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REVIEW THE ACTIVITIES OF DHAKA STOCK EXCHANGE LTD. REVIEW THE ACTIVITIES OF DHAKA STOCK EXCHANGE LTD. Submitted to : Khandoker Mahmudur Rahman Assistant Professor School of Business Submitted by: (Section – D) Protap Kumar Roy – 111072001 Imran Khan Mohammod – 111072004 Khairul Islam Auvi – 111072056 Sharmina Parveen Sormy – 111072116 Mishuk Saha – 111072140 United International University 31st December, 2008 Letter of Transmittal December 31, 2008 Khandoker Mahmudur Rahman Assistant Professor School of BusinessUnited International University Subject: Request to Accept Term Paper Dear Sir, We are very pleased to submit the term paper on “ Review the Activities of Dhaka Stock Exchange Ltd.

”. We were assigned to prepare and submit this term paper as the partial fulfillment of the course entitled Business communication (Course Code: Bus 2112). We have tried our best to prepare this term paper perfectly.

Nevertheless, this paper has been suffered by time and cost limitation. We will be obliged, if you kindly accept this term paper. We are ready to make you clear regarding any confusion or further clarification from this term paper. Sincerely yours, ——————————————– Protap Kumar Roy ID: 111072001; Section: D Program: B.

B. A; Semester: Fall -2008 (On behalf of the group) ACKNOWLEDGEMENT At first we want to thank the almighty GOD for his endless blessings and mercy. The almighty gave us enough hardworking capability and persistence which allowed us to complete this term paper. It is a real pleasure to express our deepest appreciation, sincere gratitude and heartiest gratefulness to our course instructor Khandoker Mahmudur Rahman for his constant guidance, helpful suggestion and valuable assistance. He helped us by giving his valuable time throughout this term paper. His encouragement and motivation helped us to overcome all the difficulties. We would like to thank all UIU faculties and stuff for making a friendly and faithful co-operation time to time.

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D. Professor and Dean School of Business United International University. 3. Prof. Dr. Md. Sadiqul Islam Coordinator, MBA & EMBA Programs United International UniversityProfessor, Department of finance, Dhaka University. Finally our deepest thanks to all of our friends for life long encouragement.

COPYRIGHT This is to inform you that this term paper on “ Review the Activities of Dhaka Stock Exchange Ltd. ” has prepared by the student of B. B. A as a requirement of our Business Communication (Course Code : Bus 2112) course under course instructor’s(Khandoker Mahmudur Rahman) guidance and it is fully academic basis. So copying a sentence or any part of the term paper is strictly prohibited without prior permission from the authority. Group Leader: ——————————————– Protap Kumar Roy ID: 111072001; Section: D Program: B.

B. A; Semester: Fall -2008 (On behalf of the group) TABLE OF CONTENTS Part: Page: Executive SummaryVIII 1. INTRODUCTION 1. 1 Objective 9 1. 2 Scope 9 1. 3 Limitation 9 2 Literature survey 2. 1 What is a Stock Exchange10 2.

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http://www. dsebd. org/ II. http://finance. mapsofworld. com/stock-market/stock-market-trading.

html III. http://www. advfn. com/StockExchanges.

html IV. http://www. economywatch. com/stockexchanges/dhaka. html V. http://en.

wikipedia. org/wiki/Dhaka\_Stock\_Exchange VI. http://www. secbd. org/about. html VII. http://www. beginnermoneyinvesting.

com/html/functions\_of\_the\_stock\_exchang. htm (all are accessed on from 1st December to 31st December 2008) Executive Summary: Financial markets are absolutely vital for the proper functioning of capitalistic economy, since they serve to channel fund from saver to borrower. They play an important role by channeling the fund to those who can make the proper and productive uses of the same. The financial markets permit both business and government to raise the needed funds by selling securities. Simultaneously, the surplus units of the economy are able to invest and earn and return. Financial markets include primary markets where new securities are sold and secondary markets where existing securities are traded. Primary markets involve investment bankers who specialize in selling new securities. Secondary markets consists of equity markets, bond markets and derivative markets.

Investor in Bangladesh become increasingly interested in equity markets because many entrepreneurs look for requirements from the equity markets for many reasons. In this connection Dhaka Stock Exchange (DSE) play an integral role in the pace of the industrialization of the country. 1. INTRODUCTION: To achieve the desire objective for growth and prosperity the world economy always changed to integrate itself in the parts of the world. Both developed and underdeveloped countries are supposed to move the wheel of socioeconomic development by making resources to facilitate the economic growth through appropriate allocation of the same.

In Bangladesh the idle money is not properly canalizes due to some non availability of investment arena with a safe return of both principle and interest thereof. Most of the potential entrepreneurs often gather in the capital market to meet the capital requirements. The surplus units of the society are not supposed to invest their money.

