

**Project Work**  
**On**  
***“Performance Appraisal of Dhaka Stock Exchange”***

**Course: Project Work**

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**EAST WEST UNIVERSITY**

April 28, 2010

Dr. Tanbir Ahmed Chowdhury  
Professor  
Department of Business Administration  
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Subject: Submission of Project work.

Dear Sir,

I am glad to submit this report on the study of the “*Performance Appraisal of Dhaka Stock Exchange*” as a part of my project report(BUS 498). The report deals with several important aspects on Dhaka Stock Exchange. The issues include the study of different indicators which measure the performance of Dhaka Stock Exchange. This project paper also analyzed the overall condition of Dhaka Stock Exchange, policies taken by DSE, its problems and the solutions that can overcome the problems.

Thank you for your sincere co-operation throughout the duration of the study.

I would once again like to express my sense of gratitude towards you for giving me this opportunity, and sincerely hope that my report would give you immense satisfaction. I will always be available to respond to any queries that you may have in this regard.

Sincerely,

Nilufa Ahmed

Nilufa Ahmed

2006-2-10-100

## *Acknowledgement*

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I am very much pleased to complete the research paper under the supervision of Dr. Tanbir Ahmed Chowdhury. In this particular research paper I tried to find out different aspects which indicate the overall performance of Dhaka Stock Exchange. I am very much obliged to my supervisor Dr. Tanbir Ahmed Chowdhury and my teachers who gave their valuable time in the project and gave their valuable opinion and advice to complete this report. I also like to thank to my friends who help me to gather information related to this topic from different sources. Besides, my profound gratification goes to Dr. Tanbir Ahmed Chowdhury, the honorable supervisor of my report for his apt supervision to complete the report successfully. Not only this, he has also contributed much in this project by giving me proper guideline. Then, I would like to thank for his participation with me through an interview session and sharing the required information about different perspective to complete this research paper. I am also acknowledging to all of those web sites from which I have taken necessary helps. Again my gratitude goes to Dr. Tanbir Ahmed Chowdhury who provided me such a wonderful topic and also gave opportunity to gather knowledge about Dhaka Stock Exchange.

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# *Executive Summary*

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The Dhaka Stock Exchange commonly known as DSE is the prime bourse of the country. It is offering facilities for transparent and highly efficient mechanism provisions for secondary market activities of shares, debentures and wide varieties of other securities through its nonstop highly fault-tolerant screen based automated trading system. The Management of the Exchange comprises of 25 members under which, 12 are elected, 12 non-elected independent Directors representing different Institutions, Chambers and professional bodies and the CEO.

The DSE at present offers trading facilities for 418 securities which includes Companies, Corporate bonds, Treasury bonds and Mutual funds. Securities market has been playing a vital role in the expansion of industries, trade and commerce related activities through supplying funds. And Dhaka Stock Exchange is the rallying point for enterprises to raise capital in Bangladesh. In its 56 years journey the stock exchange has made significant contribution to the economy of Bangladesh. Its market capitalization to GDP has increased to 35.25%. With a nationwide coverage through offices in 4 divisional cities and 422 brokerage houses, DSE espouses shared vision of Bangladeshi business all over. The exchange maintains the lead in providing a launching pad for mobilizing savings of the public.



# Chapter One



## **1.1 ORIGIN OF THE REPORT**

Project report is a practical part of academic studies. This is a reflection of academic knowledge through practical work experience. Thus this Project report aims to reflect the professional view of real world working environment.

The report on the “*Performance Appraisal of Dhaka Stock Exchange*” is prepared by Nilufa Ahmed which is an individual work done under the supervision and guidance of Dr. Tanbir Ahmed Chowdhury, Business Administration Department, East West University. It is the out put of three and half month long project program that has done on Dhaka Stock Exchange. It also fulfills the partial requirement of the project work that a Business Graduate must undergo in order to qualify for degree in East West University.

## **1.2 OBJECTIVES OF THE STUDY**

The main objective of the report is to analyze and explore the actual performance of Dhaka Stock Exchange. The other minor objectives are:

- To present an overview of DSE.
- To focus the specific functions of DSE.
- To identify different types of market in DSE
- To analyze different categories of Share
- To analyze indices of DSE
- To present the comparison of performance of DSE of last few years.
- To present initiatives taken by DSE for improvement.
- To identify the problems.
- To suggest solution for the problems.

### **1.3 SCOPE OF THE REPORT**

The scope of this report is to find out the overall performance of DSE in the stock market. The report is basically divided into two parts:

- ✓ The Organization Part
- ✓ The Analysis Part

The organization part of the report gives an overview of Dhaka Stock Exchange. It focuses upon the history of DSE, formation, management, objectives of DSE and functions of DSE. The study also concentrates upon the different functions performed by DSE including surveillance activities.

The analysis part of the report basically evaluate the performance of Dhaka Stock Exchange through different performance measurement indicators such as performance of different indices, IPO offering, performance of enlisted securities, DSE turnover, market capitalization etc. in the last portion some findings of the present problems of DSE and some recommendations are addressed.

### **1.4 METHODOLOGY**

The data are collected from discussion with my project instructor, reading of related books, publication and articles, different statements from brochure and journal, different report magazines and document, collect from Internet, information from DSE library. To perform the study after identifying and collecting the data sources, they are to be classified, analyzed, interpreted and presented in a systematic manner and key points are to be found out. Collected information is processed by the use of computer system. Detailed analysis working variables and working definition are embodied in the report.

## 1.5 LIMITATIONS

It is true that most in the time doing some study on a subject or plan to research on a subject, every material of study would not be available all the time .I might face some problems or there must be some limitations. At the beginning stage of my study I have had some problem, like I did not get all relevant information. Sometimes I got information but later it turned into uncompleted or old information. Another significant limitation of the study was time restriction. Even though I have given our full effort to make this report a good one, but it is too tough to perform well such an analysis within a shorter period of time. Though I have faced some other problems such as-unavailability of some information, technical problems which includes computer problem, virus problems, software problems, I also had problems regarding some brochures, file, information paper. But I did not give it up. I continued my quest. And I was able to get over the problems and limitations.

# Chapter Two



## **2.1 HISTORY OF DHAKA STOCKEXCHANGE**

Dhaka Stock Exchange which is generally known as DSE is the main stock exchange of Bangladesh. It first incorporated as East Pakistan Stock Exchange Association Ltd in 28 April 1954 and started formal trading in 1956. It was renamed as East Pakistan Stock Exchange Ltd in 23 June 1962. Then again it was revised as Dacca Stock Exchange Ltd in 13 May 1964. Trading in the Dhaka Stock Exchange discontinued for a span of five years following the liberation war of 1971. In 1976 trading restarted in Bangladesh. In 16 September 1986 was started. The formula for calculating DSE all share price index was changed according to IFC in 1 November 1993. The automated trading was initiated in 10 August 1998. In 1 January 2001 was started. Central Depository System was initiated in 24 January 2004. As of November 16, 2009, the benchmark index of the Dhaka Stock Exchange (DSE) crossed 4000 points for the first time, setting another new high at 4148 points.

## **2.2 FORMATION**

Dhaka Stock Exchange (DSE) is formed and managed under Company Act 1994, Security and Exchange Commission Act 1993, Security and Exchange Commission Regulation 1994, and Security Exchange (Inside Trading) regulation 1994. The issued capital of this company is Tk. 500,000 which is divided up to 250 shares each pricing Tk. 2000. No individual or firm can buy more than one share. According to stock market rule only members can participate in the floor and can buy shares for himself or his clients. At present it has 230 members. Market capitalization of the Dhaka Stock Exchange reached nearly \$9 billion in September 2007 and \$27.4 billion in Dec 9, 2009

## **2.3 DSE AS AN ORGANIZATION**

The Dhaka Stock Exchange (DSE) is incorporated as a Public Limited Company. It is a Self-Regulatory Organization and its activities are regulated by:

- Articles of Association

- Rules and regulations and bye-laws of the exchange
- Companies Act 1994
- Securities and Exchange Ordinance 1969
- Securities and Exchange Rules 1987

## **2.4 MEMBERSHIP**

The DSE has 230 members who are also the shareholders of the Exchange. The members are licensed by the Securities and Exchange Commission (SEC) for conducting trading as Stock Dealer or Broker. All Brokerage houses have been corporatized in 2006.

## **2.5 MANAGEMENT**

The management and operation of Dhaka Stock Exchange is entrusted on a 25 members Board of Director. Among them 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The CEO is the 25th ex-officio member of the board. A highly qualified and trained team of Executives reporting to the CEO runs the day-to-day affairs of DSE. The management team runs independently under policies set by the Board of Directors. A Head of IT, Secretary and Deputy Finance Controller assist the CEO in managing day-to-day affairs of the bourse.

The following organizations are currently holding positions in DSE Board:

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

## 2.6 OBJECTIVES OF DSE

The objects for which the Exchange is established are:-

- a. To provide, regulate and maintain a suitable building, room or rooms for a Stock Exchange in Bangladesh.
- b. To conduct the affairs of the Stock Exchange.
- c. To facilitate the transaction of business on the Stock Exchange and to make laws, Bye- Laws and Regulations subject to which business on such Stock Exchange shall be transacted and the conduct of the persons transacting the same and generality for the good other and government of the members of Exchange.
- d. To promote, support and protect the character, status and common interests of Stock and Share Brokers and Stock Share Dealers.
- e. To adjust controversies between its members, to establish just and equitable Principles in the business, to promote honorable practices amongst members and to decide all question of usage or courtesy between or among members of the Exchange.
- f. To Purchase, take on lease on tenancy or otherwise acquire for any estate or interest whatsoever and to hold, develop, deal with and turn to account options, leases, property real and personal which the Exchange for the purpose thereof, may from time to time think proper to acquire.
- g. To sell, exchange, mortgage let to lease or sublet disposes of account or otherwise deal with all or any part of the property of the exchange.
- h. To borrow or raise or secure the payment of any money in such manner as the Exchange shall think fit and in particular by the issue of debentures or debenture stock perpetual or otherwise charged upon and or any of the property of the Exchange both present and future including its uncalled capital and to purchase, redeem and pay off and such securities.
- i. To invest any moneys of the Exchange not for the time being required such investment (other than shares or stock in the Exchange) as may be thought proper and to hold, sell or otherwise deal with such investments.
- j. To subscribe for or guarantee money for any National, charitable, benevolent general or useful object.



