A Study on
Performance of Security Board in Nepalese Capital Market

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RECOMMENDATION

This is to certify that the thesis

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Entitled

"Performance of Security Board in Nepalese Capital Market"

has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the Thesis

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as the partial fulfillment of the requirement for Master's degree in Business Studies (M.B.S.)

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DECLARATION

I, here by declare that thesis entitled "***Performance of Security Board in Nepalese Capital Market***" submitted to office of Dean, Management Faculty, Tribhuvan University, is my original work. It is prepared as the partial fulfillment of the requirement for Masters of Business Studies (M. B. S) under the supervision and guidance of Prof. Dr. Upendra Koirala, Central Department of Management, Tribhuvan University, Kirtipur.

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ABBREVIATION

ADB	Asian Development Bank
AGM	Annual General Meeting
CO.	Company
DPS	Dividend per Share
EPS	Earning per Share
IOSCO	International Organization of Security Regulatory Organization
IPO	Initial Public Offering
MPS	Market per Share
NRB	Nepal Rastra Bank
NEPSE	Nepal Stock Exchange
ORC	Office Registrar of Company
OTC	Over the Counter
SE	Security Exchange
SEBON	Security Board of Nepal
SEC	Security Exchange Centre

CHAPTER-I

INTRODUCTION

For the development of economic sector of a country, capital plays a vital role. The major concern of many countries of the world has been to accelerate their development process and to increase the welfare of their people. This can only be done through sound investment and mobilization of resource from one sector to another productivity sector. The capital market plays very vital role of bridging the deficit and surplus unit. It is a market for long term loan and equity capital having maturities greater than one year. It is a mechanism through which savings are canalized to industrial and enterprises.

"The capital market means any body of individuals, whether in corporated or not constituted for the purpose of regulating and controlling the business of buying and selling or dealing securities" *[Bhalla 1997 p.21]*. Growth of capital market in a country depends on high moral character and accountable behavior of institutions such as the government, central bank, stock exchange. Security board, organized institutions for accumulating capital from the market, mediators in the form of manager for issuing securities, creator of market, manager for investment, security dealers such as brokers and investors in the form of government bond holders, ordinary shareholders, preference shareholders and debenture holders and ordinary mutual fund holder.

The capital market is designed to finance long term investment by business, governments, and households. It is the institution that provides a channel for borrowing and lending of long term funds. The capital market is a financial market in which long term debt and equity instruments are traded. Financial instruments in the capital markets have original maturities of more than one year and range in size from small loans to multimillion rupee credits.

The capital market is one of the major components of economic development. Capital markets are forms of a significant part of the infrastructure, essential for functioning of the economy and in promoting industrial and economic development of the country. The tasks of mobilization and allocation of saving could be attempted in the old days by a much less specialized institution than the stock markets. Entrepreneurs needed money for long term, where as investors demand liquidity or the facility to convert into a cash at any given time. This was how the stock market came into being.

1.1 Focus of the Study

The act of raising funds by issuing shares to the general public in Nepal started in 1973 A. D. Though the development of security market could not be a national policy for a long time. Efforts to achieve economic growth in the country in a planned way started only in 1956 A. D. In different economic development plans, the government set the plans for economic growth and adopted various policies and programs, which were directed towards developing infrastructure necessary for the creation of the nation's wealth. Unfortunately, these policies and programmers failed to take into account the need to develop the financial structure that ought to exist side by side with development of the infrastructure necessary for the growth of real sector.

The process of stock market development in the country actually started in 1976 A. D. When the government started SEC to provide and develop market for securities, both the government bond and the corporate securities SEC used to manage and operate primary and secondary market of long term government securities and corporate securities. With the objectives SE act was enacted in 1983 A. D. The act provided some legal and institutional basis for the securities market development.

Establishment of Security Board, Nepal in 7th June 1993 A. D. under the provision of Security Exchange Act 1983 from its first amendment brought new era on the development of capital market. Everyone is looking more hopeful till now but it does not take any concrete step for the protection of the investors especially in practice however it has exposed its positive vision towards the investors like below:

SEBON has been established to promote and protect the interest of the investors by regulating the security market. Besides the regulatory role, it is responsible for the development of securities market in the country. Under this vision if SEBON is able to run itself looking over the protection of investor, it can be said that the scent percent chances of development of the capita market of Nepal are possible in the context of the world. Otherwise any types of event of the world-wide capital do not touch the Nepalese capital market. So, SEBON has to regulate the investor's issue of securities including mutual and trust funds under the primary and secondary market over looking upon the problem of the investors for its solution by advising government on the issuers, providing studies, training, organizing educational programs for the healthy and dynamic development of the Nepalese capital market. Specially, the investors are manipulated by companies from their prospectus having so many convincing factors like dividend paid, AGM held in time disclosure of the information and so many beautiful imaginary influencing factors but in practice it is not found in the market. It is because, SEBON does not strictly control to the companies.

SEBON has been established to supervise and develop the primary and secondary markets of the country's capital market system as well as financial or securities related participants and institutions. Its prime roles are to formulate policies, rules and regulations regarding the supervision, promotion, and development of securities businesses as well as other activities pertaining to the securities businesses; such as issuance and offer of securities for sale to the public; securities exchange, and entities related to securities businesses; acquisition of securities for business take-over's; and prevention of unfair securities trading practices.

The Governing Board of SEBON is composed of seven members including one full time Chairman appointed by the Government for tenure of four years. Other members of the Board include Joint Secretary of Ministry of Finance, and Ministry of Law and Justice, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

SEBON has given more emphasis on human resource base for the development of capital market by expanding infrastructure facilities to the investors. Human resource is also sensitive factor for the tremendous improvement of the capital market. It has sense of thought, sacrifice and progressive brain. So it should be protected for the development of the country. Everyone is so hopeful from the SEBON for solving the problem of the investors by considering rules and regulations of the Securities Exchange Act through liberalization policy of the government related with the improvement of the capital market especially of the real owners, real influencing factors, real base and so many interrelated with the investors.

SEBON supposed focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in the market. Investors should be protected from misleading, manipulative or fraudulent practices including insider trading and the misuse of asset of client. Full disclosure of the information material to investors is the most important means for ensuring investor protection. This study is focused to analyze:

1. How SEBON has been operating since last 10 years.

2. What activities has been undertaken in order to increase investor awareness and give recommendation to improve its regulatory activities.

3. What are the supervision & monitoring activities of SEBON? And how are they going on?

4. SEBON's operating activities and its impact on the capital market of Nepal.

1.2 Statement of the Problem

In the context of Nepal, the concept of capital market is not very old. It is still beginning or in introduction stage where different effort have been made for the development of capital market. In comparison to the developed countries, the capital market of Nepal is still far behind even after 18 years of its establishment of SEBON there seems to be very slow growth rate in capital market of Nepal. Ever since its establishment, SEBON has been performing the role of a regulatory body and a market developer. In both the roles SEBON has not been able to perform satisfactorily though it has made significant achievements along way. The work of SEBON is being hampered by the duplication and overlapping provisions in the law regarding regulatory duties like enforcement and supervisions in entry and exists of market intermediaries, etc. This, in fact is essence of the principles relating to regulator. The responsibilities of the regulator are still not clearly and objectively stated in the legislation and it still does not have a adequate powers and resources to perform its function and to exercise its powers. It lacks operational independency. SEBON does not have a comprehensive inspection, investigation and surveillance authority which hampered its efforts to build a fair, efficient and credible market.

In the fiscal year 2011/012, out of 216 listed companies, 165 listed companies submitted their annual reports within the prescribed time and 176 companies submitted their annual reports within the fiscal year to SEBON. One hundred seventy companies submitted their 1st quarterly reports, 167 companies submitted their 2nd quarterly reports, 170 companies submitted their 3rd quarterly reports and 153 companies submitted their 4th quarterly reports to SEBON. Likewise, SEBON has prepared the profile of listed companies submitting their financial reports.

The board mainly acts as a superfluous body trying to fulfill formalities rather than seriously attempting to corporate governance. The result has been poor security to investors as the general public; especially small investors are investing without a proper consideration. So taking the above problems in mind this research is aimed to show how SEBON can improve, its regulatory system, utilize its given authorities to make the investors awareness by protecting and promoting the investors by regulating the security market and can make the growth of the capital market of Nepal. Following are the research problems developed for the study.

1. Investor confidence in the NEPSE is relatively low due to stock price volatility rate is high, low return on investment and inadequate information may mislead to the investor for decision making. So how SEBON is able to register and regulate the secondary market?

2. False presentation of facts and exaggerated price of return in the prospectus by issuing company as well as registration and approval of the prospectus without due scrutiny by government offices may facilities the issues to raise money, this practice adversely

affects both issues and primary capital market in long run. Being the regulatory body, how is SEBON successful in promoting and protecting the interest of general investors?

3. Does the existing legal provisions under Act, Guidelines and Regulation of SEBON are sufficient in protecting and promoting for the interest of general investors?

4. Lack of monitoring and supervision of the securities transaction may create the unhealthy trading of securities. Does the existing monitoring and supervision of SEBON sufficient for the securities transaction or need the improvement?

5. Is SEBON able to make the contribution on the development of the capital market by making securities transaction fair, healthy, efficient and responsible?

1.3 Objectives of Study

The main objective of this study is to analyze the performance of SEBON in Nepalese capital market. Within the broad framework, the specific objectives are as follows:

1. To study the pattern of supervision & monitoring of SEBON in capital market of Nepal.
2. To analyze security market indicators data of SEBON.
3. To examine the ways of status of corporate disclosures submitted by listed companies to SEBON.
4. To evaluate the companies holding AGM.
5. To analyze the impact of performance of SEBON in the capital market of Nepal.

1.4 Research Questions

The research questions which are prepared for writing this thesis are as follows:

1. How SEBON is supervising and monitoring the activities of Nepalese capital market?

2. To assess the sources of security market indicators used in SEBON.

3. What are the ways of submitting corporate disclosures to SEBON?

4. How are the companies holding AGM?

5. What are impacts of performance of SEBON in the capital market of Nepal?

1.5 Significance/ Need of Study

Being one of the least developed countries in the world, Nepal has to make every endeavor to mobilize capital smoothly and it is possible only when there is the facility of capital market in the country. Security market of Nepal, till the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies and rules and regulations. However, after the restoration of democracy in 1990, trends towards an organized stock market can be marked with numerous developments in the Nepalese Securities Market, removing its earlier deficiencies.

A detail legislative code has been adopted by the government to protect the interest of the investors. The Securities Exchange Regulation, 1993, provided those reforms in the stock exchange trading method and practice. The Regulation has added further functions, powers, and duties of the SEBON. The regulation has authorized the SEBON for internal housekeeping matter, Made provision regarding licensing stock exchange and their subsequent operation. In short it is clear that the Securities Exchange Act, 1983 and Securities Exchange Regulation 1993 set up a general framework for regulating securities market which has facilitated and encouraged the development of securities market of Nepal. In this way, finding, what are the positive and negative aspect of the SEBON activities, which are in practice from last 10 year is mainly need of the study. The research is aimed to describe that, how the SEBON is able to protect and promote the interest of general investors and what type of benefit is provided for investor decision making and it also describe what kinds of impact are occurred due to the performance of SEBON in the capital market of Nepal.

1.6 Limitations of the Study

Limitations are problems and impediments that have to face by the researcher during his/her field research pursuits.

The limitations of this study are as follows:

– The study is confined with the activity of SEBON & its regulatory system.

– This study is limited only in the capital market of Nepal.

– Short span of time has been considered as major hindrance for intensive study.

– The reliability and the validity of information rests with the response of the population chosen and the authority of published data.

– Only security market indicators and corporate disclosures of the listed companies are taken for the secondary data.

However, the research will be done by best possible effort, which may cover above mentioned limitation. The better try will make to carry out the actual result by omitting local measurement and data collection error.

1.7 Organization of the Study

The study is divided into the following five chapters:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Data Presentation and Analysis of the Study

Chapter 5: Summary, Conclusion and Recommendation

This first chapter ‘Introduction’ basically highlights on the focus of the study, statement of problem, significance/ need of the study, objectives of the study, limitation of the study and organization of the study.

The second chapter is the ‘Review of Literature’ where previous research works conducted in the concerned field of the study are reviewed. Similarly different articles, journals and books are also reviewed. It is mainly related to the theoretical analysis and brief review of related literature available.

The third chapter deals with ‘Research Methodology’ in this chapter different statistical and financial tool, which are used to tabulate and analyze the data available from the primary and secondary source, are indicated.

The fourth chapter provides ‘Presentation and Analysis of data’ from which the questionnaires are analyzed.

Finally, fifth chapter states ‘Summary, conclusion and Recommendation’ of the study and also the scope of further study. This chapter presents the major findings and recommends the suggestions to the Securities Board of Nepal to make growth of capital market of Nepal by improving their performance and scope of further study. The appendices and bibliography will also be incorporated at the last.

CHAPTER-II

REVIEW OF LITERATURE

This chapter mainly concentrates on reviewing the literature in different areas relating to capital market.

2.1 Conceptual Frame Work

2.1.1 Capital Market

Investment decisions are taken within the framework provide by a complex of financial institutions and intermediaries, which together comprise the capital market.

"Capital market means anybody of individuals, whether incorporate or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities." *(Bhalla 1997, p-21)*

It is just the market for capital funds. The word capital used in this context implies a long term commitment on the part of the lender and long term need for the funds on the part the borrower. Modern capital markets are almost invariably hosted on computer-based electronics trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. Capital market is one of the significant aspects of every financial market. It is a market in which individuals and institutions trade financial securities. Organizations/ institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets. Both the stock and bond markets are parts of the capital markets. For example, when a company conducts an IPO, it is tapping the investing public for capital and is therefore using the capital markets. This is also true when a country's government issues Treasury bonds in the bond market to fund its spending initiatives.

It is this market, which provides the mechanism for channeling current saving into investment in productive facilities, that is, for allotting the country's capital resources among alternative uses. In effect, the capital market provides an economy's a base to develop. Capital resources are a major determining factor of tomorrow's output. The crucial role played by the capital market in shaping the pattern and growth of real output imparts a social significance to individual investment and portfolios decisions. Till about two decade ago, a large part of house hold savings was either invested directly in physical assets, or put in bank deposits and government small saving scheme it is only since the restoration of democracy in 1990, that the equity market started to play a role in this intermediation process. Capital market consists of securities market and non-securities market. Securities market implies mobilization of the fund through issuance of the securities: share, bonds and debentures by corporate sector and bonds, bills and

debentures by government. These securities traded in the market are generally negotiable and hence can be traded in the secondary markets. Non-securities market refers to the mobilization of the financial resources by the financial institutions in the form of deposits and loans. The securities markets may be classified into primary market and secondary market. It means these are the two wings of the capital market.

2.1.2 Primary Market

The primary market is that part of the capital market that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain bonds through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets create long term instruments through which corporate entities borrow from capital market. The primary market performs the crucial function of facilitating capital formation in the economy.

"Securities available for the first time are offered through the primary markets. The issuer may be the brand new company or one that has been in business for many years." *(Weston and Brigham, 1981, p-375).* These securities can be offered by the method of public floatation or private placement. In a highly developed capital market by far the largest proportion of individual's savings reaches the new issues market indirectly via a financial intermediary.

"The institutional that dominates the primary market is the investment banking house. It is a traditional middleman in the primary market. When a company decides to acquire new funds from the outsiders, it wills frequently through the intermediation of an investment banker in the developed countries. The investment banker's principle activity is to bring sellers and buyers together in the market. They are specialist in the design of the securities.*"(Jhon M. Cheney and Edward A, Moses, 1992,P-64)*. In additional placing new securities through the intermediation of investment bankers, many companies engage in the private placement of securities. In private placement, the issuer of the securities sells securities directly to investors without the underwriting services of an investment banker. This method is cheaper, and it avoids the underwriting costs.

2.1.3 Secondary Market

The secondary market, also called aftermarket, is the financial market in which previously issued financial instruments such as stock, bonds, options and futures are bought and sold. Another frequent usage of "secondary market" is to refer to loans which are sold by a mortgage bank to investors. The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market (for example, corn has been traditionally used primarily for food production and feedstock, but a "second" or "third" market has developed for use in ethanol production). The secondary market for a variety of assets can vary from loans to stocks, from fragmented to centralized, and from illiquid to very liquid. The major stock exchanges are the most visible example of liquid secondary markets - in this case, for stocks of publicly traded companies. Exchanges such as the New York Stock Exchange, London Stock Exchange and Nasdaq provide a centralized, liquid secondary market for the investors who own stocks that trade on those exchanges. The majority of all capital market transactions occur in the secondary market. The proceeds from the sale of securities in this market do not go to the original issuer (i.e. it does not create new additional capital) but to the owner of the securities. The basic economic function of secondary market is to provide marketability and liquidity for long term investments, there by the supply of equity and long term debt capital for the financing of business enterprises. Secondary market can be divided into two parts:

a. Organized Stock Exchange
b. Over The Counter Market

a. Organized Stock Exchange

"The essential function of a stock exchange is to provide active market place for corporate shares and other listed securities. The stock exchange plays an indispensable role in mobilizing funds in capital market. The various virtues governing stock exchange include enhanced marketability of securities, rational allocation of investible funds, facilitate economic growth and wealth generation and proper maturity, liquidity and diversification of investment. The growth of capital market through the vehicle of stock exchange has brought a flow of the information about various securities in additional to the sound listing criteria that prove worthwhile to the investors" *(Shrestha, 1992, P-15)*

A stock exchange is a form of exchange which provides services for stock brokers and traders to trade stocks, bonds and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to such a physical place, as modern markets are electronic networks, which gives those advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only. The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets are driven by various factors that, as in all free markets, affect the price of stocks. Stock exchanges are part of a global market for securities.

b. Over The Counter Market

Over-the-counter (OTC) or off-exchange trading is done directly between two parties, without any supervision of an exchange. It is contrasted with exchange trading, which occurs via these facilities. An exchange has the benefit of facilitating liquidity, mitigates all credit risk concerning the default of one party in the transaction, provides transparency, and maintains the current market price. In an OTC trade, the price is not necessarily made public information. It is the market for those securities, not listed on the stock exchange. Over the counter market has very low barriers and traders may range in size from very large houses doing an international business to the local markets.

2.2 Profile of Securities Board of Nepal

The detail information about the Securities Board of Nepal and the activities related to its performance are as follows:

2.2.1 Introduction of Security Board

The security board was constituted in 1993, under sec 1 of the security act 1983. With objective to provide essential policy direction for the systematic and regular exchange of securities and develop competition stock exchange market by protecting and promoting the interest of investors. SEBON was established with the objective of protecting and promoting the interest of investors by regulating the securities market. It plays the regulatory role and also responsible for the development of securities market in the country. Board members consist of mainly seven members including Chairman. The board is represented by institutions from government as well as private sector. Government is responsible to appoint the chairman and rest of the members are representatives one each from Ministry of law, Ministry of industry Commerce and Supplies, Ministry of finance, NRB, Nepal Chartered Accountants Association, Federation of Nepalese Chamber of Commerce and industries. “It was established with the objective of promoting and protecting the interest of the investors by regulating the securities market. It is also responsible for the development of securities market in the country.”

Since its establishment, SEBON has been continuously concentrating its efforts to improve the legal and statutory frameworks for the healthy development of the stock market and to enhance the degree of investor’s protection. After the second amendment of Security Exchange Act on January 1993, SEBON is acting as apex regulatory body by bringing market intermediaries directly under its jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi-annually regarding their performance. It is also established direct relationship with market intermediaries and listed companies. SEBON’s regulations interventions were targeted to discipline the market and to consolidate its position as central securities market regulator.

Under the present Act, SEBON is responsible for the supervision of NEPSE, its members, disclosure requirement for listed companies, and the licensing of the following:

1. Issue Manager
2. Underwriters
3. Portfolio Managers
4. Market Makers
5. Stock Brokers

   Under the securities investment trust Act 1997, it is also responsible for the regulation and supervision of investment funds. The securities board was set up for the development of the securities market to enhance the degree of investor's protection. Securities board realized that capital market reforms needed to be looked into boarder prospective as well as the growth of the private sectors.