So, they are often ready to supply their money to purchase securities from the capital markets. As a result stock exchange plays a crucial role to mobilize capital or the development of a capital market. Dhaka Stock Exchange, the frontline organization for the securities market development of Bangladesh, was incorporated on 28th April, 1954 as East Pakistan Stock Exchange Association Limited which started formal trading in 1965 at Narayangonj. Subsequently, in 1962 it was renamed as Dhaka Stock Exchange Ltd . 1. Objective: Our term paper named “ Review the Activities of Dhaka Stock Exchange Ltd. ” which is essential to fulfill the course requirement .

We also interested to make this term paper , to know the vital activities of DSE. Because all of us know that DSE play an important role in our economy. 2. Scope: Though DSE do a lot of activities, From this activities we just focus on secondary share issue & its settlement. Because, it is the major trading activities of DSE. 3. Limitation: To prepare this term paper we faced a lot of problems which include time $& cost. Moreover, 9th General Election has increased our problem because most of the offices were closed for this Election.

However, we are able to complete this term paper. 2. Literature survey: . What is a Stock Exchange? A organized marketplace in which stocks, Common Stock Equivalents and bonds are traded by members of the exchange, acting both as agents (brokers) and as principals (dealers or traders).

Most exchanges have a physical location where brokers and dealers meet to execute orders from institutional and individual investors to buy and sell securities. Each exchange sets its own requirements for membership. Investors are generally not given free access to trading systems. Entry into the exchange’s systems is intermediated by brokers. Brokers may simply route orders to exchanges.

They sometimes make decisions as to what exchange, and what system within the exchange, should process various parts of an order. In open outcry markets, brokers also physically represent orders on the floor of the exchange. Stock exchanges are formally organized secondary markets for financial assets that have already been issued in primary capital markets.

Stock markets have become the hallmark of successful modern capitalist economies, despite the frequency of volatile price movements that lead to excessive speculation followed by panics and despite repeated scandals. They play an important role, however, for both the primary capital market and the mobilization of bank credit within any economy, basically by providing liquidity for the initial investors in government or corporate debt or in corporation stock. The assurance that a ready market exists for the sale of an investor’s holdings in case of second thoughts, emergencies, or better alternatives for investment makes it easier to place debt or equity in the first place on the primary capital market.

The daily pricing of all such financial products on a stock exchange also makes them ideal instruments as collateral for loans. In sum, stock exchanges are important complements to the efficient operation of the rest of an economy’s financial sector. The historical development of worldwide stock exchanges shows that three features are essential for their long-term success: a large stock of homogeneous, readily identified financial assets available to the public; a numerous and diverse customer base that is aware of the financial assets available; and a set of trustworthy intermediaries to handle trades of the various financial products among the customers. 2. History of Stock Exchange: The history of stock exchanges can be traced to 12th century France, when the first brokers are believed to have developed, trading in debt and government securities.

Unofficial share markets existed across Europe through the 1600s, where brokers would meet outside or in coffee houses to make trades. The Amsterdam Stock Exchange, created in 1602, became the first official stock exchange when it began trading shares of the Dutch East India Company. These were the first company shares ever issued. By the early 1700s there were fully operational stock exchanges in France and England, and America followed in the later part of the century. Share exchanges became an important way for companies to raise capital for investment, while also offering investors the opportunity to share in company profits. The early days of the stock exchange experienced many scandals and share crashes, as there was little to no regulation and almost anyone was allowed to participate in the exchange.

Today, stock exchanges operate around the world, and they have become highly regulated institutions. Investors wanting to buy and sell shares must do so through a share broker, who pays to own a seat on the exchange. Companies with shares traded on an exchange are said to be ‘ listed’ and they must meet specific criteria, which varies across exchanges. Most stock exchanges began as floor exchanges, where traders made deals face-to-face. The largest stock exchange in the world, the New York Stock Exchange, continues to operate this way, but most of the world’s exchanges have now become fully electronic.

2. 3 Function of Stock Exchange: Although the stock exchange market has multiple functions, its main activities are two: ? To promote the savings and for them to be canalized towards of carrying through investment projects that otherwise wouldn’t   be possible you need that the issuing institution of the securities to be admitted for quoting. The negotiations will be done on the primary market. ? To provide liquidity to the investors. The investor can   recuperate the money invested when needed. For it, he has to go to the stock exchange market to sell the securities previously acquired.

This function of the stock market is done on the secondary market. Other functions of the stock exchange market as an organization are: ? To guarantee the legal and economic security of the agreed contracts. ? To provide official information about the quantities that are negotiated and of the quoted prices. ? To fix the prices of the securities according to the fundamental law of the offer and the demand. Specifying a bit more and centering on the two main agents that intervene in the market, investors and companies, we could do the following   classification: It permits Functions done by the stock exchange market in favor of the investor: ? It permits him the access to the profitable activities of the big companies. It offers liquidity to the security investments, through a place in which to sell or buy securities. ? for the investor to have a political power in the companies in which he invests its savings due that the acquisition of ordinary shares gives him the right (among other things) to vote in the general shareholders meetings of the company in question.

