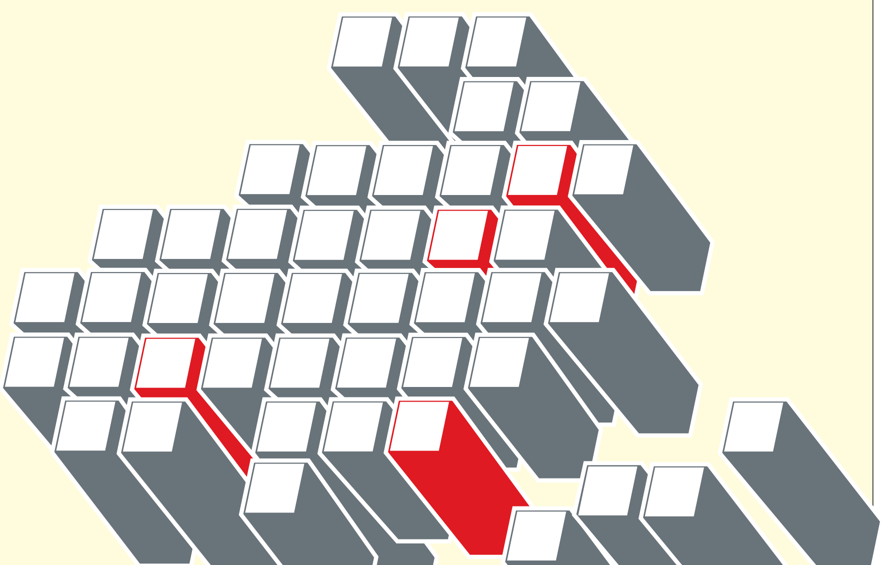
Concept Paper

Coordinated Supervision Framework

For Bangladesh Financial System

Bangladesh Bank | BSEC | Department of Cooperatives | IDRA | MRA | RJSC



Coordinated Supervision Framework

Financial Stability Department

Bangladesh Bank

Advisor:

Shitangshu Kumar Sur Chowdhury, Deputy Governor, Bangladesh Bank

Coordinators:

1. Ahmed Jamal, Executive Director, Bangladesh Bank
2. Debashish Chakrabortty, General Manager, Bangladesh Bank

Working Group:

1. Mohammad Jamal Uddin, Deputy General Manager, Bangladesh Bank
2. Md. Abul Khair Khan, Deputy Registrar, Office of the Registrar of Joint Stock Companies and Firms
3. Mohammad Shahriar Siddiqui, Joint Director, Bangladesh Bank
4. Shamima Sharmin, Deputy Director, Bangladesh Bank
5. Mohammad Muzahidul Anam Khan, Deputy Director, Bangladesh Bank
6. Md. Ohidul Islam, Deputy Director, Bangladesh Securities and Exchange Commission
7. K.A.M.M. Raisul Islam, Deputy Director, Microcredit Regulatory Authority
8. Kazi Rasheduzzaman, Assistant Registrar, Department of Cooperatives
9. Md. Delour Hussain, Officer, Insurance Development & Regulatory Authority
10. Gazi Arafat Ali, Assistant Director, Bangladesh Bank

This concept paper is developed by Financial Stability Department of Bangladesh Bank with the help of representatives from Department of Cooperatives, Bangladesh Securities and Exchange Commission, Insurance Development and Regulatory Authority, Microcredit Regulatory Authority, Office of the Registrar of Joint Stock Companies and Firms.

Acronyms

AOA	Articles of Association
AML	Anti Money Laundering
BB	Bangladesh Bank
BFIU	Bangladesh Financial Intelligence Unit
BSEC	Bangladesh Securities and Exchange Commission
CCTG	Coordination Council Technical Group
CFT	Combating the financing of terrorism
CFTC	Commodity Futures Trading Commission
DOC	Department Of Cooperatives
ECAIs	External Credit Assessment Institutions
EGM	Extraordinary General Meeting
FSA	Financial Services Agency
IDRA	Insurance Development Regulatory Authority
IMF	International Monetary Fund
IPO	Initial Public Offering
MFIs	Microfinance Institutions
MIS	Management Information System
MOA	Memorandum Of Association
MoU	Memorandum of Understanding
MRA	Microcredit Regulatory Authority
NGO	Non Governmental Organization
PKSF	Palli Karma-Sahayak Foundation
PWG	President's Working Group on Financial Markets
RJSC	Registrar of Joint Stock Companies and Firms
STR	Suspicious Transaction Reporting
TOR	Terms of reference

Table of Contents

Coordinated Supervision Approach in Bangladesh

Question of coordination among financial sector regulators emerges from Global Financial crisis (GFC) instigated in 2007-08. Moreover, weak supervision structure in the financial system is often blamed for the Asian financial crisis in 1997. International best practices help enhance the prudential regulations and therefore could improve the quality of supervision.

Financial stability, on the other hand, helps development of financial institutions within the system and smoothen the financial intermediation (e.g., payment system, credit growth etc.). International Monetary Fund (IMF) states that the monitoring and analysis of financial stability involves an assessment of macroeconomic conditions, soundness of financial institutions and markets, financial system supervision frameworks and the financial infrastructure to determine what the vulnerabilities are in the financial system and how they are being managed.

Thus, a sound supervision system is warranted in which continuous policy and supervisory measures could be initiated by the supervisors where proactive crisis preparedness, remedial actions and resolution are well prescribed. However, coordinated supervision, indeed, is a supervision mechanism of coordinated approach for regulators in the financial system towards achieving a sound supervision framework.

