

# CHAPTER ONE

## INTRODUCTION

### 1.1 General Background of the Study

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 increase the welfare of their people. This can be done only through sound investment and mobilization of invincible resource from one sector to another productive sector. The capital market plays very vital roles of bridging of the deficit and surplus unit. It is a market for a long term securities having maturities greater than one year. It is mechanism through which public saving is canalized to industrial and enterprises.

“The capital market means anybody of individuals, whether incorporated or not constituted for the purpose of regulating of controlling the business of buying and selling or dealing securities” (Bhalla, 1997 :21). Growth of capital market in a country depends on high moral character and accountable behavior of institution such as the government, central bank, stock exchange. Security board, organized institution 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 share holders, preference shares holders and debenture holders and ordinary mutual fund holders.

The capital market creates opportunity for maximum number of people to get benefits from return obtained by directing the economy towards productive sector by mobilizing the long term capital so the capital market is such powerful mechanism which gives opportunity to the investor to invest their saving in ordinary shares, debenture and government securities. It helps to increase the quality of factors input and production in addition to enhancing productivity. It increase voluntary private saving on the one hand and mobilizes saving others, subject to existence of capital market. Without a capital market saving of the community would remain under utilize.

The capital market is one of the major components of economic development. Capital markets 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.

### **1.1.1 Historical Background**

The act of raising funds by issuing shares to the general public in Nepal started in 1937 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. with the adoption of the first five years plan by the government. Under different plan 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 wealth. Unfortunately, these policies and programs 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 markets 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 may 26<sup>th</sup> 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 expose its positive vision towards the investors like below:

SEBON has been established to promote and protect the interest of the investors by regulating the securities market. Besides the regulatory role, it is also 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 the investors, it can be said that the cent-percent chances of development of the capital market of Nepal are possible in the context of the world. Otherwise any types of events 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 of Nepal on the issues, providing studies, training, organizing educational programs of the healthy and dynamic development of the Nepalese capital market. Specially, the investors are manipulated by companies from their prospects having so many convincing factors like dividend paid, AGM held in times disclosure of the information and so many beautiful imaginary influencing factors but in practice it does not found in the market. It is because, SEBON does not strictly control to the companies.

SEBON is established as an effective regulator to the securities market through monitoring and enforcing interest of the investors. It is because investors are the major factors of the securities market for liquidity of the capital market through maintaining new membership class as dealers, portfolio investors and foreign investors. It has power to punish through penalty provision for the violation of the Security Exchange Act. Our expectation from the SEBON is increased due to its imitation in sum core research work in order to improve supply and demand desires of the investors and improving standardized disclosures as standardized information system.

SEBON has given more emphasis on human resource based 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 through 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 regulation of the Securities Exchange Act through liberalization policies of the Nepal 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.

## **1.2 Focus of the study**

The role of the security market is vital in the economic development of a country it provides a medium to medium to mobilize financial resources from the non productive sectors to the productive sectors. However we cannot thing of an efficient security market unless it is transparent enough to win the confidence of the investors and others

stakeholders. As security markets have a greater role in the development of a nation, they need to be regulated, and in such a way that it facilitates capital information and economic growth. Regulators should aim to ensure that investors are given fair access to market facilities and price information. Investors should be protected from misleading, manipulating or fraudulent practices including insider trading and the misuse of assets of clients. Full disclosure of the information material to investors is the most important means for ensuring investor protection. This study is focused to analyze:

- How SEBON has been operating since last ten years.
- What activities have been undertaken in order to increase investor's awareness and give recommendations to improve its regulatory activities.
- What are the supervision and monitoring activities of SEBON? And how are they going on?
- How have SEBON activities impacted on the capital market of Nepal?

### **1.3 Statement of the problem**

In the context of Nepal, the concept of capital market is neither very old nor very complex. It is still beginning or in an introduction stage where different efforts have been made for the development of the capital market. In comparison to the developed country, the capital market of Nepal is still far behind even nineteen years of establishment. SEBON there seems to be very slow growth rate in the 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 achievement along the way. The works of SEBON are being hampered by the duplication and overlapping provision in the law regarding regulatory duties like enforcement and supervision, entry and exit of market intermediaries etc. This, in fact, is the essence of the principles relating to a regulator. The responsibility of the regulators is still not clearly and objectively stated in the legislation and it still does not have adequate power and resources to perform its function and to exercise its powers. It lacks operational independence. SEBON does not have a comprehensive inspection, investigation and surveillance authority which hampered its efforts to build a fair, efficient and credible market.

As per the report of SEBON many listed companies have not conducted their Annual General Meeting for a couple of year while some of stuck brokers and even NEPSE have not submitted the annual report. Nobody is to be blamed as much SEBON itself for such anomalies because being the regulatory body it is responsibility of SEBON to look after such issues and take action in case of non compliance. But there is still no set rule for the transaction processing and certificate delivery. The board mainly acts as superfluous body trying to fulfill formalities rather than seriously attending to corporate governance. The result has been poor security to investors as the general public; especially small investors are investing who invest without proper consideration so taking the above problem in mind this research is aimed to show how SEBON can improve, its regulatory system, utilize its given authority 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. There are many problems faces by the people related with security board of Nepal. This study relate on the following problems:

- What are the impacts of activities of SEBON in the capital market?
- What are the supervision and monitoring activities of SEBON?
- How do the SEBON supervise and do monitor activities?
- What are the situations of securities market indicators in Nepalese capital market?
- What is the of status corporate disclosure to SEBON?
- How many companies are holding annual general meetings on time?

#### **1.4 Objectives of study**

The main objective of these studies is to analyze the performance of security board in Nepalese capital market. The specific objectives are as follows:

- To examine the impact of activities of SEBON in the capital market of Nepal.
- To analyze the supervision and monitoring activities of SEBON.
- To explore security market indicators data for the period 2003-2013.
- To examine the status of corporate disclosures by listed companies to SEBON.
- To evaluate holding of AGM by companies.

### **1.5 Significance 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 under developed economy. It was characterized by the absence of professional promoter, under writing agencies, market intermediaries, organized market, regulatory bodies and rules and regulation. 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 detailed legislative code has been adopted by the government to protect the interests of the investors. The Securities Exchange Regulation 1993 provided those reforms in the stock exchange trading method and practice. The regulation has added for the functions, powers, and duties of the SEBON. The regulation has authorized the SEBON for internal housekeeping matters, 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 laid 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 aspects of the SEBON activities, which are in practice from last 10 years is mainly the need of the studies. The research is aimed to describe how the SEBON is able to protect and promote the interest of general investors and what types of benefits it provides for investors decision making and it's also describe what kinds of impacts are accorded due to performance of SEBON in the capital market of Nepal.

### **1.6 Limitations of the study**

This study has limited scope as only some samples of the regulating authorities market intermediaries, listing companies, legal experts and individual investors will be taken for the studies. The limitation of the study is as follows:

- The study is totally focused on the activity related with SEBON and with its regulatory system.
- The study is based on the secondary as well as primary data, information and data are collected through questionnaire.

- Only security markets indicators and corporate disclosures of the listed companies are taken for the secondary data.
- This study is based on the fiscal year 2007/08-2012/13.

In spite of all above mentioned limitation and availability of data the research will try much based to outline the objectives to the fullest.

## **1.7 Organizing of the study**

This research will be divided into the following five chapters as stated below:

### **Chapter I: Introduction**

The first chapter deals with introduction, Which provides the background of the Securities Board, statement of problem, focus of the study, significance of the study, objectives of the studies, limitation of the study and organization of the study?

### **Chapter II: Review of Literature**

The review of literature is a very important aspect of the research. A critical literature review within a specific field or interest of research in one of the most essential, but also complex activities in the process of research. This chapter highlights upon the existing literature. For this, several books, dissertations, reports, handouts and articles published in journals and newspaper reviewed. This chapter also seeks to scan the literature efficiently, using manual or systematic methods, to identify a set of useful articles and books and perform critical appraisal to apply principles of analysis to identify unbiased and valid studies. In this chapter some books, articles, research studies and rules, Acts and regulations related to the Securities Board and Capital Market of Nepal have been reviewed.

### **Chapter III: Research Methodology**

Most of the data used in this study are primary in nature. Some secondary data have been also used for the purpose of study. Most of information is collected from the sample sizes for the different professions, age groups, areas and educational background. This chapter incorporates research methodology used in the study, which includes research design, sources of data, methods of data collection, population and samples, selection and size of data, data presentation and analysis etc. In this chapter

different statistical and financial tools, which will be used as required to tabulated and analyze the data available from the primary and secondary sources.

#### **Chapter IV: Data Presentation and Analysis of Study**

This chapter will be deals, data collected from different sources such as primary and secondary data. based on the data analysis of investors preferences will be made using statistical and non statistical tool such as, bar diagram, pie-chart, time series analysis, chi- square test, mean, median, mode, standard deviation etc. will be used as required. This chapter also includes major findings.

#### **Chapter V: Summary, Conclusion and Recommendation**

This chapter will be states ‘summary, conclusion and recommendation’ of the study and also the scope of further study. This chapter presents the major findings and recommends the suggestion of the Securities Board of Nepal to make growth of capital market of Nepal by improving their performance and the scope of further study.

The appendices and bibliography will also be incorporated at the last of this study.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

In this chapter some books, articles, research studies and rules, acts and regulations related to the Securities Board and Capital Market of Nepal have been reviewed.

#### **2.1 Conceptual Framework**

##### **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,1997:21).

It is just the market for capital funds. The word capita 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 of the borrower. Both lenders and borrowers coming together in capital market to play effective financial intermediary role in primary and secondary market through the use of various long term capital market instruments. It has vital role in promoting efficiency and growth. It intermediates the flow of funds from whom those want to save a part of their income from those who wants to invest in productive assets. It is this market, which provides the mechanism for challenging 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 as 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 portfolio decision. Till about two decade ago, a large part of household saving 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 sectors and bonds, bills and debentures by government. This 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 financial resources by the financial institutions in the form of deposits and loans. The securities market may be classified into primary market and secondary market. It means this are the two wings of the capital market. Or primary and secondary markets are the most important base for the capital market.

### **2.1.2 Primary market**

Firms raised capital from the general public by selling securities (stocks, bonds or any other securities) in the primary market. It is the market in which securities are sold at the time of their initial issuance. The main function of the primary market is to provide to deficit-units a mechanism for raising funds from the surplus-units. In this market the principle sources of funds is the domestic savings of individual and business, other supplies include foreign investors and government. The ultimate supplies of fund are those sectors with a surplus of current income over expenditures and these funds flow to their ultimate users, economic uses securities to finance a surplus of expenditures over their current incomes.

“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: 375). These securities can be offered by the method of public flotation 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 on so 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 specialists in the design of the securities”(Cheney and Moses, 1992:64). 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 chapter, and it avoids the underwriting costs.

### **2.1.3 Secondary Market**

Purchase and sale of already issued securities among investors occur in secondary market. In other words, secondary market refers to markets in which securities are traded that have been issued at some previous point in time. The main function of secondary market is to provide liquidity to the owners of the securities. Secondary market deals with the previously issued shares mainly traded through the stock exchange over the counter market, or direct dealing. 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 doesn't 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:

1. Organized Stock Exchange
2. over the Counter Market

#### **➤ 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 addition to the sound listing criteria that prove worthwhile to the investors” (Shrestha,1992:15).

Stock exchange are voluntary associations of members who come together for the purpose of buying and selling for the general public, the securities of the great companies. Only listed securities are traded in the exchanges and are bought and sold by auction. Since, the members of these exchanges have branches throughout the country, the stock exchange are truly a national market in which virtually any one may participate. However, the secondary market is said to give liquidity to primary issues, and this liquidity is an essential ingredient in the capital formation process of the economy.

### ➤ **Over The Counter market**

It is the market for those securities, not listed on the stock exchange. When company first sells securities to the public, the securities are traded in the over the counter market. It includes all transaction in securities other than that taking place on the stock exchanges. It practices, however the term is usually limited to the activities of dealers and brokers specializing securities. Over the counter market has very low barriers and traders may range in size from very large house 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 bellows:

### **2.2.1 Introduction of Securities 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 of Nepal 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, Nepal Rastra Bank, 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 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 broader perspective 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 29 staffs (2013) in total including executives, officers, supervisory and support staffs.

