B A N G L A D E S H R E S E A R C H

The State of Bangladesh Debt Market

August 06, 2001

End June 2000

- Bank Deposits, 72.19% Tk 749.32 billion
  Debt Market, 27.81% Tk 288.64 billion

Government, 99.64%		*Tk 287.60 billion*
	Treasury bills, 26.58%	Tk 76.45 billion
	Treasury bonds, 13.91%	Tk 40.01 billion
	Savings schemes, 59.28%	Tk 170.48 billion
Private, 0.36%		*Tk 1.04 billion*

- Effective Yield

Treasury Bills	8.63%
Treasury Bonds	7.02%
Savings Schemes	11.49%
Private Securities (debentures, effective)	16.58%
Deposit (Weighted Average)	7.26%
Lending (Weighted Average)	13.98%

- A major portion, 72.19%, of domestic savings is stacked in the form of term deposits with the commercial banks. State-owned Nationalized Commercial Banks (NCBs) dominates the banking sector.
- Bank deposits are being eroded through a sizable bad loan portfolio.
- The government, sharing 99.64% also dominates fixed income securities (FIS).
- Most of the FIS are not transferable except the treasury bills and private debentures. Transfer of the treasury bills is not also in vogue.
- Trading of private debentures is negligible due to poor quality of the instruments and credence of issuers.
- High risk-free interest rates and heavy government borrowing from general public is a hindrance towards developing a debt market.
- Absence of transferable and tradable sovereign instruments and credit ratings as well as the non-convertibility of Taka deter an active debt market in Bangladesh.
- There is a lack of product variations in the private debt market. The only form is semi-annual sinking fund debentures, mostly hybrids.
- Entrepreneurs are not aware of the wide varieties of vehicles of issuing debt available in the developed markets.
- Expertise, institutions and legal framework for issuing various forms of debt is yet to be developed.
- There are no visible policy guidelines of the government for developing an active debt market.
- The Regulatory Authorities appear to be oblivious and disinterested in debt issues.

The financial sector of Bangladesh is characterized by strong presence of commercial banks, especially state-owned ones. Most of the available funds are bagged by the banks in the form of deposits and channeled for investment through lending. However, they have a substantial bad loan portfolio. Especially Nationalized Commercial Banks (NCBs), receiving the largest pool of funds from general depositors, are suffering from the problem, which has taken a deep root.

The dominance of banks, with their huge bad loan portfolios and non-transferability of most of the debt/savings instruments are regarded as the prime hindrance in the development of a debt market *per se*. Lack of institutions with expertise in debt products, not so high credibility of the corporate borrowers, and absence of any credit rating agency, have been discouraging factors. It is our view at AIMS that the spectrum of financial products available in the developed market could be tailored to match the local need and conditionalities, given the right approach and an enabling environment.

On the government side, ever-increasing budget deficit is forcing heavy borrowings from the general public as well as the banking sector through high yielding savings schemes and other sovereign instruments. This is also discouraging general investors from investing in other financial products. Financial intermediaries do not also feel comfortable in launching new debt products anticipating lack of interest.

Few recent steps, however, are expected to help moving from the inertia. Multilateral agencies like the Asian Development Bank (ADB) and the World Bank (WB) have been stressing for diversifying the financial product basket. Efforts for introducing Collateralized Loan (Lease) Obligations (CLOs), facilitating Non-Banking Financial Institutions (NBFIs) to raise funds and framing of rules for creating Credit Rating Agencies are few steps towards clearing the initial hurdles. Regulations for merchant banking, portfolio management and mutual funds in the private sector have created scopes of institutionalizing the capital market and introducing new financial products. Adoption of Bankruptcy Law is also thought to be conducive to the development of a debt market. The waiver of the high 2.5% registration fees on the Trust Deeds of bond and debentures are steps in the right direction. However, there remains a lot to be done.

We feel the need for a comprehensive regulatory and policy framework for enhancing confidence of general investors in the debt instruments. We also expect institutions to come forward with new debt products for attracting general investors by matching their diverse investment needs.