1. Needs and Goals for Coordinated Supervision

1.1 Strengthening policy coordination among financial regulators is an important step forward towards setting up a strong financial system as well as warding off potential financial risks. Indeed, financial regulations need to be interlinked for achieving better benefit from the coordination.

Regulators, supervisors, policymakers and the public at large, experienced with the financial market turmoil spreads across the globe, have been questioning the effectiveness of financial supervision as well as the existing supervisory models. Even in the absence of a financial crisis or market failure, general concerns over the costs and burdens of regulation and structural inefficiencies and their potential impact on competition, have raised question of advantages and disadvantages of such financial supervisory models.

Irrespective of the approach to financial supervision within a particular jurisdiction, any system must strive to have effective coordination among the supervisory agencies. Coordination and communication can and do create challenges, even in a jurisdiction that have an integrated regulator, although, other things being equal, the challenges are often greater when there are a larger number of regulatory agencies. To facilitate effective coordination among regulators, most jurisdictions create a special coordinating body. Such a coordinating body can comprise of the heads of the regulatory agencies and the central bank underpinned by Memorandum of Understanding (MoU) and often supplemented by cross-membership of boards by principals/heads of regulatory bodies.

1.2 The MoUs usually cover the following objectives:

i) Establish voluntary arrangements for coordination and cooperation between the regulators, consistent with the objectives and business needs of the respective authorities in the areas of duplication;

ii) Minimize unnecessary regulatory burden on covered institutions;

iii) Avoid unnecessary duplication of efforts;

iv) Ensure that the regulators effectively and efficiently carry out their respective responsibilities;

v) Decrease the risk of conflicting supervisory directives by the regulators; and

vi) Increase the potential for synergies and alignment of related supervisory activities of the regulators.

1.3 Separate regulatory mechanism of financial supervisors has met the requirement of economic and financial development as a whole, but problems emerged from the absence or duplication of regulations and a lack of consensus in regulatory standards.

It is imperative to set up a mechanism that is both relatively separate and cooperative to solve these problems and that maintains the operational efficiency of the whole financial system. The mechanism is also necessary to ward off potential financial risks, some of which stem from overcapacity and debt problems in some sectors and could create hidden dangers and potential financial risks.

Therefore, it is necessary to strengthen policy coordination, systemic risk monitoring and macro-prudential regulatory requirements. Only in this way, it is possible to firmly safeguard the bottom line in preventing systemic and regional financial risks. Concerted efforts are needed to rein in risks in banking sector of Bangladesh, including credit and money markets, as well as capital and insurance markets.

The mechanism of coordinated supervision will perform functions that include strengthening the coordination of monetary policy and financial supervision policy, maintaining the consistency of financial policy, laws and rules, maintaining financial stability and preventing and mitigating financial risks, as well as paying attention to the healthy development of cross-financial products.

2. *Review of Signed MoU on Coordinated Supervision in Bangladesh*

2.1 Coverage

A new supervisory mechanism has been set in Bangladesh, named as Coordination Council (CC), with a Memorandum of Understanding (MoU) in the year 2012 to ensure a better 'Coordinated Surveillance and Supervision' under the Chairmanship of the Governor of the Bangladesh Bank with the heads of other financial sector regulators like Bangladesh Securities and Exchange Commission (BSEC), Insurance Development and Regulatory Authority (IDRA) and the Microcredit Regulatory Authority (MRA). The CC could meet regularly, mostly on quarterly basis.

2.2 The MoU mandates to achieve the following objectives:

i) Establish voluntary arrangements for coordination and cooperation between the agencies, consistent with the respective authorities and jurisdictions of each agencies;

ii) Deepen exchange of information and inter-agency regulatory dialogues so as to avoid unnecessary duplication of efforts;

iii) Reduce the risk of conflicting supervisory directives by the agencies; and

iv) Enhance the potential for synergies and alignment of related supervisory initiatives of the agencies.

This MoU, is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the Agencies; nor does it limit or modify in any way any Agency's authority to engage in supervisory enforcement, or other actions, under applicable laws.

2.3 The main areas of coverage under the signed MoU are as follows:

(i) **Coordinated Activities:** 'Lead regulator[1]'/Related Regulator/ Concerned Regulator coordinates with regulatory and supervisory authorities in relation to the entity's primary function on a voluntary basis subject to mutually agreed protocols between the agencies.

(ii) **Periodic meeting:** Arrange periodic meetings (preferably on quarterly basis) under the chairmanship of the Governor of Bangladesh Bank, to discuss important market developments. Such meetings may also be arranged at the request of any of the regulatory agency at any point of time.

(iii) **Information sharing:** Sharing material supervisory information/ actions with strict confidentiality.

(iv) **Point of contact:** Maintain a list of contacts with whom information or request for information may be shared.

2.4 The Coordination Council (CC) is best seen as a collaborative dimension of the regulatory agencies' activities, where cross-sectoral overlapping regulations could be discussed. The key to strengthening the CC is a commitment by the regulatory agencies to cooperate themselves more closely and effectively.

[1] Lead regulator/Related regulator/Concerned Regulator is one among the regulators who may lead a cross-sector establishment concerning the issue in its primary function.