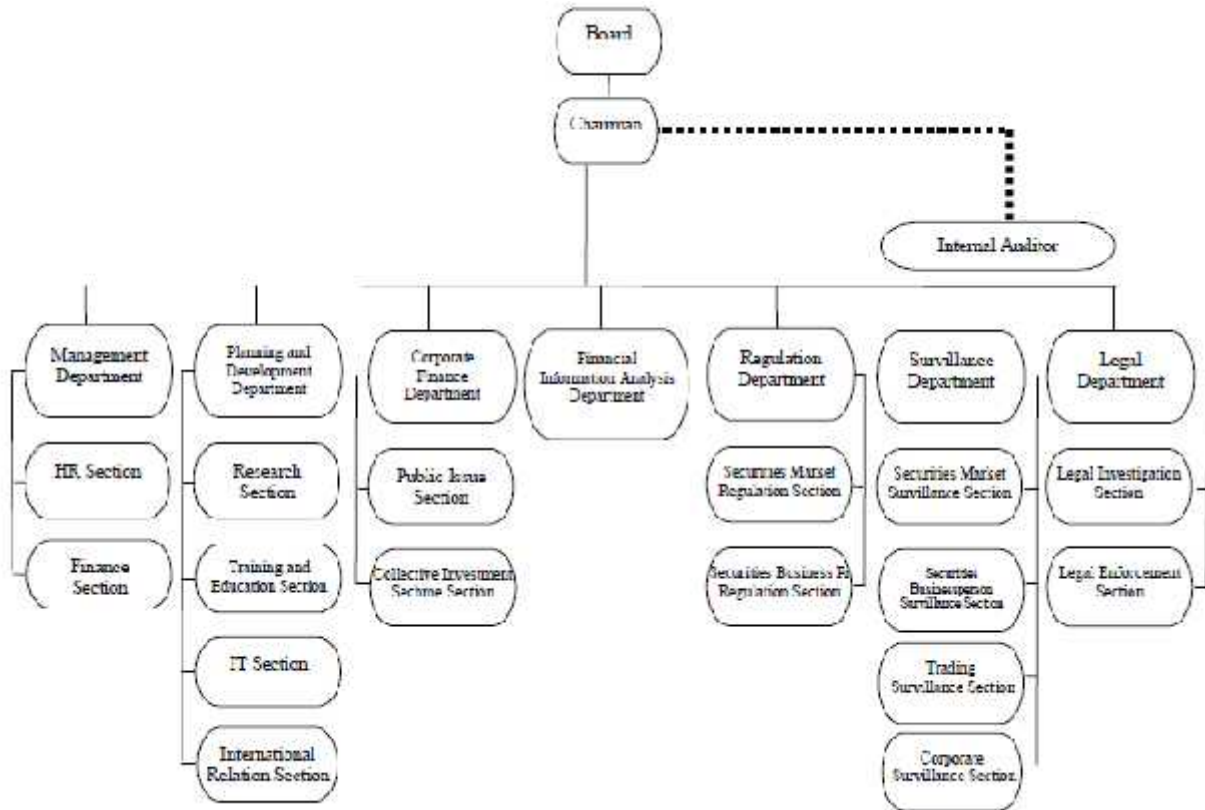
### **Organizational Structure of SEBON**

The organizational structure of SEBON has seven departments and sixteen sections including one chairman's office. The organizational structure of SEBON has been assigned in hierarchical order. The sections under the department's report to department chief and the department chiefs report to the chairman. Similarly, different committees exist to assist effectively in conducting the Board activities which comprises Securities Registration and Issue Approval committee, licensing related Committee, Financial Administration and Financial Information Analysis Committee, Institutional Reform Committee, Legal Enforcement Committee and Investigation Committee.

The organization structure of SEBON is presented in the following chart.

### Organization Structure of SEBON

Figure No.2.1



Source: [www.sebon.gov.np](http://www.sebon.gov.np)

The major source of financing of SEBON is basically the government grant. Other financing sources include registration of corporate securities, registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund. As per the Securities Exchange Act and regulation, following are the major functions of SEBON.

- ❖ Develop and implement policies and programmed for the development of securities market and advice Government of Nepal in this regard.
- ❖ Register securities and grant issue approval.
- ❖ Provide license to corporate bodies to operate stock exchange business.
- ❖ Provide license to operate securities businesses.
- ❖ Supervise and monitor stock exchange and securities businesspersons.

- ❖ Conduct research, study and awareness programmer's regarding securities market.

### **2.2.2 Major Regulating Agencies**

There 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 super vise and regulate the overall functioning of the market, the functions 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**

Nepal Rastra Bank, the central bank, approves prospectus when public issues is proposed by banks and finance companies. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bones. Under NRB directives bank and finance companies are required to issue share equivalent to at least 30 and 40 percent in both situation if they have foreign joint venture stake. But while in debentures and both issue NRB get assured by vetting the prospectus about the size of the issue, interest rate, collateral and repayment of the loan.

#### **Company Registrars Office**

Company Registrar is only agency where companies are registered monitors the operation of the companies and make 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.

## **International Relation**

SEBON has become the member of Asia Forum for Investor Education (AFIE) established to exchange knowledge and information between capital market to the investors. Also, it has become the member of Association of National Numbering Agencies (ANNA) for the operation of Central Depository System. Likewise, SEBON has also become the member of South Asian Securities Regulators' Forum established to exchange knowledge, skill and information within the regulatory body of South Asian Countries. SEBON has initiated its steps to be the membership of International Organization (IOSCO) a regulatory body related to capital market. Similarly, SEBON staffs have been participating in the seminar Programmed related to capital market organized by World Bank, Asian Development Bank and APEC

### **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 Bye-laws, 1993
4. Securities Listing Bye-laws, 2053(1996)
5. New Issue Management Guidelines, 1997
6. Securities Allotment Guidelines, 2068.
7. Compliance Guidelines for Securities Broker,2058
8. Securities Registration and Issue Approval Guidelines, 2065.
9. Bonus Share Guidelines, 2067.
10. Government Securities by Laws of SEBON, 2062.
11. Government Securities Transaction bylaws of NEPSE, 2062.
12. Mutual Fund Regulation, 2067.
13. Credit Rating Regulation, 2068.
14. Mutual Fund Guidelines, 2069.
15. Portfolio Management Guidelines, 2065.
16. Central Depository Service Regulation,2067 (2010)
17. CDS, Byelaws,2068
18. Other related Acts

❖ Company Act, 1997

- ❖ Bank and Finance Companies Ordinance, 2061
- ❖ Foreign Exchange Act
- ❖ Foreign Investment and Technology Transfer Act, 1992
- ❖ Stock Exchange Operation Regulation, 2064 etc.

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

### **Securities Exchange Act 2040(1983)**

This is of course the key legislation whereas it is expedient to systematize and regularize the securities exchange in order to maintain 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 (and 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 Bye-laws 2053(1996)

Made by NEPSE under section 35 of the Securities Exchange Act, and with the approval of the Securities Board, these Bye-Laws 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 memberships 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)**

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 and 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 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 35A 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.

#### **New Issue Management Guidelines, 1997**

SEBON has issued the Securities Issue Management Guidelines, 1997 in order to manage sales and promotion of securities and make the sales and issue manager accountable for their services. This guideline has been made as per the provision of Section 35 of the Securities Exchange Act, 1983 (Second Amendment). The guideline further specified various provisions regarding disclosure, application for registration of securities, agreement between issue managers and issuing companies, execution procedures of the sales management and code of conduct to be specified etc.

#### **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 the 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 the 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 of Nepal'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 and 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 own in Schedule-4 of the same regulation.

### **Mutual Fund Regulation, 2010**

With an objective of making mobilization of the scattered savings of the small investors through capital market with the medium of Mutual Fund and to invest such amount in the capital market, SEBON has enforced Mutual Fund Regulation from September 27, 2010 with the consent from Government of Nepal. The provision has incorporated the following provision: fund sponsors, fund supervisor, duties, functions and power of fund manager and depository, licensing of fund manager and depository, fund registration and operation, area and limit of investment and procedure for cancellation of scheme.

### **Credit Rating Regulation, 2011**

With an objective of entering credit rating business in Nepal and making them regular and systematize, SEBON in exercise of the power conferred by section 116 of Securities Act, 2007, and upon the approval of Government of Nepal, has enforced Credit Rating Regulation, 2011. The regulation has incorporated the rating provision through credit

rating companies prior to securities issuance. Likewise, process and qualification for the establishment of credit rating companies, qualification of director and chief executive officer, inspection, revision and withdrawal process of rating and the disclosures regarding credit rating companies were incorporated in the provisions.

### **Central Securities Depository Service Regulation, 2067 (2010)**

In exercise of the power conferred by section 116 of Securities Act, 2007, and upon the approval of Government of Nepal, SEBON has enforced Central Securities Depository Service Regulation, 2010 effective from October 06, 2010 with a view in making the processes such as clearance and settlement and transfers of shares prompt and efficient. The regulation has incorporated the provision of licensing and qualification of Central Securities Depository Company and Depository participants, dematerialization of securities certificate, beneficiary owner's account and disclosure regarding central depository service.

### **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 the 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 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. The major financial resources of SEBON are registration fees of corporate shares prospectus, offer document, rights share issue document, transaction fees from the stock exchange. Other financial sources include fees from licensing and renewal of stock exchange, securities business fees, application fees, interest income in investment, mutual fund and income from approval and renewal of CSD Company, Credit Rating Company, depository participants

#### **Provisions of Revenue to SEBON**

As provision in Securities Laws, SEBON receives securities registration fees from the issuer and licensing and renewal fees from the securities businesspersons 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.0.05 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 annex 16 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 businesspersons 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 services efficiency of securities businesspersons. The table no. 2.1 presents licensing and renewal fee for securities businesspersons along with its amendment.

**Table No. 2.1**

#### **Licensing Fee and Renewal Fee for the Securities Businessperson**

<b>Securities Business Person</b>	<b>Previous Provision</b>		<b>Amended Provision</b>	
	<b>Licensing Fee</b>	<b>Renewal Fee</b>	<b>Licensing Fee</b>	<b>Renewal Fee</b>
Stock Broker	Rs 2,500	Rs 1,500	Rs 5,000	Rs 3,000
Maker/Securities Dealers	Rs 5,000	Rs 3,000	Rs 10,000	Rs 6,000
Issue Manager	Rs 10,000	Rs 5000	Rs 20,000	Rs 10,000
Other Service	Rs 10,000	Rs 5,000	Rs 20,000	Rs 10,000

*Source: SEBON Annual Report*

The securities businesspersons should renew their licenses for the coming 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 no. 2.2

**Table No.2.2**  
**Securities Registration and Issue Approval Fee**

<b>S.N.</b>	<b>Amount of Issue Approval</b>	<b>Fees</b>
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, 2010 SEBON has the following functions, duties and powers. (Source: [www.sebon.gov.np](http://www.sebon.gov.np))

1. To offer advice to Government of Nepal on matters connected with the development of the capital market.
2. To register the securities of corporate bodies established with the authority to make a public issue of its securities.
3. To regulate and systematize the issue, transfer, sale and exchange of registered securities.
4. To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Ordinance or the rules and bye-rules framed under this Ordinance.
5. To supervise and monitor the functions and activities of stock exchange.
6. To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Ordinance or the rules and by rules formed under this Ordinance, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
7. To issue licenses to conduct the business of dealing in securities, subject to this Ordinance, or the rules and the bye-rules framed under this Ordinance, to companies or institutions desirous of conducting the business of dealing in securities.

8. To supervise and monitor the functions and activities of securities dealers.
9. To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
10. 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.
11. To systematize the task of clearing accounts related to transactions in securities.
12. To supervise whether or not security dealers are behaving in the manner prescribed in this Ordinance, Ordinance, 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.
13. To make or ensure 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.
14. 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.
15. 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.
16. 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.
17. To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
18. To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

## 2.2.6 Financial Performance of SEBON

SEBON, as regulator 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**  
**Income of SEBON (Rs in'000)**

<b>Particular</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Grant Income –Govt	4,000.00	3,000.00	-	-	-
Interest income	4,975.27	7,964.19	15,631.78	13,712.84	15,661.36
Securities Transaction Commission	6,607.00	-	-	-	-
Share Registration & Issue Approval	48,146.63	-	-	-	-
Securities Market Income	-	57,166.36	34,713.01	29,944.39	67,195.79
Income booked under SDMSN Project	-	640.48	1,790.94	-	-
Miscellaneous Income	137.30	485.80	347.43	1,923.51	1,770.88
<b>Total Income</b>	<b>63,866.20</b>	<b>69,256.83</b>	<b>52,483.16</b>	<b>45,580.74</b>	<b>84,628.03</b>

*Source: SEBON Annual Report*

From the above data, it shows that total income of SEBON is not stable. Here highest income is Rs. 84,628.03 million in fiscal year 2012/13, whereas lowest total income is Rs.45580.74 million in fiscal year 1011/12. Again we can also conclude income from the Government is in decreasing order. As like the miscellaneous income is highest on the fiscal year 2011/2012. It shows that it is satisfactory performance of SEBON. Income from registration fee was also little fluctuated, during the fiscal year 2008/2009 then it is

increase in FY 2009/10. Miscellaneous income is in increasing trend over the study period.

### **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.

### **2.2.8 Stock Market**

Efficient capital market helps to mobilize the financial resources and efficiency channel to productive investment. Capital market consists of securities market and efficiently channel to productive investment. Capital market consists of securities market and non securities market. Securities market implies mobilization of the funds through issuance of the securities: share, bonds and debentures by corporate sector and bonds, bills and debentures by Government. The securities available in this market can be in the form of equity such as shares and stocks, debt instruments such as corporate bonds and government securities or equity equivalents such as convertible bonds or debentures. These securities traded in the market are generally negotiable and hence can be treated 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.

Stock market acts as a part of the capital market and can provide major source for the investment in the economic development. 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 of 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 14, 1994. NEPSE is the only stock exchange in the country. It is owned by the Government of Nepal, Nepal Rastra Bank, NDC, and member brokers.

### **2.3 Review of Related Studies**

Bhalla (1997) 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 attempts to deal with them" (Valla,1997:560). Shrestha 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 the country. The demand for capital grows gradually with the stage of growth of economy, which creates profitable investment opportunities. These in term provide favorable condition for the evolution of a well organized capital market ( Shrestha,1994:14).

The government of the country also play an active an 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.

Shrestha in this book "Shareholders Democracy & Annual General Meeting (AGM) Portfolio Analysis" (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 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, therefore, 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 disclosures 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,1992:17).

In the study on “Stock markets in developing countries, key issues and research agenda”, Dailami & Akin (1990) have expressed the regulatory and institutional issues obviously have an important role in stock markets and that 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 shares 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 prompts and reliable disclosure and dissemination of information is vitally important (Dailami &Akin, 1990).

Clearing and settlement of the securities should complete as soon as possible after the buyer and seller agree to the transaction because the price of the securities are very much sensitive and fluctuate many times even within a day. Since these fluctuations provide the opportunities to the investor to gain from the investment, they should be allowed to benefit from such fluctuations. Delays in the settlement and failure in exchange causes 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 title and return the document to the buyers? 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 price of the securities go up.
3. Third, the investors who want to pledge the securities to borrow funds are restricted till they get 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 by law.
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 transfer delayed and I think SEBON should step forward to make a clear and powerful regulation on these activities (Delayed Transfer, Bhattarai, New Business Age, October 2003).

