

A CRITICAL ANALYSIS OF THE BANGLADESH SECURITIES AND EXCHANGE COMMISSION QUALIFIED INVESTOR OFFER BY SMALL CAPITAL COMPANIES, 2018

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ABSTRACT

2018 marked a turning point in the history of the Dhaka Stock Exchange (DSE) as it finalized the sale of 25 percent of its ordinary shares to a Chinese consortium which is comprised of the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE). The USD 125 million Dollar transaction promised improvements to the DSE, both for issuers as well as existing and prospective investors. The first evidence of change was introduced with the DSE's declaration to create a "small cap board" for companies with paid up capital of BDT 50 million to 300 million. This decision effectively creates a completely new pathway for small businesses to raise funds through capital markets. The primary market for the small cap companies, while heavily restricted to the general public, is expected to provide investors with access to securities with higher growth potential than those listed on the main board. This paper proposes a critical analysis of the small cap board both from the issuer's and the holder's perspective. It looks at the opportunities of the small cap board, the impact of its restrictions, and also compares it to successful small cap boards in other countries.

Keywords: SME board, small cap board, Qualified investor offer, Bangladesh securities market, BSEC, SEC, DSE, SZSE, Chi-next, BSE.

1. INTRODUCTION

Firms sell their shares in the stock market to raise equity capital. The stock market is the single most important market with respect to corporate investment decisions (Fischer & Merton, 1984). In Bangladesh, the Dhaka Stock Exchange should, thus, play a critical role for firms trying to raise capital; however, the existing rules and regulations make it prohibitive for small cap firms to raise funds from the market. Small cap firms in Bangladesh tend to be predominantly self-financed, and for many, even working capital management seemed to be a major challenge (Islam, Von Pischke & de Waard, 1994). Recently, the Bangladesh Securities & Exchange Commission enacted The Bangladesh Securities And Exchange Commission Qualified Investor Offer by Small Capital Companies Rules, 2016. This, in essence, will pave the way for establishing a small-cap board in Bangladesh's equity market, and in theory, should lead to small-cap firms getting necessary access to equity capital.

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While much research has been carried on about small cap boards around the world, there is a significant research gap in that there are no papers that focus specifically on the Bangladeshi small-cap market. This paper addresses that research gap in a number of ways, firstly by discussing the rules that have to be followed and the conditions that have to be met by small cap firms to issue shares in the Bangladeshi market; secondly, by critically analyzing the various challenges faced by these small cap firms; thirdly, by identifying possible opportunities to both the issuers and the investors of a small-cap board; fourthly, by positing a comparative study by looking at other small cap boards around the world, especially the Bombay Stock Exchange in India, and trying to identify conditions that foster success in these boards,; and finally, by analyzing the impact of the restrictions imposed by regulatory agencies in Bangladesh on the success of the small-cap board. Thus, the paper would be of great interest to the readers – academics, investors, market regulators and financial institutions – by helping them better understand this new small cap market in Bangladesh, on which no academic research has been done to-date.

2. LITERATURE REVIEW

Small-cap boards are created to give small but growing companies increased access to equity finance. These boards also serve as feeder exchanges, preparing firms for migration to a stock exchange's main board at a later point in time (Schellhase & Woodsome, 2017).

Of the small cap boards, the Chinese small cap boards far outperform the small-cap boards in other Asia-Pacific markets, sub-Saharan Africa, Middle East and North Africa, Europe and the Americas, both in terms of market capitalization and the total number of firms listed. (Schellhase, et al., 2017) There are three growth patterns for small cap boards, namely “1) sharp increase in new listings, a slowdown, and then a rebound; 2) a high number of early listings and low subsequent IPO activity; and 3) steady growth.” To achieve an optimal steady growth, what is required is “a vibrant environment of intermediaries financially incentivized to bring new companies to the exchange, a large target population of SMEs with high-growth potential, and a variety of government initiatives aimed at expanding SME access to finance.” (Schellhase, et al., 2017)

In China, the commitment of the Shenzhen Stock Exchange (SZSE) to develop a small-cap board to implement a multi-tier capital market system drove them to do well (Geretto and Pauluzzo, 2012). The paper also notes that the SME Board provides a direct financing platform for the small and medium enterprises with a prominent core business and hi-tech contents. The SME Board performed just as well, if not better, than some of the newly-established boards, such as the ChiNext, in terms of 12-month buy-and-hold abnormal return (BHAR) and market adjusted abnormal return (MAAR) (Anderson, Chi & Wang, 2015).

