

Evolution of the Concept of Investment Banking: A Performance Evaluation of the Investment Banking Practice in Bangladesh

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Ahstract

This paper takes note of the progresses of operationalization of the 'Investment Banking' (IB) practice in Bangladesh adopting ICB as the case for study purpose. Prior to this, a thorough study has been made on the evolution of IBs in the arena of world financial system for a better critical analysis on Bangladeshi perspective. This study offers constructive proposals for strengthening ICB, refinement of ICB's activities and improvement in the quality of service to the clients. This paper endeavors to frame an optimistic view that 'Investment Banking' (ICB and the subsidiary companies) practice possesses the capability to contribute strongly in ensuring a vibrant capital market in Bangladesh. The article ends with some proposals so that government of Bangladesh might play a serious role in order to ensure the shallowness of our capital market which is found conspicuous in comparison with those in our close neighbors. Unless the implementation of the policy reforms (of the kinds as suggested in this study) is expedited, the capital market will accelerate no real growth with no multiplier effect on the industrial growth process of the country.

Introduction

In the world of globalization, the active flows of capital have been assigned prime importance in accelerating the functioning of a financial system. The smoother the financial system runs the better the accumulation of capital occurs in an economy resulting in higher technological progress in the process of enhancing exponential rate of growth. Among various instruments practiced in flourishing a sound financial system, the emerging concept of "Investment Banking (IB-ing)" has been found to mark a strong driving role in the present era of global integration.

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Investment Banks (IB) act as a catalyst agent to encourage and broaden the base of investment, develop the capital market, mobilize savings and provide assistance in matters ancillary thereto. IBs provide financial assistance in the form of underwriting issue of securities, IPO (Initial Public Offerings) placement, and trustee to debenture issue of IPO facilities over industrial companies. For mobilization of savings as well as encouraging investors to participate in the capital market, the institution is managing investors' account. Under this scheme, the corporation provides credit facilities to invest in IPO and listed securities.

Investment companies have a long and checkered history. The Societe Generale de Belgique, formed in 1822, is generally credited as the First Investment Company. Investment Companies spread throughout continental Europe during the 19th century and reached special importance in England toward the close of the century. Conditions were more favorable for the development of the investment company movement after World War II with the expansion of money incomes.

While discussing on the ground of IB-ing, confusions have been created in differentiating between an IB-er and a Merchant Banker. It is important to mention here that merchant banks (MBs) are essentially European terms and are sometimes interchanged with IBs as defined in North America, though there exists some differences in their scope and functions. The Oxford Dictionary of Business (1999) has defined these two terms as following:

A bank that formerly specialized in financing foreign trade, an activity that often grew out of its own machinating business is a merchant bank (MB). This led them into accepting bills of exchange and functioning as accepting houses. More recently, they have tended to diversify into the field of hire purchase finance, the granting of long term loans, providing venture capital, advising companies on floatation and takeover bids, underwriting new issues and managing investment portfolios and unit trusts. Many of them are old established and some offer a limited banking service. Their knowledge of international trade makes them specialists in dealing with the large multinational companies (MNCs). They are most common in Europe but some merchant banks have begun

to operate in the USA. Several UK merchant banks were taken over in the 1990s either by the commercial banks or by large overseas banks.

Their expertise in raising capital has been largely directed to the home market and most MBs have become issuing houses, arranging security issues for domestic users of capital. In recent years, they have moved into the broadening area of corporate financial advisory work -- assisting in capital reconstructions, advising on mergers and acquisitions -- and the similarly expanding business of portfolio management, especially on behalf of pension funds. As bankers, they take deposits and lend mostly to corporate borrowers.

Investment bank (IB) refers to a US bank that fulfills many of the functions of an UK Merchant Bank (MB). It is usually one that advises on mergers and acquisitions and provides finance for industrial corporations by buying shares in a company and selling them in relatively small lots to investors. Capital provided to companies is usually long term and based on fixed assets. In the USA, commercial banks were excluded from selling securities for many years but the law was relaxed in the late 1980s, when certain safeguards were introduced, including a ceiling on the value of transactions.

