

# CHAPTER - I

## INTRODUCTION

### 1.1 General Background

Nepal is basically an agricultural, mountainous and land-lock country, lies between two giant countries China & India. She is overwhelmingly agricultural with more than 90% of Population living in rural areas and make out their livelihood, is under absolute poverty & the share of these people are more in the rural areas. The economic development of Nepal has been limited by the variety of geo-political & structural constraints. As such country's land locked location, limited exportable resources, low economic growth, low saving, low income, higher rate of population growth, limited transportation facilities and infrastructure etc. are the major factors that have proved obstacles in the economic development of country.

Only having a per capital income of US\$300, Nepal is one of the world's poorest country, limited natural resources, a landlocked location, difficult topography, poor infrastructure, a weak human capital base and a long history of public intervention in the economy are some of the impediments to economic growth. Agriculture accounts for approximately 38.3 percent of gross domestic product (GDP) & 71 percent of employment. In the last five years real GDP growth averaged less than 4 percent per annum.

The world economic growth reached to 5.4% in the year 2006 as against 4.9% growth in the year 2005. The growth was attributed to the rise in the petroleum prices in the early-half of 2006 and recession in the US housing market were more than offset by the declines in the petroleum prices since August 2006, improvement in domestic demand in the advanced economies, gradual recovery in

the Japanese economy, remarkably high growth rate in China and India, favorable financial market conditions, and adoption of sound economic policies.

The GDP growth rate of Nepal in the FY 2006/07 was 3.5%. Nepal traditionally runs large trade & current account deficits, which are offset by equality large service, transfer & capital account surpluses. Based on the balance of payments statistics for Nepal's FY 2004/05, Nepal's overall balance of payments recorded a surplus of USD 80.5 million. This was a result of increases in official capital, due to large inflows of remittances from Nepalese workers employed abroad. Accordingly the gross foreign exchange reserve of the banking sector reached USD 1.76247 billion, enough to finance 11.8 months of merchandise imports (<http://www.buyusa.gov/nepallen/doing.business.htm/>).

Economic growth of any nations highly influenced and characterized by development & expansion of capital market. The growth of the economy of the United States of America (USA) has been due to in large part of the strength and efficiency of its capital market. Further, East Asian economic boom and crisis are largely the effect of capital market fluctuations. The capital market has more significant role in developing economies like Nepal. Nepal, the capital deficient economy, requires a huge amount of investment in productive activities for her rapid economic development. The stock market can play a big role by encouraging & channeling the savings to provide the entrepreneurs for investment in profitable projects in the Nepalese economy (Pandey, 2002; 1).

The capital market (security markets) is the market for securities, where companies & government can raise long-term funds. The capital market includes the stock market & the bond market. The capital markets consist of the primary market, where new issues are distributed to investors & the secondary market, where existing securities are traded. The capital market can be contrasted with

other financial markets such as the money market which deals in short term liquid assets & derivatives markets which deals in derivative contracts. ([http://www.wikipedia.org/wiki/financial\\_market](http://www.wikipedia.org/wiki/financial_market)) (Wikipedia, the free encyclopedia .

A firm fulfills its financial needs using different sources of financing. These sources of financing may be short term, long term. Long term sources of financing can be used for several years. When a firm expands its business or activity, it needs capital. The term capital denotes the long-term funds of the firm and the market from where long term funds to be generated is the capital market.

Efficient capital market helps mobilization of the financial resources & efficient changes to productive investment (Phokharel, 2001:3). In the broadest sense, “investment means sacrifice of current money for future money. Generally time, risk and return three factors involve in an investment. The sacrifice of money done in present & reward is expected for future after certain time period. Investment is a thing that is worth buying because it may be profitable or useful in the future (Oxford Advance Learner’s Dictionary 1999: 629). Investment may be defined as the purchase by an individual or institutional investor of financial or real assets that produces a return proportional to the risk assumed over some future investment period. The word investment brings forth visions of profit, risk, speculation & wealth (John m. Cheney, 1994:6)

we can find two types of investment, real & financial. In the primitive economy, most of the investments are found of financial type. Modern society prefers financial investment because of its simplicity. An individual or group who is entitled in investment is an investor. Investor has varying perceptions towards risk & enterprising ability (Parajuli, 2003:2).