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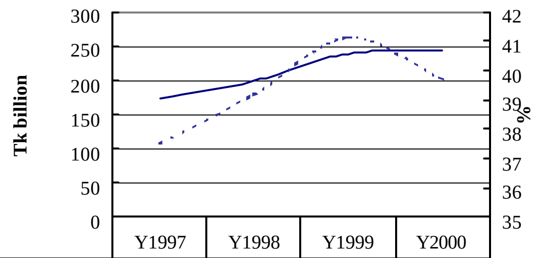
Structure of the Financial Market of Bangladesh

The financial sector of Bangladesh is dominated by commercial banks. The main stream of funds flows from general public as deposits to corporates and government as credit. Tk 749.32 billion deposits constitute 72.14% of total domestic savings that is accounted for.

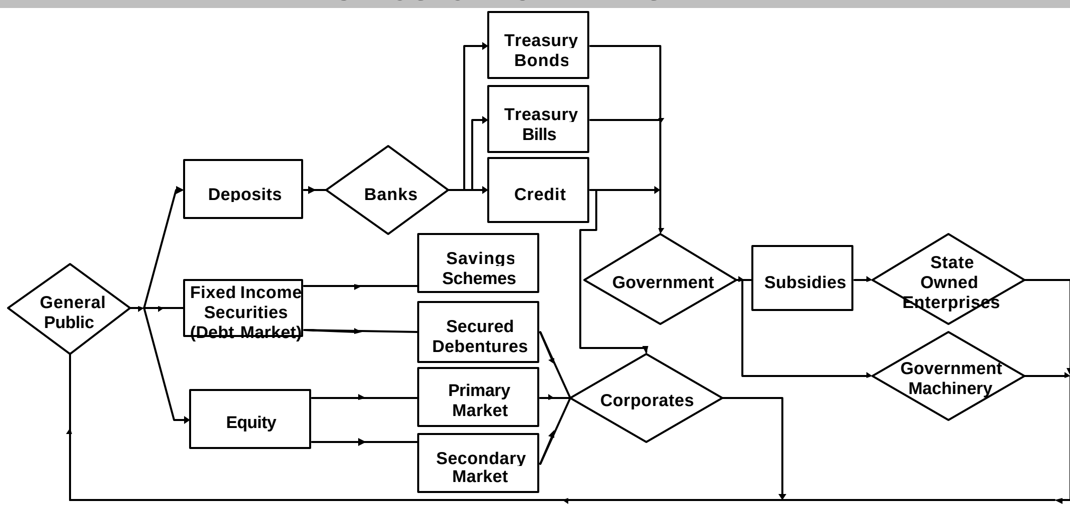
Nationalized Commercial Banks (NCBs) attracted the highest 54.55% of public deposits. Credit to government from the banking system stood at Tk 201.89 billion in April 2000 which is 28.34% of deposits and is used to provide subsidies to the state-owned enterprises (SOEs) and running the state machinery. Government financed Tk 77.76 billion or 20% of its Tk 379.53 billion annual budget from internal debt in 1999-2000.

CLASSIFIED LOANS



	Y1997	Y1998	Y1999	Y2000
Tk billion	173.32	199.03	238.79	242.75
%	37.49	39.18	41.11	39.70

THE STRUCTURE OF FINANCIAL MARKET



Fixed income securities including non-transferable instruments constitute 27.81% of domestic debt. Corporate debentures are only less than 1% of the debt securities market. Therefore, there is a huge gap in the market, providing an opportunity for floating private sector bonds.

Heavily Burdened Banking Sector

Despite tightening, classified loans in the banking system stood at Tk 242.75 billion in June 2000 against Tk 238.79 billion in December 1999. The pace of acceleration has however declined and the amount as percentage of out-standing loan portfolio has improved to 39.70% from 41.11% the last year. The share of classified loans stood as follows:

Nationalized Commercial Banks (NCBs)	44.62%
Private Commercial Banks (PCBs)	25.78%
Foreign banks	3.74%

The banking sector also fell short of the required provisioning by Tk 50.57 billion. The default culture is also discouraging endeavors towards development of a healthy debt market.

Widening Fiscal Deficit

The country is at risk of a debt trap due to widening fiscal deficit. Revenue collection has fallen short of target in 1999-2000 by 28.06 billion or 11.61%, though; it increased by 8.35% over the realized revenue in 1998-9. Persistent revenue shortfall is forcing the government to borrow, which is increasing debt-servicing liability (principal repayment and interest). This is creating further revenue shortfall and therefore pushing the government to borrow further more. In 1999-2000, debt servicing cost a Tk 56.29 billion, which was 15% of the total budget. In the budget for 2000-2001, debt-servicing liability is estimated to increase to Tk 62.28 billion, 11% up from that in 1999-2000.

