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January - March 2022
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CA BANGLADESH

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

DATA DRIVEN MINDSET
FUTURE OF CHARTERED ACCOUNTANTS

The Payra 1320 MW Thermal Power Plant

The Bangladesh Accountant
Data Driven Mindset – Future of Chartered Accountants
January – March 2022

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

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ICAB PUBLICATIONS

ICAB publications include, inter alia, a quarterly journal titled 'The Bangladesh Accountant' and ICAB's mouthpiece ICAB Monthly News Bulletin.

In the quarterly journal, articles of ICAB Members, Members from other Accountancy bodies, Academics and Business Leaders from home and abroad are published.

The monthly news bulletin publishes different ICAB events of the month. This bulletin acts as an information hub for the Members to keep up to date about ICAB and its activities in addition to these publications, ICAB also publishes books, monographs, booklets and Students' Study Manuals regularly.

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Contents

January - March 2022

Digital Highlights
www.icab.org.bd

News & Events

Circular & Notice

News Bulletin

Journal

Editorial

"Bangladesh has to import majority of unavoidable items like fuel oil, edible oil, fertilizer, wheat etc. and our import volumes are higher than that of exports. Importing at much higher prices is further deteriorating the balance of international trade situation. "

Gopal Chandra Ghosh FCA
Chairman - Editorial Board and Council Member - ICAB

This issue of The Bangladesh Accountant is being brought out while the economy of the country in tandem with the global financial slowdown, has been passing a very hard time. The causes of such situation were rooted in during pandemic and have been recently accelerated by the situation of the Russia-Ukraine war that has disrupted the supply chain. Prices of some industrial and consumer products in the world market have been skyrocketing. Unfortunately, some of these products are essential inputs for industries of Bangladesh. The same situation started to show off in edible oil sector also which government is trying to tackle very actively. There is great feeling of uncertainties in the minds of our people as to the longevity and severity of the turbulent situation.

Uprising exchange rates of Taka against US Dollar has added another hit to Bangladesh's international trade and has emerged as a great headache for the policy makers. Increasing the exchange rates means rising import costs of both industrial and consumer products. Bangladesh's low-cost competitive advantage is being diminished creating potential threats on exports.

Bangladesh has to import majority of unavoidable items like fuel oil, edible oil, fertilizer, wheat etc. and our import volumes are higher than that of exports. Importing at much higher prices is further deteriorating the balance of international trade situation. Although export earnings have started rebounding in the post-Covid period, it is not enough to meet the growing import cost. Remittance income has not been remarkably increased as was expected.

Recent failure of Sri Lanka in debt servicing and foreign currency management has raised concerns as to whether we are going to face similar situation in the near future. Judging by the current indicators of the macro economy of Bangladesh like GDP versus debt service ratios, per capita debts, per capita income, foreign currency income trends, etc. it does not seem that there is any reason of fear in the near future. Nonetheless, we need to carefully consider the situation of Sri Lanka, learn lessons from it and chalk out our preventive measures very meticulously.

We have the long history of misusing or overspending scarce resources on low productive activities and weaknesses in management. Concepts of Return on Investment (ROI) is very important although it's difficult to measure the return from public investments but we have to bring the practice in. Irrespective of the sources of funds, national or international, we need to exercise utmost care in prioritizing the projects, improving implementation capacity,

> “Recent failure of Sri Lanka in debt servicing and foreign currency management has raised concerns as to whether we are going to face similar situation near future.”

concentrating on finding cost saving options and reducing corruptions. As an interim arrangement, it may be appropriate to allocate funds for completion of existing projects, projects needed to make the existing projects more productive and projects to deal with emergency situations.

This is financial planning and budgeting time. Economists in country and abroad are expressing concerns and are expecting that the budget will provide measures to tackle the prevailing situation. The question is how much opportunity is there in the budget for tackling the present situation. As always, the main problem in the government's budgeting is the weakness of revenue collection. It has become more challenging this year as the tax payers, businesses and individual, are already facing challenges in import, export and price hike situations. Allocation of large amount of subsidy and incentives, more or less, has to be continued for agriculture sector and export promotions. Addressing all these factors and preparation of a balanced budget have become really challenging task this year.

At the end as always, we appreciate the valued writers of this journal for their hard works to make the publication a resourceful one. Thanks to the members of the Editorial Board who came up with their sincere efforts, thoughtful guidance and suggestions for bringing out the issue, and best wishes to all the readers, patrons and stakeholders.

President's Desk

> "ICAB always comes up with proposals on upcoming National Budget with a view to improving revenue collection and creating an atmosphere for ease of doing business in Bangladesh. We had already exchanged opinions & views regarding VAT, Tax & Customs policies with NBR Chairman."

The quarterly journal of ICAB is a platform of sharing of knowledge on concurrent economic and professional issues. It intends to add value to the development of professional skills as well as help the government, and the other external agencies to formulate policies for a thriving economy of the country.

Although there is no particular theme of this issue, the articles published in the journal mostly deal with business, trade, commerce and economy of the country. This journal gives us an invaluable insight of the economy that provokes ideas to the policy makers.

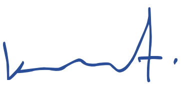
ICAB always comes up with proposals on upcoming National Budget with a view to improving revenue collection and creating an atmosphere for ease of doing business in Bangladesh. We had already exchanged opinions & views regarding VAT, Tax & Customs policies with NBR Chairman. We submitted our written proposals in these regards.

Like other nations, the Covid-19 pandemic sharply affected the economy of Bangladesh. While the country was on the way to recovery, the Ukraine-Russia war has turned into another challenge for the economy. The inflation is on the rise, which in turn is escalating the suffering of the people. The macro-economic performance of the country is getting another blow as the rate of US Dollar against Taka is increasing, which affects our exports and imports. To keep the commodity prices low would be one of the major challenges ahead of the National Budget.

We can tackle these challenges successfully by ensuring accountability and transparency in every sector of the economy. Besides, the allocation for social safety net should be increased significantly. Over and above, for all these, we have to focus on boosting revenue sources. To increase the tax net would be wise a decision rather increasing the tax rate, along with this, cautiousness is needed to allocate the budget in unnecessary projects to reduce the unnecessary expenses. In these cases, our members can help the government as they are playing very crucial roles from the front of managements to the economy.

I hope, readers will find more theoretical and analytical data and thought provoking knowledge and ideas while going through inside of this issue.

In fine, I extend my heartfelt thanks to the Chairman, the Co-chairman, Editorial Board and everyone associated with this publication for bringing out this issue successfully.



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ARTICLES

The Bangladesh Accountant | January - March 2022

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BANGLADESH

Incentives to Good Tax Payers
- Few Thoughts

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Income Tax & VAT are the prime source of Government revenue in Bangladesh. The governments as such runs on the taxes paid by citizens & tax payers. As we all know VAT- Value Added Tax is the prime account of revenue for any government. So is the 2nd source of revenue is Income Tax. VAT is an indirect tax on consumptions while Income Tax is the largest source of direct tax for public exchequer.

It is obvious that tax revenue is to be spent economically for the optimum benefit of tax payers. And again, the benefits should accrue to tax payers equitably. This means higher tax givers should be rewarded more than the lower edge tax payers. Also non-tax payers can have access to all common benefits erupting out of public investment of tax revenue incomes.

That is why while spending tax revenue the government needs to be rational and most prudent. Such spendings are not made in Bangladesh to reap optimum benefits for we tax payers. As for example loans to government officials specially Deputy Secretary & above are given an exorbitantly high sum of Tk. 10 million. It carries a rate of as low as 4 - 5% interest. Are they high tax payers? Clearly not, government banks on them for execution and governance. Can such benefit to them ensure good governance to the people? Who are owners of the State? Indeed, not, even though these governance people are also citizens & thereby own the state too alike all others.

Revenues are unaccountably spent in big & mega infrastructure project without any visible cost control measures & mechanism. Contemporary Bangladesh politics has positively brought in Metro Rail, Karnaphully Tunnel, Dhaka-Express way, 4 to 6 lanes Highways sowing hopes in everybody's minds. Padma Bridge-a challenge by PM has been made a reality already. The nation aspires endless result from such public investments. However, this write-up is about who is to be given tax incentives and why? If exporters can get Cash Incentives with large amount of benefits, bonus & exemption, why not large tax payers not get incentives is a most rational question.

Our TIN net is very narrow which is roughly yielding 2.5 million TIN holders who pay taxes and submit yearly income tax returns. They with many Tax payers who are not submitting returns being TIN holders constitute 4 million in numbers. The drive of NBR for widening TIN Net has got wide fanfare and rhetoric's all along. But the results were ever not as aspired. This is because the failed men behind the programme and endeavor are not equipped or trained to attain the cherished goal. Their aspirations are not as marketeers for revenue. Neither these entrusted people were ever accountable for failure. Also awards for success by tax men are not adequate. These has placed tax revenue earnings into a low-level trap. Bangladesh Tax GDP ratio is less than 10% and lowest in the sub-continent. Our neighbour country Nepal is better than us.

Widening tax net is a permanent agenda of NBR. Increasing tax revenue by regulation is more difficult than by inspiring tax payers to pay more. However, we know Retention is tougher than Extension of tax payers net. So better result can obviously be expected from incentives to large tax payers.

The question incentives can be applied slab wise to various amount of tax payers. The persons paying taxes of Tk. 10 lacs can be given incentives like 5% discounts in each 3rd years of same or higher tax payments. Again a guarantee that if for 3 years one pays consistently Tk. 10 lacs, his/her tax file will not be re-audited in 3 years following. These tax payers can avail discounted fees on Trade license, Plane & Rail Ticket fares along with other benefits. These can be utility connections etc. In case of public university admission, medical & engineering college admissions also their children can be given an extra score credit like 10 in the competitive scale of admission scores.

These incentives can be given to other tax payers of Tk. 20 Lacs, Tk. 30 Lacs, Tk. 40 Lacs & over Tk. 50 Lacs in broader range. Most importantly sufferings caused by Tax Men that has been imposed on them must be ended at first. Such estoppel can be phased out by NBR to those payers. These respected tax payers need rescue means & measures from the undue,

unfair, uneven and surmised assessment of the tax offices.

We all know that TDS & AIT are mandatory on FDR & bank deposit. Even dividends are also within TDS, AIT etc. Tracking these TDS, AIT will also reap NBR large amount from the tax payers bringing in new tax payers in TIN net. This is because many deductions at source by account holders are not reported only to avoid Tax Men botherations.

High tax payers can be given exempted or reduced levies in different modes. It could be AIT on FDR, Car, Saving deposits, License, BRTA and many more alike. Even admission priorities for children at public school & college, universities, medical, engineering agriculture, colleges/institutions can promote tax payer's motivation to pay more. Any benefit accruing from tax payments will have definite positive impact on tax payers. It will generate new and more tax payers at large. However, the NBR has to assure tax payers & regulate the NBR men to refrain from regimental imposing's in the name of discretions. Discretions need to be used by regulation. A R&D Division in NBR can at least minimise tax payer's sufferings. While searching out new revenue means, R&D division can ease assessment procedure make assessments a universal practice in all circles. R& D can at least minimize if not eliminate disparities like same type of companies yet having irrational assessment in different assessment offices.

This is an easy way for Tax payers to avoid listing with NBR from filing of return and get rid of files being re-opened for audit, etc. As is said the wearer knows where the shoe pinches. The suffering Tax Payers know how much painful time is passed when the same assessing officer reopens already assessed tax files. This is mostly done only to demotivate good tax payers without any revenue motive, rather personal surmise and intention of the ill doers.

So good tax payers need care and motivation to continue higher tax payments. That is why these tax payers are to be given motivational incentives packages to be relieved from embarrassment by assessment doers. The discretions are mostly applied on tax payers as a regimental practice. But NBR officials must not forget that they are collectors not regulators. They do not have role in use of revenue governance. History says that hardly taxation and customs bosses could be at the helm of NBR. The business prudence of Serve for Revenue should be imbibed in the assessing officers at large in lieu of demotivation to tax payers.

What Does the Future Hold for Chartered Accountants?

Muallem A Choudhury FCA

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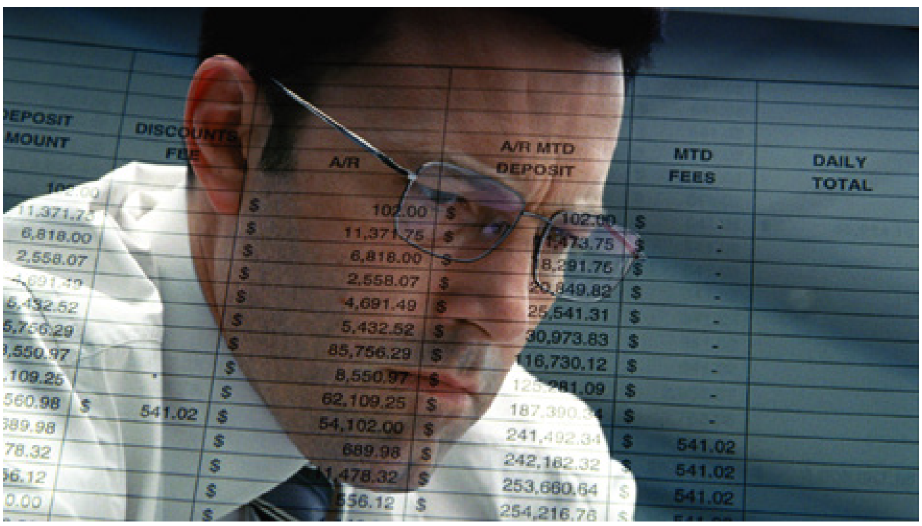
Chartered Accountants playing a significant role in building and recuperating our economy is being noticed in many ways, CAs ensure fair trade and business practices, help businesses stay afloat, and use their financial expertise to steer the nation in the right direction when it comes to various economy and finance-related measures. They are instrumental in enhancing the economy.