Investors, in the global word, have been an important part for the long- term survival of any organization. They are regarded real owner of the company, if they invested in common stock. Generally, investors are divided in to tow forms. First types as primary investors are involved in the management & the operation of the company who are well known about indoor management & second types investors, who have not direct access in the management, they get the information and details of company from the constructive notice & prospectus. This information may be made wrong by malafied practices and bad motives of company. Therefore, the concept of investor's protection was introduced.

After the restoration of multiparty democracy in Nepal in 1990, the liberal and democratic new constitution was promulgated. The directive principles of the constitution was stated that “ the fundamental economic objectives of the state shall be to transform the national economy in to an independent and self-reliant system by preventing the available resources, and means of the country form being concentrated within a limited section of society, by making arrangements for the equitable distribution of economic gains on the basis of social justice, by making such provisions as will prevent economic exploitation of any class or individual, and by giving preferential treatment and encouragement to national enterprises both private & public ( the constitution of Kingdom of Nepal, 1990 art 25(2). The first elected democratic government had adopted liberal & open market economy. Many legal infrastructures have been established by promulgating new acts, regulations & amending existing legal provisions for the purpose of fulfillment of the commitment and the sprite of the constitution. Similarly, the government had make first comprehensive plan & policy for securities market under Eighth plan (1992-1997).

The concept of stock market in Nepal is very new. Though Nepal Bank Limited (NBL) & Biratnagar Jute Mills Limited (BJM) began the concept of stock market

with the flotation of shares in the year 1937 under the company act, 1936, it is still in infancy stage (Bhatta, 1999:3). Institutional development of securities market in Nepal started only after the year 1976 when Securities exchange Centre (SEC) was established under the company act, 1964 with the joint capital contribution of Nepal Rastra Bank (NRB) & Nepal Industrial Development Corporation (NIDC) (Pandey, 2002: 2).

In the earlier stages of growth, the secondary market of securities in Nepal was very weak. Securities exchange act, 1983 made it obligatory to trade the securities through the recognized exchange centre or through their licensed brokers. Therefore, the SEC opened its floor for secondary trading of securities in November 1984. The SEC was restricted to trading of government Bonds. Before this, there had been a total of 16 listed companies with the market capitalization of RS 548 million in mid July 1986 (Pandey, 2002:3).

In the fiscal year 2006/07, the total number of listed companies remained 135 as equal to 135 listed companies in the fiscal year 2005/06 due to the listing of additional 12 companies and delisting of 12 listed companies. In the fiscal year 2006/07, the turnover increased by 142.22 percent to be Rs. 8,360.1 million as compared to turnover of Rs. 3,451.4 million in the fiscal year 2005/06. In the fiscal year 2006/07, the market capitalization of the listed companies increased by 92.53 percent to be Rs. 1,86,301.3 million as compared to market capitalization of Rs. 96,763.7 million in the fiscal year 2005/06. In the fiscal year 2006/07, the preliminary estimate of the contribution of market capitalization to the GDP is 27.78 percent.

In the fiscal year 2006/07, the price index of the listed securities in nepal Stock Exchange Ltd (NEPSE Index) reached to 683.95 points which the increase of 297.12 points as compared to fiscal year 2005/06.(Annual report of SEBON 2006/07).

During the eight five year plan, the Security Board (SEBO/N) was established under security Exchange act, 1983 for the regulation of Securities market. Again when the stock exchange system was initiated in the country by converting the Securities Exchange Centre into Nepal Stock Exchange during the ninth plan, it has greatly contributed to the development of primary as well secondary market for the corporate securities.