It appears to be almost impossible for the government to tighten on the expenditure side. So enhancing revenue earnings remain as the only option, which requires expedition of the reform measures being initiated in the tax collection system, including widening the VAT net Stop gap solutions of imposing supplementary duties on imports is also being tried out, with mixed results.

Lack of Diversified Financial Product Basket

Businesses mostly depend on the commercial banks as the major source of finance. In 1999-2000 net credit extended was Tk 76 billion. The banks procured net deposit of Tk 110 billion in the fiscal year and the government, through savings schemes, raised a net Tk 31.24 billion during the same period. Nationalized Commercial Banks (NCBs) hold 55% share of the total deposit. However, fund raised through Initial Public Offerings including over-subscription was only around 1.26 billion in 1999, about 1.8% of total financing. There was not a single debenture issue in 1999.

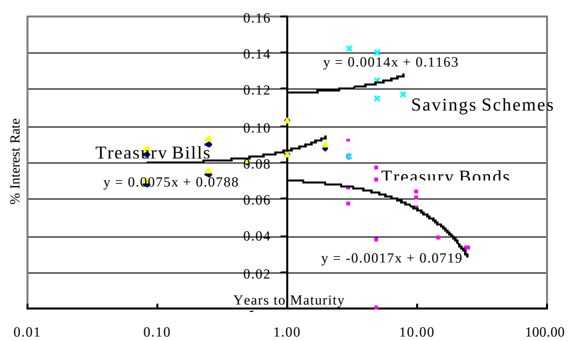
Out of total savings, 72% is in the form of bank deposit, mostly fixed term and 28% in Fixed Income Securities (FIS). In FIS, government issues constitute 99% share through treasury bills, bonds and savings schemes, leaving only 1% for corporate debentures. Out of all the FISs, only treasury bills and corporate debentures are transferable. However, transfers of treasury bills are not in practice.

We at AIMS believe that strong presence of state-owned Nationalized Commercial Banks (NCBs) and government Savings Schemes pooling funds of general people at interest rates having no direct relevance to inflation or yield curve, is hampering efficiency of the financial market and deterring development of new financial products. Interestingly though the funds in the hands of government are risk free, they offer higher rate of return - two government savings scheme offer as high as 13.5% flat and 14.2% compound interest rate.

High Risk-Free Interest Rates

As government is the single biggest borrower in the domestic market, rates offered by different government instruments determine interest rates of commercial banks and corporate debt issues. The graph shows yield curves for three class of government issued debt instruments.

Yield Curve of Debt of Bangladesh Government



From the best-fit lines we derive effective interest rates on treasury bills, treasury bonds and savings schemes at 8.63%, 7.02% and 11.49% respectively. Weighted average interest rate on deposit stands at 7.26% while that on lending 14%. However, lending is subject to maintaining Cash Reserve and Statutory Liquidity Requirement on deposits and a significant portion of lending turns bad. Therefore, effective interest rate on lending would be slightly less on those counts.

Lack of Institutions and Initiatives

There is lack of institutions ready to dedicate resources for product development. So far the market did not see any public offer of preference shares or equity warrants though the law does not restrict such issues. There has not been any major merger or acquisition or any tender offer for buying out a listed company. The traditional vehicles of investment, deposits and government savings schemes still remain most attractive to the general investors. After opening up the economy in the mid-seventies, stocks and life insurance products were familiarized to them. Later stock portfolio and mutual funds came into vogue.

Poor Confidence on the Private Sector

The reason why government is so successful in raising funds while the private sector is lagging behind, lies in the fact that the general investors' confidence on the private sector is shaky. Few corporate debentures are in gross default without any legal or moral recourse for the general investors. Only recently, the Securities & Exchange Commission (SEC) had to intervene against Doyel Group for defaulting payments against the debentures of Bangladesh Luggage Ltd. and Bangladesh Zipper Ltd.

Moreover, government has shown innovativeness in designing debt products matching the varying demand of small investors. Provision of depositing in small installments and six monthly interest payments for investment in the savings schemes, have been quite effective. Lack of legal framework for issuing various securities by the private sector banks and corporates is also responsible for such tilt in favor of the government.

Government Borrowing through T Bills Multiplying

Investment in treasury bills has grown 15.44x during 1995-2000. It indicates that due to maintaining expansionary monetary and fiscal policy by the subsequent governments, the deposits registered a high growth while scope of investment has not been sufficient to channel the deposit, forcing the banks to resort to treasury bills with low and declining yields.