Moreover, the importance of the role of professional accountants in business in ensuring the quality of financial reporting cannot be overly emphasized. Professional accountants in business often find themselves being at the frontline of safeguarding the integrity of financial reporting. Management is responsible for the financial information produced by the company. As such, professional accountants in businesses therefore have the task of defending the quality of financial reporting right at the source where the numbers and figures are produced!

What is Profession?

The Australian Council of Professionals defines a "Profession" as:

"A Profession is a disciplined group of individuals who adhere to ethical standards and who hold themselves out as and are accepted by the public as possessing special knowledge and skills in a widely recognized body of learning derived from research, education and training at a high level, and who are prepared to apply this knowledge and exercise these skills in the interest of others.



It is inherent in the definition of a Profession that a code of ethics governs the activities of each Profession. Such codes require behavior and practice beyond personal moral obligations of an individual. They define and demand high standard of behavior in respect to the services provided to the public and in dealing with professional colleagues. Often these codes are enforced by the Profession and are acknowledged and accepted by the community."

Despite changes to the range of occupations claiming professional status, the fundamental characteristics of professions have remained relatively constant over time. The below chart builds on a model developed by British academics Graham Cheetham and Geoff Chivers in 2005 will clearly depict what should be the attributes of a Professional.

Self-regulation	Adherence to a code of ethics	Organization into a professional body	Advanced education and training
Continuing professional development	Expertise	Acts in the public interest	Self-discipline of its members
Client focus	Status and influence in the society	Collegiality	Specialized body of knowledge

The New Realization

It is understandable that the accountancy profession, like all other professions, is going through a period of appraisal for its future positioning because of numerous changes in culture, technology, and the world of work. The profession is witnessing a threat to its viability from the point of its role as auditor as well as accounting professional who involved themselves in the corporate roles. In addition to this, accounting profession is also facing the challenge of attraction, the challenge to relevance, and the challenge of change.

The people in the trade and business are now more concerned about the service delivery of accounting professionals and expects chartered accountants to possess professional attributes as just explained. Along with the question of possessing the right attributes, the CA profession is also challenged of their very existence for the technology onslaught. This article will try to pinpoint these emerging threats with an effort to look for solution.Is auditing profession at stake?

Accounting professor David Yermack thinks the audit profession may be dead in 10 years. At a roundtable discussion held at New York University on Oct 30, 2018, Yermack, who is a legal, economics and finance expert and the Albert Fingerhut Professor of Finance and Business Transformation at NYU's Stern School of Business, USA based his observation on the role that artificial engineering and blockchain are taking in audit.

"The distributed ledger reduces the need for audit by 97 percent," he said. "Auditors in the future will be competing based on productivity, which will essentially mean who has the fastest hardware and software. And the fraud in the

classical sense, will but impossible".

Yermack is not alone in the gloomy view of the future of audit profession, although he may be one of the few to state the sentiment so boldly. However, all the major accounting professional bodies of the world are aware of how AI is changing the sampling process drastically and launched initiatives to build a "Dynamic Audit Solution" that it hopes will drastically change the methodology of audits.

The question that is raised by the experts which we understand is that Blockchain, where every transaction will be able to be tracked through the ledger-based system. In short, validation in the system will be done automatically. If that is the case, the question may be asked why we need auditors?

On the other hand, the auditing profession has faced growing public scrutiny and criticism in recent years. There are many instances in home and aboard which created dissatisfaction and lack of faith on the auditors and their role by the public in general. We all know there have been a few recent cases where companies and their respective auditors' dubious accounting practices have been exposed. These scandals were the direct result of fraudulent financial reporting, resulting in significant losses for creditors and serious hardships for shareholders and the public. Many of these business failures were also seen as audit failures, and the auditing profession now stands accused of not performing its 'watchdog function' effectively and with objectivity.

It is widely believed that auditors cannot perform their vital functions without strong public faith in their activities. A clam and informed debates are needed to restore trust in audit and future -proof the quality of the industry.

The Game Changer- The Age of Digital Solutions

Digitalization is like globalization; it is everywhere! Now a days, the technological disruption is not only at the core of its operational areas like value-added supply chain, but also in the central functions like- finance, accounting, human resources, and purchasing. Likewise, it is also making significant changes to accounting systems and processes swift. It is widely understood that automation will replace some parts of the accounting process, and this poses a threat to some accountants. These professionals are challenged to adapt to the changes and position themselves as futuristic accountants who can still find a role amidst the rapid automation. A good example could be a traditional bookkeeper who was tasked with keying in accounting entries and performing the computations.

Therefore, the job of an accountant who hasn't made

much effort to expand their skillset is under threat. This is because modern-day accounting software can automate and perform many of the tasks that accountants would normally do.

The focus of accounting is changing drastically, and there is no doubt that traditional services will remain an integral part of what accountants do.

The considerable advantage of automation is that it will free up the time accountants need to do their job and lets them focus on giving strategic advice to companies. Real-time accounting will enable businesses to make quick decisions based on prevalent cases and avoid waiting for long periods before making any changes. This is particularly applicable to small and medium companies that need to operate some degree of flexibility for them to remain afloat.

Accounting and AI

Not that long ago artificial intelligence (AI), robots and machine learning (ML) were thought to be things only found in science fiction films. Today, this type of technology is taking center stage in workplaces across the globe. Industries, including manufacturing, retail, agriculture, and customer service have already had AI replace some job positions that left workers scrambling to find new career options.

In basic terms, AI technology is intelligent machines that can complete repetitive, mundane tasks at a fraction of the time it takes humans and with greater accuracy. The emergence of Machine Learning allows AI platforms to observe, analyze and self-learn data and processes to improve its performance and accuracy over time.

AI technology is already able to handle many accounting functions, such as tax preparation, payroll, and audits. Many of the leading accounting software providers, including Xero, Intuit and Sage have incorporated AI technology into their software to handle basic accounting tasks, such as bank reconciliations, invoice categorization, risk assessment, and audit processes, like expense submissions and invoice payments.

Many of these standard tasks are extremely time-consuming, which has many accountants across the country worried about how the emerging AI technology will affect their billable hours. An even bigger concern is that AI technologies will replace the need for companies to work with accountants at all.

Is AI Going to Replace Accountants?

Businesses will always need people with accounting and financial knowledge to interpret and analyze their financial data. Even if the process of accounting gets automated, businesses will still need trained human beings to view balance sheets and cash flow forecasts and make educated judgements as this can't be done as effectively by AI

While there is no doubt that AI technology can handle many standard accounting tasks faster and more efficiently or that these capabilities will only increase over time, it doesn't mean the end for accountants. There always will be a need for that human element – human intelligence – at the other end of AI technology. In fact, according to leading research firm, Gartner, AI is set to create more jobs than it will eliminate, leaving workers, including accountants with options.

Accountants don't have to worry about their job being replaced by AI any time soon. Companies will always need accountants that can analyze and interpret AI data, as well as provide consulting services. Rather than replacing the role of an accountant, AI technology will transform the duties an accountant performs.

With AI technology and machine learning handling many of the mundane, repetitive tasks, accountants will have more time to focus on other aspects of the job, such as consulting and data analysis. This is good news for many accountants. Rather than spending hours completing menial tasks, accountants of the future will be able to use and analyze AI data to provide their clients with sound business solutions.

In many ways, AI will help accountants improve their services. AI technology will improve data entry accuracy and lower the liability risk for accountants. In addition, emerging technology is more efficient at fraud detection, adding an extra layer of protection for accountants and their clients. It also provides real-time data, which allows accountants to provide real-time solutions. Even more impressive is the ability of machine learning to analyze large amounts of data instantly, evaluate past successes and failures to accurately predict future outcomes.

Preparing for the Future

There is no way to escape the use of AI technology, at least not if you hope to remain competitive in the upcoming years. The speed, efficiency and accuracy of AI technology just cannot be beat. The only thing accountants can do is to embrace this new technology and learn how to maximize its use. The better equipped you are to help your clients integrate and utilize AI technology in their accounting processes the more valuable you will be.

Many universities today are already incorporating IT and database management courses

into their accounting program. This means that graduating students are coming into the workforce with the skills they need for future accounting work. Accountants already in the workforce must find ways to acquire these skills to remain relevant to their employers and/or their clients.

Accountants can obtain the IT skills they need by attending seminars, using self-learning online programs, or attending college-level courses. It is equally important for accountants to stay up to date on the latest accounting trends, emerging technologies, and industry news. This will allow accountants to not only keep their jobs but to also provide more efficient services to their clients.

Rather than worry about AI taking over their jobs, accountants should embrace this technology as a powerful solution to enhance customer services. Finally, accountants will be able to use all their training and experience to provide customer with real and effective business solutions, whether it's with reference to tax consulting, real estate deals, mergers, growth options, or any other business practice.

Technology is advancing at record rates so now is the time to obtain the IT and database management skills you need to advance into the future. With the right skills and training, accountants are guaranteed a lucrative career that will last well into the future.

Look at the positive side- Why Technology Will Improve Accounting Jobs?

Accountants should embrace automation as it will make their job better. Machines are here to help us to do tasks better. They are tools and not replacements. CA should start venturing into some of the fields that are slowly creeping into the accounting scope, such as, Cloud computing, Cybersecurity, and AI, as they can help them to improve the quality of work that they do. Nothing can replace human intuition, especially that of an accountant who has many years of experience down their sleeves. An automated machine can only give out what it learns, but an accountant's view extends to more than that a computer can see. Accounting is more of an art than a science. While it has both aspects, the art side of it stands out more.

There are infinite ways of reporting and analyzing financial data, and accountants can always find new ways of making businesses understand how they are faring. Machine cannot exhibit the level of creativity that accountants have, and this is one reason why computers may never phase out accountants.

The Role of the ICAB

Signs are clear that Institute need to pay its role in identifying the issues and mitigating problems well ahead of the crisis comes. Although lately ICAB has started organizing seminars and workshops to disseminate knowledge on digitalization to the accountants but looking at the growing challenges ICAB may need to do more to uphold the image of the professionals as well as improving the skillsets of the CAs.

In fact, in following ways ICAB can create a favorable image of the CA profession as well as preparing its members to face the future more smoothly.

1. Given the importance of audit quality to markets and the economy, it is important that ICAB come forward to produce a stronger framework for audit quality. ICAB can carry out survey on audit profession in corporate organization as well as with the opinion makers. Survey will touch upon what are the expectation of the users and are the CAs can fulfill those expectations? Is the ethical mindset of the accountants being adequate? What people thinks about recent different corporate failures and CAs role on those institutes?

   It is hoped that recommendations from the survey would restore faith in auditors, including a stronger and more integrated approach to fraud and misconduct, mandated digital corporate reporting and stricter rules governing auditor independence and tenure. The recommendations would reduce perceived conflicts of interest and ensure a high quality of auditing in the future

2. Improving and creating awareness program on digital front. Here I think Institute along with big firms should join hands in arranging training sessions and communicating the need for AI, cloud computing, cyber security, and other activities.

3. Select some outsourcing firms to carry out training sessions for the CAs.

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Value-Added Audit

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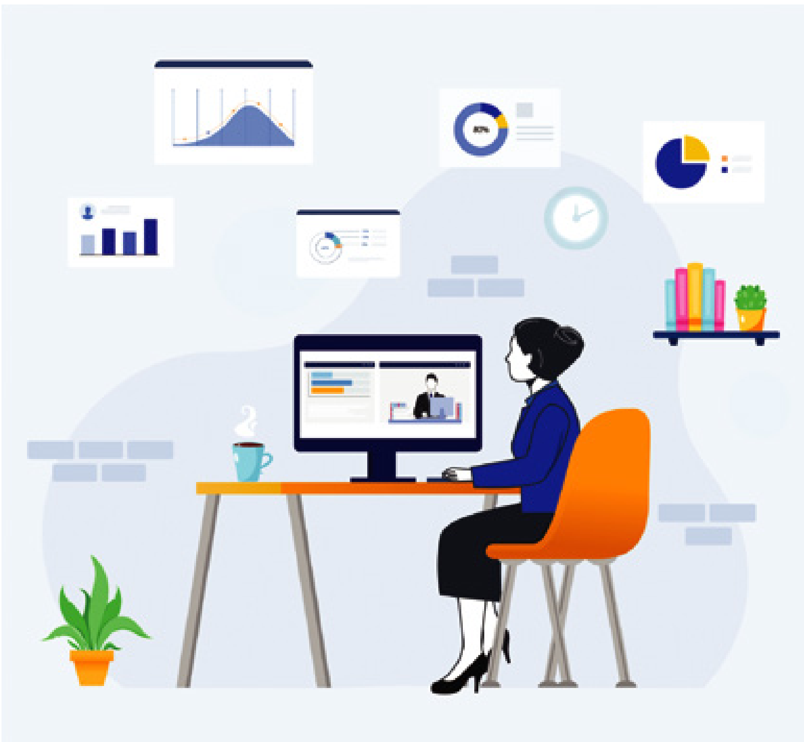
Globally professionals are providing different types of audit and assurance services to fulfill different client's needs. Among those, the most frequently performed and well-known audits are financial audits, performance audits, compliance audits, risk-based audits, internal audits, external audits, operational audits. Little known but one of the very useful audits is Value-Added Audit.

