

*Dhaka Stock Exchange - The Growth Engine of National Economy...*

*An Introductory Startup Guide  
for  
Foreign Investors*



**DHAKA STOCK EXCHANGE LTD.**

## An Introductory Startup Guide for Foreign Investors

### Who are Foreign Investors?

#### A Foreign Investor is

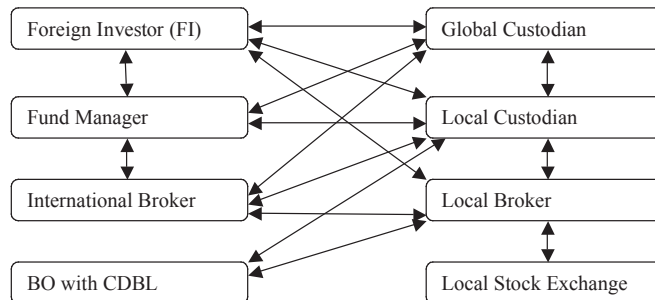
- Any Foreigners residing in Bangladesh or abroad willing to invest in Bangladesh Capital Markets are considered Foreign Investors.
- Bangladesh provides a very friendly and open investment atmosphere for foreign investors
- No Capital Gains Tax on individual
- “Long established legislative and legal framework protects foreign investment in Bangladesh” – Bangladesh Primer, Market Introduction by Deutsche Bank

### How to start?

- Open NITA Account with AD (Authorized Dealer) of foreign currency department of any financial institution or through any custodians
- Select Custodian in Bangladesh (HSBC Limited, SCB Limited, Dhaka Bank Limited, South East Bank Limited, AB Bank Limited and Citi NA)

- Open BO through custodian
- Open Trading Account with preferred broker (optional as the custodian will provide the service through holding cash account (NITA) on behalf of the Investors)
- Start Trading

The flow of Investment activity may take place in the following form:



The Foreign Investor may take any of the possible routes outlined above to link to the local broker and custodian. Putting in more intermediaries increases cost but may provide more safety and/or single point communication for the Foreign Investor.

## What is a NITA Account?

- Non-resident Investment Taka Account (NITA) is an account for channeling foreign currency in as well as repatriation of earnings from investment
- All earnings from investments (e.g. Cash Dividends) are credited to the NITA account
- An audited statement, certifying that all proper taxes are already withheld from the earnings – usually taken care of by the custodian, for fund repatriation purpose

## What are the common services provided by local Custodians?

- Account Services
- Trade settlement Services
- Registration services
- Safe keeping services
- Corporate Action services
- Foreign Exchange Services
- Cash management services
- Market expertise
- Escrow Services

Trading: Custodian ↔ Broker

- Custodian usually receives orders via SWIFT or any other acceptable standard

- Custodian carries out share and monetary transactions with the local broker
  - DVP (Delivery versus Payment): Delivers shares from FI's specified BO to Brokers BO upon Receiving Payment only. DVP is applicable for sale orders
  - RVP (Receive versus Payment): Receives shares to FI's BO account of any other Omnibus BO as specified by FI and makes payment. RVP is applicable for buy orders
- For DVP the broker sends sale confirmation to FI which in turn is communicated by FI to custodian. Then Broker confirms payment amount and quantity of shares involved with custodian. Then broker pays the custodian to receive the shares.
- For RVP the broker sends buy confirmation to FI which in turn is communicated by FI to custodian. Then Broker confirms amount and quantity of shares involved with custodian for the transaction. After settlement with the Exchange (after prevailing settlement periods) the broker delivers the shares to the custodian to receive payment for the shares
- FI send buy/sale order notice to custodian and broker separately either directly or through fund manager/global custodian /international broker
- After execution of order the broker communicates with custodian to match the order
- Once the orders are matched the settlement between broker and custodian takes place



# DSE

## What is a BO account?

- BO account stands for Beneficiary Owners account
- BO account holds shares purchased or shares credited due to corporate declarations

## What are the requirements for opening BO accounts?

### For Individuals

- Photographs - duly attested
- Bank Statements
- Copy of pay slip or tax return (optional as a part of KYC [Know your Customer])
- Copy of employment certificate or trade license (license to operate business at individual or proprietorship level)
- Copy of Passport
- Photographs of Nominee (beneficiary in case anything should happen to investor) and other details
- Filled other relevant forms
- Any other requirements by the custodian

### For Institutional

- Copies of Memorandum and Article of Association
- Certificate of Incorporation
- Copy of Board resolution permitting investment / trade in Bangladesh

- Custodian details
- Copy of Board resolution regarding authorized personal to handle the account and all relevant identification documents as well as specimen signature.

