

Celebrating World Investor Week 2017 in Bangladesh and Looking for Smart Investors

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Introduction

On 28 June 2017, the International Organization of Securities Commissions (IOSCO) announced the global celebration of the World Investor Week from 2nd through 8th October 2017 (IOSCO, 2017a). World Investor Week (WIW) is a global campaign to raise awareness about the importance of investor education and protection and to highlight the investor education and protection initiatives of securities regulators (IOSCO, 2017c). Thus, the focus of WIW is on two critical areas: investor education and investor protection. This paper highlights how the WIW 2017 is being organized in Bangladesh under the leadership of the Bangladesh Securities and Exchange Commission (BSEC) and also portrays how a common investor can be transformed into a smart investor on the basis of the key messages of the WIW.

Celebrating World Investor Week 2017 in Bangladesh

IOSCO securities regulators and other IOSCO members on six continents are the main organizers of WIW 2017 in order to provide a range of activities, such as launching investor-focused communications and services, promoting contests to increase awareness of investor education initiatives, organizing workshops and conferences, and conducting local/national campaigns in their own jurisdictions. WIW offers a unique opportunity for IOSCO members to work in collaboration with all investor education and protection stakeholders, at both the local and international level (IOSCO, 2017b).

IOSCO's World Investor Week is endorsed by the following global forums:

- the Group of Twenty (G20), the central forum for international cooperation on financial and economic issues of the G20 countries that account for more than four-fifths of gross world product and three-quarters of global trade, and are home to almost two-thirds of the world's population;
- the International Forum for Investor Education (IFIE), a unique alliance chartered in 2005 that brings together private sector and public sector providers of investor education to improve the effectiveness of investor education programs around the world;
- the International Network of Financial Services Ombudsman Schemes (the INFO Network), the worldwide association for financial services ombudsmen—independent and impartial out-of-court bodies that resolve complaints brought by consumers (and, in some cases, small businesses) against banks, insurers and/or other providers of financial services;
- the Inter-American Development Bank that works to improve lives (reducing poverty and inequality, improving health and education, and advancing infrastructure) in Latin America and the Caribbean through financial and technical support in a sustainable, climate-friendly way;
- the World Bank Group that works in every major area of development through providing a wide array of financial products and technical assistance, and helping countries share and apply innovative knowledge and solutions to the challenges they face; and

- the Organisation for Economic Co-operation and Development (OECD), the mission of which is to promote policies that will improve the economic and social well-being of people around the world (IOSCO, 2017c).

This year a number of 76 participating countries from six continents are celebrating the WIW. In addition, regional and global organizations [Financial Planning Standards Board (www.fpsb.org), IOSCO Asia Pacific Hub (<https://www.sc.com.my/ioscohubbkualalumpur/>), International Forum for Investor Education (www.ifie.org) and IFIE Americas Caribbean Working Group¹] are also holding events in support of WIW. As part of IOSCO's World Investor Week, Financial Planning Standards Board (FPSB) is also hosting World Financial Planning Day on 4 October 2017 to promote the value of financial planning and making investment choices within the context of financial and life goals (IOSCO, 2017e). In SAARC (South Asian Association for Regional Cooperation) region, Bangladesh² is possibly organizing the WIW 2017 most enthusiastically giving the highest level of importance and endeavor to make it more memorable and colorful (other organizing countries are: India, Maldives and Pakistan; countries not organizing WIW 2017 are: Afghanistan, Bhutan, Nepal and Sri Lanka).

To celebrate the WIW 2017, BSEC is organizing four specific theme-based conferences (Session-1 on "Investor Education and Investor Protection; Session-2 on "Investment and Risk", Session-3 on "Investment Products and Sectors" and Session-4 on "Capital Market and the Economy: Role of Investors") and investor education fair (to be held on 4-5 October 2017) in addition to the inaugural programs on 2 October 2017 followed by a grand rally and concluding session on 8 October 2017. Under the regulatory leadership of BSEC, similar programs are being organized in Dhaka by stock exchange [Dhaka Stock Exchange Limited (DSE)], depository [Central Depository Bangladesh Limited (CDBL)], Bangladesh Merchant Bankers Association (BMBA) and professional bodies [Institute of Chartered Accountants of Bangladesh (ICAB), Institute of Cost and Management Accountants of Bangladesh (ICMAB), Institute of Chartered Secretaries of Bangladesh (ICSB) and Bangladesh Institute of Capital Market (BICM)]. Chittagong Stock Exchange Limited (CSE), the Investment Corporation of Bangladesh (ICB) and market related other organizations (associations of brokers/TREC holders, merchant bankers, asset management companies, etc.) are arranging meeting, conference, seminar, workshop, rally etc. outside Dhaka (Chittagong, Rajshahi, Khulna, Bogra, Barisal and Sylhet). On each day of the WIW 2017 (2-8 October 2017), there are a number of programs in Bangladesh to mark the week at the spirit of the IOSCO keeping the general potential and existing investors at the center point of every program. Thus, the very objective of the WIW of promoting education and protection for investors can be achieved in a country-wide scale.