In the past half a century, audit firms in Bangladesh are blaming a lower amount of audit fees as the major reason for deteriorated audit quality. The lack of ethics and credibility of the audit profession is increasing day by day. The trend of lower audit fees has occurred largely because many business people view the audit as a commodity-like service. While the authors strongly disagree with the notion that audits are commodities, it is easy to understand why many companies have difficulty distinguishing between the audits performed by different CA firms. First, all CA firms are required to use the same language when issuing their audit reports; therefore, each firm's major deliverable looks virtually identical. In addition, many auditors conduct their audits in similar ways. CA firms may tend to follow standardized audit programs and may fail to display creativity in the design of audit approaches. Finally, the most critical factor is that client performance and superior client service simply are not high priorities on many audit engagements. Engagement teams focus the bulk of their efforts on the performance of audit procedures and the appearance of the financial statements. As a result, traditional audits often are not helping organizations manage their businesses more successfully.

Many clients, however, are interested in value-added advice and are disappointed by the auditor's lack of emphasis on helping them manage their business. Consider this comment from James Emerson, publisher of Professional Services Review:

"If the traditional audit has had one major shortcoming over the last several decades, it is in the area of not being able to provide constructive advice to Improve operations and performance. Most clients do not understand how independent auditors can spend more time than any other outsider looking at their business and end up with just a signature on the bottom of the page. After all those hours of observations and analysis, aren't there a few pearls of wisdom that could add value? The reality is that regardless of what firms hope and sometimes promise to deliver, the traditional audit approach is very narrowly focused on the numbers..."

It is time for CA firms to become aware of this reality and take steps to offer Value-added



services to their clients. Consulting departments or niche groups have to be formed or expanded and auditors have to search for new ways to add value for their clients. However, many of the services offered by those are provided by either non-auditors (that is, consultants) or by very experienced auditors (such as partners or managers). As a result, a large number of audit professionals have played only a minor role in the profession's shift toward providing more consulting and other value-added services.

Many practitioners have maintained the opinion that an audit is essentially a commodity. Its real value, they argue, is that it creates relationships that are useful for selling consulting and other services. The authors disagree with that viewpoint and believe that audits, when done properly, can be an extremely profitable and rewarding segment of a public accounting firm's business.

To be competitive in providing audit services, CA firms have typically focused on cost (that is, efficiency) rather than value. Numerous CA firms have produced substantial gains in profitability by reengineering their audit practices to cut costs. When reengineering is done properly, client service and quality are enhanced. But the primary goal of such initiatives is generally to improve efficiency. As a result, such programs produce tremendous bottom-line benefits for many CA firms but do not result in a dramatic increase in value for clients.

Some CA firms have changed to a risk-based audit approach to improve audit efficiency and effectiveness. The risk-based approach focuses on better understanding the client's business and its risks and tailoring audit procedures accordingly. The goal is to conduct the audit in such a way that efforts are concentrated in higher-risk areas and procedures are limited in lower-risk areas. While the risk-based approach Offers more potential to add value for the client than a traditional audit approach, the overall approach is often still financial statement-oriented rather than client service-oriented. Unless the risk-based approach is applied with a greater emphasis on client service, significant value-added opportunities may be missed.

Progressive audit firms in Europe and America have further challenged their audit approach to add more value for the clients. Those firms have considered how to make the audit more valuable, rather than just cheaper. The goal is to conduct the audit in a fundamentally different way so the process adds value for the client while still complying with professional standards.

This article provides glimpses on how auditors can add value to their clients while still performing an effective and efficient audit by International Standards on Auditing (ISA).

The phrase value-added has become popular in many industries and professions. Many people use this buzzword, however, without really understanding its meaning. A simple definition is that an audit professional adds value by doing something that helps the client.

It is extremely important to realize that the words value-added and adding value is relative (that is, they mean different things to different people). What adds value for one client may be of little importance to another client. In other words, it is essential to remember that the client is ultimately the sole judge in concluding whether a CA firm is successful in adding value. For example, an auditor might write an insightful management letter that addresses long-term strategies and critical succession issues. But management may be disappointed because it wanted detailed recommendations to strengthen controls in the accounting department.

That does not necessarily mean CA firms should ignore important adding opportunities in which the client displays little or no interest. If the engagement team believes an item is important, they may need to educate or persuade the client that the topic warrants attention. That does mean, however, that auditors should understand the client's needs and expectations if they want to add real value.

The best way to understand the client's needs is to understand the client. Therefore, the basic premise underlying value-added auditing is that, by gaining an understanding of the client and its industry beyond that required by professional standards, the auditor puts himself in a position to add significantly more value. The value-added audit is characterized by performing new or different procedures, with a proper mindset, to generate opportunities to add value for the client. However, it is not necessary to perform extensive new procedures to identify value-added opportunities.

As mentioned previously, adding value simply means helping the client. There is a broad range of possibilities for adding value. Auditors can add value by doing something as simple as providing the phone number of a valuable contact or as complex as providing separately billed

systems-consulting services for the client's e-business operations. Generally, auditors add value by doing one of the following:

- Providing useful information or assistance.
- Identifying problems or opportunities.
- Conducting special projects or consulting engagements.
- Making the client's life easier.

Providing Useful Information or Assistance. When auditors make it a priority to understand their clients' needs and values, numerous opportunities arise to provide useful information or assistance. Often, providing that information requires little additional effort from the auditor. Examples of providing useful information or assistance include:

- Making the client aware of new legislation.
- Passing along a brochure about an upcoming conference.
- Providing a sample of a policies and procedures manual.
- Referring to the name of a respected attorney.
- Looking carefully at travel reimbursements for a certain employee during the audit at the request of management.

Identifying Problems or Opportunities. The mere identification of a problem or opportunity often adds value to a client. For example, if a CA firm discovers that the company's mission statement and core values are consistently ignored by lower-level employees, senior management might appreciate the feedback and then take action to address the problem. Although the auditor is not involved in providing additional assistance, he or she still adds value by raising an important issue. In some cases, issues raised by the auditor might lead to special projects or consulting engagements for the firm.

Alternatively, the auditor might recommend that the client obtain assistance from another individual or organization. For example, the auditor might:

- arrange a meeting with a benefits consulting firm if the client needs help in establishing a new profit-sharing plan,

- facilitate a discussion between the owners of two companies who are facing similar issues, or
- provide the client with the phone number of a reputable patent attorney.

Each of these efforts may be considered as value-added by a client. Providing insightful management letter

comments are another example of how firms can help clients by identifying problems and opportunities.

The authors believe CA firms can adopt one of two primary strategies to compete successfully in the business of auditing:

- Provide audits at the lowest possible cost.
- Conduct audits that truly add value for clients

Provide Audits at the Lowest Possible Cost. A strategy of providing audits at the lowest possible cost makes sense when clients are primarily interested in minimizing costs and have little interest in purchasing extra services. To maximize success in that environment, the CA firm must conduct highly efficient audits. Auditors can use either the Audit Practice Manual (APM) or Risk-Based Audits to conduct their audits efficiently and effectively.

Conduct Audits That Truly Add Value for Clients. A strategy of conducting audits that truly add value makes sense when clients are receptive to the auditor's value-added efforts. Rather than competing based on cost, auditors adopt a strategy that focuses on differentiating themselves from the competition. To maximize success in that environment, auditors can apply the concepts of value-added auditing.

The primary cost is the additional time it takes to obtain a more in-depth understanding of the client. Before implementing value-added auditing, auditors must determine that the benefits exceed the costs. However, several forces are driving the auditor toward a value-added approach. Those include:

- Clients expect auditors to do more than just provide a signature on a report.
- The business environment is becoming more complex, .and many small business owners do not have the skills needed to deal with that complexity.
- Auditing has become extremely price-competitive, with little differentiation among firms.
- CA firms are being forced to look for growth from something other than traditional audit fees.

In consideration of the above circumstances, benefits, and professional needs Financial Reporting Council (FRC) is working on issuing a Value-Added Audit Guide and workbook.

Expedite Derivatives Market in Bangladesh

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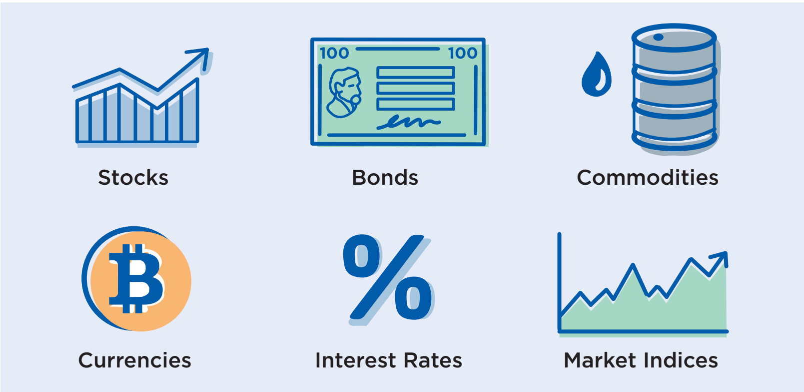
Introduction

Financial Market has been experiencing a paradigm shift in the development of new technologies in communication and information processing. This development has caused substantial changes in regulations, policies and strategies, and the competitive structure of the financial market across the world. These changes have made the financial market most volatile. The volatilities in value and return have been common phenomena of the financial market. To cope with the volatilities or changes, financial institutions and other parties to the financial market have started employing financial engineering and thereby developing new types of securities, especially financial instruments known as financial derivatives. The performance of the global financial market has been greatly improved with the development of financial derivative products.

The financial industry in the third world countries has started introducing financial derivative products with a view to enlarging the market base as well as protecting firms and investors from the exposition to the risks that arise from different sources. Stock Exchanges in Bangladesh – both CSE and DES have taken a primary initiative to introduce traded exchange-traded financial derivative products within the shortest possible time. BSEC being a regulator has started undertaking programs initiatives like the establishment of clearinghouse with a view to facilitating the development of the derivatives market in Bangladesh. Being new innovative products, financial derivative products, and their usage are not familiar to the parties to the stock exchanges. This is the time to attempt to highlight some important aspects of derivative markets for end-users of financial derivatives.

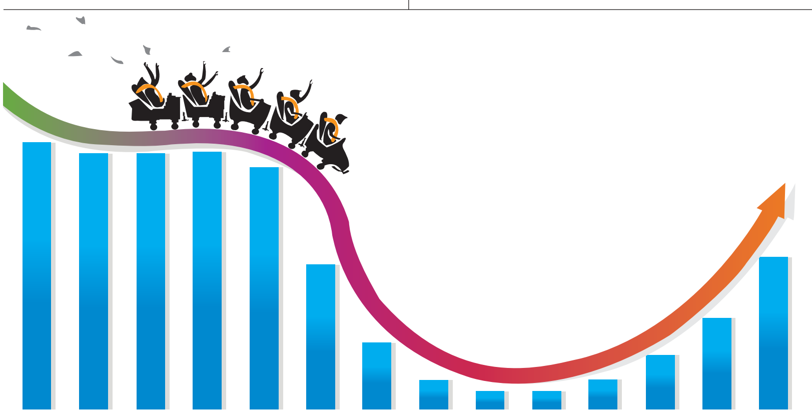
Understanding About Derivative

The Oxford dictionary defines a derivative as something derived or obtained from another, coming from a source; not original. In the field of financial economics, a derivative security is generally referred to as a financial contract whose value is derived from the value of an underlying asset or simply underlying. A derivative derives its value from the value of some other financial asset or variable. For example, a stock option is a derivative that derives its value from the value of a stock. An interest rate swap is a derivative because it derives its value from an interest rate index. The asset from which a derivative derives its value is referred to as the underlying asset. The price of a derivative rises and falls in accordance with the value of the underlying asset. The most common underlying assets include stocks, bonds,



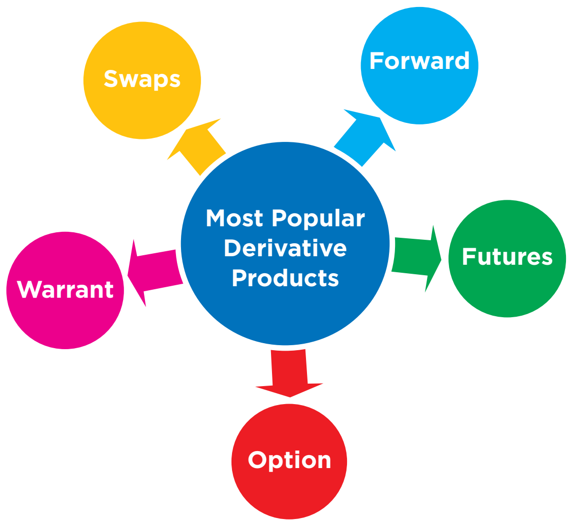
commodities, currencies, interest rates, and market indexes. Like other contracts, derivatives represent an agreement between two parties; the terms of the agreement are highly flexible, and the contract has a fixed beginning and ending date. Derivatives transactions are now common among a wide range of entities, including commercial banks, investment banks, central banks, fund managers, insurance companies, and other non-financial corporations. Key points to remember about derivatives:

- Derivatives are contracts between buyers and sellers.
- They are referred to as "wasting" assets because they have a defined and limited life with a set initiation and expiration date. The value of a derivative decreases as it gets closer to the expiration date.
- Generally, the payoff is determined or made at the expiration date, although this is not true in all cases.
- No money is exchanged at the beginning of the contract.