Close to Bangladesh, a dedicated stock exchange/platform for small and medium enterprises (BSE SME) was launched in the Bombay Stock Exchange in March 2012. This helped alleviate financing problems faced by SMEs by “improving the future financing opportunities, getting more favourable lending terms from financial institutions, [and] increasing visibility and credibility which in turn can attract diverse set of investors.” (Bose, 2013).

Thakur (2016) states that BSE SME firms get equity financing opportunities, have increased prestige and visibility in the market and have the opportunity to “migrate to the main board.” The small-cap board also is beneficial to the investors, by providing “a flexible entry and exit platform for the investors... [which] also provides such a platform where risk can be diversified by the investors.”

The requirements for listing in the BSE SME Exchange are as follows:

“The post-issue paid up capital of the company is required to be at least Rs. 3 crore. The net worth should be at least Rs. 3 crore. The post issue face value capital should not exceed Rs. 25 crore. The trading lot size should not be lesser than Rs. 1 lakh. Investor holding with less than 1 lakh rupees, are allowed to offer their holding to market maker in one lot. The issues are required to be 100% underwritten. Merchant bankers can underwrite 15% in their own account. The Net Tangible assets at the company should be at least Rs. 3 crore as per the latest audited financial results. The company should also have a good track record. Out of the immediately preceding three years, company should have attained distributable profits for at least two years in terms of section 123 of Companies Act 2013.” (Thakur, 2016)

Some SME boards do not perform as well as others. For instance, in Africa, the Kenyan board was facing problems. In a study on Kenya’s small cap board – the Growth Enterprise Market Segment (GEMS) – Okello (2018) “recommended formation of an SME hub to offer trainings and networking session for the listed and the unlisted SMEs to interact, share knowledge and experiences.”

The JSE AltX in South Africa did not fare as well as the main board. Between 2004 and 2013, “the AltX has attracted listings and seen de-listings, but not to the magnitude of the JSE Main Board who seems to still be the preferred bourse when new listings are concerned.” (Van Heerden (2015).

Based on the literature review, it can be seen that certain small-cap boards fare better than others. Where small-cap boards fare well, as in China, there are enabling factors such as a strong commitment from the exchange as well as the regulatory authority.

3. METHODOLOGY

The research methodology can be broken down into two parts. The first part of the research is a methodology that was concentrated entirely on focused group interviews. Economic Research Group (ERG) facilitated these focused group interviews along with the executive director Dr. Sajjad Zohir, research fellow Mirza M. Ferdous, S R Osmani, Ainun Nishat and others. Along with ERG in this preliminary stage, some senior managers of DSE also facilitated. From these focused group interviews, we mostly acquired the background information like the number of companies, the number of issue managers, whether the market is monopolistic or not and how the small cap platform came to be.

The second part of our research involved contacting the authorities of DSE directly and engaging in even more focused group interviews with them. Here we did not rely on senior management of the DSE; rather, we went straight to the Managing Director of the DSE K.A.M. Majedur Rahman. Here our objective was to understand all the rules and regulations that pertain to the main board and how the rules

and regulations are going to be different for the small cap board. The questions that we asked during this part of the research were more in terms of policy implications like what if the paid up capital requirement is too low, could it be any different or not, did the DSE consider for example the SENSEX, etc.

The authors conducted a thorough literature review based on these two parts to identify whether similar research like this was done before or not in other places and that is the basis of this paper.

4. HISTORY OF DHAKA STOCK EXCHANGE

The origin of Dhaka Stock Exchange (DSE) began way back on 25th April, 1954. During that time the government of East Pakistan decided to launch DSE when Calcutta Stock Exchange prohibited trading with Pakistan. The Central Government proposed setting up the Karachi Stock Exchange in Dhaka but this proposal was firmly denied as it was felt that Pakistan should have an independent stock exchange. It was suggested that the location of the exchange should be either in Dhaka, Chittagong or Narayanganj. Later onwards it was decided the location should be in Dhaka, the capital of East Pakistan.

