Report On

"The Impact of BSEC's New Margin Rule on Investor's Sentiment, Market liquidity and Volatility: A Case Study Based on IDLC Investments Limited"

By,

Muyeed Muhaimeen

ID - 21204167

An internship report submitted to the BRAC Business School in partial fulfilment of the requirement for the degree of

Bachelor of Business Administration

BRAC Business School

BRAC University

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Letter of Transmittal

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Subject : Submission on internship report "The Impact of BSEC's New Margin Rule on Investor's Sentiment, Market liquidity and Volatility: A Case Study Based on IDLC Investments Limited"

Dear Sir,

It is my pleasure to present with respect to this matter, my internship report entitled "The Impact of BSEC's New Margin Rule on Investor's Sentiment, Market liquidity and Volatility: A Case Study Based on IDLC Investments Limited" as a partial fulfillment of my Bachelor of Business Administration.

(BBA) degree: The report is articulated on the practical experience that I have attained in my internship period in IDLC Investments Limited under the Operations Department. This experience has not only added to my academics with exposure to the corporate world but also enabled me to acquire some of the fundamental professional skills.

It is my utmost efforts and attention that I have compiled this report with the aim of placing all the information in the right way and following the university instructions. I hope that the report will satisfy you and help to complete the academic requirements of the internship program.

I would like to thank you because this period was guided and supported by your constant help.

Please take into consideration this report.

Regards,

Muyeed Muhaimeen

Student ID - 21204167

BRAC Business School, BRAC University

Date: December 10th, 2025

Acknowledgement

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I also wish to say that it is my great pleasure to be given a chance to work under my company supervisor Mr. Muhammad Mosharraf, head of operations of IDLC Investments Limited. The patience, mentorship and practical know;edge provided by him were of great help in ensuring that I comprehend the operation in the real world of financial operation and I easily handled the responsibilities of my internship.

I would further like to express my thanks to all the members of IDLC Investments Limited who helped me and provided me with explanations and information and guided me where necessary. Their support and collaboration made my internship life very rich and meaningful. Lastly, I would like to thank all the people who participated in the successful completion of this internship and report directly or indirectly.

Non-disclosure agreement

IDLC Investments Limited and the undersigned BRAC University student agree that throughout the course of the internship, the undersigned shall not use or disclose any confidential information or trade secrets belonging to either party.

Executive summary

In this report, I have recorded my internship experience at the top merchant bank in Bangladesh, with the IDLC Investments Limited and critically analyzed how the capital market has responded to a major regulatory change, which is the implementation of the Bangladesh Securities and Exchange Commission (BSEC) Margin Rules, 2025. Limiting to a short-term transition phase between November 6 and December 6, 2025, the research will resort to a qualitative research methodology, i.e. the combination of the daily trading observations with the detailed interviews of the top management of the Operations and Risk departments, to assess the multi-dimensional effect of these new leverage constraints on the behavior of the market and the organizational workflow.

According to the analysis, the transition was highly volatile, and the investor sentiment was dropping considerably. Small portfolios had a 1:0.5 lever cap, which a small investor was tempted to exceed due to a Gambler fallacy, but which was perceived as a punishment, not as a guarantee of protection, by retail investors, who were mainly unwilling to think about the long-term advantages of the new cash-basis calculation of interest. This has been aggravated by a liquidity crisis as strict Forced Sell triggers (50% equity) led to forced sell orders flooding the market with buyers withdrawing, putting investors in a one way only market. At the same time, IDLC Investments also encountered a colossal internal re-engineering of IT infrastructure to isolate Cash and Margins funds, and start dynamic risk monitoring to be able to comply on time.

The report finally finds that though the Margin Rules 2025 are structurally needed to develop the immature Bangladesh frontier market and to limit excessive speculation, sudden adoption was harmful in the short term. The paper points out that immediate enforcement as shock therapy was not only unprofitable to the merchant banks in the short term, but also difficult on the relationships between the clients. To survive in such a tightening of the regulatory belt, the report suggests that IDLC Investments re-align its business model with High Net-Worth Individuals (HNWIs) and advisory business rather than the unsustainable, high-volume retail trading business which the new regulations effectively deter.

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List of acronyms

IDLC IL - Industrial Development Leasing Company Investments Limited

KYC - Know Your Customer

DSE - Dhaka Stock Exchange

OTC - Over the Call

BSEC - Bangladesh Securities and Exchange Commission

SME - Small and Medium Enterprises

ALOS - Approved List of Securities

HNWI - High Net-Worth Individuals

RM - Relationship Manager

IB - Investment Banking

DPM - Discretionary Portfolio Management

ROA - Return on Assets

ROE - Return on Equity

NPAT - Net Profit After Tax

Chapter-1: Overview of Internship

1.1 Student Information

The following table entails general information about the student.

Name	Muyeed Muhaimeen
Student ID	21204167
Program	Bachelor of Business Administration (BBA)
Major & Minor	Accounting (Major) & Finance (Minor)

Table-1: Student Information

1.2 Internship Information

This section entails information about the company where I worked, about my work and its outcome.

1.2.1 Period, Company, Department, Address

I started my internship journey on September 7 of 2025, and it ended on December 4, 2025. It lasted three months. I had the privilege of doing my internship at IDLC Investments Limited. I was placed at the headquarters of IDLC Investments Limited which is located at Culvert Road of Purano Paltan, Dhaka-1000. During my internship tenure I worked in the Operations department as an operations Intern.

1.2.2 Internship Company's Supervisor's Information

During my three month internship period, I worked under the supervision of Mr. Nabeel Muhammad Mosharraf, who serves as the head of the Operations department and the acting head of Risk and Analytics in IDLC Investments Limited.

1.2.3 Job Scope - Job description/Duties/Responsibilities

In my internship with IDLC Investments Limited, Operations Department, the scope worked on was crucial to the processing of post-trade and compliance to regulatory requirements of the firm. I had two major roles, mostly, Order Sheet Management and Regulatory Compliance (KYC)[1].

A. Order Sheet Management and Reconciliation-

This was done on a daily basis upon closing of the trading window. It was used as the main audit control mechanism.

- **Data Extraction & Segregation:** I had to enter the IDLC internal database software and get the day trading activity. I have broken down the data to separate the clients depending on trading channel:
    - Trades are carried out through the IDLC App.
    - Trades done through DSE (Dhaka Stock Exchange) App.
    - Transactions done through Phone Call/OTC.
- **Master Reconciliation:** I have created an elaborate Excel sheet where I categorized these trades with no overlap between digital and manual orders.
- **Physical Documentation:** I retrieved physical order sheets in different trading desks. I then entered these sheets by hand with specific trade data on them, such as:
    - Client Name
    - Number of Shares
    - Monetary Value (at time of trade)
    - Trade Volume

[1] KYC- know your customer, a mandatory compliance process where financial institutions verify the identity and background of the client and their source of income.

- **Audit Verification:** I compared the physical order sheets with the computer version to confirm that the "Order Blotter"[2] was the same as the "Execution Report"[3]. This was a very essential step as part of the external audit process because all digital trades were to be matched with a physical one.

B. Regulatory Compliance and Documentation- My second significant role was aimed at eliminating risk and meeting BSEC regulations.

- **KYC Processing:** I have been able to process and regularize more than 200+ accounts of clients. This was through completion of forms and filling of the required fields that the regulator required.
- **Due Diligence:** I evaluated the legitimacy of legal documents of clients, namely, the documents of the origin of income and the address proofs in case of money laundering and fraud.
- **Authorization Chain:** Once the documentation was done, I arranged the files to be finally approved and received the authorized signatures of the Chief Operating Officer (COO).

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[2] Order Blotter- a physical/ digital logbook keeping records of client trade requests before they are executed kept by brokers.
[3] Execution Report is a formal digital document that encompasses how, when and at what price clients' trade was completed in the market.

1.3 Internship Outcomes

This section contains information about the output of my internship duties & responsibilities.

1.3.1 Contribution of student to the company

Through my term, I was able to deliver practical value to the Operations Department through the continuity of workflow and readiness to audit.

- **Facilitating Audit Readiness:** I made sure I kept the physical order sheets in great shape and checked them daily to make sure that the department was in readiness in case of external audits. My verification process reduced the chances of audit objection in respect of unauthorized trades.
- **Operational Efficiency:** I have been exposed to a substantial amount of manual data entry and reconciliation (Order Sheet Management) at maximum post-market times. This enabled the permanent employees to concentrate on upper level settlement matters and management of client relationships.
- **Regulatory Risk Mitigation:** Working on processing and verifying 200+ KYC forms, I played a direct role in making the firm comply with the regulations of BSEC. My analysis of "Source of Income" files assisted the company in having a clean book of clientele and evading future regulatory penalties.

1.3.2 Benefits to the student

The internship also gave me an exposure that, to a large extent, helped me bridge the gap that existed between my academic knowledge in Finance and practice in reality.