Key Messages of WIW 2017 and Looking for Smart Investors

As circulated by IOSCO, there are nine "Key Messages" of WIW 2017 for a smart investor. As per those messages, a smart investor:

- Verifies that an investment professional is licensed;
- Conducts research on a product before investing;
- Assesses the impact of fees when choosing an investment;
- Understands that risk exists in all investments;
- Avoids "get rich quick" and "can't lose" schemes;
- Recognizes the power of compound interest;
- Recognizes the importance of diversification;
- Plans for and invests according to his/her future needs and goals; and
- Recognizes the benefit of long-term, regular and diversified investment (IOSCO, 2017d).

In another common parlance, a smart investor is expected to resort to an investment which should be SMART (Specific, Measureable, Achievable, Realistic, and Time-bound). Following is a brief elaboration of do's for a smart investor on the basis of the nine key messages of WIW:

- **Investment advice only from licensed professional:** That is, when an investor seeks investment advice, he should verify that an investment professional is licensed. So far our law is concerned, section 2(e) of the Securities and Exchange Ordinance, 1969 defines the "investment adviser" which includes person who is, for compensation, engaged in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing or selling securities, but does not include bank, some professionals (lawyer, accountant, engineer or teacher whose performance of such services is solely incidental to the practice of this profession), some capital market intermediaries [broker, job-

¹ Visit <http://worldinvestorweek.org/regional.php?org=ifie%20americas%20caribbean%20working%20group>.

² Visit <http://www.worldinvestorweek.org/country.php?country=bangladesh>.

ber or dealer, TREC (Trading Right Entitlement Certificate) holder or associate whose performance of such services is solely incidental to the conduct of his business as a broker, jobber or dealer, TREC holder or associate and who receives no separate compensation therefore], and news or other general publishers (the publisher of any newspaper, news magazine, or other publication of general and regular circulation). The concerned regulation on investment advice is the Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013 [dated 24.07.2013, published in the official Gazette on 22.08.2013]. As per third proviso to Rule 3 of the Research Analysis Rules 2013, Investment Advisers and Independent Research Firms shall obtain registration certificate from Bangladesh Securities and Exchange Commission (BSEC). Thus, before taking any investment advice, the investor should seek for licensed/registered investment adviser for taking any future proceedings under the regulations.