Here the European MBs and The United States' IBs can be distinguished in the following points of view:

1. The former type undertakes a wide variety of functions, such as commercial banking activities, limited money market activities, underwriting of securities, portfolio management services and corporate advisory services. Some merchant banks have also expanded into leasing, insurance and venture capital. In Britain, merchant banking developed to service the wholesale or merchant client, rather than to deal with the retail depositor. Consequently, the type of the assets and liabilities are different from those of a clearing commercial bank.

The most notable aspect of the commercial banking functions of the MB is the acceptance of commercial bills, which are essentially short-term currency market instruments. MBs here act as accepting houses although all MBs are not accepting houses. Merchant banking is also sometime

termed as wholesale banking (with some reservations). The activities of a MB are not as wide as that of a commercial bank. The MB does not have a retail deposit base.

2. Underwriting and placement of securities and secondary market activities is the principal function of the North American type of IBs. In USA, the commercial banks were allowed to engage in securities business until the enactment of the *Glass Steagle Act 1933*. The 1933, Glass Steagle Act separated commercial banking from IB-ing. The European MB activities encompass both IB-ing and commercial banking. One reason for such difference in functional approach is that in Europe, the financial system is bank oriented, that is to say companies and enterprise rely more on bank loan and much less on the securities market. Germany is the best example of such system. However, the IBs in North America are allowed to engage in limited commercial banking activities.
3. In Europe, MBs could diversify and expand their operations aggressively with their strong capital base facilitated by their commercial banking functions. On the other hand, in USA and CANADA, diversification was initiated, as a defensive mechanism in the last decades, as commercial bank began to be more active in securities market.

In Bangladesh context, all such institutions can be categorized as Merchant bankers-combining the functions of both a development banker and investment banker. The Security Exchange Commission (SEC) by virtue of *SEC regulation (Merchant Bank and Portfolio Manager) 1996 vive SRO no. 59- case 96 dated 24 of April 1996* had issued letters of intent to fourteen (14) institutions based on the decision taken on 17th August 1997 by the economic committee of the cabinet division. Prior to it, letters of intent were issued to seven (7) institutions out of which two have been cancelled. So, total number of such institutions stands at nineteen (19).

Investment companies (IBs) may be classified either as open end or close end. **Open end** investment companies, generally referred to as mutual funds, stand ready to repurchase shares from the holders in any quantity

and whenever the holder desires. Thus, the amount of outstanding shares changes continually in response to public demand. The shares are traded in the open market and supply and demand for the funds' shares determine their price. The price of shares in the open-end investment company is determined by the net asset value of the funds' shares.

On the other hand, **closed end** investment companies (IBs) sell only a specific number of ownership shares. An investor wanting to acquire closed end shares must find another investor who wishes to sell. The Investment Company does not take part in the transaction. In addition to selling equity shares, closed end companies issue a variety of debt and equity securities to raise funds including preferred stock, regular and convertible bonds and stock warrants.

Role of Investment Banks (IB) in an economy's financial system

The role of IBs in the financial system of an economy is undoubtedly important. With increasing globalization of financial markets, the IBs are now perceived as the driving force in the working of a financial system through the following roles:

1. The investment banks (IBs) by being dominant financial intermediaries may induce savings and at the same, time encourage investment.
2. Since the IBs are allowed to undertake a variety of functions, they tend to be more innovative. Many of them have a full-fledged research and development wings to conceive and bring into markets new financial instruments to cater to the needs of investors with different risk and return perception. Thus, investment bank (IB) helps a country, in turn, to spur economic growth.
3. The IBs with their strong and adequate capital base possess the capacity to embark on aggressive operation in the security market as an underwriter, fund manager as well as stock dealer/broker. Such activities of the merchant banks greatly help the securities market by increasing the demand for securities, raising the supply of securities, and introducing new financial instruments in the security market.

4. The IBs are much better equipped due to their expertise, experience and financial position to handle the diverse and sophisticated needs arising out of globalization of capital market.
5. With regard to fund and asset management, the IBs are perhaps the most efficient due to their global positioning. These banks have the ability to constantly monitor the risk adjusted return offered by the securities market across the world.
6. The IBs, as corporate advisors, help companies in marketing their corporate and financial management policies to take advantage of market sentiment and demand.