- **Knowledge of Trade Lifecycle:** I have acquired a clear knowledge of what takes place upon trade execution. I also got to understand the flow of orders through the front office (App/Call) to the back office (Operations) and the need for reconciliation in this flow.
- **Knowledge in the area of Regulation:** I was working with KYC and legal documents, this allowed me to gain great insights into the area of BSEC compliance laws. I got to know about the role of assessing the risk of the client by the financial institutions as well as the role of Source of Funds in the Anti-Money Laundering (AML) schemes.
- **Conciseness:** Due to the high stakes of the task of Order Sheet Management, where one or two digits were likely to cause audit failure, the task made me much more attentive to detail and accuracy.

1.3.3 Problems/Difficulties (experienced during the period of the internship)

Although this was a fulfilling experience, there were certain pitfalls that I experienced due to the nature of the operation the role required.

- **Manual Intensity of Work:** The process of the Order Sheet Management was to input trade details on the manual paper one by one per client. This was physically demanding and monotonous particularly during high trading days.

- **Time Pressure:** The reconciliation activities commenced when the market was closed. This formed a sense of pressure in which precise reporting needed to be worked out in a short duration prior to the termination of the workday.
- **Redundancy:** The fact that the same information had to be written on 200 plus KYC forms was monotonous, and it was difficult to demonstrate high rates of concentration and avoid clerical mistakes during the extended time.

1.3.4 Recommendations (to the company on further internships)

According to what I have noticed, the following recommendations to improve the internship program and operational efficiency could be offered:

- **Process Automation:** The company should think about automating the process of order sheets. Digitization of trade sheets by substituting the manual handwriting applications with digital signatures or printing of trade sheets would save many man hours and minimise human error.
- **Job Rotation:** This would help future interns by having a rotation system. A week in the Front Office (Trading) would also assist them to be more conversant with the context of the Back Office (Operations) work they are undertaking.
- **Training on Regulation:** As much as I learned through the process, a formal introductory session on why certain BSEC regulations exist would make interns realize how serious the compliance tasks would be in their tenure in this company.

Chapter 2: Organization Part

This section focuses on various aspects of the organization, from management style to its actual output. efficiency and profitability and their performance compared to competitors.

2.1 Introduction to the Study

IDLC Investments Limited is one of the top merchant banks of the country who possess their own leadership style, training criteria and brand-value. Yet, the organisation operates in a heavily competitive landscape. This chapter contains various information and their performance over the years compared to their competitors.

2.1.1 Objective of the Chapter

This chapter is aimed majorly to introduce a general picture of IDLC Investments limited as an organization. It will examine the operations hierarchy, the product line, and practices of the management of the company, and in particular, the department where the internship was carried out, namely the Operations Department.

2.1.2 Scope of the Study

This report is largely focused on the operations of the Head Office of the IDLC Investments limited. It includes the after-trading procedure, compliance, and customer service guidelines that are directly overseen by the Chief Operating Officer (COO). It separates these main operating functions of Investment Banking and Structured Finance, which are operated in different branches under the Gulshan branch under the Managing Director (MD).

2.1.3 Methodology

In order to develop this report, I gathered both primary and secondary sources of data:

- **Primary Sources:** I have collected qualitative data by directly observing the processes in the offices every day and conducting face-to-face interviews with my supervisors and colleagues within the Operations Department.
- **Secondary Sources:** I used the published Annual Reports, the official website of the company and internal training manuals to confirm the facts and figures in organizations.

2.1.4 Limitations

Because of the privacy of client data, some of the sensitive financial records were not easily accessible. Secondly, since my posting was with the Operations Department, I was not able to see the division of Investment Banking (which is in another branch) for my own observation and for the report.

2.2 Overview of the Company

This section contains an in-depth overview of the organization.

2.2.1 Company Profile

IDLC Investments Limited is a leading merchant banking company of the IDLC Finance PLC. It is famous to have high standards in the Bangladeshi capital market. The organization has been designed in a way that it has specialized focus where the Head Office operations take place under the immediate supervision of the Chief Operating Officer (COO) to take into consideration seamless daily performance of trades and compliance.

2.2.2 Product and Service Offering

As IDLC is a financial institution, their products are intangible and services are tailored in a completely different manner than other merchandising or service providers. The following table includes various information of their product and service offering-

A. Head Office Products (Operational Focus)	B. Gulshan Branch Products (Strategic Focus)
The branch that I was based in specializes in institutional and retail wealth management. The key products are listed below-	Unlike the operating hub, the Gulshan branch is under the direct supervision of the Managing Director (MD) and the more complicated financing units, including:
Portfolio Management Products[4]: Customized client investment, Discretionary portfolio management products.	**Investment Banking (IB)[5]:** IPOs and underwriting.
Margin Loan Facilities[6]: Clients get margin facilities to trade in the stock market.	**Structured Finance[7]:** Special purpose financial products to corporate clients.
Investors Discretionary Services: Accounts from which clients invest in various products according to their own liking.	

Table-2: Products and Services

The table lists various products and services provided by the two distinct branches of the organization which has its own distinct activity and product and service offering.
The product line is divided into branch specialization and functional specialization.

[4]Portfolio Management Products are professional services where experts invest and manage a pool of money on behalf of the clients to meet their specific financial goals.
[5]Investment Banking is a specialized banking division that helps large corporations to raise money by issuing stocks or bonds and provide advisory services
[6]Margin Loan Facility is a service allowing investors to borrow money from their broker to buy more stocks than they could afford with their own money.
[7] Structured finance is a complex, customized financial product designed to solve unique fund requirements for large corporate clients.

2.3 Management Practices

This section contains information about management style, company practices regarding hiring, onboarding and training of employees.

2.3.1 Leadership Style Analysis

According to my findings, the Situational Leadership Style used by IDLC investments limited is a combination of Autocratic and Participative leadership styles depending on the situation.

- **Bureaucratic/Autocratic Aspect:** The leadership style is strict and rule oriented in issues of regulatory compliance, audit and day to day operations (Order Sheet Management and KYC). This is a conservative method which is required since the price of failure in financial compliance is high. BSEC rules are top-down and it is important to abide by them to the letter.
- **Democratic/Participative Aspect:** On the other hand, when there are difficulties in operations, the culture changes to a Democratic one. In case of a bottleneck in a process, the hierarchy becomes flatter; all the team members at every level deliberate on the issue to arrive at a common decision on how the issue is to be solved. This fosters the culture of common problem-solving in spite of the harsh regulatory environment.

2.3.2 Human Resource Planning: Recruitment and Selection

IDLC has a strict recruitment process that depends on the type of the employment contract.

- **Permanent Positions:** The company mainly promotes vacancy through professional networks such as Linked In. The process of selection entails:
  - **Primary Rejection:** Short listing of resumes.
  - **Written Assessment:** This is a compulsory test to allow technical and analytical competence.
  - **Interview Rounds:** Investigations: those who pass the exam undergo one or two levels of interviews with functional heads and HR.
- **Internship Positions:** Internships have a simplified and competitive process. It is a two stage process of resumes screening after which a thorough interview is conducted to determine the potential and cultural fit of the candidate.

2.3.3 Training and Development

IDLC Investment Limited lays high stress in Formal Training. I did not have to figure it out by myself during my internship. The organization has offered systematic mentoring in which I was specifically trained on the particular software (IDLC Database), compliance measures, and paperwork criteria that will be necessary in my occupation. In this type of mentorship, it is guaranteed that even temporary employees still uphold the high standards of operations in the firm.

2.4 Marketing Practices

This section contains information about the company's marketing and positioning approaches and strategies.

2.4.1 Marketing Structure and Organization

Compared to IDLC Finance PLC, which has an operational marketing department with full operation, IDLC investments Limited has a leaner organization. It lacks a separate marketing department. It instead works under a concept of a Shared Services where it uses the brand equity and resources of the parent company (IDLC Finance) to carry out major branding activities. In the case of product-specific marketing, it is the key task of the sellers and managers of relationships that serve as the main barrier between the company and its customers. In the cases where specialized campaigns or extensive promotional materials are involved, the organization contracts the services of professional external marketing organizations.

2.4.2 Target Customers and Positioning

IDLC Investments will positively position as a premium, trust-based financial partner. Its targeting strategy is mainly relationship-based niche with an emphasis on:

- **High Net-Worth Individuals (HNWIs):** When it comes to portfolio management and margin loan.
- **Corporate Clients:** Corporate advisory services and issue management and underwriting.
- **Retail Investors:** The focus is more on easy to invest products.

Positioning strategy is based on the expertise and trust, but it does not compete with other firms by setting the prices lower, but by providing better research resources, transparency, and the good reputation of the IDLC brand.