Under the provision of Securities Exchange Regulation, 1993, SEBON has been making attempt to development an understanding with NEPSE on moving ahead in a coordinated way, under which SEBON will act as an apex regulatory bodies and NEPSE as a front line regulator. At present SEBON have 30 staffs (2011) in total including executives, officers, supervisory and support staffs. There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section. As per the Securities Related Act, 2007, the major functions of SEBON are as follows:

1. Register the securities of public limited companies.
2. Approve the prospectus for issuing securities.
3. Provide license to the public limited companies to operate stock exchanges.
4. Provide license to the companies to operate securities businesses.
5. Permit the operation of collective investment schemes.
6. Draft regulations, and issue directives and guidelines.

7. Supervise and monitor stock exchanges, securities transactions, and securities businesses.
8. Take legal action against the non-compliance to the companies as per the legal provisions.
9. Conduct research, studies, and awareness programmes regarding securities markets.
10. Advice the Government of Nepal to formulate policies and programmes relating to securities market as required

2.2.2 Major Regulating Agencies

Three government agencies Security Board, Company Registers Office and Nepal Rastra Bank are involved in approving and registration of public issues. Though Securities Board is the only regulatory body in securities market, it supervise and regulate the overall functioning of the market, the function performed by the other two agencies seems to be the duplication of works. Here how all these bodies work in approving and registering the public issues are elaborated.

Security Board

Security Board is empowered by Security Exchange Act 2040, for the development of capital market, protecting and promoting the interest of investors, approval of Stock Exchange, regulation of market intermediaries, secondary and primary markets, and mutual funds and conducting investment awareness programs for various interest groups. When prospectus is submitted for the registration purpose, vetting is done by the securities board and if disclosures in the prospectus are found adequate then board registers the securities to be issue in the public and grants permission on it.

Nepal Rastra Bank

NRB, the central bank of Nepal, established in 1956 under the Nepal Rastra Bank Act 1955 is the monetary, regulatory and supervisory authority of banks and financial institutions. The new NRB Act 2002 which replaces the erstwhile Act has ensured operational autonomy and independence to the Bank. Key objectives of the Bank are to achieve price and balance of payments stability, manage liquidity and ensure financial stability, develop a sound payments system, and promote financial services. The Board of Directors, chaired by the Governor, is the apex body of policy making and the Governor also discharges his duty as the chief executive of the Bank. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bonds.

Company Registrars Office

Company Registrar is only agency where companies are registered monitors the operation of the companies and makes arrangements for winding up of the companies when required. Approval on prospectus is granted by CRO only. Before granting approval it obtains the advices and opinions from security board and for banking and finance companies opinion/advices on prospectus is taken from NRB.

2.2.3 An Overview of Acts and Regulations Relevant to the Capital Market

1. Securities Exchange Act, 1983
2. Securities Exchange Act 1993
3. Membership of Stock Exchange and Transaction by laws, 1993
4. Securities Listing bye laws, 2053 (1996)
5. Risk Management Guidelines, NRB 2010
6. Securities Allotment Guidelines, 1994 (Nepali Version) in PDF Format
7. Compliance Guidelines for Securities Broker (Nepali Version)
8. Securities Registration and Issue Approval Guidelines, 2057 (Nepali Version) in PDF
9. Bonus Share Guidelines, 2058, 2058 (Nepali Version) in PDF Format.
10. Government Securities by Laws of SEBO, 2062 (Nepali Version) in PDF Format
11. Government Securities Transaction by laws of NEPSE, 2062 (Nepali Version) in PDF Format
12. Other Related Acts
    a. Company Act, 2063 (2006)

b. Bank and Finance Companies Ordance,2061

c. Foreign Exchange (Regulation) Act 1962

d. Foreign Investment and Technology Transfer Act, 1992

Some major Acts and Regulations are given below with their short description:

Securities Exchange Act 2040 (1983)

This is of course the key legislation where it is expedient to systematize and regularize the securities exchange in order to maintain the economic interest of the people and to contribute to the economic development of the country to protect the interest of investors and to increase the people's participation in industrial enterprises. It provides the statutory framework for the securities regulatory system by establishing the Securities Board as the supreme regulatory body (whose functions, duties and powers are contained in part in section 5), provides for the licensing of stock exchanges, the registration of publicly issued securities, the listing of securities on NEPSE, and the registration, supervision and monitoring of securities intermediaries.

Securities Exchange Regulation 2050 (1993)

The Securities Exchange Regulation is made by the government under enabling powers contained in the Securities Exchange Act. The Regulation specifies further functions, powers and duties of the Securities Board, provides for internal housekeeping matters of the Board (such as allowances and benefits, the terms and conditions of service of the Chairman and staff, funding, accounts and auditing), provides for various matters in connection with the licensing of stock exchanges and their subsequent operation, specifies the requirements for the registration and listing of securities, and provides the detail for and in connection with the registration of securities intermediaries. NEPSE, Securities Listing By laws 2053 (1996)

Made by NEPSE under section 35 of the Securities Exchange Act, and with the approval of the Securities Board, these Byelaws prescribe the terms and conditions for membership of NEPSE, and specify the rules for the trading of securities on the Exchange. Also made by NEPSE under section 35 of the Securities Exchange Act, and with the approval of the Securities Board, the Securities Listing Bye-Laws prescribe the documents and particulars to be submitted in an application for listing on the Exchange and detail the ongoing disclosure requirements to be observed by listed companies NEPSE, Membership of Stock Exchange and Transaction Bylaws 2050 as per provisions made under the Section 35 of the Securities Exchange Act 2040, the NEPSE has made these bylaws with approval of the Securities Board.

This bylaw has specified certain terms and conditions to get the membership of the NEPSE (Under Rules 3-9). Similarly under the Rules 10-24, this bylaw has specified provisions and rules regarding the trading and other transactions of the securities in the Stock Exchange.

Securities Registration and Issue Approval Guidelines (2057)

Where as it is expedient to encourage the entry of corporate bodies into the capital market by making the process of registration an issuance of securities simple, transparent and systematic an thereby creating an environment for ensuring easy access of information for the investors for the purpose of making investment decision the Securities Board has, in exercise of it's power conferred by Section 35A of Security Exchange Act 2040(1983) made this guidelines. Any corporate body willing to register securities and obtain approval for issuance of securities shall, in accordance to Schedule-5 of Securities Exchange Regulation, 2050(1993), submit an application, in such format as laid own in Schedule-4 of the same regulation.

SEBON, Directives 2054

In order to manage sales and promotion of securities proposed by the organized companies for public issuance and to comply issuance and sales management with an autonomous body the Securities Board has enforced the Securities Issuance and Sales Management Directives 2054. This directive has been made as per the provisions provided under the Section 35 A of the Securities Exchange Act. It has further specified the various directions regarding the application for registration of securities, agreement between issue manager and issuing companies, execution procedures of the sales management and code of conduct to be implied. Similarly SEBON has made a directive regarding the share allotment in order to make fair, transparent allotment of shares without any prejudice and conditions in case of application is received in excess over the issued numbers of the shares.

Risk Management Guidelines, NRB 2010

The guideline at hand does not replace, rather supplements the existing regulations and Guidelines. The guideline will become a focal point of reference for all requirements of the Nepal Rastra Bank for overall risk policy formulation and management. The guideline applies to the commercial banks in Nepal. It is not intended to be so comprehensive that it covers each and every aspect of risk management activity. This guideline provides minimum standard for the risk management practice to be exercised in the banks. A bank may establish a more comprehensive and sophisticated framework than that outlined in the guideline. This is entirely acceptable as long as all essential elements of the guideline are fully taken into account.

Securities Allotment Guidelines, 1994

SEBON has made new issue on Share Allotment Guidelines, 1994 to make the share allotment procedures fair and transparent. The directive was intended to create broader ownership according to the mass participation policy Compliance Guidelines for Securities Broker.

SEBON has issued “Compliance Guidelines for Securities Broker” regarding compliance status to the concerned rules and regulations as well as disclosure of the same through the prospectus for the market intermediaries like market dealers, brokers, market makers etc. It is Compliance for the market intermediaries to submit their annual reports along with their financial statements including profit and loss account, balance sheet, cash flow statements and securities trading report within four months after expiry of the fiscal year.

Bonus Share Guidelines, 2058 (2001)

The provision relating to declaration of Bonus Share (Stock Dividend) and cash dividend by a listing corporate has been prescribed in "Bonus Share Guidelines, 2058". This provision has been made with the view to protect the investors and to manage the securities transactions regarding the implementation and issuing of bonus share as for capitalization of the reserve funds.

Government Securities Bylaws of SEBON, 2062 (2005)

With the view to implement government's program for the trading of government securities in the stock exchange as announced in the budget speech for the fiscal year 2003/04, SEBON drafted Government Securities Trading Management Bylaws, 2005.The Byelaws includes provisions for the capital requirement, qualifications and licensing of securities businesspersons for trading of government securities.

Whereas it is expedient to encourage the entry of corporate bodies into the capital market by making the process of registration an issuance of securities simple, transparent and systematic an thereby creating an environment for ensuring easy access of information for the investors for the purpose of making investment decision the Securities Board has, in exercise of its power conferred by Section 35A of Securities Exchange Act, 2040 (1983) made this guidelines.

Any corporate body willing to register securities and obtain approval for issuance of securities shall, in accordance to Schedule-5 of Securities Exchange Regulation, 2050 (1993), submit an application, in such format as laid down in schedule-4 of the same regulation.

Issuance of Securities Ordinance, 2062 (2005)

The new Securities Ordinance, 2005 has been issued on September 23, 2005.This ordinance is critical for enabling the ongoing securities market reform program. The ordinance enables SEBON to make its governance structure broad based and professional and to be a financially self-sustainable regulator. It has incorporated provisions to increase the level of transparency of corporate sector and securities market through various types of disclosure requirements (Prospectus, quarterly report, annual report etc.) and establish investors' protection fund, which are critical for increasing investors' confidence in the market. It also enables developing an alternative trading mechanism (Over the counter trading system) for the securities which are de-listed or which do not meet the listing criteria, which is presently lacking. The ordinance enables establishment of Central Depository System of Securities, have provision regarding the operation of collective investment schemes, regulates securities issue and simplifies the process of public issue, provides mechanism to establish regulation for corporate takeover, investment advisors etc.

All above mentioned are major Acts and Regulations related to the capital market of Nepal. They all are introduced with an objective to enable the activities related to capital market more effectively. But somehow it does not make any clear directives. When we reviewed all the above mentioned Acts and Regulations, we can easily realize that all (Acts and Regulations) have their own objectives but the activities related with the same objectives are differing from each others. In other words, there are different provisions made for the same activities rather than a specified one.

2.2.4 Funding of SEBON

As a developing regulator of the capital market, SEBON is basically relaying on Government's financial assistance. In order to move towards a self funded institution, it has created a revolving fund from which it generates income that helps top cover part of its 'expenses. Its other financing sources of funds include registration of corporate securities, renewal of license of stock exchange and registration as well as renewal of license of market intermediaries and income from mobilization of revolving fund. Different provisions of Securities Exchange Regulation, 1993, Listing By-laws, 1996 and membership of Stock Exchange and Transaction By-laws, 1998 have enabled the market participants (SEBON, NEPSE, market intermediaries and the Government) to share the revenues.

Provisions of Revenue to SEBON

As provision in Securities Laws, SEBON receives securities registration fees from issuer and licensing and renewal fees from the securities business persons and stock exchange (study conducted by SEBON, revenues structure in Nepalese securities Markets, SEBON journal, Vol. II)

Licensing and Renewal Fee for Stock Exchange

As per the provision of rule 12, sub-rule 1 and annex 2 of Securities Exchange Regulation, 1993, a company applying to operate stock exchange should pay to SEBO Rs.0.2 million as licensing fee. The annual renewal fee for the stock exchange is 0.05 million. As per the rule, the organization operating stock exchange should renew its license within six months of the expiry of fiscal year. The amendment has been made in annex16 of the Securities Exchange Regulation, 1997. According to which, under Section (C) the stock exchange should pay to the Securities Board of Nepal, 20 percent of the total amount received from the securities business persons monthly within 15 days of the following month as per the provision of Rule 36 (2) .

Licensing and Renewal Fee for Securities Businesspersons

Regarding the licensing and renewal fee for securities businesspersons, the provision made under rule 28, sub-rule 1 and annex 12 of Securities Exchange Regulation, 1993. In fiscal year 2004/05, amendments were made in the Securities Exchange Regulation, 1997 promoting the service efficiency of securities businesspersons. The Table 1 presents licensing and renewal fee for securities businesspersons along with its amendment.

Table No. 2. 1

Licensing Fee and Renewal Fee for the Securities Businesspersons

Securities Business Persons	**Previous Provision**		**Amended provision**	
	Licensing Fee	**Renewal Fee**	**Licensing Fee**	**Renewal Fee**
Stock Broker	Rs. 2,500	Rs. 1,500	Rs. 5,000	Rs. 3,000
Securities Dealers/Makers	Rs.5,000	Rs. 3,000	Rs. 10,000	Rs. 6,000
Issue Managers	Rs. 10,000	Rs.5,000	Rs. 2,000	Rs. 10,000

Other Services	Rs. 10,000	Rs. 5,000	Rs. 2,000	Rs. 10,000

Source: SEBON Annual Report

The securities businesspersons should renew their licenses for the fiscal year before the expiry of the current fiscal year. In this regard, rule 34, sub-rule 2 of the Regulation states that the securities businesspersons not being able to renew their license within the stipulated period should pay additional 25 percent of renewable fees as penalty.

Securities Registration and Issue Approval Fee

Securities Exchange Regulation, 1993 under rule 12, sub-rule 1 and annex 2 has made provision for securities registration and issue approval fees as presented in table 2.

Table No. 2.2

Securities Registration and Issue Approval Fee

S.N.	Amount of Issue Approval	Fees
1.	Up to Rs. 50,00,000	0.25%
2.	Rs. 50,00,001 to 1,00,00,000	0.20%
3.	Rs. 1,00,00,001 and above	0.15%

Source: SEBON Annual Report

SEBON has made provision in its Securities Registration and Issue Approval Guidelines, 2000, which requires the investors to mention their bank account if they are investing more than Rs.50, 000 in the public offering of securities. These investors will get refund only through their bank account.

2.2.5 Functions, Duties and Powers of SEBON

As per the Securities Ordinance, 2011 SEBON has the following functions, duties and powers. (Source: www.sebon.gov.np)

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers.
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.

2.2.6 Financial Performance of SEBON

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2006. SEBON as regulatory body of capital market of the country has a dual role of regulating and developing the securities market in the country. SEBON, a nonprofit organization is basically relying on Government's financial assistance. In order to move towards a self funded institution, it has created a revolving fund from which it generates income that helps top cover part of its' expenses. Its other financing sources of funds include registration of corporate securities, renewal of license of stock exchange and registration as well as renewal of license of market intermediaries and income from mobilization of revolving fund. The following table 3 presents the five years income of SEBON.

Table No. 2.3

Five years' fiscal Income of SEBON

Income (Rs in '000)

Income	2007/08	2008/09	2009/10	2010/11	2011/12
Grant from Government	5,000	4,000	3,000	—	—
Registration fee	47,514.84	48,146.63	56,795.07	—	—
Other Income	115.04	137.30	485.80	255.38	1923.51
Total Income	52,629.88	52,283.93	60,280.87	255.38	1923.51

Source: SEBON Annual Report

The above data represents that income from the Government is not shown in the fiscal year 2010/11 & 2011/12. As like the other, the income is highest at the fiscal year 2009/2010. It shows that the satisfactory performance of SEBON. Income from registration fee was also little fluctuated, during the fiscal year 2008/2009. Registration fee is not mention in the fiscal year 2010/11 & 2011/12. Due to amendment in provision of Securities Exchange Regulation, it is expected to increase income from interest, registration as well others from the next fiscal year.

2.2.7 Activities and Performance of Securities Board of Nepal

Besides the all above mentioned major activities, SEBON performs so many other supportive activities which are very much essential for its growth and SEBON always looks forward to improve its performance by correcting their activities. They are given below:

1. Supervision and monitoring activities.

2. Supervision of securities transactions.

3. Solving the grievances made by investors, listed companies and others.

4. Guidelines and regulatory activity.

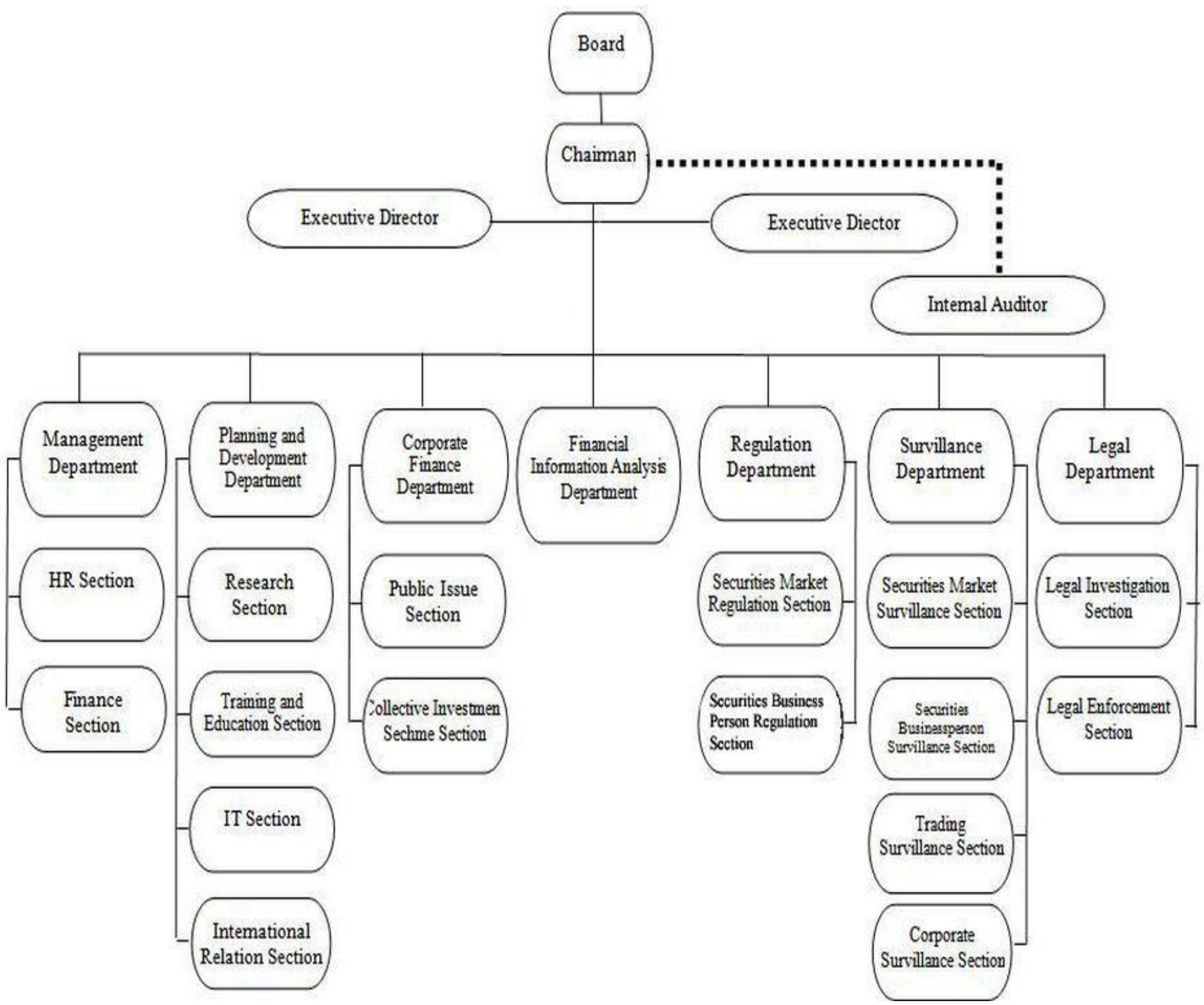
5. Conduct studies, providing trainings, organize educational programmed.

6. Comments on prospectus.

7. Register and regulate the members involve in the primary issue and secondary training of the securities.

8. Protect and promote the investors by giving them useful necessary information.

Organizational Structure of SEBON



Source: www.sebon.gov.np

2.2.8 Stock Market

A stock market or equity market is a public entity (a loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately.

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional financial capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange affords the investors gives them the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments. Some companies actively increase liquidity by trading in their own shares. Stock market has two parts i.e. primary and secondary market. These two markets are inter-related and depended on each other. Primary market supplies new securities to the market whereas secondary market provides liquidity cushioning to investors by smoothly changing ownership of old issues.