After the liberation war of 1971 the trading was halted for five years and started its operations from 1976 being officially named as Dhaka Stock Exchange. Presently, there are 22 industrial sectors with an enlistment of 553 companies which reflects on the growth it has gone through over the years. The Dhaka Stock Exchange located in Motijheel, Dhaka and is one of the two exchanges in People's Republic of Bangladesh. In 2018, the combined market capitalization of the enlisted companies stood at 39.58 Billion USD. DSE is managed by a board of directors which comprises of 25 members. Besides them a lot organizations are also holding positions in DSE. Among them the momentous organizations are Bangladesh Bank, Investment Corporation of Bangladesh and Metropolitan Chambers of Commerce and Industries. In 2018, Dhaka Stock Exchange decided to sell 25% of its ordinary shares to a Chinese Consortium comprised of Shanghai Stock Exchange and Shenzhen Stock Exchange. This agreement had the full support of the Ministry of Finance and Bangladesh Securities and Exchange Commission.

In its 64 years of journey the Stock Exchange has made conspicuous contribution to the Economy of Bangladesh. The market capital which is around 40 Billion USD comprises of 21.7% of the country's GDP. DSE has taken necessary steps in launching a new product called ETF (Exchange Traded Funds) in mid-2016. Treasury bonds are now being traded in the bond market by an online trading platform. Furthermore, DSE is also playing a portentous role in the formation of Clearing and Settlement Company which is expected to assist in trading of derivatives and other financial instruments. The Dhaka Stock Exchange is working relentlessly to make all of this happen. This shows the tremendous growth and amelioration DSE has gone through over the period of time since its inception.

5. THE “SMALL CAP” BOARD – DEFINITION & REQUIREMENTS

According to the SEC, a “small capital company” refers to a public company limited by shares with growth potentials having paid-up capital from Tk. 50 (fifty) million to below Tk.300 (three hundred) million. The issuing entity of a small cap company may make an application for qualified investor offer of its securities if:

- (a) It has minimum existing paid-up capital of Tk. 50 (fifty) million
- (b) It intends to raise its paid-up capital by an amount of at least Tk. 50 (fifty) million through QIO
- (c) After the QIO, its paid-up capital stands below Tk. 300 (three hundred) million

Issuing Entity	SEC
<ul style="list-style-type: none"> • The issuer has prepared its financial statements in accordance with the requirements of the provisions of IFRS or IAS. • The issuer has ALL the elements necessary in details for SEC approval: (a) About the industry; (b) About the Issuer; (c) Financial Information; (d) Features of the issue and its objects; (e) Legal and other Information; (f) Promoters' background; 21 (g) Capital structure and history of capital raising; (h) Summary of Valuation Report of securities. • In case of an initial QIO, at least fifty percent of the issue has been underwritten on a firm commitment basis by the underwriter(s) • Information concerning the repeat qualified investor offer has been disseminated as price sensitive information, in accordance with the relevant notifications issued by the SEC 	<ul style="list-style-type: none"> • Fixed Price Method/ Book-building Method Issue management fee Maximum Tk. 3,00,000.00 Maximum Tk. 5,00,000.00 • Underwriting fee - Maximum 0.25% of the amount underwritten. • Application fee for the Commission Tk. 5,000.00 (non-refundable) Tk. 5,000.00 (non-refundable) • Consent fee for the Commission Tk. 10,000.00 • Listing fee for Exchange As per listing regulations for small capital companies • Other fees As per listing regulations for small capital companies <p><i>Commission may, from time to time, revise the above mentioned fees through such orders, as may deem fit, by publication in the official gazette.</i></p> <ul style="list-style-type: none"> • The Commission shall issue the letter of consent, subject to such conditions as it may deem fit to specify, within sixty working days of receipt of a complete application, if such application is acceptable to the Commission. • The issuer, whose application has been rejected by the Commission, may apply for review to the Commission within sixty working days from the date of such rejection, and the decision of the Commission thereon shall be final. <p><i>The Commission reserves the right to accept or reject any public issue proposal in its own discretion for the greater interest of the investors and the capital market as well.</i></p>

SWOT ANALYSIS OF A SMALL CAP BOARD

The SWOT analysis below highlights some of the critical aspects of the proposed small cap board.

Strengths

In Bangladesh, it is very difficult if not impossible for smaller firms to raise money other than bank loans. However, a start-up company burn through cash at its initial stage and it is not wise to borrow loans from the market by the firm at that point of time. The default risk in this case is always higher and in most cases start-ups with terrific ideas fades away as the financial institutions refuses to provide loans due to higher default risk. (Huyghebaert, Van de Gucht, & Van Hulle, 2007) In such cases, the small capital board can play a significant role for the growth of these start-up companies with brilliant sustainable ideas, which will eventually lead to economic growth with an increasing employment rate. The small capital board will also reduce the dependency on debt financing which affects the valuation of a firm and company value is very crucial for both individual and institutional investors. The small capital board also allows eligible investors with early bird opportunities meaning it allows them to be a part of companies with promising ideas and potential growth, which will eventually pay back with greater share price.