- k. To enter into any arrangements and to take all necessary and proper steps with Government or with other authorities National, legal municipal or otherwise of any place in which the Exchange or its members may have interest and to promote or assist the promotion whether directly or indirectly of any legislation which may appear to be in the interest of the Exchange and to oppose and resist whether directly or indirectly any legislation which may seem disadvantageous to the Exchange or its members.
- l. To undertake and execute any trust the undertaking of which may seem to the Exchange desirable and either gratuitously or otherwise and to do all such other things as are incidental conducive to the attainment of the above object subject.

## 2.7 FUNCTIONS OF DSE

The major functions are:

- ✓ Listing of Companies. (As per Listing Regulations).
- ✓ Providing the screen based automated trading of listed Securities.
- ✓ Settlement of trading.(As per Settlement of Transaction Regulations)
- ✓ Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42)
- ✓ Market Administration & Control.
- ✓ Market Surveillance.
- ✓ Publication of Monthly Review.
- ✓ Monitoring the activities of listed companies. (As per Listing Regulations).
- ✓ Investor's grievance Cell (Disposal of complaint by laws 1997).
- ✓ Investors Protection Fund (As per investor protection fund Regulations 1999)
- ✓ Announcement of Price sensitive or other information about listed companies through online.

These above listed functions are the main functions of DSE. But it has some other functions also.

## 2.8 OTHER FUNCTIONS

Some more functions of DSE are given bellow:

- ✓ **Dispute resolution:** DSE has an arbitration system to resolve disputes or claims against members through a panel of judges comprising 5 retired district judges.
- ✓ **SMS facility:** DSE is offering SMS services. Anyone can get Latest Trade Information of any DSE Listed Company he or she desires by sending SMS.
- ✓ **GPRS facility:** DSE is offering GPRS services. For GPRS users to make use of the BULL software, it is needed to get registered first. Then anyone can access the software by mobile through GPRS to get a variety of Latest Trade Information of DSE. The application requires login before using it. Only Grameenphone users can register and login right now.

## 2.9 SURVEILLANCE

The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways -

- ➔ By monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants to influence the price of the scrip/scrips in the absence of any meaningful information.
- ➔ By managing default risk by taking necessary actions timely.

The department carries out investigation, if necessary, based on the preliminary examination/analysis and suitable actions are taken against members involved based on the investigation. All the instruments traded in the market come under the Surveillance umbrella of DSE.

Surveillance activities at the Exchange are divided broadly into two major segments -

### a. Price Monitoring:

Price monitoring is mainly related to the price movement/abnormal fluctuation in prices or volumes etc. Market Abuse is a broad term which includes abnormal price/volume movement, artificial transactions, false or misleading impressions, insider trading, etc.

The functioning of the Price Monitoring is broadly divided into following activities –

- **On line Surveillance:** One of the most important tools of the Surveillance is the On-line Real Time Surveillance system with main objectives of detecting potential market abuses at a nascent stage to reduce the ability of the market participants to unduly influence the price and volumes of the scrips traded at the Exchange, improve the risk management system and strengthen the self regulatory mechanism at the Exchange. The system provides facility to access trades and orders of members.
- **Off-Line Surveillance:** The Off-Line Surveillance system comprises of the various reports based on different parameters and scrutiny thereof -
  - High/ Low Difference in prices
  - % change in prices over a week/ fortnight/ month
  - Top N scrips by Turnover over a week/ fortnight/ month
  - Top N scrips by Volume over a week/ fortnight/ month
  - Trading in infrequently traded scrips
  - Scrips hitting New High / Low etc.

**Investigations:** Conducting in-depth investigations based on preliminary enquiries/analysis made into trading of the scrip. In case of irregularities observed, necessary actions are initiated or investigation case forwarded to SEC, if necessary through the CEO.

### Surveillance Actions

- **Warning to Members:** The department may issue verbal/ written warning to member/s when market irregularities in the scrip are suspected.

- **Imposition of penalty/ suspension:** The department, through the CEO, imposes penalty or suspend the member/s who are involved in market irregularities, based on the input/ evidence available from investigation report.

**Rumor verification:** It involves-

- Liaising with Compliance Officers of companies to obtain comments of the company on various price sensitive corporate news items appearing in selected News Papers.
- Comments received from the companies are disseminated to the market by way of online news bulletin.
- Investigations based on rumor verifications are carried out, if required, to detect cases of suspected insider trading.

**b. Position Monitoring:**

The position monitoring relates mainly to abnormal positions of members, etc. in order to manage default risk.

The Surveillance Department closely monitors outstanding exposure of members on a daily basis. For this purpose, it observes various off-line and on-line market monitoring reports. The reports are scrutinized to ascertain whether there is excessive purchase or sale position build up compared to the normal business of the member, whether there are concentrated purchases or sales, whether the purchases have been made by inactive or financially weak members and even the quality of scrips is considered to assess the quality of exposure.

The following key areas are examined to assess the market risk involved -

- ❖ **Online monitoring of Brokers Position:** Surveillance closely monitors brokers gross turnover exposure for ensuring margin calls in time.
- ❖ **B/S Statement of Trading Members:** Scrutinizing the statement on daily basis. It is for keeping a watch on the exposure of the members & ascertains the quality of exposures. A detailed report on the net outstanding positions of

top purchasers and top sellers in individual scrips, is prepared, if considered necessary.

- ❖ **Concentrated B/S:** It is considered a risky issue. In case, such a situation is noticed, fundamentals of the scrips, their daily turnover, their nature of transactions are ascertained. Thereafter, based on the market risk perception appropriate surveillance actions are taken.
- ❖ **B/S of scrips having thin trading:** It is closely scrutinized as comparatively high market risk is involved in trading in such scrips. Details of trades in such scrips, if necessary, are called from members to assess the market risk involved & decide on the appropriate surveillance action.
- ❖ **Verification of Institutional Trade:** The institutional trades executed by the trading members are verified to ascertain the genuineness of trades.
- ❖ **Verification of Foreign Trade:** The foreign trades executed by the trading members are verified to ascertain the genuineness of trades.
- ❖ **Verification of Cross Reporting Trade:** The report crossing trades executed by the trading members are verified to ascertain the genuineness of trades.
- ❖ **Verification of Dealers own trades:** Trades executed by the trading members (Dealers) are verified to ascertain the genuineness of trades.
- ❖ **Verification of Sponsor's Trade:** The Sponsors trades executed by the trading members are verified to ascertain the genuineness of trades.
- ❖ **Snap Investigation:** To carry out, wherever considered necessary, preliminary investigation of certain dealings to verify irregularities. Further actions, viz., referring the case for detailed investigation, referring the case to the Sec, depending on the findings of preliminary investigation.
- ❖ **Market Intelligence:** The rumors floating in the market are verified with the data available with DSE, Newspapers, Television news channels & Reuters to ascertain the national & global factors affecting the market sentiments. This enables the Exchange to avert market problems before it causes a serious damage.
- ❖ **Review Block Trades:** To determine -
  - Whether the block was executed at a price, even if at a discount or premium which was in line with other trading of the stock.

- Whether there was any news on the company which caused the price increase or decrease subsequent to the block transaction.
- ❖ **Review List of Settlement Failures:** To identify -
  - broker/s with frequent failures
  - a particular stock with a pattern.
- ❖ **Verify Company Accounts:** To scrutinize company announcements, company reports, auditors qualifications & other notes of special interests in the published accounts of such company.
- ❖ **Review Media Information:** To scrutinize press articles or other media on the daily basis, the news relevant to the share prices of companies.
- ❖ **Monitoring on Newly Listed Stock:** To review all activities of a newly listed stock for the first 1 / 2 weeks to identify any abnormal deal.
- ❖ **Develop Good Liaison:** To develop & maintain good liaison with staff members of SEC & listed companies & member firms as well.
- ❖ Develop market contacts & to pick up Intelligence.

## 2.10 LISTING RULE AT DSE

### **Listing Requirements of DSE as per Listing Regulation 1999 (as amended upto 2005)**

A public limited company may apply for listing if it has minimum paid-up capital of Taka 20 (twenty) million and shall make a public issue which is subscribed by not less than 400 applicants. The applicant company among others shall furnish the following documents to the exchange:

- Application for listing as per Form I,
- Memorandum & Articles of Association,
- Copy of the Certificate of incorporation,

- Copies of all material contracts and agreements entered into or exchanged with foreign participants, machinery suppliers and any other financial institutions,
- Copy of Consent order issued by the Commission,
- Names of Directors along with directorship of other companies listed on the Exchange,
- Statement of audited accounts for the last 5 years or for a shorter number,
- A undertaking regarding full compliance of Exchange's Listing Regulations and other securities laws.

### **General process of listing through IPO:**

The unlisted companies are required to complete certain procedures to get listing at DSE (Exchange). The present process/way of listing, in short, may describe as follows:

1. Every company intending to enlist its securities to DSE by issuing its securities through IPO is required to appoint Issue Manager to proceed with the listing process of the company in the Exchange,
2. The Issue Manager prepares the draft prospectus of the company as per Public Issue Rules of SEC and submit the same to the SEC and the Exchange(s) for necessary approval,
3. The Issuer is also required to make agreement with the Underwriter(s) and Bankers to the Issue for IPO purpose,
4. After receiving the draft prospectus, the Exchange examine and evaluate overall performance as well as financial features of the company which may have short term and long term impact on the market,
5. The Exchange send its opinion to SEC within 15 days of receipt of draft prospectus for SEC's consideration,
6. After proper scrutiny, SEC gives it consent for floating IPO as per Public Issue Rule,
7. Having consent from SEC, the Issuer is required to file application to the Exchange for listing its securities within 5 days of issuance of its prospectus,

8. On successful subscription, the company is required to complete distribution of allotment/refund warrants within 42 days of closing of subscription,
9. After 100% distribution of shares/refund warrants and compliance of other requirements, the application for listing of the Issuer is placed to the Exchange's meeting for necessary decision of the Board of DSE,

The Board of DSE takes the decision regarding listing/non-listing of the company which must be completed within 75 days from the closure of the subscription.

