



বাংলাদেশ এসোসিয়েশন অব পাবলিকলী লিটেড কোম্পানীজ

**BANGLADESH ASSOCIATION OF PUBLICLY LISTED COMPANIES**

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15 February, 2021

**Professor Shibli Rubayat-Ul-Islam**

Chairman

Bangladesh Securities and Exchange Commission (BSEC)

Securities Commission Bhaban

E-6/C, Agargaon

Sher-e-Bangla Nagar Administrative Area

Dhaka-1207, Bangladesh

Dear Sir:

**BSEC Directive No: BSEC/CMRRC/2021-389/04 dated 1 February 2021 regarding Offer Price of Securities based on Demand from the Eligible Investors (EI) under Book Building Method of IPO.**

We thank the Commission for issuing the above directive which has clearly laid out the price discovery method of securities under Book Building Method of IPO.

However, we would like to bring your kind attention to the strict valuation method formulated by the Commission based on only Net Asset and Yield Method to be used in price discovery process. This has not kept provision for worldwide generally accepted securities valuation methods both under absolute (Dividend Discount Model, Discounted Cash Flow Model etc.) and relative (Price-to-Earnings (P/E), Price-to Book (P/B), Enterprise Value to EBITDA (EV/EBITDA) etc.) valuation methods. The Normal Rate of Return considered by Commission under Yield Method (10% or higher) also seems higher considering the current Risk Free Return in the market.

The valuation methodology advised by the Commission does not take in to consideration important factors like issuing companies' brand value, management strength, industry situation etc. NAV and the Yield method have never been considered to be a perfect method of pricing for a highly capitalized entity particularly at the very first 8-10 years of operations. To our opinion, the valuation method of the Commission is very conservative where historical earnings have been considered while earning potential has been ignored, resulting best performing or very promising companies will be discouraged from going IPO in the apprehension of unfair pricing if the formula is applied.

Multinational companies with strong fundamentals will not also feel interested to get listed using this valuation method. If you compare the current market prices of listed securities from different industries with the derived prices using the Commission advised valuation method, our position will be easily validated. This is going to be the major deterrent factor in generating the desired depth in the capital market committed by the Commission under your able leadership.





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We strongly believe that the Eligible Investors have the necessary skills and acumen to determine the price of the offered securities in case the relevant information are transparently and accurately shared by the Issuer Company and/or Issue Manager. The Indicative Price along with the Band (floor and ceiling) for bidding by the EIs should be recommended by the Issue Manager or Bidding Recommendation Committee. In case the Commission feels there should be any circuit breaker for the price discovery to mitigate the risk of reckless behavior or manipulative behavior of the EIs, preemptive or punitive measures may be formulated by the Commission with relevant stakeholders like BAPLC, Merchant Bankers Association of Bangladesh etc.

We therefore request your good-self for a joint meeting of the relevant stakeholders for formulating a more market based approach for price discovery of securities under book building method. Meanwhile we will earnestly request you to suspend the subject Directive of Commission till disposal of the matter in a manner mentioned above.

Yours truly,

**Azam J. Chowdhury**  
**President**

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