? It offers the possibility of diversifying   your portfolio by enlarging the field of strategy of investments due to alternative options, as could be the derived market, the money market, etc. With respect to the function done by the stock exchange market in favor of the companies: ? It supplies them with the obtaining of long-term funds that permits the company to make profitable activities or to do determine projects that otherwise wouldn’t be possible to develop for lack of financing. Also, this funding signifies a less cost than if obtained at other channels.

? The securities quoted at the stock exchange market usually have more fiscal purpose advantages for the companies. ? It offers to the company’s free publicity, which in other way would suppose considerable expenses. The institution is objecting of attention of the media (television, radio, etc. ) in case any important change in its owners (the share holders). . Stock Exchange in Bangladesh: Bangladesh has two Stock Exchanges, Dhaka Stock Exchange (DSE), established in 1954 where trading is conducted by Computerized Automated Trading System and Chittagong Stock Exchange (CSE), established in 1995 which is also conducted by Computerized Automated Trading System . All exchanges are self-regulated, private sector entities which must have their operating rules approved by the SEC.

3. 1 History of Stock Exchange in Bangladesh: In early 1952, five years after the independence of Pakistan, the Calcutta Stock Exchange prohibited transactions in Pakistani stocks. This necessitated the formation of a stock exchange in East Pakistan and the East Pakistan Stock Exchange Association Ltd.

was incorporated on 28 April 1954. It changed its name to East Pakistan Stock Exchange Ltd on 23 June 1962, and finally to Dhaka Stock Exchange (DSE) on 14 May 1964. Although incorporated in 1954, formal trading started in 1956 in Narayanganj. In 1958, the stock exchange was shifted to Narayanganj Chamber Building. DSE purchased its own land, and moved to its own premises at 9/F Motijheel C/A in 1959. Prior to independence in 1971, the number of listed companies in DSE was 196 with a total paid up capital of Tk 4 billion.

The daily average transaction during that period was about 20, 000 shares. [pic][pic][pic]After the Independence, the government of Bangladesh took charge of the abandoned industrial units and pursued a policy, under which large industrial units were nationalized. The trading activities of DSE remained suspended till 1975 and following change in the economic policy of the government, DSE resumed its activities in 1976 with only 9 listed companies, having a total paid up capital of Tk 137. 2 million. The actual growth of the stock exchange in Bangladesh (the DSE) started since 1983, when the market capitalization was Tk 812 million. The year 1987 experienced a relatively steep rise in the market with 92 listed companies. With the liberalization of policies in the 1990’s the stock market gradually started to prosper. On 30 June 2001, the number of securities listed in the DSE was 244, the number of listed companies 224, number of listed debentures 10, number of shares of all listed companies 666, 553 and that of all mutual funds 72, 250 and the market capitalization Tk 72, 168 million ($1226 million).

Any individual of sound mind and over 21 years of age can apply to become a member of the stock exchange by purchasing a share of DSE and after obtaining dealer/broker license from the securities and exchange commission (SEC). Since the incorporation of DSE, a typical cry out system, where each security is generally called only once for a trading day was followed. This cry out system was abolished and a fully automated computerized system was installed on 10 August 1998. The trading is now in continuous session from 10: 30 am to 2: 30 pm. 4.

Function of Dhaka Stock Exchange : (focus on secondary share issue and its settlement)The major functions are: – Listing of Companies. (As per Listing Regulations). – Providing the screen based automated trading of listed Securities. – Settlement of trading. (As per Settlement of Transaction Regulations) – Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42) – Market Administration & Control. – Market Surveillance. – Publication of Monthly Review.

– Monitoring the activities of listed companies. (As per Listing Regulations). – Investors grievance Cell (Disposal of complaint bye laws 1997). Investors Protection Fund (As per investor protection fund Regulations 1999) – Announcement of Price sensitive or other information about listed companies through online. 5. Legal status: • The Dhaka stock exchange ltd. is registered as a public limited company under companies act. • Presently DSE has 238 outstanding shares (members) having last Quoted price of TK 150 million.

• DSE is a self regulatory Organization and its activities are regulated by 6. Trading day: The trading shall be open on all days except bank holidays as declared under the Negotiable Instruments Act, 1881 (XXVI of 1881) : 7. Trading period: Unless otherwise decided by the Council, the trading period shall be between10-30 AM to 2-30 PM on all trading days: 8.

What is Stock Market Trading ? Stock Market Trading is the process of buying and selling of company stocks or shares through stock exchanges. It is also known as Equity Trading. A stock market is a market where securities like company stock and derivatives of company stock are traded. These securities are listed on a Stock Exchange.

