

# Performance Assessment of Demutualization of Bangladesh Stock Market

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## Abstract

Bangladesh is being considered the potential economic power in the world economic area. The demutualization of stock exchanges in Bangladesh is a great achievement for all related to capital market. November 21, 2013 is the date of Demutualization of Dhaka Stock Exchange(DSE) and Chittagong Stock Exchange(CSE). Demutualization basically refers to transition of a non-profit member owned exchange into for profit, investor owned organization. This study is intended to focus on the overview of demutualization, journey and purpose of demutualization in Bangladesh, performance of Bangladesh Capital market before and after demutualization the overall performance of demutualization in Bangladesh Stock Market, challenges associated with demutualization and some crucial recommendation for the better performance of demutualization in Bangladesh. Finally, the paper concludes that if demutualization works properly both DSE and CSE will be able to expand their business in other business areas and will be accountable to their shareholders for their performance.

**Keywords:** Demutualization, DSE, CSE

## 1. Introduction:

Stock markets around the world are going through various changes to be proficient and to provide their stakeholders with better facilities. One of the major changes is demutualization. Researchers have explored this subject and its potential benefit for the stock markets around the world as most of the exchanges have gone through this process. Many emerging markets are also considering demutualization.

As in emerging economies like Bangladesh, a mutual stock exchange is seen as an institution, serving national interest. But to avoid instability, liquidity and other financial ratios it is the demand of time to implement demutualization of stock exchanges in Bangladesh. To be more secured and risk averse, it may act as a buffer against any financial shocks. The four-member investigation committee on the recent stock market crash already submitted its report to the finance minister suggesting some recommendations to improve transparency in the operation of the nation's two stock exchanges: Dhaka Stock Exchange (DSE), and, Chittagong Stock Exchange (CSE). Meanwhile, the committee made a draft act of Parliament for the demutualization of DSE and after thorough scrutiny the Board of DSE approved and submitted the draft Act to Ministry of Finance and BSEC in the month July 1, 2012. The investigation report revealed the alleged manipulation of the market operation through issuing of illegal placement and preference shares, loan settlement through shares, asset re-evaluation, share split, and a series of ill-motive transactions. The recommendations they put most emphasis on is the demutualization of stock exchanges.

## 2. Objectives of the Study

The objectives of the research are:

- I. To discuss what demutualization is and the factors leading to demutualization
- II. To identify a trend of demutualization of stock exchanges all over the world over time
- III. To evaluate overall performance of DSE and CSE
- IV. To explore the challenges for DSE and CSE in the process of demutualization
- V. To reach some important recommendation about stock exchanges demutualization in Bangladesh

### 3. Literature Review

Demutualization has become an extensive reality, one with growing demand in emerging market countries (Elliott, 2002). The concept is initially used to refer explicitly to conversion process adopted by insurance companies. Because of the positive aspects of this process demutualization is now common in savings and loan industry, stock exchanges and agricultural cooperatives around the world. It is no more a new term in the corporate world. So, we find several studies about it. Not all the authors comply with the concept of demutualization. Some studies argued in favor of demutualization while others suggested against it. Those who supporter demutualization argue that it can help the stock exchange to modernize its technology, achieve good governance, avoid concentration of ownership power in a group of stock exchange participants and, ensure financial decision-making - by ensuring that resources are allocated to business initiatives and ventures that enhance shareholders' value. On the other side, antagonists to demutualization argue that the above mentioned anticipated benefits of demutualization may not be achieved. Rather, with certain conditions, those may be obtainable under a mutual or cooperative structure (Hansman, 1988; and Hart and Moore, 1996). Thus, any cost savings that caused by demutualization could be low in comparison to the benefits that can be obtained from the presence of brokers, with ownership interests in the exchange. In many developing countries, the creation of any financial institution is awfully hard, and the creation of investors is often harder than the creation of the brokers (Lee, 2002). Demutualization may also allow for new risky businesses that usually do not take place when the stock exchange is under a mutual structure (Worthington and Higgs, 2006).

According to Serra Eren Sarioğlu the changes in the traditional organization structures of the stock exchanges are being driven mainly by three forces: (1) increased global competition, (2) technology and the rise of "Electronic Communication Networks (ECNs)" and (3) growing conflicts of interest between existing owners. Although it is believed that demutualization brings various benefits to the stock exchanges, there exist lots of problems in the process of demutualization. The first problem stock exchanges face is to determine the structure of the exchange after demutualization. The second crucial problem is the determination of the owners of the demutualized exchange. The third problem is the management of the exchange.

Now we shall try to find out those authors who have suggested for demutualization. According to Scullion (2001), demutualization is not merely converting into for profit organization owned by its members. An exchange is genuinely demutualized when it maximizes its potential of market capitalization to the fullest and alongside it also increases its shareholders value.

Mendiola and O'Hara (2003) investigated the effects of the change of governance in stock exchanges on performance and evaluation. They found that exchange performance tends to improve after the change of governance.

Demutualization can permit the stock exchange to modernize its technology, create a flexible management structure that is more responsive to market conditions and, get an initial infusion of capital and allow for easier access to capital. It also enhances financial decision making by allocating resources to business initiatives and ventures that increase the shareholders' value (Lee, 2002). Thus, demutualized stock exchanges are in general expected to bring better performance of exchanges.

In a study conducted by O'Hara and Mendiola (2003), the financial performances of the demutualized and listed stock exchanges have been investigated. The stock exchanges were Singapore, Athens, Deutsche Börse, Euronext, Australian, Hong Kong, London and NASDAQ. According to the findings of this study, the demutualization did not seem to increase the performance of the exchanges in regards of accounting-based measures. However, in the means of return-based measures, the returns of demutualized exchanges were greater than their market indices.

Otchere and Oldford (2011) tried to examine whether corporatization of the exchange is necessary to improve the performance of the exchange. They found that both demutualized but member-owned exchanges and publicly traded exchanges exhibit higher levels of profitability and operating efficiency than mutually-owned exchanges.

Krishnamurti, Sequeira and Fangjian (2003) have compared two stock exchanges operating in India with different corporate governance structures. Bombay Stock Exchange (BSE) was a non-profit cooperation at those

times, while National Stock Exchange (NSE) was a demutualized exchange. Both exchanges had similar operating systems. By using “Hasbrouck’s measure of market quality”, the researchers found out that NSE is better than BSE by means of corporate governance.

#### 4. Conceptual Framework

##### 4.1 Overview of Demutualization

Normally demutualization means turning a non-profit organization into a profit-oriented organization, and turning a mutual organization owned by members into a company that is owned by shareholders. It divides a member's rights into two segments—ownership rights and trading rights. In addition to the trading rights, a member acquires the ownership rights, which have a market value. So, demutualization converts a mutually-owned organization into a company, which is owned by shareholders.