1999-2000, Tk million

Treasury Bills	Simple Interest Rate	Effective Interest Rate	Raised during the year	Repaid during the year	Ending Balance
28 Days Treasury Bill	6.75%	6.96%	415,882	404,657	28,850
91 Days Treasury Bill	7.38%	7.59%	4,572	5,702	120
182 Days Treasury Bill	7.94%	8.10%	17,920	11,575	10,060
364 Days Treasury Bill	8.43%	8.43%	20,425	12,698	19,770
2 Year Treasury Bill	8.75%	8.94%	9,347	-	17,649
Total			**468,146**	**434,632**	**76,449**

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Bangladesh government treasury bills are zero coupon bonds in nature with maturities of 28, 91, 182, 364 days and 2 years. Though they are transferable such transfer is not in practice. Yield of the bills is determined by market through weekly auctions. The auctions are participated by the commercial banks.
Individuals are not qualified to participate in the auction. The merchant/investment banks also have never tried out the option of participation.

In 1999-2000 the Treasury Bill yield for one-year holding period has been derived at 8.63% from the best-fit yield curve. The weighted average yield (effective) of different maturities stands at 7.95%. Outstanding amount in treasury bills was Tk 76.45 billion in end-June 2000.

Treasury Bonds

Treasury bonds are issued from time to time to meet issue-specific financial need (closed end) of the government with maturities ranging from 3 to 25 years. Bangladesh government issued such bonds for funding jute sector rehabilitation programs, Biman Bangladesh Airlines, Bangladesh Telephone and Telegraph (T&T) projects, Bangladesh Shilpa Rin Shangstha (BSRS) and Bangladesh Shipping Corporation (BSC). Outstanding treasury bonds does not reflect the overall debt trend and remained steady, as government's increasing day to day demand for fund is met through treasury bills and the savings schemes.

1999-2000, Tk million	Years to Maturity	Simple Interest Rate	Effective Interest Rate	Year of Issue	Maturity	Raised during the year	Repaid during the year	Ending Balance
5% Income Tax Bond	-	-	-			-	-	247
15-year Special Treasury Bond	15	5%	3.80%	1990	2005	-	-	17,291
5% 15-year Treasury Bond 2008	15	5%	3.80%	1993	2008	-	-	5,000
5% 15-year Treasury Bond 2011	15	5%	3.80%	1994	2011	-	-	1,450
3-year (T&T) Treasury Bond 1999	3	6%	5.67%	1996	1999	-	550	-
3-year (T&T) Treasury Bond 1999	3	8.90%	8.21%	1996	1999	-	100	-
3-year (T&T) Treasury Bond 1999	3	10%	9.14%	1996	1999	-	1,390	-
25-year (Jute Sector) Treasury Bond 2018	25	5%	3.30%	1993	2018	-	236	4,314
25-year (Jute Sector) Treasury Bond 2019	25	5%	3.30%	1994	2019	-	164	2,992
25-year (Jute Sector) Treasury Bond 2020	25	5%	3.30%	1995	2020	-	27	555
7% 10-year (Jute Sector) Treasury Bond 2006	10	7%	5.45%	1996	2006	-	-	1,704
7% 10-year (Jute Sector) Treasury Bond 2005 & 2006	10	7%	5.45%	1996	2006	-	-	520
8.5% 10-year (BSRS) Treasury Bond 2000	10	8.50%	6.35%	1997	2000	-	500	-
4% & 5% (Biman) Treasury Bond 2000	5	4%	3.71%	1995	2000	-	570	-
5-year (Biman) Treasury Bond 2002	5	8%	6.96%	1997	2002	-	-	150
5-year (Biman) Treasury Bond 2002	5	9%	7.71%	1997	2002	-	-	350
8% 5-year (Biman) Treasury Bond 2003	5	8%	6.96%	1998	2003	-	-	200
9% 5-year (Biman) Treasury Bond 2003	5	9%	7.71%	1998	2003	40	-	800
7% 3-year Autonomous Bodies' (Textile) Bank Loan Bond 2001	3	7%	6.56%	1998	2001	-	-	257
8% 10-year Bangladesh Shipping Corp. Loan Bond 2008	10	8%	6.05%	1998	2008	-	-	1,033
7% 10-year (Jute Sector) Treasury Bond 2005	10	7%	5.45%	1995	2005	-	-	19
9% 3-year (T&T) Treasury Bond 2002	3	9%	8.29%	1999	2002	530	-	1,480
7% 5-year Treasury Bond 2004	5	7%	0.00%	2000	2004	1,653	-	1,653
Total Treasury Bond						**2,223**	**3,538**	**40,015**

Treasury Bonds are redeemable before maturity but not transferable. Total outstanding in T Bonds was 40 billion at end June 2000.