The stock market can be categorized into two parts ? The Primary Market: The primary market deals with offering of new issues (Initial Public Offers or IPOs). The Secondary Market: The secondary market deals with subsequent trading of the shares after the IPO is made. There is no involvement of the issuing company. When people talk about stock markets, they refer to the secondary market. There is a wide range of investors in the stock market from small individual stock investors to large hedge fund traders coming from different locations. They place their orders to a professional in the stock exchange who is responsible for executing the order. Some exchanges are physical locations where the transactions are executed on a trading floor.

The method used in this kind of transactions is called open outcry. Only those stock exchanges and commodity exchanges use this type of auction where traders can simultaneously place verbal bids and offers. Another type of exchange is there which is a virtual kind of exchange. This exchange is made up of a computer network. In this type of exchanges, trading is done electronically through traders at computer terminals. 9. Types of Markets: There shall be the following four markets in the system, namely : (a) Public Market – Matching in this market is automatic based on the touchline prices which follows normal settlement procedure. b) Spot Market – Matching in this market is also automatic, settlement of which follows procedure for spot transactions.

The Management Team may put an instrument on compulsory spot to curb volatility in prices of the instrument. (c) Block Market – This is the market for bulk selling and buying on automatic matching with equal quantity and best price (all or none condition) basis. Orders entered in this market are immediately flashed on all trading workstations.

The minimum amount for a bid of bulk lot for a certain security shall be Tk. 0. (point five) million at market price unless otherwise fixed by the Council from time to time with the approval of the SEC. (d) Odd lot Market – Odd lot shares are traded in this market on automatic matching with equal quantity and best price (all or none condition) basis.

10. Trading sessions; There shall be five sessions of trading period, namely :- 1. (a) Pre-opening session; 2. (b) Opening session; 3. (c) Continuous or Regular trading session; 4.

(d) Closing session; and 5. (e) Post-closing session. 10. 1 Functions of trading sessions; The functions of trading sessions shall be as under, namely:- a) Pre-opening session. – This is the session during which members are allowed only to enter orders and indicate their willingness for buying and selling of various securities. Orders made during this session are held in the system and not forwarded to the execution engine. The previous days closing price and index of the securities shall be made available in this session to the members for trading.

(b) Opening session. – The opening price of securities are calculated in this session. The calculation is made on the basis of orders entered in the system during the Pre-opening session. The opening price of securities is established in this session. Where there is no trading of securities, the last closing price of that security shall be its opening price.

No entry order shall be allowed or permitted in this session. (c) Continuous or Regular trading session. – Entry of orders, deletion and modification of orders can be made in this session. Orders are executed in this session and where any order or part of any order is not or can not be executed, such order or part thereof will be stored separately to be carried forward in the next following such session. (d) Closing session. During this session the system stops receiving orders. The closing price for a security shall be determined as per the weighted average price of all the trades in the last 30 (thirty) minutes before the closing session.

If there is no trade during the above specified time, the weighted average price of maximum 20 (twenty) number of trades preceding the above 30 (thirty) minutes shall be taken for determination of closing price. If there has been no trade in the security during the continuous trading session the opening price of the security shall be treated as the closing price. Pending orders executable at closing price and orders ‘ match at closing price’ shall be executed in this session.

Al other pending orders shall be carried forward to the Post-closing Session. (e) Post-closing session. – This session allows traders to execute their remaining orders and the fresh orders entered during this session. However, the trading engine accepts orders at closing price only during this session.

All trades are executed at the closing price. No quotes are accepted during this session. 11.

Types of Transactions: Orders may be grouped or categorized based on the following, namely:- (a) Price; 1. (b) Volume; and 2. c) Validity.

Based on price, orders may be of the following categories, namely:- ? Limit order – Limit order must have a price limit which ensures that the order shall be traded at the price equal to or better than the limit price. ? Market order – Market order is the order to be executed at the touchline price. A market order is matched immediately on arrival in to the trading engine at the touchline price. To avoid the possibility of the market order being matched at ridiculous rate, this is protected by a price protection percentage as determined by the Council. If there is no touchline price then the market order shall be rejected. Based on volume, orders may be of the following categories, namely :- Partial fill – A partial fill (PF) order signifies that as much possible of the order quantity shall be executed as soon as the order is submitted to the trading engine.

If the order is not fully executed the remaining order quantity shall be stored which shall be visible to the market. Partial fill and kill – A partial fill and kill (PFAK) order signifies that as much as possible of the order quantity shall be executed as soon as the order is submitted and the remaining order quantity shall be returned to the trader who entered the order. Full fill or kill – A full-fill or kill (FOK) order signifies that either all of the orders quantity shall be executed as soon as the order is submitted to the trading engine or the entire order shall be rejected and returned to the trader.

Based on validity, orders may be of the following categories, namely :- Good till day – By default, all orders shall be valid till the end of the current trading day. Good till date – The trader can specify the date till which the order should remain active in the market. The order validity date can be a date which is up to a maximum of thirty days from the current trading day.

