



INAUGURATION OF WORLD INVESTOR WEEK, 2024

PROGRAM ORGANISED BY

BANGLADESH SECURITIES AND EXCHANGE COMMISSION (BSEC)

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OBJECTIVES OF WIW, PRINCIPAL AND COMPLEMENTARY THEMES

WIW of IOSCO, 2024 is a week-long global campaign to raise awareness of the importance about **investor education and protection** and to **highlight various initiatives of securities regulators** in these two critical areas.

Principal Themes: Technology and Digital Finance, Crypto Assets and Sustainable Finance.

Complemented with: Fraud and Scam Prevention, Investor Resilience and Basics of Investing.



PRESENTATION OVERVIEW

- Characteristic feature of capital market
- Basics of Investment
- Investors' Education
- Investors' Resilience
- Scams and Fraud Prevention
- Technology and Digital Finance
- Block-chain Technology
- Crypto Assets and Capital Market
- Sustainable Finance
- Recommendations



CHARACTERISTIC FEATURES OF CAPITAL MARKETS

Financial markets are not like other markets (commodity markets, currency markets), because financial markets are not self-corrected. Again among the financial markets, securities markets dominantly follow “direct mode of finance”, where the role of intermediaries in protecting the interests of investors is not prime. In Bangladesh, in terms of size, securities markets is not only insignificant as compared to Banking markets, it is equity dominated, debt part is very small. Institutional investors are not prominent and retail investors are not so much “fundamental” driven.



BASICS OF INVESTMENT

Though investment literacy is the foundation of a healthy capital market, however retail investors lack in understanding of key investment principles leading to herding behavior and irrational decision making. Therefore, it is important to understand the basics of investment including risk-return from different types of investment, asset allocation, diversification and cost of investing like commission and fees, Taxes on investment etc.



INVESTORS' EDUCATION

Investor education is essential for promoting investor interests. It helps investors understand the risks involved in investing and provides them with the knowledge and skills they need to make informed decisions. In Bangladesh, a significant portion of investors are influenced by rumors and hear says rather than informed decision-making. This is partly due to insufficient financial education at the school and university levels and the prevalence of first-time investors drawn in by market booms.



INVESTORS' RESILIENCE

Investor resilience refers to the ability of investors to recover from market downturns, scams, or fraud while maintaining long-term confidence in the market. For Bangladesh, building investor resilience is critical in light of past market crashes and the relatively low level of financial literacy. Investors' resilience are largely shaped by investors education and also regulatory measures.



SCAMS AND FRAUD PREVENTION

Scams and fraudulent activities erode trust in capital markets, damaging investors confidence. Bangladesh has seen several incidents of stock market manipulation and corporate governance failures, with major scams in 1996 and 2010 that left a long-lasting impact on investor sentiment. In Bangladesh, common forms of fraud include stock price manipulation, insider trading, pump-and-dump schemes, fund embezzlement, and lack of transparency in financial disclosures. The 1996 and 2010 stock market crashes were marked by insider trading and price rigging, where retail investors were mostly effected. In the international area, scams and frauds are categorized into Pyramid Schemes, Phishing scams, and Ponzi Schemes.



TECHNOLOGY AND DIGITAL FINANCE

Technology and digital finance have significantly transformed the landscape of stock markets around the world, reshaping how investors interact with financial markets, how trades are executed, and how securities are issued and managed. The advent of advanced digital tools, financial technologies (fintech), and automation have made stock markets more accessible, efficient, and transparent. However, the pace and depth of this change in Bangladesh are not remarkable as compared to more developed countries like U.S.A, Japan, Singapore etc.



AREAS WHERE TECHNOLOGY AND DIGITAL FINANCE CAN INFLUENCE CAPITAL MARKET

1. Automated Trading Systems and Algorithmic Trading
2. Digital Finance and Payment Systems
3. Digital Finance through Robo Advisor
4. Initial Coin Offerings (ICOs) and Security Token Offerings (STOS)
5. Artificial Intelligence (AI) and Machine Learning.