- **Prior research:** A smart investor conducts research on a product before investing. Possibly, this is difficult (may not be impossible) for general investors and here lies the importance of investor education. In this case, the investor must be willing to be a researcher and diligent to understand the required resource materials as well as to take part in research training and consequent practical research. Otherwise, the investor can depend on the research reports of those who are eligible to publish the same under Rule 3 of the Research Analysis Rules 2013, i.e., merchant bankers, stock-dealer/stock-broker, asset management companies, registered investment advisers and registered independent research firms.
- **Transaction fees:** A smart investor must understand the “return on investment” (ROI) and “return of investment”. Both of them are to be netted of the related transaction fees/costs. These fees/costs usually include fees to maintain Beneficial Owner (BO) Account, brokerage commission on buying or selling securities, interest on margin if taken, applicable withholding taxes, and investment advice charges if required to be paid separately. But the investor should also consider his own time and other resource committed to the investment activities in his final assessment, analyzing the opportunity costs. Thus, the investor must assess the impact of fees when choosing an investment.
- **Investment risks:** Risk exists in all investments. Thus, when anything is claimed as ‘certain’, you should be more cautious because some type of risk (systematic risk) cannot be avoided. But ‘uncertainty’ can be converted into measurable form, when it can be referred to ‘risky’ situation. This depends on the availability of sufficient information and the analytical strength of the investor. The risk of an investment is measured by its degree of variability of return. There are two types of risks: unsystematic and systematic. Unsystematic risk, also known as “specific risk”, “diversifiable risk” or “residual risk,” is the type of uncertainty that comes with the company or industry one invests in. Unsystematic risk can be reduced through diversification. Systematic risk, also known as “market risk” or “un-diversifiable risk”, is the uncertainty inherent to the entire market or entire market segment. Also referred to as volatility, systematic risk consists of the day-to-day fluctuations in a security’s price (www.investopedia.com). Thus, understanding that risk exists in all investments, the investor has to identify himself/herself whether s/he would be a risk-seeker (aggressive risk-taker), or a risk-neutral (no consideration of risks) or risk-avertor (guaranteeing risk-free return and then go for higher return commensurate to the expected risk).
- **Avoiding Ponzi scheme-type investments:** As stated earlier, each investment should be linked to ‘return on investment’ and ‘return of investment’. A smart investor should avoid “get rich quick” and “can’t lose” schemes. Because, this type of schemes will give ready ‘return on investment’ to allure the investor, but eventually ‘return on investment’ will not continue after some time and ‘return of investment’ will be vanished with fraudster scheme designer. This is like a Ponzi scheme, which is “a fraudulent investing scam promising high rates of return with little risk to investors” (www.investopedia.com). Thus, controlling greed is also an important factor for smart investor for protecting his/her investment, i.e., for ensuring ‘return of investment’.
- **Compounding:** Again, when an investor checks the ‘return on investment’ (ROI), s/he should also verify that whether the ROI is a simple one or a compound rate of return and what the time interval of computing the return is. Compounding is sometimes referred to as ‘eighth wonder’ and small rate of ROI at compound with small time interval is more worthy for yielding more accumulated return than higher simple ROI. Hence, the investor must recognize the power of compound interest.
- **Diversification:** As already mentioned while discussing the investment risks that ‘unsystematic risk’ can be reduced to zero through appropriate diversification of the investment portfolio. From a large number of investment vehicles (equity instruments, debentures, bonds, alternative investment schemes including mutual funds, exchange traded funds and other fixed income securities, etc.), the investment portfolio

should be diversified judiciously. There are simple models to Nobel prize-winning sophisticated models for diversification. Looking into the degree of 'systematic risk', the investor should attempt to adopt modes of reducing 'unsystematic risk' by incorporating and/or excluding individual investment instruments on the basis of assessing their individual risk-return relation and computing overall portfolio return. Thus it is expected that a smart investor should be a rational investor being a risk-averter and s/he would recognize the importance of diversification to give justice to his/her risk optimization.

- **Future needs and goals:** Investment is a current commitment of fund or resources with expected flow of return (both return on and return of investments) in future. Thus, the smart investor has to plan for and invest according to his/her future needs and goals. Often the acronym SIP might be a better term to perceive, which stands for 'Systematic Investment Plan'.
- **Optimum investment:** Here, optimum investment means an ideal one in terms of investment horizon, frequency of future cash flows, and the degree of diversification. A smart investor should recognize the benefit of long-term, regular and diversified investment. That means, out of three types of time-dimensions (momentary when everything is fixed; short-term when some items are fixed, some are semi-fixed or semi-variable, and some are variable; and long-term when all items are variable), investors should emphasize on long-term investments. Regularity should be maintained in investment decisions to sharpen the experience and to give investor education a firm footing. Diversification is already explained by which the investor should avoid putting all the eggs in one basket. But in the analysis, inflation should be considered as one of the important macroeconomic factors, because it is a 'silent killer' of periodic 'return on investment' and the investment-base at the time of its return, for its adverse impact through debasement of monetary value.

Theme of WIW 2017: Investors Education and Protection

Two critical but interlinked issues are within the theme of the WIW 2017: investor education and investor protection. A properly educated investor can be able to ensure his/her protection in terms of 'return on investment' and 'return of investment'. Educated investor becomes more capable to go through and perceive relevant information that is contained in the mandatory disclosures by the issuers of securities. Because, those mandatory disclosures (often through the financial statements of the issuers) are expected to better *inform* and *protect* investors (Lev and Gu, 2016: 30). In the investor education programs, mainly they are trained how they can be a quick reader of important financial information disseminated through financial reporting (quarterly, half-yearly, nine-month periodic, and annual) and other means of price-sensitive information and corporate disclosures. When an investor is educated, it means that s/he is better informed from the publicly available mandatory disclosures, and consequently, s/he can protect her/him better than any uninformed or less-educated investor.

