.

3. Employees Accountability

- Demutualization will bring employees accountability of DSE.

4. More Local and Foreign Investor

- Due to Demutualization, there will be more local and foreign investor.

5. Economic Growth

- Demutualization will bring growth to our economy.

6. Tax Impact of Demutualization on Capital Market

- Demutualization will increase the tax revenue to government.

7. Facilities and Incentives

- Tax holiday 5-10 years depending on location of Industries.
- 15 years tax holiday for private power generation companies.
- Facilities for repatriation of invested capital, profit & dividend.
- Exemption of tax on interest on foreign loan.
- Tax exemption on royalties, technical know-how & technical assistance fees.
- Avoidance of double taxation on the basis of bilateral agreements.

Recommendation

Developing country like Bangladesh, Demutualization is critical issue both from business and regulatory aspects. If the DSE fails to ensure at least 10 per cent dividends for its shareholders, it will be put in the dock by its shareholders. However, it can be hoped the DSE will be able to tap all the benefits of demutualization. The performance of the directors will bring the success of demutualized stock exchange. Demutualization of DSE's success depends on the authority who must carefully consider the impact of the demutualization on the viability of the exchange as a key institution and the impact on the regulatory structure.

- There are about 5,000 companies in Bangladesh, but only 572 of them have been listed in the stock market up to now. It could be possible to identify at least 100 big companies or groups (both local and foreign) that are still unlisted.
- The BSEC also should take an initiative to bring all government-owned public companies in the stock market as early as possible
- The Over-the-Counter (OTC) market is still unorganized. If the DSE makes the OTC market organized, it could be an important source of income for the DSE. Furthermore, the trading platform for the OTC should be upgraded and automated. Another point is that the DSE should consider most of the small companies disrupt the main market, so those small companies should be delisted and sent to the OTC market for trading separately.
- Still the clearing and settlement activities at both the exchanges are performed by banks. If both the exchanges have a separate clearing and settlement company than several benefits will be attained-firstly, the clearing duration will be reduced; Secondly, costs will be reduced; thirdly, the trading volume will increase. These will result in improved profits. Thus, both the exchanges should take necessary action to set up this immediately.
- DSE should arrange both local and foreign training for the employees to make them skilled and competent, especially in the capital market.
- DSE itself has to make all training and awareness program arrangements for making investor informed and skilled through various programs across the country.

Conclusion

Demutualizing of DSE is a crucial step in bringing about better governance to the stock exchange. The outstanding performance of demutualization will result in many benefits to the Bangladesh economy and the people. It will motivate that increasing the amount of Foreign Direct Investment (FDI) the economic growth will also increase and if domestic consumption can be arise than public will be positive about our economy. Now a days, credit rating industry, investment banks, accounting profession have huge demand in job market and that's also helps stock markets as well as economy. Capital markets will also be seen as additional source of funding for mainland enterprise. This is especially important for the sustaining growth of the economy.

The progress of the Dhaka Stock Exchange such as advanced regulatory structure, up to date decision making and operations and new business models will also strengthen the domestic stock exchange in the face of strong competition from other exchanges. With the increased confidence in capital market the investors will also see the benefits in diverting their savings into investment. After all, demutualization faces challenges & not out of risk. The most challenging concern is to analyze those risks and take proper initiative to mitigate those risks.

Nowadays Demutualization is a widespread global phenomenon. It has been looked to as a means of meeting developmental and competitive challenges and even to address failure to carry out credible operations. The extent of movement toward a demutualized structure is also related to the competitive threat. Demutualization of DSE's success depends on the authority who must carefully consider the impact of the demutualization on the viability of the exchange as a key institution and the impact on the regulatory structure.

References

- Otchere and Oldford (2011) Can Commercialization Improve the Performance of Stock Exchanges Even Without Corporatization? *Financial Review*, Vol. 46, Issue 1, pp. 67-87, 2011
- Hart & Moore (1996) The governance of exchanges: members' cooperatives versus outside ownership *Oxford Review of Economic Policy*, Volume 12, Issue 4, 1 December 1996, Pages 53–69,
- Worthington, AC & Higgs, H, Market risk in demutualized self-listed stock exchanges: An international analysis of selected time-varying betas, *Global Economic Review*, 2006,35(3), 239-257

- Aggarwal, R. (2002), “Demutualization and Corporate Governance of Stock Exchanges”, *Journal of Applied Corporate Finance*, Vol. 18, Number 1, pp. 106-113

- BRIGHAM & HOUSTON, *Fundamentals of Financial Management*, 12th Edition, Cengage Learning, P-264, 304

- Cospormac & Altaf (2009) Demutualization of stock exchanges: A case study: London Stock Exchange and Hong Kong Stock Exchange

- <https://www.imf.org/external/pubs/ft/wp/2002/wp02119.pdf>
- <http://www.daily-sun.com/printversion/details/200687/Number-of-BOaccounts-on-rise>
- <https://en.wikipedia.org/wiki/Demutualization>
- http://www.dpp.gov.bd/upload_file/gazettes/11046_48433.pdf
- <https://www.ceicdata.com/en/bangladesh/dhaka-stock-exchangemarketcapitalization/dse-market-capitalization-taka-total>

- https://www.dsebd.org/RFP_for_Demutualization_Scheme.php
- http://www.dumarketing.ac.bd/html5boilerplatemkt/uploads/2016/02/12-BenefitsandChallenges-of-Demutualization_A-Study-on-Bangladeshi-Stock-Exchanges1.pdf

- <http://www.bsebd.com/>
- <http://sec.gov.bd/>
- <https://whatis.techtarget.com/definition/demutualization>