2. Order withdrawal: The trader can withdraw his orders anytime before execution. 13.

Qualification for trading: (1) A member shall qualify himself for trading if he – (a) obtains a registration certificate from the Commission issued under regulation 5(4) of the Securities and Exchange Commission (Stock-Dealer, Stock-Broker and Authorized Representative) Regulations, 1994; (b) becomes a member of the DSE Clearing House; (c) is not otherwise barred by DSE or SEC under any law, rule or regulations for the time being in force for trading. 2) The DSE shall notify the name and other necessary particulars of a member whenever he incurs a disqualification for trading or becomes otherwise ineligible for trading. 14. The Clearing and Settlement: The Clearing and Settlement module provides the management of trade from the point of entry into the Settlement Pool trade database until it has been delivered, settled and removed from the Settlement Pool. It consists of three major business processes. Clearing: participant trade reporting, affirmation, billing and assigning settlement instructions. Settlement: the process of overseeing that delivery of all instruments to the buyer and payment of all moneys to the seller has occurred before removing the trade from the settlement pool. Regulation 4 of the Settlement of Stock Exchange Transactions Regulation 1998 has been given effect time to time.

A new directive was made by SEC dated on 18th March 2003 “ Adjusted due position mechanism for settlement of scrip only as provided by regulation 4(1) of settlement of Stock Exchange Transaction Regulations, 1998 shall remain suspended from 19th March 2003 until further order”. Here is a complete picture of the settlement system for all of our 378 Instruments in Five (5) groups in the Four (4) markets. A Group: Number of Instruments are 164 (142 + 8D + 14M), Here D for Debentures, M for Mutual funds & TB for Treasury Bonds (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility for scrip only through DSE Clearing House on T+1, T+3 basis). “ A” and “ DA” are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading Software. The above cycle is valid for A, B, G & N category instruments traded in Public, Block & Odd-lot market. B Group: Number of Instruments are 18 (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). “ B” and “ DB” are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software.

G Group: Number of Instrument is 1 (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). G” and “ DG” are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software. N Group: Number of Instrument is 14 (Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+1, T+3 basis). “ N” and “ DN” are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software. Z Group: Number of Instruments are 97(Trading in Public, Block & Odd-lot Market with trade for trade settlement facility through DSE Clearing House on T+3, T+7 basis).

Z” and “ DZ” are marked in BASES columns for Non-Demat & Demat instrument respectively in our TESA Trading software. [pic] This cycle is valid only for Z group instruments traded in Public, Block & Odd-lot market. Instruments Of All Groups Traded In Spot Market: [pic] The above cycle is valid for A, B, G, N & Z category instruments traded in spot market. Instruments Of Foreign Trades (DVP) Of All Groups: [pic] The above cycle is valid for A, B, G, N & Z category instruments of Foreign trade. Remarks: If any instrument declared as Compulsory Spot then Trades of Block and Odd-lot market of that Instrument will be settled like Spot Market. \* Howla Charge, Laga Charge & Tax are always payable to DSE at Pay-In date for both Buyer and Seller traded in Public, Block & Odd-lot Market. \* Howla Charge, Laga Charge & Tax are always payable to DSE at T+1 day for both Buyer and Seller traded in Spot Market. \* Outside-Of-Netted settlement for “ A” Group instrument has been withdrawn from 10th Dec 2006.

\* DVP Trades are Off-Market Settlement (Broker to Broker). 15. SETTLEMENT FOR DIFFERENT CATEGORIES INSTRUMENTS: 01) For A group Instruments: | Market name                        | Trade for Trade System | Settlement & Settlement Period | | Public | Trade for Trade \* | T+1 & T+3 | | Odd + Block | Trade for Trade | T+1 & T+3 | | Spot | Trade for Trade | T+0 & T+1 | 2) For B group Instruments: | Market name                        | Trade for Trade System | Settlement & Settlement Period | | Public | Trade for Trade \* | T+1 & T+3 | | Odd + Block | Trade for Trade | T+1 & T+3 | | Spot (Before Book-closer) | Trade for Trade | T+0 & T+1 | 3) For G group Instruments: | Market name                        | Trade for Trade System | Settlement & Settlement Period | | Public | Trade for Trade \* | T+1 & T+3 | | Odd + Block | Trade for Trade | T+1 & T+3 | | Spot (Before Book-closer) | Trade for Trade | T+0 & T+1 | 4) For N group Instruments: | Market name                        | Trade for Trade System | Settlement & Settlement Period | | Public | Trade for Trade \* | T+1 & T+3 | | Odd + Block | Trade for Trade | T+1 & T+3 | | Spot (Before Book-closer) | Trade for Trade | T+0 & T+1 | As netting system for shares has withdrawn, for A, B, G & N group instrument, member will have to deposit the full shares at the DSE on T+1 after selling the shares, In case of purchasing such shares, the buyer will have to deposit the Balanced (Netted) money traded in Public, Block & Odd-lot market at the DSE on T+1. 05) For Z group Instruments: Market name                        | Trade for Trade System | Settlement & Settlement Period | | Public | Trade for Trade \* | T+3 & T+7 | | Odd + Block | Trade for Trade | T+3 & T+7 | | Spot (Before Book-closer) | Trade for Trade | T+0 & T+1 | he full money at the DSE on T+3 after purchasing the shares, In case of selling such shares, the seller will have to deposit the full shares at the DSE on T+3. 16.