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 Nepali 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 Nepali 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, 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 an efficient, 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. 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 estate is still not high on the investment agenda for private investors. Speed of transaction is another problem for Nepali 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 lawmakers 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 share holder value is still an alien word in Nepal.

It will have to be considered if private investors are expected to contribute to the expansion and success of the listed companies (Business Manager, July 1999:36).

Let's put it simple. Prosperity is the consequences talent with the capital and holding both sides accountable. In countries with wide open and democratic Capital Market, such markets are made by a variety of financial institutions like Venture Capital Funds, Mutual Funds, Retail/Wholesale Banks, Investment Banks, Brokers and controlling authority etc. each employing an assortment of screening devices and contractual

agreements. Up to now we do not know many efficient organizations in the Capital Market of Nepal except for SEBON thriving to put its impact on the market. Stock Exchange helps to organize Capital Investments but need the necessary institution as well as the necessary legal framework. While efforts are on the way in Nepal to improve the legal framework, SEBON for e.g., participants are also needed. It's not about the market makers which had been earlier asked by the SEBO to be the healing medicine for everything without securing the necessary means and later were made scapegoats for exactly this. It's about a Capital Market, which allows democratization in a true meaning, not as SEBON calls it by maximizing the no. of shareholders in the initial stage –(Capital Market and Democracy, Something in Common? Business Manager, August 2001).

“Development of Stock Market and Economic Growth in Nepal” 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 development roles of stock markets. Evidences show that financial development 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 if 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 make types of progress Stock Market in Nepali is still at a developing stage and has to 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 investors' right and the company information disclosure are responsible for delaying the growth of stock market in Nepal (Shrestha, 1996).

The market makers are backbone of emerging capital market. The active, effective and dedicated market makers are the nee 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).

#### **2.4 Review of Unpublished Thesis**

Lama, (2000) Thesis entitled “Regulatory system in Nepalese Capital market” concludes that to make the regulatory system more effective, the regulatory roles of different regulators with a clear definition and demarcation of their roles and responsibilities should be set out by the law. The legislation should ensure that any division of regulatory responsibilities avoids gaps and inconsistent regulatory requirements. Thus

there should not be duplication and redundancy in any responsibility function of the regulatory bodies. A clear defined and divided roles and responsibilities of Securities Boards, Office of the registrar of the company, Nepal Stock Exchange Ltd and NRB, are essential for an efficient regulatory system of the Nepalese capital market. If any publication in functions and conducts of these regulatory bodies is arisen efficiency of the regulatory system would be deteriorated and which adversely affect the development of capital market. He further adds that new necessary sub legislation should be issued to cover all the areas relevant to the capital market. Proper consideration in between the SEBO, NRB, NEPSE and ORC should be brought with appropriate and clear division of assignments and responsibilities under the legislation.

Pokharel, (2002) Thesis entitled “Legal Provision to the Protection of Investors under the Nepalese Law and An analytical and critical study” by Bhadrakali Pokhrel found that Nepal has been forming laws to protect the interest of investors on the scattered forms in various Acts, regulation and bylaws but there is still absence of a particular, specific and separate legislation for the protection of investors. Likewise, Nepalese investors are not governed under the corporate norms and values due to lack of proper knowledge of their rights. They can be victimized but they do not complain at concerned authority. He further adds that “The main ground of investors deceiving are insider trading, mal-motom on the prospectus, wrong financial statements of company, wrong auditing reports, wrong performance details on underwriting and listing the share, delay on returnable money, delay on distribution bonus shares, dispatching proper information to share holders or potential investors, misusing the application money are the main deceiving groups of investors in Nepalese context.”

Pandey, (2005) Thesis entitled “Legal and institutions arrangements for investors protection in Nepalese capital market of Nepal” in his thesis following major findings are observed, the existing legal provisions and regulations are insufficient for protecting investors interest. Provisions are insufficient especially in case of timely disclose of price sensitive information and trading. It is found that there is duplication and redundancy of regulation in between ROC and SEBON. Both the institutions are doing some of the tasks under the regulations. For example, prospectus of issuing companies is first submitted to ROC and thereafter to SEBON; it is not clear define which agency is responsible for analyzing it. Collective performances of regulations like SEBON, ROC, NEPSE and NRB are found to be less effective and unsuccessful. No proper

coordination among regulatory is found. He also adds that, insider taking practice exists in Nepalese securities market. Sufficient legal provisions to check insider trading, do not exist.

Regulatory authority like SEBON has no appropriate and adequate power to make investigation and take actions.

Subedi, (2006) Thesis entitled “Investors Awareness in the securities Market in Nepal” concludes that fair and timely information disclosure is essential for the securities market to function efficiently. Investors have very little knowledge of the trading procedures and price formation mechanism in NEPSE.

Information deficiency in the capital market may be one of the reasons for determination of shares price by excessive speculation. This may lead to domination by the gamblers and the speculators in the capital market. Norm’s regulatory submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investor protection. Since the quality of information available to investors, the rationality of the investors in Nepal is to be at quite low, at present, there is a general lack of investor awareness about listed companies, the operation and potential role of securities market techniques of financial analysis and risks and rewards of holding securities.

Thus, his recommendations is the concerned regulatory bodies (SEBON) should make more effort to disclose the share related information and make awareness to the investors in securities market. This program will be beneficial for the growth of the capital market of Nepal.

## **2.5 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. Political uncertainty
3. Political uncertainty 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 harmonize 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 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 IOSRO – 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 timeliness 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 benchmark 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 licensees. 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 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 examination 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 particles 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 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

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

## **2.6 Research Gap**

Securities Board, Nepal (SEBON) was established HMG/N in 1993, as an apex regulator of the securities market under the securities exchange act 1983, in objective is in live with the regulating bodies of the countries such as to regularize and manage the securities market and protect investor's interest. On 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. Our performance of SEBON many studies have conducted by various writers. In earlier study in the writer considered the degree of confidence of investors. However, 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 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 look out at some of the issues in the development of the securities market, particularly in the context of the performance of SEBON and to determine the level of the investor's confidence towards SEBON. Hence the study helps to trade out the performance of SEBON in promoting and protecting the interest of investors in Nepalese Capital Market.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

The basic objective of this chapter is to provide details of the various methodologies followed during the study of the project of the methods that have been used for analyzing the study are described as follows.

#### **3.1 Introduction**

Before presenting, analyzing and interpreting data, research methodology is to be described. In its absence, the result driven may be misunderstood. Research methodology, is a way to systematically solve the research problem.

Why a research study has been undertaken, how research problem has been defined, in what way and why the hypothesis has been formulated, what data have been located and what particular method has been adopted, why particular techniques, are usually answered by research methodology concerning a research problem or study.

This chapter deals mainly with research methodology, which is used in the period of research. "Research means to research the problem again and again to find out something more about the problem" (Kothari, 1990:10-11). Similarly methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically solution of the research problem. Research methodology may be defined as a systematic process that is adopted by the researcher in studying a problem with certain objectives in view. In other words, it described the methods and process applied in the entire aspects of the study. In this regards, this chapter research design, sources of data, use of statistical tools is used in this study. By keeping the stated objective in mind, both the descriptive and analytical type of research is employed. A descriptive analysis is because the secondary sources of empirical data have been employed to analyze the using variables, which is related to condition and growth and prospects of primary market. 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 of Nepal are presented.

### **3.2 Research Design**

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure” (Claire and others, 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 answer to research questions and to control variance” (Kerlinger, 1896:275).

The research refers to the entire process of planning and carrying our research study. It includes nature of data, specification of the method of the purposed study and detail plan for carrying out the study with the various empirical data for the analysis of problems etc. thus the design is basically based on the descriptive presentation, analysis and interpretation of result. All the collected data and information are generalized and conceptualized precisely by achieving insights into phenomenon. To meet the objective of the study a survey with scheduled questionnaire among the professional and individual investors are distributed. And then firstly, the data represented in table or diagram, secondly, data are analyzed by using various financial and statistical tools and at last, analyzed data are compared and interpreted for the conclusion.

### **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 sources of information 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 executive and professional involved the regulating authorities; securities board, Nepal Stock Exchange, Office of register, market intermediaries, stock brokers, listed companies, and all the individual investor 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 individuals; investors the selecting respondents regarding the sector are shown the table below:

**Table No 3.1**  
**Respondents profile**

<b>Name of Respondents</b>	<b>Sample</b>	<b>Response</b>
a. Regulatory Authorities	5	5 (100%)
b. Listed company	5	5 (100%)
c. Investor and legal experts	15	15 (100%)
d .Market intermediaries issue Managers and Brokers	5	5 (100%)
<b>Total</b>	<b>30</b>	<b>30 (100%)</b>

*Sources: Sample Survey 2013*

This study is based on a primary and less on 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. Question are presented in the appendix-I.

Secondary data consists of descriptive analysis of the security market indicators and corporate information disclosure by the listed companies to the SEBON. Booklets published by various institutions 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 interpretation on it is given simultaneously. To 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 the 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 answers from the respondents, consist of question 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 –IV.

### **3.4 Tools for Analysis**

To attain above mention objective on the basis of primary data collected from questionnaires and informal discussion with investors. The statistical tools are used as required by the study.

#### **3.4.1 Statistical tools**

The appropriate statistical tools are used where ever required to extract the result from the data collected. The different tools are as follows:-

##### **➤ Multiple bar-diagram and graphs**

Diagrams and graphs help to shows the general trends of the ratios in respects to the time period of the analysis year. Out of various types of diagrams are most important from the 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.

##### **➤ 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.

##### **➤ 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.

➤ **Multiple Regressions**

Multiple Regression equation is the algebraic relationship between one dependent variable with two or more independent variable. This relationship is used to estimate the value of dependent variable with the help of given value of independent variables. We shall limit our discussion to one dependent variable  $X_1$  and two independent variable  $X_2$  and  $X_3$  and so ,that the multiple regression equation for the observed data is given by,

$$X_1 = a + b_1 X_2 + b_2 X_3 + b_3 X_4 \dots \dots \dots \text{(I)}$$

Where,

$a$  = point of intercept on Y-axis

(The value of  $X_1$  when  $X_2 = X_3 = X_4 = 0$ )

$b_1$  = Slope of  $X_1$  with variable  $X_2$ , when  $X_3$  &  $X_4$  are constant.

$b_2$  = Slope of  $X_1$  with variable  $X_3$ , when  $X_2$  &  $X_4$  are constant.

$b_3$  = slope of  $X_1$  with variable  $X_4$ , when  $X_2$  &  $X_3$  are constant.

To find out the value of  $a$ ,  $b_1$ ,  $b_2$  &  $b_3$  are determined by solving following three normal equations obtained by the method of least square

$$X_1 = na + b_1 \sum X_2 + b_2 \sum X_3 + b_3 \sum X_4 \dots \dots \dots \text{(II)}$$

$$\sum X_1 X_2 = a \sum X_2 + b_1 \sum X_2^2 + b_2 \sum X_2 X_3 + b_3 \sum X_4 X_2 \dots \dots \dots \text{(III)}$$

$$\sum X_1 X_3 = a \sum X_3 + b_1 \sum X_2 X_3 + b_2 \sum X_3^2 + b_3 \sum X_3 X_4 \dots \dots \dots \text{(IV)}$$

$$\sum X_1 X_4 = a \sum X_4 + b_1 \sum X_2 X_4 + b_2 \sum X_3 X_4 + b_3 \sum X_4^2 \dots \dots \dots \text{(V)}$$

➤ **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 or estimate can be used to determine whether statistically significant relationship exist 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 standard error of estimate the better is model fitted.

The standard error of estimate of dependent variable  $X_1$  on three independent variables  $X_2, X_3$  &  $X_4$  is defined as,

$$\sigma_{1,234} = s_{1,234} = \sqrt{\frac{\sum X_1^2 - a\sum X_1 - b_1\sum X_1X_2 - b_2\sum X_1X_3 - b_3\sum X_1X_4}{n-4}}$$

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS OF THE STUDY**

This chapter is presented in 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's shows corporate disclosures by listed company to SEBON in fiscal year from 2007/08 to 2012/13. Thirdly, it's comparing the total listed companies of holding annual general meeting and companies not holding annual general meeting in year from 2007/08 to 2012/13. It tries to determine the, which fiscal year is good conducting AGM in time and lastly, it tries to examine the relationship between the value of the firm and its determined variables. We empirically analyze the data taken from market capitalization, percentage of submitting annual report, percentage of conducting AGM in time and number of listed companies.

We use 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**

As per the prevailing security Act, SEBON carried out on side inspection of public issue of 14 companies in fiscal year 2012/13. Similarly SEBON issued various directives to the issue managers and monitored and compliance of the directives for the improvement on non compliances seen in the processes of inspection in fiscal year 2012/13.

###### **➤ Supervision of Merchant Banker**

As per the prevailing Securities Related Act, 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**

As per the prevailing security legislation stock exchange should submitted various types of information regarding the securities trading to SEBON, NEPSE haven't submitted reports, reports related to action taken to SEBON in the fiscal year 2012/13.

➤ **Supervision of Security Trading**

SEBON developed real time surveillance system with establishing electronic line to NEPSE for the supervision of daily securities trading. In the process of monitoring, the secondary market SEBON has been companies' reports of weekly traded companies, reports of total amount of stock holders on weekly basis, and records of promoter's shares transaction.

➤ **Supervision of Stock Holders**

As per the provision requiring stock brokers to submit their annual reports including profit and loss, balance sheet, cash flow and securities trading reports to SEBON with in the month of expiry of the fiscal year.

➤ **Supervision of disclosure of Listed Companies**

In the fiscal year 2012/13 out of 230 listed companies, 163 listed companies submitted their annual reports within the prescribed time.

