



# Report and Recommendation of the President to the Board of Directors

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Project Number: 45253-002  
October 2015

## Proposed Policy-Based Loans and Administration of Technical Assistance Grant People's Republic of Bangladesh: Third Capital Market Development Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 2 October 2015)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.0129
\$1.00	=	Tk77.775

## ABBREVIATIONS

ADB	–	Asian Development Bank
BFID	–	Bank and Financial Institutions Division
BSEC	–	Bangladesh Securities and Exchange Commission
ICB	–	Investment Corporation of Bangladesh
ICT	–	information and communication technology
IDRA	–	Insurance Development and Regulatory Authority
IPO	–	initial public offering
MOF	–	Ministry of Finance
SDR	–	special drawing right
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

## NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 June 2014.
- (ii) In this report, “\$” refers to US dollars.

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## PROGRAM AT A GLANCE

1. Basic Data		Project Number: 45253-002	
Project Name	Third Capital Market Development Program	Department /Division	SARD/SAPF
Country	Bangladesh	Executing Agency	Bank and Financial Institutions Division-MOF
Borrower	Bank and Financial Institutions Division of the Ministry of Finance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Money and capital markets		250.40
		Total	250.40
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change	No gender elements (NGE) ✓	
	Institutional development		
	Organizational development		
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
Partnerships (PAR)	Implementation		
	Private Sector		
Private sector development (PSD)	Conducive policy and institutional environment		
	Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		250.40	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		0.40	
Sovereign Program loan: Asian Development Fund		100.00	
Sovereign Program loan: Ordinary capital resources		150.00	
Cofinancing		0.30	
e-Asia and Knowledge Partnership Fund		0.30	
Counterpart		0.00	
None		0.00	
Total		250.70	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed policy-based loans to the People's Republic of Bangladesh for the Third Capital Market Development Program. The report also describes proposed technical assistance (TA) to be provided by the Technical Assistance Special Fund (TASF-V) of the Asian Development Bank (ADB) and the Republic of Korea e-Asia and Knowledge Partnership Fund for Developing the Capital Market, and if the Board approves the proposed policy-based loans, I, acting under the authority delegated to me by the Board, approve the TA.<sup>1</sup>

2. The program will provide budget support to enhance the role of capital markets in financial intermediation and resource mobilization in the economy by improving the allocative efficiency between savings and investment through expanding as well as diversifying the investor base.<sup>2</sup>

## II. THE PROGRAM

### A. Rationale

3. The government's Vision 2021 lays out a roadmap for Bangladesh to attain middle-income status by 2021.<sup>3</sup> It sets targets of reaching 8% gross domestic product annual growth by FY2015 and 10% by FY2021. The government's Sixth Five-Year Plan, FY2011–FY2015 includes a growth strategy to boost the rate of private investment and foster structural change.<sup>4</sup> If Bangladesh is to attain its gross domestic product growth targets, it will have to address structural deficiencies in the capital markets—by deregulating the financial system to support the real economy and promote private sector investment to reduce the infrastructure deficit, which is a major constraint to its sustainable and higher economic growth.

4. **Government efforts and ADB policy dialogues.** Building on ADB's experience in the sector,<sup>5</sup> the government and ADB pursued a two-track approach to address structural deficiencies in the capital markets under the recently concluded Second Capital Market Development Program: market stabilization and sustainable market development.<sup>6</sup>

5. Following the stock market debacle in December 2010, where massive sell-off occurred as investors lost trust in the market and the regulatory agencies, the government implemented stabilization reforms under the second program, such as regulations on margin lending and equity exposure of banks, as well as enhanced oversight and policy coordination. The market has gradually regained confidence, reflecting increasing traction from the policies and regulatory reforms. The market has stabilized, as evidenced by the 31% increase in market capitalization from \$33.0 billion in February 2011 to \$43.2 billion (as of September 2015). The contribution of

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> ADB provided project preparatory technical assistance for the Third Capital Market Development Program (TA 8512-BAN).

<sup>3</sup> Government of Bangladesh, Ministry of Planning, Planning Commission. 2010. *Outline Perspective Plan of Bangladesh—Making Vision 2021 a Reality: FY2010–FY2021*. Dhaka.

<sup>4</sup> Government of Bangladesh, Ministry of Planning, Planning Commission. 2011. *Sixth Five-Year Plan, FY2011–FY2015*. Dhaka.

<sup>5</sup> ADB. 1997. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Capital Market Development Program*. Manila.

<sup>6</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans and Administration of Technical Assistance Grant to the People's Republic of Bangladesh for the Second Capital Market Development Program*. Manila.

the banking sector has shown a well-received significant reduction of exposure to the stock market, and declined from 28.8% in December 2010 to 14.4% at the end of August 2015. The turnover ratios in 2014 and 2015 are comparable with levels recorded from 2004 to 2006, when the market was functioning in a stable environment. Dhaka Stock Exchange's average daily turnover as a percentage of market capitalization from January 2014 to September 2015 was 0.15% compared with a high of 0.73% on 6 December 2010.<sup>7</sup>

6. The second program also brought about reforms that set the foundation for sustainable market development through the passage of critical legislation, which included amendments to the Securities and Exchange Commission Act, 1993; the Securities and Exchange Ordinance, 1969; the Bank Companies Act, 2013; the Income Tax Ordinance, 1984; and the Stamp Act, 1899; as well as enactment of the Demutualization Act, 2013 and the Financial Reporting Act, 2015. The operational and financial efficiency of the Bangladesh Securities and Exchange Commission (BSEC) was enhanced by allowing unhindered access to the BSEC Fund as well as removing government approval of the BSEC budget or expenditures from the BSEC Fund. The operationalization of a state-of-the-art market surveillance system at BSEC increased the transparency of market transactions and contributed significantly to enhanced investor confidence. Stock exchanges were identified as critical drivers of change under the second program. The governance structure was corrected through demutualization of the Dhaka and Chittagong stock exchanges, which aligned the broader incentives of market development with those of the “club members,” mainly the brokers and dealers. Bond market development was also supported by implementing a fast-track regulatory process for private placements that balanced investor protection with ease of approval, and removing tax distortions to trigger bond market activity.