Opportunities

Small capital firms can represent a significantly more profitable investment opportunity. For this we need to understand one simple concept that in today's world the life cycle of a company has compressed. Previously a hundred year old manufacturing company is a very old company. In contrast at present world, a twenty year old company is a very old company too. This compression of life cycle happened due to advent of technology. (Reynolds, 2018) The companies now a days grow from nothing to something really quickly and they don't stay as a mature company for very long before they go for declining stage. In order to understand this concept of life cycle compression of companies, let us consider two companies for example, one is General Electric who had a 125 years of glorious existence and another one is Yahoo!. General Electric was found in the last part of the 19th century; it grew through much of the 20th century and became one of the greatest conglomerate in history before it went into declining stage. (Fleck, 2004) In contrast, Yahoo!, a company that was found in early 1990s, very quickly became a 100 billion dollar company within a span of 7 to 8 years. What took General Electric 50 years Yahoo took only 7 to 8 years. Yahoo stayed for a mature company for about 7 years before it went to decline stage and now it is a walking dead company. Yahoo is a company that went from being a start-up to a large company and to nothing in a face of 25 years. This concept of compression of the life cycle of companies makes the small capital board, a very significant platform for investors. Start-ups especially in technology sectors having similar or greater potential than the likes of Yahoo can represent a significantly more profitable investment opportunity for both local and foreign investors around the world. Besides, the small capital board creates a gateway for promising and aspiring firms that are socially and environmentally responsible, which will bring a substantial positive outcome.

Weaknesses

The Securities and Exchange Commission (SEC), Bangladesh has no clear guidelines or law for small capital companies once they cross the bracket of 5 crore to 30 crore taka in paid up capital. For example in year 1, a company raised 25 crore taka and in year 3, the company raised 10 crore taka more. Now the question arises that does the company stay in the small capital board or do they (SEC) push the company to the main board. This means there is no clearly defined exit strategy that how or when a small capital firm will move on to the main board. (S. Zohir, personal communication, October 7, 2018) So in essence, the market cap requirement is not a decisive measurement till now with the existing policies. For the small cap board there has to be a definitive cut off that is distinctly different from the main board. Another weakness we have to admit that general public cannot participate in the primary market but only qualified investors or high net worth individuals can. (Qualified Investor Offer by Small Capital Companies, 2018) As small cap board is a new market and if we restrict the general public it is highly unlikely for the market to expand. If general public is prevented from participating then there is a possibility that stocks may not be readily absorbed.

Threats

For getting enlisted in the small cap board, a company should first go to an issue manager and in our country issue managers are merchant banks. The merchant bank will then perform the valuation of the company. Then it is required to go to an underwriter who will guarantee to buy the issued shares if they don't get sold. In our country both the issue managers and underwriters are mostly merchant banks and there is a syndicate of 80 institutions which operate largely without any scrutiny. ("Bangladesh Securities and Exchange Commission", n.d.) There is a possibility that fraudulent entities through manipulation can solicit funds through this market and exit without facing any major repercussions. For example if a company of paid up capital 5 crore raises 20 crore from the market, and after sometime the company just disappears then there is nothing much can be done. Again, since the ownership is just 30%, the liability of this 30% ownership is very limited. Hence, the existing mechanism has problems both regulatory and ideological in nature.

Table 1: SWOT Analysis of the Small Cap Ard at the Dhaka Stock Exchange

STRENGTHS	WEAKNESSES
<ol style="list-style-type: none"> 1. It provides firms with a completely new avenue for raising funds 2. It fundamentally reduces the dependency of small firms on debt. 3. It provides "eligible investors" with "early bird" opportunities. 	<ol style="list-style-type: none"> 1. The existing/proposed rules regarding the small cap board do not consider market capitalization as a decisive measurement. 2. Small camp firms have no clearly defined exit strategy, i.e. clear guidelines for when they must/can move to the main board. 3. The Primary market for the board does not allow participation from the "general public" (only "Qualified investors" – Eligible investors + HNWI)