At last, SEBON is monitoring regularly whether such companies submitting their report on time or not and seeking clarification of those failing companies the reports on monitoring and supervision of disclosure practices is submitted to board of director of SEBON for the necessary action. SEBON has been classifying the report submitted, not submitted companies into their groups as timely report submitted, late submitted, not submitted companies representing in green, yellow and red color respectively, And has been placed them in SEBON's website. These measures of market supervision have

shown some positive impacts in the information disclosure and price stability of the security as compare to earlier years.

#### **4.1.2 Security Market Indicators**

Security market indicators are presented on below table for security board of Nepal which includes numbers of issue approved, total amount of issue approved, total amount of public issued, paid up value of listed securities, annual turnover, market capitalization, total number of listed companies, no. of companies traded etc. here, the security market indicators data are presented and analyze from fiscal year 2003/04 to 2012/13.



Viewing the above table, it is clearly seen that, in the fiscal year 2003/04, SEBON registered the securities of 16 companies and granted issue approval amounting to Rs.1547.79 million. The number of issue approval in this fiscal year is which 5.88 percent less than the previous year and amounting of issued approval is 81.32 percent higher than with comparing the previous year. In the fiscal year 2004/05, 12 companies were registered which is 25 percent lower than previous year and granted approval amounting was 1315.80 million which is 14.99 percent lower than that of previous year.

Similarly in the fiscal year 2005/2006, 10 companies were approved with granted approval of Rs.1429.83 million. In the fiscal year 2006/2007, 12 companies were approved with granted issue approval of Rs.1030.30 million.

In the fiscal year 2007/08, SEBON registered the securities of 15 companies and granted issue approval amounting to Rs.3874.75 million. The amount of issue approval in this fiscal year is 276.08 percent higher than the previous year. In the fiscal year 2008/2009, SEBON registered the securities of 17 companies and granted issue approval amounting to Rs. 2565.70 million. In the fiscal year 2009/2010, 19 companies were approval with granted issue approval of Rs.2649.37 million. In the fiscal year 2010/2011, SEBON registered the 16 companies and granted issue approval amounting to Rs.2028.44 million, the amount of issue approval in this fiscal year is 23.44 percent lower than previous year. In the fiscal year 2011/2012, SEBON registered 15 Companies and granted issue approved amounting to Rs. 1298.50 million, the amount of issue approval in this fiscal year is 35.98 percent lower than previous year. And in the fiscal year 2012/13, SEBON registered 22 companies and granted issue approval amounting to 3187.40 million; the amount of issue approval in this fiscal year is 145.47 percent higher than previous year.

As like that the total amount of public issue were increased by 38.86 times from Rs.1090.37 million in 2003/04 to Rs.42372.70 million in 2012/13. Accordingly, paid up value of listed securities were also increased by 9.40 times from Rs.13404.90 million in 2003/04 to Rs.126064.00 million in 2012/2013.

Market capitalization is an important indicator of secondary market where previously issued equities are traded. As it has observed that the market

capitalization of listed securities is Rs 41424.77 million in 2003/2004 where as it increased by 12.42 times in 2012/2013 with Rs.514492.13 million. As like that the annual turnover increased by 10.28 times from Rs.2144.27 million in 2003/2004 to Rs.22048.87 million in 2012/2013. And percentage of turnover market capitalization has been fluctuating during the period from 2003/2004 to 2012/2013.

Similarly the total number of listed companies was 114 in the year 2003/2004 which increased 230 in the fiscal year 2012/2013. And number of traded companies also increased to 230 in 2012/2013 from 92 in 2003/2004.

#### **4.1.3 Status of Corporate Disclosures by Listed Companies to SEBON**

For the development of systemic 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. We can describe it clearly with the help of the table and the graph given below:

**Table No. 4.2**

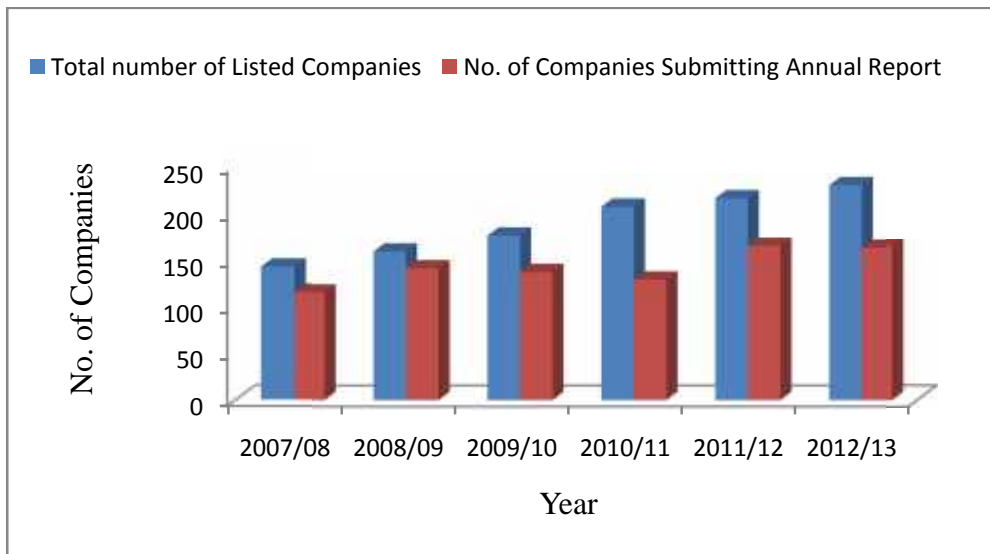
#### **Corporate Disclosures by Listed Companies to SEBON**

<b>Fiscal Year</b>	<b>Total number of Listed Companies</b>	<b>No. of Companies Submitting Annual Report</b>	<b>% of companies Submitting Annual Report</b>
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	165	76.39
2012/13	230	163	70.87

*Source: SEBON Annual Report*

**Figure No. 4.1**

**Corporate Disclosures by Listed Companies to SEBON**



*Source: Table No.4.2*

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 2007/2008 out of 142 companies, only 115 companies have submitted their financial statements which represent only 80.99 percent. Likewise in the fiscal year 2008/2009, out of 159 companies, only 141 companies have submitted their financial report and it represent only 88.68 percent. In the fiscal 2009/2010, Only 137 companies have submitted their financial report out of 176 companies. Similarly in the fiscal year 2010/2011, out of 207 companies, only 129 companies have submitted their financial reports and it comes to represent 62.32 percent. As like for the fiscal year 2011/2012 out of 216 companies, only 165 companies have submitted their financial reports and it comes to represent

76.39 percent. And in the fiscal year 2012/2013 out of 230 companies only, 163 companies have submitted their financial report and it comes to 70.87 percent.

#### 4.1.4 Companies Holding Annual General Meeting

**Table No. 4.3**  
**Companies Holding Annual General Meeting**

S.N.	Sector	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
1	Commercial Bank	16	18	23	23	24	28
2	Finance company	48	59	56	61	62	48
3	Insurance company	9	11	8	15	20	19
4	Hotel	4	3	2	3	3	3
5	Mgf. & proc.co.	8	7	4	6	12	9
6	Trading Company	2	2	2	2	2	2
7	Development Bank	21	24	25	44	58	51
8	Other Company	3	4	6	1	6	2
Total		111	128	126	155	187	162
Total listed Companies		142	159	176	207	216	230

*Source: SEBON Annual Report*

**Figure No. 4.2**  
**Companies Holding Annual General Meeting**



*Source: Table No. 4.3*

In the fiscal year 2007/08, 111 companies have conducted their AGM, out of 142 listed companies. Likewise 128 companies out of 159 listed companies have conducted their AGM in the fiscal year 2008/09. Accordingly, in fiscal year 2009/10 out of 176 listed companies only 126 companies have conducted their AGM. In the fiscal year 2010/11, out of 207 listed companies, only 155 companies have conducted their AGM. During the fiscal year 2011/12, out of 216 listed companies, only 187 companies have conducted their AGM. And in the fiscal year 2012/13, out of 230 listed companies, only 162 companies have conducted their AGM. In this fiscal year 162 companies consisting of 28 commercial banks, 51 development banks, 48 financial companies, 19 insurance companies, 3 hotels, 9 manufacturing and processing company, 2 trading companies and 2 other companies have conducted their AGM at time.

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

#### 4.1.5 Market Capitalization= Function of Corporate Disclosure

Market capitalization is an important indicator of secondary market where previously issued equities are traded. It is also one of important measurement of market size. The market capitalization is function of corporate disclosure i. e .percentage of submitting annual report, percentage of conducting AGM in the time and number of listed companies. Higher the corporate disclosure performance indicated the higher the market capitalization and vice-versa.

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

**Table No. 4.4**

#### **Function of Corporate Disclosure**

<b>Year</b>	<b>MC in million (Y)</b>	<b>% of submitting annual report (X1)</b>	<b>% of conducting AGM in time (X2)</b>	<b>No. of listed Companies (X3)</b>
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	74.88	207
2011/12	371115.74	76.39	86.57	216
2012/13	514492.13	70.87	70.43	230

*Source: SEBON Annual Report*

Standard Error= 2525.784

Y intercept (a)= -496659.776

X1 variable (b1)	= 8084.530
X2 variable (b2)	= 3122.167
X3 variable (b3)	=0.0278

From the above table, the multiple regression of market capitalization is calculated.

Now, required multiple regression equation is

$$Y = -496659.776 + 8084.530X_1 + 3122.167X_2 + 0.0278X_3$$

Above table and equation, shows that average relationship between dependent variable i.e. market capitalization and independent variable i.e. percentage submitting annual report, percentage conducting AGM in time and number of listed companies, as like Standard Error of estimate values is 2525.784 million. Similarly Y intercept (a) is -496659.776. It indicates when the percentage of submitting annual report, percentage of conducting AGM in time, number of listed companies are zero, then the expected change in market capitalization is -496659.776 million during the year.

The slope  $b_1 = 8084.530$  represent that each increases in percentage of submitting annual report of 1%, we predict that the change in market capitalization is 8084.530 million having constant of percentage of AGM in time and number of listed companies. As like that the slope  $b_2 = 3122.167$  represent that each increase in percentage of AGM in time of 1%, we predict that the expected change in market capitalization index is 3122.167 having the percentage of submitting annual report in time and percentage of listed companies constant. The slope  $b_3 = 0.0278$  represent that each increase in number of listed companies of 1%, the expected change in market capitalization is 0.0278 Million having the percentage of submitting annual report and percentage of conducting AGM in time constant.

#### **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 question and their responds are described in the finding of each question.

#### 4.2.1 Policy measures to be adopted to improve the stock market

##### (Question No.1)

The question was asked with different respondents to know their view point regarding the best policies 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.....

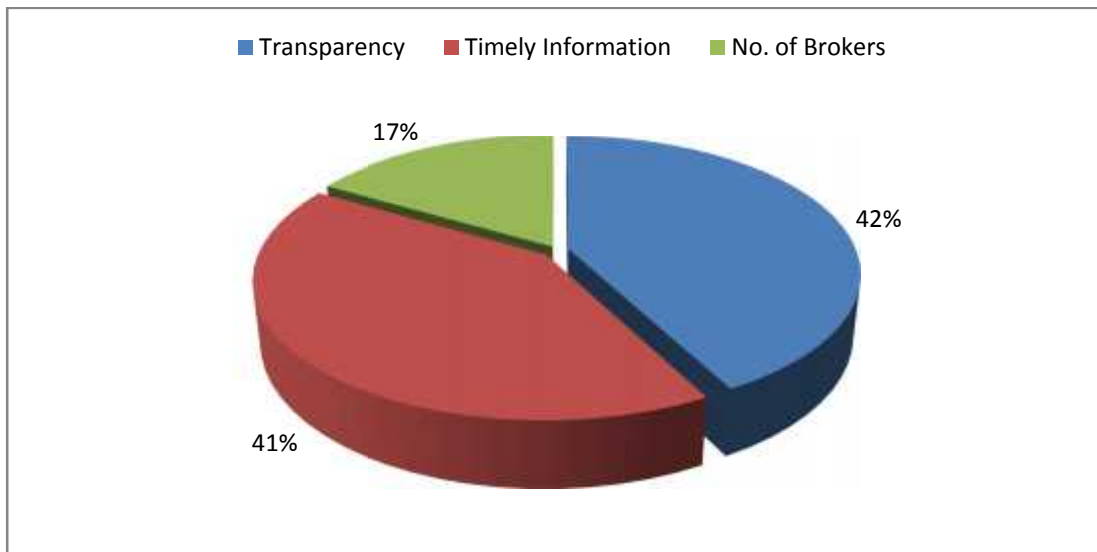
**Table No. 4.5**  
**Policy Measures to be adopted to improve the Stock Market**

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

*Source: sample survey 2013*

**Figure No. 4.3**

**Policy Measures to adopted to improve the Stock Market**



*Sources: table No. 4.5*

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

#### **4.2.2 Factors play the major role in investing decision**

##### **(Question No.2)**

The question was asked with different respondents to know their view point regarding the factors play major role in investing decision.