7. **Remaining sustainable market development constraints.** Despite Bangladesh's major strides toward strengthening its capital markets, the following constraints remain:<sup>8</sup>

- (i) BSEC staffing remains inadequate, which restricts the regulator from carrying out its mandate effectively. Furthermore, the absence of an information and communication technology (ICT) system at BSEC limits the effectiveness of the regulator. These organizational constraints affect market confidence.
- (ii) The entry of strategic investors as key shareholders in both stock exchanges is required to ensure successful completion of the demutualization process. The absence of such strategic investors prevents the development of necessary new technology infrastructure and constrains the drive for innovation and overall development of the capital market.
- (iii) The capital market participation of institutional investors, such as insurance companies, is limited. Most of the regulatory legislation under the Insurance Act, 2010 is yet to be adopted by the Insurance Development and Regulatory Authority (IDRA), such as asset investment regulations and recapitalization measures. With regard to mutual fund demand, impediments curtail growth such as an uneven playing field between different types of mutual funds, and a limited range of mutual fund types.
- (iv) Supply of equities is deterred by the current initial public offering (IPO) book-building method, which restricts price discovery. Demand for equities is hampered

<sup>7</sup> Second Capital Market Development Program: Impact and Results Assessment (accessible from the list of documents in Appendix 2).

<sup>8</sup> Sector Assessment (Summary): Finance (Capital Markets) (accessible from the list of linked documents in Appendix 2).

by unreliable accounting and auditing standards of listed companies, which prevent informed investment decisions, as well as an IPO lock-in period of 3 years for licensed private equity investor, which hinders private equity fund activity. Demand for bonds is constrained by the prevalence of fiscal dominance, which prevents competitive auctioning of government securities based on market prices. Consequently, primary dealers hold their portfolio of government securities until maturity to minimize losses, which impedes the development of a secondary government bond market. The corporate bond market, therefore, hardly exists because of the absence of a credible government yield curve.

- (v) The absence of alternative financial instruments limits the depth and breadth of Bangladesh's capital markets. The lack of a regulatory framework for alternative financial instruments, such as derivatives and *sukuks* (Sharia-compliant bonds), is a major factor for the absence of such instruments. The absence of a clearing and settlement company also prevents the promotion of derivatives because of the lack of critical market infrastructure required for netting of transactions.

8. To address the constraints, the government and ADB agreed to build on stabilization measures introduced by the second program and implement the road map in the long-term national capital market master plan that was formulated as a second program policy action. The program will deepen and broaden the outreach of the second program reforms by (i) extending the government yield curve and, therefore, promoting a more liquid government bond market and eventually corporate bond market; (ii) catalyzing institutional investor demand by broadening, deepening, and diversifying the investor base; and (iii) enhancing the supply of alternative financial instruments.

9. **Linkage between reform program and budget support.** The structural reforms under the program include costly measures, such as a significant enhancement in the regulatory and enforcement capacity of BSEC and IDRA, as well as an upward shift in the rates of treasury bills and bonds to be more aligned with market rates. Budget support is crucial to support costs to implement the reform program. Since the reforms are an integral part of a government-owned long-term development strategy (i.e., the long-term national capital market master plan), the government's commitment to institute the capital market reform program, as well as its ability and political will to implement the needed reforms, are firm (Appendix 3).

10. **ADB's value additions.** Since the late 1980s, the government and ADB have conducted extensive policy dialogues on capital market development.<sup>9</sup> The dialogue provided the basis for project support that improved good governance practices in the capital market and the insurance sector, which led to the establishment of a new insurance regulatory authority in 2010.<sup>10</sup> The Improvement of Capital Market and Insurance Governance Project (footnote 10) also contributed to the formulation of the second program, which was built from other key inputs, such as project preparatory TA in 2011, a study of the role of banks in Bangladesh's stock market volatility in June 2011, and a study on demutualization of stock exchanges in Bangladesh in 2012. The program includes reforms that are part of the national capital market

<sup>9</sup> Since 1993, ADB has approved two major programs that includes the Capital Market Development Program in 1997 as well as 18 TA projects in capital market development, which have built the reform momentum leading to the proposed program. Through these programs, ADB has uniquely gained an in-depth understanding of Bangladesh's capital markets for effectively managing reforms. Development Coordination (accessible from the list of linked documents in Appendix 2).

<sup>10</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Improvement of Capital Market and Insurance Governance Project*. Manila.

master plan approved by the government under the second program, and is built from diverse inputs that include its project preparatory TA in 2014, the second program attached TA in 2013–2014, and a study to develop Bangladesh’s primary dealer system in 2013–2014. Comprehensive stakeholder consultations were held through numerous national workshops to analyze the issues effectively.<sup>11</sup> A major outcome of ADB’s deep involvement in Bangladesh’s capital markets is the promotion of BSEC to category A membership of the International Organization of Securities Commissions in December 2013.

11. ADB’s intensive engagement with the government over the past 25 years has ensured that it is the lead development partner for capital market development in Bangladesh. ADB’s strength lies in its integrated policy support, which focuses on “how to do it” and covers (i) policy dialogue, (ii) structure and design of tailor-made policy reforms, (iii) policy implementation support, (iv) capacity development through TA to ensure sustainability, and (v) procurement of information technology systems to strengthen operations. Few development partners have the same level of credibility, the means, or the capacity to offer this solutions-based approach that can effectively and consistently tailor these best practices to the needs and conditions of Bangladesh’s capital markets. In the absence of ADB involvement in capital market reforms, and given the complexities, resources, and expertise, such reforms would not have happened.

12. **Development coordination.** The development partner coordination arrangement is guided by the Bangladesh Joint Cooperation Strategy, 2010–2015.<sup>12</sup> The International Monetary Fund, the World Bank, and ADB are the key development partners supporting the government in undertaking finance sector reforms. In April 2012, the International Monetary Fund approved an Extended Credit Facility of about \$1 billion for Bangladesh with the objective of restoring macroeconomic stability and strengthening the external position. Two tranches (about \$140 million each) remain for completion of the Extended Credit Facility. The World Bank’s proposed \$300 million Financial Sector Support Project in 2015 will emphasize strengthening the regulatory capacity of Bangladesh Bank and developing the insurance sector in areas that complement ADB’s program. ADB is the lead development partner for capital market development and retains this role under the program.