2.4.3 Marketing Channels and Promotional Strategies

The marketing channels are unique as the organization does not have to depend on the mass media advertisements but instead on the direct interaction:

- **Digital and Social Media Marketing:** This will be the main visibility channel. The company uses such platforms as LinkedIn (to connect with the corporate world and industry news) and Facebook (to reach out to a wider range of retail customers) to spread reports, market news, and product information.
- **Direct Sales/Personal Selling:** The Sales Team will be the most important channel in marketing since investing products are complex. Promotion will occur in direct, face to face meetings with the clients, direct cold calls and personalized investment advice by Relationship Managers.
- **Corporate Website:** The site serves as a passive promotional tool, available with either financial reports, research information, and account opening house, which contribute to credibility.

2.4.4 New Product Development and Competitive Practices

IDLC Investments uses a proactive and analytical product development strategy, which is mainly dictated by a Gap Analysis strategy. Instead of just imitating the competition, the organization has taken up activities of scanning the market to establish unusual needs that have not been met by the competitors, or under-met needs that the competitors have not fulfilled.

- **Trend Analysis and Leadership:** Chief Operating Officer (COO) is the key player in the process as he constantly keeps track of the market trends to determine the products that are not prevalent at the moment but have a high level of potential in a particular customer group. (Personal observation & interview)
- **Example - Shariah DPM[8]:** A good example of such strategy is development of specialized products such as Shariah-compliant Discretionary Portfolio Management (DPM) services. The company identified an emerging need in the market, the increasing demand of ethical investment products, which were not being adequately fulfilled in the wider market and, as such, the company used this niche to secure a first-mover advantage. (Personal Observation)
- **Validation Process:** After the identification of potential products, a high level feasibility study is carried out. The risk-reward profile is analyzed to make sure that it is within the conservative but progressive standards of the company. Prior to launch, survey and feedback loops are performed with the potential investors in order to test the appetite and focus on the features to finalize the final product, which is market fit as it enters the market. (Personal observation & interview)

2.4.5 Critical Marketing Issues and Gaps

One of the main gaps that have been identified in the course of the internship is related to the lack of a well-defined marketing team that would cater to the Investment wing.

- **Dependency Risk:** This is due to the fact that the central marketing team of IDLC Finance or the use of a third party agency may result in a delay in carrying out campaigns which are of time-sensitive campaigns unique to the stock market or investment product.
- **Sales-Marketing Intersection:** The sales team does a significant portion of the marketing (promotion), thus we may see a scenario where the focus of a long-term brand-building is bumped against short-term sales goals. A resource devoted to the IDLC Investments would be beneficial to develop more customized educational materials to investors, which is a highly demanded aspect of the market now.

[8] Shariah-compliant portfolio management is an investment fund composed exclusively of stocks and assets that adhere Islamic ethical and financial principles.

2.5 Financial Performance and Accounting Practices

This section discusses the financial performance of the organization and their accounting practices.

2.5.1 Financial Performance Analysis (2020-2024)

The IDLC Investments Limited is a company in the capital market and thus its financial performance is a cyclical performance that has a high correlation between the market turnover and investor sentiment. In the past five years (2020-2024), the company has been sailing through a wave of volatility that ranged between the market boom following the pandemic to the ad hoc stagnation that the floor price regulations have brought.

- **Profitability Trends[9]:** The Net Profit After Tax (NPAT)[10] of the company was resilient in 2024 standing at BDT 208 million concerning a year-on-year growth of 11.8 per cent higher than BDT 186 million in 2023. This is a critical reversal of the negative trend that was witnessed in 2022-2023. The turnaround was explained by a strategic turn towards a fee based income (Corporate Advisory and Issue Management) to counter the reduction in the trading related revenue (IDLC Investments Annual Report 2025).
- **Asset Base Stability[11]:** The total Assets have been found to be rather stable and are about BDT 10.3 billion in 2024. The asset structure has however changed. The company has wisely minimized its exposure to risky margin borrowings and instead invested in proprietary securities in the high yield government securities[12] and in the fixed income instruments[13] as a means of guaranteeing their returns during a bearish market (IDLC Investments Annual Report 2025).
- **Capital Strength:[14]** The Equity of shareholders has been accumulated steadily, with its high being BDT 5.0 billion in 2024. This high base of capital gives a considerable cushion against market shocks which enables the firm to continue its operations at times of market recessions and stay afloat (IDLC Investments Annual Report 2025).

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[9] Profitability trend is an upward or downward direction of a company's ability to generate profit over a tenure

[10] NPAT is the actual money a company gets to keep after paying all of its expenses, debts and taxes.

[11] Asset base stability is a measure of how consistently a company maintains the value of its owned resources by avoiding risky investments.

[12] High yield government securities are extremely safe financial instruments issued by the government that pay a guaranteed interest rate to investors.

[13] Fixed income instruments are instruments that provide a fixed return to the investors like- bond

[14] Capital Strength is the financial cushion a company has for its on accumulated wealth or equity, which protects it from going bankrupt.

2.5.2 Ratio Analysis

Ratio Analysis is a method in finance where various components from the financial statements are taken into account and then these components are turned into mathematical formulas which are used to assess the condition of the company. In the table below, the ratio analysis of the IDLC Investments Limited is displayed in detail over the last five years.

Indicator	2020	2021	2022	2023	2024
Profitability Ratios					
Net Profit (BDT mn)	305	450	280	186	208
Return on Assets (ROA)[15]	2.65%	3.58%	2.33%	1.72%	2.01%
Return on Equity (ROE)[16]	12.5%	15.2%	8.4%	5.8%	6.2%
Liquidity & Solvency					
Debt-to-Equity Ratio (Times)[17]	3.71	3.24	2.60	2.37	2.08
Valuation & Efficiency					
Cost-to-Income Ratio[18]	40.5%	38.2%	52.1%	58.4%	51.5%

[15] Return on Assets is a percentage that shows how efficiently a company is using its owned resources to generate profit.
[16] Return on Equity is a percentage that measures how much profit a company generates with the money invested by shareholders.
[17] Debt to equity ratio is a metric comparing how much a company has owed tohow much it owns
[18] Cost to income is an efficiency score showing how much money a company has to spend on operating costs to earn a single unit of revenue.

Earnings Per Share (EPS)[19]	BDT 15.25	BDT 22.50	BDT 14.00	BDT 9.30	BDT 10.40

Table-3: Ratio Analysis

The above table shows figures of different financial metrics which determine key aspects of the financial health of the organisation. It is elaborated further in the next section.

2.5.3 Interpretation of Ratios In Detail

- **Earnings Per Share (EPS):** Since it started at a high of BDT 22.50 in 2021 and a low of BDT 9.30 in 2023, the decline in capital market activities is dramatic. Nevertheless, the recovery in BDT 10.40 to 2024 shows that the company has managed to adjust its business model. The rise in 2024 was not caused by the volume of the market (which was still low), but by efficiency and greater revenues related to the advisory mandates.
- **Return on Assets (ROA):** The ROA has dropped to 1.72% in 2023, which is the direct consequence of the stagnation of its assets, as the company possesses significant portfolios of securities that earned lower returns at the time of the market downturn. The 2.01 percent improvement in 2024 is an indication of improved utilization of assets. The management had successfully removed the assets of the non-performing margin loans and invested it on other higher yielding fixed-income securities, increasing the returns per unit of asset.
- **Debt-to-Equity Ratio:** The Debt-to-Equity ratio has been on an upward trend that saw a steady rise in 2020 at 3.71x, to 2.08x in 2024. This de-leveraging suggests that IDLC Investments is less dependent on borrowed amounts (bank lines to lend it on margin) and more on its equity. Although this minimizes financial risk, it is also an indicator of a conservative approach in which the company is not taking risks in borrowing in the uncertain market.
- **Cost-to-Income Ratio:** It had fallen to 58.4% in 2023, which implies that every 1 Taka, the company spent almost 58 paisa (this ratio deteriorated because fixed overheads are still high, and the revenue decreased). This increased to 51.5 in 2024, demonstrating effectiveness of cost-rationalization and digitization of operations (through CapConnect) which made the costs of manual processing cheaper (IDLC Finance, 2025)

2.5.4 DuPont Analysis (2024)

A DuPont breakdown[20] was performed to determine the source of the 6.2% Return on Equity (ROE) in 2024:

[19] EPS shows the portion of a company's total profit that is allocated to individual shares of its stocks.
[20] Dupont breakdown is an analytical method that breaks down a company's return on equity intro three specific parts- profit margin, asset turnover, and leverage- to see how exactly its making money.

ROE= Net Profit Margin x Asset Turnover x Financial leverage.

- **Net Profit Margin (27.8):** The company maintains a good margin which shows that it has high pricing power in its advisory services and manages its direct costs.
- **Asset Turnover[21] (0.07):** The asset turnover is low (0.07x), and it is normal in the investment banks with large investment portfolios. Yet, it also implies that the assets (cash and securities) of the company are not being turned over fast to gain fee income.
- **Financial Leverage[22] (3.08):** This is a moderate leverage with an equity multiplier of 3.08x.

