**INTERNSHIP REPORT**

**ON**

**AN OVERVIEW OF MERCHANT BANKING IN BANGLADESH: STUDY ON AGRANI EQUITY AND INVESTMENT.**

**SUBMITTED TO**

**Controller of Examinations**

**National University**

**Gazipur, Bangladesh**

**SUPERVISED BY**

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**Daffodil Institute of IT**

**SUBMITTED BY**

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**Roll No: 1062529**

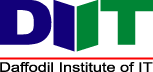
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**Session: 2009-2010**

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**Major: Finance**

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**Under National University**

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**Date of Submission: March 22, 2015**

**LETTER OF TRANSMITTAL**

## Date: March12, 2015

Controller of Examination

National University

Gazipur, Bangladesh.

## Subject: Submission of internship report.

Honorable sir,

I have got an opportunity to practical working in Agrani Equity & Investment and prepare an internship report on **an overview of merchant banking in Bangladesh.** I was assigned as a BBA Student, which was part of my academic program. The most experienced teacher Aminul Haque guided me. In the course of the preparation of this report, I have studied various documents and have also gathered practical knowledge.

In this report, I have tried to give my best effort. Besides this, there may be shortcomings. I would be grateful if you consider those from excusable point.

I pray and hope that you would be kind enough to accept my report for evaluation and oblige thereby.

Sincerely

**……………..**

ASIM AYUB

Roll No: 1062529

Reg. No: 1067185

Session: 2009-2010

Program: BBA

Major: Finance

Daffodil Institute of IT

**CERTIFICATE OF APPROVAL**

I am pleased to certify that the internship report on **an overview of merchant banking in Bangladesh: study on Agrani Equity & Investment** Conducted by Asim Ayub bearing NU Roll No: 1062529, Registration No: 1067185, and Academic Session 2009 – 2010 of the Bachelor of Business Administration Finance department of has been approved for presentation and defense/viva voce under my supervision. Asim Ayub worked with Agrani Equity & Investment as an internship. He completed the work after the examination of 4th year 8th semester 2014 of NU BBA Program.

I am pleased to hereby certify that data and the findings presented in the report are the authentic work of Asim Ayub. I strongly recommend the report presented by Asim Ayub for further academic commendations and defense/viva voce.

Asim Ayub bears a strong moral character and a very pleasing personality. It has indeed been a great pleasure working with him. I wish him all success in life.

**Aminul Haque Russel**

Lecturer

BBA Program

Daffodil Institute of IT (DIIT)

**ACKNOWLEDGEMENT**

First the very beginning I would like to express my gratitude to Almighty Allah for whose kindness I am enough sound mentally and physically to prepare this report. I feel proud to express my gratitude from the core of my heart to honorable principal Md. Shakhawat Hossain for granting me the permission to take up practical orientation in Agrani Equity & Investment.

I am deeply indebted to my internal guide Aminul Haque for his stimulating inspiration, astute guidance, valuable suggestion, and sagacious advice’s, whole-hearted supervision to me during the practical orientation period. His suggestions and guidance’s has made the report a good one.

My extreme gratitude to the honorable teacher Lakkahan Chandra Robi Das (Coordinator BBA Program DIIT) for his valuable Cooperation and guidance.

My sincere gratitude to Pankoj Roy (CEO Agrani Equity & Investment) who gave special attention to me from the very beginning. I also would like to thank Saif, for their cordial attitude and extending help hand to me in my problem. Specially thanks to all officers of Agrani Equity & Investment for giving me their valuable time.

It will be ungrateful if I don’t mention the name of Mr.Shaiful Islam (Assistant Director, Securities and Exchange Commission) for his valuable Cooperation.

**ASIM AYUB**

Roll No: 1062529

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Session: 2009-2010

Program: BBA

Major: Finance

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**EXECUTIVE SUMMARY**

The merchant banking unit of Agrani Bank Limited has been converted in a subsidiary company in the name and style 'Agrani Equity & Investment Limited'. Other pertinent particulars of the subsidiary company furnished below. Activities of Agrani Equity & Investment such as Issue Management, Underwriting, Portfolio Management. Agrani Equity & Investment are introducing of new company in security market. With a low per capita GDP Bangladesh is a developing country in the south Asia. Its saving and investment rate is very poor. First chapter- introduction, Background of the study, scope of the study, methodology of the study, limitation of the study. Second chapter- profile of Agrani Equity & Investment, activities of Agrani Equity & Investment, issue management, underwriting, portfolio management, financial advisory and service. Third chapter- history of merchant banking, concept of merchant banking, law and regulation of merchant banking, role of merchant banking, customer of merchant banking, operation of merchant banking, function of merchant banking. Fourth chapter- capital market in the perspective efficient market of hypothecs, capital market conceptual, characteristic of Bangladeshcapital market, security and exchange commission, reforms of BSEC. Chapter five- issue management, process of issue management, risk management and issue management process, embedding issue management, issue management frame work. Chapter six- introduction to underwriting, standard of underwriting, types of sales process underwriting, investment is banking underwriting, steps of underwriting. Chapter seven- introduction to portfolio management, benefits of portfolio management, types of risk, risk management measure, determine the risk return trade off, modern portfolio theory.

This is just a personal analysis to make issue familiar to other, but many more finding can be getting from timely group analysis. Merchant banking in Bangladesh activities issue management, underwriting, and portfolio management. So further study with wider sets of information and variable and with appropriate mathematical model can make a perfect relation and effect of shareholding by general public with the share trading.

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**Acronyms**

|  |  |
| --- | --- |
|  |  |
| CRP | Certified Risk Professional |
| BAI | Banking Administration Institute |
| CRU | Certified Residential Underwriter |
| ECMS | Equity capital market service |
| DCMS | Debt Capital Market Service |
| LFCMS | Leverage Finance Capital Market Service |
| BIFR | Board for Industrial and Financial Reconstruction |
| EMH | Efficient Market Hypothesis |
| WWW | World Wide Web |
| IPO | Initial Public Offer |
| BSEC | Bangladesh Security Exchange and Commission |
| RPO | Repeat Public Offer |
| DSE | Dhaka Stock Exchange |
| CSE | Chittagong Stock Exchange |
| RFP | Request for Proposal |
| FINRA | Financial Industry Regulatory and Authority |
| ML | Margin Loan |

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**Chapter –01**

**INTRODUCTION**

**………………………………………………………………**

**BACKGROUND OF THE STUDY**

**OBJECTIVES OF THE STUDY**

**METHODOLOGY OF THE STUDY**

**SCOPE OF THE STUDY**

**LIMITATION OF THE STUDY**

**1.1 Background of the study**: The study An Overview of Merchant Banking in Bangladesh:study on Agrani Equity & Investment was carried out and this report was produced as partial requirement of BBA internship program. The intern had earlier completed 39 courses major in Finance and was placed with the publication and media monitoring section of Agrani equity and investment.

**1.2 Objectives of the study**

* The primary objective of the study is to meet the requirements of the BBA program.
* To study the real life situation
* To compare what we have learned with the practical life
* To present an overviewed Agrani Equity and Investment Ltd.
* To appraise the activities of Agrani Equity and Investment Ltd.
* To determine the possible correlation between share holding by the general public and rate of dividend declared by the company.
* To identify relative variables such as market capitalization, No of shares holders, company categories etc.
* Relation with the market movement.
* To find out the market movement for the general public share holding.
* To find out any unwanted factors that may influence the analysis.

**1.3 Methodology of the study**

Different data and information are required to meet the goal of this report. Those data and information were collected from various sources, such as primary secondary which is shown below.

**Primary Data:**

* Face to face conversation with the officers.
* Personal observations.
* Face to face conversation with the clients.
* Working at different desks of the Agrani Equity and Investment Ltd.

**Secondary Data:**

* Annual Report of the Agrani Equity and Investment Ltd.
* Monthly Review of the Agrani Equity and Investment Ltd.
* Profile of the Agrani Equity and Investment Ltd.
* A guide to investors the Agrani Equity and Investment Ltd.
* Web site of the Agrani Equity and Investment
* Half yearly Review of Agrani Equity and Investment Ltd.
* Several kinds of Academic text book.

**1.4 Scope of the study**

I have been assigned in the Agrani Equity and Investment Ltd. and thus give me the way to myself families with the capital market environment for the first time indeed. I have had an opportunity to gather experience by working in the different desks of the Agrani Equity and Investment Ltd. The area of concentration of this report is confined in investing different aspect of the capital market dealings, problems and prospects.

**1.5 Limitation of the study**

The main limitations of the study are as follows-

* Three months’ time is not enough for such an extensive study. It is very difficult to collect all the required information in such a short period.
* Many personnel of the Agrani Equity and Investment Ltd are reluctant to provide useful information.
* The employees are very much busy with their jobs. As a result, they provide me a little time to consult with them.
* Due to some legal obligations and business secrecy Agrani Equity and Investment Ltd are reluctant to provide sensitive information so; I have to depend on the available published data and certain degree of formal and informal interview.
* For the reason of confidentiality, some useful information can’t be expressed in this report.