***DSE Direct Listing Regulations 2006: Mature companies are allowed direct listing through plea of sale.***

**The following key conditions must be fulfilled to be eligible for direct listing**

- shall have minimum paid up capital of Tk. 100 (one hundred) million,
- shall have no accumulated loss,
- shall be in commercial operation for at least immediate last five years,
- shall have profit in three years out of the immediate last five completed accounting / financial years with steady growth pattern,
- is regular in holding Annual General Meeting (AGM),
- Have a credit-rating of BBB or above.



# Chapter Three



### 3.1 MARKETS

Four types of market at DSE:

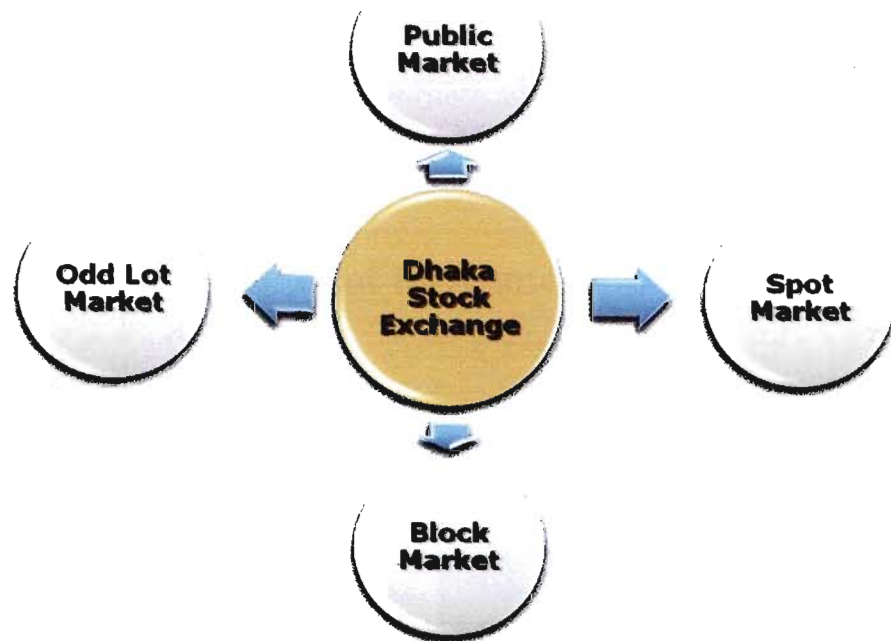


Figure 1: Types of market

- ✓ **Public Market:** In this market instruments are traded in normal volume. Only trading of market lot share is done here through automatic matching.
- ✓ **Spot Market:** Instruments are traded in normal volumes under corporate action if any. Spot transactions are done here through automatic matching which must be settled within 24 hours.
- ✓ **Odd lot Market:** Odd lots of all Instruments are trade in this market. Odd lot scripts are traded here based on pick and fill basis.
- ✓ **Block Market:** Instruments are traded in bulk volume. It is a place where bulk quantities of shares are traded through pick and fill basis.

### 3.2 CLASSIFICATION OF CATAGORIES

There are five categories of share in DSE. These are:

Table 1: Categories of Shares

Category	Number of Instruments
A	338
B	44
G	0
N	11
Z	34

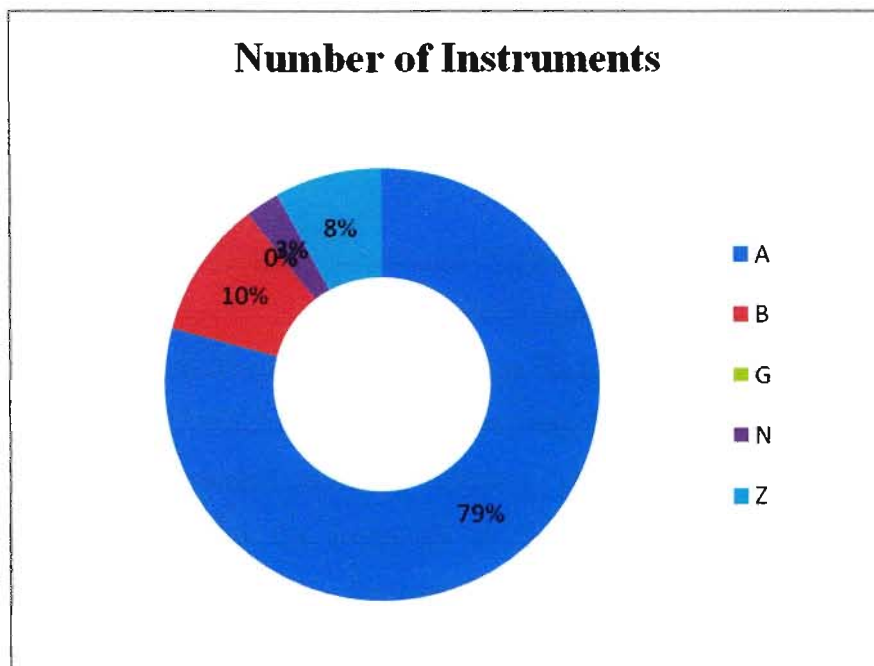


Figure 2: Number of Instruments

1. A category: Number of Instruments are 338 (150 + 8D + 22M + 158TB), Here D for Debentures, M for Mutual funds & TB for Treasury Bonds (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility for scrip only through DSE Clearing House on T+1, T+3 basis). "A" and "DA" are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading Software.
2. B category: Number of Instruments are 44(Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). "B" and "DB" are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software.

3. G category: Number of Instrument is 0 (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). "G" and "DG" are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software.
4. N category: Number of Instrument is 11(Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). "N" and "DN" are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software.
5. Z category: Number of Instruments are 34(Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+9 basis). "Z" and "DZ" are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software.

The prime bourse of the country introduced "Group A" and "Group B" from July 2, 2000 based on its financial strength and performance to give clear information to investors for taking informed decision. DSE has further categorized the securities by introducing "Group Z" which came into effect from September 26, 2000. The Stock Exchange introduced another company category "Group G" on June 30, 2002. The categorization helps a lot the investors in choosing companies before making investment decision. N Category- the newest one was launched through an order of SEC on July 3, 2006.

### 3.3 CRITERIA OF SHARE CATEGORIZATION

Criteria of the Share Category are as follows:

- **'A' Category Companies:** Companies which are regular in holding the Annual General Meetings and have declared dividend at the rate of 10 percent or more in a calendar year. (Mutual Funds, Debentures & Bond are being traded in this Category)
- **'B' Category Companies:** Companies which are regular in holding the Annual General Meetings but have failed to declare dividend at least at the rate of 10 percent in a calendar year.

- **‘Z’ Category Companies:** Companies which have failed to hold the Annual General Meetings or failed to declare any dividend or which are not in operation continuously for more than six months or whose accumulated loss after adjustment of revenue reserve, if any, is negative and exceeded its paid up capital.
- **‘G’ Category Companies:** Greenfield Companies.
- **‘N’ Category Companies:** All newly listed companies except Greenfield companies will be placed in this category and their settlement system would be like B-category companies.

### 3.4 INDEX OF DSE

There are three indices in the DSE as follows:

Table 2: Index of DSE

Sl.No	Index Name	Base Index	Remarks
1	DSI (all shares)	350 (as on 01-11-1993)	
2	DGEN (General index- A, B, G & N)	817.63704 (as on 24-11- 2001)	SEC directive regarding index was on 17-11-2001
3	DS20	1000 (as on 01-01-2001)	

**a. DSI:** The all Share Price Index (DSI) comprises all listed securities of the exchange which has been calculated since November 01, 1993 calculated on the basis of price movement of individual stocks using IFC method. Earlier a price average index was in practice which was not perfect.

Table 3: All Shares Price Index (DSI)

Year	Year End Index	High	Low	% of Change
2005	1275.05	1330.56	1099.07	-
2006	1321.4	1323.89	1280.01	4%
2007	2535.96	2612.46	1289.02	92%
2008	2309.35	2716.01	2035.42	-9%
2009	3747.53	3747.53	2001.88	62%