Functions of Investment Banks (IBs) in Bangladesh

Investment bankers (IB-ers) act as intermediaries between issuers and investors. The issuer sells securities to IB-ers who, in turn, sell the securities to investors. The IB-ers own the securities until these are resold. For firms seeking to raise long term funds, the IB-ers provide assistance through their following functions:

Underwriting

The process by which IB-ers purchase securities from an issuer and resells it to the public. The underwriting function consists of purchasing the securities and assuming the risk of reselling them to the investors as well as owning the securities until they are resold IB-ers. IB-ers bear risk in the underwriting stage. A price decline in the securities during the holding time (until resold) could cause the investment bankers a loss. IB-ers can protect themselves by forming a **syndicate** or group of IB-ers. This allows them to diversify the risk. One IB-er acts as the managing underwriter overseeing the underwriting syndicate. This syndicate becomes part of a larger group that sells the securities. However, most issues are sold successfully, with the price approximating the price agreed on during the planning stage before the sale. Investment bankers are compensated by the spread, which is the difference between what they pay the issuer for the securities and what they sell them for to the public. Basically the securities are purchased from the issuer at a discount.

Marketing

Another function of IB-er in Bangladesh is marketing. Securities have typically been sold through a selling group (SG) consisting of the sales division of the underwriting syndicate and selected retail brokerage houses. The SG operates under a *selling group agreement* that specifies the operating conditions, such as, how the spread will be split among the various parties and how long the group will operate. The underwriters form a syndicate of underwriters who are willing to undertake the sale of these securities. The SG consists of the syndicate members and, if necessary, other firms affiliated with the syndicate. The SG cannot begin its sales effort until the legal requirements have been met.

Another significant development in IB is the “unsyndicated stock offering”. Under this arrangement, the corporation distributes the entire stock issue directly to institutional investors rather than syndicating them through the normal retail distribution network to individual investors. The issuers save the fees paid for a normal syndicated offering which can be substantial. Furthermore, the issuing process can be streamlined, because the issuer is dealing with a small number of presumably sophisticated buyers and thereby may earn a larger net return.

The IB-ers also offer corporate finance service, securities dealing and underwriting capabilities in the financial market of Bangladesh. They also offer capital market fund raising expertise, which is supported by a global distribution network. Their strong business contact provides it with unrivalled access to investment opportunities for MNCs seeking sound business projects in Bangladesh. They also offer fully integrated IB service to international and local clientele. They identify the optimum strategies for local MNCs. It helps clients in originating strategies and identifying the best possible structure.

Corporate Finance

Corporate Finance (CF) is the core activity in IB. In its most basic term, the Corporate Finance Department raises capital for private entrepreneurs, corporations, and government entities. In this process, CF assists clients in developing projects, dealing with regulatory authorities,

performing mergers and acquisitions and joint ventures, capital structuring, documenting and implementing projects. The key to the success of this business line is the harnessing of Union Capital's strength in the domestic market with its local and foreign fund raising capabilities. In particular, CF has been successful in raising capital in difficult market situation and meeting particular needs of a company by pioneering new ways of raising money.

CF services for clients include: Financial and Corporate Advisory; Initial Public Offering (IPO) and Rights Issues; Private Capital Raising (Equity, Debt, Hybrids); Mergers, Acquisition and Joint Ventures; Project Financing; Privatization Advisory.

A full international standard of compliance is maintained within CF. Proper procedures to engage in a new mandate, including maintenance of the "Chinese-Wall", Transaction Committee and code of ethics according to the Compliance manual, are strictly followed to provide clients with comfort and confidentiality as well as the best possible service.

Most of the IB-ers' CF business covers domestic underwriting, private placement, corporate restructuring, joint venture, mergers and acquisitions, and domestic and cross-border advisory, as well as the international distribution of Bangladeshi equities. It also provides financial advisory and fund raising expertise for MNCs seeking to enter or expand their activities in Bangladesh. It has pioneered a number of transactions including the first private placement of convertible bonds, the first legal merger and the first proposed joint venture in the energy sector in Bangladesh.