The main differences between a mutually-owned organization and a demutualized company are depicted below:

Particulars	Mutual Associated Stock Exchange	Demutualized Stock Exchange
Governance Model	Identity between owners of the organization and the direct users of trading services are very much identical	Ownership and trading privileges are effectively separated.
Influence on decision Making	Ability to influence decision of exchange is separated from a level of economic interest a member has in exchange.	Owners with greater economic interests are more capable of influencing decision making.
Operation Motive	Operators on a non-profit basis any earned profits are returned to members in form of lower trading costs or access fees.	Management takes actions that are for the best interests of the exchange and ultimately for its shareholders.
Ownership Structure	Members/Stock brokers are owners of stock exchange	Stockbrokers are no longer owner but customers of exchange, shareholders are the owners.
Profit Sharing	Owners share net gains of the enterprise in proportion to ownership interest.	Entitlement of dividend is based on share holding of exchange.
Standard Voting Rights	One member, one vote	One share, one vote

Demutualization transforms the legal structure of a mutual exchange into a business entity. The legal structure of a traditional stock exchange is its close link between ownership and direct access to trading. The owners are the managers and also customers. Net gains are shared in proportion to their ownership. Decisions are made democratically. Each member gets one voting right. Sometimes decisions are made by committees. They are the representatives of member firms. The ownership rights of a mutual exchange are not freely exchangeable and if

any member cancels his membership, his rights will also cease to exist. Another important feature of traditional exchanges is that it may expressly or impliedly adopt a non-profit structure and it does not distribute any kind of surpluses. So, injection of outside funds is not permitted.

Demutualization reduces the agency costs associated with the organizational structure of an exchange. It is essential for ensuring efficient corporate governance and enhancing transparency. Demutualization separates trading, ownership and management activities and thus helps achieve greater independence. In such an exchange the management works in the best interest of the exchange and the shareholders and aims at profit maximization, which is linked with interests of the owners.

Demutualization, a change in the corporate governance structure of an exchange, is not an end in itself. The exchanges that have demutualised have done so because they found that their mutual governance structure, which once served them well, had become a hindrance to positioning themselves competitively in a global trading environment.

#### 4.2 Driving factors of Demutualization

The promise of demutualization is that shareholders of the newly demutualized exchanges will provide a new corporate governance structure that is far more effective in managing conflicts among market participants. The following factors are very visibly responsible leading to demutualization.

*4.2.1 Need for Improved Governance:* A demutualized stock exchange facilitates the ownership and trading privileges of the members of the exchange, thus permits the stock exchange to achieve greater independence. It brings a management that takes actions that are in the best interests of the stock exchange and ultimately its shareholders. Further, the demutualized organizational structure will allow for greater transparency because stock exchanges will be obliged to report to their shareholders not only regarding the bottom-line but also on issues regarding corporate governance.

While demutualized stock exchanges will continue to provide most of the same services, they will have different governance structures in which outside shareholders are represented by boards of directors.

*4.2.2. Investor Participation:* A stock exchange must be responsive to the needs of its many stakeholders, including participating organizations, listed companies, and institutional and retail investors. Exchanges may perceive a need to shift power within the exchange from one group of members to another and to afford institutional customers direct access to exchange facilities. Unlike a mutual structure where often only broker-dealers may be members, a demutualized exchange affords both institutional investors and retail investors the opportunity to become shareholders. The assets managed by institutional investors and the trading needs of institutional investors differ dramatically from those of retail investors. A demutualized exchange will have greater flexibility to accommodate the needs of institutional investors as customers, and potentially, as owners.

*4.2.3. Expansion and technology investment:* Expansion and investment in technology are crucial to survive in this competitive environment. This requires resources of a substantial magnitude. The willingness and ability of the members to fund expansion and technological up gradation in a mutualized exchange is rather limited. In sharp contrast, demutualized organizations take investment decisions faster and have access to funds from a large pool of investors. Traditional exchanges have to explore new funding avenues and hence demutualization and the subsequent listing of shares give them the market image and access to funds from a wide spectrum of investors.

*4.2.4. Raising Capital:* With the capital raised from IPO private investment and the increased responsibility to stakeholders, the demutualized structure is more capable to respond to the global competitive pressures as it allows for the resources and incentives needed for investment in competitive products and information systems.

*4.2.5 Conflict of interest:* Conflict of interest may be common problem for a mutualized exchange. Decisions of the exchange could affect the trading interests of members, individually or collectively. So, their ability to protect investor interest and enforce rules is viewed with suspicion. A demutualized exchange with the management free to decide on operational issues is perceived to be effective and fair in enforcement.

## 5. Demutualization in the world over the years

Starting in the early 1990s, stock exchanges around the world have been undergoing major organizational and operational changes. In 1993, the Stockholm Stock Exchange became the first exchange to demutualize. It was followed by several others, including the Helsinki Stock Exchange in 1995, the Copenhagen Exchange in 1996, the Amsterdam Exchange in 1997, the Australian Exchange in 1998, and the Toronto, Hong Kong, and London Stock Exchanges in 2000.

**Table 4.1: list of Demutualized exchanges**

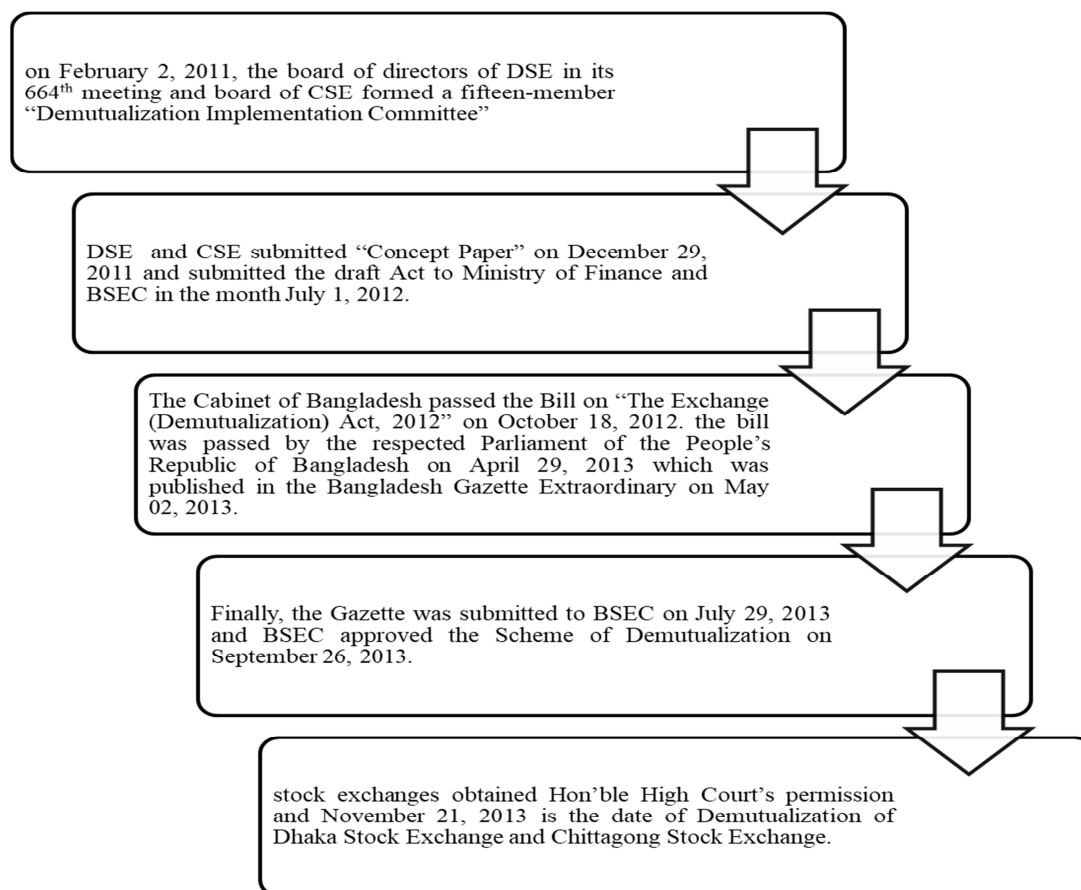
Name of the Exchanges	Year of Demutualization	Year of Listing
Stockholm Stock Exchange	1993	1998
Borsa Italiana	1997	-
Australian Stock Exchange	1998	1998
Singapore Stock Exchange	1999	2000
Hong Kong Stock Exchange	2000	2000
London Stock Exchange	2000	2001
Deutsche Borse	2000	2001
Euronext	2000	2001
Toronto Stock Exchange	2000	2002
The NASDAQ Stock Market	2001	2002
The Philippine Stock Exchange	2001	2003
Osaka Stock Exchange	2001	2004
Tokyo Stock Exchange	2001	2006
New Zealand Stock Exchange	2003	2003
Bursa Malaysia	2004	2005
Bombay Stock Exchange	2005	-
New York Stock Exchange	2006	2006
BOVESPA (Brazil)	2007	2007