Primary market is the market in which new companies stock are issued by the corporate sector. These securities can be offered by the method of public floatation or private placement. The secondary market on the other hand deals with the previously issued shares mainly traded through the stock exchanges, over the market, or direct dealings.

2.2.9 Development of Stock Market in Nepal

The history securities market in Nepal is not very long. In historical perspective, securities market originated in this country in the name of Securities Marketing Center in 1979. This center operated without involvement of brokers for a number of years and later on it was changed into Securities

Exchange Center with the enactment of Securities Exchange Act, 1983 to facilitate and promote the growth of the capital in the country.

The Act provided some legal and institutional basis for the securities market development. It is only after a long gap of 10 years, there has been a program initiating capital market reform in the country. As a result, the government initiated the policy to reform capital market under the Enhanced Structural Adjustment Program (ESAP) through first amendment of the Securities Exchange Act in 1992. With the amendment in the Act, the Securities Board was established to regulate and develop the transaction of securities. Securities market function from that of regulation by the establishment of Nepal Stock Exchange in 1993 to operate as a non-profit organization.

Nepal Stock Exchange Ltd. (NEPSE) was established to facilitate the transaction of stocks and bonds in its floor through its member intermediaries such as brokers, security dealers and market makers. Hence NEPSE started its organized system in its floor on January 13, 1994. NEPSE is the only stock exchange in the country. It is owned by the government, Nepal Rastra Bank, NIDC, and member brokers.

2.3 Review of Books

The well-known Professor 'V.K. Bhalla' has given some theoretical insights into capital market after their various research studies on it. He says "Capital market is the market for long term finance. In it, investors hand over money today in exchange for promises of money far in the future. The long delay in repayment magnifies the two basic problems of lending. First, it increases risk, the longer the time to repayment; the greater the opportunity for the borrower to important is repayment itself as a source of liquidity. Much of what goes on in today's capital market can be understood in terms of these two basic problems and of the markets attempt to deal with them." *(Bhalla, 1997, P- 560*).

Dr. R. S. Kulshrestha in his book "Financial Management" (1994) defines an organized capital market as a market, which brings together the buyers and suppliers of capital and thus mobilizes the domestic and corporate savings for being invested productive channel. For co- coordinating the demand and supply of capital funds and organized and well developed capital market is highly essential and which is the pre-requisite for industrial growth of economy, which creates profitable investment opportunities. These in term provide favorable condition for the evolution of a well organized capital market. *(Kul shrestha, 1994, P- 14).*

The government of any country plays an active and constructive role in creating favorable conditions in this respect in many ways; as setting up a network of development banking and financial corporation's both the national as well as state level, making available foreign currency loans from international financial institutions, nationalization major commercial banks (so as to enable them to take up medium financial assistance on the basis of refinance provide by specified financial institutions), making suitable enactment for the regulation and smooth financing of stock exchanges in the country. Government can also supply capital to industry in a variety of ways; such as direct subscription to issue a debentures of by giving long term (either interest free or at lower rate of interest) to industrial enterprises. In India, the government has played such an active role and constant efforts have been made under planned economic development to strengthen the supply side of funds in the capital market.

Prof. M. K. Shrestha in the book "Shareholders Democracy & Annual General Meeting (AGM) Feedback" (1992) has focused various relations to protection of shareholders expectation. "Success of companies directly depend on the protection of their owners, But now can this be accomplished is main question. Thus, it is necessary to develop guidance for enhancing the efficiency for public limited companies to contribute directly in growth of national economy on one hand and ensuring handsome return to the shareholders on the hand other to make their investment meaningful and worthwhile. The encouraging and growing confidence of shareholders over their investment seek an independent inquiry of disclosed contents of prospectus. This helps to satisfy a minimum standard of faith on investment in shares through relying on the pros and cons of prospectus. It is, thereof, important to disclose everything in prospectus, which could reasonably influence the mind of the prudent investors. Various annual general meetings by different public limited companies reveal a greater gap between disclosers made in the prospectus and the actual results. In this context the expression of discloser philosophy and investigation of funds in prospectus need to be reconciled to check the growing problem in the development of the market in Nepal. *(Shrestha, 1992, P-17)*

In the study on "Stock Markets in Developing Countries, Key Issues and Research Agenda", Mansor Dailami & Michael Akin (1990) have expressed the regulatory an institutional issues obviously have an important role in stock markets and that the role is probably more important when they are growing rapidly, as they have been in Korea and India.

In both countries there have been difficulties with market disasters and crashes and in both there has been steady evolution in the regulatory frame work governing both the workings in the market themselves and relationship between the markets and rest of the economy. One of the major issues as mentioned by Dailami & Akin is the regulatory environment of the stock market itself. Markets need to maintain the confidence of the investing public by ensuring there is open and fair price formation. In India, in particular, there have been problem with insufficient liquidity in some share issues and with tax listing requirements. This has adversely affected investors' confidence and threatens the future growth of the market. Standards of investors' protection the full prompt and reliable disclosure and dissemination of information is vitally important. – *(Dailami & Akin, 1990)*

2.4 Review of Journals and Articles

Clearing and settlement of the securities should complete as soon as possible after the buyer and seller agree to the transaction because the prices of the securities are very much sensitive and fluctuate many times within a day. Since these fluctuations provide the investor the opportunities to gain from the investment, they should be allowed to benefit from such fluctuations. Delays in the settlement and failure in exchange cause losses to the investors by denying them these opportunities. Once the executed trade are matched and cleared they should be settled within certain days after the trade. It was T+5 (within five days after trade day) till recently in Nepal, but it has been now reduced to T+3 since the beginning of the fiscal year 2003/2004.

The rules of the NEPSE require that you can sell only those securities that are in your name. The buying party of the trade cannot sell the securities immediately after settlement of the transaction. First it needs to transfer the title. After the transactions are settled, the broker forwards the securities to the company to change the name of the owner of the security. But the time wasted in this process surprisingly lengthy in Nepal.

The second part of the delay in transferring the ownership of securities is from the company and it has something to do with the question: when the securities are forwarded to the company office so as to affect the transfer of the ownership, how fast should the company transfer the little and return the document to the buyer? The Securities Exchange Act is silent about it. This delay has been causing the investors huge losses in terms of opportunities.

1. First, they are not able to sell the securities if they want to. Thus they lack liquidity.
2. Second, they are losing the opportunities to sell when the price of the securities go up.
3. Third, the investors who want to pledge the securities to borrow funds are restricted till they get the securities in their hand.

Even under the existing system, the efficiency can be enhanced substantially if following measures are taken.

1. The present system of temporary should be incorporated in the law.
2. The brokers should be strictly monitored so that they forward the securities to the companies immediately to transfer the title and the deadline to forward the securities should be incorporated in the stock exchange's membership and transaction bylaw.
3. Clearing and settlement of securities are completed with the transfer of title, but this is being regulated by the two regulators in Nepal. Both of these should be brought under a single regulator.

Here, it needed a defined rule about transfers delayed and I think SEBON should step forward to make a clear and powerful regulation on these activities- (Delayed Transfers, Bhattarai Rabindra, New Business Age, October 20003, 45).

The stock split is a good buying indicator, signaling that the company's share price is increasing and therefore doing very well. Splitting share is a widely used and acclaimed practice in all well-developed markets. But not a single Nepali company has split its shares till date because the laws governing Nepalese capital market lack the provision to allow splitting of the share. It is now time that the concept of stock split is introduced in the Nepalese capital market too. It is also beneficial to attract the small investors towards capital market. Therefore SEBO should give its attention towards this matter. (Split Shares to benefit Small Investors, Bhattarai Rabindra, New Business Age, February 2005).

The importance of Capital Market lies in the fact that no democratic country in the world has ever been able to industrialize without and efficiently, deep and liquid Capital Market through which the industry can get the needed long term means to invest in long term projects. We see that in Nepalese markets liquidity is very much limited. Out of 197 listed companies only 41 trade once in a month. Further liquidity constraint is that government bonds are not traded at stock exchange and company bonds are not issued at all.

In addition, there does not seem to exist too many alternative investment possibilities. Even though, the real estate prices have more or less bottomed out, real state is still not high on the investment agenda for private investors. Speed of transaction is another problem for Nepalese Capital Market, as paper based transaction takes a long time until the buyer finally receives his certificates from the seller. The introduction of paperless trade can make full 24hrs transaction possible.

Timely information is a further problem in Nepal as up to now there are impressive sanctions if a company holds its AGM late or skips it altogether. Another hurdle which stands in the way of a shareholder value creation is the forced at par value. Legal framework is still another problem, as many of the law makers are still familiar where a company which has proved its success can still issue only at a face value. With neither the importance, nor the concept of capital market. Unfortunately, the word shareholder value is still an alien word in Nepal.

During last one and half decade stock market in Nepal has made some noticeable progress. The impact of stock market in any economy can be judged from its size and liquidity. Generally large stock market size indicates developed stock market. In recent years volatility in the stock market in Nepal has shown a rising tendency. High volatility in the stock market denotes risk in equity investment. It is generally expected that stock markets, when well developed, absorb risks in financial assets and offer higher return with less volatility. It means that as an indicator of a country's stock market development less volatility is preferred to high. Volatility, when measured as a ratio of value-traded-ratio to volatility, showed an increasing trend during last three years indicating inability of stock market in Nepal to handle risk relatively to volume of trading of shares. Taken together these ratios i.e. market capitalization, value of shares traded to gross domestic product, turnover, concentration ratio, and volatility indicate that the stock market in Nepal is very small relative to its economy, highly illiquid and risky and has low impact in the national economy. (Stock Market and Mutual Fund in Nepal , 2009, July) .

"Development of Stock Market and Economic Growth in Nepal" (July 2004) by Dr. Bijay K.C, describes that the relationship between stock market development and economic growth has receive renewed attention of academicians and policy makers in the present decade both in the developed and developing countries as a result of the emerging equity market phenomenon and of the need to provide liquidity for privatization- linked equity issues. The growing importance of the stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus of developmental roles of stock markets. Evidences show that financial developmental of a nation overwhelmingly affects its economic growth.

Financial system in Nepal is basically bank dominated. However it cannot be denied that stock market also has an important role to play in the development of the country.

The process of stock market development in the country actually started in 1976 when the government established Securities Exchange Center to provide and develop market for securities. However visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of the banks. With the adaptation of privatization and economic liberalization policy the process got further imputes and the financial institutions in Nepal grew at faster pace especially in quantitative terms. In 1993, Security Board Nepal (SEBON) was established with the objective to regulate, supervise, and monitor the securities market. Similarly the Securities Exchange

Center was converted into Nepal Stock Exchange Limited (NEPSE) with the objective to provide secondary market for securities transactions. An open outcry system was introduced by NEPSE for securities transaction, where the investors were allowed to deal in securities only through licensed brokers. Despite many types of progress Stock Market in Nepal is still at a developing stage and has to make visible impacts on the economic growth of the country.- (Bijay K.C)

As the stock market is run, investors are in general, innocent and most of them are in risky situation, riskier the investment, greater the possibility of loss and profit, and if their decision go wrong, they will be the heavy loser. That is why importance should be given to the protection of investor's rights as well as making full disclosure of the company importance to them. At present, these two issues namely the investor's right and the company information disclosures are responsible for delaying the growth of stock market in Nepal.

The market makers are backbone of emerging capital market. The active, effective and dedicated market makers are the need of the time and in absence of them the capital market may remain paralyzed.

The role of intermediaries known as dealers (also known as Market Makers) a specialist are to provide liquidity in the capital market and to stabilize it, so that they can gain personally as well as confidence of the investors. For this purpose they should have sufficient capital commensurate with the size of capital market and again they should have a good deal of scripts in which they are making market. In Nepal, as per rules and regulations, brokers execute orders of investors but they cannot deal in their own account. This rule though restricts the role of share brokers in the development of capital market, but is suitable for the developing the capital market of Nepal.- (Agrawal, 1996).

2.5 Review of Thesis

(Timilsina Y. 2007) conducted a research on "Capital Market Development and Stock Price Behaviors in Nepal." He published an article with a heading capital market. Major findings of the study are the coefficient of correlation between earning per share (EPS) and observed market value of share and also between the DPS and observed market value of share were computed. Also regressions were run to see the influence of the explanatory variables, EPS and DPS on equity prices. A positive correlation was found to exist between EPS and the market price of the share. The co-efficient of correlation between dividend per share & market price was also computed taking DPS as independent variable & market price as dependent variable. A high degree of positive relationship (r= 0.83) was observed between the two variables.

Timilsina concluded that the market price of shares depends on EPS as well as DPS, but DPS is more prices sensitive & it will have direct & immediate response in the market.

Maharjan, Sanjay (2012) in his thesis "Stock Price Behavior in Nepalese Capital Market" tried to explore & analyze the following objectives:

- To study & analyze stock price trend & volume of stock traded on the secondary market.
- To find the relationship of BVPS and MVPS of listed companies.
- To analyze the share price behavior of the listed companies.
- To present some recommendation basis of the findings of the study.

K.C. Bandana (2010) in her thesis "Determinants of Stock Price by Commercial Bank in Nepalese Capital Market" has tried to focus on the price of stock is determined by buyers and sellers. Investors require proper knowledge of share price i.e. how it is formed?, why does it fluctuate?, what factors are responsible for the determination of its price? The main objectives of the study are as follows:

—To identify the major determinants of the stock price in NEPSE.

—To find out the EPS, DPS, &MPS of sample bank.

—To identify dividend payout ratio, P/E ratio, and net worth per share of SCBNL, NSBL, NABIL, HBL & NIBL.

—To analyze the correlation & regression of EPS, DPS & MPS of sample bank.

Neupane, K. shekhar (2012) in the thesis "Determinants of Stock Prices in Nepalese Capital Market" focuses to identify the major determinants of the stock price & market capitalization of listed securities and the major determinants of the stock price in NEPSE. Its limitations are:

- This study is based on secondary data and accuracy depends upon the data collected & provided by the organization. The whole study is based on the data of 5 yrs. Period (i.e.2006/2007 to 2010/2011).
- Takes into a/c a few no. of selected organization from among the listed companies.
- The resources are limited & time constraints.
- The whole study is based on secondary data collected from the published annual reports of the bank & securities board of Nepal & website of concern bank.

2.6 Review of Research Paper

The economic, institutional and regulatory framework provides the underpinnings for capital market development. At the early stage of an emerging market economy, it is important that the Government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issuers, and investors. Governments can also create incentives for capital mobilization, remove impediments to private sector development, educate investors, and provide basic legal and regulatory reforms. Until now, Nepal's capital market development has not reached its full potential for several reasons, including:

1. Unfavorable macroeconomic conditions.
2. Potential uncertainty
3. Low investor confidence.
4. Distortions in the tax system.
5. Slow pace of privatization.
6. Inadequate institutional investor base.
7. No local venture capital firms.
8. Misallocation of savings to bank deposits and Government securities.
9. Inadequate disclosure to investors.
10. Weak legal underpinnings for the securities market regulation and enforcement.
11. Restrictions on foreign portfolio investment.

Legal reforms must provide for a securities law with adequate regulatory and enforcement powers to the Government regulator. In Nepal, legal reforms are also necessary in order to harmonization the Securities Exchange Act with the companies Act, Banking Act and Finance Company Act. Collectively, each of these acts as well as the Provident Fund Act and the Insurance Act has a significant impact on the development of the capital market, the securities industry, and institutional investment. In the case of Nepal, it would also appear appropriate to enact a Private Pension Fund Act to codify the rights and the obligations of employers offering privately sponsored provident funds. Finally, a Bankruptcy Act is needed to provide for corporate organization or liquidation in the event of a firm's insolvency, or failure to meet financial obligations to creditors, depositors or investors.-("Policy Framework for Capital Market Development"-ADB Report 2004).

The stock market could help the Government to achieve its stated policy goal of "Wide spread participation in the ownership of SOEs while privatizing". In order to achieve this objective, the following actions should be considered:

i. Use of the capital market to the maximum extent possible to achieve broad public participation and support.
ii. Provide a favorable investment experience for Nepalese public investors through the privatization process.
iii. Implement a broadly-based marketing campaign on the model of the U.K. "democratization of share ownership" to encourage participation by first time investors and
iv. Extend access to NEPSE facilities to the smaller cities and rural areas of Nepal.

The equity market and related institutions are still in their infancy. Nepal also has not allowed cross-border portfolio investments, or gained access to the international or regional capital markets. There are no foreign securities firms, investment banks or investment companies operating in Nepal. Indeed foreign lawyers and accountants are not permitted to practice in Nepal. Moreover the Securities Board is not a member of IOSCO– the international organization of securities regulatory organizations. As a result, there has been very limited opportunity for the local securities and investment community to gain access to information concerning state-of-the-art securities business techniques and investment practices.

For many reasons, there is an inadequate demand and supply for securities. In particular, the legal and regulatory framework is weak, and institutional arrangements have hindered market development. For the process of capital market development to move forward, the followings action need to be taken by the Government and private sector in order to achieve a critical mass of instruments, issuers and investors.

1. Strengthen the legal and regulatory framework.

2. Encourage the development of full service investment banks and securities firms.

3. Link capital market development to privatization of state-owned enterprises.

4. Rationalization of tax policies towards capital formation and secondary market transactions.

5. Increase the quality and timelines of information available to investors.

6. Improve governance requirements and minority shareholder rights.

7. Strengthening the capital market infrastructure.

8. Establish an efficient secondary market in Government debt to provide a bench-mark for the money and bond market.

9. Gradual elimination of restrictions on foreign portfolio investment.

10. Launch a country-wide investor education and awareness program and

11. Train regulator and market professionals.

It will be readily apparent that the regulatory structure is in need of considerable rationalizations. We are here concerned with two separate but inter-related matters. Firstly, a critical view of the regulatory system itself and secondly, factual enforcement of the regulatory system. It goes without saying that the effectiveness of enforcement necessarily depends not merely on the will and application of the Regulator, but also on the availability of appropriate enforcement powers. In the absence of sufficient enforcement powers, the Regulator is effectively neutered.

A securities regulator should be empowered to exercise regulatory oversight in 3 distinct ways. First, by requiring market professionals and all types of securities business to be licensed. Secondly, by supervising and monitoring all licenses. Thirdly, by ensuring that listed companies comply fully with their listing obligations. - " Assessment of Securities Regulatory System"– ADB Report 2004

In most developed and emerging securities markets, the stock exchange plays an important role in monitoring trading patterns and stock price movements. The main purpose of market surveillance is to detect unusual trading or price moves that might involve trading designed to manipulate stock prices, or insider trading. In the U.S., for example, the detection of unusual price moves might lead to a formal investigation, or a

a referral to the U.S. Securities and Exchange Commission. In the U.S., the stock exchanges and the NASD have the investigative authority over their member broker-dealers and their associated persons but not public customers of the broker-dealer, or public companies (i.e., the issuer of securities). The U.S. SEC, however, can obtain the records and investigate public customers (i.e., investors that execute trades through a broker- dealer or by other means) and their records. The U.S. SEC also has the ability to monitor trading through its stock watch program and the ability to perform oversight examinations of an SRO to assure that SRO responsibilities are being performed in an acceptable manner. In the U.S. self regulatory organizations are encouraged to create audit trail so that the parties to the transaction can be readily determined.

NEPSE surveillance department should implement trade monitoring systems which allow basic international standards to be met in this area. A pre-requisite for change in this area is the clear allocation of self-regulatory responsibility to NEPSE with strong oversight by the Securities Board. Some of the surveillance functions are currently available within NEPSE, and others could be implemented once a fully electronic trading system is installed. The main areas for future consideration are set forth below:

The information technology support requirements for the Securities Board, Nepal would also need to be assessed for the following four generic, areas of monitoring and surveillance activities:

1. Basic monitoring surveillance

2. Market information

3. Trading activity

4. Market disruption “Improved monitoring and surveillance, systems and procedures”- (ADB Report 2004)

2.7 Research Gap

Securities Board, Nepal (SEBON) was established by the Government of Nepal in 1993, as an apex regulator of the securities market under the Securities Exchange Act 1983, Its objective is to live with the regulating bodies of the countries such as to regularize and manage the securities market and protect investor’s interest. On the other to make Nepalese Securities market efficient and effective SEBON has been performing the role of a regulator as well as that of a market developer. We cannot think of an efficient securities market unless it is transparent enough to win the confidence of investors and other stakeholders. On the contrast of pre-study, this study is highly emphasized and explained on behalf of the performance of Securities Board which is considered through the analysis of the service provides to the investors by it. This study is based on the primary data that are acquired through the questionnaire method. In order to make the result of the thesis effective the answers of the responses are analyze. The present study aims to lookout at some of issue in the development of the securities market, particularly in the context of the performance of SEBON and train determine the level of the investor’s confidence towards SEBON. Hence the study helps to trace out the performance of SEBON in promoting and protecting the interest of investors in the Nepalese Capital Market.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

Research in common parlance refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge." It is actually a voyage of discovery. It may be understood as a science of studying how research is done scientifically. . In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, the mode, the median or the standard deviation or chi-square, how to apply particular research techniques, but they also need to know which of these methods or techniques, are relevant and which are not, and what would they mean and indicate and why. Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem. For example, an architect, who designs a building, has to consciously evaluate the basis of his decisions, i.e., he has to evaluate why and on what basis he selects particular size, number and location of doors, windows and ventilators, uses particular materials and not others and the like.