Sales and Brokerage

Sales and Brokerage's (S&B) main function is to provide full-service brokerage to retail and institutional investors, both foreign and local, in the secondary market. In relation to primary market transaction, S&B provides CF clients with global and domestic distribution capabilities. S&B acts as a conduit between the issuer of securities and the investors.

Main activities of Sales and Brokerage (S&B) are:

- International and Domestic Placement of Securities (Equity, Debt, etc.)
- Full-Service Brokerage for Institutional and Retail (Individual) Investors in the Share Market.

Union Capital (UC), a leading IB-er's predecessors was to be credited with a number of accomplishments in 1996 and 1997, which includes, being one of the top brokers in the market, a preferred broker for most of the Foreign Institutional Investors (FII), a leader in placing most of the foreign tranches of IPOs and a brokerage house with no settlement defaults as confirmed by the multinational custodian banks.

Full service retail brokerage (RB) is the latest addition to S&B's services. The purpose of the RB division is to offer individual investors with international standard brokerage services. The Silver Premium Retail Account (SPRA) offers one of the most convenient, flexible and cost-effective ways to invest in the local stock market.

S&B has designed a unique product for institutional clients, which gives them the necessary tools to make prudent investment decision. The Silver Premium Institutional Account (SPIA) offers institutions an efficient and informed way to operate in the domestic capital market.

Asset Management

Asset management is the process of managing money. The process requires an understanding of the various investment vehicles, the way these investment vehicles are valued, and the various strategies that can be used to select the investment vehicles that should be included in a portfolio in order to accomplish investment objectives. IB-er's Asset Management does not follow a "cookie-cutter" approach in managing client's money. Each client's objectives, risk tolerance and legal restrictions are individually analyzed in order to design a customized portfolio. The portfolio is constructed on the basis of fundamental and technical analysis of individual securities and sectors, statistical analysis and asset allocation model using proper risk analysis. The purpose of using advanced financial concepts both in macro and micro contexts of a portfolio and its underlying assets is to reduce the unsystematic risk. The

process continues with an ongoing measurement and evaluation of performance relative to benchmarks.

As for instance, UC Asset managers follow international standard portfolio management techniques and use the *Code of Ethics* and the *Standards of Professional Conduct* of the Association for Investment Management and Research (AIMR). This includes using international standards of compliance, which in turn protects the client's interest. The experience and knowledge of the portfolio manager along with the support from Research and Sales make UC the best choice in asset management in Bangladesh.

UC's strategy for the asset management business begins with education. The need to raise awareness of savings and investment is the initial focus. UC's education program starts with financial and retirement planning ideas. At the more sophisticated investors level, seminars are held on investments and the function of capital markets. The concepts like diversification of risk versus return and the benefits of professional money management are presented.

Research

Some IB-ers in Bangladesh also have research wings. The main role of the Research Department (Research) is to provide independent and objective investment advice in relation to primary and secondary securities to retail and institutional investors. The research analysis I work to produce in-depth company-specific fundamental analysis. In addition to fundamental analysis, Research analyses the technical aspect of stocks and the market to follow particular trend of price movements. Research also provides crucial after-market service to CF clients by disseminating objective information to investors. Industry and sector analysis of such research reports contain detailed information on the current infrastructure and future growth potential, attractiveness of different sectors, through review on different companies in the sector through comparable and valuation analysis. Research also provides macroeconomic, political and market outlooks of Bangladesh for foreign institutional investors.

The Union Bangladesh Index (UBI) published by Union Capital (UC) is the leading benchmark of performance of selected blue-chip stocks of Dhaka Stock Exchange (DSE). It is published in major English and Bengali newspapers in the industry.

Research publishes daily price information, weekly reports, monthly reports and bi-annual reports. Other activities of the Research Department include writing for the Euro money Publications (the LGT Guide to World Equity Markets) and Edinburgh Financial Publishing of Asia, providing financial data to information service providers such as Meridian Emerging Markets of the USA and preparing sector analysis for financial institutions including multinational banks.