<p>OPPORTUNITIES</p> <ol style="list-style-type: none"> 1. For investors – small cap firms can represent a significantly more profitable investment opportunity. 2. For firms – the small cap board will create a platform for raising funds through equity from local and foreign investors. 3. This board could create a gateway for aspiring small companies in Bangladesh to become significant business entities (e.g. fintech companies, software firms etc.) 	<p>THREATS</p> <ol style="list-style-type: none"> 1. The existing syndicate of issue managers and underwriters (approximately 80 institutions, mostly merchant banks) operate largely without scrutiny. 2. It is possible for unreliable/fraudulent entities to solicit funds through this market (and exit without facing major repercussions) 3. The minimum ownership requirements, i.e. 30% remains for the small cap board – making it difficult for the smaller entities to consider raising large sums of money.
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Additionally, a TOWS Matrix (Threats, Opportunities, Weaknesses and Strengths) could be tremendously helpful towards developing a better understanding of the market by breaking down the scenario and reconstructing those to attacking and defensive strategies.

TOWS Analysis of a Small Cap Board

Dhaka Stock Exchange	Strength -S	Weakness – W
	<ol style="list-style-type: none"> 1. New avenue for raising funds 2. Lower dependency on debt 3. Early opportunities for eligible investors 	<ol style="list-style-type: none"> 1. Insufficient measurement for market capitalization 2. No clear exit strategies 3. No participation of general public
Opportunities – O	SO Strategy	WO Strategy
<ol style="list-style-type: none"> 1. Significantly more profitable opportunity for investors 2. Platform for raising funds for small companies 3. Growth opportunities for fintech companies, software firms, etc. 	<p>S1O2- For Firms, create a small cap board in such a way that so that equity from local and foreign investors can be attained through financing.</p> <p>S1S2O3- For Eligible Investors and Early Birds the board can be a gateway to ameliorate the small cap companies and make them significant in the market.</p>	<p>W1O2- Since the small cap board will raise funds make a decisive measurement of the market cap and follow the rules invoked by the S.E.C</p> <p>W2O2O3- Create an exit strategy for small cap firms before getting enlisted in the board and provide independence of raising funds.</p> <p>W3O1- Allow the participation of general public so that it can be profitable for everyone.</p>

Threats – T	ST Strategy	WT Strategy
<ol style="list-style-type: none"> 1. Collusion of existing syndicates without scrutiny 2. Possibility of fraud and market manipulation 3. Difficulty of financing due to existing rules 	<p>S2T3- Due to setting the bar of small cap requirements at 30%, even though the companies have an opportunity to raise money from the market there exists liability issues.</p>	<p>W1T1- Make the rules in such a manner so that the syndicate Merchant Banks cannot operate without scrutiny. W1T2- Proposed rules must be heavily regulated so that fraudulent firms cannot solicit funds through the market.</p>

A BRIEF COMPARISON – THE DSE VS. THE BSE

Considering the difference in size, investment activity level and technology – an objective comparison between the Dhaka Stock Exchange and the Bombay Stock Exchange is largely impossible. However, for the purpose of a critical analysis – a brief overview of key differences, in terms of rules/regulations can be a helpful starting point for formulating policy recommendations. The purpose of this comparison is to highlight the potential areas for improvement/discussion when considering an efficient small cap board for the Dhaka Stock Exchange.

BSE	DSE
<ol style="list-style-type: none"> 1. Has a Listing committee that is comprised of market experts – to evaluate the promoters, company, project, financials, risk & other factors prior to listing. 2. Allows/encourages participation from “general public” in the primary market. 3. Fees are structured differently for main board & small cap board. 4. Market cap restriction for small cap companies. 	<ol style="list-style-type: none"> 1. Does not appear to have a listing committee only the Nomination & Remuneration committee. 2. Not allowed 3. Fees are simply cut in half. 4. No clearly defined market cap regulations.

Potential Problems

A small cap platform can represent a gateway for small firms to realize their full potential. Wal-Mart Inc. was once a small cap company that now has a market cap of USD 500 billion. Small cap companies are more “flexible” compared to large firms. Their organic growth rates are significantly higher than any large cap company. These attributes (and others like these) can be applied towards any small cap board in any country. However, in the context of Bangladesh, the following factors must be taken into account:

Lack of Recognition

Numerous companies listed on the main board of the DSE are “under-discovered”, i.e. the investors have limited idea regarding the firms. These companies might have passed the financial audit, but they passed it because of a “rules based” audit system, where an auditor checks boxes on a pre-formatted form to see if they are compliant. Example: an employee’s attendance sheet confirms that they were at work, but it does not confirm that they were effectively working.