13. **Alignment with ADB’s strategy and lessons learned.** ADB’s finance sector strategy for Bangladesh, which is included in the country partnership strategy and the new country operations business plan, is based on the Sixth Five-Year Plan, lessons from ADB’s previous finance sector interventions, and coordination with other development partners.<sup>13</sup> In line with the Sixth Five-Year Plan and the Midterm Review of ADB’s Strategy 2020 priorities, capital market development and bond market development focusing on the provision of long-term infrastructure is one of ADB’s focus areas in its Bangladesh public sector operations.<sup>14</sup> The program is fully aligned with the government’s Sixth Five-Year Plan, ADB’s Strategy 2020, and ADB’s country partnership strategy for Bangladesh.

14. The program (Appendix 4) will build on lessons from the second program completion, the first program performance audit report, and the review by ADB’s Independent Evaluation

<sup>11</sup> Eight national stakeholder and dissemination workshops were held for demutualizing the stock exchanges, developing the primary dealer system, and formulating the second program and the proposed third program.

<sup>12</sup> Government of Bangladesh. 2010. *Bangladesh Joint Cooperation Strategy, 2010–2015: How to work more effectively together to deliver real development outcomes*. Dhaka.

<sup>13</sup> ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila; ADB. 2014. *Country Operations Business Plan: Bangladesh, 2015–2017*. Manila.

<sup>14</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.



Department of ADB assistance for domestic capital markets.<sup>15</sup> In line with key recommendations of all three evaluation studies, the efficiency and effectiveness of the program is facilitated by (i) a limited number of policy actions to monitor program compliance effectively; (ii) implementation of the long-term national capital market master plan, which ensures that the new program is an integral part of a government-owned long-term development strategy; and (iii) comprehensive consultation with stakeholders through national workshops to diagnose the issues effectively, leading to a sound and relevant proposed policy matrix.<sup>16</sup>

## **B. Impact and Outcome**

15. The impact will be a well-functioning financial system that supports basic capital and investment needs, as well as Bangladesh's longer-term economic objectives. The outcome will be enhanced capacity and size of the capital market in a strong legal and regulatory framework. The program has 8 first tranche policy actions and 18 second tranche policy actions. All first tranche policy actions are fully complied.

## **C. Outputs**

16. **Strengthened market stability.** The output will promote more robust, resilient, and stable capital markets by enhancing BSEC's role to develop and monitor the market, strengthen regulatory measures, and develop a clearing and settlement company. The approval of BSEC's organogram will significantly enhance its regulatory and enforcement capacity as well as promote market stability through the induction of additional full-time staff. The installation of an ICT system at BSEC will create synergistic effects at the regulatory agency by raising productivity levels. In line with international best practice, amendment of the IPO book-building rules to make the price discovery method more effective will promote equity financing. The output will facilitate the establishment of a clearing and settlement company, which will eventually enable a central counterparty entity to be guarantor for settlement of derivative contracts.

17. **Enhanced market facilitation.** The output will support more efficient mobilization and allocation of resources in the economy by expediting adjudication of enforcement actions, upgrading accounting and auditing standards, and pursuing demutualization of the stock exchanges. The enhanced enforcement capacity at BSEC will be complemented by expedited adjudication of enforcement actions through the operationalization of a special tribunal for capital market-related cases. The establishment of an adequately funded financial reporting council (i.e., an independent audit oversight authority) will lead to adoption of the International Accounting Standards and International Standards on Auditing, which will enhance market confidence and allow for informed investment decisions. The demutualization will also facilitate the development of crucial new technology infrastructure through the entry of strategic investors into both stock exchanges by the end of 2016.

18. **Enhanced supply measures.** The output will increase the supply of quality bonds and alternative financial instruments through the capital markets. Numerous measures will be introduced to catalyze the corporate bond market such as removal of the 60:40 debt-to-equity

<sup>15</sup> ADB. 2015. *Program Completion Report on Bangladesh: Second Capital Market Development Program*. Manila. The program is rated successful; ADB. 2005. *Program Performance Audit Report: Capital Market Development Program in Bangladesh*. Manila; ADB. 2008. *Special Evaluation Study: ADB Assistance for Domestic Capital Market Development*. Manila.

<sup>16</sup> Two national stakeholder and dissemination workshops held during program formulation were attended by 192 registered participants across 40 different organizations.

ratio ceiling. A reduction in the IPO lock-in period for licensed private equity investors will spur private equity fund activity in the capital markets and increase demand for equities. Alternative financial instruments (derivatives and *sukuks*) will be promoted to develop a deeper and broader capital market by focusing on the enabling regulatory framework. The issuance of *sukuk* rules will promote Islamic finance and increase the number of *sukuk* issues. The introduction of regulations for issuing derivatives will encourage the development of instruments such as interest rate swaps and currency swaps.

19. **Enhanced demand measures.** The output will support the mobilization of capital market financing by developing liquid bond markets, enhancing institutional investor demand, and promoting mutual funds. A strategy of creating liquid benchmark issues will be pursued through the introduction of floating rate notes in the government bond auction system on a pilot basis and allowing for short selling of primary dealer-owned government securities that permit positions to be hedged, thereby generating secondary bond market activity. Insurance industry participation in the capital market will be enhanced by first introducing measures to promote the industry's growth and stability, such as compliance with the minimum capital requirements of the Insurance Act, 2010, and then encouraging investor demand through issuing investment guidelines by IDRA. Approval of the IDRA organogram will significantly enhance IDRA's regulatory capacity. A robust mutual fund industry will be promoted by rule changes that (i) ensure a level-playing field between the Investment Corporation of Bangladesh (ICB) and non-ICB funds by removing the exemption that allows ICB and its Asset Management Company to act as trustee of the new funds where ICB itself is the sponsor, (ii) allow investors in fixed-income mutual funds the same tax treatment as equity mutual funds, and (iii) promote exchange traded funds.