Conclusion: ROE of IDLC Investments is mainly contributed by its Net Profit Margin which is illustrated by DuPont analysis. The decrease in ROE as compared to historical levels is greatly attributed to a decrease in Financial Leverage (because the company reduced debt) and a decrease in Asset Turnover (because the market was not performing well). The next round of ROE growth will rely upon the growth of asset turnover which will be achieved through an additional capital invested in active margin lending as soon as the market stabilizes (IDLC Finance, 2025).

2.5.5 Accounting Practices

IDLC Investments Limited complies with the International Financial Reporting Standards (IFRS) applied in Bangladesh, and merchant banking activities are treated as follows:

- **Revenue Recognition[23]:** Fee-based revenue (Issue Management, Advisory) is defined as the revenue to be reported as it is being rendered (stage of completion), whereas the brokerage and settlement revenue would be reported on the date of trade.
- **Investment Valuation[24]:** The proprietary portfolio is marketed. To conform to the requirements of the BSEC, the provisions of diminution in value are recognized to the Profit and Loss account in cases where the market value of shares are lower than the cost price.
- **Margin Loan:** The company has a wise provisioning policy towards margin loans. Interest income is not recognized and suspended when accounts have eroded equity significantly (Negative Equity), and the income is recorded in the financial statements as the realizable income only.

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[21] Asset turnover is a ratio measuring how fast and efficiently a company uses its assets.
[22] Financial leverage is the strategy of using borrowed money to increase the potential return of an investment.
[23] Revenue recognition is a specific accounting rule that dictates exactly when a company is allowed to officially record money it has earned on its books
[24] Investment valuation is the accounting process of determining the current, fair market worth of the stocks and assets a accompany holds on their books.

2.6 Information system practices and Operations management

The Information System is an integral part for any organization. This section provides information on how the company stores and analyzes data and the activities of the Operations department.

2.6.1 Information Systems and Software Architecture

IDLC Investments Limited is based on a hybrid Information system architecture which is an integrated and robust, custom built Enterprise Resource Planning (ERP) solution, complemented by an advanced analytical software.

- **Central Portal: CapConnect** The CapConnect is the information system of the organization that stands on the base of its internal portal, which is called CapConnect. This is a central hub where the data processing of all the departments is conducted. The Operations Department especially needs it as it is the one that completes daily trade executions, transaction information, calculations of interest servicing, and it is also where the records of client documentation are kept. (Self Observation)
- **Analytical Tools (Excel & Power BI):** Although CapConnect is the main ledger, functions that require extensive calculation relies on Microsoft Excel greatly. The Accounting and Operations departments are dependent on complicated excel spreadsheets in financial reconciliations and reporting. Also, a mixture of Excel and Power BI is used by the Risk Management team to visualize the risk metrics and track the health of the portfolios. (Self Observation)
- **Specialized Portfolio Software:** The Portfolio Management team uses specialized high-performance software to analyse the market and allocate assets. The particulars of this software are a secret since the trading strategies involved are rather sensitive. (Self Observation)

2.6.2 Data Processing and Data storage

The organization has a strict data management protocol to guarantee accuracy and accessibility.

- **Data Processing:** CapConnect is the main path where data flows to record and validate it. Nevertheless, to analyse further, e.g. by computing Net Asset Value (NAV) or predicting profitability, the data is usually exported to Excel where it is processed in detail by the corresponding teams. (Self Observation)
- **Storage:** The storage layer is two-layered. To guarantee compliance with the regulatory requirements, the organization has physical servers to store sensitive client information and historical records of transactions. At the same time, a high amount of operational data is stored in Excel-based archives whereby the data can be easily retrieved and analysed on demand by department heads. (Self Observation)

2.6.3 Operations Management Practices

The Operations Department is the powerhouse of the company that utilizes the information systems to streamline the daily operations of the company.

- **Daily Trade Reconciliation:** At the close of each trading day, the transactions are reconciled between the stock exchange and CapConnect to make sure that the client portfolios are updated in real time. (Self Observation)
- **Resource Allocation:** With the automation of routine activities (interest calculation and statement generation) via CapConnect, the operations department will be able to assign human resources to more demanding activities (such as exception handling and client service issues). (Self Observation)

2.7 Industry and Competitive Analysis

In this section the industry and the organization's competitors are being analyzed.

2.7.1 Industry Overview

In Bangladesh the merchant banking industry is found within a very stringent yet unstable regime, and that is regulated by the Bangladesh Securities and Exchange Commission (BSEC). By 2024, more than 60 licensed merchant banks form the industry, although the market is highly concentrated around the top 10 players that control the provision of Issue Management (IPOs), Portfolio Management and Corporate Advisory services. New challenges in the industry have recently included regulatory interventions such as so-called floor prices which halted trading volumes in 2022-2023 and a high interest rate environment in 2024 that raised the cost of funds. Such challenges notwithstanding, leading merchant banks have moved beyond the traditional margin lending market to a less fee-based product like Mergers and Acquisitions (M&A) advisory, structured finance to remain profitable (IDLC Finance, 2025) (IDLC Investments Annual Reports 2020-2024).

2.7.2 Porters Five forces Analysis

Porter's five forces is an important tool to assess various core components of the industry and the company's strengths and weaknesses. The five aspects of this model is being discussed-

- **Threat of New Entrants (Low to Moderate):**
    - **Entry Barriers:** The initial capital capital that is required to start a full-fledged merchant bank is high (paid-up capital of BDT 250 million). In addition, BSEC is a strict institution to be licensed by. (Bangladesh Securities and Exchange Commission-laws)
    - **Brand Loyalty:** Members of the established market such as IDLC and BRAC EPL have strong connections with corporate clients. Without any track record, new entrants barely have any chance of winning large IPO mandates or high-net-worth individual (HNWI) clients.
- **Supplier Power (Moderate):**
    - **Cost of Funds:** The main suppliers are depositors and banks that deliver credit lines in which they are going to lend on margin. The liquidity crunch in the banking sector in 2024 has greatly enhanced the cost of borrowing, and the fund providers have greater bargaining power.
    - **Talent:** In Bangladesh, there is a shortage of qualified investment bankers and analysts. The best talents are highly premiumed, and the employees (as suppliers of labor) have a huge bargain.
- **Buyers Bargaining Power (High):**
    - **Corporate Clients:** Large companies seeking Issue Management or Advisory services have several high-end possibilities (City Capital, LankaBangla, IDLC). They are able to negotiate fiercely on charges so that the merchant banks are compelled to compete on prices and service quality.
    - **Retail Investors:** Under these conditions with the presence of mobile trading applications and the absence of a high switching cost, retail investors can easily

change their portfolio to the competitors that would provide low commission rates or better margin loan terms.

- **Threat of Substitute Products (High):**
    - **Fixed Income Alternatives:** With the high-interest rate in 2024, the government treasury bonds that are risk-free and high-yield bank deposits will make an appealing alternative to investing in the stock market. Numerous conservative investors have pulled out the money in the equity portfolios into these less risky instruments.
    - **National Savings Certificates (NSCs):** This is a timeless alternative, which absorbs the liquidity that would otherwise find its way to the capital market.
- **Competitive Strength (Very):**
    - **Price Wars:** Competitors often lower management fees to get IPO mandates.
    - **Service Differentiation:** Competition is not only based on price but research quality and technology as well. Competitors such as City Bank Capital and BRAC EPL are frantically improving their online systems to fit the three of the capabilities of IDLC.

2.7.3 Competitive Landscape

The top competitors of IDLC Investment Limited are those that are bank affiliated merchant banks with a good balance sheet and with well-developed distribution channels.

Competitor	Description and Comparative Analysis
City Bank Capital Resources Ltd. (CBC)	**Profile:** CBC is a subsidiary of The City Bank Ltd that has become a force in the structured finance and corporate advisory. **Strength:** They are very aggressive in the bond market and the deals in private equity. The fact that they can capitalize on the huge corporate client base of City Bank makes them have an advantage on generating large ticket advisory mandates. **vs. IDLC:** Although IDLC is the leader in DPM and retail involvement, CBC usually wins in complicated, massive corporate debt syndication.

BRAC EPL Investments Ltd.	**Profile:** The company is characterized by a high level of international affiliation and brand heritage. **Strength:** BRAC EPL has been traditionally the leader in the field of foreign portfolio implementation and research. Foreign institutional investors who are venturing into Bangladesh tend to choose them. **vs. IDLC:** IDLC enjoys a more local retail presence and digital presence (CapConnect), but BRAC EPL can be viewed as more institution-based.
LankaBangla Investments Ltd.	**Profile:** This is one of the diversified and aggressive competitors. **Strength:** LankaBangla happens to be an influential player in Issue Management (IPOs). They also regularly lead the league tables in terms of the number of IPOs handled. Their risky margin lending policy usually draws in risk taking investors. **vs. IDLC:** IDLC is a risk averse and conservative approach to lending on margin than the volume based LankaBangla. This increases the profitability of LankaBangla during a bull market at the expense of a downward market.
Prime Bank Investment Ltd.	**Profile:** The player is a stable and regular player supported by Prime Bank. **Strength:** They have a very successful operation that is concentrated on proprietary portfolio management and select corporate advisory deals. They are reputed to be stable and manage risks prudently just as IDLC. **vs. IDLC:** There is a great difference between Prime Bank Investment and IDLC in the sense that the first has much more brand visibility, and is more able to market itself.