Settlement: The settlement of all trading shall be made in accordance with the provisions of the rules or regulations made in this behalf by DSE for the time being in force. 16. 1 General; (1) A member shall be responsible for all orders entered from his trading workstation. (2) Transaction fee(s) shall be charged and realised by DSE from the members concerned upon execution of order(s) as specified by DSE. 3) The Council may issue guidelines and clarifications from time to time for removal of any difficulty in the execution or operation of these regulations under immediate intimation to SEC. (4) The terms and phrases used herein without a specific definition shall have the meaning in accordance with the other relevant rules, regulations and current trade practices in these behalf.

(5) Any determination made by the system through an interactive process shall be conclusive 17. Hardware and Software used in DSE: 7. 1 Hardware : DSE Automated Trading System (HP NonStop S7804) is running on fault tolerant, high available, scalable and maintainable Mainframe Server. Previously DSE established the TANDEM NonStop K204 System on September 1998 and on August 2005 it was replaced with highly scaleable HP NonStop S7802. DSE upgraded the Trading System once again on 30th March 2008. The existing HP NonStop S7804 Server is highly fault tolerant to the fact that no single component failure will halt the system. Its constituent parts are hot swappable, and upward compatible; components can be added or removed while the system is running and any compatible new upgraded will work with the system. All disk drives are mirrored so, if any of the disk crashes the exact copy of the data is available at online.

Moreover the connecting path for every disk whether it is primary or mirror is also redundant. In every case, minimum two peripheral devices exist. All the components are working active – active load balancing procedure . To ensure better power quality we have ensured high end UPS’s with long durable backup capability, two instant backup generations and other electrical devices. 17. 2 Network (LAN / WAN): All the Member (230 members) Server Applications (MSA) are connected with NonStop HP S-Series Server through either DSE LAN or WAN connectivity. Each member has one or more Trader Work Station (TWS).

The TWSs are being connected to the Trading Server via respective MSA through LAN and WAN connection. DSE outsourced MetroNet Ltd. , DNS Ltd. , X-Net Ltd. Dhaka Com Ltd. , Ranks ITT, Link-3, Royal Green Online Ltd. etc Network Service Providers (NSP under WAN Expansion Project.

Now a days members can establish a main office or branch offices to their remote location and can trade smoothly by using different media ADSL, Optical fiber and Radio Link from Dhaka and other important cities such as Gazipur, Narayanganj, Comilla, Hobiganj, Chittagong, Sylhet, Khulna, Barisal, Rajshahi, Bogra at the same time. Two DSE branch offices located at Chittagong and Sylhet is connected via BTTB’s DDN link. We also used another connectivity for redundancy for the DDN link.

We have a plan to reach the DSE branches in same way. DSELAN/WAN Expansion DSE LAN/WAN Expansion Within Dhaka City:                                                  Outside of Dhaka City: In case of trade interruption due to serious hardware, software, network failure or telecommunication disruption at the Brokerage houses, there is a provision to allow traders to trade at DSE Contingency Trading floor. 17. 3 Software: Secondary market use some special Software for trading : System software ? Application software 17. 3. 1 System software: The system software is HP Proprietary Nonstop KERNEL and includes the database as part of the operating system thereby eliminating the layer typically found in most Database Management Systems (DBMS).

The Database functionalities are handled by NONSTOP SQL, which is simply a different operational session for the operating system. The proprietary nature of the system software arguably enhances system security. Operating systemis HP’s proprietary NonStop Kernel DBMS handled by NonStop SQL. The system software treats all its hardware resources as objects and is thus entirely message driven. This then allows application software to be deployed using client / server architecture providing shared data processing between the central server and the user workstation.

The central trading system resides in the Stock Exchange premises, which is running 24 hrs in a day & 365 days in a year. 17. 3. 2 Application software: The application, which runs in DSE for trading, is called TESA (The Electronic Securities Architecture). TESA has two parts: MSA (Member’s Server Application) & TWS (Trader workstation). MSA is the “ Gateway” between the traders and the Stock Exchange, which manages all the transactions and database operations between the traders and the Trading Engine. TWS is the Front-end Application closer to investors, where they can submit Buy/Sell orders for their desired securities.