**Chapter –02**

**AN OVERVIEW OF AGRANI EQUITY AND INVESTMENT**

**………………………………………………………………**

**AGRANI EQUITY & INVESTMENT**

**BOARD OF DIRECTOR OF AGRANI EQUITY & INVESTMENT**

**ACTIVITIES OF AGRANE EQUITY INVESTMENT LIMITED**

**ISSUE MANAGEMENT**

**UNDERWRITING**

**PORTFOLIO MANAGEMENT**

**FINANCIAL ADVISORY SERVICES**

# 2.1 Agrani equity & investment

The merchant banking unit of Agrani Bank Limited has been converted in a subsidiary company in the name and style 'Agrani Equity & Investment Limited'. Other pertinent particulars of the subsidiary company furnished below

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  | | --- | --- | | **Name of the Organization** | **Agrani Equity & Investment Limited** | | **Nature of Formation** | **Public Limited company** | | **Address** | **Swantex Bhaban (4th Floor),  9/I, Motijheel C/A,  Dhaka-1000** | | **Contact No.** | **Tel : 9566670  Fax: 9568668** | | **Date of approval of Bangladesh Bank** | **04-11-2009** | | **Date of incorporation with RJSC** | **16-03-2010** | | **Date of approval of SEC** | **19-05-2010** | | **Authorized Capital** | **500.00 Crore** | | **Paid-up Capital** | **200.00 Crore** | | **Website** | [**www.agraniequity.com**](http://www.agraniequity.com) | | **Email** | **info@agraniequity.com** | |

# 2.2 Board of director of Agrani Equity & Investment

|  |
| --- |
| **Board of Directors:** |
| |  |  |  | | --- | --- | --- | | **01.** | **Professor Dr. Khondoker Bazlul Hoque** | **Chairman** | | **02.** | **Mr. Nagibul Islam Dipu** | **Director** | | **03.** | **Engineer Md. Abdus Sabur** | **Director** | | **04.** | **Barrister Zakir Ahammad** | **Director** | | **05.** | **Mr. K.M.N. Manjurul Hoque Lablu** | **Director** | | **06.** | **Mr. A.K. Gulam Kibria, FCA** | **Director** | | **07.** | **Mr. Syed Abdul Hamid** | **Director** | | **08.** | **Mr. Md. Mofazzal Husain** | **Director** | | **09.** | **Professor Dr. Md. Hasibur Rashid** | **Director** | | **10.** | **Professor Abu Hena Reza Hasan** | **Director** | | **11.** | **Mr. Md. Obayed Ullah Al Masud** | **Director** | | **12.** | **Mr. A.K.M Mujibur Rahman** | **Director** | | **13.** | **Mr. Pankaj Roy Chowdhury** | **Director & CEO** | |
|  |

# 2.3 Activities of Agrani Equity & Investment Limited:

As a fully fledged merchant bank, we operate in the following areas. Although with current macroeconomic condition, all the merchant banks and other NBFIs are finding it’s hard to move along with the expected business, we hope the situation will improve further in coming days.

## Figure: Activities of Agrani Equity & Investment Limited

## 2.4 Issue Management

**Agrani Equity & Investment Limited** primarily focuses on Issue Management service which is the key to develop our local industry by public participation through capital market. Issue Management functions include, but not limited, to the following:

* Initial Public Offer (IPO) of Shares & Bonds:
* Repeat Public Offer of Shares and Bonds
* Right Issue of Shares
* Direct Listing of Shares
* Equity Placement
* Equity investment in Limited companies

While these relationships grow, Agrani Equity & Investment Limited will seek to further widen and deepen the range of services actively marketed in its search to provide better services to our growing customer base.

Figure: Issue Management

## 2.5 Underwriting

Along with issue management activities Agrani Equity & Investment Limited also take part in underwriting of securities which is a vital part in building confidence & depth in capital market as well as potential investment for the company.

As we are one of the largest merchant banks in the country, we have a wider scope of underwriting capacity than others. We have always been helping the promising entrepreneurs to raise capital by assuring their safety. We also focus on contribution to the real sector growth by doing these activities.

Figure: Underwriting

## 2.6 Portfolio Management

We provide portfolio management services by considering market fundamentals, macroeconomic trends, overall behavioral factors & prospective analysis. Research can also provide macroeconomic, political and market outlook of Bangladesh to institutional investors.

We provide following portfolio services to the customers-

1. Portfolio
2. Margin Loan facilities to investors
3. Discretionary

We also plan to provide managed portfolio services if we find it a profitable return considering the market depth and other macroeconomic factors.

Figure: Portfolio Management

**2.7 Financial Advisory Services**

Corporate Advisory Service is one of the core activities of merchant banks. Recently the BSEC has started to adopt a guideline for the financial advisory service. We will eventually develop the following services for forthcoming years-

* Customized instrument designing
* Placement of equity with FIs, NRBs, Banks, Asset Managers, Mutual Funds, etc.
* Private capital raising

1. Equity
2. Debt
3. Hybrid

* Private placement of Securities
* Management advisory
* Merger, acquisitions & joint-ventures
* Arranging Project financing
* Corporate restructuring
* Arranging Bankers to the Issue
* Arranging Underwriters of Securities
* Arranging Trustees for Securities
* Arranging credit rating agency

**Chapter- 03**

**MERCHANT BANKING IN BANGLADESH**

......................................................................................

**HISTORY OF THE MERCHANT BANKING**

**CONCEPT OF MERCHANT BANKING**

**LAW AND REGULATION OF MERCHANT BANKING**

**ROLE OF MERCHANT BANKING IN BANGLADESH**

**FUNCTION OF MERCHANT BANKING**

**3.1 History of merchant banking**

Merchant banking provides a wide range of services for starting until running a business. It acts as Financial Engineer for a business. Merchant banking was first started in India in 1967 by Grind lays Bank. It has made rapid progress since 1970. Bangladesh, merchant banking includes all financial institutions that combine the functions of both development banking and investment banking.

According to Wikipedia, merchant banks, now so called, are in fact the original "banks". These were invented in the middle Ages by Italian grain merchants. As the Lombardy merchants and bankers grew in stature based on the strength of the Lombard plains cereal crops, many displaced Jews fleeing Spanish persecution were attracted to the trade. They brought with them ancient practices from the Middle and Far East silk routes. Originally intended for the finance of long trading journeys, these methods were now utilized to finance the production of grain.

The Jews could not hold land in Italy, so they entered the great trading piazzas and halls of Lombardy, alongside the local traders, and set up their benches to trade in crops. They had one great advantage over the locals. Christians were strictly forbidden the sin of usury, defined as lending at interest. The Jewish newcomers, on the other hand, could lend to farmers against crops in the field, a high-risk loan at what would have been considered usurious rates by the Church; but the Jews were not subject to the Church. In this way they could secure the grain-sale rights against the eventual harvest. They then began to advance against the delivery of grain shipped to distant ports. In both cases they made their profit from the present discount against the future price. This two-handed trade was time consuming and soon there arose a class of merchants who were trading grain debt instead of grain.

The Jewish trader performed both finance (credit) and an underwriting (insurance) functions. He would derive an income from lending the farmer money to develop and manufacture (through seeding, growing, weeding, and harvesting) his annual crop (the crop loan at the beginning of the growing season). He would underwrite (insure) the delivery of the crop (through crop or commodity insurance) to the merchant wholesaler who was the ultimate purchaser of the farmer’s harvest. And he would make arrangements to supply this buyer through alternative sources (the merchant function) of supply (such as grain stores or alternate producer markets), should any particular farming district suffer a seasonal crop failure. He could also keep the farmer (or other commodity producer) in business during a drought or other crop failure, through the issuance of a crop (or commodity) insurance against the hazard of failure of his crop.

**3.1.1 Merchant Bank in Bangladesh**

Merchant banks were allowed to operate with the hope of playing a meaningful role in salvaging the country's limping stock market, by generating fresh funds, following the 1996 stock market crash. So far, a total of 31 companies received merchant banking licenses from the Securities and Exchange Commission. The registered merchant banks are:

1. Janata Bank Limited
2. BRAC Bank Limited
3. City Bank Limited
4. Premier Bank Limited
5. Mutual Trust Bank Limited
6. Industrial Development Leasing Company of Bangladesh Ltd
7. Uttara Finance and Investment Limited
8. Banco Trans World (Bangladesh) Limited
9. Fidelity Assets and Securities Company Ltd.
10. N D B Capital Ltd., Bay Leasing and Investment Limited
11. Alliance Financial Services Ltd.
12. Business and Management Co. Ltd.
13. Swadesh Investment Management Limited
14. LankaBangla Finance Limited
15. Grameen Capital Management Limited
16. South Asia Capital Ltd.
17. Prime Finance & Investment Ltd.
18. EC Securities Ltd.
19. Mercantile Securities Limited
20. GSP Finance Company (Bangladesh) Ltd.
21. Bangladesh Mutual Securities Ltd.
22. BRAC EPL Investment Ltd
23. Prime Bank Limited
24. Arab Bangladesh Bank Ltd.
25. ICB Capital Management Ltd.
26. Export Import Bank of Bangladesh Ltd.
27. (EXIM Bank)
28. Union Capital Limited
29. AAA Consultants and Financial Advisers
30. Citigroup Global Markets Bangladesh Private Limited
31. Trust Bank Ltd
32. Southeast Bank Ltd
33. Standard Bank Ltd
34. Sonali Bank Limited
35. Agrani Bank Limited.

Of them, a total of 29 companies received merchant banking licenses from the commission between January 1998 and April 2002. The Citigroup Global Markets Bangladesh Private obtained the license in the year of 2007 and the Trust Bank in the year of 2008. Six more FIs are going to be approved by the SEC.

The SEC on September 7, 2008 cancelled the merchant banking license of the Equity Valuation Research and Distribution Ltd. The Securities and Exchange Commission on October,2008 cancelled merchant banking licenses of the First Securities Services Ltd and the Rapist Securities and Management Limited with immediate effect since they remained inactive for years together. The First Securities Services was given license to act as issue manager while the Rapist Securities and Management as full-fledged merchant bank, which was allowed to perform as issue and portfolio manager as well as underwriter for clients.

In the year of 2009, of the then 28 merchant banks, 23 had full-fledged merchant banking license, while four had only issue management license and one had only portfolio management license.

The central bank of Bangladesh asked the commercial banks to run their merchant banking business through separately formed subsidiary companies, officials and bankers. Under those new regulations, the banks had to convert their existing merchant banking winger department into a separate subsidiary company by January 31, 2010. It helped to ensure transparency of the merchant banking business.

Recently, securities regulators gave its go-ahead to six more financial institutions (FIs) to operate merchant banking. Because, analysts questioned their expertise and financial base. The Securities and Exchange Commission (SEC) also approved rights offer of Bay Leasing and Investment Ltd.

The six financial institutions are Jamuna Bank, Mutual Trust Bank Ltd, The City Bank, Summit Group's Cosmopolitan Traders Private Ltd, Green Delta Insurance and Alpha Capital Management Ltd, a unit of Progressive Life Insurance.