AGRANI BANK INDUSTRIAL DEVELOPMENT BOND

Poor industrial growth in subsequent years of the current regime excepting 2000 prompted the government to float Industrial Development Bonds (open-ended). The bond floated by the state-owned Agrani Bank in 1998 with Tk 5 billion collection target has received significant response. It attracted Tk 1.5 billion till December 2000. The bond offers 10% interest-rate for five-year maturity and 11% for seven-year with yearly compounding. One incentive is that the source of fund to be invested in the bond will not be questioned by the tax-authorities. It is designed to attract the undeclared money to contribute in industrial development. The profile of the investors could not be surveyed for the reason.

The fund collected from the industrial bond is not kept reserved for any concessional disbursement, nor any separate criteria are set for such disbursement. The bank sources found that the project is not viable for them as the offered interest rate on the bond was set at a high level by the government unilaterally whereas disbursement of the fund does not have any additional protection from defaults. A significant portion (nearly 50%) of the fund reportedly remained uninvested with the bank. The salient features of Agrani Bank Industrial Development Bond is as under :

Floatation	:	July 1998
Maturity	:	5 and 7 years
Transferability	:	Not transferable
Face Value	:	Tk 50,000; 100,000; and 500,000
Interest Rate	:	10% for five-year maturity and 11% for seven-year Interest can be withdrawn half-yearly; however, if not encashed it is compounded annually.

The simultaneously proposed US Dollar denominated Industrial Development Bond planned to be floated by state-owned Sonali Bank, is reported to have been stalled on bureaucratic bottleneck and technicalities, even though the American Express Bank got involved in the project.

Savings Certificates Attracting Huge Funds

The different 'Savings Schemes' has become a major source of fund for the government. They are open ended and have gained enormous popularity among the middle income bracket, due to flexibility in matching the savings and expenditure pattern of the middle class and the high rate of interest being offered.

Three-month interval profit-based savings certificate offers as high as 14.20% effective rate. Savings certificates with half-yearly, quarterly and monthly interest payments also have received tremendous response. The Wage Earners' Development Bonds (WEDB) is also popular with the expatriate Bangladeshis.

Employee pension and provident funds and retirees on pension are the main investors in the savings schemes. Tk 56.39 billion gross and Tk 32.31 billion net have been raised in 1999-2000 through these savings certificates as compared to only Tk 587.7 million raised from the entire primary equity market in 2000.

The Securities & Exchange Commission (SEC) regulates raising equity as well as debt issues from the public. There is a requirement to form a Trust - which in most of the cases become ineffective due to lack of a clear legal framework- to look after the interest of debenture-investors. Thirteen companies have issued debentures of Tk 2.5 billion, of which around Tk 1.5 billion is now outstanding.

Existing regulations are weak in providing recourse to the general investors. The debentures are traded at the stock exchanges but they have poor liquidity.

Impediments in Developing an Active Debt Market

The dominance of the government in pooling funds from general public is depriving the private sector from directly issuing debt instruments, which could help in activating the debt market. Non-transferability of the most of the existing debt instruments is also a big impediment. Lack of expertise and innovativeness and absence of institutions in bringing variations in debt products. A comprehensive legal framework and a policy guideline for liberalizing the debt sector are yet to be formulated. There is a lack of awareness and confidence on new debt products in the market, as well as with the Regulators.