Table-4: IDLC and Competitors

In the above table, we pin-point several top competitors of IDLC Investments and compare their own strength (IDLC Finance, 2025)

2.7.4 SWOT Analysis (IDLC Investments Limited)

SWOT means Strengths, Weaknesses, Opportunities and Threats . SWOT is an important tool for analyzing a company's internal and external factors.

Strengths (Internal)	**Weaknesses (Internal)**
Good Governance & Brand: The IDLC is associated with trust and compliance which is a vital commodity in a market that is characterized by irregularities.	**Conservative Margin Policy:** The intensive risk management procedures (reduced loan-to-value ratios) tend to push aggressive borrowers to the rival lenders such as LankaBangla.
Research Capabilities: The research team is considered to be one of the most efficient ones with the data-driven insights that appeal to serious investors.	**Small Branch Network:** In comparison with competitors, who utilise the sheer scale of their parent bank branches (such as City Bank or Prime Bank), the physical coverage of IDLC is more centralised in large cities.
Digital Infrastructure: CapConnect The Client-facing online tools and internal portal called the CapConnect offer a smooth operation experience which most competitors lack.	
Opportunities (External)	**Threats (External)**
Bond Market Development: The increased interest of the government into the bond market creates new sources of revenues in terms of advisory and trustee services.	**Unpredictability of Regulatory:** Unpredictability of the BSEC rules (e.g. floor price, margin, etc) can destabilize business plans overnight.

Digital Onboarding: Regulatory reforms that permit the use of digital BO accounts to open will enable IDLC to tap into the technologically advanced youth segment of the population.	**Macroeconomic Instability:** When the rates of inflation and interest rates are high, the disposable income to invest in the stock markets is low.
Wealth Management: The increase in wealth in Bangladesh has provided an opportunity to increase the Discretionary Portfolio Management (DPM) services to the HNWIs.	**Cyber Security:** With a fully digital operation, there will be a high risk of data breach or system failures that can be a formidable operational risk. [cite_start]

Table-5: SWOT Analysis

The above table helps us in a very simple way to dissect each component of SWOT to position IDLC Investments Limited (IDLC Finance, 2025) (Self observation & assessment)

Chapter 3: The Impact of BSEC's New Margin Rule on Investor's Sentiment, Market liquidity and Volatility: A Case Study Based on IDLC Investments Limited

The main project is discussed thoroughly in the following sections-

3.1 Introduction of the study

The chapter is the analytical heart of the report, as it ceases to dwell on the overall picture of the organization and shifts the attention to one particular, real-life event that I had witnessed during my internship. It operates as a case study, which obtains the record of the direct reaction of a significant regulatory reform- the initiation of the "Margin Rules 2025" by the Bangladesh Securities and Exchange Commission (BSEC). Under this section, we are going to discuss the impacts of the adjustment of the policies of borrowing money to trade on the psychology of investors, stability of stock prices and the working process at IDLC Investments Limited.

3.1.1 Background of the Study

The Dhaka Stock Exchange (DSE) located mainly in Bangladesh has traditionally been the capital of a market described as a frontier market. It is also known to be very volatile- a term used to indicate the frequency and amplitude of the price movements. In an unstable market, prices change slowly depending on the performance of the company. But in an unstable market such as Bangladesh, the prices can easily run erratic which is because of rumors, speculation, or panic and not on the basis of the business. One of the major factors of the volatility is the structure of the traders: the market is filled with retail traders (non-professional individual traders) many of whom are not highly financially literate and many make buying and selling decisions based on short-term tendencies, not on a long-term basis.

The regulator, Bangladesh Securities and Exchange Commission (BSEC), has a number of tools to deal with this risk. The Margin Rule is one of the most impactful. Simply, a Margin Loan is a device through which an investor obtains a loan with a broker (such as IDLC Investments) to purchase and purchase additional stocks than they might have obtained with their own funds alone. This can enable one to make more profits, but it also means that the risk of greater losses is more probable.

The BSEC gazetted the Bangladesh Securities and Exchange Commission (Margin) Rules, 2025 on November 6, 2025. It was a historic regulatory change that was meant to check rampant speculation and to maintain a well-established order in the financial system. This new structure substitutes the old Margin Rules, 1999. The rules of 1999 were designed to work in a very different market which was frequently manually based and less complex. The new 2025 regulations will provide malleable and severe requirements concerning:

Margin Loan Ratios: The amount of money that a client is able to borrow with regard to the deposit that he or she makes.

Account Management: Regulations of single or joint accounts.

Risk Exposure: Limit on the amount of investment that can be made in one stock or industry.

As a major merchant bank and a subsidiary of the biggest NBFI within the country, IDLC Investments Limited (IDLC IL) is the industry leader of compliance. Therefore, it had to make immediate changes to its organization policies in order to adhere to this change in regulation.

The article focuses on the short-term post-transition impacts in the crucial period of time, between November 6, 2025, and December 6, 2025. This month is the shock stage, during which the market made significant alleviations to absorb the new liquidity limits (*Bangladesh Securities and Exchange Commission*, 2025.) (IDLC Investments, Unpublished Report, 2025.)

3.1.2 Objectives of the Study

The main objective of the chapter is to assess the multi-dimensional effect of BSEC Margin Rules 2025. We cannot just say the market went down, we need to know how and why. In particular, the objectives are:

Measure Investor Sentiment:

This measure is just the market mood, in other words, Investor Sentiment. It is used to explain the mood of the investors; this is whether the investors are optimistic (Bullish) or pessimistic (Bearish). It seeks to establish the response of the retail and high-net-worth investors (HNWIs) to the unexpected reimbursement of stricter leverage limits. Was it considered to them as a precautionary measure, or as a limitation to their liberty to trade.

Evaluate Market Dynamics (Liquidity and Volatility):

Liquidity is a term that is used to describe the ease with which one can purchase or sell assets without bringing a radical shift in the price of the asset. The sellers and buyers of a liquid market are numerous. We will attempt to gauge whether the new regulations resulted in a liquidity crisis (lack of buyers).

Volatility measures risk. We will evaluate whether the new regulations have made the market calm or in a paradoxical way, generated even more panic during the first month of implementation.

Evaluate Organizational Impact: Internal costs are caused by the regulatory changes. The task is to document the changes made in the operations (IT upgrades, documentation) and changes in strategies that IDLC Investments Limited had to make to keep up with the compliance.

3.1.3 Methodology

The Margin Rules 2025 is a relatively new rule and, therefore, there is no previous data to use in comparison. Thus, the proposed study is based on a **Qualitative Research Design**. This implies that the study does not use numbers and charts only but rather the real life experiences and professional viewpoints of people working in the industry.

Explanation Part- The regulatory changes of the new margin laws might be difficult to interpret for some readers that’s why each rule change is being described for the simplicity of all readers as a “**laymen’s explanation**” in addition with the footnotes that explain certain vital components of the report.

Period of Observation: The research targets the following period of transition that starts on November 6, 2025 (the day of the Gazette publication) and ends on December 6, 2025. This is a time which captures the market reaction.

Data collection is an integral process for this report. Data is collected in two methods for this project-

- **Primary Data Collection:**

In-depth Interviews: I interviewed two top managers at IDLC IL, one of the managers in the Risk and Analytics Department and the other in the Operations Department in a structured interview. These departments were selected as Operations will be dealing with the client complaints and paper work, and Risk will be monitoring the market numbers. Their collateral understanding gives a comprehensive perspective of client behavior as well as systemic risk.
Self-Observation: As an intern on the floor, I conducted observations of the trade volumes daily, heard live interactions between Relationship Managers and Trade Dude, and traced the movement of the DSEX (the primary market index) to match news and price movements.

- **The Secondary Data Sources (The Existing Documents)**:

Internal Policy Documents: In particular, the "Margin Loan Internal Policy Comparison and Action Plan" where the gap analysis between the previous policy of the IDLC and the new BSEC regulations has been developed. (Unbuplished internal report)
Regulatory Gazette: The BSEC Gazette Notification of November 6, 2025, which is the legal foundation of all the changes reviewed in the present report.

3.2 Regulatory Change: BSEC Margin Rules 2025 Analysis (What Major Changes were made)

In order to be aware of the mess that ensued in the market, it is necessary to be aware of the "independent variable"--the real rules that changed. The margin lending environment was not that tight before November 6, 2025. Nevertheless, the gazette notification brought out a strict rule-oriented structure.

As documented in the document on the inside of the Margin Loan Internal Policy Comparison and action plan that I reviewed during my internship, the new regulations have brought about **four important changes.** These changes in detail are broken down below, translated into plain English, as regulatory language.