2.4.1 In addition to implementing the mentioned aims, the CC could pay early attention to:

i) considering issues of systemic stability spanning their respective jurisdictions, such as the risks involved in clearing and settlement arrangements, and arrangements for handling situations posing systemic consequences;

ii) harmonising government agencies' data requirements from reporting financial entities, beginning with those of the financial regulatory agencies;

iii) liaising with law enforcement bodies about the implications of new financial technology or enforcement of other laws (for example, appointing legal/independent adviser, if warranted); and

iv) examining issues of competitive neutrality in financial regulation which may be suggested from time to time by regulatory bodies.

2.4.2 The activities and functions of each of the regulators should be coordinated and properly integrated in order to ensure adequate information flows, encourage collaborative analysis, discussion, and policy development, and ensure effective and consistent implementation of policy instruments. In this respect:

i) formal committees and other mechanisms could be established by including regulators from different levels of relevant financial system; and

ii) legal foundations, for these mechanisms, could be established in order to ensure adequate information flows and protect the confidentiality of information and discussions.

2.4.3 Some degrees of oversight could be established among the regulators in order to strengthen accountability.

2.4.4 The allocation of responsibilities and authorities for final decision-aking under different circumstances, including crisis management, need to be clearly established.

3. International Best Practices on Supervision Approaches

While no two jurisdictions regulate financial institutions and markets exactly in the same manner, the current models of financial supervision adopted worldwide can, as already noted, be divided into following four categories:

1. Institutional Approach
2. Functional Approach
3. Integrated Approach
4. Twin Peaks Approach

3.1 The Institutional Approach

The Institutional Approach is one of the classical forms of financial regulatory oversight. It is a legal-entity-driven approach. The firm's legal status (for example, an entity registered as a bank, a broker-dealer, or an insurance company) essentially determines which regulator is tasked with overseeing its activity both from a safety and soundness and a business conduct perspective. This legal status also determines the scope of the entity's permissible business activities. Thus, over time, entities with different legal status have been permitted to engage in the same functions. Institutions connected to the framework for government intervention and regulations (e.g. Central Bank, Securities and Exchange Commission, Deposit Insurer, other financial supervisors) are established with a clear set of objectives and instruments in order to permit them to meet their objectives in an effective and efficient manner. Institutional framework, usually, incorporates a number of key principles such as maximizing synergies, ensuring consistency and coherence in the use of policy instruments, align incentives and minimize potential conflicts, promote accountability, minimize risks for the taxpayer. *China and Mexico are following the Institutional Approach.*

3.2 The Functional Approach

Under the Functional Approach, supervisory oversight is determined by the business that is being transacted by the entity, without regard to its legal status. Each type of business may have its own functional regulator.

For example, under a "pure" Functional Approach, if a single entity is engaged in multiple businesses that included banking, securities and insurance activities, each of those distinct lines of businesses would be overseen by a separate, "functional" regulator. The functional regulator would be responsible for both safety and soundness oversight of the entity and business conduct regulation. *Italy and France are following the Functional Approach.*

3.3 The Integrated Approach

Under the Integrated Approach, there is a single universal regulator that conducts both safety and soundness oversight and conduct of business regulation for all the sectors of the financial services business. The Japanese FSA, for example, as an integrated supervisor, regulates the financial institutions under its jurisdiction by function and is so organized internally. Likewise, BaFin, as the integrated regulator in Germany, is generally organized along sectoral lines, with separate departments created to handle entities that cross various lines. Thus, communication among the various functional divisions of a large, unified regulator is as important and may be as challenging as it would be across separate organizations. *The United Kingdom also follows this approach.*

3.4 The Twin Peaks Approach

The Twin Peaks Approach is based on the principle of regulation by objective and refers to a separation of regulatory functions between two regulators: one that performs the safety and soundness supervision function and the other that focuses on conduct of business regulation. *Australia and the Netherlands are following the Twin Peaks Approach.*

In summary, the four approaches are depicted below:

Institutional Approach	The Institutional Approach is one in which a firm's legal status (for example, a bank, broker-dealer, or insurance company) determines which regulator is tasked with overseeing its activity from both a safety and soundness and a business conduct perspective.
Functional Approach	The Functional Approach is one in which supervisory oversight is determined by the businesses that are being transacted by the entity, without regard to its legal status. Each type of business may have its own functional regulator.
Integrated Approach	The Integrated Approach is one in which a single universal regulator conducts both safety and soundness oversight and conduct-of-businesses regulation for all the sectors of financial services business.
Twin Peaks Approach	The Twin Peaks Approach, a form of regulation by objectives, is one in which there is a separation of regulatory functions between two regulators: one that performs the safety and soundness supervision function and the other that focuses on conduct of business regulation.

4. An Assessment of Different Supervisory Approaches

4.1 Challenges of Institutional Approach

The Institutional Approach suffers from potential inconsistency in the application of rules and regulations by different regulators and the challenges associated with inter-agency coordination. This approach potentially suffers from not having a single regulator with a 360-degree overview of a regulated entity's business or of the market as a whole. It also suffers from not having a single regulator that can impose policies or regulations and hence mandated actions which are designed to mitigate the systemic risk.

4.2 Challenges of Functional Approach

It can be extremely difficult to distinguish which activity comes within the jurisdiction of a particular regulator. It forces financial institutions to deal with multiple regulators, which is often more costly in terms of time and effort. There might have a tendency for multiple regulators to duplicate efforts to some degree. A major disadvantage is that no regulator has sufficient information concerning all the activities of any particular entity or entities to monitor systemic risk.