CURRENT STATE OF TECHNOLOGY IN BANGLADESH

Automated trading dominate the landscape, particularly in markets like the U.S. and Europe, where over 50% of trades are now conducted through algorithms. In contrast, Bangladesh, are still in the early stages of adopting such systems, limiting their market efficiency and liquidity. In emerging markets like Bangladesh, mobile trading apps are growing, but they are still not as advanced or widespread as those in developed markets. Mobile financial services (MFS) such as bKash and Nagad are becoming popular. Robo-advisors are widely available in developed markets, they are still rare in Bangladesh, ICOs and STOs have not yet taken off due to regulatory uncertainty and limited knowledge of blockchain technology. AI and machine learning in the stock market are still in the experimental phase, with limited applications compared to global markets.



ADOPTION OF TECHNOLOGY IN CAPITAL MARKET

DSE has already automated its trading system, which has improved efficiency and transparency in trade execution. Adding additional feature will make it to support algorithmic trading and high frequency trading. DSE mobile app allows investors to monitor and execute trades, though its security feature and real time data integration need improvement. DSE surveillance system for monitoring market activities and detecting anomalies, if integrated with advanced AI and machine learning can also be used for real time fraud detection. Integration with CDBL and CCBL have streamlined settlement process and mitigated risk in trade settlement. While DSE has made substantial progress in incorporating technology, there are areas where upgrades are necessary to remain competitive with global markets. These improvements will not only boost investor confidence but also attract more global participants, ensuring the long-term sustainability of Bangladesh's capital market.



BLOCKCHAIN TECHNOLOGY

Block-chain technology is a decentralized ledger system that allows for secure and transparent transactions. It is a distributed database that records transactions in a tamper-proof and secure way. Block-chain technology enables transparent transactions without the need for intermediaries. It allows for real-time verification of transactions and reduces the risk of fraud and error. Block-chain technology has the potential to revolutionize the capital market in Bangladesh, particularly at the Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). As Bangladesh seeks to enhance market transparency, integrity, and reduce fraud, the adoption of block-chain can offer significant advantages.



CRYPTO ASSETS AND CAPITAL MARKET

Crypto assets are digital or virtual assets that rely on block-chain technology and cryptography to secure transactions, control the creation of additional units, and verify the transfer of assets. The core concept revolves around decentralization, transparency, and the absence of a central authority (like a government or bank) controlling the system. Any kind of virtual assets transactions are prohibited by Bangladesh Bank which is noted in the FE Circular No.24 dated September 15, 2022. Bangladesh Bank imposed this regulation under Foreign Exchange Regulation Act (FER) 1947. In accordance with section- 2(aa) and 2(bb) of the FER Act, 1947, virtual currencies are neither approved foreign exchange/currency nor approved form of transactions/investments. Virtual currencies or virtual assets have no financial claim embedded and neither issued by any sovereign nor guaranteed by any jurisdiction. Thus, their value is highly volatile and associated with high financial risks.



SUSTAINABLE FINANCE

Sustainable finance is a trend that focuses on investing in companies and projects that promote environmental, social, and governance (ESG) standards, in addition to generating financial returns.

Sustainable finance is a growing trend, with investors increasingly interested in ESG investments that align with their values and generate returns.

Sustainable finance presents opportunities for investors to generate returns while also making a positive impact on the environment and society.



RECOMMENDATIONS

- 1) For investors' protection and resilience, investors' education must be given topmost priority. Existing financial literacy should be supplemented by digital literary training for both investors and market intermediaries.
- 2) Since capital market is ever evolving, financial Literary training should also be continuously provided to investors and market intermediaries.
- 3) we may think of imposing a condition that without “Investors’ Education” training, nobody can open a B.O Account. Even the Certificate holders should also undergo “refresher training” every two years.
- 4) Investors should be prepared to manage market volatility, protect against emotional decision-making, and maintain a solid understanding of the regulatory landscape. Simultaneously, they must remain alert to potential scams, carefully vetting investment opportunities and ensuring their transactions are conducted through legitimate and regulated channels.
- 5) Like USA, Australia, we should also formulate and implement one “National Strategy for Financial Education” under which appropriate academic curriculum will be incorporated at all levels (primary, secondary and higher) of education.
- 6) BSEC, should focus on creating appropriate and congenial regulatory environment: tighter listing requirement, strict insider trading laws, Penalties for fraudulent reporting, effective monitoring to detect unusual price movements, strict monitoring and enforcement of securities rule and regulation.
- 7) We must provide all out efforts to improve governance at all levels- regulatory body, market intermediaries, issuing companies etc. and bring back confidence of investors.