1999-2000, Tk million	Simple Interest Rate	Effective Interest Rate	Year of Issue	Raised during the year	Repaid During the year	Ending Balance
6-year Bonus Savings Certificate	22.00%		closed	-	6	63
3-year Savings Certificate	15.00%		closed	-	9	1,103
8-year Defense Savings Certificate	17.75%	11.68%	1976	18,417	5,357	68,157
5-year Bangladesh Savings Certificate	14.50%	11.52%	1977	3,281	6,132	17,771
6-month Interval Profit based Savings Certificate	13.50%	13.96%	1997	1,954	524	12,660
3-month Interval Profit based Savings Certificate	13.50%	14.20%	1998	15,054	1,303	25,851
5-year Family Savings Certificate	13.20%	14.03%	1997	3,479	644	9,581
Wage Earners' Development Bond	16.00%	12.47%	1981	2,057	1,023	9,203
3-year National Investment Bond	9.00%	8.29%	1992	2,092	391	4,862
Bangladesh Prize Bond				441	364	1,704
Post Office Savings Bank				9,614	8,327	18,795
Jamanat Savings Certificate				6	-	6
Total Savings Certificates				**56,395**	**24,081**	**169,755**

The savings certificates are redeemable before maturity but not transferable. Individuals are mainly targeted and there are some restrictions, including ceiling limit, on institutions in investing in the savings certificates.

Debentures, the only form of private FIS

Debentures, first explored by Beximco Group through public issue of Beximco Pharmaceuticals Ltd. in 1988, have remained the only public debt-raising vehicle for private corporate houses. The debentures, some being convertible to equity, are secured with a Trustee and having a sinking fund indenture with deferred half yearly equal payment of principal and coupon offering interest rates ranging from 14-17% (nominal). There is no dedicated rule for issuing corporate debt securities in Bangladesh as yet.

September 2000

Company	Year of Issue	Amount Raised Tk million	Life	Year of Maturity	Amount Outstanding Tk million	Effective Yield, %
Beximco Pharma		24			Matured	Matured
Beximco Limited	1989	53	9	1998	Matured	Matured
Beximco Infusion[1]	1992	38	9	2001	8.73	Note[1]
BCIL	1993	20	6.5	1999	Matured	Matured
Beximco Synthetics	1993	375	10	2003	160.2	
Beximco Fisheries		120			68.56	37.71
Beximco Knitting	1994	300	10.5	2004	136.8	26.16
Eastern Housing	1994	900	7	2000	Matured	Matured
Beximco Textile	1995	240	10.5	2005	171.264	27.48
BD Zipper	1995	16	7	2002	8	Irregular
Beximco Denims	1995	214	10.5	2005	214.08	24.37
Bd Luggage	1996	120	7	2003	105	Irregular
Aramit Cement	1998	112	10.5	2008	90	16.58

Note [1]:Effective yield could not be derived due to complexity of profit participation.

The table provides the effective yield for few outstanding debentures. There are needs for dedicated laws for issuing corporate debt instruments, strengthening corporate disclosure, and variations in corporate debt instruments, especially unsecured bonds and debt instruments convertible to equity.

An earlier study by a multi-lateral agency on developing a bond market in Bangladesh has identified the following impediments, which we at AIMS also consider as most relevant :

- Weak governance institutions
- Overlapping role of the SEC and Bangladesh Bank
- Out-crowding effect from bad loan situation and fiscal deficit of the government
- Dominance of NCBs
- Cumbersome information system
- Insignificant non-banking sector
- Absence of arbitration institutions
- Absence of unsecured bonds
- Want of trained and experienced professionals
- No Credit Rating agency
- Few research and information institutions
- No secondary trading of government debt instruments
- Inferior interest rate structure
- No interest from intermediaries
- No SEC guidelines on FIS

"At present, Bangladesh law, government, fiscal and monetary policy and regulatory indecision combine to create a financial market monopoly for Government Savings Certificates and Nationalized Commercial Banks, which in turn restricted the emergence of alternative financial intermediation," the report summarized.

Road Map to Bond Market Development

Despite the impediments, the silver lining is that the government, aided by the Asian Development Bank (ADB) and the World Bank, has started to take steps to diversify the basket of financial products. The World Bank and IFC have conducted a study on developing a bond market in Bangladesh. Meanwhile, the Bangladeshi participants at the South Asia Regional Debt Market Symposium held under the auspices of IFC at Bentota, Sri Lanka during October 1999 chalked the following road map for development of the bond market :