Bangladesh has a very strong base of retail investors. As shown in Table-1, currently (27 September 2017) in Bangladesh, there are around 27 lakh Beneficial Owner (BO) account-holders who are the registered investors in the capital market. They were more than 32 lakh in number on 30 June 2015. However, so far the information is concerned, in terms of active capital market investors, the number of BO account-holders are almost same over the last few years, even the active investors are increasing in numbers recently. This is reflected through the enhanced scale of trading volume and number of trades in last couple of months.

Table-1: Investor-Base in Bangladesh: Number of BO Account-Holders

BO Account-holders	Dec. 2014	June 2015	Dec. 2015	June 2016	Dec. 2016	June 2017	27 Sept. 2017
Individual	1,955,373	1,992,106	1,961,383	1,953,089	1,832,712	1,833,904	1,697,782
Joint Holders	1,170,344	1,202,201	1,194,289	1,189,584	1,096,423	1,081,530	973,706
Company	8,792	8,801	9,092	9,333	9,555	10,061	10,044
Omnibus	408	351	285	264	245	237	216
Principal	469	469	473	476	480	483	484
Clearing	663	675	683	695	706	718	728
Total	3,136,049	3,204,602	3,156,349	3,153,441	2,940,121	2,926,933	2,682,960

Note: Total BO account-holders were 2,657,240 on 31 July 2017 and 2,650,705 on 31 August 2017.

Source: Dhaka Stock Exchange Ltd.

Conducting ‘investors education program’ is an important part of the BSEC’s efforts to create awareness among the investors about the risks and returns associated in capital market and to protect them through extending their knowledge and consciousness about it. BSEC has two such regular programs: (1) “Investor Education Program for General Investors” (a three-day program, twice a month, from 10:00 am-5:00 pm); and (2) “Investor Education Program Exclusively for Women Investors” (a three-day program, once a month, from 10:00 am-5:00 pm). From 8 January 2017, after the grand inauguration of the nation-wide financial literacy program of BSEC by Hon’ble Prime Minister Sheikh Hasina, investor education is a regular program of BSEC. Already, under the financial literacy initiatives, BSEC organized two Investors and Entrepreneurs Conferences—one at Khulna on 7 April 2017 and another at Rajshahi on 22 July 2017.

Bangladesh Institute of Capital Market (BICM), which was established as a national institution for imparting practical capital market education and training in July 2008 with BSEC’s Chairman as BICM’s Chairman, regularly organizes day-long “Investor Training Program” usually twice a month. Two stock exchanges (Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited) also frequently organizes investor education and awareness programs across the country.

In Bangladesh, since 1999, there have been also the Investors’ Protection Fund Regulations at stock exchanges’ end “to protect the interest of the investors in case of default by the TREC holders” [see Rule 3 of the latest version of such regulations—Dhaka/Chittagong Stock Exchange (Investors’ Protection Fund Regulations), 2014].

Conclusion

WIW 2017 is the first of a unique type of program initiated by IOSCO specifically targeted for investors, the prime beneficiaries of the capital market. As per the IOSCO’s media release on 28 May 2017 regarding WIW (IOSCO, 2017a):

“World Investor Week (WIW) is a week-long, global campaign for IOSCO to raise awareness about the importance of investor education and protection and highlight the various initiatives of securities regulators in these two critical areas.” – Mr. Ashley Alder, Chair of the IOSCO Board and the Chief Executive Officer of the Hong Kong Securities and Futures Commission.

“WIW offers a unique opportunity for IOSCO members to work in collaboration with all investor education and protection stakeholders, at both the local and international level.” – Mr. Paul P. Andrews, IOSCO Secretary General.

The securities regulator in Bangladesh (BSEC) has taken the lead to celebrate the WIW 2017 and involved all the stakeholders of capital market with special focus on mass investors. It is overwhelmingly accepted to all concerned in such a way that investors are expected to really enhance their awareness through the WIW programs to be organized, which will alternatively give them the desired protection. With the experience of WIW 2017, we expect that in future BSEC would organize such global program in collaboration with some international level “investor education and protection stakeholders” as desired by the IOSCO Secretary General.

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