## 6. Journey for Demutualization in Bangladesh

Bangladesh capital market is one of the smallest in Asia but the third largest in the south Asia region. The journey of Bangladesh stock capital market begins in 1954. The securities segment constituted with two bourses namely Dhaka stock exchange(DSE) and Chittagong Stock exchange(CSE).

Dhaka Stock Exchange (DSE) Limited is the oldest stock exchanges in Bangladesh. Though DSE was established in April 28,1954 but its commercial operation started in 1956. Chittagong Stock Exchange (CSE) Limited, the second stock exchanges, was established in 1995. DSE and CSE were demutualized in November 21, 2013. The board of directors of Demutualized exchanges consists of 13 members, 4 are elected from primary shareholders and 7 independent directors are nominated by recommendation of the board upon Commission's approval who are not exchange's member.

We can describe the journey of demutualization of DSE and CSE in the following way-



## 7. Background of Demutualization in Bangladesh

After having a massive crash in Bangladesh's stock exchanges, demutualization was the only way to separate stock exchanges' ownership from regulation. Following are the objectives of demutualization in the context of Bangladesh.

- To segregate trading right from ownership of stock exchanges
- To make the exchanges less susceptible to the investors
- To provide greater access to capital:
- To provide greater speed and flexibility in decision making:
- To adopt Clearer and Simpler Governance
- To ensure Greater flexibility in negotiations with others
- To bring market discipline

## **8. Methodology:**

This research contains qualitative and descriptive analysis. But the nature of this study is descriptive and archival, so most of the data and information have been collected from the secondary source. To prepare the report I have gathered both primary and secondary data from different sources.

### **8.1. Primary sources of data**

I have gathered primary data through personal interview and observation on Demutualization process in Dhaka stock Exchange.

### **8.2. Secondary sources of data**

Secondary information is collected by visiting website of DSE, Newspapers, articles from different websites and previous research etc.

Demutualization Act 2013 was formulated to develop and regulate Bangladesh capital market, establish good governance in stock exchanges, protect the interest of investors in securities and formulate rules to ensure related matters.

Demutualization is a recent issue in Bangladesh. Still I have tried to assess the performance of demutualization. I have analyzed the data for both DSE and CSE mainly from 2005-2016 to observe the overall impact of the variables before and after demutualization.

To evaluate the performance of demutualized stock exchanges, mainly two analyses have been performed:

1.Descriptive statistics analysis of the stock market performance by explaining rate of investment on total GDP, market capitalization, number of listed securities, number of securities traded, total trade, total turnover both in volume and value perspective, total number of irregularities found by Surveillance department of BSEC, total number of companies declared dividend for both DSE and CSE.

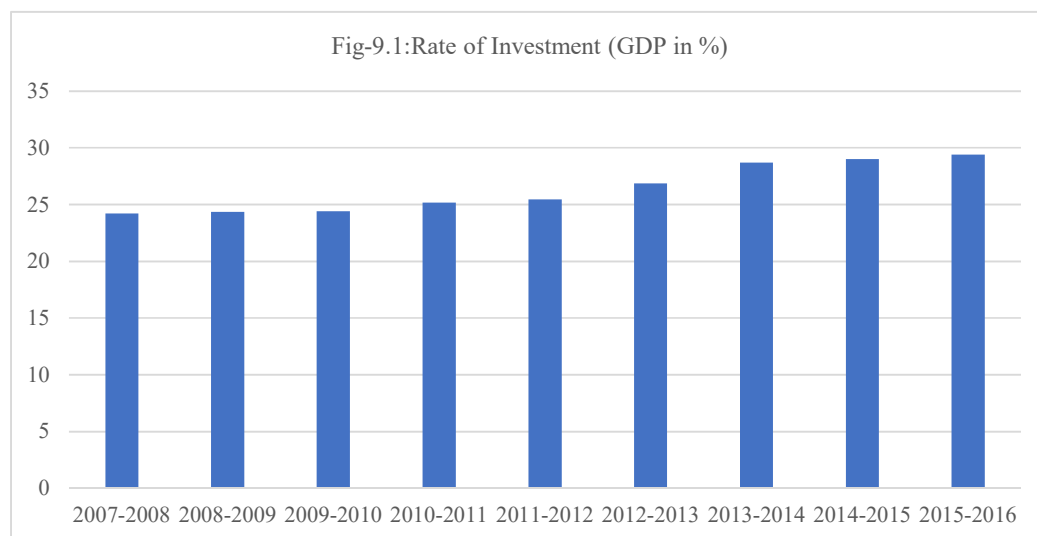
2. Ratio analysis. Financial ratios, e.g. return on Equity (ROE), Return on Assets (ROA), Earning Per Share (EPS) are also used to research the operating performance of the sample exchanges.

## **9.Data Analysis for evaluating overall performance of Demutualization of Bangladesh Capital Market**

In this section I mainly executed the data analysis to see the overall performance of demutualized stock exchange. It has been observed that in 2009-2010, the overall stock exchanges in Bangladesh was in bullish condition which was drastically declined at the end of 2010. After demutualization of stock market at the end of 2013, it has been expected that the overall share market would be in better condition than before.