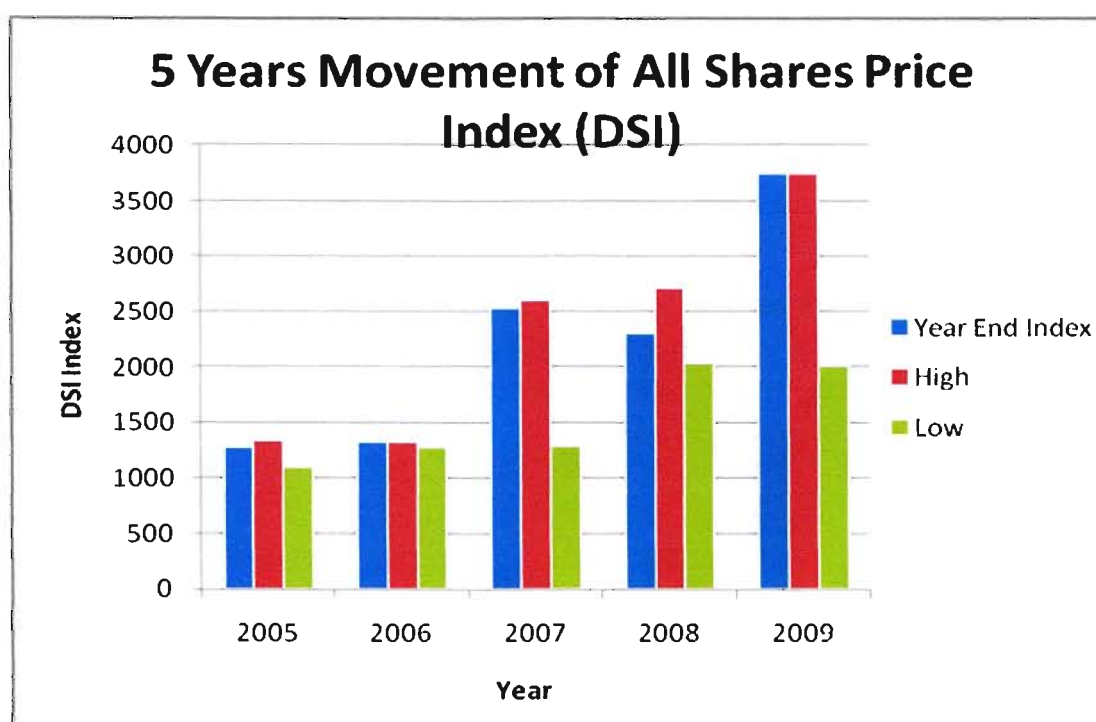


Figure 3: 5 years movement of all shares price

The above table and graph shows the movement of price of DSI Index from year 2005 to 2009. In 2005, the year end index was 1275.05. The highest and lowest price of that year was 1330.56 and 1099.07 respectively. We can see from the above graph that the price of the DSI Index has an increasing trend. In year 2009 the year end index price was 3747.53, the highest and lowest price were 3747.53 and 2001.88 respectively.

**b. DGEN:** DSE general index with a base-index of 817.62 points started on November 27, 2001. It includes A, B, G and N group shares. But the index excludes

companies of Z-category and is calculated on the basis of price movement of individual stocks. The entire market capitalization excluding the Z-category is taken into consideration in deriving the general index.

Table 4 : DSE General Index (DGEN)

Year	Year End Index	High	Low	% of Change
2005	1677.35	1999.71	1434.65	-
2006	1609.51	1611.42	1544.17	-4%
2007	3017.21	3093.54	1574.97	87%
2008	2795.34	3207.89	2459.48	-7%
2009	4535.53	4535.53	2408.67	62%

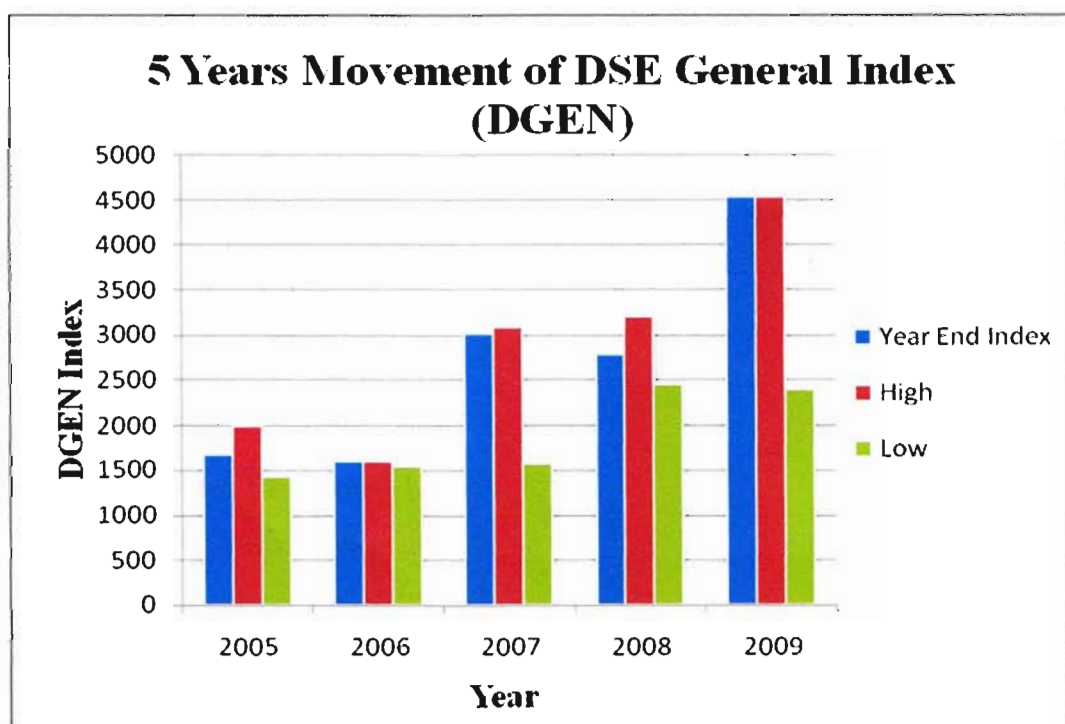


Figure 4: 5 years movement of DSE general index

The year end index price of DSE General Index (DGEN) was highest in year 2009 which is 4535.53. On that year the highest index price was 4535.53 which was much higher than the previous 4 years. The lowest price of the index on 2009 was 2408.67. Although the price of this index has an upward trend, in the year 2006, the price had decreased from the previous year 2005.

**c. DS20:** DSE-20 index was introduced on January 01, 2001. The Index comprises leading 20 shares with a base index of 1000. The criteria taken into account in formulating the index were market capitalization, free float shares in public hands, minimum payment of 10 percent dividend for the last three consecutive years and 95 percent trading days liquidity in terms of trading during the last six months. Subjective criteria such as good corporate governance, regular holding of annual general meeting and sectoral representation were the other key factors for becoming eligible for inclusion in the Index.

DSE- 20 index includes:

1. ACI Limited,
2. A.M.C.L Pran,
3. Apex Tannery Ltd.,
4. Beximco Pharmaceuticals Ltd.,
5. BATBC,
6. BOC Bangladesh Ltd.,
7. Bata Shoe Company (Bangladesh) Ltd.,
8. Bangladesh Lamps Ltd.,
9. Dhaka Bank Ltd.,
10. GQ Ball Pen Industries Ltd.,
11. Islami Bank Bangladesh Ltd.,
12. Meghna Cement Mills Limited,
13. Monno Ceramic Industries Ltd.,
14. National Bank Ltd.,
15. Prime Bank Ltd.,
16. Southeast Bank Ltd,
17. Singer Bangladesh Ltd.,
18. Square Pharmaceuticals Ltd.,
19. Square Textile Ltd.,
20. Uttara finance



Table 5 :DSE - 20 Index (DS20)

Year	Year End Index	High	Low	% of Change
2005	1677.35	2214.17	1312.93	-
2006	1609.51	1406.35	1328.46	-4%
2007	2485.87	2485.87	1325.46	54%
2008	2328.71	2666.76	2064.88	-6%
2009	2613.49	2613.49	1841.74	12%

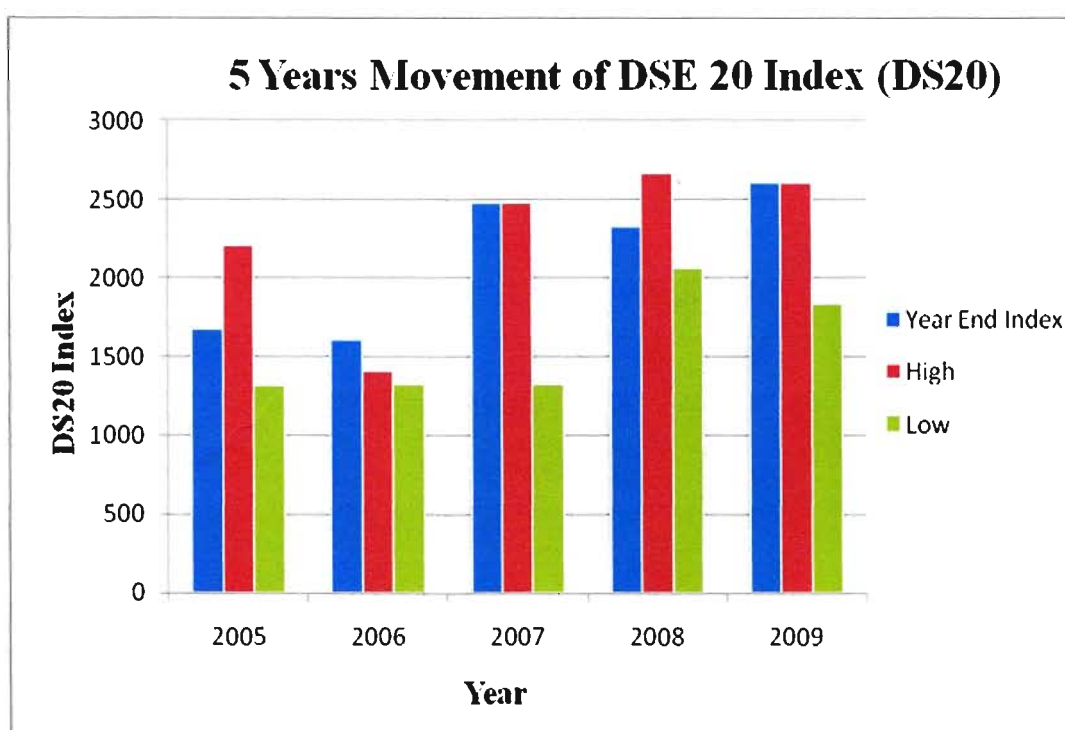


Figure 5: 5 years movement of DSE 20 index (DS20)

From the above table and graph we can see that the lower price of the DSE 20 Index (DS20) was almost similar in year 2005, 2006 and 2007. But the highest price of the index has an increase trend starting from 1406.35 to 2666.76. The year end price of the index ranges from 1609.51 to 2613.49 from year 2005 to 2009.