4.3 Challenges of Integrated Approach

There are concerns related to having a single point of failure. In a very large market, if an integrated regulator fails to spot an issue, there is no other agency to potentially fill the void. As a by-product of integration, a plurality of tasks gets allocated to a single authority. This may give rise to several problems. First, some of these tasks might be in conflict with each other. Second, a multiplicity of tasks may introduce problems with incentive provision in performance on some tasks is less easily measured. Finally, since the integration of supervision is typically accompanied with a move to single management, the resulting multiplicity of tasks may cause overload problems in monitoring if such a move is associated with resource cuts and the monitoring ability of individuals is limited.

4.4 Challenges of Twin Peak Approach

When prudential concerns appear to conflict with consumer protection issues, the prudential supervisors in the twin peaks system may give precedence to safety and soundness mandates, because these are closely intertwined with financial stability.

5. Coordination Issues Among Supervisors: Country Experience

Virtually all supervisors cite the importance of intra governmental coordination and information sharing for successful over-sight of the financial system and the mitigation of systemic risk. Maintaining adequate levels of cooperation and information sharing across governmental agencies appears to be both equally important and challenging regardless of the supervisory approach adopted in the jurisdiction.

In the United States, one of the primary means of coordination among the Treasury, the Federal Reserve, the SEC and the CFTC is the President's Working Group on Financial Markets (PWG), which was formed in the aftermath of the 1987 stock market crash. The PWG has been the inter-agency coordination mechanism for financial market regulation and policy issues since 1988. It focuses on four discrete areas: mitigating system risk to the financial system, enhancing financial market integrity, promoting consumer and investor protection and supporting capital market efficiency and effectiveness. A majority of the jurisdictions, reviewed in this report, employ a PWG-type approach, which melds a MoU (or series of MoUs) between agencies with some form of financial stability committee tasked with ensuring information exchange and coordination between the leadership of the central bank and other supervisory agencies. In most cases, this coordination committee is a permanent feature of the structure; it works in both normal times and in times of crisis.

In other cases, such as in Japan, the committee may only be triggered when a banking failure is imminent. Where this structure is employed, a financial stability committee helps deliver better agency coordination, allowing for a frank exchange of views among a small leadership group, on a regular basis. In addition, such a coordinating committee structure often results in closer coordination between and among agencies at a deputy or lower level, in part because of necessary preparatory work for the regular principals' meetings and the ongoing linkages among agencies that this creates. Until recently, the supervision of financial institutions at national level has been based in many European countries on the sectoral model of supervision. In this model, there are separate supervisors for banking, securities, business and insurance. However, cross-sector arrangements for supervision in the form of functional or integrated model have increasingly gained popularity.

6. Role of Regulatory Agencies in Bangladesh

6.1 The role of Bangladesh Securities and Exchange Commission (BSEC)

Capital market is the source of long-term financing for the businesses and industries, way of mobilizing savings to investments and provider of price discovery and liquidity generation through organized stock exchanges. While the primary market directly provides financing to the businesses and industries, the secondary market keeps continuation of price discovery and liquidity generation for the investors keeping the whole system active. But investors should take investment decision based on proper knowledge, judgment and risk tolerance capacity.

Bangladesh Securities and Exchange Commission is continuing its efforts to develop a more enabled capital market in Bangladesh where investors, businesses and industries, government and all market participants may find it more worthy and can contribute more significantly to the development of our national economy. For coordinated supervision purposes, all concerned should play their due role towards developing a more vibrant capital market in Bangladesh in the years to come.

6.1.1 Major missions of Bangladesh Securities and Exchange Commission are as follows:

(i) Protect the interests of securities investors.

(ii) Develop and maintain fair, transparent and efficient securities markets.

(iii) Ensure proper issuance of securities and compliance with securities laws.

6.1.2 Policy Making or Rule Framing Mechanism of BSEC:

Whenever any development or modification in any functional, operational or legal issues in the arena of the Capital Market is deemed necessary by the Commission to fulfill its objectives, the Commission generally forms a committee comprising of senior officials of BSEC to work on it. The Committee works on the issue as per TOR and submits its report incorporating recommendations to the Commission.

The Commission examines the report as well as the recommendations and arranges several meetings with different stakeholders of the Capital Market. After getting opinion from the stakeholders, the Commission instructs to place the entire issues even compiling all the opinions of the stakeholders to the Commission meeting. In the meeting, the Commission takes policy decision based on the working paper. If it is necessary to issue any Directive or Notification to implement the decision of the Commission, then the Commission issues Directive or Notification as empowered by the Securities and Exchange Ordinance, 1969 and Bangladesh Securities and Exchange Commission Act , 1993 for compliance.

If the Commission feels that it is necessary to amend the related rules to implement the policy decision relating to the concerned issue, the Commission asks for public opinion relating to the proposed amendment of rules through News Papers within a specific time frame. After receiving public opinion, they are compiled and placed before the Commission meeting. The Commission examines the public opinions and takes decision on necessary amendment of Rules. Finally, the amendment of Rule is published in the Gazette and circulated among stakeholders for compliance.

6.2 The role of Insurance Development and Regulatory Authority (IDRA)

Bangladesh Parliament on 03 March 2010 passed two insurance laws in a proposition to further strengthen the regulatory framework and make the industry operationally vibrant. The new laws, came into effect on 18 March 2010, are Insurance Act 2010 and the Insurance Development and Regulatory Authority (IDRA) Act 2010.