The choices given them were:

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

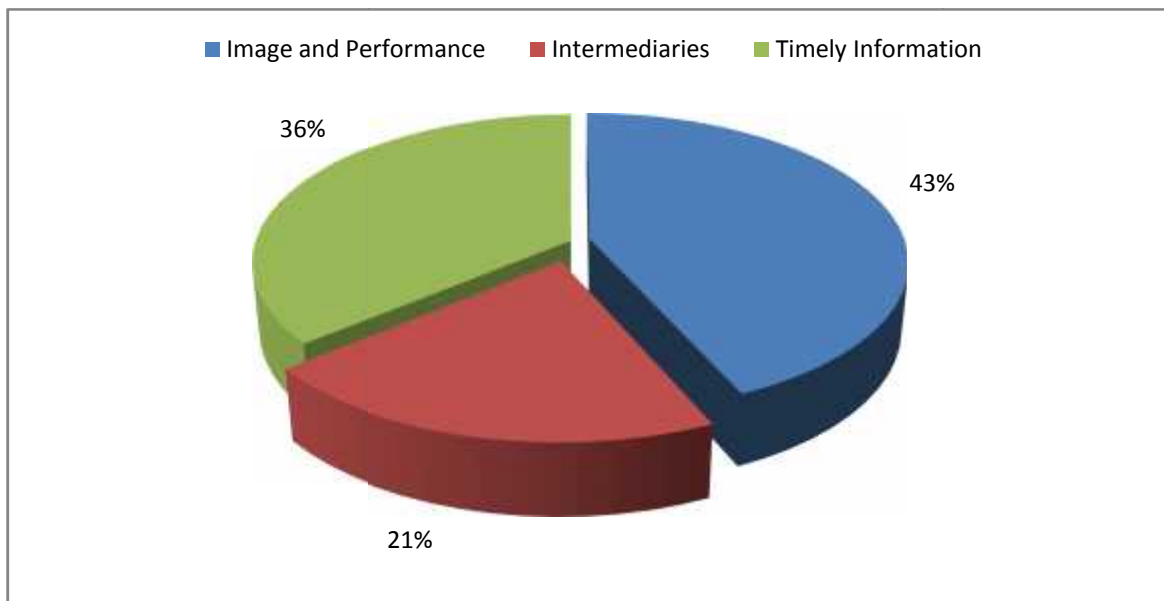
And the response we get from the survey is given as follows:

**Table No. 4.6**  
**Factors play the major role in investing decision**

<b>Alternatives</b>	<b>Weight</b>	<b>Image and Performance</b>	<b>Intermediaries</b>	<b>Timely Information</b>
1 <sup>st</sup> most preferred	3	20	0	10
2 <sup>nd</sup> most preferred	2	8	7	15
3 <sup>rd</sup> most preferred	1	2	23	5
<b>Score</b>		<b>78</b>	<b>37</b>	<b>65</b>

*Source: sample survey 2013*

**Figure No: 4.4**  
**Factors play the major Role in Investing Decision**



*Source: Table No.4.6*

Here we can see that the highest percentage of the total respondents is 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 disclosure of the information. And only 21% weight of the total respondents was given to the market intermediaries'. These factors play the major role in investing decision.

#### 4.2.3 Reasons for the earlier stage of development of stock market in Nepal

##### (Question No.3)

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

The choices given to them were:

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

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

**Table No. 4.7**

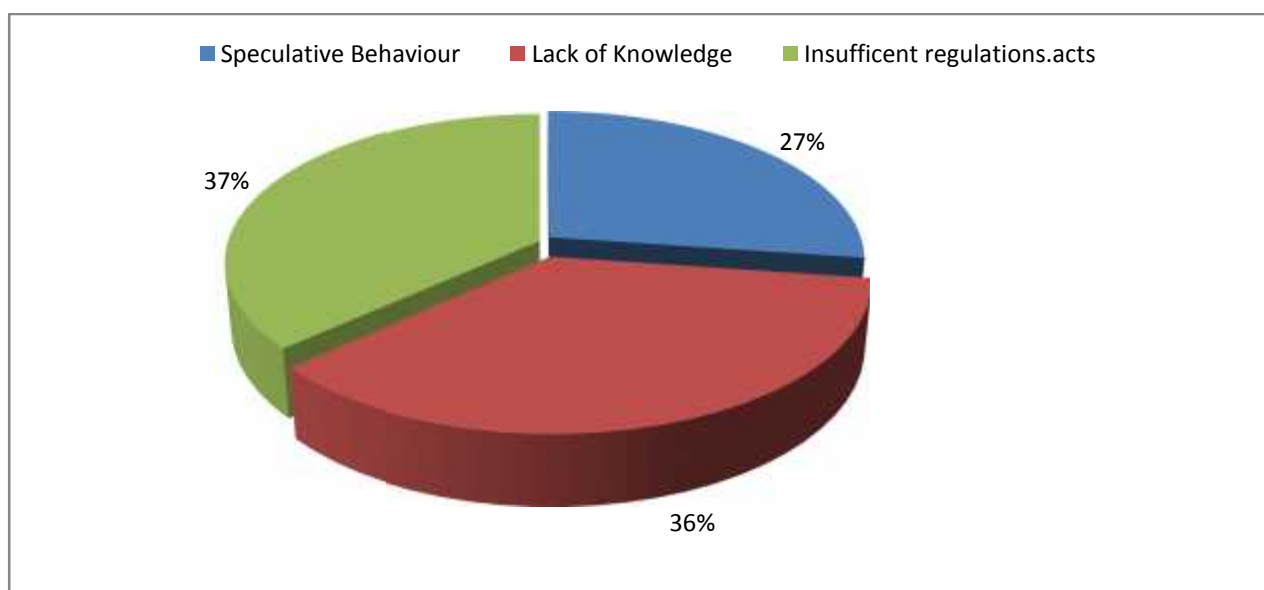
##### Reasons for the earlier stage of development of stock market in Nepal

Alternatives	Weight	Speculative Behavior	Lack of knowledge	Insufficient Regulation, Acts
1 <sup>st</sup> most preferred	3	4	10	16
2 <sup>nd</sup> most preferred	2	11	15	4
3 <sup>rd</sup> most preferred	1	15	5	10
<b>Score</b>		<b>49</b>	<b>65</b>	<b>66</b>

*Source: Sample survey 2013*

**Figure No: 4.5**

**Reasons for the early stage of development of the stock market in Nepal**



*Source: Table No. 4.7*

From this survey it was found that the reason for the early stage of development of the Nepalese stock market where the insufficient regulation, Acts and Guidelines as out of total 37% weight was given to it, the weight of 27% of total respondents through that the reasons was excessively speculative behavior of investors and 36% of total respondent was given to lack of knowledge about securities market among the mass.

**4.2.4 Factors can be used to protect general investor's interest**

**(Question No.4)**

The question was asked with different respondents to know their view point regarding the important factors that can be used to protect the general investor's interest.

The choices given to them were:

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

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

**Table No.4.8**

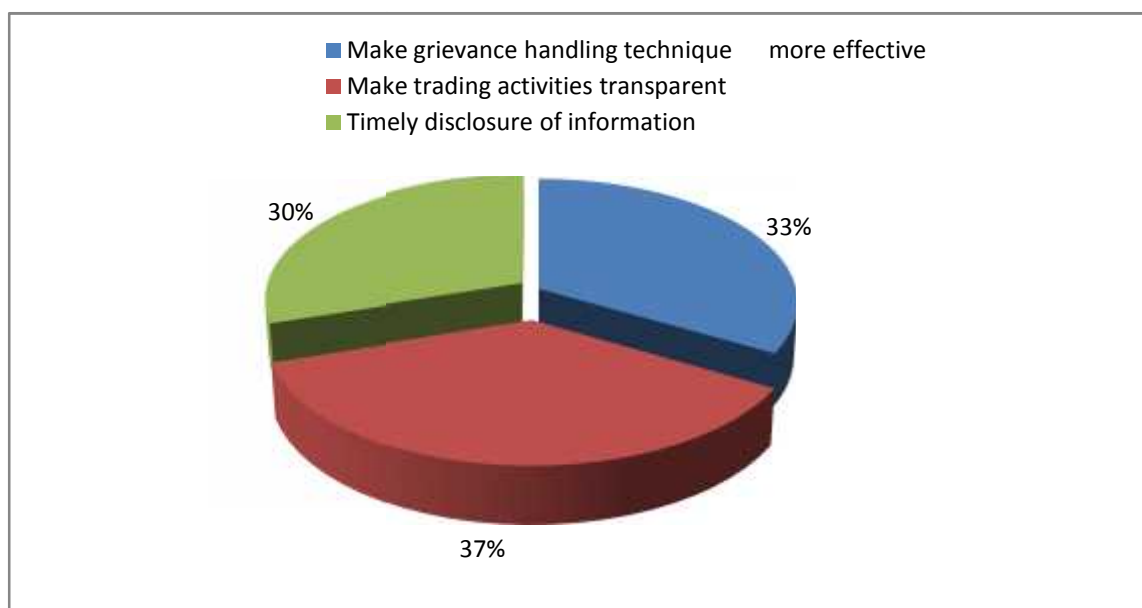
**Factors can be used to protect the general investor's interest**

<b>Alternatives</b>	<b>Weight</b>	<b>Make grievance handling technique more effective</b>	<b>Make trading activities transparent</b>	<b>Timely disclosure of information</b>
1 <sup>st</sup> most preferred	3	9	13	8
2 <sup>nd</sup> most preferred	2	12	10	8
3 <sup>rd</sup> most preferred	1	9	7	14
<b>Score</b>		<b>60</b>	<b>66</b>	<b>54</b>

*Source: sample survey 2013*

**Figure No: 4.6**

**Factors can be used to protect general investor's interest**



*Source: table No 4.8*

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

#### 4.2.5 Factors that can aid the growth of stock market

##### (Question No.5)

The question was asked with different respondents to know their view point regarding the important factors to make the growth of stock market.

The choices given to them were:

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

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

**Table No.4.9**

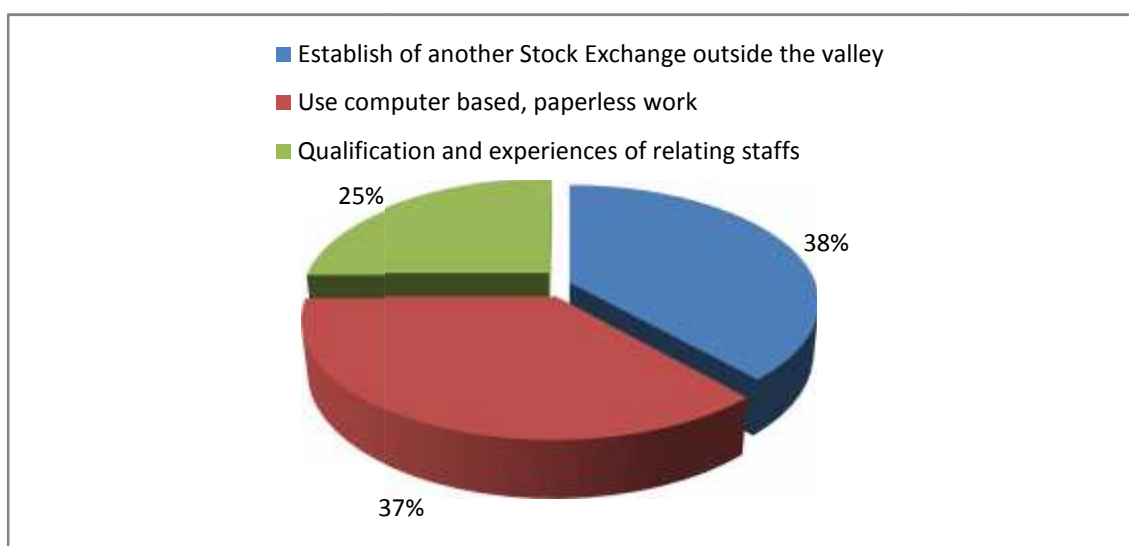
##### **Factors that can aid the growth of stock market**

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

*Source: Sample Survey 2013*

**Figure No: 4.7**

**Factors that can aid the growth of stock market**



Source: Table No. 4.9

Out of the total 30 respondents, 25% weight was given to the qualification and experience of the related staff that can add the growth of the stock market and 37% weight was given by the respondents to computer based i.e. paper less 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.

#### 4.2.6 Types of Statements

##### 4.2.6.1 Effective rules and regulation of SEBON (Question 6.1)

**Table No.4.10**

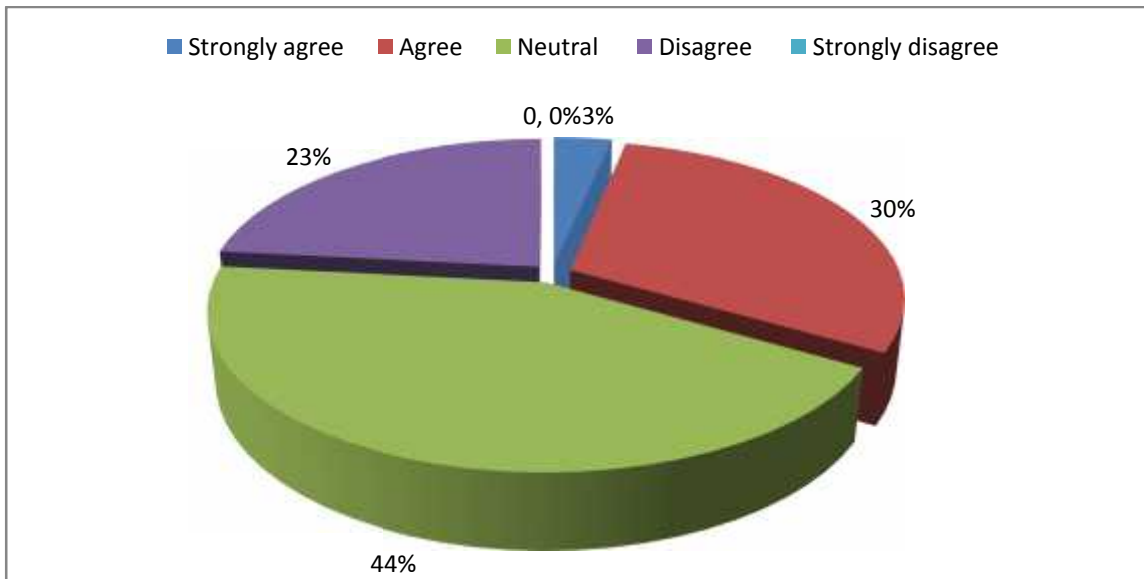
**Effective rules and regulation of SEBON**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: Sample survey 2013

**Figure No. 4.8**

**Effective Rules and Regulation of SEBON**



Source: Table No. 4.10

SEBON's rules and regulation are effective in the growth of capital market of Nepal. 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 disagree. And the most of the respondent were neutral about the statement which is 44% of the total respondent.