According to the SEC officials, the approval will bring the total number of merchant banking at 37. By giving nod to the six FIs to operate as merchant banks, the SEC has increased maximum limit of the merchant banking operation in the stock market to 50 from 35. But, although 31 merchant banks are operating, only a few (only some) are active while the performance of the rest is "far from being satisfactory. The merchant banks should focus on forming their own portfolios in making the market sustainable.

An analyst saw no strong case for the SEC motive, saying it would be of no use unless the companies have professionalism and strong financial base. So far, the commission has scrapped six licenses of merchant banks including First Securities Services Ltd, Prime Securities and Financial Services Ltd, and Mercantile Securities Ltd. 2012 merchant bank are license 53 companies.

Bay Leasing and Investment Ltd will issue one rights share against one existing share to bolster its capital base and to raise the capacity of SME credit to meet Bangladesh Bank's directive. It will float 30, 60,000 ordinary shares as rights offer of Tk. 100.00 each at an issue price of Tk 350.00 per share (including a premium of Tk. 250.00 each).

**3.2 Merchant banking**

A merchant bank is a financial institution which is primarily engaged in offering financial services and provides advice to corporations and to wealthy individuals. The term can also be used to describe the private equity activities of banking. Investment Banking is an American synonym of merchant banking. Investment banks provide advice on mergers and acquisitions and are involved in financing industrial corporations through buying shares and selling them in relatively small lots to investors.

Merchant Banking is a combination of [Banking](http://kalyan-city.blogspot.com/2011/02/what-is-bank-introduction-definition.html) and consultancy services. It provides consultancy, to its clients, for financial, [marketing](http://kalyan-city.blogspot.com/2010/05/marketing-marketing-mix-4-ps-of.html), managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a [business](http://kalyan-city.blogspot.com/2011/03/what-is-business-meaning-definitions.html). It helps to raise (collect) [finance](http://kalyan-city.blogspot.com/2012/02/what-is-production-definition-meaning.html). It helps to expand and modernize the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the [stock exchange](http://kalyan-city.blogspot.com/2010/11/what-is-stock-exchange-its-definitions.html).

A [merchant](http://www.wisegeek.com/what-does-a-merchant-do.htm) bank deals with the commercial banking needs of [international finance](http://www.wisegeek.com/what-is-international-finance.htm), long-term company loans, and stock [underwriting](http://www.wisegeek.com/what-is-underwriting.htm). This type of bank does not have retail offices where a customer can go and open a savings or [checking account](http://www.wisegeek.com/what-is-a-checking-account.htm). It is sometimes said to be a wholesale bank, or in the business of [wholesale banking](http://www.wisegeek.com/what-is-wholesale-banking.htm) because these banks tend to deal primarily with other banks of the same kind, as well as large financial institutions. By limiting their scope to the needs of large companies, these banks can focus their knowledge and be of specific use to such clients. Some specialize in a single area, such as underwriting or international finance.

**3.3 Law and regulation of merchant banking**

The SEC granted authority to 17 non-bank financial institutions in 1997 to conduct merchant banking business in Bangladesh under the Securities and Exchange (Merchant Bankers and Portfolio Manager) Regulations 1995,

**The Securities and Exchange Commission (SEC), invited letters of intent from 14 institutions for the registration of merchant banks based on SRO No. 59 of 24 April 1996, and a decision taken by it on 17 August 1997. Prior to this decision, seven (7) institutions submitted such letters of intent and SEC gave registration to a total of 19.**

Under the SEC merchant banker licensing rules, a merchant bank working only as issue manager has to submit at least a documented proposal for an initial public offer of a company, while a merchant bank licensed to act only as portfolio manager has to form at least five new portfolios of its clients besides its own, and a merchant bank working as a full-fledged merchant bank has to manage one IPO, to be underwriter of two issues and form five new portfolios of its clients besides its own in a calendar year. A full-fledged merchant bank has to perform at least two operations among the three including managing portfolio in a calendar year.

**3.4 Role of merchant banking**

Merchant banking, these will be able to ensure a huge liquidity supply to the stock market. The capital market has been in a liquidity crisis since the introduction of direct listing rules in 2006, as five state-owned enterprises and two privately-run companies raised thousands of cores of taka from the market. To face such a crisis, more merchant bankers should be allowed to operate in the market.

**3.5 Function of merchant banking**

Merchant Banking is a combination of [Banking](http://kalyan-city.blogspot.com/2011/02/what-is-bank-introduction-definition.html) and consultancy services. It provides consultancy, to its clients, for financial, [marketing](http://kalyan-city.blogspot.com/2010/05/marketing-marketing-mix-4-ps-of.html), managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a [business](http://kalyan-city.blogspot.com/2011/03/what-is-business-meaning-definitions.html). It helps to raise (collect) [finance](http://kalyan-city.blogspot.com/2012/02/what-is-production-definition-meaning.html). It helps to expand and modernize the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the [stock exchange](http://kalyan-city.blogspot.com/2010/11/what-is-stock-exchange-its-definitions.html).

* Raising Finance of Clients
* Broker in Stock Exchange
* Project Management
* Advice on Expansion AND Modernization
* Project Management
* Handling government Consent for Industrial Projects
* Special Assistance to Small Companies and Entrepreneurs
* Services to Public Sector Units
* Revival of Sick Industrial Units
* Portfolio Management
* Corporate Restructuring
* Money market Operation
* Leasing Services
* Management of Interest and Dividend

***Raising Finance for Clients:*** Merchant Banking helps its clients to raise finance through issue of shares, debentures, bank loans, etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project or for modernization or expansion of the business.

***Broker in Stock Exchange:*** Merchant bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy, how much to buy and when to sell. Large brokers, [Mutual Funds](http://kalyan-city.blogspot.com/2012/02/what-is-mutual-fund-investment-meaning.html), Venture [capital](http://kalyan-city.blogspot.com/2010/11/what-is-capital-meaning-features-and.html) companies and [Investment](http://kalyan-city.blogspot.com/2011/06/what-is-investment-meaning-and-types-of.html) Banks offer merchant banking services.

***Project management:*** Merchant bankers help their clients in the many ways. For e.g. Advising about location of a project, preparing a project report, conducting feasibility studies, making a plan for financing the project, finding out sources of finance, advising about concessions and incentives from the government.

***Advice on Expansion and Modernization:*** Merchant bankers give advice for expansion and modernization of the business units. They give expert advice on mergers and amalgamations, acquisition and takeovers, diversification of business, foreign collaborations and joint-ventures, technology up gradation, etc.

***Managing Public Issue of Companies:*** Merchant bank advice and manage the public issue of companies. They provide following services:

* 1. Advise on the timing of the public issue.
  2. Advise on the size and price of the issue.
  3. Acting as manager to the issue, and helping in accepting applications and allotment of securities.
  4. Help in appointing underwriters and brokers to the issue.
  5. Listing of shares on the stock exchange, etc.

***Handling Government Consent for Industrial Projects:*** A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients.

***Special Assistance to Small Companies and Entrepreneurs:*** Merchant banks advise small companies about business opportunities, government policies, incentives and concessions available. It also helps them to take advantage of these opportunities, concessions, etc.

***Services to Public Sector Units:*** Merchant banks offer many services to public sector units and public utilities. They help in raising long-term capital, marketing of securities, foreign collaborations and arranging long-term finance from term [lending](http://kalyan-city.blogspot.com/2010/09/principles-of-good-lending-every-banker.html) institutions.

***Revival of Sick Industrial Units:*** Merchant banks help to revive (cure) sick industrial units. It negotiates with different agencies like banks, term lending institutions, and BIFR (Board for Industrial and Financial Reconstruction). It also plans and executes the full revival package.

***Portfolio management:***

A merchant bank manages the portfolios (investments) of its clients. This makes investments safe, liquid and profitable for the client. It offers expert guidance to its clients for taking investment decisions.

***Corporate Restructuring:*** It includes mergers or acquisitions of existing business units, sale of existing unit or disinvestment. This requires proper negotiations, preparation of documents and completion of legal formalities. Merchant bankers offer all these services to their clients.

***Money Market Operation:*** Merchant bankers deal with and underwrite short-term [money market](http://kalyan-city.blogspot.com/2010/09/money-market-concept-meaning.html) instruments, such as:

* 1. Government Bonds.
  2. Certificate of deposit issued by banks and financial institutions.
  3. Commercial paper issued by large corporate firms.
  4. Treasury bills issued by the Government.

***Leasing Services:*** Merchant bankers also help in leasing services. Lease is a contract between the lessor and lessee, whereby the lessor allows the use of his specific asset such as equipment by the lessee for a certain period. The lessor charges a fee called rentals.

***Management of Interest and Dividend:*** Merchant bankers help their clients in the management of interest on debentures / loans, and dividend on shares. They also advise their client about the timing (interim / yearly) and rate of dividend.

**Chapter- 04**

**CAPITAL MARKET IN BANGLADESH**

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**CAPITAL MARKET IN THE PERSPECTIVE OF EFFICIENT MARKET HYPOTHESIS (EMH).**

**CAPITAL MARKET- A CONCEPTUAL OVERVIEW.**

**CHARACTERISTICS OF BANGLADESH CAPITAL MARKET.**

**4.1 Bangladesh capital market in the perspective of efficient market hypothesis (EMH)**

According to efficient market hypothesis (EMH), we know that all the investors have the complete information about the listed companies for their decision on investment. That means stock price reflects the true picture of the company. In the strong form of efficient market, there is no scope of earning abnormal profit as there is free of information. But, in reality, it is not possible to ensure that there is no anomaly in capital market. A lot of studies have documented long-term historical anomalies in the stock market that contradicts the findings of the supporters of EMH. While the existence of these anomalies in the stock market is well accepted, the key concern, which is whether the investors can exploit them to earn greater return in the future, is subject to debate. Investors looking forward to evaluating anomalies and thereby trying to exploit profit-should keep in mind that the existence of anomalies is a historical issue and there is no guarantee that they will persist in the future. The evaluation with the help of computer technology in the last few decades has provided immense opportunities to professionals and researchers to analyze tremendous amount of financial data. Additionally, the existence of World Wide Web (WWW)**,** e-mail, bulletin etc. has made it possible to interact with a lot of information, opinions, and arguments quickly.