IB-er also acts as a trustee, issue manager; helps public placement through its act of underwriting; arranges equity from overseas market; offers bridge financing as well as quasi bridge financing.

Role of ICB as an investment banker in Bangladesh

In Bangladesh, the ICB (Investment Corporation of Bangladesh) has been carrying out the functions of an investment banker (IB-er). There are few other institutions performing the tasks of an IB-er or as a merchant banker. Many commercial banks also have an IB wing. The following paragraph may highlight a clear picture of SEC regulations that define the functioning of a banker as an "Investment Banker".

In terms of the regulations of SEC, no one can carry out issue management, underwriting and portfolio management activities with certificate of registration from the commission. In order to obtain the certificate, an issue manager, an underwriter and a portfolio manager must have capital of at least Tk.2.5 million, Tk.10 million and Tk.10 million respectively. If a person carries out all the three activities, it must have a total capital of at least Tk. 20 million. An underwriter can issue or a portfolio manager can manage a portfolio worth five times the capital. The regulations also prescribe the code of conduct for an issue manager, underwriter or portfolio manager and empowers the SEC to suspend or cancel the certificate of registration, amongst others, for violation of the code of conduct, or the provision of the regulation.

IBs like ICB is playing a leading role in the stock exchanges. Since inception, ICB has been helping to ensure a healthy and well-organized secondary market. ICB also provides investment counsel to issuers and investors and participates in government disinvestments program, finance in joint venture project, etc. In fulfilling its objectives, ICB is observed to offer a number of investment opportunities of the following nature:

Merchandising Operations

Investors' Account:

The primary objective is to encourage and broaden the base of investments, develop the capital market and mobilize savings. Some IB-ers like ICB operate investors' scheme, which offers unique investment services. It provides small investors with credit facilities for buying and selling shares listed with DSE and CSE (Chittagong Stock Exchange). It also helps investors to achieve reasonable returns on investment in sound shares in the form of cash dividends, bonus/right shares and interest on debentures. It also provides institutional support to small investors for purchase and sale of shares by rendering necessary services and advice so that the small investors find them in a position to make their investment decisions on sound premises.

ICB has implemented a number of measures to enhance the quality of service of the investor's scheme. Consequently, remarkable progress has been achieved in respect of margin deposit (Tk 133.6 million) and in investment in listed securities (Tk 466.4 million) on behalf of the investment account holders. These are 145.59% and 405.31 % higher respectively than those of the previous year (Independent: 01 Nov. 2001).

Loan Facilities:

ICB provides loans to the account holders on their request for the purpose of investment in stock and marketable debentures. Under ICB scheme, presently an individual can get loan at 1:1 ratio, in his

investment account with ICB. Interest is charged @ 13.5 per annum. The maximum amount of loan that can be sanctioned in an account is Tk. 200,000 (Tk. Two Lacs) under this scheme.

Designing Investment Portfolio:

ICB provides investment counseling to investors to make investment decision. A balanced portfolio is developed for the investors that offers maximum safety to capital and the best possible returns on his investment in the form of attractive dividends or substantial growth or a combination of both.

Purchase and Sale of Shares:

ICB provides purchase and sale of shares service to the investors. An order for purchase/ sale must be communicated to ICB in writing. A telephonic/telegraphic order must be confirmed by post immediately. Direct purchase/sale with broker is not permissible under this scheme. An order for purchase/ sale may be of two types such as at the *best order* or *limit order*. An at best order will remain valid for three working days from the date the order is placed with the broker by ICB, after which the order will be deemed to have lapsed in case the order cannot be executed.

Withdrawal of Funds and Securities:

An investor can withdraw funds to the extent of an utilized balance in case the investor has not availed loan facility or to the extent of the amount in excess of the margin requirement in the case the investor has taken the loan. Similarly, an investor can withdraw security when his account is closed and all the corporation's dues outstanding against him are cleared.

Custodian Service:

As per instruction of investors, ICB gives the custodian service. Such services are included to apply in primary market, sale or purchase in secondary market, security preserve and maintaining. On behalf of the investors, ICB also collects allotment letters, share certificate and dividends.