**4.2.6.2 SEBON'S technique suitable for Nepalese capital market**

(Question No.6.2)

**Table No. 4.11**

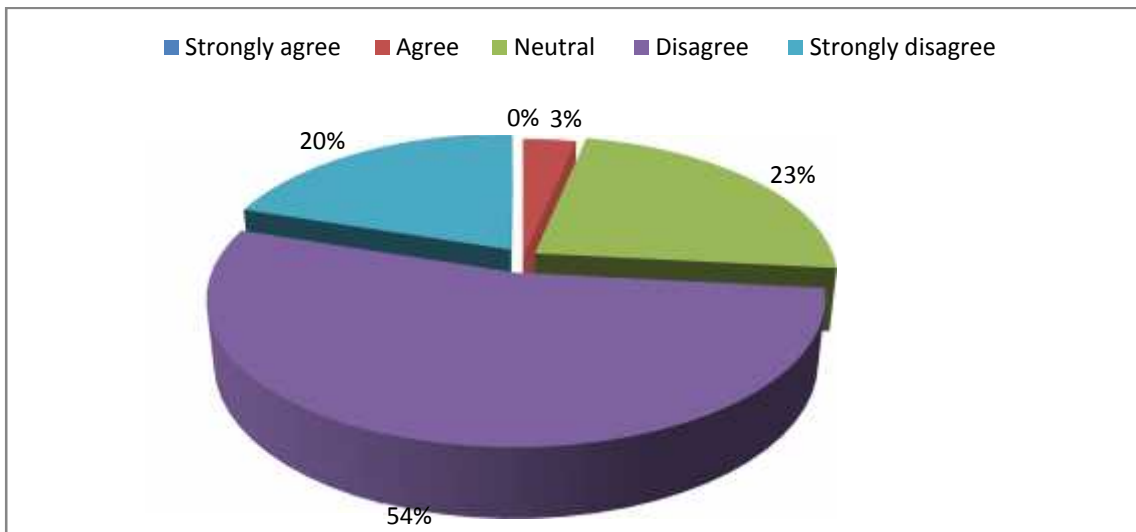
**SEBON's technique suitable for Nepalese capital market**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.9**

**SEBON's technique suitable for Nepalese capital market**



Source: Table No. 4.11

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 SEBON grievances handling technique sufficient (Question 6.3)**

**Table No. 4.12**

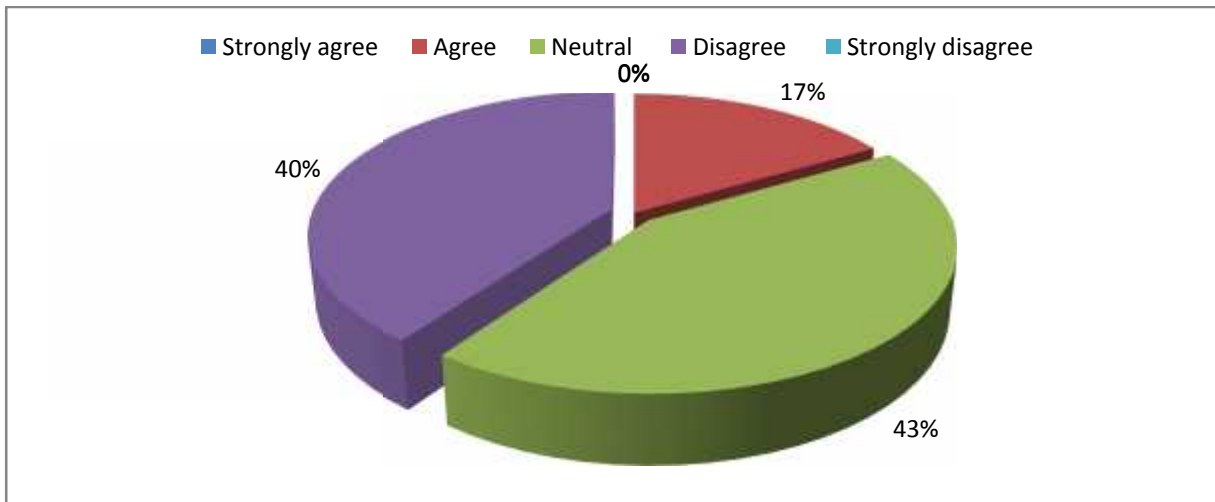
**SEBON grievances handling technique sufficient**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.10**

**SEBON grievances handling technique sufficient**



Source: Table No.4.12

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

**4.2.6.4 Sufficient and Timely Information for Investors (Question No. 6.4)**

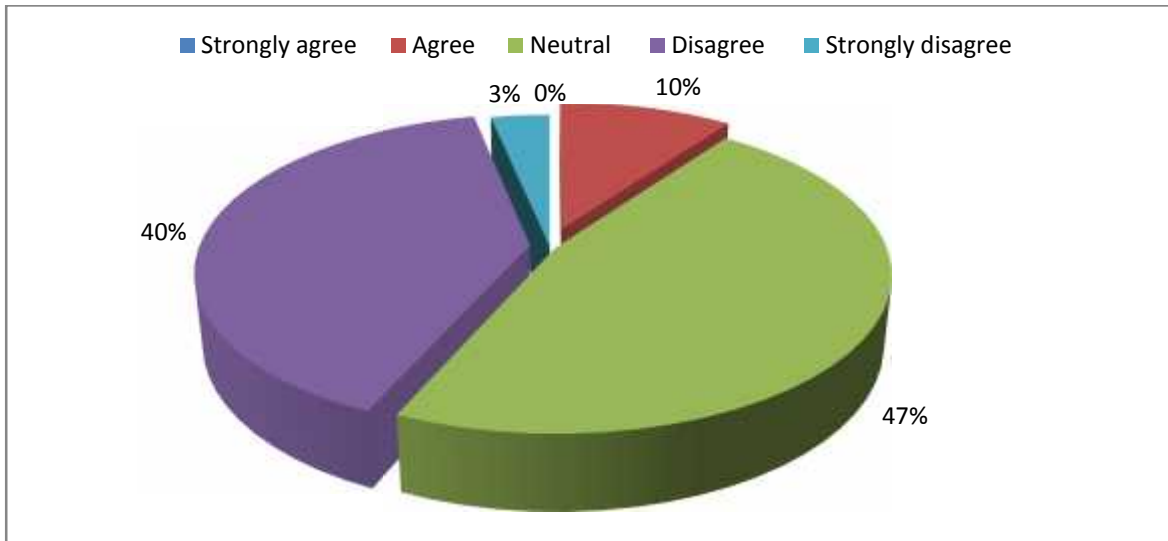
**Table No. 4.13**

**Sufficient and Timely Information for Investors**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.11**  
**Sufficient and Timely Information for Investors**



Source: Table No. 4.13

From the above statement 3.33% of the total respondents were strongly disagree, where as 40% of them were replied disagree, 46.67% were replied neutral and only 10% were replied agree.

**4.2.6.5 Investors are Getting Adequate and Reliable Information from Brokers (Question No.6.5)**

**Table No. 4.14**

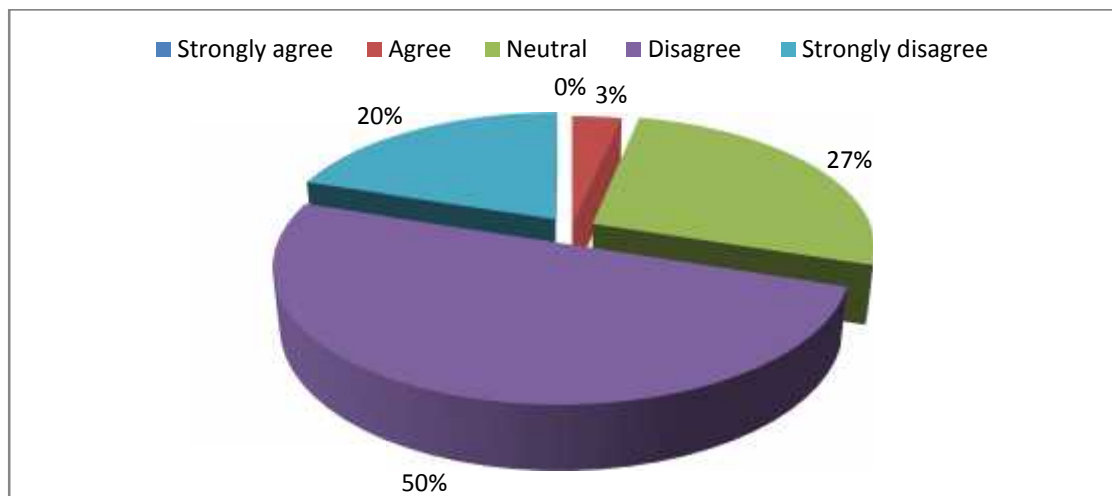
**Investors are Getting Adequate and Reliable Information from Brokers**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.12**

**Investors are Getting Adequate and Reliable Information from Brokers**



Source: Table No 4.14

For the above given statement 3.33% of the respondent were agreed, where as 26.67% of them were neutral about the statement, 20% of them strongly disagree and the most of 50% were replied that they were disagreed with the statement.

**4.2.6.6 Delay in Transferred of Ownership not Causing Huge Opportunity Losses (Question No. 6.6)**

**Table No. 4.15**

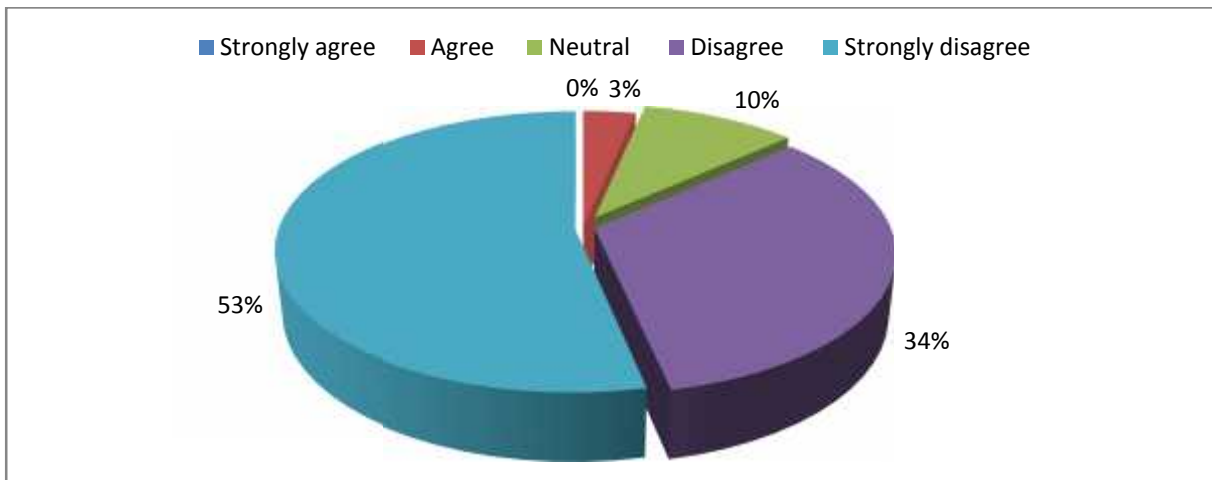
**Delay in Transferred of Ownership not Causing Huge Opportunity Losses**

State of Nature	Frequency	Percentage
Strongly agree	0	0.00
Agree	1	3.33
Neutral	3	10.00
Disagree	10	33.33
Strongly disagree	16	53.33
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No: 4.13**

**Delay in Transferred of Ownership not Causing Huge Opportunity Losses**



Source: Table No.4.15

Out of the total respondents only 3% were agreed, 10% were neutral for the statement. Whereas 34% were disagree and 53% of the respondent replied that they were strongly disagree with the given statement.

**4.2.7 Technique of Awareness Program that will Increase the Investing Ratio  
(Question No.7)**

The question was asked with different respondents to know their view point regarding technique of awareness program that will increased the investment ratio.

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

**Table No. 4.16**

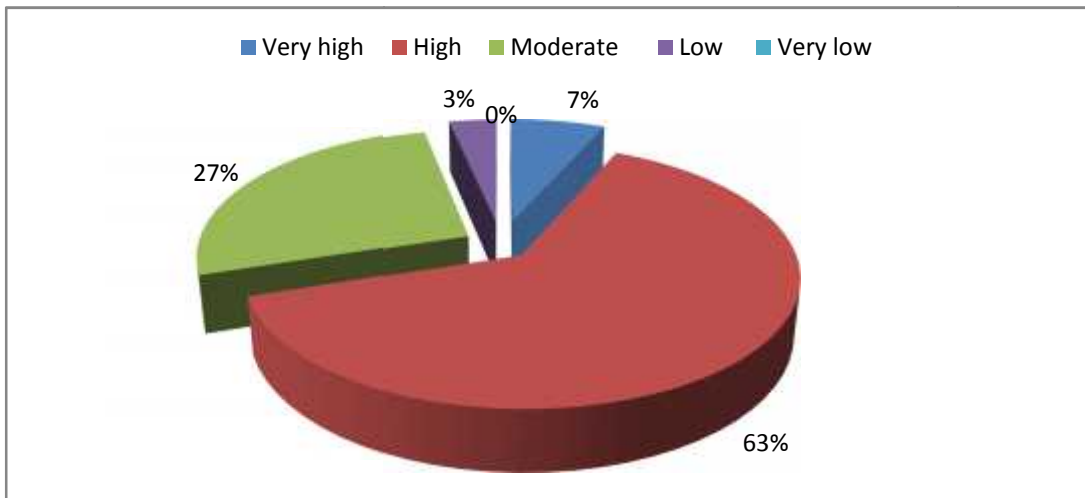
**Technique of Awareness Program that will Increase the Investing Ratio**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No: 4.14**

**Technique of Awareness Program that will Increase the Investing Ratio**



Source: Table No. 4.16

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

**4.2.8 Level of Return Getting in Comparison to Expectation  
(Question 8)**

The question was asked with different respondents to know their view point regarding the level of returns getting in comparison to expectation.

