

## ATTACHED TECHNICAL ASSISTANCE

### A. Introduction

1. The attached technical assistance (TA) of \$700,000 will support implementation of the proposed Third Capital Market Development Program. Preliminary discussions on the results framework, implementation arrangements, cost estimates, and terms of reference of the TA took place with the government during the fact-finding mission (8–12 February 2015).<sup>1</sup>

2. The TA will be provided to meet the capacity building needs of the Bangladesh Securities and Exchange Commission (BSEC) and the Insurance Development and Regulatory Authority (IDRA) to help both regulators discharge their oversight functions more effectively. A key objective of the TA is to support the government to carry out all policy conditions under the third capital market program.

### B. Outputs and Key Activities

3. The following outputs and activities under the TA will mirror the outputs of the third capital market program, and will strengthen the BSEC and IDRA for implementing reforms under the third capital market program.

- (i) **Install and operationalize the Bangladesh Securities and Exchange Commission new information and communication technology system.** The TA will provide expertise to support implementation and operationalization of the BSEC's information and communication technology (ICT) system.
- (ii) **Draft rules for derivatives by the Bangladesh Securities and Exchange Commission.** TA support will be provided to BSEC to draft rules for derivatives based on international best practices.
- (iii) **Facilitate establishment of a clearing and settlement company.** The TA will provide expertise to facilitate the establishment of a clearing and settlement company.
- (iv) **Draft regulations for issuance of *sukuks* by the Bangladesh Securities and Exchange Commission.** TA support will be provided to BSEC to draft *sukuk* (Islamic financial products similar to conventional asset-backed securities) rules based on international best practices.
- (v) **Provide training to the Insurance Development and Regulatory Authority additional staff to be mobilized after approval of its organogram.** TA support will be provided for training in areas that include supervisory and regulatory mechanisms to oversee insurance companies, monitoring and evaluation procedures, ICT management, corporate management of insurance companies, identification and management of governance issues, and the study of actuarial analysis.

### C. Cost and Financing

4. The TA is estimated to cost \$700,000, of which \$300,000 will be financed on a grant basis by the Republic of Korea e-Asia and Knowledge Partnership Fund to support BSEC's ICT system and \$400,000 will be financed on a grant basis by the Asian Development Bank's (ADB's) Technical Assistance Special Fund (TASF-V) for the remaining outputs and activities.

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<sup>1</sup> The TA first appeared in the business opportunities section of ADB's website on 20 April 2015.

The government will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, and other in-kind contributions.

**Table 1: Cost Estimates and Financing Plan**  
(\$'000)

Item	Amount
<b>A. Asian Development Bank<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (11 person-months)	220.0
ii. National consultants (5 person-months)	30.0
b. International and local travel	60.0
c. Reports and communications	5.0
2. Training, seminars, and conferences	48.0
3. Contingencies	37.0
<b>Subtotal (A)</b>	<b>400.0</b>
<b>B. Republic of Korea e-Asia and Knowledge Partnership Fund<sup>b</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (6 person-months)	120.0
ii. National consultants (3 person-months)	18.0
b. International and local travel	24.0
2. ICT equipment and software <sup>c</sup>	90.0
3. Training, seminars, and conferences	
a. Travel and per diem of resource persons and other costs	20.0
b. Training program	6.0
4. Contingencies	22.0
<b>Subtotal (B)</b>	<b>300.0</b>
<b>Total</b>	<b>700.0</b>

ICT = information and communication technology.

Note: The technical assistance (TA) is estimated to cost \$700,000, of which contributions from the Asian Development Bank and the Republic of Korea e-Asia and Knowledge Partnership Fund are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of government contribution is estimated to account for 6.7% of the total TA cost.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

<sup>b</sup> Administered by the Asian Development Bank.

<sup>c</sup> ICT equipment and software cost are budgeted for financing the regulatory information system. At the end of the TA, this equipment will become the property of the Bangladesh Securities and Exchange Commission. The Bangladesh Securities and Exchange Commission will finance the maintenance fees and post-implementation support.

Source: Asian Development Bank estimates.

5. The government will provide counterpart support in the form of office and housing accommodation, office supplies and, secretarial assistance, domestic transportation, and other in-kind contributions. The government has been informed that approval of the TA does not commit ADB to finance any ensuing project.

#### **D. Implementation Arrangements**

6. The TA implementation arrangements will be aligned with the third capital market program. The Bank and Financial Institution Division of the Ministry of Finance will be the executing agency, and will oversee and coordinate the timely implementation of the TA activities

through the program steering committee, comprised of representatives from implementing agencies. The TA will be implemented over 2.5 years, starting in January 2016.