The US election, we found another signaling effect from the diverse capital market. Asian stocks put in mixed performance. The Japanese shares pushed higher as investors took their cue from the Wall Street's enthusiastic response to the re-election of George W Bush. However, other markets in the region put in mixed performances following Tuesday's hefty gains.

In an efficient market, index is the depiction of economic condition. With the decline to the capital market index, the economy also shows a downturn. However, what did happen in Bangladesh? In June 1996, the market witnessed the biggest ever boom. A large number of investors entered into the capital market. The new issues multiplied and speculative fever gripped the market. Trading volume rose sharply and index reached 3648 points. Price Earnings Ratio soared and shares were traded at 80 times, without any improvement in the national economy. As such, the index did not represent perfect picture of the economy. The real picture of such market boom became clear by about November 1996, the unavoidable situation happened and the market crashed. Within the span of twenty months, the index nosedived to 650 points in June 1998. Now, the market is passing through a process of consolidation. Fundamentals and rationalities have replaced speculations and rumors. Regulations have become more comprehensive.

**4.2 Capital market- a conceptual overview**

The Capital marketis a market for long-term funds. It facilitates an efficient transfer of resources from savers to investors and becomes conduits for channeling investment funds from investors to borrowers. The capital market is required to meet at least two basic requirements: (a) it should support industrialization through savings mobilization, investment fund allocation and maturity transformation and (b) it must be safe and efficient in discharging the aforesaid function. It has two segments, namely, securities segments and non-securities segments.

***Securities Segments:*** The securities segment is concerned with the process a firm distribute its securities to the public in the primary market and the securities are then traded in the secondary markets. Financial intermediaries, such as merchant banks, asset Management Company, Underwriters, broker-members etc. are involved in the process.Securities segments of capital markethave two important roles to play: information production and monitoring. The prospective allocative role of stock price arises because the markets have information that manager does not have. Current stock prices are indicator of the potential investment decision making to profitable industrial sectors to which resources must be allocated. If the stock price goes down manager is less likely to invest while he/she is more likely to invest if the price goes up. It shows how stock prices influence the equity fund allocation decisions.

***Non-securities Segments*:** These are markets in which loan/ equity loan are provided by the banks and financial institutions, such as NCBs, DFIs, PCBs, ICB. We need to recognize that condition in the bank-based system arc unpalatable in the sense of huge non-performing loans, high degree of classified and default loans, capital inadequacy of banks and the like. These are causing the banking system in Bangladesh to maintain widespread between lending and borrowing rates. It is, therefore, need of the time to streamline the banking regulatory and supervisory frameworks particularly in the wake of financial deregulation.

**4.3 Characteristics of Bangladesh capital market**

***(a) Few Listed Companies:*** The number of listed companies in general is very small in Bangladesh in comparison with that in our neighboring countries. There are about 1000 companies registered with the registrar of Joint stock companies. Among them only 271(up to 30 June, 2010) companies have been enlisted with Dhaka Stock Exchange (DSE). It has been evidenced that there is a good number of commercially viable companies which can go public to enjoy the benefit of tapping funds through share float.

It is a fact that many commercially viable companies are reluctant to go public who desire to keep control of their firms within their limited circle of relatives and friends. But such an attitude is justified neither for a healthy development of the stock market nor for retaining family control. Family control over commercial concerns can be retained by issuing a few rather than a majority of shares, by selling preferences shares or by creating a certain class of voting rights. Besides, going public has several benefits: (1) it raises the prestige of the company; (ii) it is an opportunity to raise capital; (iii) it makes companies more transparent, active and accountable as they have to work as per company acts, and the rules and regulations of SEC. SEC may arrange for dialogues with the country's commercially viable enterprises for generating awareness about the benefits and procedures of going public. Privatization of selected public enterprises through the share market can significantly increase the supply of securities. The quick privatization of public corporation like T&T, Biman, Jiban Bima and Sadharan Bima, Petro Bangla, PDB, Bangladesh Railway and nationalized commercial banks and other state financial institutions (ICB, BSB, BSRS) through the share market will not only help boost the slock market but also bring the national economy back on track in harmony with the free market economy. Off-loading government shares in different MNCs such as Novar tires, Unilever, and so on can also be a unique source of good shares for the public. They should be encouraged to offer IPOs for general investors. Foreign companies may be asked to form a local company and offer IPOs which would rev up the share market

***(b)******A Small Number of Investors:*** The Bangladesh stock markets are characterized by a small number of investors with a peculiarity that 80 percent of total demands for securities emanate from retail investors while the rest of the demands come from institutional investors. Such peculiarity is not conducive to the stability of a share market for the reason that the frequency of share transactions by retail investors is high, and most of them invest on a short-term basis due to small capital and a desire to earn quick capital gains.

The dominance of institutional investors is crucial to the stability of the stock market as has been experienced in the advanced stock markets of the world. There are enormous potentialities of the Bangladesh stock market for an increase of the number of retail and institutional investors. At present the number of active small investors in Bangladesh will not be more than 60 thousand, excluding the investors, who have accounts with ICB. The number of retail investors can be increased through countrywide massive educational programs on opportunities and risks as well as operations of the securities market. In this context, special securities market educational programs can be broadcast on  
BTV on a regular basis. A research institute on investment may be set up to enhance the level of investment analysis and research as well as professionalism in the securities industry. As part of the effort to increase the number of institutional investors, the Securities and Exchange Commission (SEC) has already issued licenses to a number of companies for operating as merchant banks. A number of mutual funds may emerge in the private sector as a result of formulating certain necessary laws regarding the floatation of mutual funds in the private sector. Furthermore, restrictions can be relaxed to allow provident and insurance funds to be invested in the capital market. Besides,53 banks including 13 foreign banks now operating in Bangladesh may create a merchant banking arm to participate in the securities market.

**(c) *Low Foreign Portfolio Investment (FPI):***Foreign portfolio investments have a profound impact on stock markets and ease a country's resource constraint for development finance. Portfolio investments can contribute towards creating additional funds for industrial finance, providing stock market liquidity, modem management skills and technology, and improving the efficiency and quality of services rendered. To reap such benefits of FPIs, Bangladesh stock market was opened in April, 1992. But the cause that the Bangladesh stock markets have not been able to attract adequate amount of FPIs in Bangladesh has been attributed to the lack of quality securities, the absence of sound handling of the bourses, a dearth of efficient market players such as merchant banks, inadequate dissemination of sensitive information, and the like. Moreover the share market crash of late 1996 had particularly distanced foreign portfolio investors. The supply of quality shares, prudent management of stock markets, and active participation of institutional players may attract increasing amounts of FPIs. Flotation of IPOs by joint venture companies with foreign participation may draw sufficient foreign investments in stock markets.

(**d)** ***Low Liquidity Level:*** In the emerging markets is termed thinness of trading of securities across the board. It becomes worse during a bear market condition than a bull market condition. Many emerging markets suffer from very serious thinness of trading. If the market for a security is thin, any attempt at selling a relatively large quantity will cause a large decrease in price, i.e. an erosion of capital value, hence contributing to illiquidity. It is observed that trading on some stocks takes place once a month or even at some longer intervals. High turnover is often considered to be indicative of low transaction costs. A small but active market will have small capitalization but high turnover ratio. Liquidity represented by the turnover ratio, measured as the value of total shares traded divided by market capitalization.

**(e) *Insufficient Tradable financial instruments:*** Illiquidity has been rather intensified by the absence of varied tradable financial instruments. Most of our instruments are equity now. Municipal Bonds, mutual funds as well as derivative markets need to be developed to fill in the gap. As opposed to quite a handful of mutual funds in our market there are thousands in Hong Kong and a couple of hundreds in Singapore. Investment in mutual funds is relatively less risky vis-a-vis investments in equity shares. Our risk-averse investors would have attractive avenues of investments if we had a wide range of mutual funds in our markets. For the new entrants in the stock markets, mutual funds could be safe instruments for profitable investments. Forming and launching new mutual funds would create an additional demand in the secondary market which is likely to make a positive impact on the market. Shares would be fairly priced, and particularly the undervalued shares would get price-adjustment. A rigorous regulatory environment needs to be created to encourage mutual funds in the private sector.

**(f) *Lack of Investors' awareness:*** A poor turnover ratio can be attributed to the low volume in our market, which is due to a scanty investor base, too. A major portion of our educated populace is yet to be attracted to the stock market. They are not convinced of relative profitability in investing in shares rather than other available sources of investment. They need to be persuaded, informed and trained. An investment culture needs to be developed in our country. Habitually we Bangladeshis are prone to consuming almost all our earnings. We save only 8% of our income as opposed to 22% in India, 15% in Pakistan, 19% in Sri Lanka and the world's highest 50% in Singapore (Banglapedia). This is one of the major reasons for our capital inadequacy, which is hindering industrialization in our country. More and more training, seminars, workshops should be organized to make the general people aware of the stock mar-Once they find their investment in shares profitable, the saving tendency will grow, and more money will be poured into the market.

**(g) *Other striking features of Bangladesh capital market:***

The other striking features of Bangladesh capital markets are laid down as follows:

* Lack of infrastructure and physical facilities
* Existence of only dealer-broker-members (no specialist'' market maker)
* Market dominated largely by unsophisticated Investors
* Lack of diversity in products' availability in market
* Inefficient capital market- operation and information.
* Lack of proper and adequate disclosures
* Certifiers of financial statements and Property values of the company are the same identical  
  Management and Owners (Councilors) of DSF, arc entwined
* Lack of enforcement with the compliance of rules and regulations
* Corporate governance problem, sponsor-owners are managing the firm. All most all cases, no professional management are hired to run the affairs of the listed company.