#### **D. Development Financing Needs**

20. The program loan size is \$250 million, which will be made available in two tranches: \$80 million in tranche 1 and \$170 million in tranche 2, to be released approximately 18 months after first tranche disbursement. The proposed tranche amounts mirror the number of substantive policy actions required for release of each respective tranche, i.e., eight policy actions for tranche 1 release and 18 policy actions for tranche 2 release. The first tranche will be available upon loan effectiveness.

21. ADB's financial support addresses the development financing needs. In particular, the counterpart fund generated out of the loan proceeds finances development expenditures in the form of cost of adjustment under the proposed reforms. The estimated cost of adjustment across program outputs is (i) \$110 million for market stability (BSEC additional staff, operation and maintenance cost of BSEC ICT equipment, establishment of a clearing and settlement company, and intermediaries' recapitalization costs); (ii) \$20 million for market facilitation and supply measures (costs of demutualization, operationalization of capital market tribunal, and establishment of the financial reporting council); and (iii) \$155 million for demand measures (cost of paying market prices for government securities, IDRA additional staff and training, and insurance recapitalization costs).<sup>17</sup>

22. The government has requested a loan of \$150 million from ADB's ordinary capital resources to help finance the program. The loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year,

<sup>17</sup> Financial Analysis (accessible from the list of linked documents in Appendix 2).

and such other terms and conditions set forth in the draft loan and program agreements. Based on this, the average loan maturity is 10.39 years and no maturity premium is payable to ADB. The government has also requested a loan in various currencies equivalent to SDR71,683,000 from ADB's Special Funds resources to help finance the program. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and program agreements.

## E. Implementation Arrangements

23. The executing agency will be the Bank and Financial Institutions Division (BFID) of the Ministry of Finance (MOF). The implementing agencies will be the BSEC, Bangladesh Bank, and IDRA. The program will be supported by other key government agencies that are responsible for undertaking numerous policy actions. It is being implemented from January 2015 to December 2017. An interagency program steering committee, chaired by the BFID secretary, helped drive the reforms in preparation of the first tranche policy reform measures. The agencies under the committee include the MOF, Bangladesh Bank, the National Board of Revenue, BSEC, and IDRA. The interagency program steering committee will also supervise implementation of the remaining program. The committee will be supported by a secretariat composed of staff with the requisite technical skills.

24. **Tranches, disbursement, and counterpart funds.** The loans will be provided in two tranches and will be disbursed upon fulfillment of the respective program policy actions (Appendix 4). The proceeds of the loans will be disbursed in accordance with ADB's simplification of disbursement procedures and related requirements for policy-based grants.<sup>18</sup> The proceeds will be used to finance the foreign exchange cost of items produced and procured in ADB member countries, excluding items included in a list of ineligible items and imports financed by other bilateral and multilateral sources.<sup>19</sup> ADB will have the right to audit the use of the loan proceeds and to verify the accuracy of the government's certification.

## III. TECHNICAL ASSISTANCE

25. Attached TA for Developing the Capital Market will support the implementation of key reform actions under the program.<sup>20</sup> The major outputs and activities of the TA include (i) installation and operationalization of BSEC's new ICT system, (ii) draft rules for derivatives by BSEC, (iii) facilitation of the establishment of a clearing and settlement company, (iv) draft regulations for the issuance of *sukuks* by BSEC, and (v) provision of training to IDRA additional staff that will be mobilized after IDRA organogram approval. Training areas will include supervisory and regulatory mechanisms to oversee insurance companies, monitoring and evaluation procedures, ICT management, corporate management of insurance companies, identification and management of governance issues, as well as the study of actuarial analysis. ADB will provide \$400,000 on a grant basis for the TA from its TASF-V and will administer an additional \$300,000 to be financed on a grant basis by the Republic of Korea e-Asia and Knowledge Partnership Fund to support BSEC's ICT system. The TA to be provided by ADB and the Republic of Korea for BSEC-related activities will be part of wider capacity and institutional development initiatives being contemplated by the government, which includes installation of the entire BSEC ICT system and strengthening of the Bangladesh Institute of

<sup>18</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

<sup>19</sup> List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

<sup>20</sup> Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

Capital Market, and is estimated to cost \$2.5 million. The executing agency for the TA will be the BFID of the MOF. The BSEC will be the implementing agency for the TA, which will be implemented over 2.5 years, starting in January 2016. ADB will engage consultants through a consulting firm in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The government will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, and other in-kind contributions.

#### **IV. DUE DILIGENCE**

##### **A. Economic and Financial**

26. The program will facilitate the mobilization of financial resources for productive investment and employment generation by supporting the development of bond and equity capital markets. It will help ensure balanced development of the finance sector, which will reduce systemic vulnerabilities in the bank-dominated financial system. Specific benefits are as follows:

- (i) By addressing policy and regulatory constraints to the issues of corporate securities, the program will help increase the number of bond and equity issues, both primary and secondary. This will facilitate the mobilization of scarce financial resources for long-term private sector investment, including infrastructure investment.
- (ii) By promoting the development of corporate securities markets and institutional investors, thereby diversifying financial instruments and broadening the investor base, the program will reduce market volatility and improve the resilience of the finance sector to external shocks.
- (iii) By strengthening market governance in capital markets, the program will enhance market efficiency and transparency, and improve investor protection.

##### **B. Governance**

27. Public financial management reform has been undertaken to make resource allocation more effective, prioritize spending, and increase budget execution capability. The government implemented comprehensive governance reforms including the establishment of an independent Anti Corruption Commission in 2004; separation of the judiciary from the executive in 2007, which rendered the Supreme Court independent and brought magistrates exercising judicial functions under the control of the Supreme Court; enactment of the Right to Information Act, 2009 and immediate establishment of the Information Commission; as well as the Whistleblower Protection Act, 2011. The government adopted a new approach to budget planning, with the introduction of the medium-term budget framework in all line ministries, and the establishment of an integrated budget and accounting system in 2009 that connected accounting offices in all districts and chief accounts offices of the line ministries with the MOF. Under the Public Money and Budget Management Act, 2009, the finance minister is required to submit quarterly progress reports to Parliament on the utilization of budgeted appropriations and progress in public expenditure management. Furthermore, greater responsibility and accountability was assigned to BSEC under the second program through clear rules of engagement under the amended Securities and Exchange Commission Act, 1993, which contributed to improved governance in the financial system. In October 2012, the National Integrity Strategy was approved by the government and supported by ADB's Good Governance Program, which represents a comprehensive institutional

approach to fight corruption.<sup>21</sup> ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the BFID of the MOF.