### **9.1. Rate of Investment**

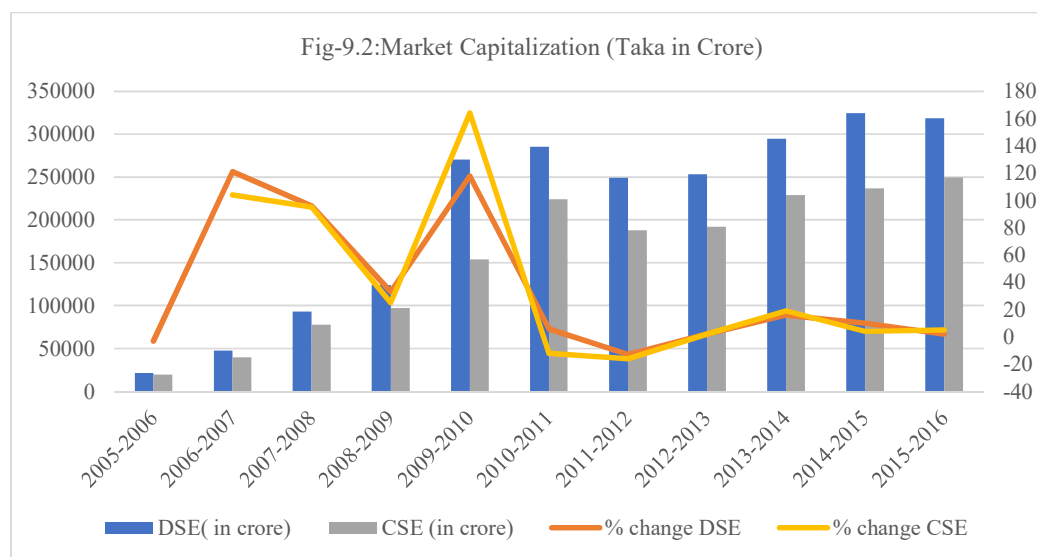
To demonstrate the growth of Bangladesh Capital market, the graph has been presented hereunder to show the rate of capital market investment rate on total GDP from 2007 to 2016.



From the figure above, we can see that there was almost a stable condition of investment from 2007 to 2012-2013 and from 2013-2014, it can be explained that the investment rate has been increased at an increasing rate.

### 9.2. Market Capitalization:

According to World Federation of Exchanges, there is a positive relationship between demutualization and the number of companies listed on the exchange and the market capitalization.



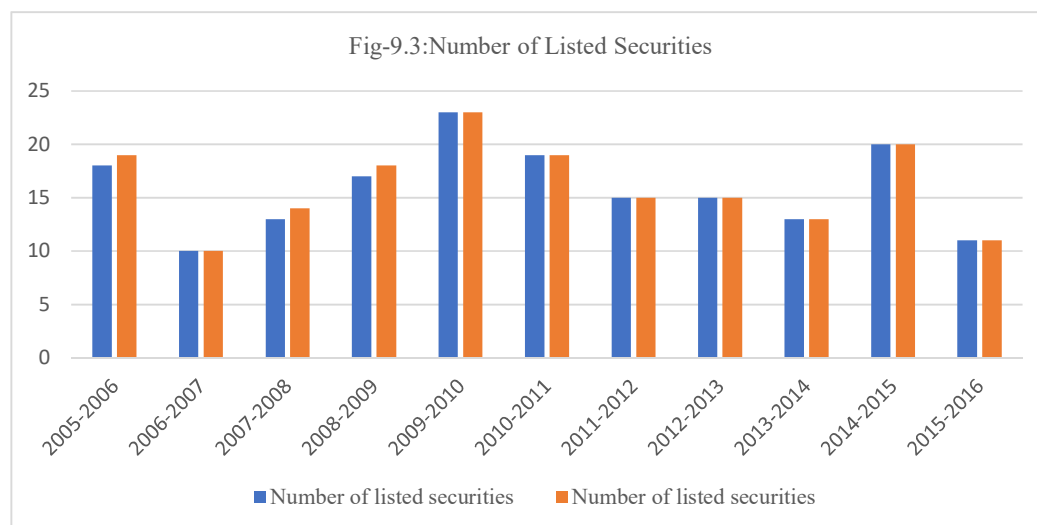
From the figure, we can see a stable as well as improving condition of market capitalization both for DSE and CSE mainly from 2013-2014. After 2010-2011, the total market capitalization was in declining stage, but it started to increase after 2012-2013. If we look at the percentage change of market capitalization of the stock exchanges, after demutualization in 2013-2014, the total capital has been increased from 2% to 16% and 2% to 19% for DSE and CSE respectively.

### 9.3. Number of Listed Securities:

For observing the overall condition of number of securities both for DSE and CSE at a time, I have analyzed the

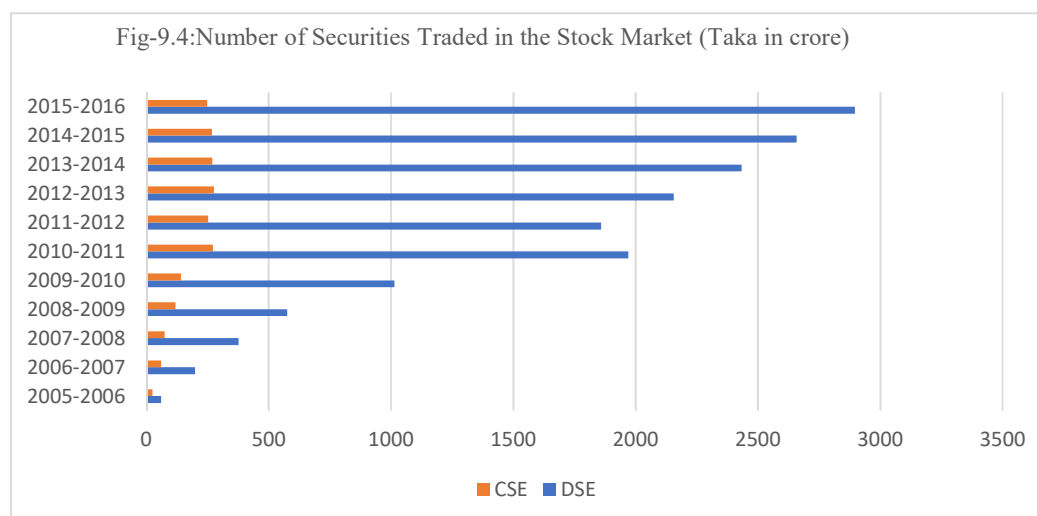


data from 2005 to 2016.