If this phenomenon spreads to the small cap board then it will make it impossible to differentiate the efficient and inefficient companies (the “good” companies and the “bad”). Usually in any market there is less information available on smaller companies than companies that are traded through the main board. This problem will not only spread but will be exponentially higher in the small-cap board.

Setting up a small-cap board will take the smaller companies from the main board, where they are highly overshadowed by larger companies. Investors who want to invest in smaller companies because of their higher growth potential will need more information than an investor investing in the main board.

Lack of Transparency

There are companies listed on the main board of the DSE that are in open violation of BSEC rules (incomplete accounting statements, undisclosed revenue streams etc.). This tendency of non-compliance will make the board virtually unreliable. Investment in smaller-cap board generally carries higher risk than main board.

Smaller companies have less resources, they are also more sensitive to fluctuations in the economy. Non-compliance might cause bankruptcy of a small company, when the same level of non-compliance might cause only a temporary loss in a larger company. Example: if there is a cash flow deficiency, a company on the main board will be able to secure a short term debt a lot easier compared to a small-cap company.

Lack of Participation

Limiting/not allowing participation from the general public may have devastating consequences when investors want to liquidate their shares - as the number of eligible buyers will be limited.

This might also be an attempt to attract more knowledgeable investors who will understand the higher risk of investing in a smaller company. A common phenomena in DSE is that whenever the trade volume of a share goes up there are a large number of investors who think this indicates that this is a good investment. So they start buying the shares and thus increasing the stock price. They will often buy the stock at a price which is much higher than anything a knowledgeable investor might pay for.

The equity available for a small cap company is going to be considerably less. So if it is open to general public then there is a chance that the same thing is going to happen. But since less equity is available, prices will be a lot more inflated and cause higher price fluctuations.

Lack of Scrutiny

The existing mechanism for valuing/underwriting companies is syndicated and inefficient. If small cap firms are subject to the same mechanism - one that relies less on physical evidence and more on declarations on papers - will create a gateway for fraudulent entities to raise large quantities of funds (and disappear)

Lack of opportunity

It is necessary to calculate and compare the cost of raising funds through the small cap board vs. conventional debt. The difference must offset the risk associated with a public offer - the board would not attract companies otherwise.

It will be more difficult for a small cap company to obtain debt, because of their limited resources. The small cap board gives them the opportunity to raise capital through equity. The cost of raising equity through small cap board is expected to be higher than through the main board, because the cost of debt for these companies is also expected to be higher than the companies on the main board.

5. CONCLUSION

The above analysis shows that the launch of small cap board will be highly beneficial for the equity market in Bangladesh. Through our research, we have concluded that even though there are many challenges of the introduction of a small cap board in Bangladesh, the benefits far outweigh the challenges. The Bangladesh Securities and Exchange Commission is working with Dhaka Stock Exchange for the initiation of this board, and we can conclude that this launch will be a stupendous opportunity for the Eligible Investors to invest in the market. As small cap companies are underestimated by the big investors, this perception will change when the small cap index is launched in the Bangladeshi market. Hence, launching the board will be constructive for the emerging economy of Bangladesh.

Through our research, we have also found that the small cap board will provide firms with a completely new avenue for raising funds, fundamentally reduce the dependency of small firms on debt and provide “eligible investors” with “early bird” opportunities to invest in small firms in Bangladesh. However, some challenges remain, as small cap firms have no clearly defined exit strategy and the primary market for the board does not allow participation from the general public.

On top of that, there is lack of recognition, transparency, participation, scrutiny and opportunity for investors. If these issues can be overcome, small cap firms can represent a significantly more profitable investment opportunity for investors, the small cap board will create a platform for raising funds through equity from local and foreign investors for firms and this board could create a gateway for aspiring small firms in Bangladesh to become significant business entities.

This paper also has several limitations. The first and the most important limitation was time. Due to the nature of our profession, it is very challenging to manage time, since the subject matter of our research is very intricate in nature. Another limitation of our research was financial constraint. There are enormous research opportunities regarding the small cap board and a lot more sophisticated and articulate approach could have been taken with enough funding. Moving forward, the authors would like a more systematic and more quantitative research methodology where we actually mathematically compute the cost of debt for an SME and the cost of raising capital through the capital market. We would like to compare the costs, benefits and various aspects of the overall process like the time it would take, the resources, the paperwork, the degree of transparency, the compliance requirements, the governance requirements, etc.

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