### C. Poverty and Social

28. The capital market reforms under the program will play an important role in raising funds cost-effectively and in enabling investors to gain access to alternative investment opportunities, as well as mitigating the negative impact that financial market instability has on the plight of the poor. Diversification away from a predominantly bank-based system of financial intermediation expands alternative sources of credit, helping to limit the systemic impacts of economic shocks. Capital markets can stimulate healthy competition with the banking sector that results in lower financing costs for all borrowers. The program, therefore, emphasizes specific capital market reforms to help Bangladesh diversify its financial system so that the country can realize its broad-based economic growth and socioeconomic development objectives, including poverty reduction.

### D. Safeguards

29. Capital market reforms supported by the program have been evaluated by the borrower and/or client and ADB. The evaluation shows that the reforms will have no anticipated direct or indirect environmental impacts, will not cause involuntary resettlement, and will have no impacts on indigenous peoples. In this regard, the program is categorized C for environment, involuntary resettlement, and indigenous peoples.

### E. Risks and Mitigating Measures

30. The program's risk assessment is rated *low* since (i) ADB has solid experience in the sector in Bangladesh; (ii) the BFID, the proposed executing agency, has a good performance record in externally financed project implementation; and (iii) the program is unlikely to have any impact on safeguards. Major risks that could affect the program implementation and mitigating measures are summarized in the following table and described in detail in the risk assessment and risk management plan.<sup>22</sup>

**Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigating Measures</b>
Resistance to reforms from vested interests	The chairperson of the steering committee will have the authority to enforce progress and ensure strong commitment among stakeholders and strong ownership of reforms through approval of the national capital market master plan.
Weak implementation capacity of government agencies	The technical assistance provided will facilitate the implementation of second tranche actions by government agencies.
Inadequate coordination among government agencies	A program steering committee established for proper coordination.

<sup>21</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Good Governance Program*. Manila (Loan 2362-BAN for \$150 million and TA 4983-BAN for \$3 million).

<sup>22</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

<b>Risks</b>	<b>Mitigating Measures</b>
Fiduciary risks in public financial management (weak budget preparation capacity and limited performance reporting)	Public financial management reform will continue to be undertaken under multidonor support programs.

Source: Asian Development Bank.

## **V. ASSURANCES AND CONDITIONS**

31. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan agreement. No disbursement shall be made for a tranche unless ADB is satisfied that the government has completed the relevant policy actions specified in the policy matrix relating to the program.

## **VI. RECOMMENDATION**

32. I am satisfied that the proposed policy-based loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$150,000,000 to the People's Republic of Bangladesh for the Third Capital Market Development Program, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and program agreements presented to the Board; and
- (ii) the loan in various currencies equivalent to SDR71,683,000 to the People's Republic of Bangladesh for the Third Capital Market Development Program, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and program agreements presented to the Board.

Takehiko Nakao  
President

27 October 2015

## DESIGN AND MONITORING FRAMEWORK

### Impact the Program is Aligned with

A well-functioning financial system that supports basic capital and investment needs, as well as Bangladesh's longer-term economic objectives.<sup>1</sup>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<b>Outcome</b> Enhanced capacity and size of the capital market in a strong legal and regulatory framework	a. Stock market capitalization increases to 20.4% of gross domestic product by December 2017 (FY2015 baseline: 17.6%) b. Enlistment of new securities increases to 570 by December 2017 (FY2015 baseline: 555) c. Total value of corporate bonds issued increases to Tk19 billion by December 2017 (FY2014 baseline: Tk15.6 billion)	For all indicators: Reports by the Dhaka Stock Exchange and the Chittagong Stock Exchange  Reports by the BSEC  Bangladesh Quarterly Economic Update	Vested interest groups undermine effective implementation of capital market reforms
<b>Outputs</b> 1. Strengthened market stability	1a. BSEC organogram approved by the government by Q2 2016 (Baseline: no new organogram approved) 1b. BSEC-issued initial public offering book-building rules by Q2 2016 (Baseline: no rules) 1c. BSEC issued merger and takeover rules by Q3 2016 (Baseline: no rules) 1d. BSEC adopted a recapitalization plan for intermediaries by Q3 2016 (Baseline: no recapitalization plan) 1e. BSEC established the office of internal control and compliance by Q3 2016 (Baseline: no office of internal control and compliance) 1f. At least one priority ICT application pilot tested and operational on BSEC's portal by Q3 2017 (Baseline: no ICT application) 1g. BSEC granted license to establish a clearing and settlement company by Q4 2016 (Baseline: no clearing and settlement company)	For all indicators: Bangladesh Bank rules and regulations  BSEC rules and regulation  Executing agency progress reports	Lack of interagency coordination of reforms

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
2. Enhanced market facilitation	<p>2a. Financial reporting council established by Q4 2016 (Baseline: no council)</p> <p>2b. BSEC issues directives for inclusion of strategic investors for the Dhaka Stock Exchange and the Chittagong Stock Exchange by Q4 2016 (Baseline: no directive)</p> <p>2c. Transfer of capital market-related cases from the regular courts to the special tribunal for capital markets by Q3 2017 (Baseline: no cases transferred)</p>	<p>For all indicators: Bangladesh Bank rules and regulations</p> <p>BSEC rules and regulation</p> <p>Executing agency progress reports</p>	
3. Enhanced supply measures	<p>3a. BSEC regulations on corporate bond issuance adopted by Q2 2015 (Baseline: no regulation)</p> <p>3b. BSEC regulations on private equity and venture capital adopted by Q2 2015 (Baseline: no regulation)</p> <p>3c. BSEC regulations on <i>sukuk</i><sup>2</sup> issuance adopted by Q4 2016 (Baseline: no regulation)</p> <p>3d. BSEC regulations on derivatives adopted by Q4 2016 (Baseline: no regulation)</p>	<p>For all indicators: Bangladesh Bank rules and regulations</p> <p>BSEC rules and regulation</p> <p>Executing agency progress reports</p>	
4. Enhanced demand measures	<p>4a. Exemption of tax for fixed-income mutual funds on the first Tk25,000 interest income by Q3 2015 (Baseline: no tax exemption on the first Tk25,000 interest income)</p> <p>4b. BSEC regulations on exchange traded funds adopted by Q2 2016 (Baseline: no regulation)</p> <p>4c. IDRA organogram approved by the government by Q2 2016 (Baseline: no new organogram approved)</p> <p>4d. Devolvement of government securities reduced to no more than 10% of total issuance by Bangladesh Bank by FY2017 (FY2014 baseline: 15.4%)</p> <p>4e. IDRA issued five insurance regulations by Q4 2016 (Baseline: no regulation)</p>	<p>For all indicators: Bangladesh Bank rules and regulations</p> <p>BSEC rules and regulation</p> <p>Executing agency progress reports</p>	