18. TESA: TESA (The Electronics Securities Architecture) is the Trading software (Based on HP proprietary O/S & DBMS) It has developed in view of Distributed Database systemIn the client site it is being using SQL as local Database Trading Software is MSA & TWS In STSD (Signal trader Single Database) system both MSA & TWS are running on a Windows 2k Professional /XP Professional workstation and for MTSD (Multiple trader Single Database) MSA install in a Windows 2k Server & the TWSs are in different Windows 2k Professional /XP Professional workstation-using members in house LAN 18. 1 TESA Architecture: TESA software is built for the global securities markets. It uses fault tolerant computers, intelligent workstations and client / server design techniques. This provides co-operative processing, high message integrity, continuous operation and fully automatic recovery. This co-operative mechanism enables very high speed processing which is essential for today’s electronic markets.

TESA’s Application Programmatic Interface (API) is the gateway to the TESA system from the outside world. All external devices connect through the API. The API provides the translation between external devices and internal processes.

This means that a new process does not need to be written to support each new device, only the API needs to be modified. 8. 2 TESA Functional Model: An overview of the TESA Functional Model Client / Server: TESA’s Client / Server architecture enables an efficient allocation of computing resources and provides easily modified user-friendly interfaces. TESA workstations operate under Windows 95 and can function either as servers on a broker’s network or as workstation. These are used to perform trading and settlement activity by the brokers. 18.

3 Principal Functions of TESA: Market Information: Supplying all market information needed to formulate the buy and sell decisions. Order Management: Accept, validate and store orders and quotes from broker workstations and / or systems. Order Execution: Automatically executes orders when buy and sell prices match. Trade Reporting: Trade execution reports are provided to each trade participant, to the settlement system and / or the depository and to the market. Index Calculation: Calculates and publishes market indices (DSE General Index & Weighted Average Index. ) Market Access: Provide exchange members with efficient affordable GUI-based tools for accessing the market. TRADING SESSIONS of TESA : TESA conducts trading in-5-phases.

Enquiry: In this session Brokers can logon to the system. No order will be submitted in this session. No trade will be executed.

Only previous orders can be withdrew in this session Opening: The Opening is a pure, single-price auction. All buy and all sell orders are compared and calculate the open-adjust price. No trades will be executed in this session Continuous Trading: During this phase, participants enter orders and immediate execution or for inclusion in the book. Automatic matching and execution takes place based on best price/ first in, first out trading rules Closing: Closing prices are calculated and disseminated to market participants Enquiry: Market will be closed in this session & other facilities like the previous enquiry session. 18. 4 Market Control: The Market Control Workstation allows the exchange administrative staff to control the operation of the market, e.

g. Session Control: Opening and closing the market via interactive control or by preset timers. Validation Parameters: Setting and viewing parameters that control the trading engine validation e. . tick size, Circuit Breaker, Circuit Filter, Market lot, Price protection Percentage. Messaging: Allows the dissemination of company announcement data and general market administrative massages. 18. 5 Market Information: Market Information is a real-time market data system.

It collects, manages, generates and stores information relating to trade instruments and issuing companies. Market Information is responsible for, Collecting Real-Time Market Information: Bids, offers, last sale (i. e. most recent trade price and volume), book and other data are gathered via the Trading engine. It supports TESA’s automated and manual trading modules and can process the trades of external and off-market systems.

Collecting company Information: All information supplied by the listed companies are maintained in the TESA database. Generating Market Statistics: TESA generates market indices on a real time basis. It generates other statistical information such as Price. 18.

6 Solution Benefits: The TESA application suite derives significant advantages from being implemented on the HP Nonstop platform. The HP Nonstop customers have benefited from these advantages. Fault Tolerance: One of the most important automation requirements for any stock exchange system is continuous system availability. With most systems Fault Tolerance is created at the application level. Fault Tolerance is a fundamental design feature of the HP Nonstop architecture. Data Integrity: Data integrity is an integral feature of HP architecture. TESA employs standard HP tools to achieve exceptional data integrity.

Scalability: The ability of an exchange to accommodate extraordinary increases in transaction volumes without loss of its Capital investment in automation is very important. The HP Nonstop Server is massively scalable due to Parallel processors. 19. Surveillance: The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways – • By monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants to influence the price of the scrip/scrips in the absence of any meaningful information. • By managing default risk by taking necessary actions timely.

Market Abuse is a broad term which includes abnormal price/volume movement, artificial transactions, false or misleading impressions, insider trading, etc. In order to detect aberrant behavior/ movement, it is necessary to know the normal market behavior – The department carries out investigation, if necessary, based on the preliminary examination/analysis and suitable actions are taken against members involved based on the investigation. All the instruments traded in the market come under the Surveillance umbrella of DSE. Surveillance activities at the Exchange are divided broadly into two major segments – • Price Monitoring : Price monitoring is manly related to the price movement/ abnormal fluctuation in prices or volumes etc. • Position Monitoring : The position monitoring relates mainly to abnormal positions of members, etc. in order to manage default risk.

