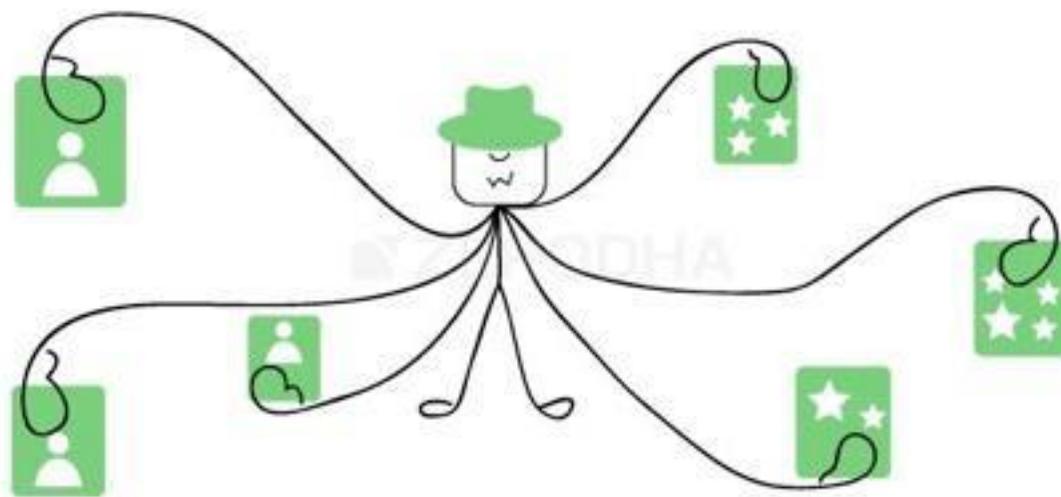


Financial Intermediaries



3.1 - Overview

From the time you access the market – let's just say, to buy a stock till the time the stocks comes and hits your DEMAT account, a bunch of corporate entities are actively involved in making this work for you. These entities play their role quietly behind the scene, always complying with the rules laid out by BSEC and ensure an effortless and smooth experience for your transactions in the stock market. These entities are generally referred to as the Financial Intermediaries.

Together, these financial intermediaries, interdependent of one another, create an ecosystem in which the financial markets exists. This chapter will help you get an overview of who these financial intermediaries are and the services they offer.



3.2 - The Stock Broker

The stock broker is probably one of the most important financial intermediaries that you need to know. A stock broker is a corporate entity, reserved the trading right with the stock exchange and holds a stock broking license. They operate under the guidelines prescribed by the BSEC.

A stock broker is your gateway to stock exchanges. To begin with, you need to open something called as a 'Beneficiary Owners Account (B.O Account)' with a broker who meets your requirement. Your requirement could be as simple as the proximity between the broker's office and your house. At the same time it can be as complicated as identifying a broker who can provide you a single platform using which you can transact across multiple exchanges across the world. At a later point we will discuss what these requirements could be and how to choose the right broker.

A B.O Account lets you carry financial transactions in the market. It is an account with the broker which lets the investor to buy/sell securities.

So assuming you have a B.O Account - whenever you want to transact in the markets you need to interact with your broker. There are few standard ways through which you can interact with your broker.

1. You can go to the broker's office and meet the executives in the broker's office and tell him what you wish to do. The executives at the stock broker's office carry out these transactions on your behalf.
2. You can make a telephone call to your broker, identify yourself with your client code (account code) and place an order for your transaction. The trading executive at the other end will execute the order for you and confirm the status of the same while you are still on the call.
3. Do it yourself – this is perhaps the most popular way of transacting in the markets. The broker gives you access to the market through software called 'Trading Terminal'. After you login in to the trading terminal, you can view live price quotes from the market, and can also place orders yourself.

The basic services provided by the brokers includes.

1. Give you access to markets and letting you transact
2. Give you margins for trading – We will discuss this point at a later stage
3. Provide support – Dealing support if you have to call and trade. Software support if you have issues with the trading terminal.

4. Issue contract notes for the transactions – A contract note is a written confirmation detailing the transactions you have carried out during the day
5. Facilitate the fund transfer between your trading and bank account
6. Provide you with a back office login – using which you can see the summary of your account
7. The broker charges a fee for the trading services that he provides called the ‘brokerage commission’ or just brokerage. The brokerage rates vary, and it’s up to you to find a broker who strikes a balance between the fees he collects versus the services he provides.



3.3 - Depository and Depository Participants

When you buy a property the only way to identify and claim that you actually own the property is by producing the property papers. Hence it becomes extremely important to store the property papers in a safe and secure place.

Likewise when you buy a share (a share represents a part ownership in a company) the only way to claim your ownership is by producing your share certificate. A share certificate is nothing but a piece of document entitling you as the owner of the shares in a company.

Before 2010 the share certificate was in paper format however post 2010, the share certificates were converted to digital form. The process of converting paper format share certificate into digital format share certificate is called “Dematerialization” often abbreviated as DEMAT.

The share certificate in DEMAT format has to be stored digitally. The storage place for the digital share certificate is the ‘DEMAT Account’. A Depository is a financial intermediary which offers the service of Demat account. A DEMAT account in your name will have all the shares in electronic format you have bought. Think of DEMAT account as a digital vault for your shares.

As you may have guessed, the B.O account from your broker and the DEMAT account from the Depository are interlinked.

So for example if your idea is to buy ABC shares then all you need to do is open your B.O account, look for the prices of ABC and buy it. Once the transaction is complete, the role of your B.O Account is done. After you buy, the shares of ABC will automatically come and sit in your DEMAT account.

Likewise when you wish to sell ABC shares, all you have to do is open your B.O Account and sell the stock. This takes care of the transaction part...however in the backend, the shares which

are sitting in your DEMAT account will get debited, and the shares move out of your DEMAT account.

At present there are only one depository offering you DEMAT account services. It's The Central Depository Participants Limited (CDBL).

Just like the way you cannot walk into Dhaka Stock Exchange's office to open a B.O Account, you cannot walk into a Depository to open a DEMAT account. To open a DEMAT account you need to liaison with a Depository Participant (DP). A DP helps you set up your DEMAT account with a Depository. A DP acts as an agent to the Depository. Needless to say, even the DP is governed by the regulations laid out by the CDBL.



3.4 - Banks

Banks play a very straight forward role in the market ecosystem. They help in facilitating the fund transfer from your bank account to your B.O Account. You may be interested to note that for a given B.O Account only one bank account can be interlinked. You cannot transfer money from a bank account that is not in your name.

If you have multiple bank accounts, you need to specify which particular bank account that will be linked to your B.O Account. Of course you can remove the bank account and link it with another bank account of yours, but that requires some amount of paper work. However, for the money to come in and go out of your B.O Account, it has to happen only via the bank account that has been specified and linked.

Also, at this stage, you must have realized that the three financial intermediaries operate via three different accounts - B.O account, DEMAT account and Bank account. All the three accounts operate electronically and are interlinked giving you a very seamless experience.

Key takeaways from this chapter

1. The market ecosystem is built by a cluster of financial intermediaries, each offering services that are unique to the functioning of markets
2. A stock broker is your access to markets, so make sure you choose a broker that matches your requirements, and services well.
3. A stock broker provides you a B.O Account which is used for all market related transactions (buying and selling of financial instruments like shares)
4. A Depository Participant (DP) is a corporate entity that holds the shares in electronic form against your name in your account. Your account with the DP is called the 'DEMAT' account
5. There are only one depository in Bangladesh – CDBL
6. To open a DEMAT account with one of the depositories you need to liaison with a Depository Participant (DP). A DP functions as an agent to the Depository.