The Insurance Act 2010 emphasizes that the sector needs to be managed properly and strengthened by reducing business risks, and local and international insurance laws need to be harmonized considering the socio-economic aspect of the country, and protect the interest of policy holders and other beneficiaries.

To make the insurance industry as the premier financial service provider in the country and focusing an efficient corporate sector and securing ever evolving aspiration of society penetrating deep into all segments for high economic growth was the rationale for establishing a separate regulatory body for insurance sector.

IDRA's mission is to protect the interest of the policy holders and other stakeholders under insurance policy, supervise and regulate the insurance industry effectively, ensure orderly and systematic growth of the insurance industry and for matters connected therewith or incidental thereto.

6.3 The role of Microcredit Regulatory Authority (MRA)

Microcredit Regulatory Authority has been established by the Government of the People’s Republic of Bangladesh under the ÒMicrocredit Regulatory Authority Act 2006Ó to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs. License from the Authority is mandatory to operate microfinance activities in Bangladesh as an NGO. As of now, MRA has issued licenses to 753 MFIs among which 696 are in operation and the rest 57 have been revoked. More than 2.5 crore poor people have been brought under the service network of this sector.

6.3.1 Major Goals of MRA:

To uphold the vision in pursuant with the "Microcredit Regulatory Authority Act 2006", MRA's mission is to ensure transparency and accountability of microfinance operations of NGO-MFIs as well as to foster sustainable growth of this sector. In order to achieve its mission, MRA has set itself the task to attain the following goals:

1. To formulate as well as implement the policies to ensure good governance and transparent financial systems of MFIs.
2. To conduct in-depth research on critical microfinance issues and provide policy inputs to the government consistent with the national strategy for poverty eradication.
3. To provide training of NGO-MFIs and linking them with the broader financial market to facilitate sustainable resource allocation and efficient management.
4. To assist the government to build up an inclusive financial market for economic development of the country.
5. To identify the priority issues of microfinance sector for policy guidance and dissemination of information to attain the MRA's social responsibility.

6.3.2 Policy Making Mechanism of MRA:

The legal instruments for policy making with regard to microfinance operations and supervision are the Microcredit Regulatory Authority Act, 2006 and the rules made under the act, viz., Microcredit Regulatory Authority Rules, 2010 & MFIs' Depositors' Safety Fund Rules, 2014. There is a dedicated department named Regulation Department in MRA which is usually responsible for formulating policies. Initially, a committee comprising of 3/4 members headed by a Director is formed by the Authority whenever any development or any modification in any functional or legal issue relating to the Microfinance Sector is deemed necessary. The committee works on the issue and submits their report with recommendations to the Authority. The Authority then, on some occasions, arranges meetings with the stakeholders of MF sector regarding the issue. After receiving opinions from the stakeholders the issue is placed to the Governing Board of the Authority for approval. After approval by the board, authority circulates the decision and takes necessary actions.

6.3.3 Policy Implementation Process of MRA:

In order to implement and enforce the laws, rules, regulations and policy guidelines and ensure compliance, MRA applies various supervisory mechanisms tools which are stated below:

a) **Off-site Supervision:** The MFIs are required to submit MIS reports with regard to microfinance operations semi-annually and audited financial statements annually to MRA. The MIS reports and financial statements are then checked, verified and assessed with a view to ascertaining the level of compliance of the provisions of MRA rules and regulations. The objective is to determine the overall strength and weakness of the organization.

b) **Onsite Supervision:** The offices and branches of the MFIs are physically inspected and the performance of the organization is checked to ensure that operations are being carried out in a satisfactory manner.

c) **Others:** MRA, usually, sends the list of "licensed" MFIs including cancelled ones to the District Commissioners once in a year to take necessary actions to prevent illegal microfinance operations under their jurisdictions. For public awareness the aforesaid list is also published in national dailies with an advice to all concerned to refrain from illegal microfinance operations.

6.4 The role of Registrar of Joint Stock Companies and Firms (RJSC)

The Registrar of Joint Stock Companies and Firms (RJSC) is the sole authority to facilitate formation of companies and keeps track of all ownership related issues as prescribed by the laws in Bangladesh. The Registrar is the authority of the Office of the Registrar of Joint Stock Companies and Firms, Bangladesh.

6.4.1 RJSC deals with the following types of entities:

- Private companies
- Public companies
- Foreign companies
- Trade organizations
- Societies, and
- Partnership firms

RJSC accords registration and ensures lawful administration of the entities under the provisions of applicable act as under:

- Companies and Trade Organizations: Companies Act, 1994 (Replacement of Companies Act, 1913)
- Societies: Societies Registration Act, 1860
- Partnership Firms: Partnership Act, 1932
- Trade Organizations: The Trade Organization Ordinance, 1961

6.4.2 The business of RJSC:

- To incorporate Companies (including Trade Organization), Societies and Partnership Firms under the respective Companies Act 1994, Societies Registration Act 1860 and Partnership Act 1932, and
- To administer and enforce the relevant statutory provisions of these acts in relation to the incorporated companies (including Trade Organization), societies and partnership firms.

6.4.3 Post registration procedures:

After compeltion of registration procedure, RJSC performs lawful tasks. Post registration procedures are mainly as follows:

a) Annual General Meeting (AGM) Recorded: AGM related documents must be submitted.

b) Mortgage Registration: To ensure through respective certificate.

c) Directors list change: Director Appoinment, Removal and Resignation.

d) Share transfer: Share holders can sale or earn share. (Through Form-117)

e) Return of Allotment by increasing paid up capital.

f) Name change of the company: The company can change its name by Board Resolution.

g) Share capital increase by recording procedure: Issuing extra volume or capital through Form-IV by board resolution.

h) Implementation of Court order related issues.

i) Change of address.

j) Re-construction of firm etc.