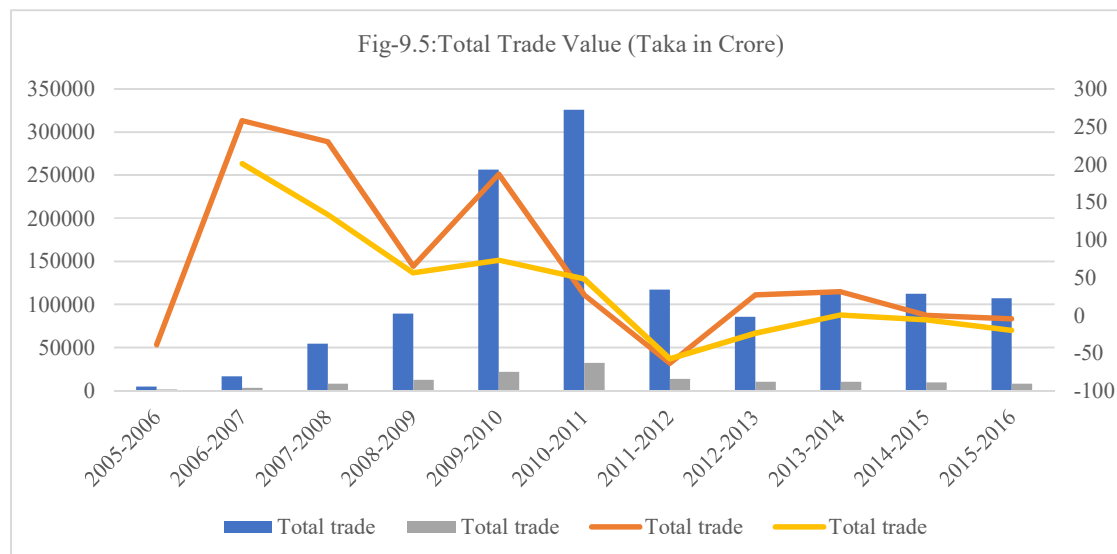
In figure, we see an uptrend for total number of securities both for DSE and CSE from 2007 to 2010. In 2014-2015, the number of securities has been increased reason of which may be the perception of new news of demutualization.

#### 9.4. Number of Securities Traded



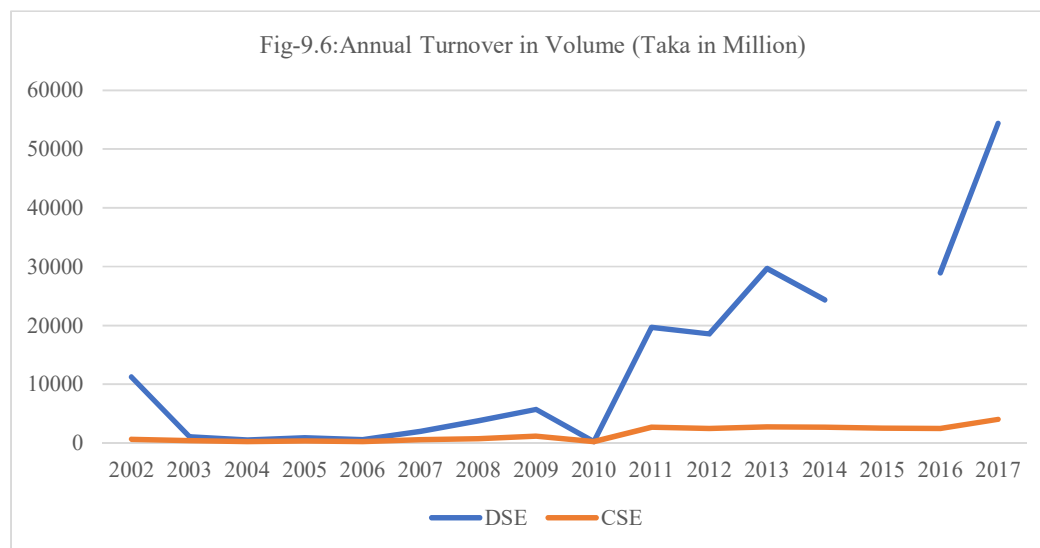
If there is a proper discipline in stock market, the number of securities will be traded more than before. From the figure, we conclude that total number of securities has been increased from 2012-2013. We believe that, if demutualization process continues with proper way, our capital market will reach to a better platform.

### 9.5. Total Trade Value



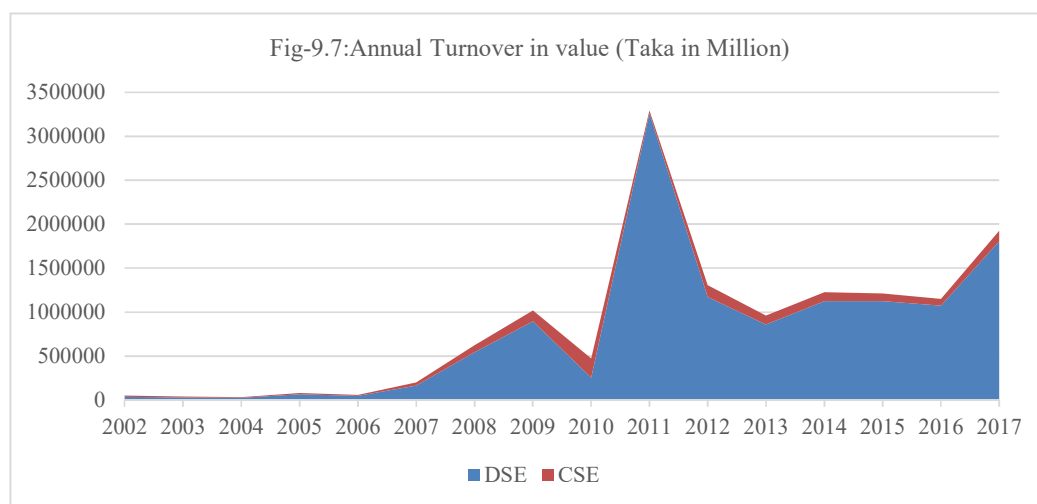
In the figure, there was a great fall of total trade in 2011-12 which was successfully in satisfactory condition from 2012-2013 and remained in a stable form after 2013(year of demutualization).

### 9.6. Total Turnover (in Volume)



One of the main objectives for Demutualization process is to permit the stock exchange to raise more capital by selling shares and motivate the management to take effective business initiatives. Here, we have seen that total turnover in volume has highly increased at the end of 2013(year of demutualization) for DSE, but for CSE we the turnover volume has been increased from 2011.