Similarly, in research the scientist has to expose the research decisions to evaluation before they are implemented. He has to specify very clearly and precisely what decisions he selects and why he selects them so that they can be evaluated by others also. From what has been stated above, we can say that research methodology has many dimensions and research methods do constitute a part of the research methodology. The scope of research methodology is wider than that of research methods. Thus, when we talk of research methodology we not only talk of the research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. Why a research study has been undertaken, how the research problem has been defined, in what way and why the hypothesis has been formulated, what data have been collected and what particular method has been adopted, why particular technique of analyzing data has been used and a host of similar other questions are usually answered when we talk of research methodology concerning a research problem or study. According to the title performance of SEBON in Nepalese Capital Market, questionnaires are used as primary data and from where useful findings and performance relating to the Securities Board, Nepal are presented.

3.2 Research Design

"A research design is the arrangement of conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure." (Claire and other: 1962, 50). Research design is a plan, structure and strategy of investigation. It is a blue print for the collection, measurement and analysis of data. "Research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance." (Kerlinger 1986, P-275)

Research design is not related to any particular method of collecting data or any particular type of data. Any research design can, in principle, use any type of data collection method and can use either quantitative or qualitative data. Research design refers to the structure of an enquiry. It is a logical matter rather than a logistical one. It has been argued that the central role of research design is to minimize the chance of drawing incorrect causal inferences from data.

Design is a logical task undertaken to ensure that the evidence collected enables us to answer questions or to test theories as unambiguously as possible. When designing research it is essential that we identify the type of evidence required to answer the research question in a convincing way. This means that we must not simply collect evidence that is consistent with a particular theory or explanation. Research needs to be structured in such a way that the evidence also bears on alternative rival explanations and enables us to identify which of the competing explanations is most compelling empirically.

3.3 Data and Information

The data for the study is collected with the help of schedule questionnaire and discussion with respondents. Similarly various information has been collected through desk research.

3.3.1 Source of Data

This study is equally based on secondary as well as primary sources of information. Primary data are collected through structured and closed-ended questionnaire from various respondents. And secondary data are collected from various sources like: Annual Report of SEBON, Public Issue of SEBON and SEBON's Journal.

3.3.2 Selection and Size of Data

For this study, all the executives and professional involved the regulating authorities are considered as population. Securities Board, Nepal Stock Exchange office of register, market intermediaries, stock brokers, listed companies and all the individual investors are taken as size of population. Among all the population size (regulating authorities, listed company, all individual investors and market intermediaries) of the study 30 related respondents are taken as sample. Among 30 respondents 5 respondents were related as sample from the three regulating authority SEBON, NEPSE and OCR. Root of the respondents selected sample among the market intermediaries, listed companies. Legal experts and the entire individual; investors the selecting respondents regarding the sector are shown in the table below:

Table No. 3.1

Responded profile

Name of Respondents	**Sample**	**Response**
Regulatory Authorities	5	5 (100)
Listed company	5	5 (100)
Investor and legal experts	15	15 (100)
Market intermediaries issue Managers and Brokers	5	5 (100)
Total	**30**	**30 (100)**

Source: Sample survey 2013

This study is based on a primary and secondary sources of data for analyzing the performance of SEBON in Nepalese Capital Market, the primary sources of data are used by questioning to the concerned people sometimes are presented in the annex-1.

Secondary data consist of descriptive analysis of the security market indicators and corporate information disclosure by the listed companies to the SEBON. Booklets published by primary like SEBON Ministry of Finance, NEPSE, material from T.U. Library are collected for the secondary data.

3.3.3 Data Presentation and Analysis

Methods of analysis are applied as simple as possible. Results are presented in tabular form and clear interpretations on it are given simultaneously. T o attain the mentioned objectives, the statistical and financial tools are used as required by the study to analyze the secondary and primary data.

Gathered data from secondary and primary sources are first coded, tabulated and presented in a meaningful manner. Categories wise response number of stems is separated and percentages are also given according to the response. Graphic presentations have also been used in the given text. Regarding the primary data, the questionnaire, given written form to respondents, consists of questions that are presented in appendix- I. All these gathered data are also analyzed with the help of their percentage analysis and graphic presentation. And finally the findings are interpreted as conclusion in chapter- VI.

3.4 Tools for Analysis

To attain the objective of the study on data were collected from questionnaires and informal discussion with investors.

3.4.1 Statistical Tools

The different tools used for the study are as follows:

3.4.1.1 Multiple bar-diagram and graphs

Diagrams and graphs help to shows the general trends of the ratios in respect to the time period of the analysis year. Out of various types of diagrams, the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.4.1.2 Pie-diagram

A pie-diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angle of a circle is 360 degree and all components of the data are presented in terms of angles that total 360 degree are set of data.

3.4.1.3 Percentage Analysis

The percentage analysis is done to compare two or more data for general information. It is used to find out the portion of sample in favor of different choices.

3.4.1.4 Multiple Regressions

Multiple Regression equation is the algebraic relationship between dependent variable and two or more independent variables. This relationship is used to estimate the value of dependent variable for the given values of independent variables. We shall limit our discussion to the dependent variable X1 and two independent variables X2 and X3, so that the multiple regression equation for the observed data is given by,

$X1 = a + b1X2 + b2X3 + b3X4$…………… (i)

Where,

a = Point of intercept on Y axis = the value of X1 when X2 = X3 = X4 =0

b1 = Slope of X1 with variable X2 holding variable X3 and X4 constant.

b2 = Slope of X1 with variable X3 holding variable X2 and X4 constant.

b3 = Slope of X1 with variable X4 holding variable X2 and X3 constant.

To find out the value of a, b1, b2 and b3 are determined by solving the following three normal equations obtained by the methods of least squares.

$\sum X1 = na + b1\sum X2 + b2\sum X3 + b3\sum X4$………………. (ii)

$\sum X1X2 = a\sum X2 + b1\sum X2^2 + b2\sum X2X3 + b3\sum X4X2$……………… (iii)

$\sum X1X3 = a\sum X3 + b1\sum X2X3 + b2\sum X3^2 + b3\sum X3X4$……………… (iv)

$\sum X1X4 = a\sum X4 + b1\sum X2X4 + b2\sum X3X4 + b3\sum X4^2$………………. (v)

3.4.1.5 Standard Error

The standard error of the estimate measures the variability of the actual values from its predicted values in the same way that the standard deviation measures the variability of each observation around its means. The standard error estimate can be used to determine whether statistically significant relationship exists between the dependent and given independent variables and also make inference about the predicted values i.e. it is used as a test of reliability for the predicted values and construction of confidence limits. The lesser the value of the standard error of estimate, the better is model fitted.

The standard error of estimate of dependent variable X1 on three independent variable X1, X2, and X3 is defined as;

$$\sigma_{1.234} = s_{1.234} = \frac{\sqrt{\Sigma X12 - a\Sigma X1 - b1\Sigma X1X2 - b2\Sigma X1X3 - b3\Sigma X1X4}}{n-4}$$

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS OF THE STUDY

This chapter is divided into two parts. Part one contents analysis of the secondary data and part two contents a primary data.

4.1 Analysis of the Secondary Data

The purpose of this chapter is to carryout secondary data analysis. Firstly it attempts to justify how security market indicators show their performance in capital market on the previous year basis. Secondly it shows corporate disclosures by listed company to SEBON in fiscal year from 2007/2008 to 2011/2012. Thirdly, it's comparing the total listed company of holding annual general meeting and company not holding annual general meeting in from 2007/2008 to 2011/2012. It tries to determine the, which fiscal year is good conducting AGM in time. Lastly, it tries to examine the relationship between value of the firm and its determining variables. We empirically analyze the data taken from market capitalization, percentage of submitting annual report, percentage of conducting AGM in time and no. of listed companies.

We used the bar- diagrams and multiple regression models of statistics for the analysis of data so as to find out some relevant conclusion of various objectives explained above.

4.1.1 Supervision and Monitoring

Supervision of Public Issue and Merchant Banker

As per the prevailing Securities Related Act, SEBON carried out on-site inspection of public issues of two companies in the fiscal year 2010/11. The on-site inspection was made whether the Chilimeh Hydropower Company Ltd. has opened its securities to the local residents or not. Similarly, SEBON issued various directives to the issue managers and monitored the compliance of the directives for the improvement on non-compliances seen in the process of inspection.

Merchant Bankers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within three months of the expiry of the fiscal year.

Supervision of Stock Exchange

Among the various statements, information to be submitted to SEBON, Nepal Stock Exchange Ltd. known as NEPSE which is the only stock exchange of Nepal has submitted its annual report and minute of its annual general meeting of the fiscal year 2010/11.

Supervision of Security Trading

SEBON developed Real Time Surveillance system with establishing electronic link to NEPSE for the supervision of daily securities trading. With this, SEBON has made stockbrokers to clarify their trading statements if needed after noting transactions through real time monitoring and surveillance. Through this system, SEBON has been monitoring floor activities as well as constantly monitoring the traded persons and institutions including traded companies, traded value and number shares traded.

In the process of monitoring the secondary market, SEBON has been preparing the brief reports of daily trading companies, reports of weekly traded companies, block transactions related reports, reports of total traded amount of stock brokers on weekly basis, statement of securities not traded for more than three months, records of promoters share transaction and transaction records of Merchant Banker on regular basis as and when needed.

Supervision of Stockholders

As per the provisions requiring stockbrokers to submit their annual reports including profit and loss account, balance sheet, and cash flow statements to SEBON within three months of the expiry of the fiscal year, 41 stock brokers submitted their annual report for the fiscal year 2010/11. Similarly, eight new stock brokers have submitted their securities trading report to SEBON.

Supervision of Disclosure of Listed Companies

During fiscal year 2011/12, out of 216 listed companies, 165 listed companies submitted their annual reports within the prescribed time and 176 companies submitted their annual reports within the fiscal year to SEBON. 170 companies submitted their 1st quarterly reports, 167 companies submitted their 2nd quarterly reports, 170 companies submitted their 3rd quarterly reports and 153 companies submitted their 4th quarterly reports to SEBON. Similarly, SEBON also sent a reminder letter to those listed companies not complying to submit their financial reports. Likewise, SEBON has prepared the profile of listed companies submitting their financial reports on time. SEBON through its website has made public the reporting status of the listed companies and has warned companies giving late report.

4.1.2 Security Market Indicators

The security market indicators are presented on table no. 5 for security board of Nepal (SEBON) where includes no. of issue approved, total amount of issue approved, total amount of public issue, paid up value of listed securities, annual turnover, market capitalization, total no. of listed companies, no. of companies traded etc. Here, the securities market indicators data are presented and analyzed from fiscal year 2001/2002 to 2011/2012.

Securities Market Indicators	**Fiscal Year**										
	2001/02	**2002/03**	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Number of Issue Approved	16	17	16	12	10	12	15	17	19	15	15
Total Amount of Issue Approved (Rs.)	1555.11	853.63	1547.79	1315.80	1429.83	1030.30	3874.75	2565.70	2649.37	1728.83	1298.50
Total Amount of Public Issue (Rs.)	1579.81	696.63	1090.37	1626.83	2443.28	2295.50	10668.20	16828.50	10822.41	6754.03	2902.18
Paid-up value of Listed Securities (Rs.)	9685.04	12560.07	13404.90	16771.85	20008.55	21798.80	29465	61140.0	79356	100238.85	110610.90
Market Capitalization (Rs.)	34703.9	35240.4	41424.77	61365.89	96813.74	186301.3	366247.5	512939.07	376871.37	323484.34	371115.74
Annual Turnover (Rs.)	1540.63	575.80	2144.27	5407.68	3451.43	8360.10	22820.8	21681.14	11851.11	6665.33	10272.79
% of Turnover on Paid-up Value	15.91	4.58	16.00	26.88	17.25	38.35	77.45	35.46	14.93	6.64	9.29
% of Turnover on Market Capitalization	4.44	1.63	5.18	7.35	3.56	4.48	6.23	4.22	3.14	2.06	2.77
% of Market Capitalization on Nominal GDP at Market Price	8.56	8.09*	8.77#	12.06	17.35	27.78	44.62	53.43*	31.86#	24.01#	23.41#

Market Day	246	238	243	236	228	232	235	234	225	231	232
Average Daily Turnover (Rs.)	6.26	2.42	8.82	19.10	15.14	36.03	97.12	92.65	52.67	28.85	44.28
Total No. of Listed Companies	96	108	114	125	135	135	142	159	176	207	216
Number of Company Traded	69	81	92	102	110	116	136	170	198	222	230
Number of Shares Traded(‘000)	6005	2428	6468	18433	12221	18147	28599	30547	26231	26240.39	41478.90
Number of Transaction	42028	69163	85533	106246	97374	120510	150800	209091	213733	302364	293489
Number of Listed Securities (‘000)	122685	159958	161141	194673	227040	243504	321131	637868	821746	1033674	1140081
NEPSE Index (points)	227.54	204.86	222.04	286.67	386.83	683.95	963.36	749.10	477.73	362.85	389.74

* Based on revised estimate of GDP # Based on preliminary estimate of GDP

Source: www.sebon.gov.np

According to the above table, in the fiscal year 2001/02, there are total 96 listed companies. SEBON registered the securities of 16 companies and granted issue approval amounting to Rs.1555.11 million. Market capitalization is Rs. 34703.9. In the fiscal year, 2002/03, total listed companies are 108 and SEBON registered 17 companies and granted issue approval amounting was 853.63 million and market capitalization is Rs. 35240.4.

Similarly in the fiscal year, 2003/04, there are 114 listed companies and SEBON registered the 16 companies and granted issue approval amounting to Rs.1547.79 and have market capitalization of Rs. 41424.77. In the fiscal year 2004/05, there are 125 listed companies and SEBON registered 12 companies and granted issue approval amounting to Rs. 1315.80 and market capitalization is Rs. 61365.89.

In the same way, in the fiscal year 2005/06, there are 135 listed companies and SEBON registered 10 companies and granted issue approval amounting to Rs. 1429.83 and market capitalization is Rs. 96813.74. In the fiscal year, 2006/07, there are 135 listed companies and SEBON registered 12 companies and granted issue approval amounting to Rs. 1030.30 and market capitalization is Rs. 186301.3. Similarly, in the fiscal year 2007/08, there are 142 listed companies and SEBON registered 15 companies and granted issue approval amounting to Rs. 3874.75 and market capitalization is Rs. 366247.5. In the fiscal year 2008/09, there are 159 listed companies and SEBON registered 17 companies and granted issue approval amounting to Rs. 2565.70 and market capitalization is Rs. 512939.07.

According to the table, in the fiscal year 2009/10, there are 176 listed companies and SEBON registered 19 companies and granted issue approval amounting to Rs. 2649.37 and market capitalization is Rs. 376871.37. In the fiscal year 2010/11, there are 207 listed companies and SEBON registered 15 companies and granted issue approval amounting to Rs. 1728.83 and market capitalization is Rs. 323484.34. In the fiscal year, 2011/12, there are 216 listed companies and SEBON registered 15 companies and granted issue approval amounting to Rs. 1298.50 and market capitalization is Rs. 371115.74.

As like, that the total amount of public issue were increased from Rs. 1579.81 million in 2001/02 to Rs. 2902.18 in 2011/12. Accordingly, paid up value of listed companies were also increased from Rs. 9685.04 million in 2001/02 to Rs. 110610.90 million in 2011/12. As like that annual turnover increased from Rs.1540.63 million in 2001/02 to Rs. 10272.79 million in 2011/12. And percentage of turnover on market capitalization has been fluctuating during the period from 2001/02 to 2011/12. Similarly, along with the increment in listed companies, the no. of traded companies also increased from 69 in 2001/02 to 230 in 2011/12.

4.1.3 Status of Corporate Disclosures by Listed Companies to SEBON

For the development of systematic and transparent securities market, timely disclosure of market information and cooperation and corporate information play significant role. As per the provision of Securities Exchange act, 1983, listed companies should submit their annual report including profit and loss account, balance sheet and cash flow statements to the NEPSE and SEBON, within 4 months after the expiry of the fiscal year. Similarly, listed companies should submit their half yearly reports to NEPSE and SEBON, within 2 months after the expiry of that period. But still there is something missing in the legislative control. That is why; the listed companies are not very much serious towards the timely disclosures of their company’s performance report. It is clearly described below with the help of table and graph:

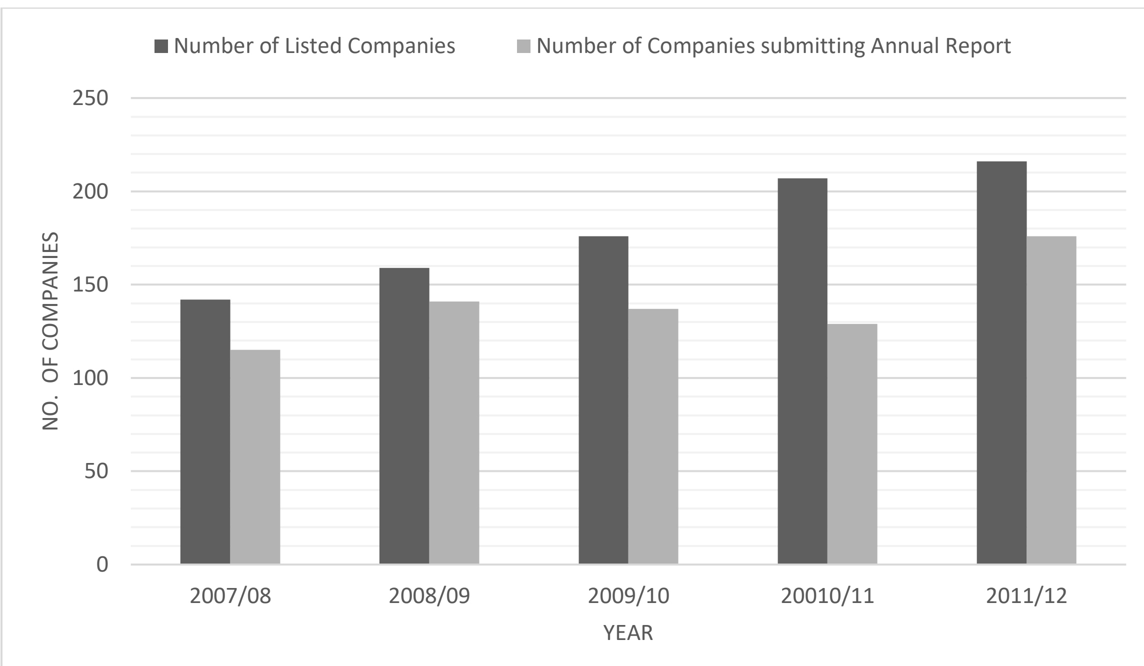
Table No. 4.2

Corporate Disclosures by Listed Companies to SEBON

Fiscal Year	Total Number of Listed Companies	No. of Companies Submitting Annual Report	% of Companies Submitting Annual Report
2007/08	142	115	80.99
2008/09	159	141	88.68
2009/10	176	137	77.84
2010/11	207	129	62.32
2011/12	216	176	81.48

Source: SEBON Annual Repor **Figure No: 4.1**

Corporate Disclosures by Listed Companies to SEBON



Source: SEBON Annual Report

After continuous follow up through correspondence, public notice, educating through publication of booklet, still there is a lack of adequate and proper reporting system. As we can easily analyze that, to what level or extent, the listed companies are sincere towards the existing law and their investors.