Unit Fund:

ICB launched unit fund scheme on April 10, 1981. It is an open-end mutual fund through which the small and medium savers get an opportunity to invest their savings at any time of the year. In Bangladesh, unit fund has also been able to attract large number of investors through its successful operations over the past few years particularly by way of payment of attractive dividends on the certificates.

Fuud Management:

The responsibility of managing the fund rests on ICB. The corporation is also responsible for loading and unloading securities in our portfolio in the interest of the unit holders.

Public Participation:

The fund is divided into units, which are generally known as ICB units. Each unit bears a certain value in the assets of the fund. These units are sold to the members of the public who become the owners of the fund and are benefited from it.

Investment by Bangladeshis Living Abroad

The Bangladeshi citizens living abroad may invest in certificates on fulfillment of some terms and conditions. The value of units purchased is to be remitted through bank channels. The money invested in units and benefits thereon is not allowed to be repatriated. The investors must mention their local/bank addresses in Bangladesh for convenience of registration of units.

Investment by Foreigners Residing in Bangladesh

The foreign nationals residing in Bangladesh may also invest in unit certificates provided that money being invested is his/her own savings and is not taken as loan or overdraft from any bank. These certificates are to be collected from a gazette officer or a banker not below the rank of the Deputy General Manager (DGM).

Distribution of Income

The net income received on investments and other income therefrom is distributed proportionately amongst the unit holders. Since launching of the scheme in 1981 till FY 1997-98, attractive rate of dividends has been declared/paid regularly, ranging between Tk.14 to 25.

Mutual Fund

Since the floatation of first ICB mutual fund in 1980, the corporation has floated 8 mutual funds with a paid up capital of Tk.175 million to date. However, the corporation has a plan to issue 9th mutual fund amounting to Tk. 100 million shortly. These funds managed by the corporation have been extending good sources of income to the certificate holders. For this, such funds are very popular to the small and medium investors at home and abroad because of satisfactory returns in terms of dividends. Each mutual fund has been giving attractive dividends since its inception.

As for instance, the corporation has declared attractive dividends on its eight mutual funds (and on the unit fund), highest being 170% on the First Mutual Fund. It may be mentioned here that First Mutual Fund declared the highest cash dividend in the country for the FY 2000-2001. Recently, ICB has declared 7% dividend for the FY 2000-2001 out of net profit of Tk 81.6 million earned in FY 2000-2001 as compared to dividend of 5% and net profit of Tk 59.3 million in FY 1999-2000, showing an increase of 40% and 37.55% respectively (Independent, 01 November 2001).

At present, the number of certificate holders of all mutual funds stood at 3900. The funds present ideal diversified investment vehicles to small and medium savers who are unable to invest in a portfolio of securities either due to lack of knowledge or time or due to lack of access to information. Investing in mutual fund implies buying a portfolio of different types of securities.

In addition, ICB provides other services under different schemes to bolster the capital market and mobilize savings as well as to protect the interest of investors. The corporation is now providing different services

to investors through its seven branches which are located in different parts of the country.

Venture Capital

Venture capital financing investment has become an integral part of the function of most, if not all, of the major IBs. IB-ers have turned around to the venture capital for several reasons. The first and foremost reason is 'high return and investment in such sector' as well as 'corporate finance deal flow' being the second.

Venture capital extends both seed and development capital for new innovative enterprises and capital for restructuring, expansion and turn around. Since a large portion of venture capital investment is developed to promising companies in the early stages of development, venture capital necessarily becomes a long-term investment discipline.

Problems & Prescriptions of 'IB' practice in Bangladesh

Market Depth:

The shallowness of the capital market in Bangladesh in comparison with those in our close neighbors is conspicuous since the rate of internal investment to the capital market is very poor. If this continues, the quantum of liquidity will neither attract foreign portfolio investor nor create a sizable field for the local players. The transaction of small nature has been a major problem in our market and seems to continue further as the rate of new IPOs coming into the market is very low. The government should play a serious role in this regard by offloading its stake in the multinationals and other government owned enterprises. It is totally unjustified that the government should be holding monopoly shares in the oil marketing company or any share in the multinational or national consumer product companies. Despite all high talk, the privatization agenda has remained confined in the working papers still now. Unless its implementation is expedited, the capital market will gather no growth.