**Chapter –05**

**ISSUE MANAGEMENT**

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**INTRODUCTION TO ISSUE MANAGEMENT**

**PROCESS OF ISSUE MANAGEMENT**

**RISK MANAGEMENT AND ISSUE MANAGEMENT PROCESS**

**EMBEDDING ISSUE MANAGEMENT**

**MONITORING ISSUE OVER TIME**

**5.1 Introduction to issue management**

Managing issues such as non-conformance, exceptions, loss-events, and process deviations is one of the central functions of an organization's quality, compliance, and risk management units. Relying on stand-alone point solutions or paper-based processes to manage issues is ineffective, as they fail to address systemic problems due to a lack of broad enterprise reach and visibility. To successfully handle issues, managers need powerful automation and collaboration tools that span departments.

In Program and Project Management, issues occur every day. My definition of an Issue would be anything that might impact the schedule, cost, or quality of a project or program. Another way you might define an Issue is as anything which will adversely affect the project or program.

Let me be very clear about what I mean by the word “impact”, by considering as an example, schedule impact. I do not mean just those things which impact the overall program schedule causing the whole project or program to delay, but also smaller events which slow down execution within the project or program, even if they don’t necessarily delay the overall schedule. This post aims to walk you through all the information you’ll need to successfully manage and track any issues which occur during the execution of your project or program. Successful issue management will enable you to manage your project or program execution as smoothly as possible.

A distinction is sometimes made between different types of issue, for example:

* software errors or "bugs" in the developed technical solution,
* more general problems that concern the project team,
* issues that represent a requested change to the system, and
* Problems or "bugs" that need to be reported to an external supplier.

In some projects, different processes will be defined. Alternatively, a single mechanism would present a less confusing interface for the participants, but would need to support variations in how the issue is dealt with.

**5.2 Process of issue management**

The Issue Management process will run throughout the project, and potentially beyond that into live running. Team members and other participants will be encouraged to submit issues. The Project Office team and the Project Manager will administer and control the process. The Issue Management Process is very similar to the [Risk Management Process](http://www.expertprogrammanagement.com/2009/06/risk-management/), and is shown below:

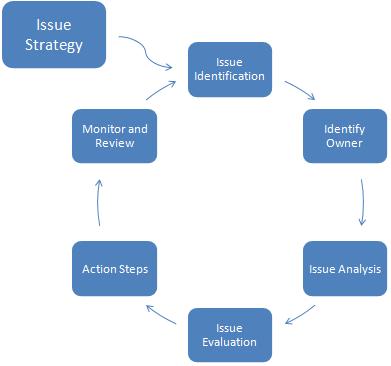
[](http://www.expertprogrammanagement.com/wp-content/uploads/2009/11/Issue-Management-Process.jpg)

Figure: Process of issue management

The steps of the Issue Management Process are as follows:

***Issue Strategy*:** is where we document the Issue Management Strategy we are going to use throughout the course of the project or program, including the frequency at which issues will be review and reported.

***Issue Identification:***is the process by which we identify issues. Issues can come from multiple sources, for example, from a question raised via email, or any of the regular project or program meetings which are held. As soon as an issue has been identified it should be recorded in an Issue Log.

***Identify Owner:*** is where we assign an owner to the Issue who is responsible for resolving and reporting back on the Issue.

***Issue Analysis*:** is where we categories issues by Urgency and Impact. This categorization enables us to distinguish between major and minor issues. An Issue with a high impact but low urgency needs to be dealt with but we have some time to plan how to handle it, whereas an Issue with a high urgency and high impact needs to be dealt with immediately or it will very quickly have a large detrimental impact on the project or program. I like to categories Urgency and Impact use values between 1 and 5, with 1 representing a low impact or urgency and 5 representing a high impact or urgency.

***Issue Evaluation:*** is where we compare the various urgency and impact values for all issues enabling us to priorities the order in which we will tackle the issues

***Action Steps:*** is where we document the action to resolve the issue that the Issue Owner is responsible for performing.

***Monitor and Review***: is where we periodically review and update all issues to see if they have been resolved and can be removed from our Issue Log, or if the impact and urgency of the issue has changed.

The Issue Management Process should be repeated at regular intervals throughout the duration of the project or program. In a program context, you may find that it makes sense to increase the frequency at which you run the Issue Management Process as your program nears completion, even running the process twice daily to ensure issues are being closed off quickly and effectively as time runs out.

**5.3** **Risk Management and Issue Management Process**

Risk Management and Issue Management are related processes that are critical to project and program management success.  For the sake of simplicity, the focus of this article will be on project-based risk and issue management.  Understanding these processes at the project level will provide the foundation to be able to extrapolate these concepts to the program level.

A risk is a condition that has not occurred yet.  For example, if a company’s production website is hosted on one server with no on-site or off-site backup or recovery processes in place, then it is evident that there is a risk of a single point of failure.  If the server fails for any reason, then the company’s production web site will be down until they can recover the server or replace it with a new one.

This seems like simple enough concept, right?  Good.  Now let’s put a bit of construct around the way a risk is identified, measured, mitigated and monitored. The Risk Management Process:

* 1. **Risk Identification**
  2. **Risk Measurement**
  3. **Risk Mitigation**
  4. **Risk Monitoring and Review**

***1.  Risk identification***

Generally, there are two acceptable sentence structures for documenting an identified risk — the If-Then statement, and the Condition-Consequence statement.

If-Then Risk Statement Format:

* + If the company’s production web site goes down, then the company will lose internet sales until the server can come back up.

Condition-Consequence Risk Statement:

* + Given the fact that their production web site is hosted on one server with no documented backup or recovery options readily available, there is a risk that we could lose internet sales if the server goes down.

Both formats of risk documentation are acceptable.  The Project Management Body of Knowledge (PMBOK) prefers the second option.  I happen to prefer the second option as well.  I find that it easier to write a risk statement clearly with the second option.

The risk is logged and managed on a Risk Ledger, which is generally a spreadsheet of risks that are maintained and reviewed periodically.  There are also tools that can support the development and maintenance of a Risk Ledger.  A risk ledger, at a minimum, contains the following fields of information for each risk:

**Risk Number** – a unique number for the risk – used for identification purposes or for associating the risk to other information as needed

**Risk Name** – a brief name to quickly recognize the risk

**Risk Description** – a description of the risk written in risk statement format

**Risk Date** – the date that the risk was identified

**Risk Owner** - the person assigned to be responsible for the risk (Risk owner specific responsibilities vary, but generally, the owner is responsible for the risk in some manner)

**Risk Trigger** – the event that would trigger the risk (In the server example above, it would be “The server crashes”

**risk Mitigation Strategy** – a description of the activities that must be put into place to mitigate the risk — thus reducing the probability of the risk from occurring and/or the impact of the risk should it occur (In larger projects, the risk mitigation strategy might require a separate document in order to capture the complete details.)

**Risk Contingency Plan** – contains information on what needs to take place if the risk is realized (Once the risk is realized, meaning that it comes to fruition, the risk becomes an issue.  An issue is a condition that is currently impacting the project negatively.  Specific activities must kick in to action to resolve the issue.  So in the server example above, the contingency plan would be to install the application on a development server and make the development server temporarily the production server until a new production server is bought and configured.)

**Risk Status** — opens, closed

**Notes** — Notes from periodic status updates from the risk owner

***2.  Risk Measurement***

Once the risk has been identified and documented, a risk owner must be assigned.  Generally, a project that has a mature risk management process has a risk group that is responsible for reviewing, analyzing and mitigating risks.  The risk is assigned by the Risk Group Lead.  The person assigned to the risk is the recognized as the Risk Owner.

It is up to the Risk Owner to assess the risk, validate that it truly is a risk and identify a mitigation strategy for the risk.  A mitigation strategy is the plan of action that needs to be put in place to ensure that the risk is not realized.

This risk review team reviews the risk and measures the probability and impact by assigning a probability and impact score — where probability is the likelihood that the risk could be realized, and the impact is the severity of the consequence should the risk be realized.  The risk score is a product of these two scores (Risk Score = Probability x Impact).  For example, let’s assume that the probability score and the impact score values are 1, 2 and 3 for low, medium and high respectively.  If the risk team indicates that the probability that the server might go down medium, but the impact is high, then the Risk Score is 6.

**Risk Score = Probability x Impact**

All identified risks must be assessed for probability and impact; a risk owner must be assigned to ensure that the risk is mitigated through the project life cycle, and a risk score must be assigned to each risk.  The risk score serves as a measure of the risk’s priority.  The higher the risk score, the higher the priority.

Depending on the project’s risk tolerance (Tolerance levels can be different from project to project, or from organization to organization), a decision must be made to take one of the following actions:

**Accept the risk** — there may be cases where the risk does not pose enough of a risk (based on risk score, probability or impact).  Therefore the cost of mitigating the risk might be much more than the cost of the risk itself, should it occur.  Or the risk probability might be so low that a calculated risk is taken to accept the risk.

**Avoid the risk** — For example, if a risk is associated with a specific module or component of code, and the component can be put off for a future release or just de-scoped from the project, then a decision can be made to avoid the risk altogether.

**Transfer the risk** — outsource the work so that the responsibility of mitigating the risk becomes the responsibility of another service provider or contractor.

**Mitigate the risk** — Make a conscious decision to develop a strategy to mitigate the risk to that it is not realized

***3.  Risk Mitigation***

Should the decision be made to mitigate the risk, the Risk Owner, working with the Risk Group, is responsible for devising a risk mitigation strategy for the assigned risk.  The risk mitigation strategy, or risk mitigation plan is a plan that is put into place to reduce the probability of the risk from taking occurring and reducing the impact, should the risk occur.

Using the previously mentioned example of the single server production environment, a mitigation strategy might be to back up the application server.  Another mitigation strategy could be to have another hot-backup available so that if the primary server fails, the second server could *take over.*

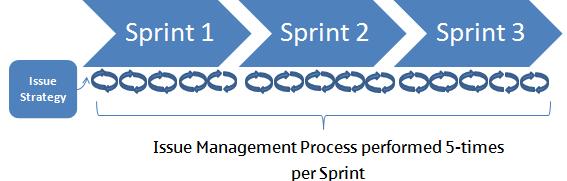
***4.  Risk Monitor and Review***

Once a risk mitigation strategy is in place, the risk group must periodically monitor the risk to ensure that the risk is being mitigated.  This can take place through periodic status updates by Risk Owners via meetings or reports.