### 3.5 IPO OFFERING IN DIFFERENT YEAR

The number of IPO offering in the different years is given bellow:

Table 6: IPO offering in different year

Year of Offering	No of Companies
2004	2
2005	15
2006	11
2007	14
2008	12
2009	16
2010(Up to Feb)	4



Figure 6: IPO offering in different year

From the above table it can be seen that in year 2004, the number of companies that had offered IPO was only 2 but in the following year it stood at 15. From year 2005 to 2009, the number of IPO offering companies ranges from 11 to 16. In year 2010 upto February the number of IPO offering is 4. The highest IPO offering is 16 in year 2009.

Table 7 : Comparison of IPO and Listing

Year	Listing	IPO
2004-05	5	8
2005-06	19	14
2006-07	10	12
2007-08	13	10
2008-09	17	15

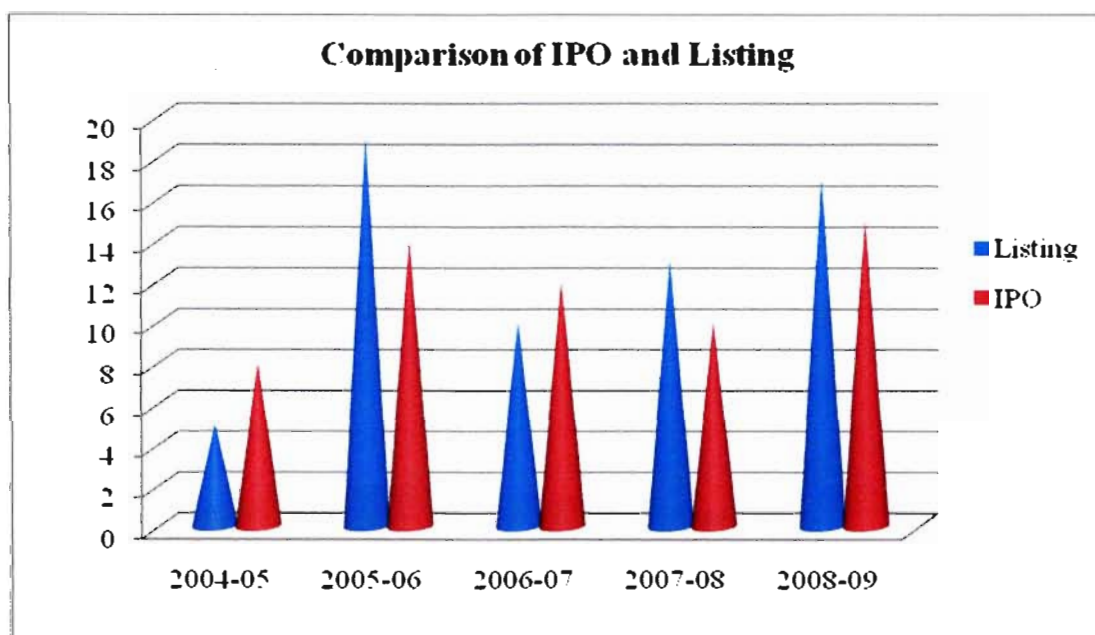


Figure 7 : comparison of IPO and Listing

In year 2004-2005, the listing of the companies at DSE was 5 and the IPO offering by the companies is 8. The highest number of listing of companies in DSE was in the year 2005-2006 which is 19. On that year, the IPO offering was 14. On the other hand, the highest number of IPO offering by the companies was 15 in year 2008-2009. But on that year (2008-2009), the listing of the companies was 17.

### 3.6 NUMBER OF ENLISTED SECURITIES

Total number of listed securities has increased from 412 in 2008 to 415 at the end of 2009. But up to February 28, 2010 the total number of listed securities reaches at 418.

Table 8 : Total Number of Securities Up to February 28, 2010

<b>Catagories</b>	<b>Number of Securities</b>
Companies	237
Corporate bonds	1
Trasuary bonds	151
Mutual funds	20
<b>Total Securities</b>	<b>418</b>

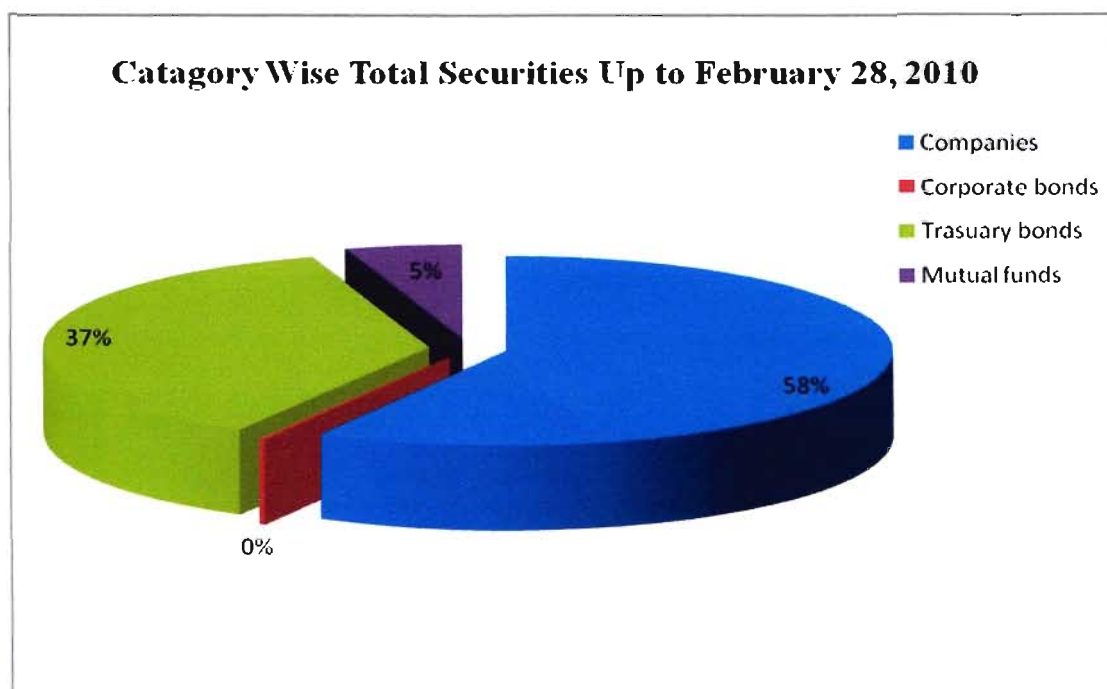


Figure 8: category wise total securities up to February 28, 2010

Among all the securities, the number of listed companies has stood at 237 up to February 2010 where it was 276 in the end of 2009. A total of 51 companies securities have been sent to OTC Market. So the securities of those 51 companies has also been sent to OTC market in those are excluded here.

### Showing The Listed Securities of DSE (2001-08)

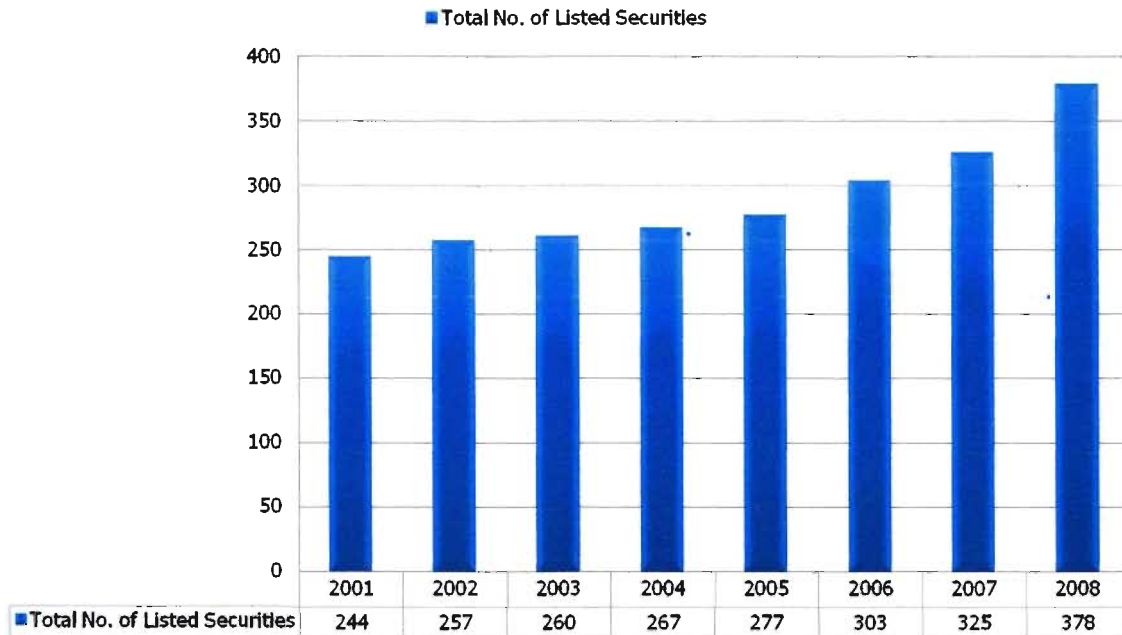


Figure 9: the listed securities of DSE (2001-08)