The Main Function of Derivatives

Derivatives are generally used to hedge risk but can also be used for speculative purposes. They allow users to meet the demand for cost-effective protection against risks associated with movements in the prices of the underlying assets. In other words, users of derivatives can hedge against fluctuations in exchange and interest rates, equity, and commodity prices, as well as creditworthiness. Specifically, derivative transactions involve transferring those risks from entities less willing or able to manage them to those more willing or able to do so. For example, an Overseas investor who uses BDT to buy shares in a Bangladeshi company on Bangladesh Stock Markets, i.e. DSE (traded on a Bangladesh exchange) would be exposed to exchange-rate risk when he sells the shares and converts BDT back to his home currency. To hedge this risk, the investor could purchase derivatives – currency futures – to lock in a favorable exchange rate. However, hedging and speculating are not the only motivations for trading derivatives. Some firms use derivatives to obtain better financing terms. For example, banks often offer more favorable financing terms to those firms that have reduced their market risks through hedging activities than to those without. Fund managers sometimes use derivatives to



achieve specific asset allocation of their portfolios.

Major Types of Derivatives

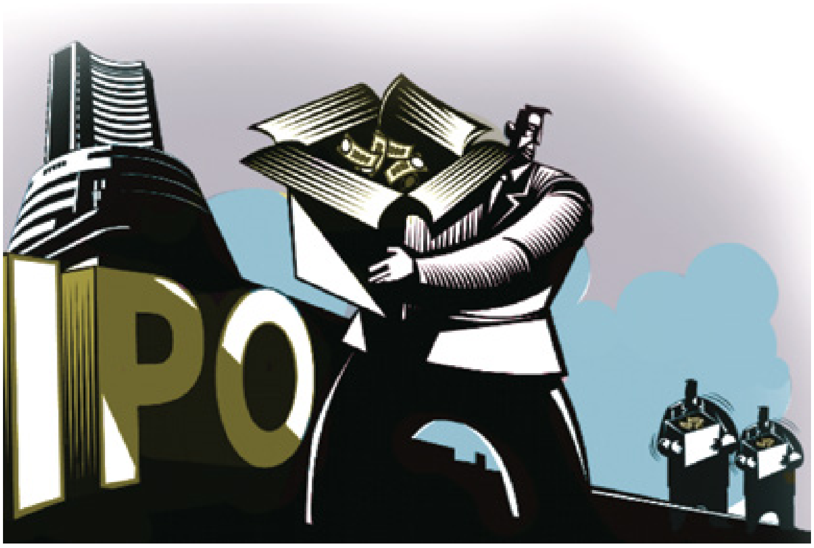
There are basically four types of derivative contracts such as forwards, futures, options, and swaps.

Forward Contract

The forward contract is a relatively simple derivative, it is an agreement between two parties to buy or sell an asset at a certain future time at a certain price. The party that has agreed to buy has a long position while the party that has agreed to sell has a short position. The forward contracts are normally traded over-the-counter (OTC). This contract gives an obligation to both counterparts to fulfill their contracts at the specified time. This is basically a contract between two (or more) parties who agree to engage in a transaction later and at a specific price, which is given at the start of the contract. It is customized, privately negotiated agreement to exchange an asset or cash flow at a specified future date at a price agreed on at the trade date. It is a trade that is agreed to at one point in time but will take place at some later time. For example, two parties might agree today to exchange 500,000 barrels of crude oil for $42.08 a barrel three months from today. Entering a forward contract typically does not require the payment of a fee. Generally, a forward contract is an agreement made between a corporation and a commercial bank to exchange a specified amount of a currency (in the case of currency forward) at a specified exchange rate (called the forward rate) on a specified date in the future. When the corporations anticipate a future need for or future receipt of a foreign currency, they can set up forward contracts to lock in the rate at which they can purchase or sell a particular foreign currency. Virtually all large MNCs use forward contracts. These contracts normally are not used by consumers or small firms. In cases when a bank does not know a corporation well or fully trust it, the bank may request that the corporation make an initial deposit to assure that it will fulfill its obligation. Such a deposit is called a compensating balance and typically does not pay interest. The most common forward contracts are for 30, 60, 90, 180, and 360 days.

Future Contract

Like a forward contract, a futures contract is an agreement to buy or sell an asset at a certain time in the future for a certain price. However, unlike forward contracts, futures contracts are normally traded on an exchange. To make trading possible, the exchange specifies certain standardized features of the contract. As the two parties to the contract do not necessarily know each other, the exchange also provides a mechanism that gives the two parties a guarantee that the contract will be honored. Futures contracts on currency are contracts specifying a standard volume of a particular currency to be exchanged on



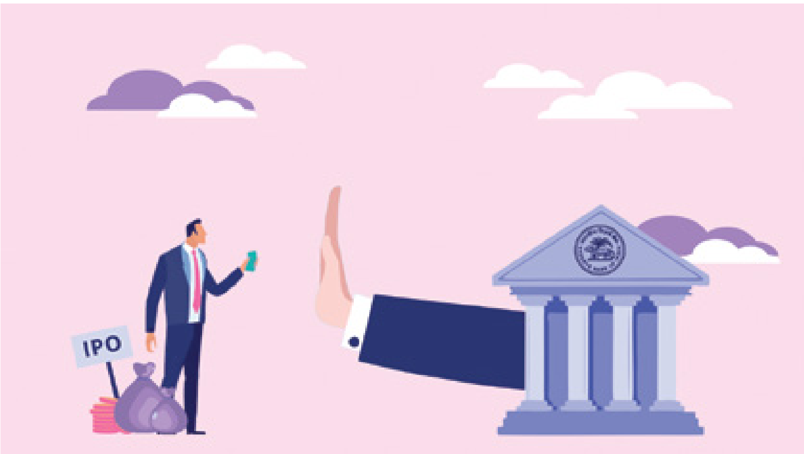
specific settlement date. Thus, currency futures contracts are similar to forward contracts in terms of their obligation but differ from forward contracts in the way they are traded. They are commonly used by MNCs to hedge their foreign currency positions. In addition, they are traded by speculators who hope to capitalize on their expectations of exchange rate movements. A buyer of a currency futures contract locks in the exchange rate to be paid for a foreign currency at a future point in time. Alternatively, a seller of a currency futures contract locks in the exchange rate at which a foreign currency can be exchanged for the home currency. The fundamental difference between futures and forwards is that futures are traded on exchanges and forwards trade OTC (Over the Counter) market.

Options Contracts

Options are traded both on an organized exchange and in the OTC market. There are two basic types of options such as call options and put options. Actually, the basic difference between the options and the two other derivatives explained above is the that, in case of options the holders have rights to exercise the but in case of forwards and futures they have obligations to do that. A call option gives the holder the right to buy the underlying asset at a certain date for a certain price, specified on the date of making the contract. The party with the long position (buyer) can exercise the contract or not. A put option gives the holder the right to sell the underlying asset by a certain date for a certain price, also specified on the date of making the contract. The party with the short position (seller) has the obligation to exercise the contract if asked to do so. The date specified in the contract is known as the expiration date or the maturity date. The price specified in the contract is the exercise price or the strike price. Options are either American or European, a distinction that has nothing to do with geographical location. American options can be exercised at any time to the expiration date, whereas European options can be exercised only on the expiration date itself (Hull, 2006).

Swap Contracts

A swap is an agreement between two parties to exchange cash flows in the future. The agreement defines the dates when the cash flows will be paid. The cash flows are calculated over a notional principal amount, which is not usually exchanged between counterparties (Hull, 2006). Examples of swaps are currency swaps, interest rate swaps, and commodity swaps. An interest rate swap is an agreement between two parties to exchange interest obligations or receipts in the same currency on an agreed amount of notional principal for an agreed period. A currency swap is an agreement between two parties to exchange payments or receipts in one currency for payments in another. Commodity swaps are hedging instruments; one party (commodity user/buyer) agrees to pay a fixed price for a



designated quantity of a commodity to the counterparty (commodity producer/seller), who in turn pays the first party a price based on the prevailing market price for the same quantity (Daniel Ekerumeh,2010).

On the other hand, the derivatives markets can be divided into two that for exchange-traded derivatives and over-the-counter derivatives. The legal nature of these products is very different as well as the way they are traded.

Participants in Derivatives Markets

A derivatives market is a market where derivative securities are traded. The largest exchanges on which derivatives are traded include the Chicago Board of Trade (CBOT), the Chicago Mercantile Exchange (CME), The Chicago Board of Options Exchange (CBOE), and The South Africa Futures Exchange (SAFEX). Besides that, the exchanges of Australia, Singapore, Hong Kong, Korea, and some other countries trade the derivative contracts. There are three broad categories of traders can be identified who participate in derivatives markets: hedgers, speculators, and arbitrageurs (Hull, 2006). The three major participants in the derivatives market are in it for varying reasons as discussed below; however, their participation is crucial for the liquidity and volatility necessary for the operation of a derivatives market (Daniel Ekerumeh, 2010).

a. Arbitrageurs if placed on a risk spectrum are the risk-averse participants who take positions in two or more instruments to lock in a profit. For example, if the price of the same product is different in two markets, the arbitrageur will simultaneously buy in the lower-priced market and sell in the higher-priced one. They always try to find out the gap in prices between the two markets, if find then take the benefit from trading. Thus, they help to make such markets more efficient.

b. Speculators are positioned at the risk-taking end of the risk spectrum; they bet on movements in the market and try to lock in a profit by using the leverage created by derivatives contracts.

c. Hedgers are risk-neutral participants who use derivatives to reduce their exposure to risk from future price movement in a commodity, financial security, or currency market. This is done by undertaking forward or futures contracts or purchases of the commodity security or currency in the OTC forward or the organized futures market (ibid,15).

The Efficiency of Markets and Derivatives in Bangladesh

In an efficient market, all information relevant for determining the value of a product is reflected in the current market price. Financial derivatives represent some of the basic tools necessary in the mechanics of efficient capital markets. The array of derivative products that have been

developed in recent years has enhanced economic efficiency. It is obviously true that for sustainable economic growth and development a stable and efficient market is inevitable.

The array of derivative products that have been developed in recent years has enhanced economic efficiency. Derivatives have become an integral part of the financial system in the world's leading economies. Efficient markets lead to tighter bid-ask spreads, higher volumes of trading, and greater market liquidity. And for making a capital market more effective, sophisticated, viable, and adaptable to the modern rapidly changing competitive world, the introduction of derivative securities is essential. Because today's risks in the business arena are more complicated than it was fifty-sixty years ago. It has been for the introduction of freely floating exchange rate systems in the 1970s and rapid growth in international trade capitalizing on the benefit of modern transportation and telecommunication technologies. So, if an economy wants to cope with the so much changing competitive world, it should think about financial stability, risk sharing, and market efficiency; here the introduction of the derivatives market may be proven as a vital decision. Derivatives help to improve market efficiencies in various ways such as by reducing the risk for farmers, interest rate risk for banks, etc. They allow users to meet the demand for cost-effective protection against risks associated with movements in the prices of the underlying assets. In other words, users of derivatives can hedge against fluctuations in exchange and interest rates, equity, and commodity prices. It is such a mechanism through which parties easily can transfer the risks associated with their underlings to others. Specifically, derivative transactions involve transferring those risks from entities less willing or able to manage them to those more willing or able to do so. Derivatives transactions are now common among a wide range of entities, including commercial banks, investment banks, central banks, fund managers, insurance companies, and other non-financial corporations.

Establishment of Financial Derivative Market for Strengthening Financial Market Functions

A strong financial market is considered a nucleus of an economy. It is a matter of great regret that after more than five decades of our liberation, we are still in the nascent stage of the development of an efficient financial market. In Bangladesh, the money market is not well developed. Again, there is no separate bond market here. Just very few bonds are traded in the secondary market. On the other hand, the condition of the capital market is very volatile in nature and lacks of confidence. It is sometimes called one of the worse markets in the world. In this regard, the establishment of a financial derivative market might be helpful in some ways, such as the risk-shifting mechanism innately owned by the derivative instruments,

which can enhance the distributing function of the financial market of Bangladesh.

Establishment of Financial Derivative Market for Eluding Risks of Participators

Hedgers, speculators, and arbitrageurs are the key financial market participators. They make the financial market more liquid. In the case of investment and trade hedging is a very common thing. No speculations, no hedges. We need hedgers who want to shift their risks to others. The market needs speculators, and it wants to make a profit by taking the risks. Many economists believe that proper speculations can generally decrease the risk of the whole market instead of increasing it. So, for the sound development of the financial market, the contribution of hedgers and speculators is very important. We know that derivatives such as forward, futures, options, and swaps inherently own the risk-shifting characteristics. Yet, we haven't such instruments that would provide the participators with the proper mechanism of eluding risks. According to the realistic requirements of the market and its participators, Bangladesh should set up a financial derivative market as soon as possible to meet the objective rules of market development.

Establishment of a Derivative Market for the Requirement of Financial Market Development

The capital market of Bangladesh is still in the primary stage in respect of development. This market is so much volatile in nature. Big traders can easily manipulate the market by forming syndicates. Two major collapses, one in 1996 and another in 2010-2011, according to reports of the prove-committee, were the evidence of such syndication and manipulation. The lack of deepening of the market, which might be with increasing the substantial number of instruments and participators, is the prime cause of syndication, manipulation, and ultimate collapses. So, for deepening of the financial market of Bangladesh, there is no alternative to increase the number of financial instruments as well as participants in the market. If general investors find the derivative instruments to shift their risk, they will obviously be interested to come in the market with their small amount of savings. People want to come into the market. But so far there are no good platform to motivate small investors, who can be called the nucleus of the financial market like ours. So, the establishment of a financial derivative market would bring some new instruments into the market such as forward, futures, options, and swaps that innately own the risk-shifting

characteristics. In this way, the number of instrument, as well as the participators, would be increased substantially. That would ultimately deepen the market.