1. Societies:

i) Annual General Meeting (AGM): Every year AGM must be held, accordingly resolution should be submitted.

ii) Meeting of Executive Committee shall be held within two or three years and any change will be reflected in the resolution.

iii) Ammendment of MOA & Rules & Regulation: Change of AOA & Rules & Regulation should be reflected through Form- VIII and EGM.

iv) Change of Address: Address will be changed time to time vide resolution. Any change of addess should be done by meeting and must be submitted for record.

2. Partnership:

i) Re-construction of firm: Partner and partnership terms and conditions may be changed.

ii) Alteration of Address: Alteration of address must be submitted, vide Resolution.

3. Trade Organization:

i) Annual Returns Recording

ii) Amendment of MOA & AOA: Same as company return submission procedure.

iii) List of Director (PD) through Form no. XII

6.5 The role of Department Of Cooperatives (DOC)

The Department Of Cooperatives (DOC) has been the principal government organization responsible for facilitating economic growth and poverty reduction initiatives of government through cooperative societies. It is an attached department under the Ministry of Local Government, Rural Development & Cooperatives.

The administrative set-up of the DOC is extended up to upazilla (sub-district) level. The officers-in-charge at the divisions, districts and upazilla levels have been delegated almost all the powers of the Registrar except for the affairs of national level co-operatives. This facilitates registration of co-operatives locally. Most of the legal mores that a legally incorporated enterprise usually requires can be locally performed. Divisional Joint Registrars, District Co-operative Officers and Upazilla Co-operative officers are the respective heads of the division, district and upazilla level co-operative offices.

The major services and responsibilities of the DOC can be grouped into four categories, Statutory, Judicial, Developmental and Promotional. The statutory responsibilities are-registration, liquidation of defunct societies, annual audit, periodical inspection and enquiry whenever needed. The judicial or quasi-judicial responsibility refers to settlement of disputes arising in the working of co-operatives. The developmental role and responsibilities include education and training for development of management and business skill, advisory services and assistance in arranging finances. The promotional responsibilities include influencing other departments in the government in favor of co-operatives in securing concessions and facilities from public agencies.

Cooperative societies have been playing an important role in socio-economic development of Bangladesh for more than a century. Acknowledging its importance the constitution of Bangladesh mandates cooperatives as one of the three modes of ownership i.e., Public, Cooperative and Private.

Starting its journey in 1904, to raise agricultural production and rural economic advancement through production and processing services, the cooperative movement has expanded in other economic sectors like fishery, dairy, housing, micro finance and service sectors. In Bangladesh, cooperative has great opportunities in social awareness building, entrepreneurship development and community based programs and activities. The Department of Cooperatives is committed to promote and support to the cooperative ventures where it has comparative advantages.

6.6 The role of Bangladesh Bank (BB)

Bangladesh bank, the central bank of Bangladesh, is mandated by its charter to promote and maintain high level of output, employment and real income, fostering growth and development of the country's productive resources besides the orthodox mandates of preserving monetary and financial stability. Bangladesh Bank is the key player for the financial sector of Bangladesh as well as for the economy. Bangladesh Bank is the banker to the government as well as to other banks. It formulates and implements monetary policies, manages foreign exchange reserves and is the authority to supervise and regulate banks and non-bank financial institutions.

6.6.1 Vision of BB:

To develop continually as a forward-looking central bank with competent and committed professionals of high ethical standards, conduct monetary management and financial sector supervision to maintain price stability and financial system robustness, support rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh.

6.6.2 Mission of BB:

Bangladesh Bank is carrying out its following main functions as the country's central bank:

- Formulating monetary and credit policies;
- Managing currency issue and regulating payment system;
- Managing foreign exchange reserves and regulating foreign exchange market;
- Supervising banks and non-bank financial institutions, and advising the government on interactions and impacts of fiscal, monetary and other economic policies.

7. Prudent Framework of Coordinated Supervision

A prudent coordinated supervision process could address the issues of consistency, governance, risks within the scope of regulations under existing legal and institutional framework. There may be several means to facilitate cooperation and coordination in supervision of regulatory authorities. One such vehicle is Memorandum of Understanding which is a formal agreement between independent authorities setting out their respective supervisory tasks and responsibilities. Generally, there is skepticism whether these mechanisms are sufficient for enhancing cooperation especially if some of the information is confidential i.e. cannot be freely exchanged between independent authorities.

The legal and regulatory frameworks of financial supervision should also support the core components of financial supervisory standards. Those components consist of the following categories:

a) **Regulatory Governance:** Objectives of regulation, Independence and adequate resources, Enforcement of powers and capabilities, Clarity and transparency of regulatory process and External participation.

b) **Prudential Frameworks:** Risk management, Risk Concentration, Capital Requirement, Corporate Governance and Internal Control.

c) **Regulatory Practices:** Group-wide supervision, Monitoring and on-site inspection, Reporting to supervisors, Enforcement, Cooperation and information sharing, Confidentiality, Licensing, ownership transfer and corporate control and Qualifications.

d) **Financial Integrity and Safety net:** Markets (integrity and financial crime), Customer protection, Information, Disclosure and Transparency.