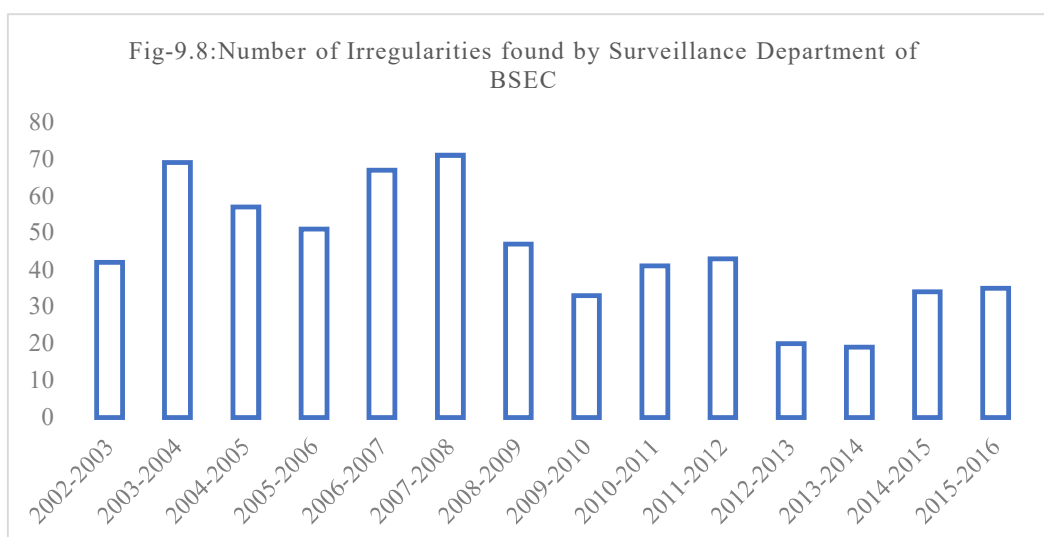
### 9.7. Total Turnover (in Value)



It has been expected that after demutualization, investors' trustworthiness for investment would be increased. In the above figure (Data from Appendix), it can be said that, DSE and CSE turnover was in declining stage from 2012 to 2013 the situation of which has been recovered after 2013 and become stable from 2014.

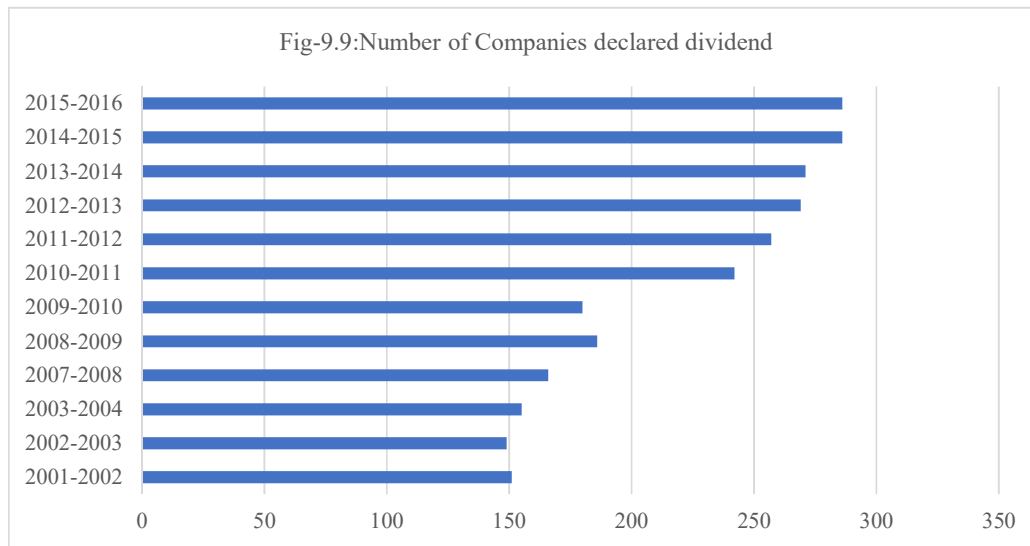
### 9.8. Total Number of Irregularities Found

Towards ensuring investors' protection and uphold transparency in the capital market, the Bangladesh Securities and Exchanges Commission (BSEC) performs surveillance function. The Surveillance Department of the Commission uses On-Line and Off-Line market surveillance systems to find out violation of securities related law in securities trading and also to find out whether irregularities have taken place, or any abnormalities exist in securities transactions. The purpose of analyzing the total number of irregularities found by the investigation department under surveillance function is to identify whether the number of irregularities has been declined after demutualization.



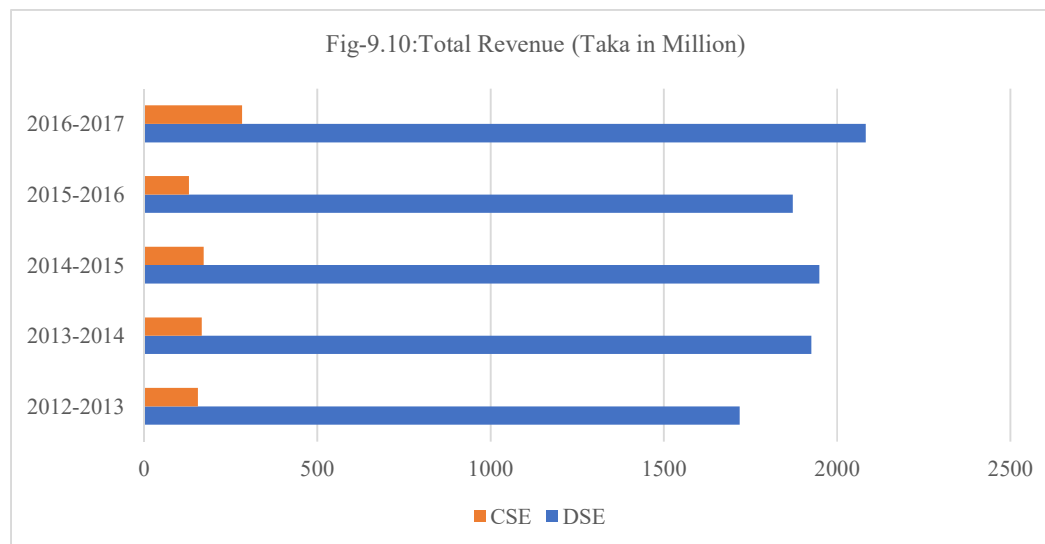
In the figure, before 2013, the number of irregularities was almost greater than after 2013. If such condition goes on, we can expect that confidence among the investors of all level will be increased that was the objectives of demutualization in Bangladesh.

### 9.9. Number of Companies Declared Dividend



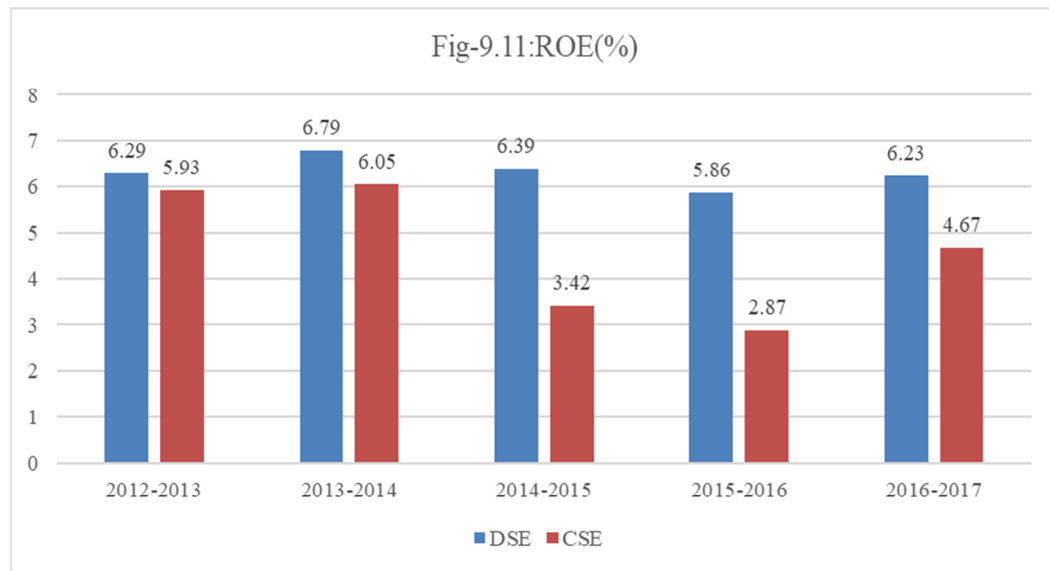
One of the main objectives of demutualization was to give right to make profit by exchanges shareholders, which will focus on efficiency and create more value. For observing the situation whether the listed companies pay regular dividend to the shareholders, the above indicator has been analyzed from 2001 to 2016. From the graph, we can interpret that total number of companies declared dividend has been increased from 2010-2011. We cannot figure out the impact of demutualization here.