<b>Key Activities with Milestones</b>
Not applicable.
<b>Inputs</b> Asian Development Bank Program loans: Ordinary capital resources \$150 million Asian Development Fund \$100 million  Technical assistance: Technical Assistance Special Fund (TASF-V) \$0.40 million Republic of Korea e-Asia and Knowledge Partnership Fund \$0.30 million
<b>Assumptions for Partner Financing</b>
Not applicable.

BSEC = Bangladesh Securities and Exchange Commission, ICT = information and communication technology, IDRA = Insurance Development and Regulatory Authority, Q = quarter.

<sup>1</sup> Government of Bangladesh, Ministry of Planning, Planning Commission. 2011. *Sixth Five-Year Plan, FY2011–FY2015*. Dhaka.

<sup>2</sup> *Sukuk* means Sharia-compliant bonds.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://adb.org/Documents/RRPs/?id=45253-002-3>

1. Loan Agreement: Ordinary Operations
2. Loan Agreement: Special Operations
3. Program Agreement
4. Sector Assessment (Summary): Finance (Capital Markets)
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Attached Technical Assistance
8. Financial Analysis
9. Country Economic Indicators
10. International Monetary Fund Assessment Letter<sup>1</sup>
11. Summary Poverty Reduction and Social Strategy
12. Risk Assessment and Risk Management Plan
13. List of Ineligible Items

### **Supplementary Document**

14. Second Capital Market Development Program: Impact and Results Assessment

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<sup>1</sup> Provided by the International Monetary Fund in confidence and therefore, in line with the Public Communications Policy and OM Section D4, will not be disclosed to the public.

## DEVELOPMENT POLICY LETTER

Government of People's Republic of Bangladesh  
Ministry of Finance  
Bank & Financial Institutions Division  
Project Management Section  
Website: [www.bfid.gov.bd](http://www.bfid.gov.bd)

NO. 53.00.0000.431.99.040.15-351

Date: August ০৭, 2015

**Mr. Takehiko Nakao**  
President  
Asian Development Bank

**Subject: DEVELOPMENT POLICY LETTER**

Dear Mr. President,

The Government of the People's Republic of Bangladesh is strongly committed to pursue the economic reform of Bangladesh. Bangladesh Securities and Exchange Commission (BSEC) has successfully completed the Second Capital Market Development Program (CMDPII) with financial assistance from Asian Development Bank (ADB). For sustaining the results achieved through CMDP II and for further development of the domestic capital market, the Third Capital Market Development Program (CMDP III) has been designed with the support of the Asian Development Bank (ADB), which is a concrete manifestation of that continued commitment and the Government's determination to move the country out of the low-income-low-saving-low-investment trap.

### A. Background to Reforms

The Vision 2021 formulated by this government is to turn Bangladesh into a middle income country by 2021 and the journey to become a middle income country requires sustained growth. The draft 7<sup>th</sup> Five Year Plan, spanning fiscal years from 2016-2020, also aims at sustainable momentum of GDP growth. Since most of the additional increase in the growth of investment is projected to come from the private sector, policy reforms are envisioned under the draft 7th Five-Year Plan to improve incentives for private investment such as providing sustainable long-term infrastructure financing options through capital market development. For this, Bangladesh needs to address the structural deficiencies in the capital market by deregulating the financial system to better support the real economy and promote private sector investment to reduce the infrastructure deficit. For the above mentioned reasons, the Government is committed to continue the reforms of the country's financial sector.

### B. Rationale for the Program

The capital market in Bangladesh is increasingly showing evidence of greater stability and resilience as it gradually increases its role in the economy albeit from a low base. After 2010, many regulatory and policy reforms were rolled out in the capital market and Government has taken a ten years master plan for sustainable development of the capital market. The market has gradually re-built confidence from the policies and regulatory reforms under the recently concluded Second Capital Market Development Program (CMDP II) with partnership of ADB.

Despite Bangladesh's major strides towards strengthening its capital market, these market still need to be more effective in channeling savings to support investment growth. A lack of

sustainable long-term infrastructure financing options persists in the economy due to limited capital market development. The economy remains over-reliant on bank financing that are unable to finance the infrastructure investments because of macro-prudential limits on group and sector exposure and credit risks. The bond market does not have the depth and maturity for long term infrastructure financing requirements. Mutual fund and institutional investors like insurance companies' participation in capital market are very limited, that constrains their role in financing government securities. The absence of alternative financial instruments (such as derivatives) and limited *sukuk* issuance activity constrain the depth and breadth of Bangladesh's capital markets.

In these circumstances, domestic capital market needs further reforms and the Government of Bangladesh is requesting Asian Development Bank to finance the proposed Capital Market Development Program III.

### C. The Program

The Program seeks to create a policy environment conducive to capital market development. It aims to develop a fair, transparent and efficient capital market to restore public confidence and promote and facilitate private investments by expanding and diversifying investor base. For this proposed Program, a Policy Matrix has been developed in consultation with the stakeholders which will be firmed up during the loan negotiation.