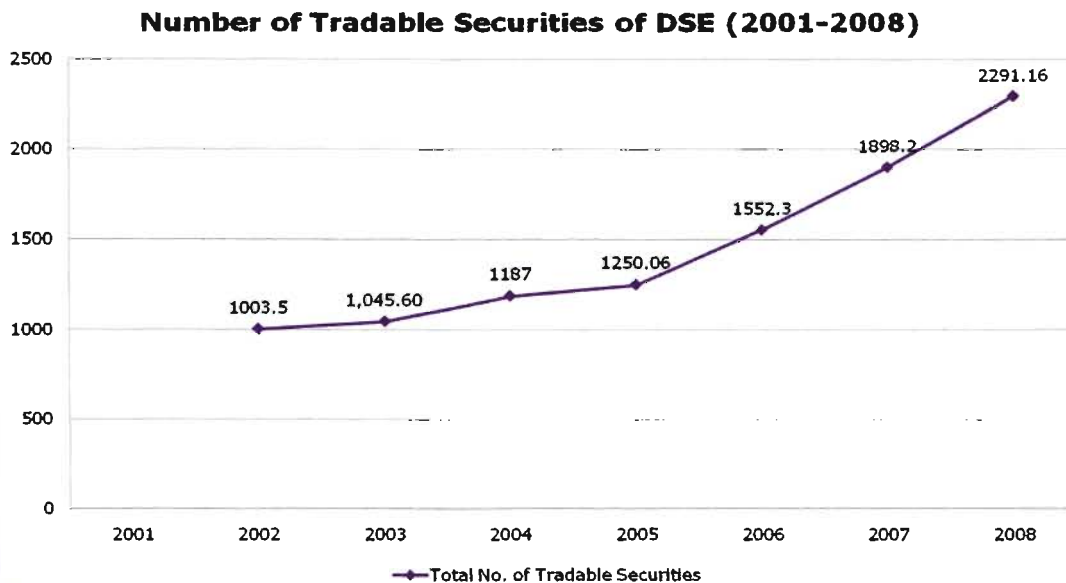
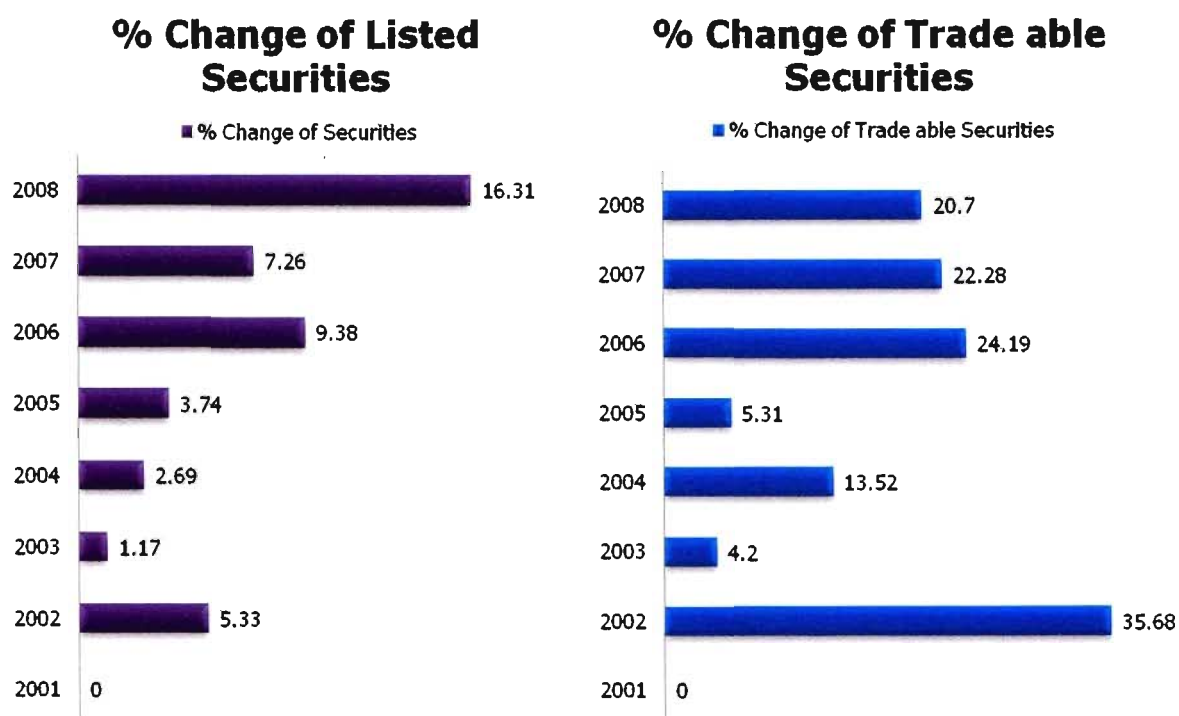


Figure 10: number of tradable securities of DSE (2001-2008)

The above graphs show that in the earlier year the growth of securities listing as well as trading was not that much high. Moreover, it was slow in compare to the latest year. Although in the year 2002 to 2005 the growth trend was not that much significant but later on in the year 2005 to till now the growth curve is upward sloping resulting a high growth trend.



**Figure 11: comparison of Listed and tradable securities**

### 3.7 PERFORMANCE OF LISTED SECURITIES

Performance of Listed Securities from year 2004 to 2009 is given bellow:

**Table 9: performance of listed securities**

Year	Listed Securities	Cash Dividend	AGM Held
2004-05	277	133	214
2005-06	303	125	211
2006-07	325	131	219
2007-08	378	123	232
2008-09	443	128	248

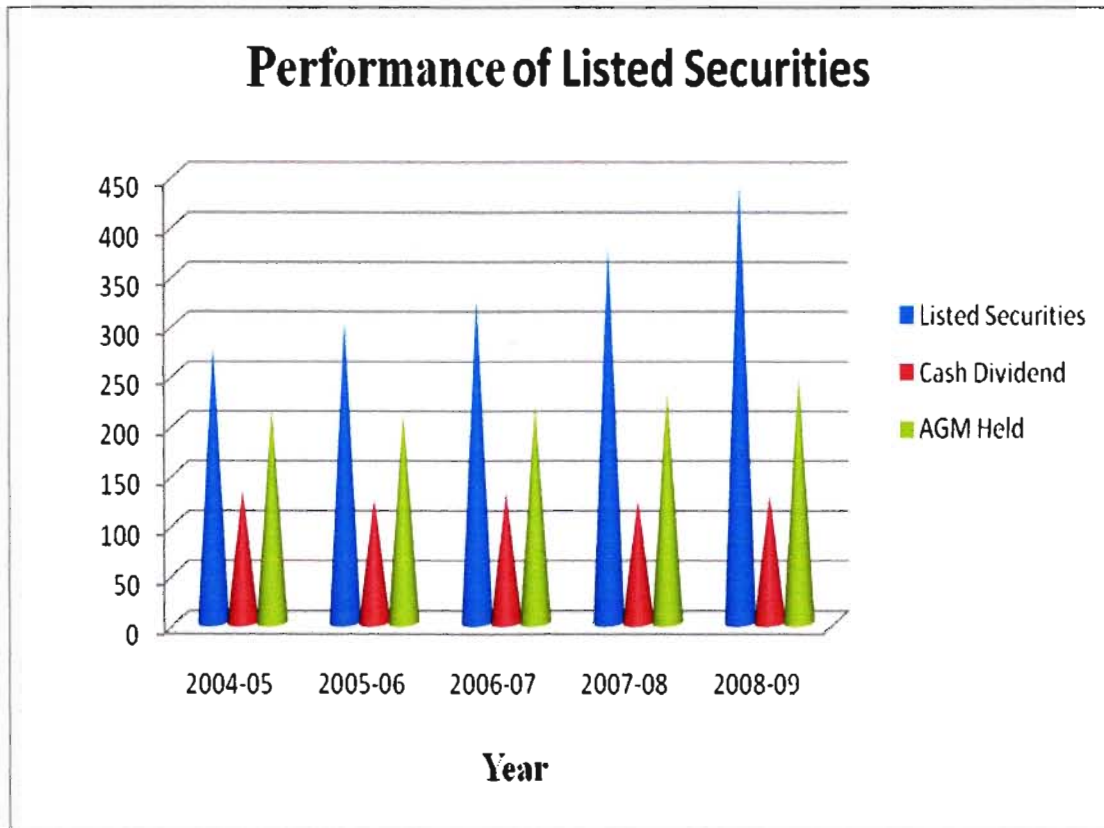


Figure 12: performance of listed securities

The number of listed companies declaring dividend increased in 2008-2009. Out of 299 listed companies & mutual funds, 194 listed companies & mutual funds declared dividends ranging from 2.00 per cent to 240 per cent. In 2008-2009, out of 282 listed companies, AGM of 248 companies were held, as against 232 companies out of 271 listed companies in 2007-2008. In case of announcing bonus and right shares the securities and its onlookers have witnessed upward trend. In 2008-09 period a total of 101 & 4 companies announced Bonus and Right Shares respectively against 71 & 5 in 2007-08 respectively.

### 3.8 YEARLY TRADING VOLUME

The daily average trade volume in DSE and the percentage of growth from the year 2004 to 2009 are given bellow:

Table 10: Yearly trading volume

Year	Daily Average Trading (Value in Million Tk)	% of Annual Growth
2004	198.44	
2005	278.98	41%
2006	285.43	2%
2007	453.79	59%
2008	716	58%
2009	736.65	3%

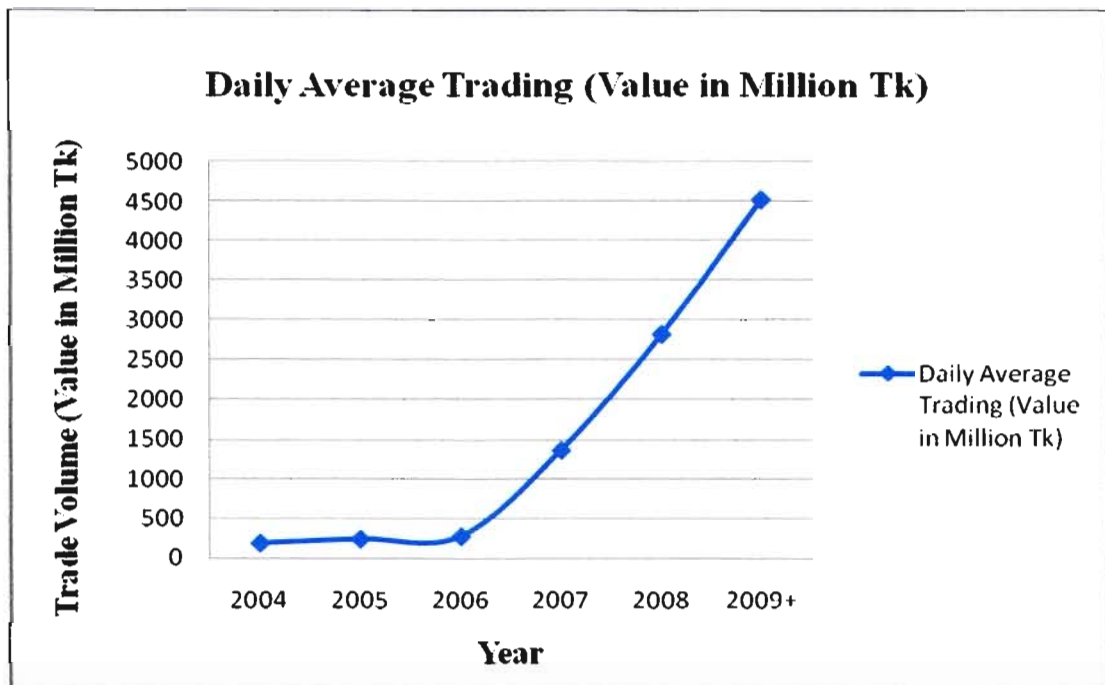


Figure 13: daily average trading (value in million tk)

From the above graph we can see that the daily average trading volume has an upward sloping trend. In year 2004 it was tk 198.44 million and the in the following year it stood at tk 278.98 million. In the following year from 2005 to 2006, from 2006 to 2007 and from 2007 to 2008 the growth rates of average trading were 2%, 59% and 58% respectively. From 2008 to 2009 the change was not that much significant and the growth rate was 3%.