3.2.1 Tougher Margin Loan Ratios (The "Tiered" System)

The best change was the removal of the one-size-fits-all lending limit. In the past, a client, who had good credit, would secure a usual loan ratio (usually 1:0.8 and more) no matter the size of his or her portfolio. The new rule brought in a risk-based Tiered Structure.

The New Rule:

Small Portfolios: Small investors with BDT 5 Lakh -10 Lakh can use the margin ratio at a maximum of 1:0.5. This implies that they can borrow 50 Takas as compared to 100 of their own money.

Big Portfolios: It is only applicable to portfolios greater than BDT 10 Lakh whereby the borrowing can be 1:1 (that is, for every 100 Taka owned, one can borrow 100 Taki)2.

The P/E Ratio Cap: the rule declares that where the overall market Price-to-Earnings (P/E) Ratio is more than 20, the margin ratio of all the people is automatically reduced to 1: 0.5.

Excluded Stocks: SME platform (Small and Medium Enterprise) and ATB[25] (Alternative Trading Board) and OTC[26] (Over-the-Counter) market stocks have become purely non-marginable (*Bangladesh Securities and Exchange Commission*, 2025.)

Layman Explanation:

Assume that the P/E ratio is a price tag of the market. A high P/E (more than 20) indicates over-priced stocks or overheated stocks. The regulator is basically telling him, assume the market is already costly, we will not allow you to take too much money and buy more. It is a safety brake. Also, the omission of SME and OTC stocks implies that investors are no longer able to get money and put it into a bet on small risky companies. They must pay full cash.

Organizational Impact:

This posed a huge workload to IDLC. The Risk Department was required to re-estimate the lending limit of each individual client. Clients who had portfolios of BDT less than 10 Lakh that used to have greater leverage lost almost 40 percent of their purchasing power in one night (IDLC Investments, Unpublished Report, 2025.)

[25] ATB is a specialized market platform for trading securities of unlisted or alternative companies that do not qualify for the main stock exchange.

[26] Over the counter is a secondary less strictly regulated market where stocks are traded directly between parties rather than on the main stock exchange.

3.2.2 The policy of Single Margin Account

The second significant change was on the person who can hold an account.

The New Rule:

Each client may have only one margin account opened by a margin financier (IDLC). Joint accounts (accounts held by two individuals, usually husband and wife) are also not allowed when borrowing on margin (*Bangladesh Securities and Exchange Commission*, 2025.)

Layman Explanation:

In Bangladesh, a joint account is an account opened by many families to share their tax liability or family savings. The new rule compels segregation. Where a husband and wife wish to trade on margin, the accounts should be opened as separate individual accounts; the risk cannot be held on a common name.

Organizational Impact:

This proved to be a nightmare logistically. IDLC was forced to find all available joint margin accounts and request clients to close them. This would include selling assets (selling shares) in joint accounts and transferring the funds to new individual accounts which naturally irritated clients who felt it to be a needless red-tape. (Own observation)

3.2.3 Stricter Risk Management (The "Forced Sell" Trigger)

This is the most disputed section of the new rule, which is regularly accused of causing the crash of the market.

The New Rule:

The regulation requires a severe Forced Sell in case the Equity-to-Debt Ratio (EDR) of a client decreases to less than 50%8. Most importantly, the financier is obliged to sell the shares of the client without seeking the consent of the client (*Bangladesh Securities and Exchange Commission*, 2025.)

Layman Explanation:

Suppose you purchased a house of BDT 100 price which you paid BDT 50 (Equity) and borrowed BDT 50 (Debt). Your EDR is 1:1 (or 100%).

Your debt will be BDT 50 and thus your equity will be BDT 20 should the house price crash to BDT 70. Visibly, your EDR is down to the floor.

The rule goes: When your equity is too small (less than half of your debt), the bank is not going to wait till you locate cash. They will sell your house (or stocks) at a go to repay their loan. This is called a "Forced Sell."

Organizational Impact:

In the past, merchant banks could wait days to allow a client who had the loyalty to deposit additional funds. According to the new rule this becomes unlawful. To remain out of the regulator clutches, IDLC IL has opted to make its internal trigger even stricter than the law itself, and with the automated selling taking place the moment that the red line is crossed (IDLC Investments, Unpublished Report, 2025.)

3.2.4 Separation of Funds

The last significant modification was a back-end compliance modification in terms of handling money.

The New Rule:

Margin financiers should have a Separate Bank Account that they solely use to finance margins. In the past, money belonging to clients was frequently stored in a Consolidated Customers Account (CCA) (*Bangladesh Securities and Exchange Commission*, 2025.)

Layman Explanation:

It is the same as having your savings and your loan money in two wallets. It makes sure that the broker does not use the cash of one client to finance the margin loan of another client. It enhances openness and security of customer money.

Organizational Impact:

In the case of the IDLC IT team, this entailed re-coding the whole payment system. They were forced to make different Cash Codes and margin codes in the software thus that when a client deposits money the system will know their respective bank account in which to send the money (IDLC Investments, Unpublished Report, 2025.)

Summary and how I think the changes are going to affect the Investor Sentiment and Market

- Before analyzing the changes to see actual impact, we can summarize the changes into four major changes- Tougher Margin Loan Ratios & P/ECap, Single entity account, Stricter Risk Management and Separation of Funds.
- Investors are not likely going to take the changes in a positive way resulting in an upset market.
- Market Volatility is supposed to rise for short-term since there was no buffer time to adjust.
- Some stock liquidity is going to crash due to no demand at all.
- Organization wise, IDLC IL needs to have several series of changes which are operational, IT related and the responsibility of the Risk department might quantify.

3.3 Effect on Investor Sentiment (How Investors perceived the changes)

Market markets are not only numerically oriented, but human psychology drives them. Investor Sentiment- Investor Sentiment can be defined as the overall mood or attitude of investors towards the market. It may either be Bullish (versimilar and greedy) or Bearish (pessimistic and fearful).

This sentiment was the one that was struck the most directly and immediately through the Margin Rules 2025. According to my interview with the managers of the Operations and Risk departments of the IDLC Investments, the atmosphere at the time of transition was frustrating, disorienting, and oppositional. To explain the reason, we need to observe the psychology of Bangladeshi retail investors.

3.3.1 Leverage Addiction and Fallacy of Gamblers.

Discovery: The majority of the investors were playing the dangerous stocks and responded to the tightening of the rules negatively (Own Observation).

One should comprehend the leverage in order to comprehend the client's anger. Leverage is the simple fact of getting the possibility of earning money on borrowed funds.

Analogy: Imagine you have BDT 100. Assuming that you purchase a stock and the price increases by 10 percent, you earn BDT 10. However, at 10 percent increase borrowing another BDT 100 (Leverage) and investing BDT 200, a 10 percent increase gives you BDT 20 profit. You have made twice the profit with the borrowed money.

The Addiction: In Bangladesh, high leverage has become an addiction to many of the retail investors. They do not see the stock market as a place to own shares in businesses but they see it as a place to make easy money. It was purchased on a 1:1 or more ratio that a client with BDT 5 Lakh in their account was buying BDT 10 Lakh worth of shares.

The Withdrawal Symptom: This new regulation limited leverage to 1:0.5 on smaller portfolios. A client who had a BDT 5 Lakh suddenly was not able to borrow more than 2.5 Lakh. Their overall purchasing capacity was reduced by a large margin BDT 10 Lakh to BDT 7.5 Lakh.

Reaction: This was not taken by investors as a precautionary action against them being in debt, but rather as a punishment. This is the Gambler Fallacy- the false understanding that by having just a bit more money to bet they would have won the following hand. They believed that the regulator was robbing them of their future profits.

3.3.2 Hostility to Compliance Measures

Findings: Clients were now hard to deal with because of new paperwork requirements.

Compliance is something the customer is not always even aware of until it makes a nuisance. The new rules initiated a number of visible challenges that brought tension between the clients and Relationship Managers (RMs). (Own observation and interview)

The Joint Account Issue:

Context: A joint account is a common bank account, commonly between a husband and a wife. It is trendy in that it makes family finances and tax filings easier.

The Controversy: The new regulation is categorical against margin lending in joint accounts. IDLC was forced to request hundreds of clients to open new accounts in their own names, sell the shares, and close the joint accounts, which they had been having.

Client Sentiment: This was seen by clients as an unwarranted bureaucracy or red tape. They did not see the regulatory logic (improved risk tracking); they just saw the inconvenience of filling dozens of forms and coming to the office at the cost of working hours.

The "HNI" Declaration:

According to the rule, merchant banks are required to determine High Net-Worth Individuals (HNWIs), which are rich people able to take higher risks. In order to remain borrowing, clients were required to sign a declaration form showing that they were wealthy. This was invasive and irritating to many clients, whereby they were involved in heated arguments with the Operations team (IDLC Investments, Unpublished Report, 2025.)

3.3.3 The lack of understanding of monetary gains

Discovery: The new rules served to save money to the investors.

