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'Who moved my cheese?'

between the lines

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As the author of the piece, 'Sorry!, Mr. Ibrahim Khaled', I should be hating the business tycoon, (who found my comments in a dialogue on capital market organised by an English daily to be very unjustified), the hotel owner (who got to know my reservation re: a USD 75- million worth hotel being valued at USD 750 million for initial public offering consideration) or a former boss of a stock exchange (who could not garner any support for his broker friends, while IPO of a large telecom company was launched), who in all togetherness or spirit wanted to make my life tough. But that did not happen. I always thought they are the byproduct of a business-politics unholy alliance facilitated by a subservient or incapacitated regulatory framework. In the similar way, I don't think the populist prescription of taking few people to task is possible under the present legal environment or more importantly would help stock market to revive.

I always think and thought, the problem lies somewhere else. The first and the foremost precondition is that we have to find out who and what helped an otherwise non-viable market to soar to an index at 8900 plus and what helped a large volume of liquidity to be diverted to the capital market from banks, exceeding their prudential limit relating to investment in stocks.

We know and knew that our market is extra-ordinarily retail-driven unlike its peers. There is no background research or regulatory preparedness to drive things to the desired destination. Most importantly, there is a serious supply side constraint, where we get to see, most of the local corporate are shy of diluting their stakes, especially when their profitability is good. Surprisingly, the large business houses who own several brokerage firms, merchant banks or even banks are extremely reluctant to offload their own shares to expand their respective financial capability. Debt is always preferred over equity. Above all, there are identified governance failures and absence of accountability along with harnessing `inefficiency' by political regime in exchange of loyalty.

Much before the release of the enquiry report, media revealed monitoring failures by both the central bank as well as the Securities and Exchange Commission (SEC). A lot of people had suspected that loans given to the much pushed agricultural or SMEs were being diverted to capital market and the regulators totally messed up things with regard to -`margin loans'. Brokerage houses opened branches in divisions or districts, further stimulating the demand side of it, when supply economics was not at all supportive. More banks were allowed to open their capital market arms by the central bank and the SEC, helped more investors to flock in. Various reports proved the central bank failure to monitor the banks that exceeded their stipulated level, some of them by large amounts, for investment in the risky traded assets. Eyebrows were raised- 'when the banks were reporting their investments in the capital market on daily basis, how could the regulators lose sight of it every time?'. Latest reports mention that a few senior citizens also kept on cautioning the watchdog agency boss, once the index exceeded 7000. Now the million dollar question comes up- did the enquiry committee made a deliberate choice to be hoodwinked by one particular agency? Or is it a question of institutional loyalty or individual reciprocity for being loyal to same school of thought? Yes, there were gross moral compromises made at the capital market watchdog agency. With few exceptions, the entire machinery including the individuals engaged in capital issues contributed to this moral turpitude. They were found subservient to various pressure groups, this way or that way.

Now friends may ask me, how could we take the alleged people to task under the prevalent legal framework? It is obviously a tough exercise. Some people did help trading volume to significantly go up: there were allegation on insider trading, manipulation and maneuvering by a few large business houses or individuals too. However, as per the prevalent law, actions can't be taken on the basis of an enquiry report, unless it is accepted by the law enforcing agency or regulators themselves as guiding or binding on them. Almost everywhere in the world, regulators run independent enquiry based on any allegation and, if found valid, it takes shelter under securities law to punish the culprits after following due legal process. Here in Bangladesh, even the 1996 share scam culprits could not be taken to task and SEC says, their enquiry on the alleged irregularity in 2010 is half way through. Police action could be taken, if anyone could prove this as a criminal offence. Otherwise, we have to allow, law to take its own time and own course. Emotion or populist approach won't help here, unless we strengthen our regulation and our regulators are independent and far-sighted to see beyond the boxes and able to do a `deep dive' analysis. More than the `moral issues' identified and often prevalent in our part of the world, Bangladesh capital market debacle is driven more by structural bottlenecks- shallow institutional presence or attractiveness, almost nil foreign institutional investors presence, supply side limitation, lack of product, absence of role clarity and `right arm , not talking to the left arm'.

As mentioned earlier, I also don't think that any populist action including stimulus would help the market to go back to its earlier unjustified position. A shallow market like ours, unless there is adequate supplies, analytical depth and investors education can't justify any more buoyancy, no matter what popular actions we take. Let's not divert any more tax payers' money to this sector. The market should be allowed to run on its own, taking cognizance of what's happening around.

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