Establishment of Financial Derivative Market for Deepening Reforms of Financial Business of Bangladesh

The deepening reforms of the financial business of Bangladesh require the support of the financial derivatives market. The establishment of a financial derivative market will promote the optimization of commercial bank's capital structure and improve commercial banks' profit-making ability. If the derivative market had been founded, more bounds instruments and trade patterns would have been promoted through the effects of derivative means in securitizations, thus the goal of capital structure optimization would have been achieved" (Li Tian, 2005). Bangladesh has a problem in respect of capital structure. It has a serious problem in the case of bad loan, total capital, and capital liquidity. Especially in state-owned banks, this condition is more serious. This country has experienced a number of major debacles within three-four years, notably two have attracted wide media coverage. One is in the case of Hallmark, and another is in the case of a Basic bank. Unprecedented malpractices were observed in both cases. Finance Minister in his address in the Parliament stated that the total amount of defaulted loans in the country's banking sector surged by Tk 9,430.25 crore in January-June after the general loan moratorium facility awarded amid the Covid outbreak expired in December 2020. As per the latest Bangladesh Bank data, the total defaulted loans increased to Tk 98,164.31 crore as of June 30, 2021, from Tk 88,734.06 crore as of December 31, 2020. These statistics show the vulnerable condition of the banking sector in the country of Bangladesh. For the deepening reform of the market economy, making it modernized and compatible, many economists believe that Bangladesh should grasp the opportunity of its linking with the international normal practice, forming derivative mechanisms to promote the healthy development of its commercial banks. However, though still there is no derivative market in Bangladesh, the authority probably thinking slightly about the establishment of such a market. BSEC has taken a step forward to establish a commodity exchange by amending the Securities and Exchange Ordinance 1969 in November 2013. On the other hand, we have a volatile capital market that is still in a recovery phase after the 2010-11 stock market crash. Before the crash, the market experienced astonishing growth which was not in line with the growth in the real sector of the economy. As a result, the market went through a huge correction at that time and many small investors were affected badly. Even after years, investors still lack confidence in the market. Many economists think that, if the country wants to rebuild its market, where participants will come back with their full confidence level, the

establishment of the financial derivatives market might be an effective decision.

Some more Basic Reasons for the Necessity of a Derivatives Market in Bangladesh

- Reduction of Volatility in the Capital Market;
- Implication of perfect portfolio.
- Protection in Major Export Sector (Especially RMG) Sector; and
- Protection in Major Import Sector (Import of Petroleum).

Risks of Derivatives in Bangladesh

Starting something for the first time is always needed to face and overcome some obstacles. Certainly, there are some drawbacks as well as risks to establishing a Derivatives Market in Bangladesh. In order to establish a Derivatives Market in Bangladesh, we need some logistic support.

Firstly, we need lots of professionals who can design and establish control of the market. Because there is no such market in Bangladesh and due to this there is a few numbers of professionals and expertise here. Lesser number of graduates we are having regarding this subject from our institutions like ICAB who can work for this kind of project.

Secondly, in our country investors are not that educated and can understand Derivatives Market scenarios and activities. It will take time to get educated or understand the market. At this time a group of people might want to enjoy an extra benefit that is unwanted. There are some fundamental problems that contribute to derivatives' negative image:

- Stories in the press of our country tend to focus on the illegitimate abuse of derivatives rather than how they are used legitimately.
- Investors' misinformed perceptions and uninformed opinions.
- Improper suitability is given an investor's resources and temperament.

Thirdly, for a Derivatives Market, we need a huge number of investors which we are currently lacking. As a developing nation, we do not have enough investors who are having a bulk amount of monetary reserve. Whereas a Derivatives Market needs a strong number of investors whose investment will run as the blood of the market and keep it alive.

Another thing is that when the investors are doing their business in the Derivatives Market they are ensured by the market about the quality of their underlining product. Where in Bangladesh there is some risk in this kind of matter or activity. It is said that some of the derivatives are too complicated. Investors also may not understand that some derivatives, such as futures and options, by definition, are contract markets. Besides these, derivatives are purely speculative and highly leveraged.

Conclusion

Financial derivatives provide risk management tools as well as alternative investment opportunities to market participants. Financial derivatives have a long history of use. It has started its journey in the 12th century in Venice. But after the inception of the freely floating exchange rate in 1971, the usage of such instruments overwhelmingly increased. At present, the growth of the derivatives market in the world is highest comparing all of the financial market segments. The derivatives market can play a pivotal role to strengthen the effect of monetary policy and absorb foreign capital into a country as it helps in bringing stability to the overall financial markets. It can contribute to making an efficient capital structure and increase profit-making ability of commercial banks. The derivatives market contributes to deepening the capital market by its innate mechanism of risk-shifting and increasing the number of participants. After the catastrophic fall of the capital market of Bangladesh in 2010, it can't recover yet, rapidly declining FDI and scarcity of innovative and versatile financial products such as derivative securities are prevailing in Bangladesh, the establishment of a financial derivatives market may be a proper decision for this country as soon as possible. On the other hand, if the country can't establish such a market it's a backward pace than the other comparable in the world of competition may be inevitable. Hence, Bangladesh should take steps now to establish a financial derivatives market but that must be slowly in phase by phase.

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Fundamentals About
Secured Overnight Financing Rate (SOFR)

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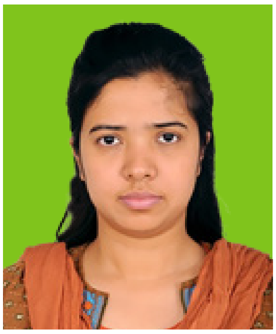

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Introduction

London InterBank Offered Rate which is also known as LIBOR was a benchmark interest rate that major banks of London charge to each other. LIBOR was used as a reference rate across the world for Corporate and Personal Loans, derivatives and other Financial Products. In early 2012, there were some discoveries related to the LIBOR which had helped certain participations in earning undue profits which shook the world and had let to the expiration of LIBOR and transition to another rate known as Secured Overnight Financing Rate or "SOFR". This article focuses on transition from LIBOR to SOFR and the basics of SOFR which will contribute in the development of a transparent market worldwide.

How LIBOR was Determined

In 1984 the British Bankers Association (BBA) was asked by few banks to devise a benchmark to be utilized for a relatively new class of monetary instruments which were being exchanged at the commercial centers, yet had no uniform rates (BBA Trent Ltd.). Because of the requirement for a uniform reference rate for a wide assortment of monetary items including mortgages and consumer loans, as well as rates for commercial lending, municipal bonds, floating rate notes, interest rate swaps and a host of other financial products, e BBA developed BBAIRS (BBA Interest Rate Settlement Rates) which eventually became BBA LIBOR. The first BBA LIBOR rates were initially published in January 1986 in three currencies: the US Dollar, Japanese Yen and British Sterling. Over the years LIBOR has expanded to included 10 currencies with 15 different maturities for each currency ranging from overnight to 12 months Before 11 a.m. Greenwich Mean Time of each day, the ICE Benchmark Administration (IBA) requests a board of contributory banks going from 11 to 16 enormous global banks following inquiry: "At what rate could you borrow funds, were you to do so by asking for and then accepting interbank offers in a reasonable market size just prior to 11 a.m. London time?" Only banks that have a huge presence in the London market are considered for enrollment on the ICE LIBOR Panel, which is decided every year. Thomson Reuters then takes all the submitted quotes for the various currencies and

maturities and calculates the LIBOR rate by ranking the quotes, discarding the highest and lowest 25% of submissions and using the average of the remaining quotes in a process known as a "trimmed mean".

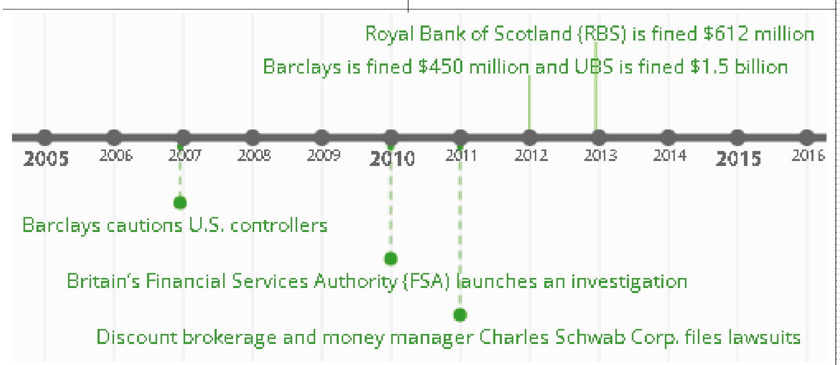
What led to the demise of LIBOR?

One of the normal misperceptions in regards to LIBOR is that it is a real rate that banks get at in the interbank market. This isn't really the situation, as it is improbable that the different banks will get assets in up to 10 unique monetary forms and 15 distinct developments every day. Maybe it is simply a benchmark in view of a bank's "impression of its expense of unstable assets in the interbank market. For example, as per Alternative Reference Rates Committee (1), on a typical day, the volume of three-month wholesale funding transactions by major global banks was about $500 million, and just seven "daily" transactions, on average, make up this volume. Compared to the $200 trillion of financial contracts referencing USD LIBOR, that number is microscopic. It is to be mentioned that Basel III Pushes banks away from short-term unsecured funding markets. Money center banks no longer rely on unsecured interbank lending to fund their every-day activities. All this had allowed many banks to manipulate the interest rates particularly, Barclays, UBS and others for increasing their profits. This had allowed them to create an illusion of healthier financial condition than they were during the Global Financial Crisis. As per the report of Reuters (2013) and Strategic Finance (2020) the significant incidents along with the timeline of this scandal are given below:

Overal exposure per currency

$	USB LIBOR	> $200 trilion
£	GBP LIBOR	> $30 trilion
€	EURIBOR	> $150 trilion
	Euro-LIBOR	> $2 trilion
₣	CHF LIBOR	> $6.5 trilion
¥	JPY LIBOR	> $30 trilion
	TIBOR	> $5 trilion

- 2007- Barclays cautions U.S. controllers to its interests that different banks are submitting insincerely low interbank rates.
- 2010- Britain's Financial Services Authority (FSA) launches an investigation into Barclays as part of a global probe of alleged interest rate manipulation.
- August 2011- Discount brokerage and money manager Charles Schwab Corp. files lawsuits accusing 11 major banks of conspiring to manipulate Libor.
- June 2012- Barclays is fined $450 million in a settlement with U.S. and British regulators over rate rigging.
- August 2012- A joint New York-Connecticut investigation of Libor sends subpoenas to Royal Bank of Scotland, HSBC Holdings, JPMorgan, Deutsche Bank, Barclays, UBS and Citigroup. The summons looks for correspondence between chiefs connected with conceivable plot that might play had an impact in supposed rate control.
- December 2012- UBS is fined $1.5 billion to settle charges of rigging Libor.
- Feb 2013- Royal Bank of Scotland (RBS) is fined $612 million for its role in the global rate-rigging scandal. Manipulation of the rate by RBS occurred from at least 2006 until late 2010, after the bank was bailed out.

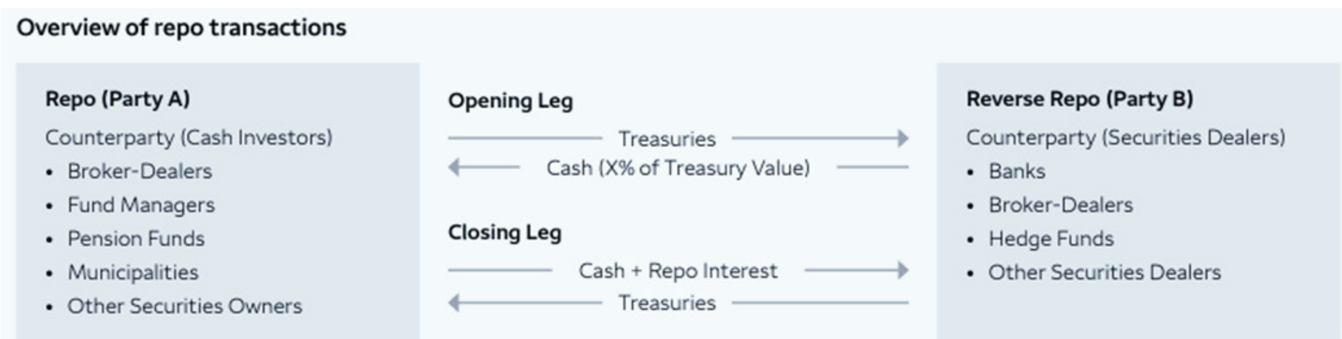


Since the manipulation was unearthed, groups around the world have been working on transition from interbank rates to alternative reference rates. in November 2014 the Federal Reserve convened the Alternative Reference Rates Committee ("ARRC") to determine alternatives to LIBOR as a benchmark rate in the US.

Transition from LIBOR to SOFR

In 2017, ARRC (Alternative Reference Rates Committee, 3) identified Secured Overnight Financing Rate (SOFR) as the preferred replacement rate in its consensus view UK's Financial Conduct Authority announced in 2017 that it will not ask banks to submit rates beyond 2021 and therefore, LIBOR is supposed to phase out at the end of 2021.

Secured Overnight Financing Rate (SOFR) measures the cost of borrowing cash overnight, which is collateralized by US Treasury securities in the repurchase agreement market. Large monetary Organizations loan money to one another utilizing Treasury bond repurchase arrangements, which monetary aces call repos. These repo arrangements permit banks to make for the time being advances to meet liquidity and save necessities, involving Treasury as insurance (Investopedia, 2022). SOFR includes the weighted averages of the rates charged in these repo exchanges. The advantage of SOFR over Libor is the way that SOFR depends on finished monetary exchanges while Libor has come to depend on statements from announcing banks that aren't really from genuine monetary exchanges. There are a wide range of financial market participants directly involved in the Treasury repo market, including asset managers, banks, broker-dealers, corporate treasurers, insurance companies, money market funds, pension funds, and securities lending agents. In 2020, Fixed Income Clearing Corporation (FICC) has accounted for only 60% of SOFR's roughly $1 trillion in daily transaction volume. That segment alone involves roughly 2,000 institutions through its members and "sponsored memberships" who are able to transact in the Treasury repo market with FICC. SOFR is also a "near risk-free rate" because the underlying repo transactions are secured by Treasuries.