Viewing above table, it is clear that submission of financial statements from listed companies to SEBON is not adequate. All these indicate that listed companies are not still conscious enough to inform the investors timely.

In the fiscal year 2007/08, only 115 companies have submitted their financial report out of 142 companies and it represents 80.99 percent. Similarly in the fiscal year 2008/09, out of 159 companies, only 141 companies have submitted their financial report and it represents 88.68 percent. And in the fiscal year 2009/10, out of 176 companies, only 137 companies have submitted their financial report and it represents 77.84 percent. Similarly, in the fiscal year 2010/11, out of 207 companies only 129 companies have submitted their annual report which represents 62.32 percent. Lastly, in the fiscal year 2011/12 out of 216 companies only 176 companies have submitted their annual report which represents 81.48 percent.

4.1.4 Companies Holding Annual General Meeting

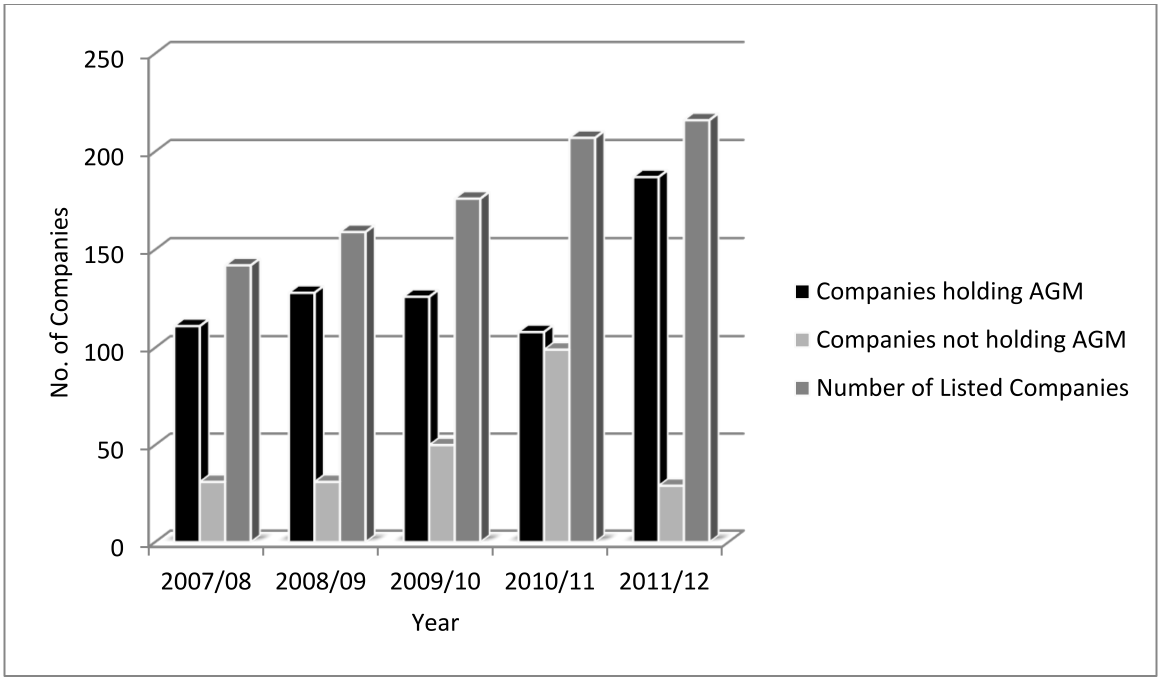
Table No: 4.3

S.N	Sector	2007/08	2008/09	2009/10	2010/11	2011/12
1	Commercial Banks	16	18	23	18	24
2	Finance Companies	48	59	56	42	62
3	Insurance Companies	9	11	8	6	20
4	Hotel	4	3	2	1	3
5	Manufacturing& Processing co.	8	7	4	2	12
6	Trading Company	2	2	2	1	2
7	Development Banks	21	24	25	33	58
8	Other Companies	3	4	6	5	6
Total		111	128	126	108	187
Total Listed Companies		142	159	176	207	216

Source: SEBON annual report

Figure No. 4.2

Companies Holding AGM



Source: SEBON Annual Report

In fiscal year 2007/08, out of 142 companies only 111 have conducted AGM. Similarly, in fiscal year 2008/09, out of 159 co. only 128 co. have conducted their AGM. During the fiscal year 2009/10, out of 176 co. only 126 co. have conducted their AGM. Similarly, in the fiscal year 2010/2011, out of 207 listed companies only 129 companies have conducted AGM. In the same way, in the fiscal year 2011/12, out of 216 listed companies only 187 companies have conducted AGM. In this fiscal year, 187 companies, consisting of 24 commercial banks, 62 finance companies, 20 insurance companies, 3 hotels, 12 manufacturing & processing co., 2 trading co., 58 development banks and 6 other co. have conducted their AGM at the time.

This shows that the listed companies have neither submitted their financial statement nor conducting their AGM on time and the percentage of their submission of financial report & holding their AGM are also very low. That is why; we conclude that the status of corporate disclosures by listed co. to SEBON is not adequate & sufficient.

4.1.5 MC = FC (Corporate Disclosure)

Market capitalization represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share. Market capitalization reflects the theoretical cost of buying all of a company's shares. Market capitalization is a better measure of size than worth. That is, market capitalization is not the same as market value, which can generally only be assigned when the company is actually sold.

Following table shows the market capitalization, percentage of submitting annual report, percentage of conducting AGM in time and number of state of companies and their statistical data of multiple regressions having the market capitalization. Dependent variables and percentage of submitting annual report, percentage of conducting annual AGM in time and number of listed companies' independent variables.

Table No: 4.4

Function of Corporate Disclosure

Year	**MC(in millions)(y)**	**% of submitting Annual Report(X1)**	**% of conducting AGM in time (X2)**	**No. of Listed Companies (X3)**
2007/08	366248.00	80.99	78.17	142
2008/09	512939.07	88.68	80.50	159
2009/10	376871.37	77.84	71.60	176
2010/11	323484.34	62.32	52.17	207
2011/12	371115.74	81.48	86.57	216

Source: SEBON Annual Reports

Standard error = 8218034047

Y intercept (a) = -55433.69

X1 variable (b1) = 8998.45

X2 variable (b2) = 36.16

X3 variable (b3) = -1451.89

From the above table, the multiple regression of market capitalization is calculated as per appendix- .

The above table shows that average relationship between dependent variable i.e. market capitalization and independent variables i.e. percentage submitting annual report, percentage conducting AGM in time and number of listed companies. As like standard error of estimate values are 8218034047 million. Similarly, Y intercept (a) is -55433.69. It indicates when the percentage of submitting annual report, percentage of conducting AGM in time, number of listed companies are zero, the expected change in market capitalization is -55433.69.

4.2 Analysis of the Primary Data

Here the data are analyzed as per the questionnaires filled up by the respondents. We analyze the data according to the question & their responds are described in the findings of each question.

4.2.1 Question: What do you think are the policy measures to be adopted to develop the Stock Markets?

The question was asked with different respondent to know their view point regarding the best policy measures that could be adopted to develop the Nepalese Stock Market.

The choices given to them were:

1. Make trading activities transparent.
2. Provide information to investors.
3. Increase no. of brokers.

And they were asked to rate the most important ones as 1 and so on.

Table No. 4.2.1

Policy Measures to be adopted to improve the Stock Market

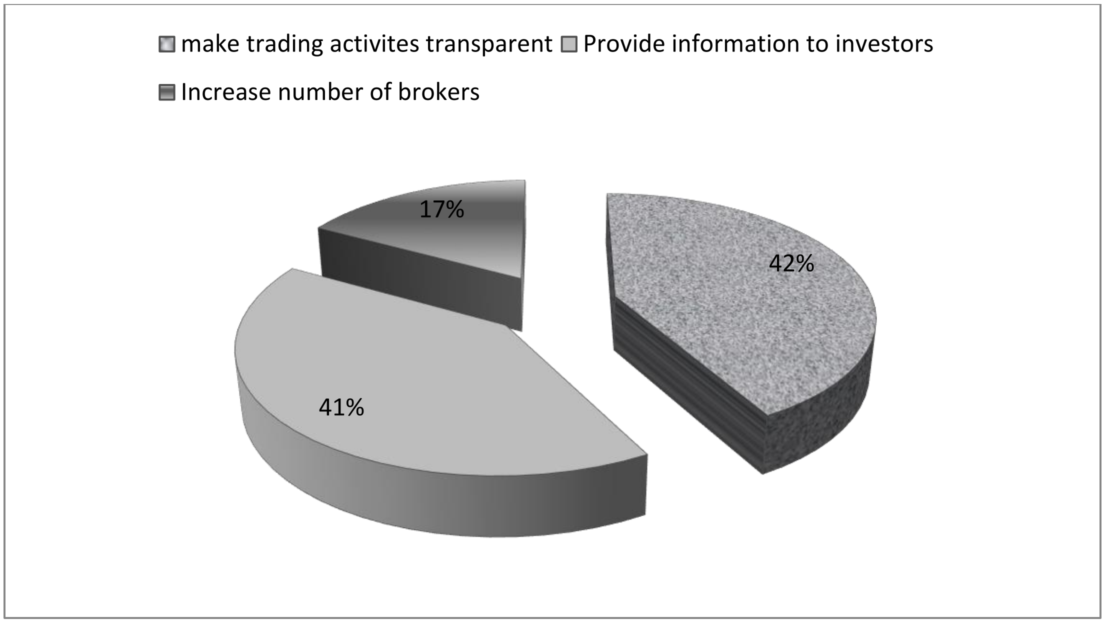
Alternatives	**Weight**	**Transparency**	**Timely Information**	**No. of Brokers**
1st most preferred	3	16	14	0
2nd most preferred	2	14	16	0
3rd most preferred	1	0	0	30
Score		76	74	30

Source: Sample survey 2013

After analysis, we found that 42% weight was given by the respondents to making trading activities transparent and 41% weight was given to provide information to investors. And only 17% weight was given to increase no. of Brokers.

Figure No: 4.3

Policy Measures to be adopted to improve the Stock Market



Source: Sample survey 2013

Findings:

From the above given figure it shows clearly that here the respondents replied that the transparent trading activity is the most important policies that can be adopted to improve Nepalese Stock Market. And the respondents gave the second priority to provide information to investors. It means that these are the two best policy measures that could be adopted to develop the Nepalese Stock Market. And the third alternative was not that much important as only 17% weight was given to it by the total respondents.

4.2.2 Question: How far do you think, the factors playing the major role in investing decision?

Which of the following factors playing major role in investing decision? The question was asked with three alternatives of

1. Company's image and performance.
2. Role of market intermediaries.
3. Timely discloser of information.

And the response we get from the survey is given as follows:

Table No. 4.2.2

Factors playing the major role in investing decision

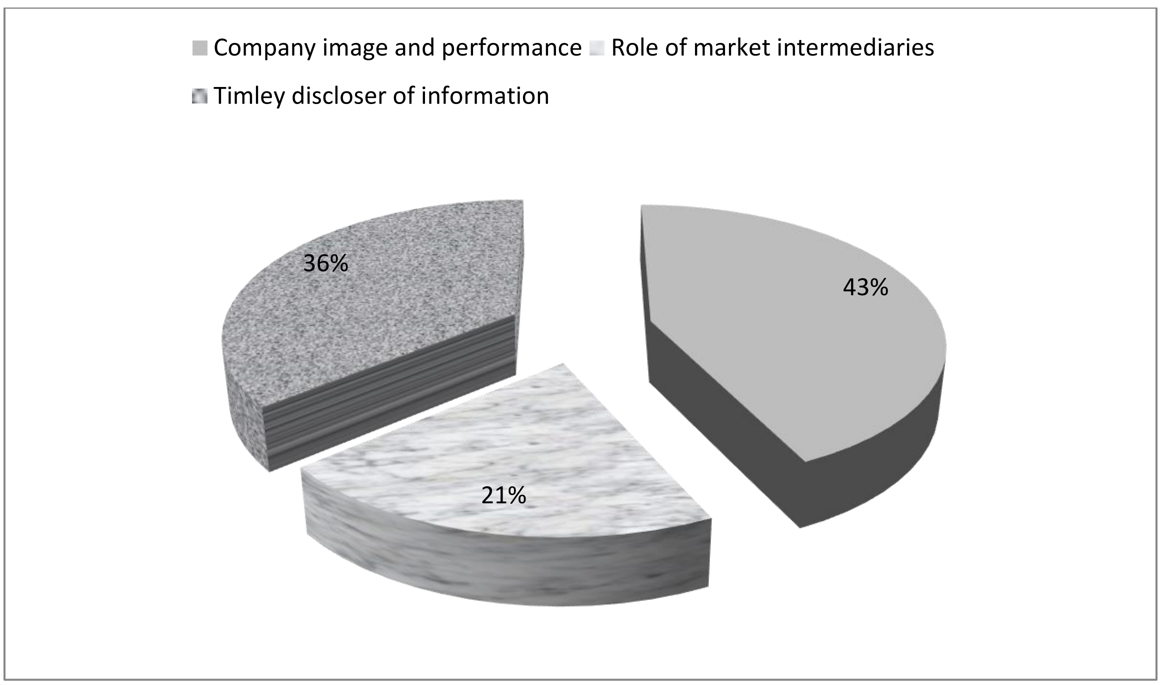
Alternatives	Weight	Image & Performance	Intermediaries	Timely Information
1st most preferred	3	20	0	10
2nd most preferred	2	8	7	15
3rd most preferred	1	2	23	5
Score		78	37	65

Source: Sample survey 2013

Here we can see that the highest percentage of the total respondents' 43% weight was given to the company's image and its performance. Likewise, out of the total respondents 36% weight was given to the timely discloser of information. And only 21% weight of the total respondents was given to the market intermediaries who play a major role in investing decision.

Figure No. 4.4

Factors playing the major role in investing decision



Source: Sample survey 2013

Findings:

Here these percentages indicates that the first most important factor that play a major role in making an investing decision was the company's image and its performance, as it scored 43%weight of the total respondents. And the timely discloser of information was the second preferable factor while making an investment decision. In this way this analysis shows that the role of market intermediaries was not so much effective in the investing decision of investors as it scored 21% weight among all the respondents.

4.2.3 Question: What do you think are the reasons for the Early Stage of Development of stock market in Nepal?

The question was asked with different respondent to know their viewpoint regarding the reasons for the early stage of development of stock market.

The possible choices given to them were:

1. Excessively speculative behavior of the investors.
2. Lack of knowledge about securities market among the mass.
3. The regulations, Acts and guidelines are insufficient.

The response we get from the survey is given as follows:

Table No. 4.2.3

Reasons for the Early Stage of Development of Stock Market in Nepal

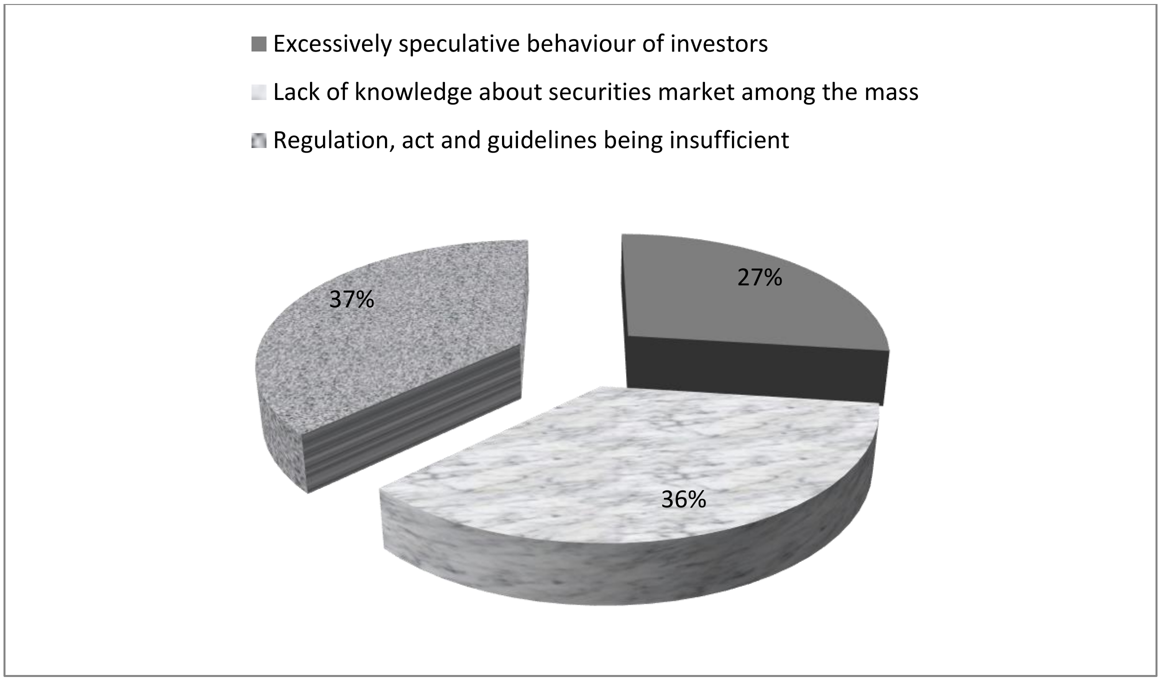
Alternatives	**Weight**	**Speculative Behavior**	**Lack of knowledge**	**Insufficient Regulations, Acts**
1st most preferred	3	4	10	16
2nd most preferred	2	11	15	4
3rd most preferred	1	15	5	10
Score		49	65	66

Source: Sample survey 2013

From this survey it was found that the reasons for the early stage of development of the Nepalese Stock Market were the insufficient Regulations, Acts and Guidelines as out of total 37%weight was given to it. And the weight of 27% of the total respondents thought that the reason was excessively speculative behavior of investors.

Figure No: 4.5

Reasons for the Early Stage of Development of Stock Market in Nepal



Source: Sample survey 2013

Findings:

After analyzing the data it was clear that the first preferable one was the insufficient Regulations, Acts and Guidelines. Likewise, the equally about 36% weight was given to that there is lack of knowledge about the securities market among the mass. And only 27% weight was given to the excessively speculative behavior of the investors. It indicates that the reason for the early stage of development of stock market was not the lack of information about securities or the speculative behavior of investors, but here we found that the most important reason was the insufficient Regulations, Acts and Guidelines.

4.2.4 Question: Which factor do you think can be used to protect general investor's interest?

Here the question was asked with the respondents to know their views about the important factors that can be used to protect the general investor's interest. Again three possible choices were given to them which they prefer the most are as follows:

1. Make grievance handling technique more effective.
2. Make trading activities transparent.
3. Timely discloser of information.

And the response we get from the survey is given as follows:

Table No. 4.2.4

Factors that Can be Used to Protect General Investor's Interest

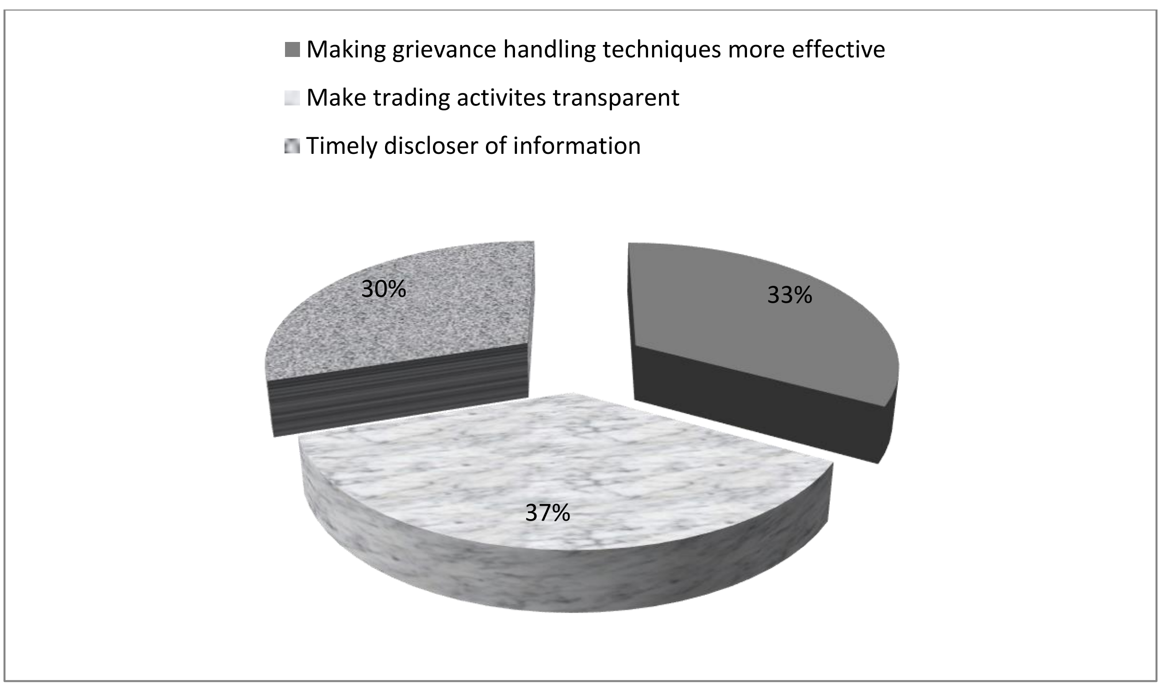
Alternatives	**Weight**	**Make grievance handling techniques more effective**	**Make trading activities transparent**	**Timely discloser of information**
1st Most preferred	3	9	13	8
2nd Most preferred	2	12	10	8
3rd Most preferred	1	9	7	14
Score		60	66	54

Source: Sample survey 2013

In order to analyze data we found that making trading activities transparent is important to protect general investors' interest as 37% weight was given to it. Likewise, 33% weight was given to make grievance handling technique more effective to protect investors' interest. In the same way, only 30% weight was given for the timely discloser of information.