8. Integrated Framework- Recommended Framework of Coordinated Supervision

8.1 This framework focuses on:

(i) Regulation and supervision without ambiguity or conflict over jurisdiction lines that is possible under both the institutional approach and the functional approach.

(ii) Gives supervisors to look holistically at an entity and to respond to changes in a timely manner, in more efficient and cost-effective way.

With a view to adopting a Coordinated Supervision Frameworks, suitable for the financial system of Bangladesh to maintain financial stability containing the individual roles of regulators without creating any conflicts of polices adopted by the individual regulators, Bangladesh may follow an integrated/coordinated framework[2] guided by a MOU. It may be amended from time to time as dictated by supervisory needs and any amendments could be incorporated by the signing parties and published as appropriate. A Coordination Council Technical Group (CCTG) and a working group, consisting equal members from regulatory authorities, will continue exchanging their ideas for suggesting changes in the frameworks of coordinated supervision.

The combination of institutional and functional regulatory model in the financial sector of Bangladesh implies an entry-focused regulation and supervision. However, it may not be sufficient for regulators to look only at the part of the financial system under their immediate purview. Since markets are integrated, actions of any participant institution of one sector can have an impact on financial markets and institutions of the other sectors as well. With a view to increasing degree of regulatory comfort, particularly with regards to the concerns related to the contagion risks that could have systemic consequences, it is felt necessary to put in place a robust prototype ***integrated framework*** for inter-agency regulatory coordination.

The regulatory framework of Bangladesh is basically institutional but contains some features of functional approach. The arguments, however, discussed above necessitates for an ***integrated framework guided by a MOU.***

It may be

(i) a flexible and streamlined approach to regulate;

(ii) adoptable in a larger and complex financial market;

(iii) uniformly focused on both regulation and supervision; and

(iv) capable to eliminate the redundancies/duplicity of regulatory instructions on common interest.

2 This integrated framework will not mean a single regulator; here it will mean multiple regulators.

8.2 It would be a non-statutory forum with operational independence, transparent processes, sound governance and adequate resources. It would be a Coordination Council (CC) comprising members of key regulators established with a MoU. The main objective of the CC is to enhance financial stability through MoU for effective coordination among regulators. The Council should have the following specific mandates:

i) Macro-prudential oversight of the financial system and contingency planning;

ii) Review of financial sector policy goals and vulnerabilities; and

iii) Coordination and information sharing for the purpose of coordinated supervision.

Besides, the regulatory agencies should:

(i) have an explicit mandate to balance efficiency and effectiveness;

(ii) be accountable to their stakeholders;

(iii) operate independently of sectional interests;

(iv) be funded by those benefiting from their activity;

(v) be allocated functions in a way which minimizes overlaps, duplication and conflicts;

(vi) have appropriately skilled staff; and

(vii) have flexibility and be subject to regular reviews.

8.3 A Coordination Council Technical Group (CCTG) headed by Executive Director of Bangladesh Bank, in charge of Financial Stability Department (FSD), consisting of equal members from participating agencies may be formed to provide technical support towards CC for implementing decisions and to assess systemic risk to financial stability. FSD of BB may act as its secretariat.

8.4 Coordination Council could advise the agencies on any possible changes in regulatory policy, guidance or decisions on regulation that may impact on the objectives of the other, allowing for appropriate time to consult. Each agency may consult each other in relation to relevant policy issues listed in Appendix and also media releases that may be of interest to, or will have an effect on other agencies. Every regulator can raise their policies for pre/post discussion in CCTG meeting.

8.5 CCTG could be established with members nominated by Coordination Council.

a) It may suggest the CC on:

(i) progress of implementation of new regulatory arrangements, and their effects on the financial sector and the economy;

(ii) new and potential developments in the financial system and their regulatory implications;

(iii) the cost effectiveness and relevance of the regulatory frameworks for the financial system;

(iv) the compliance costs occasioned by financial regulation.

b) Legislation should authorize the exchange of confidential information among the regulator agencies.

c) The CC should facilitate the cooperation of its members across the full range of regulatory functions and their attainment of regulatory objectives with the minimum of costs.

The regulatory agencies (BB, BSEC, IDRA, MRA and DOC) may share their confidential information for the purpose of regulation if deems necessary but such information should remain adequately protected.

9. Future Outlook-Regulatory and Policy Development

(i) To develop, implement and maintain coordination arrangements for normal and stressed situations.

(ii) To ensure that they are aware of and have respect to legal restrictions and have arrangements in place for protecting the confidentiality of information received from other supervisors.

(iii) Arrangements for resolving differences among supervisors should be developed, agreed to, and be implemented.

(iv) If the implementation of policies, guidance or decisions on any regulation impacts on the objectives of others, that regulator may notify the others.

(v) To ensure an appropriate coordinated response mechanism a cross-regulator involvement may be put in place.

BOX 1: Coordination Council (CC):

Members:

Chief Executives of all regulatory agencies namely BB, BSEC, IDRA, MRA, RJSC and DOC headed by Governor of Bangladesh Bank.

Objectives & Mandates:

Enhance financial stability through improved coordination among regulators.

The council has the following specific mandates:

i) Macro-prudential oversight of the financial system;

ii) Review of financial sector policy goals and vulnerabilities and

iii) Serving as a high-level forum for coordination and information sharing for the purpose of coordinated supervision.

Secretariat:

Banking Regulation and Policy Department (BRPD) and no specific sub-committee for Coordination Council.