LIBOR VS. SOFR: A COMPARISON

LIBOR	SOFR
Partially transaction- and partially judgment-based rate	Transaction-based rate
Unsecured rate (no collateral)	Secured rate (with treasuries as collateral)
Bank-to-bank commercial lending rate (includes credit risk)	Risk-free rate with little or no credit risk
Rate calculated based on roughly $1 billion of daily transactions	Rate calculated based on roughly $1 trillion of daily transactions
Has a term structure of interest rates	Has no true term structure of interest rates
Forward-looking rate: prospective	Historical-based rate: retrospective

Source: Strategic Finance, 2020

As per the Federal Reserve Bank of New York, in general, the SOFR is calculated as a volume-weighted median of transaction-level tri-party repo data collected from the Bank of New York Mellon as well as GCF Repo transaction data and data on bilateral Treasury repo transactions cleared through FICC's DVP service, which are obtained from the U.S. Department of the Treasury's Office of Financial Research (OFR). Every work day, the New York Fed distributes the SOFR on the New York Fed site at around 8:00 a.m. ET.

As of today, there are four different types of SOFR that may be used in loan agreements: (i) daily simple SOFR in arrears, (ii) SOFR compounded in arrears, (iii) SOFR compounded in advance, and (iv) forward looking term SOFR ("Term SOFR")

- **Daily simple SOFR in arrears** is calculated using simple interest over the current interest period. Therefore, it is not known in advance of the payment date. Loan market participants have noted their preference to apply SOFR on a daily basis throughout the interest period.

- **SOFR compounded in arrears** is calculated by compounding interest over the current interest period. Therefore, it is not known in advance of the payment date.

- **SOFR compounded in advance** is calculated by compounding interest over a previous set number of days (i.e., tenors of 30, 90 or 180 days). Therefore, it is known before the start of the interest period. It can be calculated using the compounded average of SOFR that is published on each business day by the New York Fed.

- **Term SOFR** is calculated differently than the other types of SOFR discussed above. It is not possible to calculate Term SOFR from the term treasury repo market. On July 29, 2021, the Alternative Reference Rates Committee (the "ARRC") formally recommended (Dechert, 2021) the forward-looking term rates based on the secured overnight financing rate ("SOFR") published by CME Group1 (the "CME Term SOFR Rates"), clearing the way for use of CME Term SOFR Rates in many cash products and some related derivatives. Although the CME Term SOFR Rates have been available for use since April 2021, the formal recommendation of the CME Term SOFR Rates by the ARRC, taken together with several other recent developments, marks the completion of the final steps in the ARRC's paced transition plan aimed at encouraging adoption of SOFR and SOFR-based rates.

How to Transit from LIBOR to SOFR?

As it had already been discussed above, LIBOR and

Source: Trade Finance Global, 2021

SOFR benchmark reference rates are not equivalents. LIBOR has a term structure, is an unsecured rate, and contains a credit premium addressing the credit hazard inborn in interbank loaning. SOFR, on the other hand, is an overnight, secured and risk-free rate and thusly is lower than LIBOR. In order to transit from LIBOR to SOFR, on Dec. 1, 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation recommended the cessation of issuing any new LIBOR-based contract including loans after Dec. 31, 2021 (IFC, 2021). Subsequently, on March 5, 2021, FCA announced the dates that panel bank submissions for all LIBOR settings will cease:

- Dec. 31, 2021, for all pound sterling, euro, Swiss franc and Japanese yen settings, and the one-week and two-month U.S. dollar settings

- June 30, 2023, for all other U.S. dollar settings

Because SOFR is a secured risk-free rate based on overnight transactions and does not incorporate a risk premium, it is normal that the progress from LIBOR to SOFR will bring about various credit spreads over the selected reference rate. Organizations will in this manner be expected to lead an extensive survey of all documentation of monetary instruments where LIBOR is straightforwardly and by implication referred to. Consequently, contracts that are valid beyond the end of 2021 will need to be amended to deal with the phase-out of LIBOR.

Appropriately, accounting implications might bring about the de-recognition of agreements or end of support connections. By distinguishing their LIBOR exposure and hedge relationships, monetary establishments can survey whether an alteration to their agreements is required and assess how their current hedges may be impacted. The phrasing of the agreements may likewise be reconsidered to such an extent that it fuses the new rate elective as well as spread acclimations to limit the distinction among LIBOR and SOFR.

At present there are two approaches (J. Meyer, 2021) on how the transition from LIBOR to SOFR should happen:

The Amendment Approach operates by setting out that a and a borrower may amend the credit agreement to replace LIBOR with a SOFR-based rate on the occurrence of a trigger event or an early opt-in election. The March 5th Announcements trigger permissive language allowing the lender and the borrower to negotiate and agree on amendments to reflect the transition from US dollar LIBOR to a SOFR based rate.

The Hardwired Approach operates differently from the Amendment Approach. After a trigger event or early opt-in election occurs, LIBOR is automatically replaced with a SOFR Based rate. The March 5th Announcements do not constitute an immediate trigger event for the transition from LIBOR to SOFR Based rate but instead set the dates upon which such trigger will take place. The trigger for the automatic transition will occur on the dates upon which the

relevant LIBOR settings are no longer published or the dates upon which the relevant LIBOR settings are no longer representative.

For the Financial Reporting Perspective of the transition, In September 2019, IASB issued Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16 (IFRS, 2020). The IASB introduces a practical expedient for modifications of financial assets, financial liabilities and lease liabilities required by the reform. These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

Practical Consideration

To facilitate the work required to change from LIBOR to SOFR, the ARRC distributed (Wells Fargo, 2021) a useful execution agenda that diagrams steps to consider to relieve gambles and guarantee a smooth change. The agenda contains a rundown of reasonable contemplations for the accompanying classes:

- **Establish program governance:** Carry out a vigorous administration structure with responsible senior chiefs to manage the conveyance and coordination of the company's undertaking wide LIBOR change program.
- **Develop transition management program:** Lay out an endeavor wide program across capacities and organizations to assess and alleviate the dangers related with progress with explicit contemplations for exceptional item and client openings.
- **Implement communication strategy:** Create and carry out a venture wide system with clear targets to proactively draw in, reliably impart, and increment levels of schooling with affected inner and outer partners.
- **Identify and validate exposure:** Measure and foster an adaptable way to deal with screen LIBOR-connected openings through the progress time frame. Get or foster abilities to esteem SOFR-based items as a component of progress to utilizing those items.
- **Develop product strategy**: Foster system for updating or progressing the current arrangement of LIBOR items, including making or utilizing new items in view of SOFR.
- **Risk management:** Identify, measure, monitor, and control financial and non-financial risks of transition, establishing processes and oversight routines for ongoing management.
- **Accounting and reporting:** Determine accounting considerations along with related reporting considerations.

- **Taxation and regulation:** Determine the tax and regulatory reporting considerations.

Areas to work on for development of SOFR

SOFR is much more volatile than LIBOR. Using real trades, rather a trimmed mean of bankers' forecasts, makes SOFR much less stable than LIBOR. Such volatility could add uncertainty or extra risk on common trades or contracts based on risk aversion from getting a higher daily rate. Because SOFR is based on repo transactions, it will inherently be affected by market activity. That is, since these represent actual borrowing rather than rates that a bank projects it could get under LIBOR, there will be more activity-based fluctuations. Because borrowers tend to use repos to provide temporary liquidity to their portfolio, any time with increased (or decreased) needs for liquidity can move SOFR. For example, a particularly large fluctuation was experienced in September 2019. This event was triggered by a cash crunch driven by two key factors (Joseph McCormack, PhD, 2021):

- Corporate tax payments were due on September 16. When corporate tax payments come due, companies withdraw funds from banks and money-market funds, draining the reserves held by each bank.
- Long-term Treasury debts were settled. When Treasury debts come due, the cash is not dispersed until the next business day, which causes an increase of Treasury securities held by primary dealers. These transactions are financed through the

repo market, resulting in a further increase in demand for funds.

This factor drained cash reserves from the system, requiring banks to borrow funds. This mismatch of increased demand and limited supply led to a spike in SOFR.

Implementation of SOFR in Bangladesh

Government of Bangladesh has already lent from bilateral and multilateral lenders like the WB, ADB, AIIB, Islamic Development Bank, French lender AFD and German lender Kfw. Due to the on-going demand of transition from LIBOR to SOFR, Bangladesh had been receiving multiple requests from different organizations for the smooth transition. For example, ERD had been receiving letters from ADB's Country Director since October 2021 on how to replace/amend the agreements which contained references to LIBOR. The following progresses had been observed in Bangladesh for the transition from LIBOR to SOFR:

- Foreign Exchange Policy Department of Bangladesh Bank had issued a circular on 21st June 2021 informing that in order to bring flexibility in a wider scope for short term export financing in foreign currency at post shipment stages alternative reference/benchmark rate in the currency of financing, declared by competent bodies, may be applied with prescribed mark up of 3.50 percent per annum for discounting/early payment of export bills. Furthermore, Respective reference/ benchmark rate may, in case of necessity for phasing out of LIBOR, be applied during the credit period as per mutual understanding with the concerned lenders. In addition, ADs shall refrain from arranging LIBOR-tag financing as and when global discourse is published with regards to deadline for its usability.
- As per an article published in the Financial Express (FHM HUMAYAN KABIR, 2021), Finance Ministry had already asked Economic Relations Department (ERD) to scrutinize the transition from LIBOR to SOFR.
- Transitioning away from LIBOR linked borrowing, Prime Bank Limited made a trial SOFR-linked transaction on 25th August 2021 with Wells Fargo Bank, New York.
- In September 2021, Wells Fargo, SG has extended a trade loan facility for 180 days to EBL where SOFR has been taken as the USD benchmark rate instead of LIBOR.
- In December 2021 (Prothom-Alo, 2021), BRAC Bank organized a seminar on 'Transition from LIBOR' for the treasury officials of different banks across the industry.
- In March 2022 (The Business Standard, 2022), an agreement for syndicated unsecured term loan facility of USD 25 Million was signed between Bank Muscat of Oman and Bank Asia Ltd. As per the

news article, it is the first SOFR-based Syndication Term Loan facility in Bangladesh.

- In April 2022 (Financial Express, 2022), Mutual Trust Bank finalized a long term loan amounting to USD 15 Million with funds managed by responsAbility Investments AG.

Conclusion

SOFR has not yet been universally adopted in commercial financing arrangements, and its status as the global LIBOR replacement is not an inevitable conclusion. Even though it seems that SOFR has become the front-runner in the race toward universal benchmarks, however LIBOR replacement will remain an important topic of discussion for all participants in commercial financial transactions for years to come as more post-LIBOR financial arrangements are originated and existing financings are evaluated in connection with LIBOR's eventual departure.

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Empathic Corporate Leaders Badly in Need in Bangladesh

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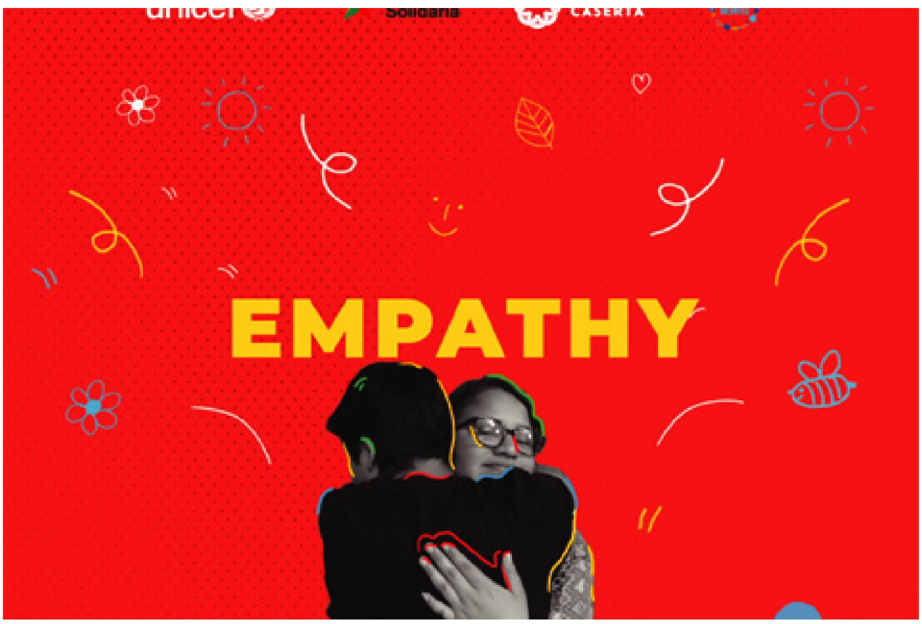
What makes you a successful corporate leader within your workspace? Definitely, some mantras are there to attain leadership qualities. For my money, leaders should be empathic, humane, compassionate, considerate and unbiased always, in times of crisis and beyond. A recent Forbes article prioritises empathy to lead a team of co-workers. Empathic leaders can help decrease workplace burnout as bad bosses cannot do. Spirit loses and work suffers for bad bossing. Empathy, well-being and resilience are intertwined. The pandemic years 2020 and 2021 have taught businesses to place empathy before profit. Covid-19 has taught us to remain united and feel a sense of belonging in trying times. We need to cultivate three Cs—community, communication and connection. Networking sells. It pays dividends in the end. A country is characterised by the unity of its citizens and united development by its leaders. By the same token, an economy is determined by the quality of leadership it nurtures and the future it grooms for the prosperity of the posterity.