#### 1. Strengthen BSEC in Areas of Regulation and Enforcement

The recent market stabilization measures provided an opportunity to strengthen the foundation of regulatory partnerships by further augmenting transparency, fairness, and effectiveness as well as compliance, which would lead to enhanced trust and confidence in Bangladesh's capital market. To further ensure that the market operates in a fair and transparent manner the Program aims to enhance BSEC's capability in areas of regulation and enforcement. BSEC has already taken initiatives to revise its existing organogram with adequate manpower which will significantly enhance its regulatory and enforcement capacity. The installation of an ICT system at BSEC will create synergistic effects at the regulatory agency by raising the productivity levels. The ICT system includes key features such as electronic reporting by listed companies and intermediaries, (ii) electronic internal communication system, and (iii) case tracking system for investigations and enforcement cases. The operationalization of the Office of Internal Control and Compliance will also further augment the transparency, fairness and compliance of BSEC. The enhanced enforcement capacity will be complemented by expedited adjudication of enforcement actions through operationalization of a special tribunal for capital market-related cases. In addition, the BSEC will take initiative for upgradation of intermediaries by: (i) issuing risk-based capital rules for intermediaries, and (ii) adopting of capital restructuring plan for intermediaries.

#### 2. Demutualization of Stock Exchanges

The government has taken necessary measures to ensure demutualization of the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) under CMDP II. The demutualization of the stock exchanges has segregated ownership, management, and trading rights of members and converted the two exchanges into commercial and more professionally run organizations while enabling them to pursue their strategic interests, including market development, with more vigor. A governance structure representing all stakeholders and encouraging competition among trading members is helping to develop the country's capital market and attract new investors. The demutualization will also facilitate development of crucial new technology infrastructure through the entry of strategic investors into both stock exchanges.

### 3. Enhance Institutional Investor Demand and Promote Mutual Fund Industry

Participation of insurance industry in the capital market will be enhanced through compliance of the minimum capital requirements of the Insurance Act, 2010 and encouraging investors' demand through issuing of investment guidelines by Insurance Development and Regulatory Authority (IDRA). The organogram of IDRA is under the approval process which will significantly enhance IDRA's regulatory capacity. A robust mutual fund industry can be promoted by amending rules to (i) ensure a level-playing field between ICB and non-ICB funds by removing the exemption allowed to ICB, (ii) allow investors in fixed-income mutual funds the same tax treatment as equity mutual funds (i.e. unit holder tax exemption on the first Tk.25,000 in dividends), and (iii) promote Exchange Traded Funds with BSEC's issuance of relevant rules.

### 4. Enhance Supply and Demand of Equities

The accounting and auditing standards should be upgraded to enhance market confidence and allow for informed investment decisions. After the enactment of Financial Reporting Act, the government would consider to establish of an independent Financial Reporting Council (FRC) to ensure the adoption of International Accounting Standards (IAS) and International Standards of Auditing for public interest entities. In line with international best practices, amendment of the IPO book-building rules will be done to make the price discovery method more effective and it will incentivize equity financing.

### 5. Enhance Supply and Demand of Bonds

In a well diversified financial system, bond market has a very important role to play. Bond financing allows diversification of credit and investment risk. The government bond market forms the backbone of a modern securities market and considering the utmost importance of bond market, the government would take a strategy of creating liquid benchmark issues through introduction of Floating Rate Notes (FRNs) in the Government bond auction system on a pilot basis after approval of Floating Rate Note guidelines by Cash and Debt Management Committee (CDMC). The corporate bond market can be catalyzed by amending the regulations related to (i) removal of the 60/40 debt to equity ratio ceiling, (ii) removal of shareholder approval requirement and replacement with board of director approval requirement, and (iii) replacement of the finalized term sheet for application with a range of term sheet variables.

### 6. Enhance Supply of Alternative Financial Instruments

The development of a deeper and broader capital market entails promotion of alternative financial instruments. The issuance of *sukuk* rules will promote Islamic finance and increase the number of *sukuk* issues. The introduction of regulations for issuance of derivatives will encourage the development of instruments. BSEC would take steps to formulate legal framework to grant license for establishing clearing and settlement company which will complement the derivatives regulations by providing the requisite platform for a derivatives market.

### D. Program Implementation

The Government is fully aware that the success of the Program depends upon the ability of the Executing Agency to implement the Program. The executing agency will be the Bank and Financial Institutions Division of Ministry of Finance (MOF-BFID). The implementing agency will be the BSEC. The Program will be implemented over a period of 3 years. The Program will be supported by other key government agencies (including Bangladesh Bank) which are responsible for undertaking numerous policy actions. A steering committee will be formed with

the representatives of the concerned stakeholders that will be chaired by the Secretary of MOF-BFID to oversee the implementation of the program. The government will dedicate counterpart funds generated out of the loan proceeds to meet the costs of adjustment arising from the proposed reforms.

To ensure Program quality, the Government will seek and consider the views of all parties to be affected by reforms and also consult with wide segment of the capital market as possible, prior to implementation of specific reform actions. Specific problems will also be brought to the attention of the ADB at an early stage.

#### E. Government's Request

The Government considers the development of the domestic capital market with priority for the overall domestic resource mobilization effort vital for the future growth and development of the country's economy. The Government is also aware that the Program to reform and develop the country's capital market represents a crucial test of the Government's political will to carry out more far-reaching reforms in the financial sector and the overall economy.

The Government is, therefore, dedicating its best staff and resources to undertake the implementation of these reforms. It is confident that it can implement the proposed reforms within the time frame agreed upon and achieve the objectives of the Program. The Government would, therefore, like to seek ADB's favorable consideration of its request for a loan of \$250 million equivalent in support of its policy reform program. The Government will collaborate closely with the ADB in the implementation of the proposed reforms both to facilitate the process and ensure that the reforms carried out meet the requirements of the Program.

The Government believes that successful implementation of the Program will facilitate further reforms of the financial sector and more urgently, help meet the immediate and pressing needs of the real sector. The envisioned reforms will complement other ongoing reforms focused on achieving a faster pace of economic growth. We welcome and look forward to ADB's participation in our reform efforts.