If the risk is realized, meaning that the risk trigger actually takes place — in this case, the trigger being the fail of the production server — then the risk becomes an issue.  An issue is a condition that is currently having a negative impact on your project.  See the next post for more on Issue Management.

**5.4 Embedding issue management**

How frequently you run the Issue Management Process will depend on whether you are using it for project or program management and the stage you are in within the project or program. As an example, let’s consider an R&D team using agile and how they might embed the Issue Management Process in to the agile process.

[](http://www.expertprogrammanagement.com/wp-content/uploads/2009/11/Agile-Issue-Management.jpg)

**Figure:**

The easy way to embed the Issue Management Process into the Sprint process is to complete the Issue Management Process every day as part of the daily stand-up meeting. In this way if a Sprint was 5 days in duration you would complete the Issue Management Process 5 times per sprint. You do not need to have a specific agenda item to go through the Issue Management Process each day, but simply assign one member of the team to log issues raised and request updates which are due or nearing their due date.

**Chapter –06**

**UNDERWRITING**

**………………………………………………………………**

**INTRODUCTION TO UNDERWRITING**

**UNDERWRITING STANDARD**

**TYPES OF SALES AND THE PROCESS OF UNDERWRITING**

**STEPS OF BANK UNDERWRITER**

**6.1 Introduction to underwriting**

An underwriter is a securities dealer who helps government entities bring bond issues to market. The key role it plays is to buy the bonds from the issuer and then resell them to investors. In doing so it assumes a financial risk and thus expects to make a profit on the transaction.

The difference between the purchase price paid by the underwriter to the issuer and the price at which the bonds are resold to investors represents the underwriter's profit or discount. The underwriter's discount depends on factors such as the interest rate and accurate pricing of the bonds. If the market rate of interest moves against the underwriter after the sale, the underwriter's profit will be lower than expected. Conversely, if the market rate of interest moves in favor of the underwriter, the underwriter's profit will be higher.

An underwriter may be independent or part of a securities firm or bank. Often, securities firms and banks have municipal bond departments that carry out functions such as underwriting, marketing or trading municipal securities. Underwriting operation is one of the important functions of a merchant banker by which it can increases the supply of stock/shares and debentures in the market. It is an arrangement whereby the underwriter undertakes to subscribe the unsubscribed portion of shares/debentures offered by any public limited company. This encourages the prospective issuers to offer shares/debentures to the public for subscription and they can raise funds from the public.

One or more investment banking firms may underwrite public offerings. The underwriters have the responsibility of pricing new shares and selling them to investors. The company pays the underwriters a fee. Underwriter also provides advice to a company issuing securities or to an issue manager. Before granting authority to 17 non-bank financial institutions in 1997 to conduct merchant banking business in Bangladesh under the Securities and Exchange (Merchant Bankers and Portfolio Manager) Regulations 1995, specialized financial institutions, and the nationalized commercial banks and insurance companies were the key underwriters in the country's securities market.

**6.1.1 Securities underwriting**

[Securities](http://en.wikipedia.org/wiki/Security_%28finance%29) underwriting refers to the process by which [investment banks](http://en.wikipedia.org/wiki/Investment_banking) raise investment capital from investors on behalf of corporations and governments that are issuing securities (both [equity](http://en.wikipedia.org/wiki/Ownership_equity) and [debt capital](http://en.wikipedia.org/wiki/Debt_capital)). The services of an underwriter are typically used during a [public offering](http://en.wikipedia.org/wiki/Public_offering).

This is a way of selling a newly issued security, such as stocks or bonds, to investors. A [syndicate](http://en.wikipedia.org/wiki/Syndicate) of banks (the lead managers) underwrites the transaction, which means they have taken on the risk of distributing the securities. Should they not be able to find enough investors, they will have to hold some securities themselves. Underwriters make their income from the price difference (the "[underwriting spread](http://en.wikipedia.org/wiki/Underwriting_spread)") between the price they pay the issuer and what they collect from investors or from broker-dealers who buy portions of the offering.

**6.1.2 Insurance underwriting**

[Insurance](http://en.wikipedia.org/wiki/Insurance) underwriters evaluate the risk and exposures of potential clients. They decide how much coverage the client should receive, how much they should pay for it, or whether even to accept the risk and insure them. Underwriting involves measuring risk exposure and determining the [premium](http://en.wikipedia.org/wiki/Insurance_premium) that needs to be charged to insure that risk. The function of the underwriter is to protect the company's book of business from risks that they feel will make a loss and issue [insurance policies](http://en.wikipedia.org/wiki/Insurance_contract) at a premium that is commensurate with the exposure presented by a risk.

Each insurance company has its own set of underwriting guidelines to help the underwriter determine whether or not the company should accept the risk. The information used to evaluate the risk of an applicant for insurance will depend on the type of coverage involved. For example, in underwriting automobile coverage, an individual's driving record is critical. As part of the underwriting process for [life](http://en.wikipedia.org/wiki/Life_insurance) or [health insurance](http://en.wikipedia.org/wiki/Health_insurance), [medical underwriting](http://en.wikipedia.org/wiki/Medical_underwriting) may be used to examine the applicant's health status (other factors may be considered as well, such as age & occupation). The factors that insurers use to classify risks should be objective, clearly related to the likely cost of providing coverage, practical to administer, consistent with applicable law, and designed to protect the long-term viability of the insurance program.

**6.1.3 Bank Underwriting**

In [banking](http://en.wikipedia.org/wiki/Banking), underwriting is the detailed [credit](http://en.wikipedia.org/wiki/Credit_%28finance%29) analysis preceding the granting of a [loan](http://en.wikipedia.org/wiki/Loan), based on credit information furnished by the borrower; such underwriting falls into several areas: (a) Consumer loan underwriting includes the verification of such items as employment history, salary and [financial statements](http://en.wikipedia.org/wiki/Financial_statements); publicly available information, such as the borrower's credit history, which is detailed in a [credit report](http://en.wikipedia.org/wiki/Credit_report); and the lender's evaluation of the borrower's credit needs and ability to pay. Examples include [mortgage underwriting](http://en.wikipedia.org/wiki/Mortgage_underwriting). (b) Commercial (or business) underwriting consists of the evaluation of financial information provided by small businesses including analysis of the business balance sheet including tangible net worth, the ratio of debt to worth (leverage) and available liquidity (current ratio). Analysis of the income statement typically includes revenue trends; gross margin, profitability, and debt service coverage (see Debt Service Coverage Ratio).

**6.1.4 Forensic underwriting**

Forensic underwriting is the "after-the-fact" process used by lenders to determine what went wrong with a mortgage Forensic underwriting refers to a borrower's ability to work out a modification scenario with their current lien holder, not to qualify them for a new loan or a refinance. This is typically done by an underwriter staffed with a team of people who are experienced in every aspect of the real estate field.

**6.2 Underwriting standard**

During economic turmoil, underwriting standards may become more lenient, as acquiring loans may become too difficult for the majority of borrowers. For example, during the economic downfall of 2008-2009, some lenders reduced pre-payment fees and offered heightened flexibility regarding the terms of the loans issued. At the same time, during that same crisis many companies also tightened underwriting standards that had been one of the culprits in the downturn

http://www.morganstanley.com/img/clear.gif***6.2.1 Debt Capital Markets***

Debt Capital Markets Services (DCMS) is responsible for soliciting, structuring and executing Morgan Stanley's investment grade debt and related product businesses, including new issues of both public and private debt. Other product areas include liability management, asset-backed finance, project finance, equipment finance, Yankee new issues, continuously offered products and preferred stock. DCMS also establishes and maintains an active dialogue with Morgan Stanley clients and provides ongoing advice on all debt-related issues. The Group generates new product ideas and helps clients achieve short- and long-term capital objectives in their current business configurations as well as through strategic transactions that transform a company's capital structure. DCMS provides an important link between the Banking Group and Fixed Income division to solicit and execute all investment grade debt-related business.   
***6.2.2 Leveraged Finance Capital Markets Services***

The Leveraged Finance Capital Markets Services (LFCMS) works closely with corporate finance and dedicated high yield sales, trading and research professionals in the Fixed Income Division to originate, structure and execute public and private placements of high yield debt securities for non-investment grade domestic and emerging market corporations and sovereign entities. LFCMS also structures and underwrites floating-rate syndicated loans, primarily for non-investment grade borrowers in North America, Europe and the emerging markets. .

LFCMS is involved in deal execution from start to finish and plays a very active role in transaction pricing. Morgan Stanley's clients rely upon LFCMS to assess current and future market conditions as these factors relate to deal structure and new issue levels for potential issuers. LFCMS provides an important link between the Investment Banking and Fixed Income-divisions. .

***6.2.3 Equity Capital Markets Services***

Equity Capital Markets Services (ECMS) undertakes the origination, structuring, marketing and pricing of public offerings and private placements of equity and equity-related securities. ECMS also advises Morgan Stanley clients on financing strategies in the context of merger and acquisition activity and public market restructurings and monetization programs. ECMS provides an important link between the Banking Group and Equity divisions to solicit and execute all of the Firm's equity-related business.

**6.3 Types of sales and the process of underwriting**

The two most common ways of issuing debt through bonds by state and local governments are by competitive bidding or by negotiated sales. In both kinds of sales, the underwriters work closely with traders and sales persons to determine the price of a new issue. New issues of municipal bonds are sometimes sold through private placements. In private placements, issuers may sell the bonds directly to investors or through a placement agent. State and local statutes may have restrictions on the type of sale allowed by localities. For example, general obligation bonds are often required by law to be sold competitively.

For both competitive and negotiated sales, there are often requirements related to advertising the sale of the bonds and the circulation of a disclosure document.

