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

Few things to note

- Please note that it is advisable to hold BO accounts for each individuals. 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 complicacies 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.
Individual FI's can best avail service if they come collectively through any global custody or fund manager or international broker such that the retail service part is not with the custodian. The local custodians do not have any problem opening BO's at individual level even if they seek service collectively.

What are the Tax Rates?

- 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.

Flow charts

General

For Buy Order

For Sale Order