## What happens in case of corporate declarations?

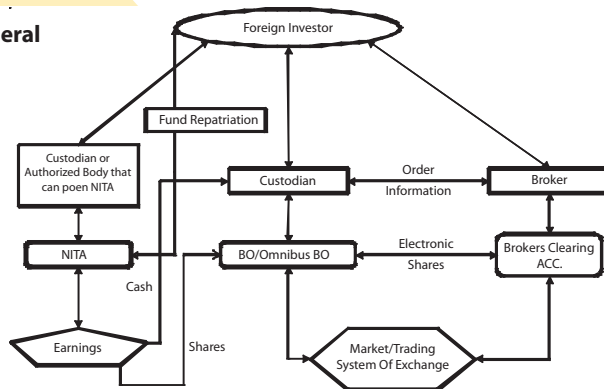
- Cash dividend warrants go to respective custodian and custodian decides the fate of such as instructed by the FI
- Shares issued by stock dividend declaration go directly to FI's respective BO account

## Few things to note

- Please note that it is advisable to hold BO accounts for each individual. This can be done by the custodians even if the custodian is arranged collectively by multiple investors. This should be done to avoid some regulatory complications e.g. avoiding substantial acquisition (10%) at individual investor level etc.
- All local custodians provide custodial service at a whole sale level. As such they can easily provide custodial service to any institution or collective investors coming via a global custodian or fund manager or international broker. They may not agree to provide custodial service to individual investors even though there are no legal bindings except for high profile individual foreign investor.

- No capital Gains Tax on individual (subject to the condition that such assessee is entitled to similar exemption in the country in which he is resident)
- Income tax is @25% for Individuals
- 25% tax at source is deducted by issuer in case of cash dividend

## General



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graph TD
    FI([Foreign Investor]) --> BO[/Buy Order/]
    BO --> SW[SWIFT]
    BO --> B[Broker]
    SW --> C[Custodian]
    B --> CF[Confirm Fund Availability as per order after execution]
    CF --> C
    CF --> BO2[Bo /Ombibus BO]
    B --> PO[Place Order at T]
    PO --> MTS[Market/Trading System of Exchange]
    MTS --> ES[Electronic Share at T+3]
    ES --> BO2
    BO2 --> C
    C --> P3[Payment at T+3]
    P3 --> B
    B --> P1[Payment at T+1]
    P1 --> MTS
  
```

The flowchart illustrates the T+1 settlement process for a foreign investor. It begins with a **Foreign Investor** (oval) sending a **Buy Order** (parallelogram). The **Buy Order** is processed via **SWIFT** to the **Custodian** (rectangle) and also sent to the **Broker** (rectangle). The **Broker** sends a **Place Order at T** (rectangle) to the **Market/Trading System of Exchange** (3D box). The **Market/Trading System of Exchange** provides **Electronic Share at T+3** (rectangle) to the **Broker BO** (rectangle). The **Broker BO** then sends the **Electronic Share at T+3** to the **Bo /Ombibus BO** (rectangle), which is linked to the **Custodian** by a double-headed arrow. The **Custodian** issues **Payment at T+3** (rectangle) to the **Broker BO**. The **Broker BO** sends **Payment at T+1** (rectangle) to the **Market/Trading System of Exchange**. Additionally, the **Broker** sends a **Confirm Fund Availability as per order after execution** (rectangle) to the **Custodian** and the **Bo /Ombibus BO**.

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graph TD
    FI([Foreign Investor]) --> BO[/Buy Order/]
    BO --> C[Custodian]
    BO --> B[Broker]
    B --> P[Place Order at T]
    P --> MTS[Market/Trading System of Exchange]
    MTS --> CSA[Confirm Share Availability after execution]
    CSA --> C
    C --> SPA[Sale Proceed Advance before T+1]
    SPA --> BOB[Broker BO]
    BOB --> SPB[Sale Proceed at T+3]
    SPB --> C
    MTS --> ESH[Electronic Share at T+1]
    ESH --> BOB
    BOB --> ESB[Electronic Share before T+1]
    ESB --> C
    C --> BOO[BO/OMibus BO]
    BOO --> FI
  
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