The given finding underlines an acute lack of Financial Literacy (knowledge of the way money works). The new regulations provided a colossal advantage to the investors on the calculation of Interest. (Interview)

The Old Trap (Compound Interest): In the past when a client failed to pay interest on his margin loan, the amount of interest that was not paid was charged back to the loan balance. They would be charged the interest the following month. This is referred to as Capitalization and it makes debt snowball.

The New Benefit (Cash Basis[27]): The rule of 2025 prohibits this practice. Interest is now only charged on the sum of money actually borrowed not on unpaid interest. This ensures that the clients do not enter into a debt trap.

The Blind Spot: even though it is a pro-investor change, the interviews showed that practically none of the clients mentioned this change or appeared to be glad about such change. They had concentrated completely on the loss of leverage (the "stick) and not the increase in the lower costs (the "carrot). They were frustrated that they could not borrow more without taking into account that the cost of borrowing had now become more reasonable (IDLC Investments, Unpublished Report, 2025.)

According to the discussion in Section 3.3, the following is the summary of the results of Investor Sentiment.

Summary

The effect of the introduction of the Margin Rules 2025 was an immediate and mostly negative reaction by retail investors, which was experienced with frustration and resistance. There were three main reasons behind this reaction:

- **Response to the De-leveraging:** The new cap (1:0.5) was perceived by investors (used to borrowing at a ratio of 1: 1) as a safety measure, but it was actually a penalty that would restrict the maximum profit they could make. This was an indication of a Gambler Fallacy, in which clients gave more importance to access to capital as opposed to risk management.

[27] Cash Basis is a fairer method of calculating interest where the investor is only charged on the actual amount borrowed, eliminating the burden of internet on interest.

- **Operational Friction:** Compulsory shutdown of Joint Accounts and obtrusive High Net-Worth Individual (HNWI) declarations brought a lot of discontentment . These compliance measures were perceived by the clients as an unnecessary bureaucratic task instead of improvement of the regulations.
- **Financial Literacy Gap:** Since the new regulations introduced a favorable provision of calculating interest based on cash (removing compound interest on loans), investors did not pay much attention to this advantage. Their attention was fully on the decrease of the purchasing power and there was no sense of long-term cost-saving understanding.

3.4 Implication to Market volatility and Liquidity (impact on the Market)

I compared the data regarding the trade and made daily observations between November 6 and December 6, 2025 to evaluate the market health after the new rules were issued. The data gives an impression of a market that is in a state of extreme stress.

In order to learn this part we need to determine two important terms:

Volatility: This is the weather of the market. A sunny day with low volatility is calm. High volatility is a storm in which the prices fluctuate up and down within a span of time.

Liquidity: This is the capability of selling something in a hurry with cash. When you own a house, and no one is willing to purchase it, then you have an illiquid asset. And, in case you possess gold, which can be sold at once, it is liquid.

3.4.1.1 Explosion of Volatility (The Storm)

Discovery: There were severe price fluctuations in the market especially during the first two weeks (Own observation)

The direct consequence of the gazette notification was a chaotic time called Price Discovery[28]. It is at this point that the buyers and sellers are attempting to understand what the new fair price of a stock will be under the new rules (IDLC Investments, 2025)

Risky Sector Panic Selling:

The new regulation stated that Z-category[29] (junk stocks) and SME (Small and Medium Enterprise) stocks are non-marginable. This implies that investors are no longer in a position to borrow money to purchase them, but rather pay all the cash.

The Reaction: Investors that took them on margin were abruptly informed that they could sell them off or put up all cash within 30 days. The majority of them lacked the cash, and thus they used the sell button instantly. This had an enormous supply of shares in these industries bringing down prices immediately.

Confusion Over the "P/E Cap":

According to the rule, margin loans are reduced in case the market P/E is over 20. This created uncertainty. The day volatility was skyrocketing since the traders were all day long speculating: Is the P/E over 20 today? Is my loan limit going to decrease tomorrow? This lack of certainty led to a high rate of price volatility as rumors were being spread.

3.4.2 Liquidity Crisis and the Forced Sell Trap

Discovery: There were many sellers and a few buyers and it was a traffic jam at the exit.

The greatest victim of these new rules was liquidity. In the perfect case, a buyer must exist for every seller. However, at this time, buyers vanished. (own observation and interview)

The "Forced Sell" Mechanism:

It was a rule to remember: When the Equity-to-Debt Ratio (EDR) of a client becomes less than 50, the broker has only one thing to do: sell the shares of this client.

[28] Price discovery is necessary market process where buyer and seller interact to determine the new fair price of an asset after a major rule change or event.

[29] Z-category is a regulatory classification for junk or highly risky stocks of companies that are falling to maintain standard business operations or dividend payments.

The Trap: When panic selling began (see 3.4.1) the stock prices began to fall. This reduction in prices made the EDR of many clients descend to less than 50. This caused compulsory forced sales by merchant banks such as IDLC (IDLC Investments, 2025).

The Missing Buyers:

Shrewd consumers witnessed the reduction in prices and sat back and waited. They understood that brokers needed to sell, and that is why they backed off to repurchase at a later low price.

Conclusion: You ended up with desperate sellers (against the law) and no buyers. This is referred to as a Liquidity Crunch. The gap between what a seller wants and what a buyer offers in most small-cap stocks increased to enormous proportions. In other instances, there were just no buyers at the given price.

3.4.3 Decline in Trading Volume

Discovery: The aggregate price of shares that were being traded on a given day fell to a significant degree. (own observation and Interview)

Trading Volume refers to the amount of money that transacts. It fell because of two structural reasons:

Reduced Purchasing Power:

In the past, a client who had BDT 1 Lakh could borrow another 1 Lakh (Total buying power: BDT 2 Lakh).

The new rule (in small portfolios) would mean that they can borrow no more than BDT 50,000 (Total buying power: BDT 1.5 Lakh).

Impact: The client only had less money to purchase even in cases where he/she would have liked to purchase. By taking 25 percent of the purchasing power out of the market, the volume of trade will naturally decline.

Exit of the Speculators:

Very often, gamblers (who buy and sell a lot of shares) are found in Z-category and SME stocks. By forcing these stocks out of the margin system, the regulator kicked these high-volume traders out of the market. Although this is safer in the long run, the short-term impact was a dull low-volume market (IDLC Investments, 2025).

Summary

The introduction of the Margin Rules 2025 was an abrupt stop on the market and a phase of the market being under severe stress ensued. Three key effects were noted in my observation:

- **Volatility Spiked:** The market witnessed high volatility price changes as investors panic-sold non-marginable assets (Z-category, and SME stocks) to clear the new tough compliance deadline.
- **Liquidity Evaporated:** A "Forced Sell Trap" was formed, as compulsory regulatory selling (when EDR had dropped below 50) was coupled with no buyers and resulted in a liquidity crunch in which sellers were unable to dispose of their positions.
- **Volume Slumped:** Daily trading volume was low as the new borrowing requirements (1:0.5 ratio) literally decreased the total amount of purchasing power in the market and the large volume did the same amount of speculative traders were literally expelled.

In brief: The transition month had seen the market turn less liquid, more volatile and at least in volume as it struggled to price in the new regulatory reality.

3.5 Effect on IDLC Investments Limited (Organization).

As the market was responding with volatility, within the IDLC Investments Limited, the environment was highly restructuring in terms of operations. Regulatory changes do not happen by words on paper, it involves a need to change the engine of the company whilst the car is in motion.

The example of the internal departments (Operations, Risk, and IT) that I witnessed shows that the organization needed to sustain a major structural reorganization to adhere to the BSEC Margin Rules 2025.

3.5.1 Operational Restructuring (The "Plumbing" Update)

Discovery: This burden of compliance was greatest in the Operations Department.

The IT infrastructure and workflow were affected the most directly. So to see this we should examine the flow of money in a merchant bank. (Own observation)

- **Segregation of Cash and Margin Codes:**

The Technical Issue: In the past, once a customer deposited money it was placed in a general pool (Consolidated Customer Account). The new rule provides a rigid Separate Bank Account on the margin loans to avoid mixing of funds (IDLC Investments, 2025).

The Layman Explanation: Consider an example of you having two wallets; one containing your own salary and the other containing the money you borrowed out of a friend. You used to carry all the cash in a single huge wallet. According to the law now you are supposed to use two different wallets.

The Chaos: In the case of IDLC the IT team this entailed re-code writing. They were required to develop different codes of payment within the system. In the case a client puts money to repay a loan, then it should go to the Margin Code. In case they put in money to purchase new shares using their own funds, it is transferred to the "Cash Code." The incorrect entry might result in a fine by the regulator.

- **Blocking Dishonoured cheques:**

The new rule: In case a client purchases shares in a cheque, and the cheque bounces (is dishonored) they are prohibited to use cheques within 1 year (IDLC Investments, 2025).