Figure No: 4.6

Factors that Can be Used to Protect General Investors' Interest



Source: Sample survey 2013

Findings:

After analyzing the collected data and with the help of the diagram, we can see that the response is very clear. Although the responses given to each choices is very close to each other and the result is also clear. The highest response goes to make trading activities transparent as its weight is 37%. And second highest response with 33% weight goes to make grievance handling technique more effective.

At last 30% weight goes to the timely discloser of information. This indicates that all the three given choices are important and can be used to protect the general investors' interest but the most important one is the transparent activities, which we get from our survey analysis.

4.2.5 Question: What do you think are the important factors to make the growth of Stock Market in Nepal?

The question asked to the respondents was about the important factors to make the growth of stock market. The possible choices provided to them were:

1. Establish other stock exchange outside the valley.
2. Use computer based, paperless work.
3. Qualifications and experiences of relating staffs.

The response we get from the survey is given as follows:

Table No: 4.2.5

Factors that Can Aid the Growth of Stock Market

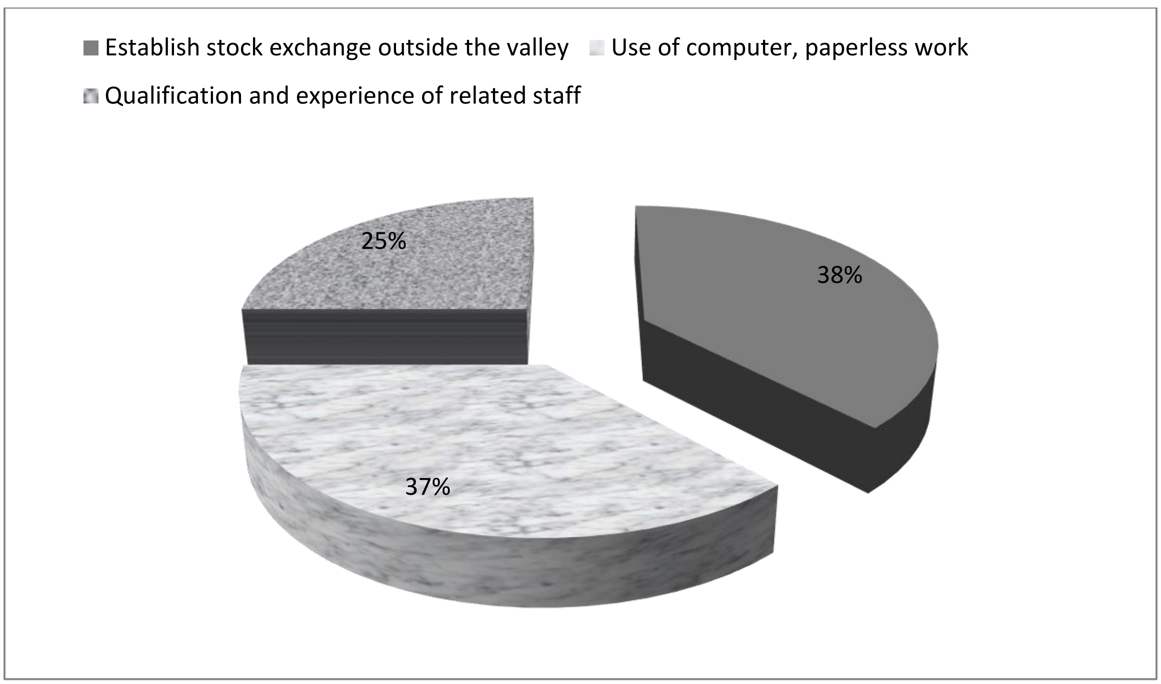
Alternatives	**Weight**	**Establish another Stock Exchange outside the valley**	**Use of computer based, paperless work**	**Qualifications and experiences of relating staffs**
1st most preferred	3	12	12	6
2nd most preferred	2	15	12	3
3rd most preferred	1	3	6	21
Score		69	66	45

Source: Sample survey 2013

Out of the total 30 respondents, 25% weight was given to the qualification and experience of the related staff that can aid the growth of stock market and 37% weight is given by the respondents, computer based paperless work aid the growth of the stock market. But most of the respondents said that establishment of another stock exchange outside the valley can aid the growth of stock market as 38% weight was given to it.

Figure no: 4.7

Factors that Can Aid the Growth of Stock Market



Source: Sample survey 2013

Findings:

It is clear that the most preferable one is to establish another Stock Exchange outside the valley. And the use of computer based, paperless work, which seems to equally important as the first one, as they scored 37% weight of the total respondents.

This indicates that among the three choices establishing another Stock Exchange outside the valley is the most important factor to make the growth of stock market and use of computer based, paperless work is also relatively very important.

4.2.6 Question: Altogether seven type of statement are given here. And the respondents' response is given below:

4.2.6.1 Statements: SEBON's rules and regulations are effective in the growth of Nepal's capital market.

Table No: 4.2.6

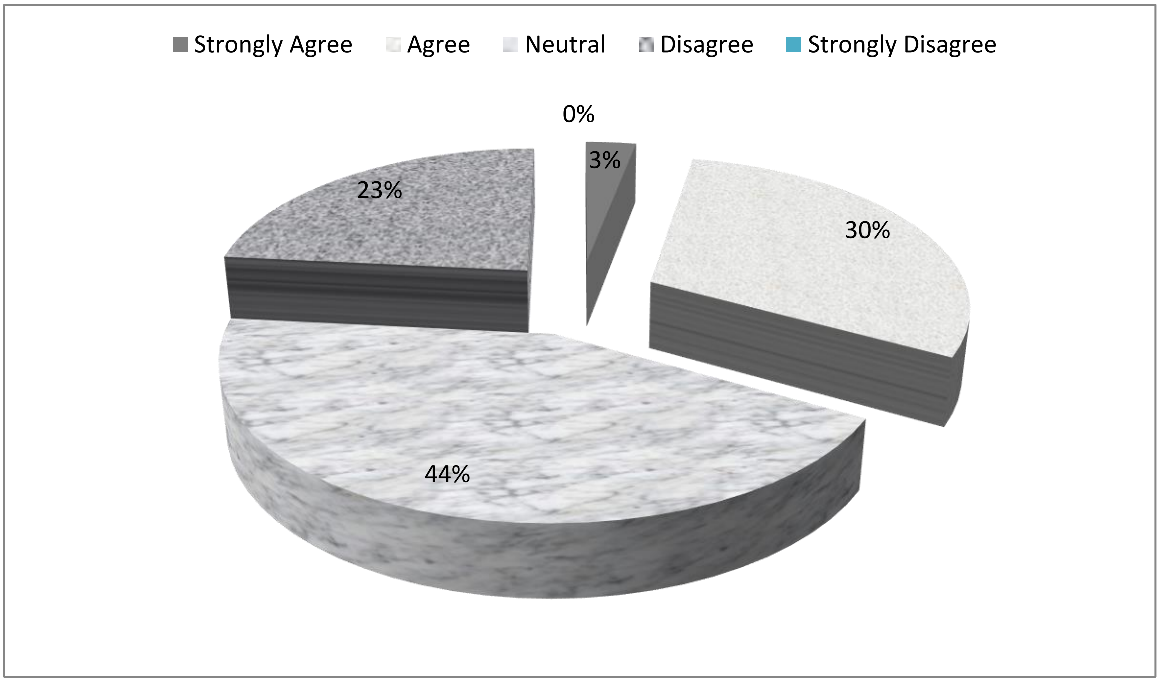
Effective Rules & Regulation of SEBON

State of Nature	Frequency	Percentage
Strongly agree	1	3.33
Agree	9	30.00
Neutral	13	43.33
Disagree	7	23.33
Strongly disagree	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.8

Effective Rules & Regulation of SEBON



Source: Sample survey 2013

SEBON's rules and regulations are effective in the growth of Nepal's here for the above given statement out of total respondents, only 3.33% of the respondents were strongly agreed, where 30% of them were agreed and 23.33 of them were disagreed. And most of the respondents were neutral about the statement.

4.2.6.2 Statement: The techniques of supervising and monitoring activities of SEBO are suitable for Nepalese Capital Market.

Table no: 4.2.7

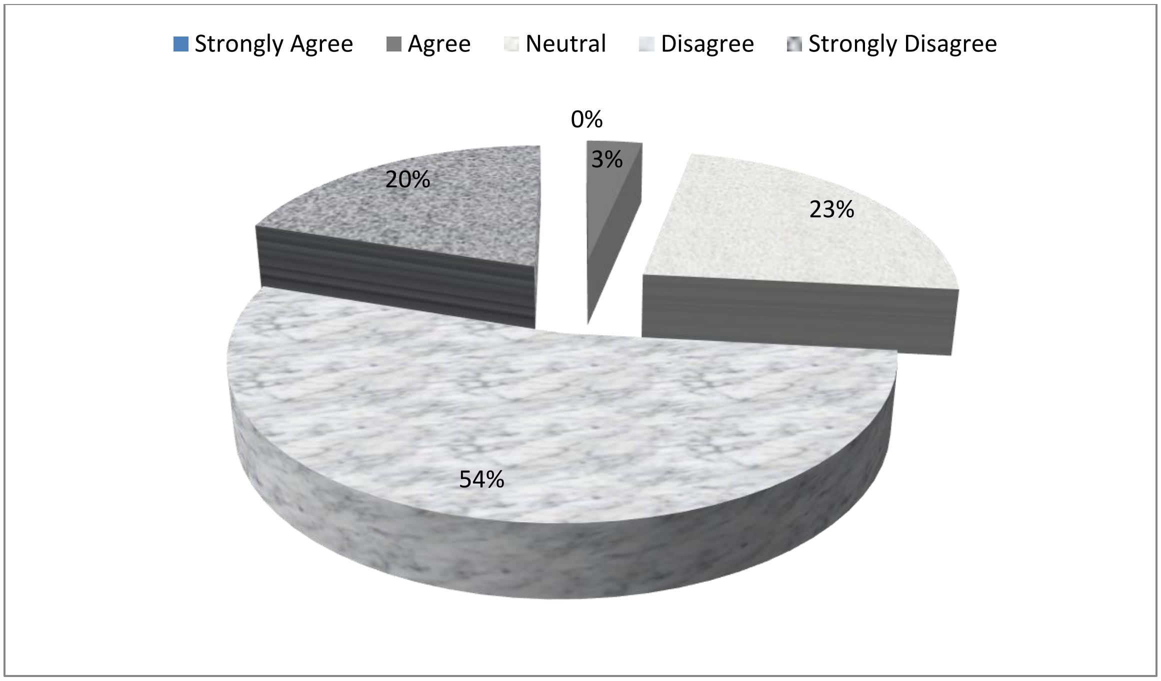
SEBON's Technique Suitable for Nepalese Market

State of Nature	Frequency	Percentage
Strongly agree	0	0.00
Agree	1	3.33
Neutral	7	23.33
Disagree	16	53.33
Strongly disagree	6	20.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.9

SEBON's Technique Suitable for Nepalese Market



Source: Sample survey 2013

For this given statement out of the total respondents 3% were agreed, 23% were neutral and most of 54% were disagreed.

4.2.6.3 Statement: Grievance handling techniques of SEBON is sufficient to solve the upcoming problems effectively.

Table No: 4.2.8

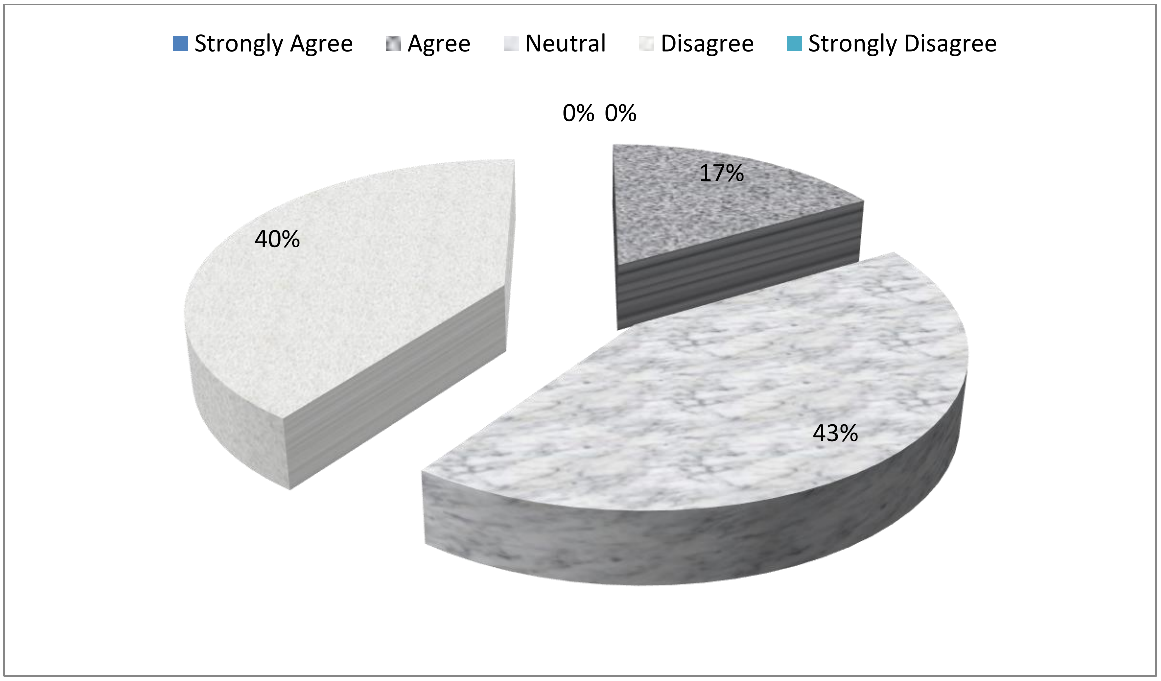
SEBON's Sufficient Grievance Handling Techniques

State of Nature	Frequency	Percentage
Strongly agree	0	0.00
Agree	5	16.67
Neutral	13	43.33
Disagree	12	40.00
Strongly disagree	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.10

SEBON's Sufficient Grievance Handling Techniques



Source: Sample survey 2013

Out of total respondents 40% were disagreed on the given statement. And the most of 43.33% of them were neutral. Whereas 16.67% were agree with the statement.

4.2.6.4 Statement: Nepalese Investors are getting sufficient and timely information regarding the Listed Company regularly.

Table No: 4.2.9

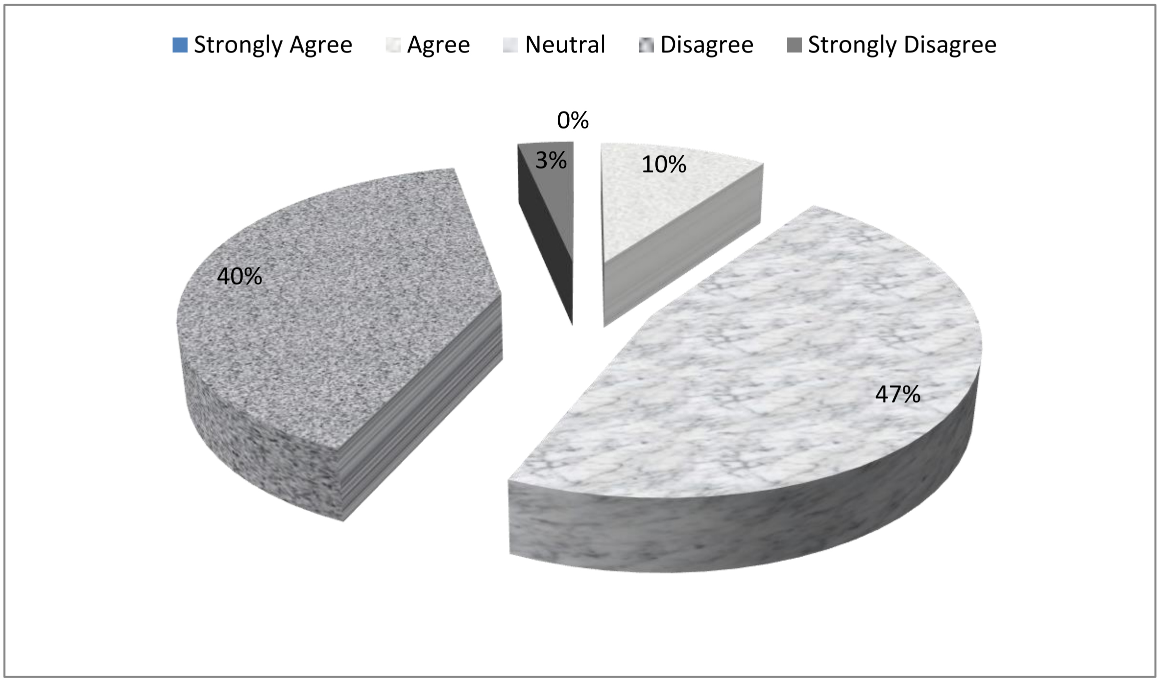
Sufficient and Timely Information for Investor

State of Nature	Frequency	Percentage
Strongly agree	0	0.00
Agree	3	10.00
Neutral	14	46.67
Disagree	12	40.00
Strongly disagree	1	3.33
Total	30	100

Source: Sample survey 2013

Figure No: 4.11

Sufficient and Timely Information for Investor



Source: Sample survey 2013

For the above statement 3.33% of the total respondents were strongly disagreed, whereas 40% of them were replied disagree and the most of 46.67% were replied neutral.

4.2.6.5 Statement: Investors are getting reliable and adequate information from brokers regarding the transaction and other aspects.

Table No: 4.2.10

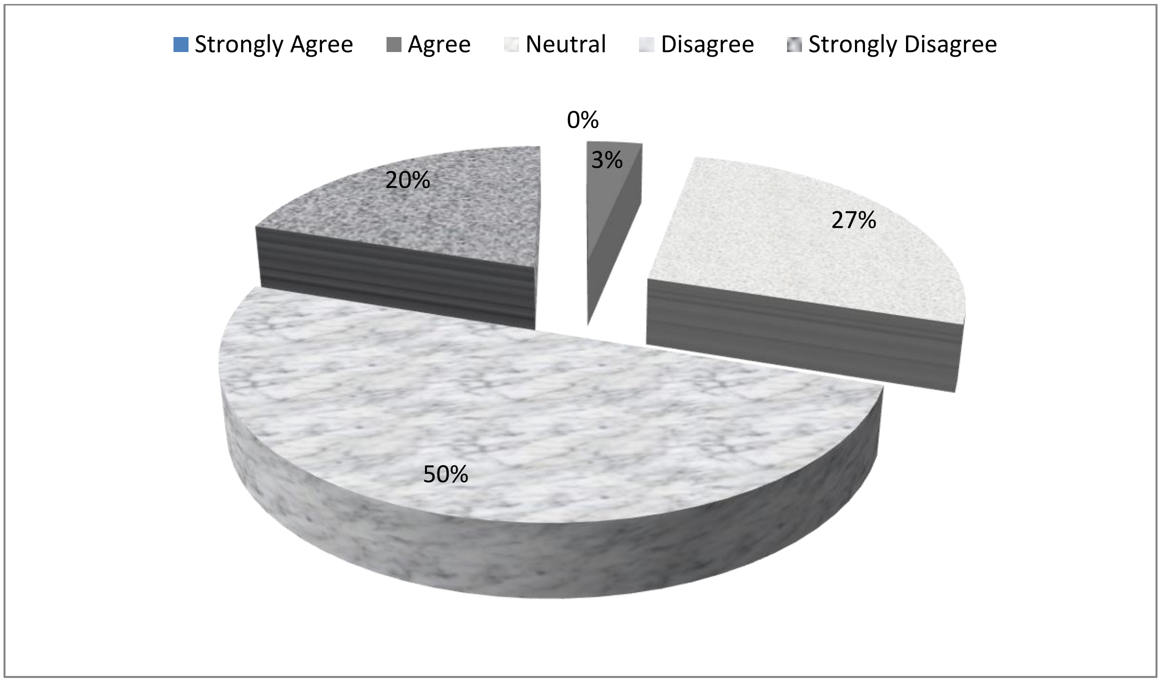
Investors are Getting Adequate and Reliable Information from Brokers

State of Nature	Frequency	Percentage
Strongly agree	0	0.00
Agree	1	3.33
Neutral	8	26.67
Disagree	15	50.00
Strongly disagree	6	20.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.12

Investors are Getting Adequate and Reliable Information from Brokers



Source: Sample survey 2013

For the above given statement 3.33% of the respondent were agreed, whereas 26.67% of them were neutral about the statement. And the most of 50% were replied that they were disagreed with this statement.