With regards,

Yours sincerely,



Abul Maal Abdul Muhith

7/8/15

## POLICY MATRIX

**DEVELOPMENT OBJECTIVE: To develop efficient, stable and transparent capital markets in Bangladesh**

Objectives and Policy Actions	1 <sup>st</sup> Tranche Policy Action (by Q4 2015)	2 <sup>nd</sup> Tranche Policy Action (18 months after T1)
<b>A. Market Stability</b> Objective: To promote more robust, resilient and stable capital markets.		
1. Enhance BSEC's role to develop and monitor the market		(1) Government to approve the BSEC revised Organogram. <b>(MOF-BFID)</b>
		(2) BSEC to operationalize the Office of Internal Control and Compliance. <b>(BSEC)</b>
2. Strengthen regulatory measures		(3) BSEC to amend Securities and Exchange Commission (Public Issue) Rules, 2006 including (i) IPO book-building procedures to make the price discovery method more effective and (ii) reducing the IPO lock-in period from 3 years to 1 year for BSEC licensed private equity investors. <b>(BSEC)</b>
		(4) BSEC to (i) issue risk-based capital rules for intermediaries, and (ii) adopt and initiate implementation of capital restructuring plan for intermediaries. <b>(BSEC)</b>
		(5) BSEC to issue merger and takeover rules. <b>(BSEC)</b>
		(6) BSEC to initiate installation of its ICT system that includes the following elements: (i) electronic reporting by listed companies and intermediaries, (ii) electronic internal communication system (filing, retrieval, and analysis of documents), and (iii) case tracking system for investigations and enforcement cases. <b>(BSEC)</b>
3. Develop a central clearance and settlement system	(1) BSEC to determine: (i) capital structure, (ii) ownership composition, (iii) governance structure, and (iv) risk management structure of the proposed clearing and settlement company. <b>(BSEC)</b>	(7) Finalize legal framework to grant license for establishing a clearing and settlement company by way of approval by BSEC or by submission of a draft bill to parliament, as necessary. <b>(MoF-BFID and BSEC)</b>

Objectives and Policy Actions	1 <sup>st</sup> Tranche Policy Action (by Q4 2015)	2 <sup>nd</sup> Tranche Policy Action (18 months after T1)
<b>B. Market Facilitation</b> Objective: To support more effective and efficient mobilization and allocation of resources in the economy.		
1. Upgrade accounting and auditing standards		(8) Establish an independent Financial Reporting Council (FRC) with the purpose of initiating the adoption of International Accounting Standards and International Standards of Auditing for public interest entities. <b>(MOF-FD)</b>
2. Expedite adjudication of enforcement actions	(2) BSEC to operationalize the special tribunal for capital market related cases. <b>(BSEC)</b>	(9) Transfer of capital market related cases from the regular courts to the special tribunal for capital markets. <b>(BSEC)</b>
3. Improve regulation, governance, and operation of stock exchanges		(10) As part of the stock exchanges demutualization plan of action, BSEC to issue directives for inclusion of strategic investors for DSE and CSE. <b>(BSEC)</b>
<b>C. Supply Measures</b> Objective: To increase the supply of quality bonds and alternative financial instruments through the capital markets.		
1. Enhance supply of bonds (including promotion of alternative sources of bond financing)	(3) BSEC to amend the following corporate bond issuance rules: (i) removal of the 60/40 debt equity ratio ceiling, (ii) removal of shareholder approval requirement and replacement with board of director approval requirement, and (iii) replacement of the finalized term sheet for application with a range of term sheet variables. <b>(BSEC)</b>	(11) BSEC to issue <i>Sukuk</i> rules. <b>(BSEC)</b>
2. Promote private equity funds	(4) BSEC to issue private equity and venture capital rules. <b>(BSEC)</b>	
3. Promote derivatives		(12) BSEC to issue rules for derivatives. <b>(BSEC)</b>
<b>D. Demand Measures</b> Objective: Support mobilization of capital market financing.		
1. Develop liquid bond markets		(13) CDMC to approve manual for introduction of Floating Rate Notes. <b>(MOF-FD and BB)</b>



Objectives and Policy Actions	1 <sup>st</sup> Tranche Policy Action (by Q4 2015)	2 <sup>nd</sup> Tranche Policy Action (18 months after T1)
		(14) CDMC to approve Floating Rate Note guidelines and BB to issue Floating Rate Notes in the Government Bond Auction System on a pilot basis. <b>(MOF-FD and BB)</b>
	(5) BB to publish 91-day Compounded Overnight Bangladesh Rate on a daily basis. <b>(MOF-FD and BB)</b>	
		(15) CDMC/BB to approve and introduce short-selling of Primary Dealer owned government securities on a pilot basis. <b>(MOF-FD and BB)</b>
2. Promote mutual funds	(6) BSEC not to allow ICB or any of its subsidiaries to act as a trustee of the new funds where ICB or its AMC itself is the sponsor. <b>(BSEC)</b>	
	(7) Allow investors in fixed-income mutual funds the same tax treatment as equity mutual funds as conferred by 22A of the 6th Schedule (Part-A) of the Income Tax Ordinance, 1984. <b>(NBR and BFID)</b>	(16) BSEC to issue rules for operation of Exchange Traded Funds. <b>(BSEC)</b>
3. Enhance institutional investor demand by promoting contractual savings institutions		(17) Government to approve the IDRA Organogram. <b>(MOF-BFID)</b>
	(8) (i) Issuance of Review (Time, Form and Fee) Regulations, 2015 which provides a mechanism for insurance companies and others for review of decisions by IDRA officials and (ii) operationalization of IDRA's Dispute Resolution Committee dealing with insurance claims-related issues. <b>(IDRA)</b>	(18) Issuance of the following rules/regulations: (i) paid-up capital and shareholdings of an insurance company, (ii) asset investment rules (including government securities, real estate, and equities) for life and non-life insurance companies, (iii) life insurance policy and claim register, and (iv) life insurance policy holders' security fund. <b>(MoF-BFID and IDRA)</b>

AMC = Asset Management Company; BB = Bangladesh Bank; BFID = Bank and Financial Institutions Division; BSEC = Bangladesh Securities and Exchange Commission; CDMC = Cash and Debt Management Committee; FRC = Financial Reporting Council; FD = Finance Division; ICB = Investment Corporation of Bangladesh; ICT = information and communication technology; IDRA = Insurance Development and Regulatory Authority; IPO = initial public offering; MOF = Ministry of Finance; MPA = Ministry of Public Administration; NBR = National Board of Revenue.