### 3.9 MARKET CAPITALIZATION

Market Capitalization is one of the indicators of market performance. It is the total market value, at the current stock exchange list price of the total number of equity shares issued by a company.

$$\text{Market Capitalization} = \sum (\text{No. of Issued Share} * \text{Close Price})$$

Table 11: Market Capitalization

Year	Amount (tk in billion)	% of Annual Growth
2001-02	63.14	-
2002-03	69.2	10%
2003-04	136.64	97%
2004-05	222.05	63%
2005-06	215.42	-3%
2006-07	475.86	121%
2007-08	931.03	96%
2008-09	1241.34	33%



Figure 14: market capitalization

The total market capitalization of the country's prime bourse DSE whopped to Tk 1241 billion on June 30, 2009 as against Tk. 931 billion of 30th June 2008, showing a 33 per cent increase. Market Capitalization/GDP ratio as on June 30, 2009, which determines the size of a securities market compared with the total gross domestic product in an economy in a given period of time, was still low when compared with the same with other countries. On June 30, 2009, the market capitalization to GDP ratio rose to 20.19 per cent against 17.06 per cent on June 2008.

### 3.10 DSE TURNOVER

During 2008-2009, the total annual turnover of securities at DSE stood at Tk 893.79 billion against Tk. 543.29 billion of 2007-08 registering a 64.52 percent rise. A total of 5757.86 million shares were transacted in the period of 2008-09 from a total volume of 3,761.11 million shares in the year 2007-2008 recording a 53.09 percent rise. In 2007-06, the volume was 1982.96 million, in 2005-06, the volume was 592.76 million and in 2004-05, it was 950.30 million.

Table 12: Comparison of DSE Turnover

Year	Volume (in mn)	Value (in mn)
2004-05	950.3	75564.17
2005-06	592.76	46008.15
2006-07	1982.96	164671.43
2007-08	3761.11	543286.01
2008-09	5757.86	893789.25

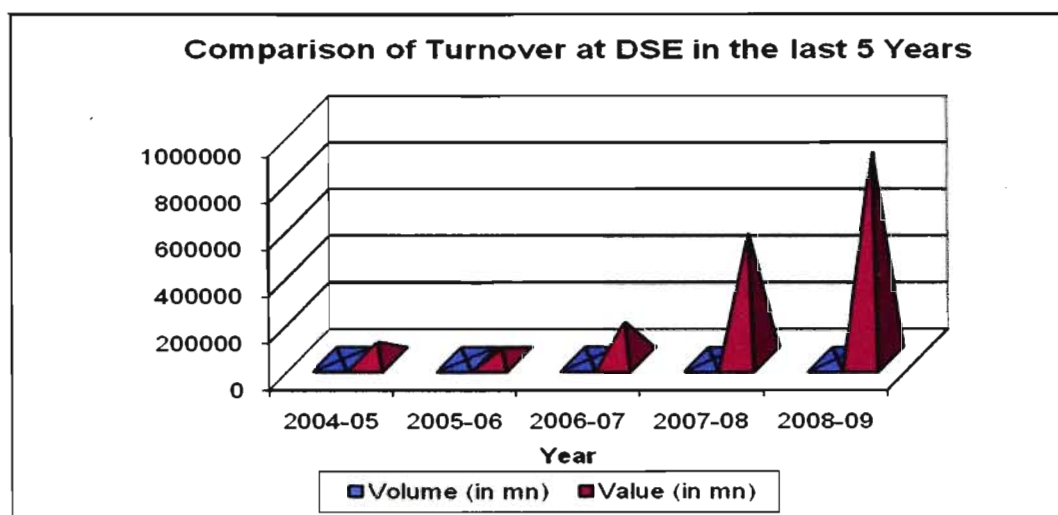


Figure 15: comparison of turnover at DSE in the last 5 year

Table 13: Sectorial Turnover Performance During 2008-2009

Sector	Volume (in mn)	Value (in mn)	% of Total Turnover
Banks	505.75	198,008.87	22%
Pharmaceuticals	696.23	125,071.67	14%
Insurance	94.21	61,312.63	7%
Fuel & Power	335.32	150,630.30	17%
IT	496.41	24,966.29	3%
Textile	595.91	30,786.49	3%
Cement	127.81	16,303.07	2%
Miscellaneous	1.37	1,272.86	0%
Engineering	361.17	71,016.93	8%
Investment	1,525.66	56,614.99	6%
Tannery	53.68	16,084.91	2%
Foods	320.62	19,918.95	2%
Service & Real Estate	55.97	35,825.03	4%
Ceramics	204.25	22,678.68	3%
Jute	3.26	21.26	0%
Paper & Printing	2.65	64.52	0%
Corporate Bond	377.56	63,208.56	7%

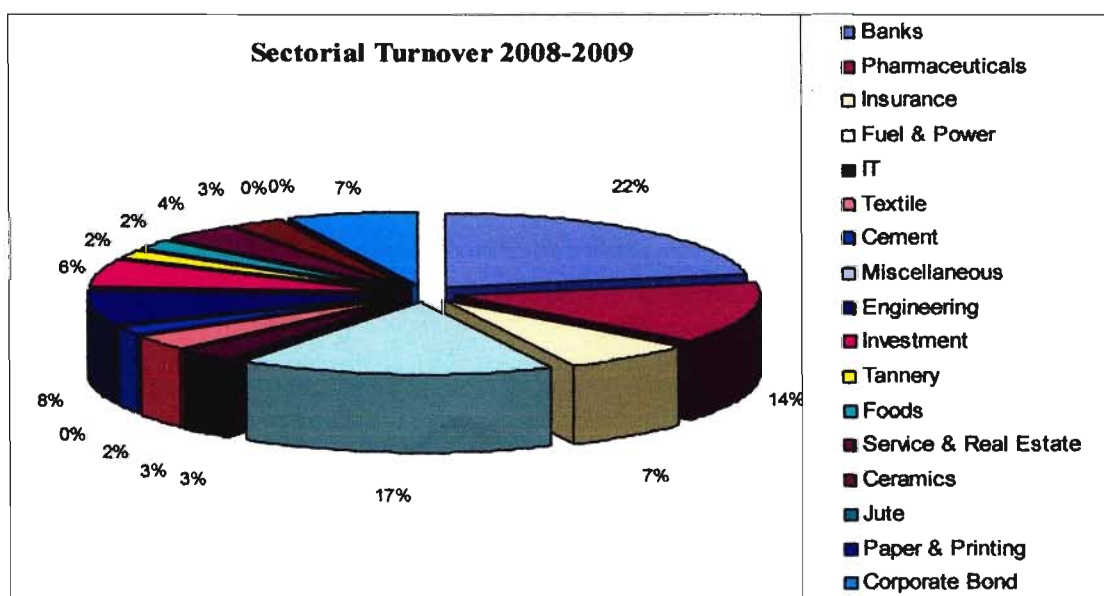


Figure 16: Sectorial turnover 2008-2009

In terms of value, Banking Sector continued its leading position contributing 22.15 percent in the DSE turnover in the financial year of 2008-2009, while fuel and power sector bagged the second position accounting for 16.85 percent of the total turnover. Pharmaceuticals, engineering, insurance and investment sectors followed the rally with 13.99 percent, 7.95 percent, 6.86 percent and 6.33 percent contribution respectively. Corporate bond( only one bond-IBBL Mudaraba Perpetual Bond is listed with the DSE) contributes 7.07 percent to the total turnover.

In Terms of Volume, Investment sector witnessed the major concentration, while other sector leaders were Banks, Pharmaceuticals, IT, Textile and Engineering securities.

### 3.11 PRICE EARNING RATIO

A total of 185 out of 240 listed issues, excluding mutual funds, non-demated and z-category shares, have price-earning (PE) ratio between 1.0 and 75, according to the Dhaka Stock Exchange (DSE) update on PE ratios. Most of banks and leasing companies have PE ratios below 75.

The companies, the PE ratios of which are 75 or below as per audited reports, are: ICB (27.86), Aftab Auto (58.03 under continuous operation and 13.57 when extraordinary profit included), Gemini Sea Food (52.15), Meghna Condensed Milk (57.64), Fine Foods Limited (48.81), Padma Oil (14.39), Power Grid Company Limited (17.04), Sonali Ash Industries (30.69), Saiham Textile (26.24), Mithun Knitting (29.77), Prime Textile (29.65), Metro Spinning (16.23), Kohinoor Chemicals (31.96), Orion Industries (50.51), Marico Bangladesh (26.47), Samorita Hospital (30.42), Daffodil Computers (73.86), The Engineers Limited (1.35) and Savar Refractories Limited (66.38).