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

**Table No.4.17**

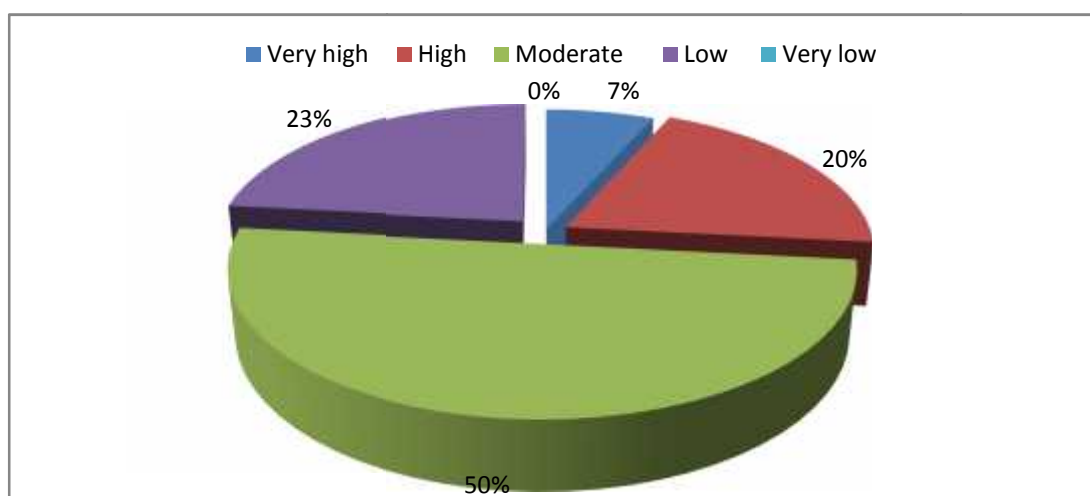
**Level of Return Getting in Comparison to Expectation**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.15**

**Level of Return Getting in Comparison to Expectation**



Source: Table No. 4.17

Here most of 50% of the respondent said that the return they are getting was moderate in comparison to their expectation. And 23% were replied that they are getting very low where as 20% was replied that they were getting high return in comparison to their expectation

**4.2.9 Level of Honest Activities**

**(Question No.9)**

The question was asked with different respondents to know their view point regarding the level of honest activities.

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

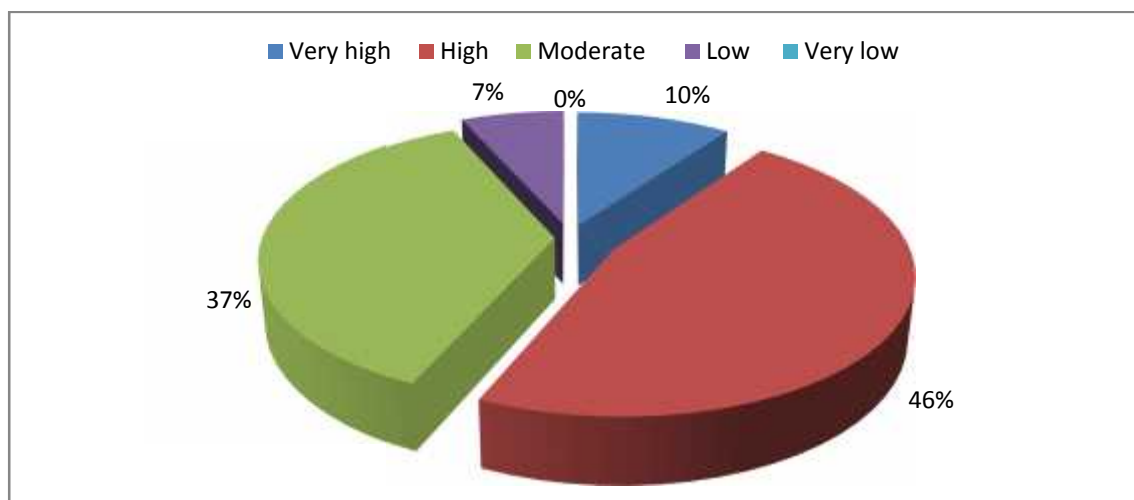
**Table No. 4.18**

**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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.16**  
**Level of Honest Activities**



Source: Table No. 4.18

The most number of respondent 46% were said that the level was high, about 37% were said that it was moderate, only 7% of the respondent said that it was low but no one replied that it was very low. And only 10% of the respondents were said that it was very low.

**4.2.10 Level of Nepalese Investors are Influenced by Whim and Rumors**  
**(Question No.10)**

The question was asked with different respondents to know their view point's regarding the level of Nepalese investors are influenced by whim and rumors.

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

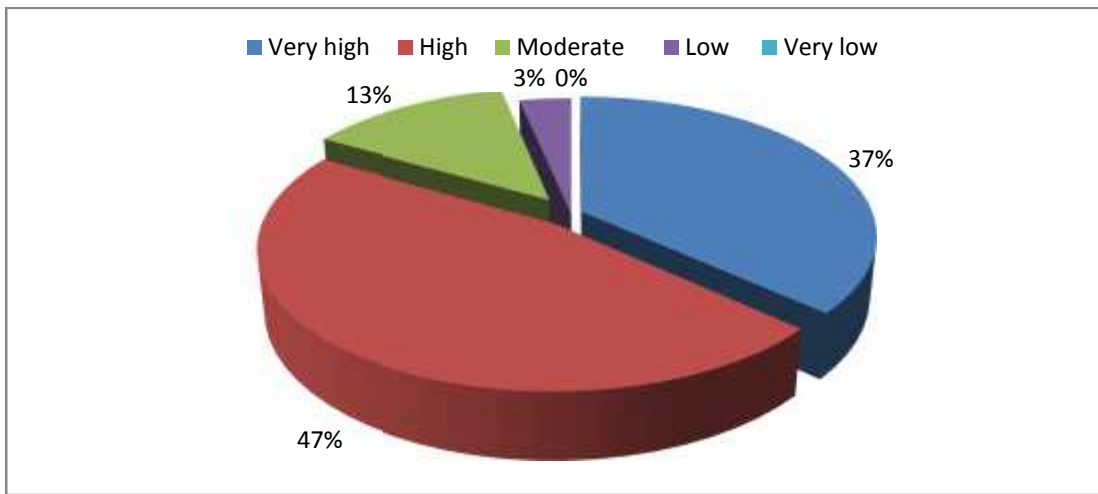
**Table No. 4.19**  
**Level of Nepalese Investors are Influenced by Whim and Rumors**

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
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No.4.17**

**Level of Nepalese Investors are Influenced by Whim and Rumors**



Source: Table No. 4.19

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 was low. But the most of 47% of the respondents said that the level was high.

**4.2.11 Companies are bearing their Responsibility towards their Shareholders**

**(Question 11)**

The question was asked with different respondents to know their view point's regarding the companies are bearing their responsibility towards their shareholders.

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

**Table No. 4.20**

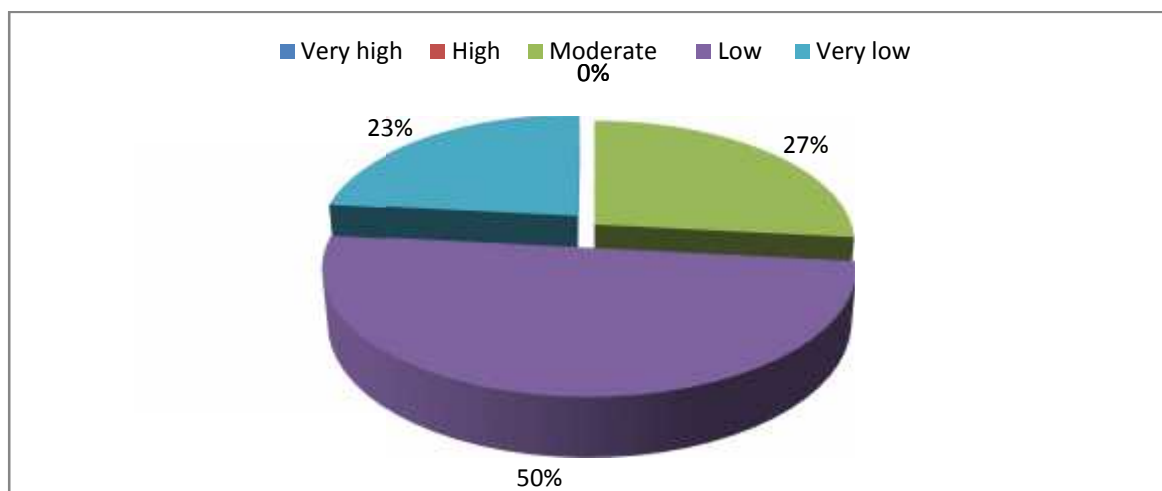
**Companies are bearing their Responsibility towards their Shareholders**

Level	Frequency	Percentage
Very high	0	0
High	0	0
Moderate	8	26.67
Low	15	50.00
Very low	7	23.33
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.18**

**Companies are bearing their Responsibility towards their Shareholders**



*Source: table No. 4.20*

For the given statement that what do you think that companies are bearing their responsibility towards their shareholders. Here out of the total respondents, 50% said it was low and 27% said that it was moderate and 23% said it was very low. It indicates that not even a single respondent is satisfied and agreed with this statement.

**4.2.12 Levels of Investor’s Confidence towards the Nepalese Capital Market  
(Question No 12)**

The question was asked with different respondents to know their view point regarding the level of investor’s confidence towards the Nepalese capital market.

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

**Table No 4.21**

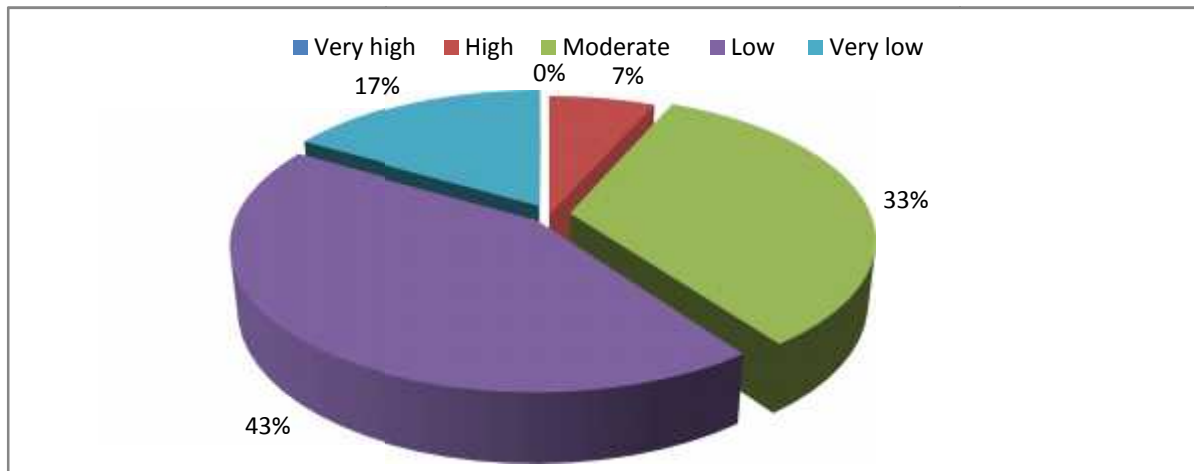
**Levels of Investor’s Confidence towards the Nepalese Capital Market**

Level	Frequency	Percentage
Very high	0	0
High	2	6.67
Moderate	10	33.33
Low	13	43.33
Very low	5	16.67
<b>Total</b>	<b>30</b>	<b>100</b>

*Source: sample survey 2013*

**Figure No. 4.19**

**Levels of Investor's Confidence towards the Nepalese Capital Market**



Source: Table No. 4.21

For the mentioned question only 7% respondents said that the level of investor's confidence towards the Nepalese capital market was high. Whereas 43% respondents said it was low and 17% said that it was very low. It means that Nepalese investors are not very much familiar with Nepalese capital market.

