

Banking Regulation & Policy Department
Bangladesh Bank
Head Office
Dhaka.

BRPD Circular No. 12

Date: 14 October 2009
29 Ashwin 1416

Chief Executive Officer

All scheduled Banks in Bangladesh.

Dear Sirs,

Operation of Merchant Banking by Banking Companies.

As per the provisions stated in section 26(2) of Bank Company Act 1991, no banking company can hold shares in any company whether as pledge or mortgagee or absolute owner of an amount of 30% of total of its own paid-up share capital and reserves, or 30% of the paid-up capital of that company, whichever is less. It is also mentioned in the same section that no bank can invest in shares of various companies in aggregate with an amount of 10% of total liabilities of its own. Recently it has been observed that, some banks are investing in Capital Market through Merchant Banking operation in violation of instructions of section 26(2) of the Bank Company Act, 1991. In this respect banks are advised to follow the instructions of the section 26(2) of Bank Company Act, 1991 accordingly. Moreover, banks are also advised to operate merchant banking activities constituting separate legal entity i.e., subsidiary company to protect the interest of the depositors. To constitute subsidiary company, following rules to be abide by the banks:

- 1) No bank company shall conduct Merchant banking operation without constituting a separate subsidiary company;
- 2) If the subsidiary company in its own portfolio, or in the investment/margin account of clients holds an amount of 15% or more share of a company in its main (omnibus) account, prior approval of Bangladesh Bank will be required to extend loans/advances to the company by the Parent bank of the merchant banking subsidiary company;
- 3) No subsidiary company shall buy the share of such a company in its own portfolio or in the Clients Margin Account where the Bank (parent company) or any of its director or their family member (wife/husband, son-daughter, and all other dependants of the director) is appointed as director of the later company;
- 4) In case of constituting subsidiary company to conduct Merchant Banking operation, Banks shall have to obtain prior approval from Bangladesh Bank;
- 5) Parent Company's yearly and half yearly Financial Reports must include both separate and consolidated financial statements in conformity with Bangladesh Accounting standard-27 (Consolidated and Separate Financial Statements);
- 6) Banks shall transform their existing Merchant Banking wings/Departments into subsidiary company within January 2010 complying with proper rules and regulations.

Subsidiary constituted by banks to conduct merchant banking operation, shall also follow the rules and regulation of the Securities and Exchange Commission.

This instruction has been issued under the authority of Sections 26(1) (cha) and 45(1) of the Bank Company Act, 1991.

Please acknowledge receipt.

Yours faithfully

(Abu Hena Mohd. Razee Hassan)
General Manager