Chapter 65
Recent Status of Capital Market Regulations in Bangladesh:
Capital Market Regulations in Bangladesh

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ABSTRACT

The capital market of Bangladesh perceived a self-important growth which is not in line with developed economy. The Securities and Exchange Commission (SEC) tried to correct the irregular behaviour observed in the market, lack of proper decisions from the regulator's side which has contributed to the creation of market instability. This study tried to identify the factors on market crash and regulatory failure. Government had reform SEC to soothe the market but unsuccessful as investors' confidence is in the bottom level. The reasons behind the stock market crash are found irrational market behavior, inconsistency in regulations, excess liquidity in the market, stock split by companies, faulty listing system, issuance of right shares and preference shares by companies at high price, stock manipulations by insider trading, serial trading and excessive greed of investors. Government and regulators should work together to detect the main speculators and should bring investors back to the market.

INTRODUCTION

Stock market is one of the most important financial institutions and it releases door for companies to nurture huge amount of capital from individual investors in and out of a country. Sound capital market is an indispensible part of an economy and without the efficient capital market; economic development could be hampered as capital market delivers long term funds to entrepreneurs. The capital market of Bangladesh is the third largest in South Asia and one of the smallest in Asia. There are two full-fledged automated stock exchanges namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange

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(CSE). Bangladesh Securities and Exchange Commission (BSEC) was established in 1993 to regulate the businesses of the exchanges, confirm proper issuance of securities and agreement with laws and protect the interests of securities investors.

The global economic crisis in 2008 and 2009 was known as a volatile year but during this year Bangladesh economy benefited from low prices of imported goods and was able to avoid negative pressure on its export of goods and services (CPD, 2011). Regulators had taken some measures to stabilize the market with the introduction of central depository, circuit breaker, online trading, etc. to attract investors. As a result, the market started to grow and investors started to invest again. Unfortunately, investors had lost their money when the bubble started to burst in December 2010. The Benchmark index came down to 3616 points in early February 2012 from its highest point of 8918. After the crush of the capital market in 2011, a continuous fall in turnover is observed. In FY 2011-12, the turnover in DSE dropped to Tk. 117145.07 crore from Tk. 325879.77 crore of the previous FY in 2010-11, which was a decrease rate of 65.05 percent. The regulators had failed to take proactive measures to avoid the market from crashing and caused losses for millions of investors.

The volatility of the capital market of Bangladesh is an abnormal phenomenon and such volatility tends to create economic instability. In the state of market growth, role of regulators has been questioned in two accounts. Firstly, whether regulators act promptly to address the volatility of the capital market and secondly, whether frequent changes in regulators' decisions contribute negative impact on the sustainable development of the market. Again, as volatility raises many questions on the regulatory capability of the Securities Exchange Commission (SEC), it is unknown whether the stock market fluctuation is due to regulatory failure or due to irrational behaviors of investors. It is necessary to determine the main reasons of the stock market crash in Bangladesh and the roles of the regulators. Eventually, some guidelines will be recommended for better regulations to strengthen the capital market of Bangladesh.

Background

The history of Bangladesh Capital Market started on the 28th of April, 1954 when Bangladesh was known as East Pakistan and the market was known as East Pakistan Stock Exchange. In April 28, 1954 where Bangladesh was still known as East Pakistan as East Pakistan Stock Exchange Association Ltd, the journey of stock market started while Bangladesh used to be ruled by Pakistan. But trading on this market started in 1956 with a total paid up capital of Taka 4 billion and 196 securities were listed on this market. The exchange was renamed on in June 23, 1962 as DSE Limited. Trading on DSE was suspended from 1971 to 1976 because of liberation war and its post-independence weak economy. Then the trading was resumed in 1976 with 9 listed securities having a total paid up capital of Taka 137.52 million (Hassan et al., 2000). By 1987, the number of listed companies in DSE increased up to 92 and the development of the market is noticeable in the 1990s since its establishment (Economy watch, 2010).

Dhaka Stock Exchange (DSE)

Dhaka Stock Exchange is the first stock exchange regulated by its Articles of Association rules & regulations along with the Securities and Exchange Ordinance 1969, Companies Act 1994 & Securities & Exchange Commission Act 1993. DSE was used to trade in the open outcry system, installed on 10th of August, 1998. The latest upgrading was done on 21st of December, 2008. There are 238 members and total of 507 listed securities in DSE. The working days of DSE are 5 days in a week excluding Saturday,

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