It is very strange that in spite of the demand in the primary market, not adequate numbers of IPOs are coming in. Out of a total of only 12 IPOs

in the market in 1997, 9 were oversubscribed. In more stable trading situation than that of 1996 after share debacle, the demand in the primary market has not improved at all. Moreover, more restrictions are being imposed on permitting IPOs rather than facilitating the issue. So, the government should really be instrumental and aggressive in boosting up the supply side with a view to increasing the requisite depth in the market and to let the blue chips share come in the primary market to attract investors in this shallow market

Central Depository System:

An automated central securities depository system (CD, in short) in the country is a must in order to complement and back up an automated trading system. Without CDs, the work of automation remain half done. Unfortunately the progress is pretty sluggish, and it is not good enough for the implementation of the system since it is a highly costly affair. The SEC estimates the total initial establishment cost of Tk. five hundred million. As the CDs company is a non-profitable organization and cannot pay dividends, very few institutions would naturally be interested in subscribing the shares of the company. Again, unless the volume of the IPO s increases in the market, CDs would by no means be a financially viable venture at this stage. So, the Government needs to handle this issue pretty prudently with a view to creating a congenial atmosphere for investors.

Sbare Heid by Frustrated Investors:

Investors could not recover their confidence yet after a massive share debacle of 1996 in the capital market. So, the rate of turnover in trading of shares is going down day by day. In fact, there are a few number of IB-ers, who, on the other hand, the members of the DSE, were involved in the manipulation of share prices that caused a huge loss to the ordinary investors. Many investors lost their entire capital in the gambling of shares trading. The shares purchased at sky-high prices during the scam period are continuing to cause frustration to the ill-fated investors. Most of them might still be holding their shares hoping that their prices will again rise to their expectations in course of time. These frustrated investors should be aided to accept their fate realistically, and persuaded to start re-ploughing their shares in the market.

Disclosure and Accounting Standard:

The full and authentic disclosure of reliable financial information by the listed companies should be ensured so as to provide a true and clear picture of their financial standing to the concerned investors. Their financial accounts should be duly vetted by auditors of national and international reputation, as investors' self – confidence would continue to remain floppy otherwise.

In the 25th AGM (31 Oct. 2001) of ICB, the investors/shareholders present in the meeting deliberated extensively on various aspects of the annual report and audited accounts as well as on the activities of ICB. In their observations, the shareholders noted with appreciation that the audited accounts for the year 2000-2001 have been drawn-up in accordance with International Accounting Standard (IAS-30), thus providing best possible disclosure and transparency. This approach certainly shows some light of hope of the better functioning of ICB in its other area of services.

Research and Information:

Information is a key factor in decision making in the modern business world. As any investment is fundamentally predicted upon knowledge of the area of investment, no investor, whether institutional or individual, is left with much of an alternative to the latest information. Therefore, the investors need to be constantly furnished with sufficient information of the target areas of investment. Dissemination of accurate, adequate and dependable information and thereby, inspiring self-confidence and holding up of the true picture of market can attract the investors with credibility. But the reality portrays a different picture. The brokerage houses, merchant banks, exchanges, credit rating companies should be engaged in research activities to make up with this gap.

Unrealistic Regulations:

Current efforts to develop merchant banks are excellent. But getting the merchant bank is virtually void. Unrealistic regulations have made it difficult for the licensed financial institutions to start merchant banking activities. Their operations are being stuck by complex requirements, the

high start up cost, in particular, which seems to act as the principle obstruction in this regard. At current rates of market activities, there is no way that all the licensed merchant banks can earn a reasonable profit.

Margin Loans:

Providing margin loans to individual investors is very common in any mature market. Greater competition for such loans should be generated among the commercial banks that can directly provide loans to the investors against the latter's fully paid securities as collateral. However, more sophisticated financial responsibilities, strong internal control and the risk management policies should be ensured among the margin loan providers. Actually, an in depth study is badly needed in margin lending practices in our market so as to prevent the growth of any defaulting character in this business which might develop in the absence of proper knowledge.