The number of companies having PE ratios above 75 based on their audited reports, is 05. They are Bangas Limited (146.33), Bangladesh Plantation (94.02), Hill Plantation (82.24), Imam Button (81.09) and Eastern Lubricant (121.04).

On the other hand, Meghna Pet Industries, Tallu Spinning, Altex Industries, Northern Jute, and Samata Leather Complex have negative PE ratios based on their audited reports.

The companies, the PE ratios of which are above 75 based on un-audited reports, include Bangladesh Industrial Finance Corporation, National Polymer, National Tubes, Rahima Food, Legacy Footwear, Monno Ceramic, Monno Jutex, Standard Ceramic, United Insurance, Purabi General Insurance, BSC, Modern Dyeing, Desh Garments, Dacca Dyeing, Ambee Pharma, Beximco Synthetics, Summit Alliance and In Tech Online Limited.

### **3.12 DSE AUTOMATED TRADING SYSTEM**

Globally the developments in information & communication technologies (ICT) have created a new instance in the securities market operations. Stock Exchanges all over the world have realized the potentiality of ICT and inclined to the electronic trading systems. It was understood by DSE that technology would ensure transparency, timeliness and satisfaction in customer service. Considering those DSE introduced Automated Trading System on 10th August 1998. In other words, the trading floor moved right into the member's office premises where an investor started to place buy/sell orders.

DSE Automated Trading System (HP NonStop S7806) is running on fault tolerant, high available, scalable and maintainable Mainframe Server. All the Member (238 members) Server Applications (MSA) are connected with NonStop HP S-Series Server through either DSE LAN or WAN connectivity. Each member has one or more Trader Work Station (TWS). The TWSs are being connected to the Trading Server via respective MSA through LAN and WAN connection.

Now a days members can establish a main office or branch offices to their remote location and can trade smoothly by using different media ADSL, Optical fiber and Radio Link from Dhaka and other important cities such as Gazipur, Narayanganj,



- ❖ **Order Execution:** Automatically executes orders when buy and sell prices match.
- ❖ **Trade Reporting:** Trade execution reports are provided to each trade participant, to the settlement system and / or the depository and to the market.
- ❖ **Index Calculation:** Calculates and publishes market indices (DSE General Index & Weighted Average Index.)
- ❖ **Market Access:** Provide exchange members with efficient affordable GUI-based tools for accessing the market.

### 3.14 OVER THE COUNTER (OTC) MARKET

Dhaka Stock Exchange (DSE) has introduced the Over the Counter Trading (OTC) market on September 6, 2009 to segregate companies with weak fundamentals from its main trading frame. 'Over the Counter' refers to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network. Instruments such as bonds do not trade on a formal exchange and are, therefore, also considered OTC securities. At the initial stage, 51 companies have listed with OTC market.

In general, the reason for which a stock is traded over-the-counter is usually because the company is small, making it unable to meet exchange listing requirements. Also known as 'unlisted stock', these securities are traded by broker-dealers who negotiate directly with one another over computer networks and by phone.

The OTC at Dhaka is a separate trading floor for the buyers and sellers of the companies that are removed from main board for some valid reasons. According to DSE, the reasons may include non-performance and/or weak performance of the companies and noncompliance of listing rules. Most of the Z-category companies are shifted to the OTC market. Z-category, a section in the DSE main trading frame, includes over 90 listed companies with weak performance. The separation may bring

in more stability to price index as the index will only reflect the price movement of companies with good performance and fundamentals.

### 3.15 INITIATIVES TAKEN BY DSE FOR MARKET EXPANSION

- All the preparations have been taken to introduce Book-Building Method, scientific method of price discovery of shares, which will ensure fair prices of securities in the capital market. In the meantime, contract has also been signed with Dubai-based info-tech Company for building software of Book-Building Method.
- To expedite the process of automated trading through ensuring more transparency and accountability DSE has recently shifted its ICT section with more capacity building at new place 9/G, Motijheel C/A, Dhaka-1000.
- ICT capacity has also been increased with the support of India-based Cambridge Solutions so that investors can do transactions uninterruptedly.
- Speed has also been added with automated trading system of the country's premier bourse in Bangladesh.
- Steps are also underway to introduce online trading so that investors can have access to securities trading from across the world, which will also help the expansion of capital market in a border dimension.
- To conduce all the activities of the countries oldest and prime bourse DSE has recruited some highly qualified professionals and executive officers to cope with the mission of expanding the execution of growing volume of works.
- To reshape the overall activities and revamp the infrastructure of DSE its authority has signed an agreement with a reputed organization nabbed E-Zone, which has nearly completed their assigned job.
- Training programmes for investors, representatives of member houses and relevant stakeholders are also being arranged on regular basis.
- To further enhance the capital market with broader width and dimension DSE declared vision 2013 (a five years plan) and steps have also been taken to implement the Vision 2013.



- DSE automated trading platform TESA and MSA plus is modernized time to time.
- With time passes DSE has also advanced more to cope with the increasing volume of activities. It has rented a huge space at Rupali Sadan at Motijheel Area, Dhaka-1000, Bangladesh.
- DSE has also decided to open Media and Call Center to cater to the need for information, which will be disseminated among the investors and relevant stakeholders time to time.
- With the objective of reducing time period of transaction settlement and to ensure more transparency and accountability DSE has been trying to establish Independent Settlement and Clearing Company.
- DSE has planned to arrange investors' awareness programme in every district of the country.
- Plans have already been undertaken to arrange road show and investors' awareness programme in the USA, Australia, Canada, Thailand and some other countries.
- DSE has putting all-out effort to bring dynamism and more speed in the activities of Research, Monitoring, Listing, Surveillance and other vital departments, which will directly contribute to the further time bound expansion of the capital market.
- Stock Exchanges of different countries have been being visited and experiences are utilized properly to the development of Bangladesh Capital Market.
- To maintain reliably genuine speed of capital, market activities OTC market has been introduced on September 06, 2009 and securities of total of 51 companies have been send there for trading.
- DSE has requested the concerned authority to simplify the investment procedure by NRB to the country's capital market.
- DSE plans to establish a media room for journalists so that they can collect market related news.
- DSE has signed agreement with some organizations and institutions to provide then with real time data about securities market trading which further play significant role to expand the country's capital market.

- Steps have also been underway to bring equalization in face value of securities.

### **3.16 POLICIES OF DSE**

- DSE can introduce automate monitoring systems that may control price manipulation, malpractices and inside trading.
- It can make sure all the listed companies publish their annual reports with actual and proper information that can ensure the interest of the investors.
- To force the listed companies to declare and pay regular dividends through conducting Annual General Meeting.
- To make arrangement to set up merchant banks, investment banks and floatation of more mutual funds particularly in the private sectors.

# Chapter Four



#### 4.1 PROBLEMS AND LIMITATIONS OF DSE

There are some problems of DSE have been found. These are:

- **Price Manipulation:** It has been observed that the share values of some profitable companies have been increased fictitiously some times that hampers the smooth operation of DSE.
- **Unavailability of Information:** All the information about DSE is not available. Some information which may be significant for the stakeholders like investors, researcher, students, public etc is not disclosed publicly.
- **Delays of settlement:** Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.
- **Irregular payment dividends:** Some companies do not hold Annual General Meeting and eventually declare dividends that do not reflect the real or actual financial positions of the company and ultimately shareholders become confused.
- **Selection of membership:** Some members being the directors of listed companies of DSE look for their own interest using the internal information of share market.
- **Improper Financial Statement:** Many companies of DSE do not focus real position of the company as some audit firms involve in corruption while preparing financial statements. As a result the shareholders as well as investors do not have any idea about position of the company.
- **Lack of proper market monitoring:** DSE has a market monitoring system. But that system is not fully automated. Even now some functions of market monitoring and controlling of that system have done manually. So there is always a chance for improper monitoring.

- **Technical problems and political infighting:** The concept of centralization of securities market has not been implemented that arises technical problems and political infighting.
- **The lack of proper policy:** Proper framework with strict rules and regulations that provides incentives and protection to investors is absent in DSE.

#### 4.2 SUGGESTIONS TO IMPROVE THE ACTIVITIES OF DSE

Here is some recommendations for the DSE that may help DSE to overcome the above addressed problems and limitations:

- To force the listed companies to publish their annual reports with actual and proper information that can ensure the interests of investors.
- To introduce automated monitoring system that may control price manipulation, malpractices and inside trading.
- Strict rules and regulations should be introduced and also practiced to protect the investor's interest.
- To ensure availability of full information. It should also restrict to misrepresenting, hiding or partially disclosing of information which may confuse the investors.
- DSE should promote different media to disclose market related information.
- To introduce full computerized system for settlement of transactions.
- To force the listed companies to declare and pay regular dividends through conducting Annual General Meeting.
- To take remedial action against the issues of fake certificates.
- Banks, insurance companies and other financial institutions should be encouraged deal in share business directly.
- To punish the member brokers for breaching of contract.

### 4.3 CONCLUSION

The capital market is market for securities, where companies and Governments can raise long-term funds. It is the group of interrelated markets, in which capital in financial form is lend or borrowed for medium and long term and, in cases such as equities, for unspecified periods. The primary role of the capital market is to raise long-term funds for governments, banks, and corporations while providing a platform for the trading of securities. This fund rising is regulated by the performance of the stock and bond markets within the capital market.

Bangladesh capital market is one of the smallest in Asia but the third largest in the south Asia region. The Dhaka Stock Exchange is the prime capital market of Bangladesh. It provides the listed companies with a channel to seek capital fund from the public and at the same time it provides the investors a place to buy and sell shares of the listed companies. The objectives of the Exchange are to establish a sound and stable securities market based on just and equitable principles of trade as well as to conduct the business in securities giving due regards to the public interest. For this it is continuously working and the improvement can be seen through its performance and the new initiatives taken by the DSE.

The Exchange is a non-profit making public company. It works for the betterment of the country's economy. Thus the Dhaka Stock Exchange is relentlessly trying to make the securities market an efficient reliable transparent organization that will be capable of meeting the challenges of economic reality of the country.

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