4.2.6.6 Statement: Delay in Transfer of the Ownership has not been causing the Investors the Huge Losses in terms of Opportunities.

Table No: 4.2.11

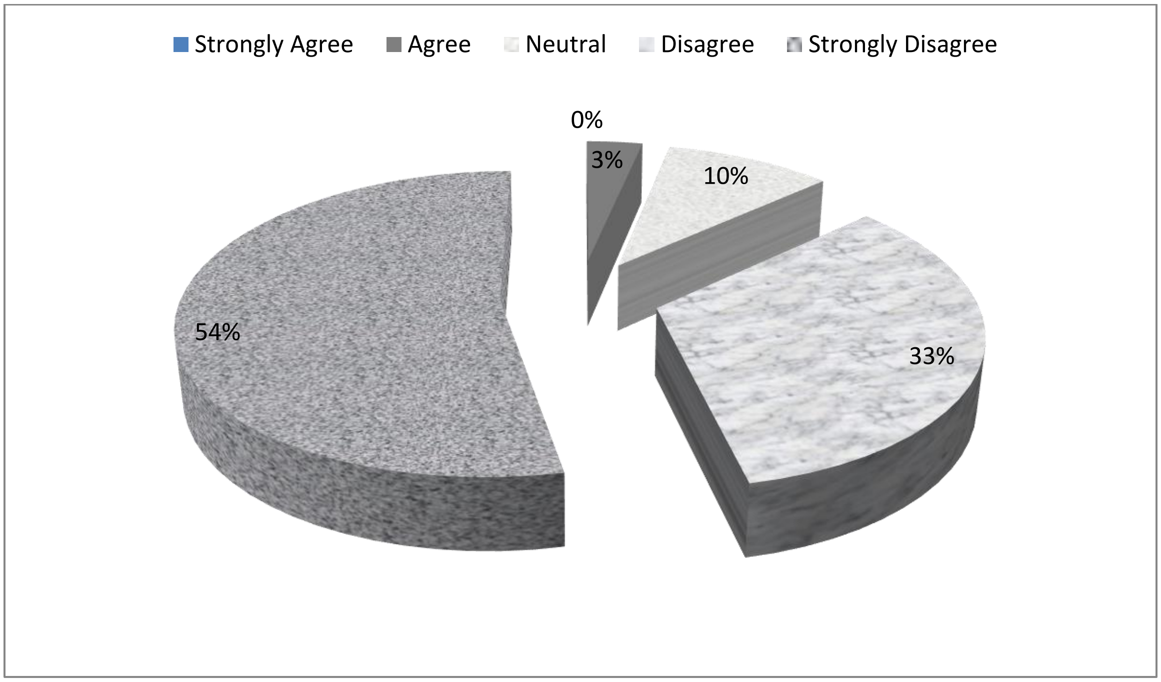
Delay in Transfer of Ownership not Causing Huge Opportunity Losses

State of Nature	**Frequency**	**Percentage**
Strongly agree	0	0.00
Agree	1	3.33
Neutral	3	10.33
Disagree	10	33.33
Strongly disagree	16	53.33
Total	30	100

Source: Sample survey 2013

Figure No: 4.13

Delay in Transfer of Ownership not causing Huge Opportunity Losses



Source: Sample survey 2013

Out of the total Respondents only 3% were strongly agreed and 7% were agreed for the statement. Whereas the equal of 33% and 54% respectively were replied that they were disagree and the strongly disagree with the given statement.

Findings: (6.1 to 6.6)

The findings which we find out from the above data and diagrams are presented below:

1. Most of the respondents were neutral about the effectiveness of SEBON's rules and regulation. They were neither agreed nor disagreed.
2. Most of the investors are not very much familiar with the existing legislation.
3. Most of the respondents were disagreed with the statement of the techniques of supervising and monitoring activities of SEBON that is suitable for the Nepalese Capital Market.
4. Grievance handling techniques of SEBON are not sufficient to solve the upcoming problems.
5. The investors are not well informed about the listed companies.

6. Investors are not getting reliable and adequate information from brokers regarding the transaction.
7. Most of the Nepalese investors are suffering with the delay transfer of ownership.

4.2.7 Question: To what extent the new technique of Awareness Program will increase the Investing Ratio?

The response we get from the survey is given as follows:

Table No: 4.2.12

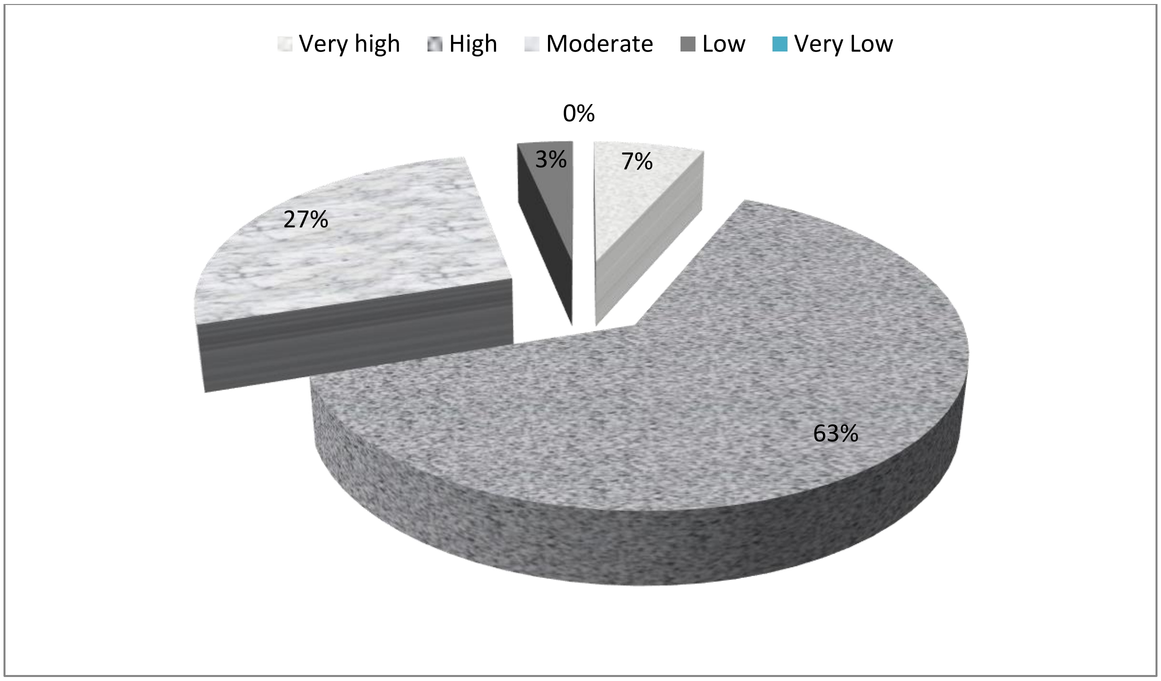
Technique of Awareness Program that Will increase the Investing Ratio

Level	Frequency	Percentage
Very High	2	6.67
High	19	63.33
Moderate	8	26.67
Low	1	3.33
Very Low	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.14

Techniques of Awareness Program that Will Increase the Investing Ratio



Source: Sample survey 2013

When the question was asked with respondents the most of 63% of the respondent replied that it will be high and the least of 3% said that it will be low. Whereas 27% of the respondent said that it will affect moderately.

4.2.8 Question: What is the Level of Return you are getting in Comparison to your Expectation?

The response we get from the survey is given as follows:

Table No: 4.2.13

Level of Return Getting in Comparison to Expectation

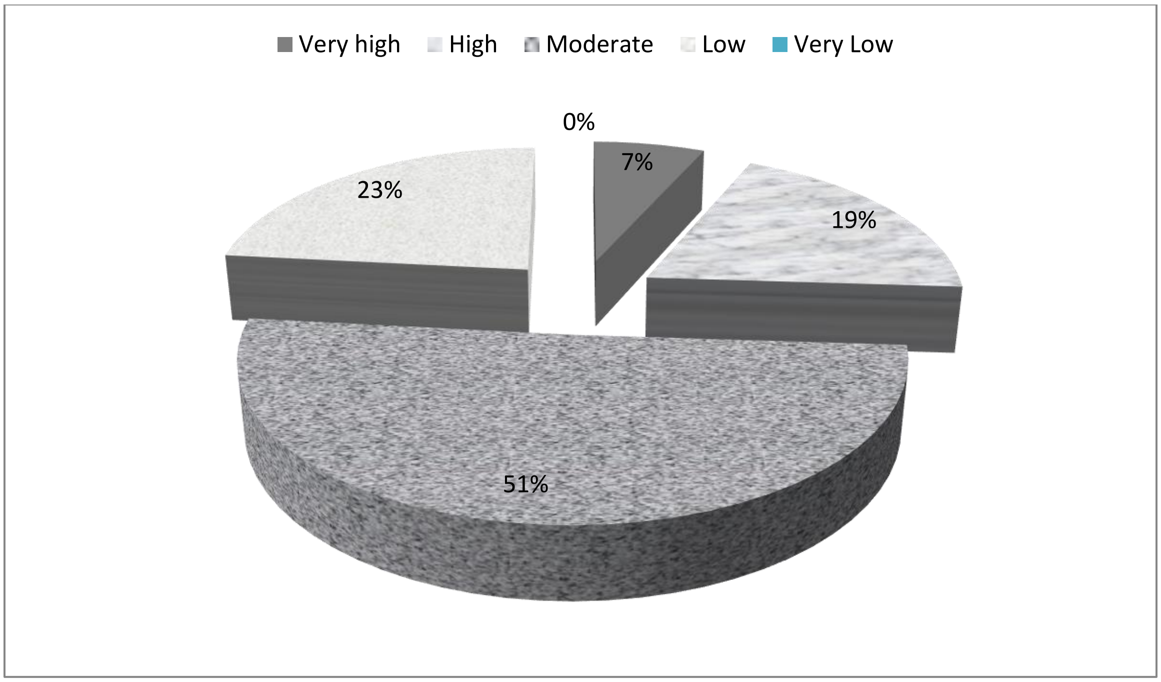
Level	Frequency	Percentage

Very High	2	6.67
High	6	19.33
Moderate	15	50.67
Low	7	23.33
Very Low	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.15

Level of Return Getting in Comparison to Expectation



Source: Sample survey 2013

Here most of 50% of the respondents said that the return they are getting was moderate in comparison to their expectation. And 23% were replied that they are getting very low.

4.2.9 Question: What is the level of Honest Activities from which the insiders get more benefit than the outsiders?

The response we get from the survey is given as follows:

Table No: 4.2.14

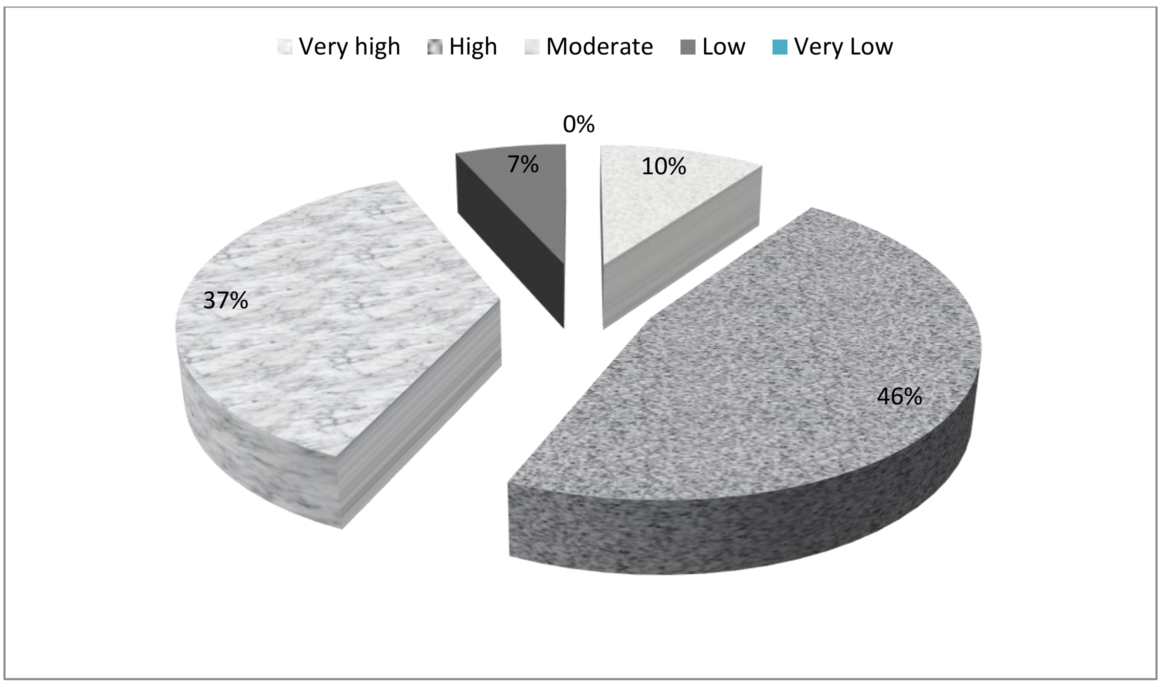
Level of Honest Activities

Level	Frequency	Percentage
Very High	3	10.00
High	14	46.67
Moderate	11	36.67
Low	2	6.67
Very Low	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.16

Level of Honest Activities



Source: Sample survey 2013

The most no. of the respondents 46% said that the honest level is high. About 37% said that it is moderate and only 7% of the respondents said that it is low but no one replied that it is very low.

4.2.10 Question: To what extent do you think that Nepalese Investors are influenced by Whim and Rumors?

The response we get from the survey is given as follows:

Table No: 4.2.15

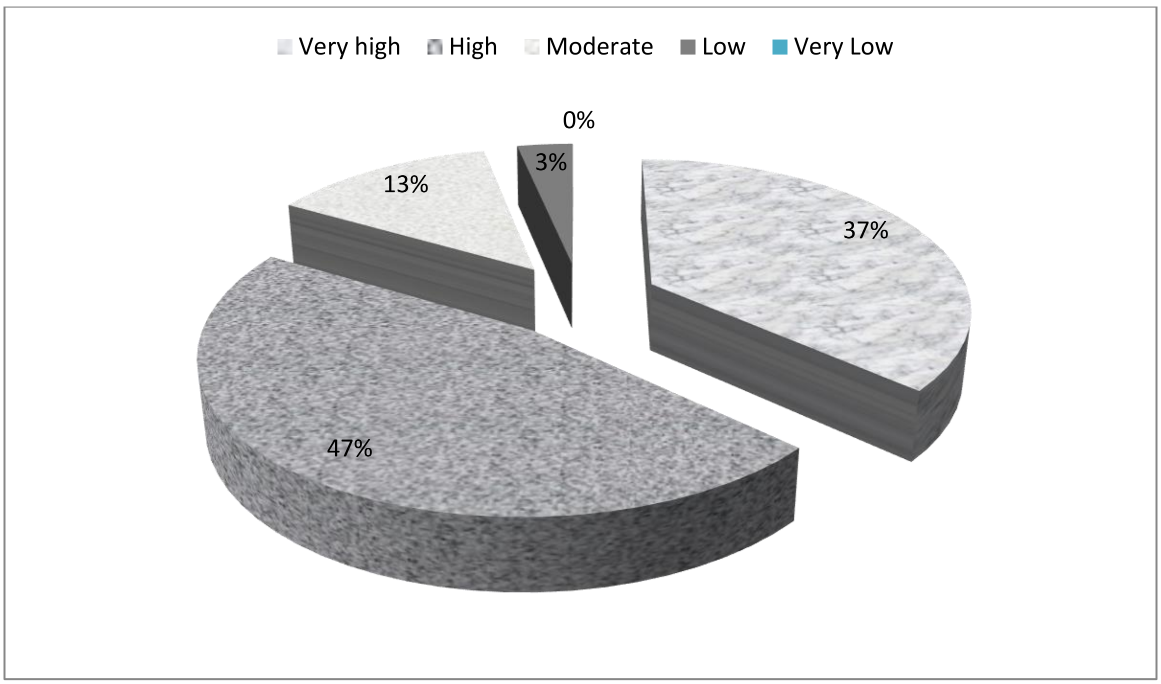
Level of Nepalese Investors are Influenced by Whim and Rumors

Level	Frequency	Percentage
Very High	11	36.67
High	14	46.67
Moderate	4	13.33
Low	1	3.33
Very Low	0	0.00
Total	30	100

Source: Sample survey 2013

Figure No: 4.17

Level of Nepalese Investors are Influenced by Whim and Rumors



Source: Sample survey 2013

Here for the mentioned question out of the total respondents 37% said that investors were influenced to the very high extent and 3% of the respondents said that it is low. But 47% of the respondents said that the level is high.

4.2.11 Question: To what extent do you think that companies are bearing their responsibility towards their shareholders?

The response we get from the survey is given as follows:

Table No: 4.2.16

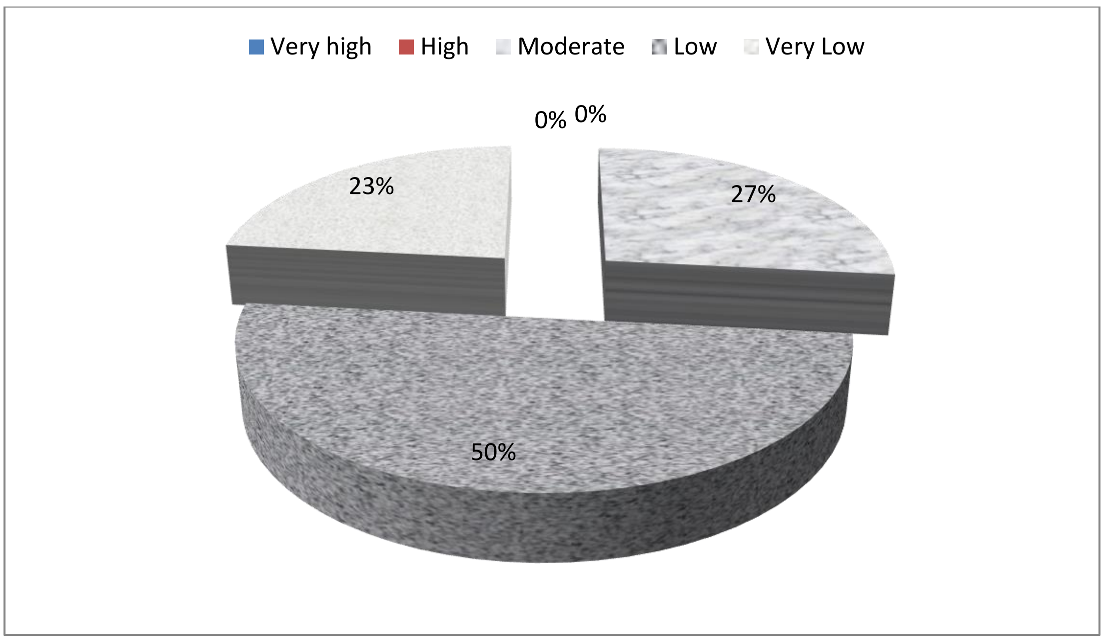
Companies are Bearing their Responsibility towards their Shareholders

Level	Frequency	Percentage
Very High	0	0
High	0	0
Moderate	8	26.67
Low	15	50.00
Very Low	7	23.33
Total	30	100

Source: Sample survey 2013

Figure No: 4.18

Companies are Bearing their Responsibility towards their Shareholders



Source: Sample survey 2013

For the given statement, out of the total respondents, 50% said that it is low and 27% said that it is moderate and 23% said it is very low. It indicates that not even a single respondent is satisfied and agreed with this statement.