Proposal 1:

A Coordination Council Technical Group (CCTG) headed by the Executive Director of Bangladesh Bank, in charge of Financial Stability Department (FSD) comprising equal members from participating agencies may be formed to provide technical support towards CC for implementing decisions and to assess systemic risk to financial stability. This CCTG will work as the Working Committee to CC and will report to CC. FSD of BB may act as its secretariat.

Objectives & Mandates:

(i) It is a non-statutory body whose role is to contribute to the efficiency and effectiveness of financial regulations and to promote financial stability.

(ii) The mandates and scope of CCTG will be more concrete than that of the Coordination Council. More focused towards the implementation of the functional activities directed by the MOU signed by the Coordination Council.

(Continued)

(Continued Box : 1)

Area of activities:

(i) Identifying a feasible and continuous method of sharing material supervisory information/actions with strict confidentiality.

(ii) Organizing policy and regulation related important discussions.

(iii) Suggesting mitigation of contagion risks that could have systemic consequences.

(iv) In a crisis setting the group will diagnose of the problems, determine the overall response of the government and help the regulatory bodies to work together to implement the policy responses.

(v) If significant and potential financial distress has been identified, the CCTG would serve as a coordination forum for assessing the situation considering the possible responses.

(vi) CC may appoint a 'Legal Adviser' if warranted.

Proposal 2:

Continuation of existing Working Group (WG) from participating regulators to provide support to the CCTG. WG may be comprised of sufficient officials from different regulatory agencies depending on the issues and relevance to expedite the task. WG will work on the implementation purpose of this concept paper. Independent Technical Member, if necessary, may be appointed in the existing working group with a view to strengthening the group and to provide necessary assistances to CCTG/CC.

The mandate of the Group is to examine the existing regulatory frameworks, identifying gaps & vulnerabilities that may create systemic risks and provide those to CCTG for further discussion.

Annexure

Relevent Issues for discussion for effective coordination identified by BB:

- BSEC's Policy related to IPO approval procedure;
- Policy decisions on Credit Rating Companies, Security Custodians, Trustees of Asset Backed Securities, Depository Participants and Asset Management Companies by BSEC;
- Policy decisions relating to issue of capital, rights issue, mutual fund regulations by BSEC;
- Policy decisions regarding issuing of corporate bonds and debt securities by BSEC;
- Policy decisions relating to margin loans extended by Merchant Banks;
- Policy decisions related to indebtness limit (if any) of Merchant Banks and Brokerage House;
- Policy decisions of MRA linked with annual Agricultural Credit & Rural Finance programs and Financial Inclusion activities of BB;
- Policy decisions relating to investment of Insurance Companies in money market by IDRA; and
- Policy decisions related to registration procedures, appointment of directors, issuance of clearance and certified copies for banks/NBFIs by RJSC.

Relevent Issues for discussion for effective coordination identified by BSEC:

- Policy decisions relating to Single Party Loan Exposure Limit, Capital Market Exposure Limit, Cap on Deposit rate and Lending Rate, Interest rate of Repo and Reverse Repo, Statutory Liquidity Ratio (SLR),Cash Reserve Requirement (CRR);
- Monetary Policy;
- Policy decision relating to AML and CFT activities;
- Policy decisions relating to enhancement of paid-up capital of Banks and non-banking financial institutions;
- Policy decisions relating to embargo on dividend declaration of any Bank or non-banking financial institution;
- Policy decisions which may affect the profitability (e.g. provision etc.) of Banks and non-banking financial institutions;
- Policy decisions related to paid-up capital of subsidiary companies of Banks and non-banking financial institutions;
- Policy decisions of BFIU unit relating to reporting by Capital Market Intermediaries;

- Policy decisions of Off-site Supervision unit of BB relating to any reporting by Capital Market Intermediaries;
- Policy decisions of any other unit of BB relating to any reporting by Capital Market Intermediaries;
- Policy decisions relating to enhancement of paid-up capital of Insurance companies;
- Policy decisions relating to embargo on dividend declaration of any Insurance company;
- Policy decisions which may affect the profitability (e.g. provision etc.) of Insurance companies; and
- Policy decisions related to paid-up capital of subsidiary companies of Insurance companies.

Relevent Issues for discussion for effective coordination identified by IDRA:

- Policy decisions related to shareholding of companies' directors;
- Policy decisions related to Foreign Exchange Policy;
- Policy decisions of BFIU unit relating to reporting by Insurance Sector on STR;
- Monitoring AML and CFT activities in Insurance Sector;
- Policy decisions related to claim settlement;
- Policy decisions related to Premium Rates; and
- Any other circulars or directives those have direct impact on the industry.

Relevent Issues for discussion for effective coordination identified by MRA:

- Monetary policy of the Money Market regulator i.e. central bank;
- Policy decisions on monitoring AML and CFT activities in MF sector;
- Policy decisions relating to stricter conditions for granting loans and upward Revision of interest rates on loan of banks & financial institutions;
- Policy decisions of Capital Market regulator i.e. Bangladesh Securities and Exchange Commission (BSEC) for raising fund/capital by MFIs through Capital Market;
- Policy decisions of Insurance regulator i.e. Insurance Development and Regulatory Authority (IDRA) regarding micro-insurance and other insurance services/schemes/products provided by MFIs;
- Policy decisions relating to stricter conditions for granting loans and upward revision of rates of interest on loans provided by PKSF; and
- Policy decisions relating to rates of interest on loans and deposits of Grameen Bank.

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