***6.3.1 Competitive Sales***

In a competitive sale, underwriters submit a sealed bid for purchasing the bonds to the issuer at a specific time on a specified date. In this system, there will normally be more than one bidder. The bidder offering the lowest true interest cost to the issuer (i.e., interest cost that takes into account the time value of money) will be awarded the bid. If the competitive bid involves a syndicate, the syndicate's bid must meet all the published requirements of the issue and arrange for a good faith deposit if that is required. The winning bid becomes the contract of sale for the offering. After the syndicate purchases the bonds, it resells them to retail investors. The underwriter essentially acts as the intermediary between the issuer and the initial investor. A competitive sale is also called an advertised sale or a sealed bid sale.

***6.3.2 Negotiated Sales***

In a negotiated sale, the issuer selects the underwriter (or underwriters in the case of a syndicate) prior to the public sale date. The issuer may select co-managers from competing firms to work as part of a syndicate. The lead underwriter or manager coordinates the deal. The first step in a negotiated sale is a Request for Proposals (RFP) that is sent out by the issuer to selected underwriters. The RFP specifies the selection criteria that form the basis of evaluating the proposals/responses that will be submitted by the underwriters in response to the RFP.

Among other things, an RFP will request information on the firm's experience with underwriting the type of issue being considered, resumes of key personnel and their time commitment for the proposed issuance, management fees and estimated expenses, list of anticipated services, and preliminary ideas about the structure of the deal.

***6.3.3 Private Placements***

Private placements are direct transactions between the issuer and investors, i.e., the bonds are sold directly by the issuer to investors without an underwriter. In this process, instead of underwriters, placement agents act as intermediaries between the issuer and investors. However, they do not assume any underwriting risks. In recent years, some issuers have bypassed placement agents and have done private placements directly with ultimate investors. This kind of private placement is called a direct purchase.

***6.3.4 The Relative Advantages and Disadvantages of Each Type of Sale***

Even if there are no requirements relating to state or local statutes governing the sale of bonds, one type of sale may be preferred over others depending on the kind of transaction. Issuers usually choose one method over the others based on which will yield the lowest all-in borrowing cost. Proponents of competitive sales argue that in this type of sale underwriters offer the most competitive or lowest prices in order to increase their probability of winning the bid. Since this kind of bidding process is open to all underwriters and the lowest price serves as the only criterion for awarding the bid, it is a fairer method that is better able to avoid allegations of On the other hand, proponents of negotiated sales argue that this type of transaction works better an preferential treatment.

**6.4 Steps of bank underwriter**

A bank underwriter is a financial professional who evaluates clients' credit worthiness, repayment ability and lending risk to determine if a loan should be granted. Individuals working in investment banking buy company bonds and sell them to third parties for profit. According to the U.S. Bureau of Labor Statistics (BLS), bank underwriters generally have a bachelor's degree in a business major

### *Step 1: Learn Bank Underwriter Duties*

A bank underwriter may be a type of loan officer whose job is to evaluate the creditworthiness of a client or business. In this position, you may conduct risk assessments and financial analysis by reviewing a borrower's financial statements, salary and employment history to determine their ability to repay a loan. As an underwriter, you may work for an investment firm that buys and sells stocks or bonds on behalf of other companies. In this role, you may meet with clients, traders and securities sales representative to determine marketplace demand and pricing.

### *Step 2: Earn Your Degree*

According to the BLS, most banking underwriters have at least a bachelor's degree in a business administration, accounting, economics or finance. You may also seek jobs this field by completing a liberal arts degree program that consists of business administration courses. If you want to improve your career opportunity, you may want to consider a Master of Business Administration Degree with a concentration in corporate finance or investment banking. A graduate degree program will teach you more about underwriting principles such as fixed income and derivatives, risk management and securities analysis.

### *Step 3: Seek an Internship*

According to the BLS, completing an internship program may be helpful in a career involving investment banking and securities dealing. Many interns work in an analyst position, assisting with loan underwriting, analyzing client needs and monitoring loan agreements.

### *Step 4: Obtain Your License*

As a banking underwriter, you may function as a securities dealer who trades investment products such as stocks and bonds. Trading investment products requires you have a federal license as a registered securities agent at your firm. Some of the licenses that are common include the Series 7 (general securities representative) and Series 66 (investment advisor) licenses. These exams are offered by the Financial Industry Regulatory Authority (FINRA). Typically, you'll need to complete at least four months of work at your firm to be eligible to take these exams.

### *Step 5: Gain Certification*

There are various certifications offered for bank underwriters. You may want to consider the Certified Risk Professional (CRP) designation offered by the Banking Administration Institute (BAI) and the Certified Residential Underwriter (CRU) credential offered by the Mortgage Bankers Association. To be eligible for the CRP exam, you must have pertinent work experience and education. Earning the CRU credential requires at least four years of industry experience and completion of the Residential Underwriter Achievement Certificate and Residential Underwriter Professional Certificate prerequisite programs.

**Chapter –07**

**CONCEPTUL FRAMEWORK OF PORTFOLIO MANAGEMENT**

**………………………………………………………………**

**INTRODUCTION TO PORTFOLIO MANAGEMENT**

**BENEFIT OF THE PORTFOLIO MANAGEMENT PROGRAM**

**TYPES OF RISK**

**RISK MANAGEMENT AND MEASURE**

**DETERMING THE RISK RETURN TRADE-OFF**

**MODERN PROTFOLIO THEORY**

**7.1 Introduction**

A financial investment, contrary to a real investment which involves tangible assets such as land or factories, is an allocation of money with contracts whose values are supposed to increase over time. Therefore, a security is a contract to receive prospective benefits under stated conditions like stocks or bonds.

The two main attributes that distinguish securities are time and risk. Usually, the interest rate or rate of return is defined as the gain or loss of the investment divided by the initial value of the investment. An investment always contains some sort of risk. Therefore, the higher an investor considers the risk of a security, the higher the rate of return or premium the investor demands.

The financial assets can be divided into two categories i.e., traditional and alternative investments. The main traditional assets are cash, fixed-income securities, and stocks. For short-term borrowing, governments and corporations issue securities with a year or less to maturity. This market, where governments and corporations manage their short-term cash needs, is called money market. Two important money market interest rates are the London Interbank Offered Rate (LIBOR) and the interest rate on Treasury Bills. The long-term borrowing needs of corporations and governments are met by issuing bonds. A bond contract provides periodic coupon payments and redemption value at maturity to the bondholder. Bonds are either traded over-the-counter or in secondary bond markets.

Stocks are issued by corporations, which convey rights to the owner. The stock owners elect the board of directors and have claims on the earnings of the company. The stock holders are compensated with cash dividends, whose amount is determined by the board of directors.

**7.1.1 Portfolio management**

Portfolio Management is the professional management of various securities (shares, bonds etc) assets (e.g. real estate), to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes e.g. mutual funds)

The term asset management is often used to refer to the investment management of collective investments, whilst the more generic fund management may refer to all forms of institutional investment as well as investment management for private investors. Investment managers who specialize in advisory or discretionary management on behalf of (normally wealthy) private investors may often refer to their services as wealth management or portfolio management often within the context of so-called "private banking".

The provision of 'investment management services' includes elements of financial analysis, asset selection, stock selection, plan implementation and ongoing monitoring of investments. Investment management is a large and important global industry in its own right responsible for caretaking of trillions of dollars, euro, pounds and yen. Coming under the remit of financial services many of the world's largest companies are at least in part investment managers and employ millions of staff and create billions in revenue. The art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. If we own more than one security, we have an investment portfolio. We can build the portfolio by buying additional stocks, bonds, mutual funds, or other investments. Our goal is to increase the portfolio's value by selecting investments that will go up in price.

According to modern portfolio theory, we can reduce your investment risk by creating a diversified portfolio that includes enough different types, or classes, of securities so that at least some of them may produce strong returns in any economic climate.

* A portfolio contains many investment vehicles.
* Owning a portfolio involves making choices -- that is, deciding what additional stocks, bonds, or other financial instruments to buy; when to buy; what and when to sell; and so forth. Making such decisions is a form of management.

The management of a portfolio is goal-driven. For an investment portfolio, the specific goal is to increase the value.

**7.2 Benefit of portfolio management program**

* Customized investment management
* Personalized client service
* Diversification
* Resources of an industry leader addressing your individual needs
* Unified fee structure

**7.3 Risk management and measure**

An understanding of risk is required before the topics of risk management and risk measures can be addressed. The main problem is that there is no universal definition of risk and neither are there generally accepted definitions for risk in specific environments. There is a close relation between risk and uncertainty.

***Risk is the exposure to some uncertain future event. The probabilities of the different outcomes of this future event are assumed to be known or estimable.***

A certain system only contains the risks of the uncertain events it is exposed to. In a financial context, these uncertain events are often called risk factors. The key for every successful investment strategy is a sound risk management. The two main components of financial risk management are the modeling of the assets and the definition of the risk measure. Once these two elements are defined, risk management becomes a formal, logical process.

Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary.

Investments offer a balance between risk and potential return. The risk is a chance that an investor would lose the money which he has invested on the securities. Understanding risk is critical to being informed investors, markets can go up or down, and one can make or lose money in any investment.

Risk arises because the decision maker will not be able to make perfect forecasts. Forecasts cannot be made with perfection or certainty, since the future events which they depend are uncertain. The balance between the risk and return varies from one investment to the other. The risk attached with each security is inflation risk, currency risk, liquidity risk, political risk etc.

**Higher Risks = Higher Yields**

Depending on the [portfolio management](http://amazon.com/gp/product/1883249406?ie=UTF8&tag=stockmarketbe-20&link_code=em1&camp=212341&creative=384049&creativeASIN=1883249406&adid=9cae924f-18ed-46aa-b0f1-7086f0cb8569) approach, equity portfolios face two general types of risk (each of which can have several subcategories): active risk and tracking risk. Active risk relates to the performance of the selected securities relative to the benchmark portfolio. Portfolio stocks performing worse than the average stock in the index would be a form of active risk.