Mutual Fund:

There are only a few mutual funds in our market whereas in Hong Kong, there are more than thousand mutual funds approved by their Securities & Future Commissions. There are 140 mutual funds in Singapore and 80 in Malaysia. To confirm reasonable but sure return from investment, mutual fund constitutes the single most important avenue for the retail investors. As most of our investors are not too aware of our complete mechanism of stock investment, they might do well to avail themselves of distributing and diversifying risks by investing in mutual funds. Private sector mutual funds should be introduced and only experienced fund managers and asset management companies should be given the license to manage and float mutual funds. Strict vigilance is required at least during the initial period.

Investors' Compensation Fund:

The investors' compensation fund is a common safeguard everywhere which is set up to compensate the investors for pecuniary losses owing to the defaults of the dealers for either insolvency or dishonesty. Usually, this fund is constituted with contribution from the dealers through the payment of a fixed amount or a periodic levy and the interest earned on fund assets. The SEC has already set the ball rolling in this respect.

Compliance with Rules:

Every function related to securities business is regulated either by the rules of the exchanges or by those of the SEC. The inability of the players to understand the rules and regulations often gives rise to gritty problems in conducting stock market activities. The regulatory body including the exchange should, therefore, continuously educate the members for strict adherence to the existing rules and regulations. However, the unrealistic rules need to be reviewed and amended from time to time. Clear and concrete rules for all aspects of securities should be meticulously framed and dauntlessly enforced since a healthy regulatory environment and a properly imposed discipline can help salvage the lost confidence of the investors and develop a strong vibrant capital market in our country.

In addition to these, problems such as incorrect assessment of budgeted cost; incorrect assessment of demand supply scenario; weak predictions of marketability and profitability of the product; negligible or nil investment by the foreign investors; lack of corporate management assistance; low level managerial skill at the sponsor's end; restriction in diversion of funds; small in-house investment; very small earning in the form of fees for the services they render, etc. can be mentioned as some flaws lying with the functioning of IB-ers in Bangladesh. As the policy prescriptions to these problems persisting with the investment banking sector in Bangladesh, the following measures can be suggested:

- a. Proper assessment of budget.
- b. Proper assessments of demand supply scenario.
- c. Ensuring the contribution of serious and capable sponsors who are expecting a reasonable ROI.
- d. Ensuring better corporate management skill and system with proper delegation of authority.
- e. Visibility of Regulatory bodies with regulations that could make the functioning of investment bankers versatile.
- f. Existence of such rules assuring the occurrence of trading only in organized floor which, in turn, would prevent monkey trading.
- g. Development of the existing Human resources in a better dimension, etc.

Conclusion

Investment companies adopt many different goals. Growth fund is invested primarily in long term capital appreciation and tends to invest mainly in common stock offering strong growth potential. Income funds stress current income in their portfolio choices rather than growth of capital, and they typically purchase stocks and bonds paying high dividends and interests. Balanced funds attempt to bridge between growth and income, acquiring bonds, preferred stock and common stock, which factor capital gain, and adequate current income. With all such prospects investment bankers can be the real players in the capital market. Their function is a greater contribution towards mobilizing scattered saving and using it to the investment process and thus gearing up the capital market.

From the macroeconomic as well as development points of view, merchant banks are found specially important, as these banks aid these countries to gain access to international capital market. In the wake of dwindling foreign aid, the developing countries, now, need to float/ issue offshore funds to raise money. The assistance of investment banks, in this juncture, may provide the developing countries an access to international market. Therefore, realizing the significance of investment banks' presence in an underdeveloped economy, the investment banking sector in Bangladesh has to be provided with a suitable ground to emerge in a more strengthening position than at present. In the light of the above mentioned flaws existing in Bangladeshi investment banking operation, the strengthened position may, as a consequence, get an opportunity to gain the lost interest and confidence of the investors and thus improve the ailing condition of the capital market.

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