KPMG

Regulatory Updates

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Given the current condition of foreign currency and domestic stock market, the government of Bangladesh has introduced new regulations or amended existing regulations for more effective management of economic conditions of the country. This update presents some of our picks from the major updates which any professional should be aware of.

Major regulatory updates

Bangladesh Securities and Exchange Commission

1. Updated conditions for "Z"-category companies

Bangladesh Securities and Exchange Commission (BSEC) has revised the conditions to "Z"-category shares. The revised condition reflects the removal of the condition where companies reporting net operating loss or negative cash flow from operation for two (2) consecutive years will no longer fall into the "Z"- category.

In addition for the factor where negative balance of retained earnings exceeds its paid up share capital, a condition is added that if accumulated loss/ negative balance of retained earnings after adjustment of revenue reserve, if any, exceeds its paid-up capital, it shall not be applicable for the companies which have declared dividend, including interim dividend, out of the current profits in the last English calendar year and held annual general meeting(s) relating to all outstanding financial year(s) despite having such accumulated loss exceeding the paid-up capital.

2. Penalty on delay of deposit to Capital Market Stabilization Fund (CMSF) after 3 years

The company will have to pay a fine of 2% per month on the value/market value of unpaid or unsettled dividend (cash/ stock), unallotted or unsettled rights, and refund of public subscription when it delays deposition of such dividends or shares to the CMSF.

Bangladesh Bank

3. Guidelines for Bank/Financial Institution Amalgamation 2024

Bangladesh Bank released the Guidelines for Bank/Financial Institution Amalgamation 2024 in the wake of the upcoming bank mergers mandated by them. This regulation outlines the target categories for takeover, the process for wilful and forced merger respectively, the legal procedures for implementation of merger scheme, and post-merger implications.

4. Interest rate ceiling for short term permissible trade finance in foreign exchange

To facilitate the foreign trade finance and considering the global market trend & interest rate scenario, Bangladesh Bank has decided to set all-in-cost ceiling per annum with mark-up of 4% over benchmark rate, e.g., SOFR, Euribor etc. This increased from the previous markup of 3.5% over benchmark rate.

5. Introduction to currency SWAP between BB and local banks

Bangladesh Bank has decided to introduce currency SWAP between itself and commercial banks to regulate the local foreign exchange market dynamics. For conventional commercial banks, at near leg, BDT will be sold at spot rate. Simultaneously, at far rate, the same rate in addition to swap point based an interest rate differential will be used. For Shariah banks, both transactions will be executed at the spot rate of the initial near leg.

6. Export Incentive/ Cash Subsidy for the year 2023-24

Subsidy rates for major export items have been reduced across all categories.

7. Offshore Banking Act 2024

To regulate offshore banking activities in line with the contemporary international financial system, Bangladesh Bank has introduced the Offshore Banking Act 2024.

8. Settlement of import and export transactions through counter-trade arrangements

To increase the scope of settlement of trade payments, Bangladesh Bank has allowed Bangladeshi parties to voluntarily enter into counter-trade arrangements for settlement of import payments into Bangladesh against proceeds of goods exported through escrow accounts.

9. Relaxation of Regulatory Requirement in Offshore Banking Operations

To further facilitate the offshore banking operations, banks are not required to maintain any Cash Reserve Ratio (CRR) with Bangladesh Bank for offshore banking operations accounts. Offshore Banking Operations (OBOs) are allowed to place funds to their Domestic Banking Units (DBUs) without limitation for settlement of the import payment of capital machinery, industrial raw materials, imports by the government and other permissible payment obligations as per prevailing foreign exchange rules and regulations.

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