### 9.10. Total Revenue



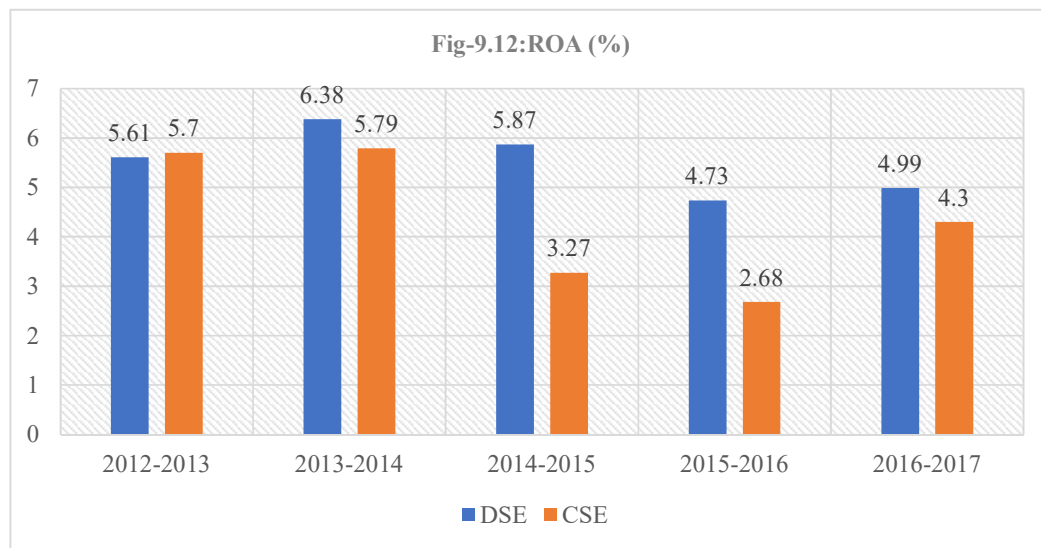
If we focus on the total revenue for both DSE and CSE from 2012 to 2017, we can conclude that the trend has been increased after 2012-2013.

### 9.11.ROE



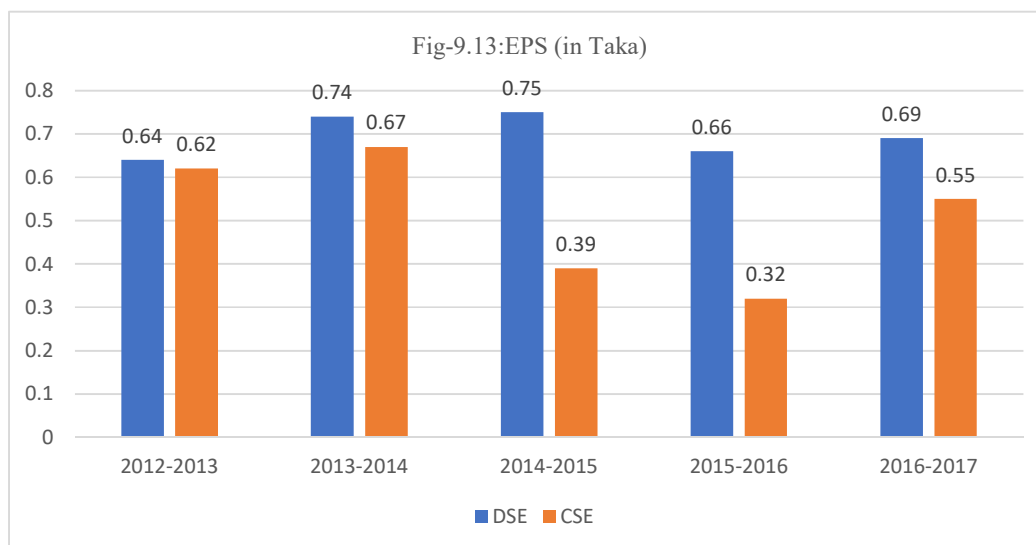
From the above graph we have detected that total Return on Equity (ROE) for DSE was in better percentage from 2013-2015. But for CSE, ROE was in peak point for the year 2013-14.

### 9.12.ROA



From the figure, we can have experienced a better condition of Return on Equity for the capital market at the end of 2013.

### 9.13. EPS



After calculating Earnings per Share (EPS), this figure has been depicted from where we can define that from 2013-2015, EPS was too high for DSE than before. So, we can say that after 2013(year of demutualization) has been increased for DSE but not for CSE.

### *Findings*

In this chapter I have tried to show the overall performance assessment of demutualization both for DSE and CSE through their index performance, number of listed securities, total turnover in volume and value, ROE, ROA, EPS by analyzing data before after demutualization. More or less all the results are satisfactory enough after demutualization.

But I cannot firmly say that these satisfactory results are only for demutualization. My analysis has covered only 4 to 5 years data after demutualization which is not fully enough to attain a conclusive result. Furthermore, the trickiest part is human behavior which may not be possible to analyze within very short time. To observe the full scenario, couple of years data after demutualization might give more satisfactory result.

So, what we can expect that demutualization will work only when right persons would monitor the financial condition of demutualized stock exchanges at right time. Only then we will be able to say that demutualization of stock exchanges in Bangladesh is a great achievement for all related to capital market.

Regulators should impose forthcoming rules and policies at all. Therefore, proper realization of all the new issues, policies or regulations related to demutualization must be present among the shareholders. We believe that proper understanding for both regulators and shareholders are elementary to any success of demutualization in Bangladesh.

We know that once demutualized, a stock exchange becomes fully exposed to market forces like any other business. Therefore, the role of the regulator and the level of co-operation and trust between the regulator and exchange being demutualized are vital. To succeed, policy makers should adopt a consultative and consensus-seeking approach.