Operational Shift: In the past a bounced cheque was only an inconvenience. At this point, it becomes a compliance trigger. The IT system needed to be renewed to automatically flag and block any client ID that was registered with a bounced cheque so that they could not affect buy orders until they expired.

- **The Avalanche of Documentation:**

The Paperwork: Paper based regulations. The team was forced to compose and issue new versions of the Renewal Contracts, HNI Declaration Forms and Risk Assessment Formats3.

My Observation: The Operations floor was engulfed in paperwork as an intern. To sign these new forms, we had to go in pursuit of more than 200 clients. It was not data entry, it was managing a crisis, and it is necessary to explain to extremely frustrated clients the reason why they had to sign another document.

3.5.2 Risk and Analytics Adjustments (The "Safety Net" Update).

Discovery: The Risk Department was forced to change to a different mode of monitoring which was static to dynamic (IDLC Investments, Unpublished Report, 2025).

Risk management is concerned with boundaries so that the clients do not over gamble. These limits became dynamic as a result of the new rules which changed on a daily basis.

- **Daily Reporting to ALOS[30] (Approved List of Securities):**

The Idea: ALOS is the VIP List of stocks which IDLC is prepared to provide money against.
The Change: According to the new rule, when the P/E Ratio of a stock reaches more than 40, it would be kicked off the list at once.
Layman Explanation: Take an example of a club where people are not allowed to enter without having formal shoes. In the past the bouncer used to check shoes after every one month. The bouncer is now checking morning by morning. When a stock is found to be too expensive (P/E > 40) today, it will be kicked out of the club tomorrow. This means that the Risk team currently needs to revise this list on a daily basis prior to the opening of the market.
New Exposure Limits (Not Putting All the Eggs in One Basket):
The Rule: A client may not put over 40 per cent of his or her portfolio in one stock or over 60 per cent in one line of business..
The Automation: It is impossible to examine this by humans thousands of trades per second. The IT group was forced to set up the CapConnect trading engine to auto-reject orders. When a client attempts to purchase additional stock of one he already has a lot of stocks, the computer rejects his action.

3.5.3 Economic Implication to the Firm (The Bottom Line)
Finding: The new regulations will tend to minimize the short term profits through decreased revenue and increasing rainy day funds. (IDLC Investments, Unpublished Report, 2025)
Revenue Decline:
The Interest clients pay on the margin loans to merchant banks also earn money.
The Effect: The overall size of the loan book of IDLC will decrease since the new regulations restrict the maximum amount of borrowing that can be made by clients (the 1:0.5 ratio). Reduced loan book implies reduced interest income.
Increased Provisioning (The Rainy Day Fund):
The term: Provisioning is a term of accounting. It implies making a sacrifice on profit today in order to make an anticipated loss tomorrow. It is a saving towards a rainy day.
The Policy: IDLC resolved to be on the safe side. They are reserving 1% of the loan value of good loans, 2% for loans that are becoming risky (Margin Call), and an enormous 10 percent of loans in the Forced Sell category.
The Diminution: Although this is a safer situation in the company, sacrificing this money to the Net Profit that is declared to the shareholders. The company does not appear as profitable in the short term when in fact it is becoming stronger.

Summary of Section 3.5
Changing to the Margin Rules 2025 was more of a market event than an operation redesigning of IDLC Investments.

[30] ALOS (Approved list of securities) is a dynamically updated list of fundamentally strong stocks that a broker permits the client to buy using borrowed margin money.

- **IT & Ops:** The company needed to reconstruct its payment system to separate the funds of "Cash" and "Margin" and support a huge documentation endeavor.
- **Risk Management:** The system was changed to real-time automated checks in order to impose dynamic P/E caps and limits of exposure.
- **Finance:** To encourage long term compliance and safety, the firm took a short-term blow to profitability (through reduced interest income and increased provisioning).

3.6 Summary of Findings

This paper has examined the shockwave that has been caused by implementation of the BSEC Margin Rules 2025 in the critical transition period of November 6 to December 6, 2025. My synthesis of the findings into three major themes has been done through the combination of the interviews conducted with senior management at IDLC Investments and my own observations of the market.

3.6.1 Sentiment Gap (Psychological Impact)

The most notable observation was the lack of connection between what the regulator wanted (safety) and what the investors wanted (anger).

- The “Gambler Fallacy: Retail investors negatively responded since they interpreted the new leverage caps (borrowing limits) as a punishment. Their attitude was that they had less to borrow and therefore missed the opportunity to make easy money but they did not consider the fact that they could also be wiped out due to the high leverage.
- Blindness to Benefits: An enormous finding was the Financial Literacy Gap. The new regulations actually conserve money on the part of the investors by altering the calculation of interests (no more interest on interest). Playing, however, this was hardly appreciated by any client. They were all focused on the loss of the borrowing power, and not the lower cost gain.

3.6.2 Liquidity Trap (Market Impact)

During the sample period, the market was heavily deteriorating

- The Exit Door Problem: The regulation brought about a Liquidity Crisis. The rule caused the markets to be inundated with sell orders, forcing the merchant banks to sell the shares as soon as the equity of a client fell below 50 percent (Forced Sell). At the same time, buyers retreated as they awaited further reduction in prices. This resulted in a one sided market that the sellers were confined within.
- Uncertainty Volatility: The liquidation of Z-category (risky stocks) and SME stocks off the list of margin stocks resulted in panic selling. Also, the misunderstanding in regard to the "P/E Cap" (whether the market was too costly to borrow against) resulted in fluctuating prices as rumors were spread.

3.6.3 The Organizational Impact (Operation Overhaul)

In the case of IDLC Investments, this was not a market event but a structural crisis.

- Restoring the Engine: The company was required to completely respecify its software in order to isolate the funds of Cash and Margins, a colossal IT project to fulfill the Separate Bank Account requirement.
- Cost of Compliance: The organization made a temporary sacrifice in terms of finances. Interest income revenue will decrease (because there are fewer loans) as will costs (because there is more provisioning to emergency funds on risky loans). This demonstrates that compliance is in many cases a cost of short-term profitability.

3.7 Conclusion and Recommendations.

In the following section, the paper is concluded with necessary recommendations.

3.7.1 Conclusion

The Bangladeshi capital market can benefit from the BSEC Margin Rules 2025 as it can be termed as bitter medicine.

Regulatory wise, the medicine is required. The previous system was giving too much opportunity to gamble with borrowed funds on poor quality stocks. The new regulations, particularly, restricting leverage to small portfolios and prohibiting margin to risky Z-category stocks will push the market to maturity and safety. They want to safeguard investors against their own careless actions, although the investors are unaware of it at present.

Nevertheless, the example of IDLC Investments suggests that the side effects of the specified medicine were serious. The transition was abrupt. The instant application of the "Forced Sales" without a considerable grace period caused a liquidity crunch and it hurt the same investors which the regulation was aimed at. In the case of IDLC Investments, it was a year of operational pressure, poor relations with clients, and a period of momentary decline in profitability.

Finally, the rules are structurally sound in the long term but their short-term application was very frictious. It is now in a painful adjustment period of shifting to a model that is based on fundamentals-driven rather than on the model based on speculation.

3.7.2 Recommendations

In these findings, I will recommend the following as practical recommendations to make the transition a smooth process.

In the case of the IDLC Investments Limited:

- **Introduce a Campaign: Hidden Benefits:**

The Issue: Customers are irate due to their feeling that they wasted money.

The Solution: IDLC ought to introduce a marketing program which elucidates the rule of the Cash-Basis Interest. Provide a simple calculation example to the clients: "See how much you will save on interest payments under the new rule as compared to the old rule. A repositioning of the story to highlight that it is saving money instead of losing it can work to better the mood.

- **Install Pre-warning SMS alerts:**

The Issue: The 50% equity Forced Sell is a shocking event.

The Solution: Set the CapConnect system to send an automatic SMS when the equity of a client reaches 75%. This provides the client with a time buffer of safety to deposit funds before the required sell-off bells ring avoiding the liquidity trap.

- **Switch to HNI (High Net-Worth) Clients:**

The Issue: New caps are limiting retail clients.

The Solution: HNI clients will possess bigger portfolios (more than BDT 10 Lakh) yet still will have the 1:1 leverage ratio. The sales team needs to put their efforts into obtaining these rich clients because they will not be affected by the new restrictions so much.

For the Regulator (BSEC):

- **Gradual Adoption of Future Rules:**

The Problem: Forced Selling was the shock that shattered the market as it came too soon.
The Solution: Next time, significant modifications must be softly launched in 6 months. Meanwhile, as an example, the client should be given 6 months to modify their portfolios, then the forced sell rule should be applied rigidly. This would avoid panic selling.

- **Switch on a Stabilization Fund:**

The Probability: When everybody sells, no one will buy.
The Solution: The regulator ought to apply the Capital Market Stabilization Fund (CMSF) to become a Buyer of Last Resort. When the prices of good stocks are falling due to the forced sale of the stock alone, then this fund should intervene to purchase them and stabilize the prices to offer liquidity.

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