7. ADB will recruit a consulting firm to provide 17 person-months of international and 8 person-months of national consulting services. The consulting firm will provide its technical expertise in the field and back office support. Consultants will be recruited, using the quality- and cost-based selection method with a standard quality–cost ratio of 90:10 because of the highly specialized expertise needed. All consultants will be recruited in line with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). All the disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Procurement will be carried out in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

8. An overview of the required consulting services is summarized in Table 2.

**Table 2: Summary of Consulting Services**

<b>Area of Expertise</b>	<b>Duration</b> (person-months)
<b>A. International</b>	
1. Capital market regulatory expert	3
2. Information and communication technology expert	3
3. Clearing and settlement system expert	3
4. Islamic finance expert	3
5. Derivatives expert	2
6. Insurance expert	3
<b>B. National</b>	
1. Information and communication technology expert	3
2. Clearing and settlement system expert	1
3. Islamic finance expert	1
4. Derivatives expert	1
5. Insurance expert	2
<b>Total (A+B)</b>	<b>25</b>

Source: Asian Development Bank.

## **E. Outline Terms of Reference for Consultants**

9. The tasks and duties of each of the consulting services are summarized as follows.

10. **Capital market regulatory expert and team leader** (one international, 3 person-months, intermittent). The capital market regulation expert must have extensive experience (preferably a minimum of 10 years) to lead (i) development of the capital market surveillance and supervision framework; and (ii) business process reengineering at capital market regulatory agencies, through the use of ICT. The expert will have in-depth knowledge of ICT solutions for capital market surveillance and supervision and business process reorganization at regulatory agencies. The team leader will be responsible for overall management of the TA for installation and operationalization of BSEC's new ICT system, and timely delivery of all outputs and reports in cooperation with ICT experts. The team leader will develop and oversee the team work program, and ensure effective coordination of all team inputs. The team leader will manage the team and coordinate closely with stakeholders. In close coordination with the implementing agency (BSEC), the team leader will perform tasks in a timely manner.

11. **Information and communication technology expert** (one international, 3 person-months, intermittent; one national, 3 person-months). The ICT experts must have extensive experience (preferably a minimum of 10 years) in ICT solutions for (i) capital market surveillance and supervision, and (ii) business process reengineering at capital market regulatory agencies. The ICT experts will have in-depth knowledge of the regulatory and supervisory framework for capital markets in Bangladesh. Under the supervision of the capital market regulation expert (the team leader), the ICT experts will be responsible for ensuring appropriate design, choice, and customization of software and hardware, and implementation and operationalization of the prioritized ICT applications. In close coordination with the implementing agency (BSEC), the ICT experts will assist the team leader to perform tasks in a timely manner, especially with their ICT technical expertise.

12. **Clearing and settlement system expert** (one international, 3 person-months, intermittent; one national, 1 person-month). The consultants must have extensive experience (minimum of 10 years) in establishing a clearing and settlement company. The main aim of the assignment will be to facilitate the establishment of a clearing and settlement company based on international best practices. Tasks will include (i) developing a regulatory framework for a national clearing and settlement regime with attention to (a) the structure and management of national settlement guarantee funds, and (b) the operational linkage between the proposed clearing and settlement company and the Central Depository of Bangladesh Limited; (ii) developing an effective framework for the organizational structure, staffing, and operating parameters of the proposed clearing and settlement company in alignment with BSEC guidelines issued as a first tranche policy action for determining the capital structure, ownership composition, governance structure, and risk management structure of the proposed clearing and settlement company; (iii) drafting BSEC guidelines for granting a license to establish a clearing and settlement company; (iv) consulting with industry stakeholders; (v) assisting and advising on the process of granting licenses; (vi) developing operations manuals for the clearing and settlement company; and (vii) providing training or seminars, if necessary.

13. **Islamic finance expert** (one international, 3 person-months intermittent; one national, 1 person-month). The consultants must have extensive experience (minimum of 10 years) in Islamic finance and have developed a regulatory framework and drafted rules for *sukuk*. The main aims of the assignment will be to draft *sukuk* rules based on international best practice. Tasks will include (i) developing an appropriate regulatory and procedural framework for *sukuk*; (ii) drafting the required regulations; (iii) consulting with industry stakeholders; (iv) assisting and advising on the issuance of relevant regulations; and (v) providing training or seminars, if necessary.

14. **Derivatives expert** (one international, 2 person-months intermittent; one national, 1 person-month). The consultants must have extensive experience (minimum of 10 years) in derivatives, and have developed a regulatory framework and drafted a regulation for derivatives. The main aims of the assignment will be to draft rules for derivatives based on international best practice. Tasks will include (i) developing an appropriate regulatory and procedural framework for derivatives; (ii) drafting the required regulations; (iii) consulting with industry stakeholders; (iv) assisting and advising on the issuance of relevant regulations; and (v) providing training or seminars, if necessary.

15. **Insurance expert** (one international, 3 person-months intermittent; one national, 2 person-months). The consultants must have extensive experience (minimum of 10 years) in insurance regulation and supervision. The main aim of the assignment is to provide training to additional IDRA staff to be mobilized after approval of the IDRA organogram. Tasks will include

training in (i) supervisory and regulatory mechanisms to oversee insurance companies, (ii) monitoring and evaluation procedures, (iii) ICT management, (iv) corporate management of insurance companies, (v) identification and management of governance issues, and (vi) the study of actuarial analysis.