19. 1 Price Monitoring: The functioning of the Price Monitoring is broadly divided into following activities – On line SurveillanceOne of the most important tools of the Surveillance is the On-line Real Time Surveillance system with main objectives of detecting potential market abuses at a nascent stage to reduce the ability of the market participants to unduly influence the price and volumes of the scrips traded at the Exchange, improve the risk management system and strengthen the self regulatory mechanism at the Exchange. The system provides facility to access trades and orders of members. Off-Line SurveillanceThe Off-Line Surveillance system comprises of the various reports based on different parameters and scrutiny thereof – • High/ Low Difference in prices • % change in prices over a week/ fortnight/ month • Top N scrips by Turnover over a week/ fortnight/ month • Top N scrips by Volume over a week/ fortnight/ month • Trading in infrequently traded scrips • Scrips hitting New High / Low etc. The Surveillance actions or investigations are initiated in the scrips identified from the above-stated reports. Investigations Conducting in-depth investigations based on preliminary enquiries/analysis made into trading of the scrip. In case of irregularities observed , necessary actions are initiated or investigation case forwarded to SEC, if necessary through the CEO. Surveillance Actions • Warning to Members The department may issue verbal/ written warning to member/s when market irregularities in the scrip is suspected.

• Imposition of penalty/ suspension The department, through the CEO, imposes penalty or suspend the ember/s who are involved in market irregularities, based on the input/ evidence available from investigation report. Rumor verification • Liaising with Compliance Officers of companies to obtain comments of the company on various price sensitive corporate news items appearing in selected News Papers. • Comments received from the companies are disseminated to the market by way of online news bulletin. • Investigations based on rumor verifications are carried out, if required, to detect cases of suspected insider trading. 19.

2 Position Monitoring: The Surveillance Department closely monitors outstanding exposure of members on a daily basis. For this purpose, it observes various off-line and on-line market monitoring reports. The reports are scrutinized to ascertain whether there is excessive purchase or sale position build up compared to the normal business of the member, whether there are concentrated purchases or sales, whether the purchases have been made by inactive or financially weak members and even the quality of scrips is considered to assess the quality of exposure. 20. Problems involved in DSE; The unexpected rise and fall in share price mostly followed from the general confidence of the investors about political stability, euphoria of investment in shares, prospect of quick capital gains, a vacuum in respect of institutional presence in the share market, monopolistic dominance of member brokers, inefficiency of the SEC to cape with development, existence to kerb market, absence of proper application of circuit breaker etc. Delivery Versus Payment mechanism was used as one of the main vehicles of manipulation.

Kerb market gave birth fake and forged share certificate. Although there are increasing tends in all the indicators, DSE is not free from problems. The problems of DSE may be summarized as under. ? Price manipulation: It has been observed that the share values of some profitable companies has been increased fictitiously sometimes that hampers the smooth operation of DSE. ? Delay in settlement: Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.

Irregulation in dividends: Some companies do not hold Annual General Meeting (AGM) and eventually declare dividends that confused the shareholders abour the financial position of the company. ? Selection of membership: Some members being the director of listed companies of DSE look for their own interest using the internal information of share market. ? Improper financial statement: Many companies of DSE do not focus real position of the company as some audit firms involve in corruption while preparing financial statement. As a result the shareholders as well as investors do not have any idea about position of that company. 21. Suggestion to improve the activities of DSE: The authorities take unusually long time to decide to allow the stuck –up shares to be free from the application of circuit breaker temporarily in the DSE floor.

As a result, all share price index of DSE did not reflect the actual position. The role of DSE in a sine-qua-non for the development of securities market of Bangladesh. To improve the market activities of DSE is to take some measures as under.

? To introduce automated monitoring system that may control price manipulation, malpractice’s and inside trading. ? To introduce full computerized system for settlement of transactions. To force the listed companies to publish their annul reports with actual and proper information that can ensure the interest of investors. ? Person being the director of listed company should not allowed to be a member of DSE. ? To force the listed companies to declare and pay regular dividends through conducting Annual General Meeting (AGM). Conclusion: The present study reveals that the activities of DSE improved since 1994.

Despite the overall growth; a vast improvement has been registered in 1997 where the all share index of DSE was Maximum during the period under study. We understand that although DSE experienced an increasing trend in he case of number of securities traded in the exchange, total capitalization faces a decreasing trend over the period under study particularly since 1996 (market crush) Market disaster in 1996 shattered public confidence tremendously. The reason for such state of affairs a deserve a separate study. The study has also identified a number of problems being encouraged by the market. Securities and Exchange Commission, as a watchdog of the market, should play prominent role in reactivating markets, which is essential for accelerating the pace of our industrialization. — End of the Term Paper —