Tracking risk results when the benchmark portfolio has substantially different return patterns. The chosen benchmark should generally perform similarly to the managed portfolio. If a portfolio is consistently up when the benchmark is down it may be because the chosen benchmark does not represent the management style. The portfolio would be said to have a large tracking error relative to the benchmark, and therefore may mean that the manager is not investing in the types of securities he or she was hired to manage.

**7.4 Types of risk**

There are two basic types of risks:

***Systematic risk***

Systematic risk influences a large number of assets. A significant political event, for example, could affect several of the assets in your portfolio. It is virtually impossible to protect yourself against this type of risk.

***Unsystematic risk***

Unsystematic risk is sometimes referred to as "specific risk". This kind of risk affects a very small number of assets. An example is news that affects a specific stock such as a sudden strike by employees. Diversification is the only way to protect oneself from unsystematic risk.

There are other types of risk. They are the following:

***Credit/default risk***

Credit risk is the risk that a company or individual will be unable to pay the contractual interest or principal on its debt obligations. This type of risk is of particular concern to investors who hold bonds in their portfolios. Government bonds, especially those issued by the federal government, have the least amount of default risk and the lowest returns, while corporate bonds tend to have the highest amount of default risk but also higher interest rates.

***Country risk***

Country risk refers to the risk that a country won't be able to honor its financial commitments. When a country defaults on its obligations, this can harm the performance of all other financial instruments in that country as well as other countries it has relations with. Country risk applies to stocks, bonds, mutual funds, options and futures that are issued within a particular country. This type of risk is most often seen in emerging markets or countries that have a severe deficit.

***Foreign exchange risk***

When investing in foreign countries you must consider the fact that currency exchange rates can change the price of the asset as well. Foreign-exchange risk applies to all financial instruments that are in a currency other than the domestic currency.

***Interest rate risk***

Interest rate risk is the risk that an investment's value will change as a result of a change in interest rates. This risk affects the value of bonds more directly than stocks. The uncertainty associated with the effects of changes in market interest rates. There are two types of interest rate risk identified; price risk and reinvestment rate risk. The price risk is sometimes referred to as maturity risk since the greater the maturity of an investment, the greater the change in price for a given change in interest rates. Both types of interest rate risks are important in investments, corporate financial planning, and banking.

***Reinvestment rate risk***

The uncertainty associated with the impact that changing interest rates have on available rates of return when reinvesting cash flows received from an earlier investment. It is a direct or positive relationship.

***T4-ris7***

***Liquidity risk***

The uncertainty associated with the ability to sell an asset on short notice without loss of value. A highly liquid asset can be sold for fair value on short notice. This is because there are many interested buyers and sellers in the market. An illiquid asset is hard to sell because there few interested buyers. This type of risk is important in some project investment decisions but is discussed extensively in Investment courses.

**Political risk**

Political risk represents the financial risk that a country's government will suddenly change its policies. This is a major reason why developing countries lack foreign investment.

***Market risk***

Also referred to as volatility, market risk is the the day-to-day fluctuations in a stock's price. Market risk applies mainly to stocks and options. As a whole, stocks tend to perform well during a bull market and poorly during a bear market - volatility is not so much a cause but an effect of certain market forces. Volatility is a measure of risk because it refers to the behavior, or "temperament", of your investment rather than the reason for this behavior. Because market movement is the reason why people can make money from stocks, volatility is essential for returns, and the more unstable the investment the more chance there is that it will experience a dramatic change in either direction.

***Price risk***

The uncertainty associated with potential changes in the price of an asset caused by changes in interest rate levels and rates of return in the economy. This risk occurs because changes in interest rates affect changes in discount rates which, in turn, affect the present value of future cash flows. The relationship is an inverse relationship. If interest rates (and discount rates) rise, prices fall. The reverse is also true.

T4-ris5

Since interest rates directly affect discount rates and present values of future cash flows represent underlying economic value, we have the following relationships.

T4-ris6

***Inflation risk (purchasing power risk)***

The loss of purchasing power is due to the effects of inflation.  When inflation is present, the currency loses its value due to the rising price level in the economy.  The higher the inflation rate, the faster the money loses its value.

***Business risk***

The uncertainty associated with a business firm's operating environment and reflected in the variability of earnings before interest and taxes (EBIT). Since this earnings measure has not had financing expenses removed, it reflects the risk associated with business operations rather than methods of debt financing.

**7.5 Determining the risk return trade-off**

This states that the higher the risk of a particular investment, the higher the possible return. But, many investors do not understand how to determine the level of risk their individual portfolios should bear. This is a general concept underlying anything by which a return can be expected. The higher the risk, the more you should receive for holding the investment and the lower the risk, the less you should receive.

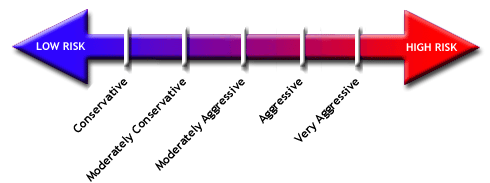


Fig.1 Risk Return Trade-Off

Low levels of uncertainty (low risk) are associated with low potential returns. High levels of uncertainty (high risk) are associated with high potential returns. The risk/return tradeoff is the balance between the desire for the lowest possible risk and the highest possible return. This is demonstrated graphically in the chart below. A higher standard deviation means a higher risk and higher possible return.

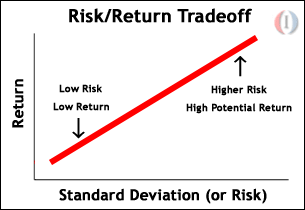


Fig.2 Risk Return Trade-Off

A common misconception is that higher risk equals greater return. The risk/return tradeoff tells us that the higher risk gives us the *possibility* of higher returns. There are no guarantees. Just as risk means higher potential returns, it also means higher potential losses.

**SWOTAnalysis 7.6 SWOT Analysis:**

SWOT is an acronym for the internal Strength and Weakness of the firm and the environmental Opportunity and Threat facing that firm. So, if we consider EXIM bank as a business firm and analyze its strength, weakness, opportunity and threats the scenario will be as follows:

|  |  |  |
| --- | --- | --- |
| **Internal Factors** | **Strength** | **Weakness** |
| * Huge capital * Strong Banking Services * Good Management * Usage of faster pc bank software * Cooperation with each other * Strong presence in capital market * Strong Financial Position * Long term customer relationship * String position in CAMEL rating * Service innovation skill | * Lack of proper motivation, training, and job ration * Lack of experienced employees in junior level management * No clear mission statement and strategic plan * Slowly decision taking |
| **External Factors** | **Opportunity** | **Threats** |
| * Large potential market * Growth of sales volume * Strong capital market service | * Different services of FCB’S (Phone Banking/ Home Banking) * Technological advancement * Likely entry of potent new competitors |

**Chapter –08**

**SUMMARY & CONCLUSION FROM THE STUDY**

**…………………………………………………………..**

**FINDING**

**RECOMMANDATION**

**CONCLUSION**

**REFERENCE**

**BIBLOGRAPHY**

**FINDINGS**

* Most of the executives reported that the merchant banking system in Agrani Equity & Investment Limited serves as a control device, it is a good mechanism to control employee. They suggest that it should continue.
* Government subsidiary company
* The system review helps the supervising officer to have better idea about strength and weakness in his/her department and enables him/her to make more effective work assignments and improved communication between reporting officer and his/her subordinates.
* Training facilities for employees are also very much limited in Agrani Equity & Investment that may increase the efficiency level of an employee.
* Officers are getting more serious about their assigned jobs. They are also serious regarding procurement of business. This particular system helps the employees for getting additional increment or promotion.
* Lack of Manpower
* Difficulty in Controlling Activities
* Influential Role by Other
* Delay in Investigation
* Lack of Logistics Facilities

**RECOMMENDATION**

The problems mentioned in the earlier section cannot be solved in a day. It will take long time to remove all the problems. Indeed, full removal is not possible. Besides, it is also true that some of the problems can easily be solved if the management looks into it very seriously. Here is given some suggestions regarding solving the problems:

* BSEC should give more power to Agrani Equity & Investment regarding monetary punishment to the member companies.
* The system of giving training to the employees on regular basis should be developed so that the efficiency level of employees
* Switching of manpower should be minimized through better remuneration structure and other benefits.
* The quota system regarding grades should be abolished so that it cannot victimize the employees. The Company should introduce the standards to assess the performance of an employee, for example, the factors responsible to assess such standard are: relevance, accountability, reliability, validity, fairness and practicality.
* Management should take necessary initiatives for the employees whose promotions as well as career path are stuck.

**CONCLUSION**

This study discussed the basic framework for applicability of Merchant banking in Bangladesh.

However, the study had certain limitations like limiting the kind of stocks for determining the portfolio and the time frame considered. Given these limitations, future research can concentrate on this model to evaluate risk and return of portfolios. Another aspect that can be researched in depth is considering the correlation of market return and individual stock return considering the actual returns provided by the companies over a period of time. A further area of research can be the application of approach to other decision making situations like merger & acquisition and other corporate decision like capital structure & dividends distribution.

The value of the model lies in the benefits that the integration of various techniques and approaches offer. The multi criterion function provides the company with a tool that optimizes its choices regarding selection of stocks. The model thereby enables to take appropriate investment decision after taking into account its impact on the portfolio as a whole. By using this model, even firms can improve their capital structure.

1. **Strategic**: - Strategic changes can reflect in numerous ways. A company may declare dividends, go for a right issue/ bonus issue, stock split, merger & acquisition, change in capital structure can affect the returns provided by the company and can affect the overall return on portfolio.
2. **Financial**:- Changes in the financial performance must be incorporated. Such changes can affect the availability of profits for distribution. The financial fundamentals if are brighter in the future would help in inject more & more capital and thus rising the overall market value of the stocks.
3. **Economic**: - A fundamental change in economy (e.g. exchange rate, inflation, business cycle etc.) Considering such factors a stock should be selected. The helps Merchant banking in bringing correlation to economic factors and so it remains as a powerful means for decision making process.

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