

Regulators

2.1 - What is a stock market?

Investing in equities is an important investment that we make in order to generate inflation beating returns. This was the conclusion we drew from the previous chapter. Having said that, how do we go about investing in equities? Clearly before we dwell further into this topic, it is extremely important to understand the ecosystem in which equities operate.

Just like the way we go to a super market to shop for our daily needs, similarly we go to the stock market to shop (read as transact) for equity investments. Stock market is where everyone who wants to transact in shares go to. Transact in simple terms means buying and selling. For all practical purposes, you can't buy/sell shares of a public company without transacting through the stock markets.

The main purpose of the stock market is to help you facilitate your transactions. So if you are a buyer of a share, the stock market helps you meet the seller and vice versa.

Now unlike a super market, the stock market does not exist in a brick and mortar form. It exists in electronic form. You access the market electronically from your computer and go about conducting your transactions (buying and selling of shares).

Also, it is important to note that you can access the stock market via a registered intermediary called the stock broker. We will discuss more about the stock brokers at a later point.

There are two main stock exchanges in Bangladesh that make up the stock markets. They are the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE).

2.2 - Stock Market Participants and the need to regulate them

The stock market attracts individuals and corporations from diverse backgrounds. Anyone who transacts in the stock market is called a market participant. The market participant can be classified into various categories. Some of the categories of market participants are as follows:

1. **Domestic Retail Participants** – These are people like you and me transacting in markets
2. **NRB** – These are people of Bangladeshi origin but based outside Bangladesh
3. **Domestic Institutions** – These are large corporate entities based in Bangladesh.
4. **Domestic Asset Management Companies (AMC)** – Typical participants in this category would be the mutual fund companies.
5. **Foreign Institutional Investors** – Non Bangladeshi corporate entities. These could be foreign asset management companies, hedge funds and other investors

Now, irrespective of the category of market participant the agenda for everyone is the same – to make profitable transactions. More bluntly put – to make money.

When money is involved, human emotions in the form of greed and fear run high. One can easily fall prey to these emotions and get involved in unfair practices.

Given this, the stock markets need someone who can set the rules of the game (commonly referred to as regulation and compliance) and ensure that people adhere to these regulations and compliance thereby making the markets a level playing field for everyone.

2.3 - The Regulator

In Bangladesh the stock market regulator is called **Bangladesh Securities and Exchange Commission** often referred to as BSEC. The objective of BSEC is to protect the interest of general investors, regulate the activities of market participants and financial intermediaries. In general, BSEC ensures

1. The stock exchanges (DSE and CSE) conducts its business fairly
2. Stock brokers conduct their business fairly
3. Participants don't get involved in unfair practices
4. Corporate's don't use the markets to unduly benefit themselves
5. Small retail investors interest are protected
6. Large investors with huge cash pile should not manipulate the markets
7. Overall development of markets

Given the above objectives it becomes imperative for BSEC to regulate the following entities. All the entities mentioned below in Table 2.1 are directly involved in the stock markets. A malpractice by anyone of the following entities can disrupt what is otherwise a harmonious market in the country.

BSEC has prescribed a set of rules and regulation to each one of these entities. The entity should operate within the legal framework as prescribed by BSEC. The specific rules applicable to a specific entity are made available by BSEC on their website. They are published under the 'Securities Laws' section of their site.

Table 2.1 - Regulators in Bangladesh

Entity	Example of Companies	What they do?	In simpler words
Credit Rating Agency (CRA)	CRISIL, ICRA, CARE	They rate the credit worthiness of corporate and governments	If a corporate or Govt entity wants to avail loan, CRA checks if the entity is worthy of giving a loan
Debenture Trustees	Almost all banks in Bangladesh	Act as a trustee to corporate debenture	When companies want to raise a loan they can issue debenture against which they promise to pay an interest. These debentures can be subscribed by public. A Debenture Trustee ensures that the debenture obligation is honored
Depository Participant	CDBL	Safekeeping, reporting and settlement of clients securities	Acts like a vault for the shares that you buy. The depository holds your shares and facilitate exchange of your securities. When you buy shares these shares sit in your Depository account usually referred to as the DEMAT account. This is maintained electronically by CDBL in the country
Foreign Institutional Investors	Foreign corporate, funds and individuals	Make investments in Bangladesh	These are foreign entities with an interest to invest in Bangladesh. They usually transact in large amounts of money, and hence their activity in the markets have an impact in terms of market sentiment

Entity	Example of companies	What do they do?	In simpler words
Merchant Bankers	IDLC Investments, Lankabangla Investments etc.	Help companies raise money in the primary markets	If a company plans to raise money by floating an IPO, then merchant bankers are the ones who help companies with the IPO Process
Asset Management Companies(AMC)	AT Capital, IDLC AMC, EDGE AMC etc.	Offer Mutual Fund Schemes	An AMC collects money from the public, puts that money in a single account and then invest that money in markets with an objective of making the investments grow and thereby generate wealth to its investors.
Stock Brokers	Royal Capital, Lankabangla Securities, City Brokerage etc.	Act as an intermediary between an investor and the stock exchange	Whenever you want to buy or sell shares from the stock exchange you have to do so through registered stock broker.

Key takeaways from this chapter

1. Stock market is the place to go to if you want to transact in equities
2. Stock markets exist electronically and can be accessed through a stock broker
3. There are many different kinds of market participants operating in the stock markets
4. Every entity operating in the market has to be regulated and they can operate only within the framework as prescribed by the regulator
5. BSEC is the regulator of the securities market in Bangladesh. They set the legal framework and regulate all entities interested in operating in the market.
6. Most importantly you need to remember that BSEC is aware of what you are doing and they can flag you down if you are up to something fishy in the markets!