**4.2.13 Companies are Meeting their Target as mentioned in their Prospectus**

**(Question No 13)**

The question was asked with different respondents to know their view point regarding the companies are meeting their target as mentioned in their prospectus

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

**Table No. 4.22**

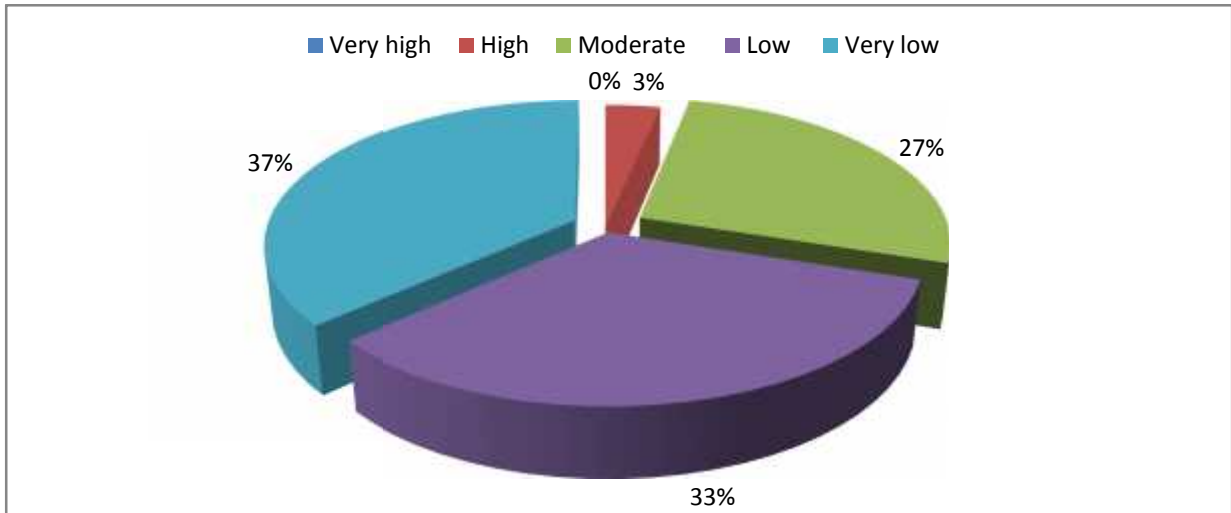
**Companies are Meeting their Target as Mentioned in their Prospectus**

Level	Frequency	Percentage
Very high	0	0
High	1	3.33
Moderate	8	26.67
Low	10	33.33
Very low	11	36.67
<b>Total</b>	<b>30</b>	<b>100</b>

Source: sample survey 2013

**Figure No. 4.20**

**Companies are Meeting their Target as Mentioned in their Prospectus**



*Source: table No. 4.22*

The most number of the respondents 37% said that the level was very low that companies are meeting their target as mentioned in their prospectus. 33% of the total respondent said that it was low and 27% replied moderately where as only 3%of the respondents said that it was high.

**4.2.14 Need for Shareholders Representative for the Common Interest of the Investors**

**(Question No.14)**

The question was asked with different respondents to know their view point regarding the need for shareholders representative for the common interest of the investors.

And the response we get from the survey is given as follow

**Table No 4.23**

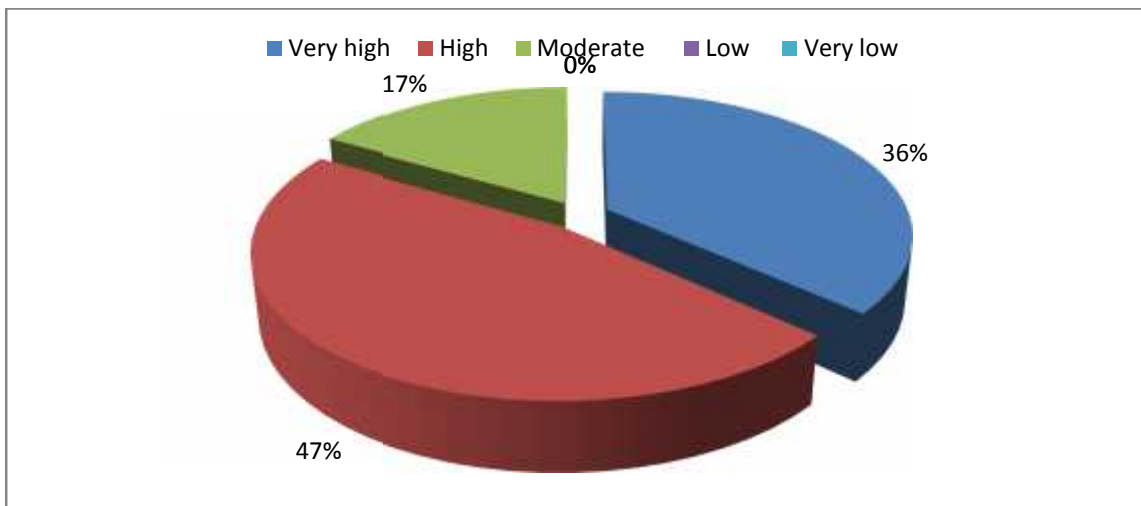
**Need for Shareholders Representative for the Common Interest of the Investor**

Level	Frequency	Percentage
Very high	11	36.67
High	14	46.67
Moderate	5	16.67
Low	0	0.00
Very low	0	0.00
<b>Total</b>	<b>30</b>	<b>100</b>

*Source: sample survey 2013*

**Table No. 4.21**

**Need for Shareholders Representative for the Common Interest of the Investor**



*Source: Table No. 4.23*

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

### **4.3 Major Findings**

#### **➤ Finding from security market indicator**

Analysis of ten years period of SEBON indicators from 2003/04 to 2012/13, it is found that the number of issue approved, total amount of issue approved, total amount of public issue, annual turnover, market day, average daily turnover, no. of share traded and no. of transaction is in fluctuating trend and paid up value, market capitalization, no. listed companies, no. of companies traded, no. of listed securities and NEPSE index are seems to be increasing trend. It is the good trend of SEBON.

#### **➤ Finding from status of Corporate Disclosure by Listed Companies to SEBON**

Corporate disclosure is clear that submission of financial statement from listed companies to SEBON is not adequate. All these indicate that listed companies are not still conscious enough to inform the investors timely.

#### **➤ Finding from the Companies Holding AGM**

The listed companies have neither submitted their financial statement nor conducting their AGM on time and the percent of their submission of financial report and holding their AGM also very low. That is why we conclude that the status of corporate disclosure by listed companies to SEBON is not adequate and sufficient.

#### **➤ Finding from the Function of Corporate Disclosure**

Market capitalization is also one of the most important measurements of market size. The market capitalization is the function of corporate disclosure i.e. percent of submitting annual report, percentage of conducting AGM in the time and numbers of listed companies higher the corporate disclosure performing indicators the higher market capitalization and vice versa. So, here independent variable  $b_2$  is better than  $b_1$  &  $b_3$  and variable  $b_3$  is better than  $b_1$ . Similarly Y intercept ( $a$ ) is negative value so it indicates when the percentage of submitting annual report, percentage of conducting AGM in time and number of listed companies are zero.

#### **➤ Survey Results**

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.

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 disclosure of information was the second preferable factor while making an investment decision. In this way this analysis shows that the factor of market intermediaries was not so much effective in the investing decision of investors as it scored 21% weight among all the respondents.

After analyzing the data it was clear that the first preferable one was the insufficient regulation, 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 regulation, Acts and guidelines.

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

And at last 30% weight goes to the timely disclosure of information. This indicates that all the three given choices are important and can be used to protect the general investor's interest but the most important one was the transparent trading activities, this we get from our survey analysis.

It was clear that the most preferable one was 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.

As per the above data and diagrams shows that for the statement, SEBON's rules and regulation are effective in growth of Nepalese capital market the finding we get that most of respondents were neutral about the effectiveness of SEBON's rules and

regulation as its level was very high which is 43%, it means that they were neither agreed nor disagreed with the given statement. Here we can say that most of the investors are not very much familiar with the existing legislation. And most of the respondents were disagreed with the statement of the technique of supervising and monitoring activities of SEBON are suitable for the Nepalese Capital Market.

Likewise most of the respondents were neutral and some of them were disagreed about the grievance handling techniques of SEBON, it means the grievance techniques of SEBON's are not sufficient to solve the upcoming problems. In the response timely information regarding listed company, the respondents were highly neutral and some of them were disagreed. It means that the investors were not sufficient information about that. In the same, for the given statement that investor are getting reliable and adequate information from brokers regarding the transaction, most of them was disagreed with this statement.

And in the response of delay in transfer of ownership has not been causing the huge losses in term of opportunities, the most of respondents responded that they were very much disagreed. It indicates that most of Nepalese investors are suffering with the delay transfer of ownership.

After analyzing above data and diagram it clearly shows, in the response of to what extent the new technique of awareness program will increasing the investing ratio, that the most of respondents were replied that the new technique of awareness program will increase the ratio of investors investment. Likewise most of respondents responded that the return they are getting from investment was moderate and some of them responded low. It indicates investors have not high level of confidence in the return of investment and some of limit huge investors are getting high return in their investment in the comparison to their expectations.

In the same way most of the respondents said that the level of honest activities from the insider get more benefit than outsiders was also high, it was 46%. As like the respondents were replied that Nepalese investors are very much influenced by whim and rumor in the response of what extent do you think that Nepalese investors are influenced by whim and rumor .It indicates that most of investors were invest their money with whim and rumor instead of deep study of company and their future trend .

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

This research study was conducted to analyze the performance of securities board in capital market of Nepal. The study period of six years begins from the fiscal year 2007/2008 to 2012/2013. As it is 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 redundant and 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.

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

The data thus obtained from the questionnaires are 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 know about that for given questionnaires, as we can see it in the findings of the study. They replied for the best option they thought that could be helpful for the given statement of the problems.

From the analysis of our gathered data we find that 42% weight was given by most of the respondents that the policy measures to be adopted to improve stock market is making trading activities transparent rather than any other factor. Likewise, 43% weight was given by the most number of the respondents that company's image and performance play the major role in investing decision of an investor. And 37% weight was given by the respondents factor, making trading activities transparent can be used to protect general investor's interest. And most number of the respondents agreed that the

important factor to make growth of the 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, 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 of them 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 age most of the respondents responded that the new technique of awareness program will make the investments 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 rumor or the whim and rumors was found highly responsible in investing decision of Nepalese investors.

## **5.2 Conclusion**

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

Here we can conclude that the Acts, Regulations, Laws and Guidelines hat not much ineffective and it could be improved until now. 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, Nemroad, etc has 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 Udhog, 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 the 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 co-ordination in between the concerned authorities like SEBON, NEPSE, ORC and NRM 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 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**

Based on the findings of the study following recommendations are proposed in order to solve the various problems of the regulatory institution (SEBON) in capital market of Nepal.

- In order to reduce the problem of lack of proper coordination between regulators of the Nepalese Capital Market, the Securities Board should be established as a prime regulator of the securities market. There should be maintained proper

coordination of the SEBON, NEPSE, ORC and NRB in their regulatory roles by conducting different programs like seminar.

- Lacking provision in the prevailing securities legislation could not make the function of SEBON effective and result oriented. Therefore, 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 (i.e., byelaws 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.
- SEBON had made the Guideline and Regulations but they are not fully implemented due to which investors are unaware of them. Investors are not getting the proper information regarding the Legal Provision under various Guidelines and Regulations. In order to make them effective, it is recommended them to publish their upcoming news in the media timely. And for that they can have their own weekly or monthly publications.
- 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.
- It is found that there is duplications and redundancy of regulation in between SEBON and ORC. Both the institutions are doing some of the same kind of tasks under the regulations. For example, prospectus of issuing companies is first submitted to ORC and thereafter to SEBON and it is not clearly defined which agency is responsible for analyzing it.
- In the Act, to get the approval for listing of any company, first company should go the ORC for the approval and after the completion of the criteria over there they need to come to the SEBON. Since 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 the another regulating institutions.
- Since there is not clear provision of keeping collateral as compensation by the issuing companies, 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.

- The regulatory institutions must be active and alert while giving the approval to the companies. It must be able to give the decision to approve or reject the approvals. The authorities must not see only the companies' position in past and present but also need to analyze that how the company will be performing in the future. So it is recommended to the authority to do the detail analysis before giving the approval. 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.
- To develop the capital market investors' confidence is essential, thus 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. And to enhance such regulatory environment, various legislations should be amended with sufficient powers to protect the investor's interest.
- As an apex regulatory body, Securities Board, Nepal should be launched the new technique of investors' awareness program on the level of potential investors through communication media as well as the seminar, press conference.
- Although SEBON had been trying to enhance the understanding of the existing investors by using various Medias and its own publications, it could not be regarded as satisfactory. Most of the investors are out of the Kathmandu valleys are facing various difficulties in taking information regarding to securities market. So, it is recommended that o establish another Stock Exchange outside the valley to increase the participation of the investors who live out of the valley.
- 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 and 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 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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**Appendix-I**

**A survey questionnaire on**

**“Performance of Security Board in Nepalese Capital Market”**

Dear Respondent,

I have been conducting a research on “Performance of Security Board in Nepalese Capital Market”. This questionnaire has been developed and presented before you as part of this study. I humbly request you to fill it up at the best of your knowledge. Your cooperation in this regard will be of immense value for me.

I shall be highly obliged for your prompt response as for as possible.

*Thanking you,*

*Researcher*

*Dipendra Sharma*

*Shankar Dev College*

Name of Respondent: .....

Office:.....

Post :.....

(In question 1-5 please rank in order of importance by assigning 1 to the most important and so on.)

1. What do you think are the policy measures to be adopted to improve stock market?
  - a. Mark trading activities transparent [ ]
  - b. Provide information to investors [ ]
  - c. Increase the number of brokers [ ]
2. How far do you think, the following factors play major role in investing decision.
  - a. Company's image and performance [ ]
  - b. Role of market intermediaries [ ]
  - c. Timely discloser of information [ ]
3. In Nepal stock market is in early stage of development. What do you think are reasons?
  - a. Excessively speculative behavior of the investors [ ]
  - b. Lack of knowledge about the securities market among the mass
  - c. The regulations, Act 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. In Nepal what do you think are the important factors to make the growth of stock market?
  - a. Establish another stock exchange outside the valley [ ]
  - b. Use of 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 regulation 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 to the huge losses in terms of opportunities.					

7. To what extent do you think that a new technique of investor's awareness Program will increase the ratio of the investment?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. What is the level of return you are presently getting in comparison to your expectation from your investment?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. What is the level of honest activities from which the insider get more benefit than the outsider (the investors)?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. To what extent do you think that Nepalese investors are influenced by whim and rumors?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. To what extent do you think that companies are bearing their responsibility toward their shareholders?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. To what extent do you think that companies are meeting their target as mentioned in their Prospectus?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. How far do you think that there is need for share holders' representative for the common interest of the investors?

1. Very High	2. High	3. Moderately	4. Low	5. Very Low
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>