Community, communication, connection and correlation have existed since time immemorial. But the norm has gained a tempo in modern times for faster networking or social connectivity tools. This linkage has now become par for the course with the social ecosystem. Networking embraces the social capital



theory that well-connected people experience better returns. By the same token, a country is characterised by the unity of its citizens and united development by its leaders. Similarly, an economy is determined by the quality of leadership it nurtures and the future it grooms for the prosperity of the posterity. The development of a country and that of corporate professionals are thus intertwined. Prudent leadership is at a premium for putting things in place. For this, a circle of corporate sages with observant eyes and strong analytical sense is imperative for a strategic economic and fiscal plan in times of crisis. Coronavirus pandemic can be a case in point here. The nation's brains intervened as they worked night and day to overcome any bleak future as an economic crisis was unfolding. Economic gurus played the role of a saviour alongside the state apparatus.

Bad Bossing Versus Mental Sickness

Life is short but apparently it can become a lot shorter if you spend your days dealing with a bad boss because poor leadership poses a health risk at work. A transcontinental study, done in the United States, Finland, Germany, Italy, Poland and Sweden, reveals that a toxic manager can ruin your mental health. Perceived poor managerial leadership increases not only the amount of sick leave taken at a workplace, but also the risk of sickness among employees later on in life. The longer a person has had a 'poorer' manager, the higher his or her risk of suffering a heart attack within a decade, according to a new thesis from Karolinska Institutet. For 75 per cent of Americans, bosses are a major cause of stress at work.

A LinkedIn article published by Quartz magazine reveals that a bad boss can be as harmful to employees as passive smoking. The article also says that the longer you stay in a job working for someone who stresses you, the greater the damage is to your physical and mental health. According to Quartz, the American Psychology Association discloses that 59 per cent out of the stressed 75-per cent Americans would not leave their jobs. Statistics show employees get used to their jobs despite the fact that they are unhappy. This further complicates their process of resignation as they are no longer motivated to search for a healthier working environment which could improve their situation.

Worse than cigarettes, researchers at the Harvard Business School and Stanford

University in the United States gathered data from over 200 studies and found that stress at work can be as harmful to the health as the exposure to a considerable amount of smoke from other people's cigarettes just like passive smoking. The main reason for stress at work for most employees is the risk of losing their jobs. As a consequence, chances are that these employees are 50 per cent more prone to health problems than their colleagues.

Employees in a demanding job are expected to deliver more than they can give and this increases their chances of acute health problems by 35 per cent. In some cases, the problems with the bosses are merely a matter of affinity. But how do you recognise whether you belong to the first category or the second? Bad bosses are overly aggressive, narcissistic and even violent sometimes. They often use phrases like "We've always done it like", "You can count yourself lucky to even have a job" and "This place is a mess when I'm not around." Given the present job market, it is not an easy decision to quit a job and start anew.

Empathic Leadership is The Answer

According to the latest findings of a global study, empathy is the most important leadership skill as far as humane leadership is concerned. Empathy may not be a brand-new skill, but it has a new level of meaning and priority. The fresh research shows how critical leadership skill empathy is to develop now and in the future of work. Empathy can produce significant business results. You always knew demonstrating empathy is positive for people, but new research demonstrates its importance for everything from innovation to retention. Great leadership requires a fine mix of all kinds of skills to create the conditions for engagement, happiness and performance, and empathy tops the list of what leaders must get right.

Effects of Stress

The reason empathy is so necessary is that people are experiencing multiple kinds of stress, and data suggests it is affected by the pandemic—and the ways our lives and our work have been turned upside down. Mental health comes first. A global study by Qualtrics found 42 per cent of people have experienced a decline in mental health, 67 per cent experienced a rise in stress, 57 per cent increased anxiety and 54 per cent are emotionally exhausted. Fifty-three per cent of people are sad, 50 per cent irritable, 28 per cent having trouble concentrating, 20 per cent taking longer time to finish tasks, 15 per cent having trouble thinking and 12 per cent challenged to juggle their responsibilities.

Then comes personal life. A study in Occupational Health Science found our sleep is compromised when we feel stressed at work. Research at the University of Illinois found when employees receive rude emails at work; they tend to experience negativity and spillover into their personal lives and particularly with their partners. In addition, a study at Carleton University found when people experience incivility at work, they tend to feel less capable in their parenting. Performance, turnover and customer experience comes next. A study published in the Academy of Management Journal found when people are on the receiving end of rudeness at work, their performance suffers and they are less likely to help others. A new study at Georgetown University found workplace incivility is rising and the effects are extensive, including reduced performance and collaboration, deteriorating customer experiences and increased turnover.

Positive Outcomes

As we go through tough times, sociologist Tracy Brower writes, with burnout or unhappiness at work, empathy can be a great healer and a powerful antidote, and it contributes to positive experiences for individuals and teams. A new study of 889 employees by Catalyst found empathy has some significant constructive effects. Innovation is the first outcome. When people reported their leaders were empathetic, they were more likely to report they were able to be innovative—61 per cent of employees compared to only 13 per cent of employees with less empathetic leaders. The next is engagement. Seventy-six per cent of people who experienced empathy from their leaders reported they were engaged compared with only 32 per cent who experienced less empathy. Retention is also another result as 57 per cent of white women and 62 per cent of women of colour said they were unlikely to think of leaving their companies when they felt their life circumstances were respected and valued by their companies. However, when they did not feel that level of value or respect for their life circumstances, only 14 per cent and 30 per cent of white women and women of colour respectively said they were unlikely to consider leaving.

Inclusivity is imperative. Fifty per cent of people with empathic leaders reported their

workplace was inclusive. Work-life is another issue. When people felt their leaders were more empathetic, 86 per cent reported they are able to navigate the demands of their work and life—successfully juggling their personal, family and work obligations. This is compared with 60% of those who perceived less empathy. Cooperation is also a factor. A study published in Evolutionary Biology finds when empathy was infused into decision-making; it increased cooperation and even caused people to be more empathic. Empathy fostered more empathy.

Wired for Empathy

In addition, empathy seems to be inborn. In a study by Lund University, children as young as two demonstrated an appreciation that others hold different perspectives than their own. Research at the University of Virginia found when people saw their friends experiencing threats; they experienced activity in the same part of their brain which was affected when they were personally threatened. People felt for their friends and teammates as deeply as they felt for themselves. All of this makes empathy an important part of our human condition—at work and in our personal lives.

Leading with Empathy

Leaders can demonstrate empathy in two ways. First, they can consider someone else's thoughts through cognitive empathy like "If I were in his/her position, what would I be thinking right now?" Leaders can also focus on a person's feelings using emotional empathy like "Being in his/her position would make me feel good/bad". But leaders will be most successful not just when they personally consider others, but when they express their concerns and inquire about challenges directly, and then listen to employees' responses.

Leaders do not have to be experts in mental health in order to demonstrate they care and are paying attention. It is enough to check in, ask questions and take cues from the employee about how much they want to share. Leaders can also be educated about the company's supports for mental health so they can provide information about resources to additional help.

Great leadership requires action. One leader likes to say, "You're behaving so loudly, I can hardly hear what you're saying." People will trust leaders and feel a greater sense of engagement and commitment when there is alignment between what the leader says and does. All that understanding of someone else's situation should turn into compassion and action. Empathy in action is the understanding of an employee's struggles and offer of help. It is appreciating a person's point of view and engaging in a healthy debate that builds to a better solution. It is considering a team member's perspectives and making a new recommendation that helps achieve greater success. As the popular saying goes, people may not remember what you say, but they will remember how you made them feel.

Leadership Creation by Unilever

Unilever Bangladesh Limited, the leading multinational fast-moving consumer goods company in Bangladesh, has recently kicked off its flagship business case competition BizMaestros 2021 to search for future business leaders through multiple rigorous rounds of assessment and grooming under the theme 'Navigating in the New Normal'. The company has been organising the competition conceptualised in 2010 with an eye to developing leadership qualities and analytical skills for the future among youths studying at the tertiary level to give them the 'thrill of real business.

In Sum

It is believed that the making of business leaders will be a textbook example of this kind in ensuring the best corporate culture in the private sector and helping maintain the international best practice in the era of the fourth industrial revolution. Chances are first flying past us to harness the demographic dividend in Bangladesh. We strongly believe that MDs and CEOs will be a guiding light to lead their financial institutions and other glocal corporates and multinationals in sync with the rapid march of cutting-age technologies. We believe they will fight isms like cronyism, regionalism and sexism in the workplace and always stick to integrity and budge an inch from their pledges. It is our collective belief that leaders will fight all isms in the workplace to bring work to life by bringing life to work. Last but not least, employee wellbeing is the key to workplace productivity as employees need high wellbeing for high performance.

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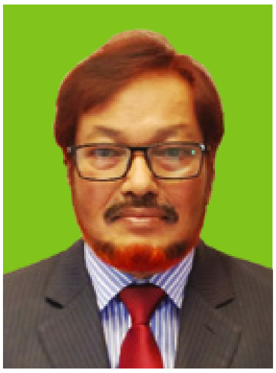
Bangladesh Dairy Industry:
A Lucrative Sector for Investment Heterogeneity

M Jalal Hussain FCA



The Author is a Fellow Member of the Institute of Chartered Accountants of Bangladesh (ICAB)

Introduction

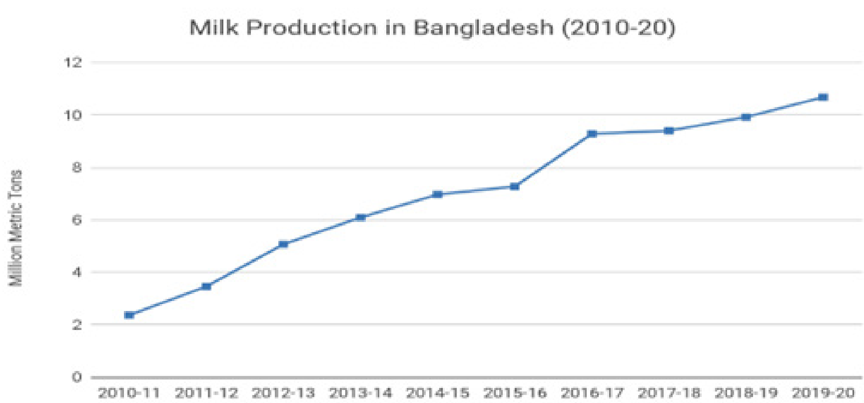
Every country, big or small, has some natural ascendancies and potentialities for growing specific industries, viz., Dairy Industry in New Zealand, Garments Industry in Bangladesh and Leather Industry in Italy.Bangladesh has naturally been blessed with large number of populations, fertile flat land, plenty of water, tropical weather that support the idea of establishing mega-dairy industry with the latest advanced technologies. Dairy industry can be made an important sector economy after garments industry. The dairy sector in Bangladesh is very significant for poverty alleviation, employment generation, food and nutrition improvement, women's empowerment and earning foreign exchange. It provides milk, meat, hide and skin in addition to providing of non-human farm energy needed for ploughing, crushing, and transportation. The share of livestock in Bangladesh GDP is 3.47%, according to Department of Livestock Services (DLS) (2020). There's huge demand of dairy products - like pasteurized and powdered milk, yogurt, cheese and butter in Bangladesh. Due to low-production, supply constraints and lack of optimal quality enhancement the country has to import powdered milk. It spent US$ 365 million for milk-powder import in 2020, in a cumulative increase from $250 million in 2015.

True potential of Bangladesh's dairy industry, which now processes only nine per cent of the country's total fresh milk, remains basically unmapped for what appears to be import bias.There are cyclopean opportunities for investment from home and abroad in the milk-producing sector as only a handful of actors are in the trade and in manufacturing. According DLS report the size of Bangladesh's milk market is $2.47 billion which is expected to grow over 5.0 per cent annually in the coming years. It's a big size market that justifiably deserves local and foreign direct investment and a lucrative sector for investment heterogeneity.

Health Benefits of Dairy Products

Health benefits associated with dairy foods extend far beyond building and maintaining healthy bones and teeth. Having enough milk, yoghurt and cheese can also be good for heart health, blood pressure and maintaining a healthy weight.Milk, cheese and yoghurt are naturally full of important nutrients such as calcium and protein. The unique package of vitamins and minerals they provide means these dairy products pack have some pretty important health benefits.

In fact, the Australian Dietary Guidelines say that "consumption of milk, cheese and yoghurt is linked to a reduced risk of heart disease, stroke, hypertension, type 2 diabetes, metabolic syndrome and colorectal cancer – some of the main causes of death in Australia." Daily consumption of dairy milk in Bangladesh remains relatively low -- 47 milliliters per day per person--whereas the World Health Organization's recommendation is 250 milliliters per day per person.