## 10. Challenges Associated with Demutualization for Stock Exchanges

There is no doubt that demutualization resolves many of the problems faced by the mutual organization. But it does not mean that demutualization necessarily solves all of the problems. It is not without risk. Some of the challenges that might be involved in the process of demutualization of DSE and CSE are as follows -

- **Lack of loyalty:** Although demutualization has many benefits, it is not without risk. One is that once ownership and use are decoupled, brokers may not feel any loyalty in the market and may easily turn to alternatives (domestic or foreign markets or alternative trading systems). They may develop alternative trading systems to internalize their order flow rather than send it to the exchange. However, in some markets (e.g. the London Stock Exchange and Nasdaq) this occurred after demutualization and the need to compete with these new systems itself became a catalyst for demutualization

- **Regulations:** Once the exchange demutualizes, it must become a profit-oriented, competitive organization accountable to its shareholders. If the exchange also becomes a public company (as many have), it will also become subject to the disciplines of the market, having to release bad news as well as good, meet financial and periodic reporting obligations and meet market earnings expectations.

Many exchanges adopted a two-stage demutualization process where the shares initially issued to the members were not transferable for a period of time. This was to give the exchange time to change its internal culture.

- **Becoming take-over target:** Although this can be managed through ownership limits. The London Stock Exchange lifted its limits to facilitate a merger with the Deutsche Börse, which opened the door to a competing take-over bid by OM Gruppen. Both bids ultimately failed.

- **Conflicts of interest:** Conflict of interest that exists in a self-regulatory organization may be exacerbated in a for-profit environment. The exchanges may adopt anti-competitive rules (e.g. restricting the ability of trading participants to trade elsewhere). A for-profit exchange may not adequately fund its regulatory activities because there is insufficient return on investment. Conversely, the exchange may view its regulatory program as a profit center and begin to aggressively fine trading participants for minor rule infractions.

- **Lengthy decision process:** The demutualized exchange's ability to quickly respond to new pressures and opportunities may be thwarted if it is still subject to excessive regulatory oversight, with lengthy periods required for rule and policy changes to be approved, while alternative trading systems can implement changes overnight.

## 11. Recommendation

Stock exchange demutualization is a challenging issue, both from regulatory and business perspectives. Members' participation in the process is vital, as is the cooperation of the regulatory authorities. A major challenge in the process is to balance different interests and objectives of the relevant stakeholders without compromising the purpose. I have tried to list some recommendations regarding demutualization of stock exchanges in Bangladesh.

11.1. Demutualization is not the end in itself: Demutualization can take many shapes and forms and the experience varies considerably across the globe. There being no defined formula for success, considerable uncertainty must be taken into account. It should be borne in mind that demutualization is not the end in itself rather a means to an end. A proper understanding of all the issues, openness to new approaches and a high level of co-operation among the stakeholders is fundamental to any successful demutualization.

11.2. Manage conflicts of interest: Dealing with conflict of interest between exchanges' regulatory and commercial functions is a major concern of demutualization. After transforming into a for profit organization, exchanges may pay more concentration on profit making rather regulatory organization. Managing conflicts of interests is a main challenge for exchanges. However, it can be attained through having an efficient corporate governance system, rigorous regulatory oversight, enhanced transparency and the separation of the commercial activities of the stock exchange from regulatory functions.

11.3. Regulators need to closely monitor the financial condition of demutualized stock exchanges: Unfortunately,

it is not uncommon for the demutualized exchanges in the emerging markets to show a tendency to resist growth after demutualization. A for profit demutualized exchange structure does not guarantee a profitable existence. The possibility that for-profit exchanges may fail can create a serious problem if listed companies suddenly find it difficult to raise capital and investors face reduced liquidity for their holdings. This could be a major area of concern and stock exchanges in our country will need to address this issue. Thus, regulators need to closely monitor the financial condition of demutualized stock exchanges.

11.4. Proper balance between interests & objectives of stakeholders: A major challenge in the process of accelerating demutualization process is to balance different interest and objectives of the relevant stakeholders without compromising the purpose and in that case, both BSEC and other concerning regulatory body should tirelessly work to establish a vibrant capital market.

11.5. Regulators should impose friendly rules and policies: Regulators may impose many different rules, regulations, orders, directives etc. for the benefit of the investors without proper evaluation or necessary judgment. This may create a bad impression to investors in their decisions relating market rules, directives, orders etc. that can deteriorate the capital to become turmoil which we experienced in earlier years. This issue can be handled through arranging co-ordination or understanding between regulation and exchange.

11.6. Listing standard is must: After demutualization, an exchange is measured by its profitability; how much profit made at end of the year and to increase this profit, it need more companies to be listed, that's why there is always a chance of relaxing the listing regulation so that more company can get listed with the capital market and generate more revenues. But in long run, these maximizing listing companies can create a long run difficulty for the economy of Bangladesh.

11.7. Require Tax Holiday: As demutualization is at the center of the current reform initiatives taken by government, tax holiday for DSE and CSE for some certain time is needed to operate the exchange activities successfully.

11.8. Tax Exemption for Capital Gain: Moreover, onetime capital gain from the issuance of shares among initial shareholders and the capital gain from selling the shares of blocked account should be exempted from tax.

11.9. Ensure Transparency and Accountability: All of us know that capital market is one of the most important bases of the economy of a country. The role of capital market is inevitable for the economic development of our country. So, DSE and CSE should be firmly determined to execute demutualization for a stable and dynamic capital market through ensuring the transparency and accountability.

However, we hope that DSE and CSE will obviously consider the above-mentioned suggestions for proper implementation of demutualization. Moreover, a proper understanding of all the issues, openness to new approaches and a high level of co-operation among the stakeholders is fundamental to any successful demutualization.

## 12. Conclusion

Demutualization has been a new issue in the capital market in Bangladesh. As in the case of many other stock exchanges all around the world, steps have been taken to turn the traditional mutual stock exchanges into demutualized ones. However, most of the exchanges around the world use a two-step demutualization process- initially they change the organizational structure and then go for public listing. But the Dhaka Stock Exchange is moving very fast to adopt both the changes at a time. The management should be careful about any future conflict of interests. It would not be easy to handle the pressure and new challenges initially. It would not be also easy to implement new policies overnight. So, the stock exchanges should apply new rules and regulations carefully.

Hopefully the demutualization will be a blessing for the stock exchanges in our country. It will ensure efficient corporate governance and attract foreign investments through the exchange. Many multinational institutions in Bangladesh must follow many regulatory frameworks as per guidelines of their parent companies. Demutualization is one step towards ensuring a level playing field for those companies and let the local companies adhere to it. The more accurate the structure of the stock exchange is, the more interested will be the



investors to divert their savings. Demutualization will also create new jobs in investment banks, brokerage houses, credit rating agencies and banks. With the passage of time general investors will start getting benefit of demutualization.

The more accurate the structure of the stock exchange, the more interest will be the investors to divert their savings. Demutualization will also create new jobs in the investment banks, brokerage houses, credit rating agencies and banks. The most challenging step will be to teach the general investors about the effect and reasons for demutualization. But as the time will go by, general investors will get the benefit of demutualization.

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