1. Rationalization of the Interest Rate Structure whereby the Government borrows at the lowest possible rate to create a level playing field.
2. Establish benchmarking and long-term Yield Curve.
3. Provide a Legal Framework of user friendly Rules & Regulations, conducive to the creation and development of an active market.
4. Develop a system of issuance of future Sovereign Papers (Sanchaya Patras etc.) of different maturities as Tradable and Transferable Securities.
5. Fund future infrastructure projects through issuance of Government and Private Bonds.
6. Lower Registration and Issue cost of Bonds and Debentures.
7. Create independent Credit Rating Agencies.
8. Develop and strengthen market intermediaries like dealers, investment analysts, investment/ merchant bankers' etc.
9. Facilitate education process of market participants, including the investors and issuers.
10. Unbundle pension and insurance funds and promote flotation of private mutual funds, especially Money Market Mutual Funds.
11. Allow Investment Grade Corporate Bonds and Debentures to form part of SLR of Banks.
12. Facilitate Securitization and issuance of Asset Backed Securities and Colateralized Loan Obligations with the backing of multilateral agencies and development of Money Market instruments.
13. Establish Central Depository and Electronic Settlement and Registration System.
14. Upgrade Accounting and Disclosure Standards as well as Foreclosure Laws.

It is understood that the Asian Development Bank (ADB) is planning to conduct a comprehensive study titled "Long Term Financial Market Development Study" to diversify the product basket in the financial market.

We believe, effort to introduce Collateralized Lease Obligations (CLOs) against the future cash inflow of lease payments to refinance leasing companies is a significant step forward under the World Bank Funded Credit Bridge Standby Facility (CBSF) with the Bangladesh Bank. However, the vital component of the program that would have seen the issuance of asset backed securities has unfortunately not come through. We however, though expect to see asset securitization ventures in near future from the leasing and the housing finance companies. A World Bank funded project to assist the Securities & Exchange Commission (SEC) in framing relevant rules and regulations to facilitate creation of a vibrant debt market is reportedly ongoing.

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PROPOSED SECURITIZED BONDS OF BRAC

Despite the impediments, AIMS of Bangladesh Limited, the first and only approved Asset Management Company launching the first mutual fund under private initiative in the country, has been exploring opportunities for contributing in the development of an active bond market in Bangladesh and ventured in the first asset securtirization attempt in Bangladesh against micro-credit receivables of BRAC, regarded as the largest NGO in the world, running a large micro-credit program for the rural poor women in Bangladesh. BRAC is aspiring to be self-reliant in funding within 2001 as external sources of fund are gradually shrinking. Following a proposal and field study conducted by AIMS of Bangladesh Ltd., BRAC have engaged AIMS to design, structure and market as well as manage, as Trustee of the SPV, the securitization of their micro-credit receivables. Necessary documentation in this regard has already been finalized and submitted to the Securities & Exchange Commission (SEC) for clearance. Meanwhile, International Finance Corporation (IFC) is exploring the possibilities of their participation in the venture through probable creation of a liquidity facility.

AIMS has proposed the following modalities for the issue :

1. A bankruptcy-remote SPV (Special Purpose Vehicle) in the form of a perpetual Trust be formed to transfer designated receivable accounts in different tranches from time to time.
2. Each tranche of sales shall be effected by executing separate 'Assignment Agreement' to be executed between the Originator and the SPV.
3. AIMS will act as the Trustee of the SPV through executing and registering a Trust Deed with the BRAC.
4. Transfer of receivables shall maintain a 'true sale' status.
5. The SPV shall issue separate tranches of bonds and other financial papers to finance the purchase of each tranche of receivable pools (tap method).
6. AIMS will market the securitized instruments.
7. AIMS will act as the 'Paying, Transferring and Registering Agent' for the issue.
8. The SPV will appoint an independent 'Servicing Agent' for collecting receivables from the Originators, where BRAC may also be considered for appointment.
9. Separate 'Servicing Agreement' shall be executed for each tranche of sale of assets.

The following characteristics of the bond has also been proposed :

1. The asset pools, for which the bond will be issued, shall collateralize the bonds, i.e., the bonds will be secured by the pledge of respective asset pools.
2. The tenor of each bond shall match the life of the original loans of each pool.
3. Coupon of bonds may vary with the coupon of the original loans and the prevailing market interest rate.
4. The Bank Rate and the Agrani Bank Bond may be used as the floor and ceiling coupon benchmark for the first tranche of issue.
5. The first tranche of bond may have recourse to BRAC (the Originator) up to a legally accepted extent.
6. The credit quality of the bond shall be enhanced through over-collateralization by within 5%-10%.
7. The first tranche of the issue will be privately placed with bank and financial institutions and high net-worth individuals.
8. A portion of the subsequent issues of the bond may be distributed through IPO and listed at the stock exchanges.

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