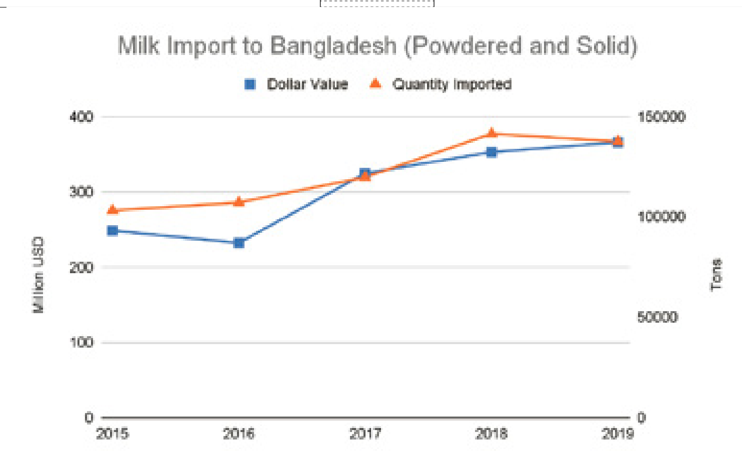
Milk production trend in Bangladesh / Source: Department of Livestock Services

Challenges Face by Dairy Industry in Bangladesh

Despite the huge demand and growth potential of Dairy Industry in Bangladesh, the advancement of the industry is incumbered by several challenges in the ecology:

Low Production-Yield

The domestic production of milk is still too squatty to realize its full prepatent. One of the main reasons behind low production is the absence of high-yielding breeds in the country. As most of the produced milk comes from marginal farmers who rear low-yielding local breeds, the bottleneck in the supply chain is slowing down the growth in the sector. To put it into context, an average local breed cattle's yield is around one-twentieth of that of a cross-breed cattle.



Milk import to Bangladesh / Source: International Trade Center

Lower milk production efficiency of local breed is a serious challenge. There are about 24.4 million cattle in our country and most of them are local breeds. The yield of local cattle is only about 1/2-liter milk per day (200-250 litter /year). However, the production of crossbreed varies and it is about 7/ 8 litter per day (1500 – 1800 liter per year).In the 2020-21 fiscal year, the production of fresh milk in the country was 11.9 million tons and the demand was 15.4 million tons, as per data provided by the Department of Livestock Services (DLS). The Department of Livestock has a projection to be self-sufficient in milk production by 2030 with an aggregate output of 17.22 million tons. In New Zealand, the number of dairy cattle is about 4.94 million which is lower than Bangladesh but it produced about 21.9 tons of milk in the year 2020-21and it is the 8th largest milk-producing country and the top-most milk exporting country.The DairyNZ and Livestock Improvement Corporation (LIC) statistics show that in the 2019-20 season, New Zealand dairy companies processed 18.9 tons of milk. (Source: The Cattle Site dated 06/01/21).

High Cost of Production and Inane Prices

One of the starrer problems that riddles the dairy industry in Bangladesh, is that the farmers are being deprived of fair prices for their produce. According to Milk Vita, the largest industrial processor in the country, a farmer is offered only 35-40 taka for a liter of milk depending on the fat level, whereas the cost of production is on average 43 taka a liter, driven by cost pressures such as increasing prices of fodder and raw feed ingredients. Exiguous prices act as a deterrent to farmers to produce milk for industrial processors and maintain the quality of the milk.

"The price of dairy feed such as straw and wheat bran has soared in the past few months, making it near impossible for small or marginal farmers to make a profit amid increased production costs. Milk production has turned costlier in the past few months due to soaring prices of animal feed, leaving dairy farmers with little hope of securing expected profits" as reported by Daily Star dated September 22, 2021.

The growth in production in the last ten years has been fairly linear with a few spikes. The largest growths were observed in the years 2017 and 2020. Various factors including the introduction of efficient methods, zoological factors, the advent of industrial processors, etc. appear to have expedited the growth in milk production in Bangladesh.

Low-Quality Produce

As the informal segment of the industry is dominated by small farmers and market intermediaries, quality control processes are inadequate or non-existent. As a result, the quality of milk is not being ensured. In addition to that as farmers don't get the fair price for their merchandise, they are often tempted to contaminate milk to increase quantity to cover their costs or to make profit. In a study conducted in

List of top 10 milk producing countries and top 10 milk exporting countries is shown below:

Top 10 Milk Producing Countries in FY 2020 21

Sl No.	Name of Country	In Billion Kilograms
1	USA	91.30
2	India	60.60
3	China	35.70
4	Brazil	34.40
5	Germany	31.30
6	Russia	30.30
7	France	23.70
8	New Zealand	18.90
9	Turkey	16.70
10	UK	13.60

(Source: Trendrr dated July 02, 2021)

Top 10 Milk Exporting Countries in FY 2020-21

Sl No.	Name of Country	In Billion USD	% of Total Export
1	New Zealand	6.5	22.4
2	Germany	2.9	10.1
3	USA	2.3	7.9
4	Netherlands	2.2	7.5
5	France	1.8	6.2
6	Belgium	1.5	5.2
7	Australia	0.947	3.3
8	Poland	0.834	2.9
9	Ireland	0.774	2.7
10	UK	0.726	2.5

(Source: Trendrr dated July 02, 2021)

the Barishal district, it was observed that 100% of the samples collected were adulterated with water. Apart from that, other adulterants present in the samples were cane sugar (26%), powdered milk (14%) and starch (12%).

Import Biased

As the domestic production is not yet sufficient to cover the demand for milk in the country, the market is still heavily dependent on imports. Despite the growth in domestic production, the import quantity of milk and milk derivatives has increased over the decades. According to International Trade Center, powdered and solid milk products worth $365.87 million were imported in the year 2019-20.

Exiguous Funding

Although the livestock and poultry sector as a whole received a bigger allocation of the Government Budget of FY 2020-21 than the previous ones but the dairy industrial sector is still not getting enough attention. Issues like a shortage of medicine and feed for the cattle, and inadequate training of staff due to lack of necessary funds are ultimately resulting in poor product quality and low dairy production.Dairy farmers of Bangladesh are facing with challenges such as limited access to financial services, lack of working capital, low liquidity, no subsidy, no financial incentives from the government and high costs of production due to inadequate access to market.

Challenges arose from COVID19 Pandemic

Most of the industries around the globe have been severely suffering due to COVID 19 Pandemic. Bangladesh dairy industry has suffered in terms of production, sales and profitability. 20% dairy farms were closed down in the pandemic as reported in DhakaTribune dated March 11, 2022."COVID-19 and its accompanying effects have severely affected an estimated 0.3 million dairy farms and 65–70 thousand commercial poultry farms in Bangladesh. Many of them closed down or halted productions due to the burden of continuous losses. Reports showed that about 12–15 million liters of milk have remained unsold, which has caused a daily loss of 570 million Bangladeshi Taka (6.7 million USD) in the dairy sector only. Furthermore, the poultry sector has also encountered a loss of a minimum of 115 billion Bangladeshi Taka (1.35 billion USD). The situation might accelerate the arising food crisis due to the collapse of the livestock sector during the COVID-19 pandemic and turn it into a humanitarian catastrophe". (Source: Journal of Agriculture and Food Research, Volume 4, June 2021).

The production of fresh milk in the country was 11.9 million tons and the demand was 15.4 million tons, as per data provided by DLS. Milk production in Bangladesh is very low in comparison with top ten milk producers. Although India is the 2nd largest milk producer, it's not in the list top 10 milk exporting countries.

Ways Forward for Dairy Industry in Bangladesh

With the current deficit of about 5.0 million metric tons and additional requirement of 6.0 million tons in 2030, Bangladesh needs to produce additional 11.0 million metric tons of milk. Therefore, it needs to produce more milk through increased per animal milk production within next 5 years. Bangladesh dairy industry is growing up at a very slow speed though it has enormous scope to grow at high speed to meet the local demand for dairy products and also to export in the near future. The ways forward are summarized below:

Government Subsidy

Many countries in the developing and developed economies, help dairy industry, directly and indirectly by providing government incentives and subsidies. For example, Federal Governments of New Zealand, Germany, India and USA have been helping dairy producers by way of providing incentives and subsidies for the dairy farmers and for new dairy industry. India has been providing interest free loans to the dairy farmers. Bangladesh government may come forward with incentives, subsidies and interest free loans to the dairy farmers and dairy producers through its fiscal and monetary policies. In addition, Government may continue to provide incentives, minimizing VAT, AIT, impose more Tariffs on Import of Powder Milk to protect local dairy industry. Government of Bangladesh may undertake strategic plan to establish "Large Dairy Industry" as government owned industry by allocating sufficient fund in the Fiscal Budget. Investment in Dairy Industry will definitely create employment opportunities, save foreign exchange for import of powder milk and other milk products (USD 365 million annually), earn foreign exchange by exporting milk and milk products, improve health of the people, supply meat, clean environment and many more.

Create Enabling Environment for Dairy Industry

Breed development: It's needed to increase the number of crossbreeds and by importing high-yield cows from abroad since local cows give low-yield of milk and only a small percentage of the cattle in the country are crossbreeds. A high potential exists for milk production to continue increasing until the national demand for milk is satisfied (DLS, 2020). We should focus on increasing the productivity per cow but not the number of cows.

Control of diseases: Some major diseases such as FMD, Mastitis, Lumpy Skin Disease etc., must be controlled to keep the expected production. Ensure improved cattle-health at any cost.

Increase technical knowhow and provide expert services: The government and private sector should work together and provide training, technical services to improve farmer's knowledge and skill. A Research Institute needs to be established to conduct research and development in dairy products and marketing.

Conclusion

The most-prioritized economic task of a country, developing or developed,is to generate employment opportunities for its citizens. Bangladesh is a country with a population of about 180 million. To generate the employment opportunities for able-bodied and qualified people is the main task of the government. Investment in large-scale modern Dairy Industry in Bangladesh, may help create more employment opportunities for the people of this developing country.It's hoped that investment in Dairy Industry will come from local private, public and governmental entrepreneurs and foreign direct investment and will make Bangladesh economy, a diversified, increasingly sophisticated and resilient economy.

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ICAB publishes a quarterly Journal, The Bangladesh Accountant, to keep its members updated on technical issues and global developments in the profession. It is regularly read by all the members of ICAB both in Bangladesh and across the world. Circulation includes many major companies and financial institutions, governmental and semi-governmental organisations, NGOs and international accounting and professional bodies.

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Recognition of ICAB membership by ICAEW

Membership Scheme of The Institute of Chartered Accountants of England and Wales (ICAEW) allows the members of ICAB to apply for ICAEW membership based on their experiences.

Eligibility criteria of this membership scheme are a series of questions which assess ICAB Member's experience, achievements, skills and expertise. Each application must be supported by an eligible sponsor. Applicants need to complete an Examination of Experience.

Details of ICAEW Membership Scheme is available at http://www.icaew.com/membership/becoming-a-member/members-of-other-bodies/ campaigns/pathways-to-membership.

ICAB signed it's first Memorandum of Understanding (MoU) with the Institute of Chartered Accountants in England and Wales (ICAEW) in 2009. Since them, ICAB has been working with ICAEW as the learning and professional development partner, and also recognized as an approved tuition provider of ICAEW.

As per MoU, ICAB Members can be the members of ICAEW after successful completion of 04 papers out of 15. These members have the opportunity to apply for UK Practicing Certificate (PC) subject to meeting the standard ICAEW PC requirement.

Recognition of ICAB Membership by CIPFA, UK

Members of the Institute of Chartered Accountants of Bangladesh (ICAB) are eligible to apply for membership of the Chartered Institute of Public Finance and Accountancy (CIPFA), a globally recognised membership body for the public sector.

An MoU between ICAB and CIPFA, UK was signed on 28 January 2017. Under this MoU, an ICAB member can also become a members of CIPFA subject to fulfillment of certain criteria.

An ICAB Member with good standing having five or more years post-qualification public sector experience are eligible for Full Membership of CIPFA as Chartered Public Finance Accountant (CIPFA) and the members having fewer than five years post-qualification public sector experience are eligible as Affiliate member of CIPFA (CIPFA Affiliat).

ICAB members having CIPFA Affiliate membership, or having no working experience in public sector can gain CIPFA status with the successful completion of exams of only two papers i.e. Public Sector Financial Reporting and Strategic Public Finance.

Membership Pathways Agreement (MPA) with CPA Australia

The Institute of Chartered Accountants of Bangladesh (ICAB) has recently signed a Membership Pathways Agreement (MPA) with CPA Australia, one of the largest accounting bodies around the world. Through this agreement, ICAB members can be the members of CPA Australia just after passing 04 papers (i.e. 1. Ethics and Governance, 2. Financial Reporting, 3. Global Strategy & Leadership and 4. Strategic Management Accounting) out of their 12 papers. This MPA has been in effect since 20 July 2018.

Membership through Chartered Accountants Australia & New Zealand (CA ANZ) International Pathway Program (IPP)

The Institute of Chartered Accountants of Bangladesh (ICAB) signed an MoU with the Chartered Accountants Australia & New Zealand (CA ANZ). Under this, ICAB members living in Australia or New Zealand having five years post qualification experience at anywhere will be eligible to be member of CA ANZ after successful completion of CA ANZ International Pathway Program (IPP).

There will be no requirement of passing CA ANZ general route examinations by eligible ICAB members as their International Pathway Program (IPP) workshop through case studies would examine the contemporary Australasian business, accounting and finance environment relevant for members of ICAB. On the other hand, CA ANZ members can also be members of ICAB subject to having Bangladeshi citizenship and other requirements as prescribed by ICAB Bye-laws.

Membership of the International Valuation Standards Council (IVSC)

Efforts are underway for ICAB to Become a member of the International Valuation Standards Council (IVSC). This would create an opportunity for the members of ICAB to involve in the valuation process of local and foreign investment in Bangladesh.

This would allow Chartered Accountants to put up their highly essential services and play positive roles in attracting foreign investment. With regard to this, ICAB has already conducted a Members Conference. More so, a virtual meeting with the CEO of IVSC was held on 8 June 2021 where the IVSC proposed ICAB to become member of IVSC on pro-rata basis.

Other Memberships

ICAB is an active member of International Federation of Accountants (IFAC), Confederation of Asian and Pacific Accountants(CAPA) and South Asian Federation of Accountants (SAFA). ICAB is also an associate member of Chartered Accountants Worldwide (CAW).