4.2.12 Question: What is the Level of Investor's Confidence towards the Nepalese Capital Market?

The response we get from the Survey is given as follows:

Table No: 4.2.17

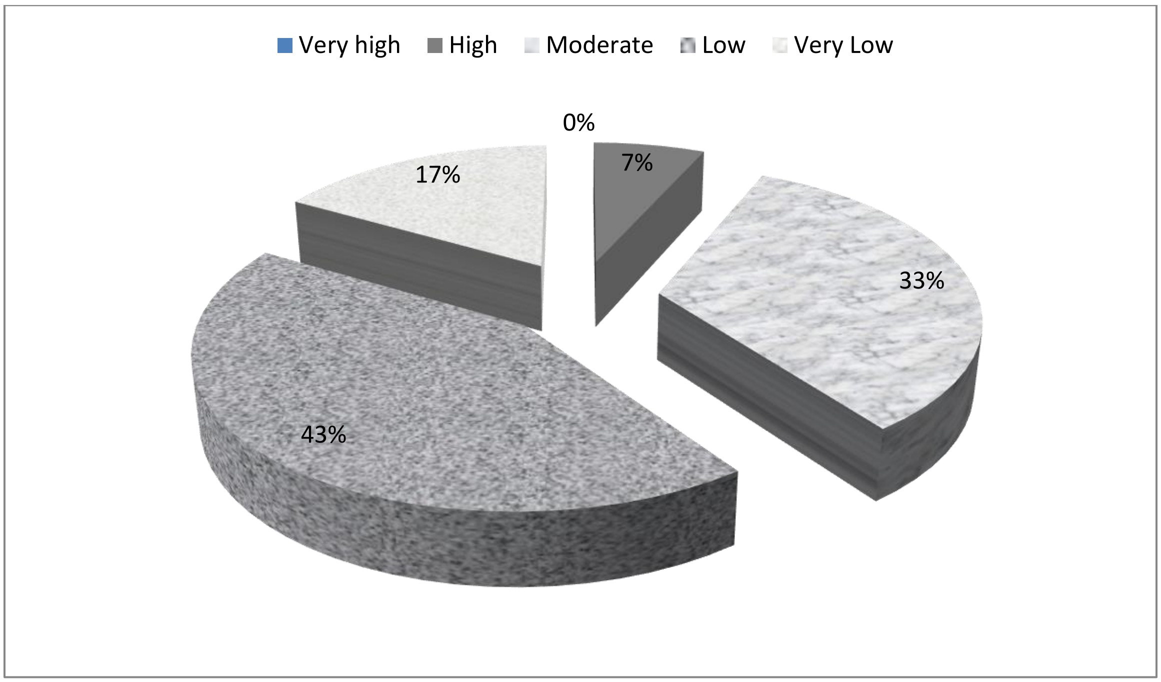
Level of Investor's Confidence towards the Nepalese Capital Market

Level	**frequency**	**Percentage**
Very High	0	0
High	2	6.67
Moderate	10	33.33
Low	13	43.33
Very Low	5	16.67
Total	30	100

Source: Sample survey 2013

Figure No: 4.19

Level of Investor's Confidence towards the Nepalese Capital Market



Source: Sample survey 2013

For this question only 7% respondents said that the level of investors' confidence towards the Nepalese Capital Market is high. Whereas 435 respondents said it is low and 17% said that it is very low. It means that Nepalese investors are not very much familiar with Nepalese Capital Market.

4.2.13 Question: To what extent do you think that Companies are Meeting their Target as Mentioned in their Prospectus?

The response we get from the Survey is given as follows:

Table No: 4.2.18

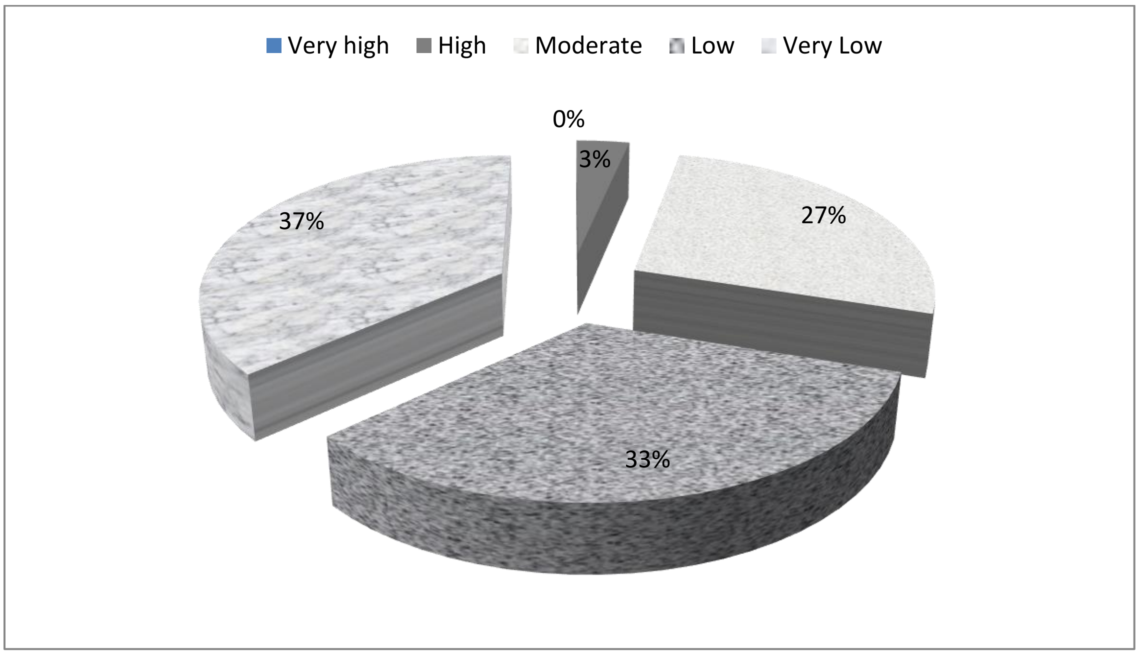
Companies are Meeting their Target as Mentioned in their Prospectus

Level	Frequency	Percentage
Very High	0	0
High	1	3.33
Moderate	8	26.67
Low	10	33.33
Very Low	11	36.67
Total	30	100

Source: Sample survey 2013

Figure No: 4.20

Companies are Meeting their Target as Mentioned in their Prospectus



Source: Sample survey 2013

In this question 37% of respondents said that the level of companies meeting their target as mentioned in their prospectus is very low. In the same way 33% of the total respondents said that it was low and 27% respond moderately. Whereas only 3% of the respondents said that it was high.

4.2.14 Question: How far do you think that there is need for a shareholders representatives for the common interest of the investors?

The response we get from the Survey is given as follows:

Table No: 4.2.19

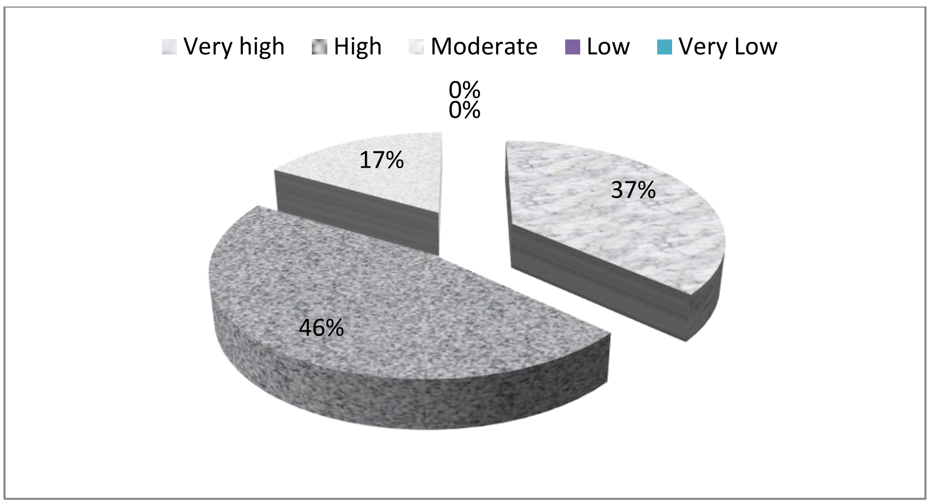
Need for Shareholder Representative for the Common Interest of the Investors

Level	Frequency	Percentage
Very High	11	36.67
High	14	46.67
Moderate	5	16.67
Low	0	0
Very Low	0	0
Total	30	100

Source: Sample survey 2013

Figure No: 4.21

Need for Shareholder Representative for the Common Interest of the Investors



Source: Sample survey 2013

Here out of the total respondents 37% replied that there is very high need for a shareholders representative for the common interest of the investors. 46% replied for high and 17% replied moderately. Here it indicates that everyone is positive towards the statement.

Findings: (7 to 14)

The findings which we find out from the above table and diagrams are presented below:

1. Most of the respondents replied that the new techniques of awareness program will increase the ratio of investor's investment.
2. Most of the respondents responded that the return they are getting from investment was moderate and some of responded low.

3. Similarly, most of the respondents said that the level of honest activities from which the insiders get more benefit than the outsiders is also high.
4. The Nepalese investors are very much influenced by whim and rumor, which indicates that investors invest money with whim and rumor instead of deep study of company and their future trend.
5. The level of investor's confidence towards the Nepalese capital market is low.
6. There is high need for a shareholders representative for the common interest of the investors.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This research study was conducted to analyze the performance of Securities Board in capital market of Nepal. The study has covered a period of five years i. e. the fiscal year 2007/2008 to 2011/2012. As it is a regulatory body, it has the responsibility to handle and make effective guidelines, various Laws and regulations for the development of capital market of Nepal. But the regulatory system in Nepalese capital market is still fragmented. There are a lot of impediments and obstacles to be solved in order to enhance and effective statutory and regulatory framework. This is why the Nepalese capital market is in early stage of development.

SEBON has been established to supervise and develop the primary and secondary markets of the country's capital market system as well as financial or securities related participants and institutions. Its prime roles are to formulate policies, rules and regulations regarding the supervision, promotion and development of securities businesses as well as other activities pertaining to the securities business; acquisition of securities for business takeovers; and prevention of unfair securities trading practices.

To know the performance of SEBON in the Nepalese capital market and the board problem areas of the existing regulatory system of the Nepalese capital market, various relevant literature were reviewed. Similarly a scheduled questionnaire was put against various persons from the regulatory authorities (SEBON, NEPSE, ORC, NRB, Market Intermediaries, Legal Experts, Listed Companies and Individuals Investors). Further discussion was conducted with the same respondents during field visit for the study.

The data that obtained from the questionnaires were analyzed with the help of different tabular and graphic presentations along with their weighted average and percentage analysis. The different respondents filled as far as possible what they came to know about that for given questionnaires, and as we can see it in the findings of the study. They replied for best option they thought that could be helpful for the given statement of problems.

From the analysis of gathered data it has been find that 42% weight was given by the most of the respondents that the policy measures to be adopted to improve stock market which is making trading activities transparent rather than any other factor. Likewise, 43% weight was given by the most no. of the respondents that company's image and performance play major role in investing decision of an investor. And 37% weight was given for the insufficient rules and regulations that Nepalese capital market is in early stage of development. Again 37% weight was given by the respondents that the factor, making trading activities transparent can be used to protect general investor's interest. And most no. of the respondents agreed that the important factor to make growth of stock market was to establish another Stock Exchange outside the valley as 38% weight was given to it by the respondent.

In the same way, most of the respondents disagreed about the effectiveness of SEBON rules and regulation in the growth of Nepalese capital market, SEBON is sufficient in grievance handling, investors are getting timely information from listed companies and delay in transfer of the ownership has not been causing the huge loss to the investors. And some they were neutral about the SEBON's supervising and monitoring technique and investors are getting reliable and adequate information from brokers regarding the transaction. Likewise, most of the respondents were agreed that Computer Assisted Trading System (ATS) is being ease rather than open and cry system. Same as most of the respondents responded that the new technique of awareness program will make the investment ratio high. And most of them replied moderately about the return they are getting presently in comparison to their expectation.

Likewise, most of the respondents answered that the level of the honest activities are very low that the insider get more benefited than the outsider. And most of the respondents were agreed that the level was high that the Nepalese investors are influenced by whim and rumors or the whim and rumors was found highly responsible in investing decision of Nepalese investors.

5.2 Conclusions

The study was conducted aiming at to assess the in performance of Securities Board in Nepalese capital market. Further the study focused to analyze the practical compliance and enforcement of the legislation in the capital market and recommend for improvement of the overall regulatory system for ensuring the development of the capital market.

It concludes that the Acts, Regulations, Laws and Guidelines were not that much ineffective that it never be improved. So, there is a need of a clear and defined legislation which is lacking in the present or the existing legislation. Here we can also see the implementation problems of the authorities. Only making the effective rules and guidelines are not the problem but also its implementations should be in the right and in proper way. Otherwise, it would be meaningless or worthless.

There is some burning example before us that many public limited companies like Agro Nepal, Himgiri Textiles, Ace Laboratories, Indreni Soyabean etc have already been non-existent and non-performing. Again many public limited companies such as Harisiddhi Brick and Tile Factory, Arun Banaspati, Shree Ram Sugar Mills, Balaju kapada Udhyog, Jyoti Spinning Mill etc have been operating at losses by creating loss of return, loss of investment to the shareholders. Although these are matters of greater public importance, SEBON has not come with adequate surveillance and proper supervision and monitoring to compensate investors with return of their investment. Therefore all the existing legislation should be reviewed and after then only necessary new sub legislation should be issued to cover the areas relevant to the capital market.

And also the proper coordination in between the concerned authorities like SEBON, NEPSE, ORC and NRB should be brought with appropriate and clear division of assignments and responsibilities under the legislation. And being a regulatory body, SEBON should have thoroughly investigated the prospectus and also make surveillance mechanism enforceable to compensate the shareholders for false statement in prospectus.

Thus, we can conclude that the existing legal provision under various Acts, Laws, Guidelines and Regulations of Securities Board are not totally ineffective for the Nepalese capital market but yes, Securities Board can make an improvement on its performance and can give a better impact on its performance to the capital market of Nepal by defining the existing legislation with a very clear vision or a clear definition and also a clear division of the responsibility because the performance of Securities Board is directly related to its existing legislations.

5.3 Recommendations

According to the findings of the study, following recommendations are proposed in order to solve the various problem of the regulatory institution (SEBON) in capital market of Nepal.

1. The Securities Board should be established as a prime regulator of the securities market. There should maintain a proper coordination of the SEBON, NEPSE, ORC and NRB in their regulatory roles by conducting different programs like seminar.

2. Perfect legislation must be made with the full study and research. Since it seems different issues in which some essential provision are inadequate, it is recommended to provide sufficient provision in the legislation whether by amendment in the existing Acts or by issuing necessary sub legislation (bylaws and directives) at least to cover the following issues: Discloser of information, Enforcement of powers for Compliance, Membership dealing activities of market intermediaries, Powers for Intervention and Discipline, Provisions for attracting Foreign Investment.

3. In order to make effective Guidelines and Regulations, it is recommended to SEBON to publish their upcoming news in the media timely. And for that they can have their own weekly or monthly publications.

4. To minimize the problem of timely AGM and discloser of information, the directors of the companies should be made personally liable for being unable to provide timely AGM and discloser of information under the appropriate legislation. The companies should be imposed financially liable as penalty for noncompliance.

5. SEBON is regulatory institution in itself, it is recommended that SEBON should be given the single authority to handle the approval process than going for another regulating institutions.

6. There is very high risk to the investors if the companies get closed and they are de-listed then there is not any clear Acts in Nepal from where investors can get the compensations. Therefore in order to protect and promote the investors there should be a clear Acts from where investors can get their investment back even though the companies is closed or de-listed.

7. It is recommended to the authority to do the detail analysis before giving the approval to the companies. The evaluation and approval of prospectus by SEBON is to be considered seriously regarding how far the prospectus is going to assure return to investors.

8. It is recommended to provide an efficient regulatory environment which enables access of timely information, liquidity, a fair market, strong supervision and monitoring, professional market intermediaries etc. to develop the confidence of capital market investors.

9. As an apex regulatory body, Securities Board, Nepal should launched the new technique of investors' awareness program on the level of potential investors through communication media as well as the seminar, press conference.

10. In the same way another recommendation is that to establish another Stock Exchange outside the valley to increase the participation of the investors, who live outside of the valley.
11. To solve the problem of lack of professionalism in the activities of market intermediaries as investors are not getting reliable and adequate information from brokers regarding the transaction and other aspects, it is recommended to develop a self-regulating organization under the legislation an provide training, supervising and control over them.

Finally, the investors should always be aware of their investments. They should not act on impulse. They should read each every available information before making their investment.

These are some recommendations given to the SEBON, hoping that somehow these recommendations are going to be helpful to make development in the capital market of Nepal. At present, the activities mentioned in its annual reports and performed by SEBON are positively improving but very slowly. Here it is recommended that SEBON should think seriously and do the same activities by utilizing its full power and authorities and this time it is surely going to make a great difference in its performance.

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Annex- I

A survey Questionnaire

On

"Performance of Security Board in Nepalese Capital Market"

1. What do you think are the policy measures to be adopted to develop the stock market?
a. Make trading activities transparent
b. Provide information to investors
c. Increase no. of brokers

2. How far do you think the factors that play the major role in investing decision?
a. Company's image & performance
b. Role of market intermediaries
c. Timely discloser of information

3. What do you think are the reasons for the early stage of development of stock market in Nepal?
a. Excessively speculative behavior of the investors
b. Lack of knowledge about securities market among the mass
c. The regulations, Acts and guidelines are insufficient

4. Which factor do you think can be used to protect general investor's interest?
a. Make grievance handling techniques more effective
b. Make trading activities transparent
c. Timely discloser of information

5. What do you think are the important factors to make the growth of stock market inNepal?
a. Establish other stock exchange outside the valley
b. Use computer based, paperless work
c. Qualifications and experiences of relating staffs

6. How far do you agree/ disagree with the following given statement? (please tick the appropriate number as per following scheme)
1= strongly agree 2= Agree 3=Neutral 4=Disagree 5= strongly disagree

Statements	1	2	3	4	5
SEBON's rules and regulations are effective in the growth of Nepal's Capital Market.					
The techniques of supervising and monitoring activities of SEBON are suitable for Nepalese Capital Market.					
Grievance handling techniques of SEBON is sufficient to solve the upcoming problems effectively.					
Nepalese Investors are getting sufficient and timely information regarding the listed company regularly.					
Investors are getting reliable and adequate information from brokers regarding the transaction and other aspects.					
Delay in transfer of the ownership has not been causing the investors the huge losses in terms of opportunities.					

7. To what extent the new technique of awareness program will increase the investing ratio?
   a. Very high b. High c. Moderate d. Low e. very low

8. What is the level of return you are getting in comparison to your expectation?
   a. Very high b. High c. Moderate d. Low e. very low

9. What is the level of honest activities from which the insiders get more benefit than the outsiders?
   a. Very high b. High c. Moderate d. Low e. very low

10. To what extent do you think that Nepalese investors are influenced by whim and rumors?
    a. Very high b. High c. Moderate d. Low e. very low

11. To what extent do you think that companies are bearing their responsibility towards their shareholders?
    a. Very high b. High c. Moderate d. Low e. very low

12. What is the level of investor's confidence towards the Nepalese capital market?

    a. Very high b. High c. Moderate d. Low e. very low

13. To what extent do you think that companies are meeting their target as mentioned in their prospectus?
    a. Very high b. High c. Moderate d. Low e. very low

14. How far do you think that there is need for a shareholders representative for the common interest of the investors?

a. Very high b. High c. Moderate d. Low e. very low