In the mid of 1998, the SEBO/N involved itself in a capital market study program conducted by Asian Development Bank (ADB) with an objective to study the Nepalese capital market & recommend measures to strengthen the market. Similarly, the SEBO has launched a four years strategic plan (1998-2002) to address the need of the market reform.

One of the major policy development issues was to improve the performance in the area of enforcement & improvement in the statutory and regulatory framework (Puri, 2006:7).

Regulation of Securities markets should aim to ensure that investors are given fair access to market, market facilities & price information. It should also promote market practices that ensure fair treatment of orders and a price formation process that is reliable as well as market efficient. The regulation should be based on the three core objectives protection of investors, ensure fair, efficient & transparent market & reduction of systematic risk (Giri, 2004: 51-52).

Nepalese corporate sector is not adequately enhanced & smoothly developed due to lack of proper corporate governance practices (Puri, 2006:8). To enhance corporate governance practices in Nepal various efforts have been made from different sectors. The government has also very important role to promote good governance. It has the responsibility to shape the legal, institutional & regulatory

climate, so that it could provide incentives for the development of corporate governance system.

Nepal's membership of WTO has attracted the foreign investment and widened the scope of capital markets. The increasing movement of globalization directly affects the capital market with challenges for the securities transactions and updated regulation of the stock market in the method as globally practiced (Puri, 2006:11) strongly regulated & systematic securities markets with good corporate governance practices are top priorities for foreign investors. The investors are protected where the legal environment of business is clear, systematic & prevailing good corporate governance. The tenth plan (2002-2007) has provided the strategy and policy for the improvement of regulatory system of securities market. It states that regulatory system of securities of securities market will be made effective, securities market will be made transparent and reliable. Discouraging insider trading, by making necessary laws improving the areas monitoring & surveillance, developing the credit rating system and modernization of the stock exchange etc. are the program and implementation frameworks (The Tenth Plan, 2002:86).

In Nepalese capital market only the Nepal Stock Exchange (NEPSE) is playing the role of facilitator. There are some other bodies to regulate the smooth functioning capital market. Nepal Rastra bank (NRB) directly regulates the commercial banks, finance companies & money exchanges. Company Board is also established to hear and dispose lawsuits relating to companies. However securities Board (SEBO/n) have to play a role of police to all market participants. SEBON stands as an apex regulator of Nepalese capital market since its establishment. Beside NEPSE and SEBO/N, Register of company (ROC) is also playing as one of the regulator institution in the Capital market. ROC has major role in implementing Company ordinance 2062. Another aspect of Nepalese Capital market is its legal

framework in which a number of Acts, Lays, Bye-Laws, and regulations & Guidelines are in operation. Prominent of them are:--

1. Company Act 2063
2. Bank and financial Institutional Act, 2063
3. Insurance act, 2063
4. Security Exchange Act, 2063
5. Audit Act, 2048
6. Nepal Chartered Accountants Act, 2053
7. Industrial Enterprises Act, 2049-Foreign Technology Transfer Act, 2049

## **1.2 Focus of the Study**

Capital market plays vital role for the development of economy in the Nation. In the contest of liberalization & Commercial development the active involvement of investors are essential.

Investors in Nepal are most from the lay field. Without their protection the capital market can not be moved in a proper way & national development become uncompleted. Capital market can not be imagined without the investors so they are regarded a heart of the capital market. If the investors are protected their confidence & courage will be developed for further investment it automatically helps to develop the national economic growth.

Capital formation is the main function for the financial market. Only promoters or only government is not sufficient to offer long-term fund required for global organizational development. We need group of investors or individuals' investor to aid in our financial plan. Legal provision for the protection of investor's rights is the burning issue in todody's capital market. Most of Nepalese investors are individuals and know very little about capital market and its legal provision for their protection. Therefore, this study is focused on adequacy & efficiency of legal

& institutional provisions made for investor's protection in Nepalese Capital Markets.

### **1.3 Statement of the Problem**

The links between political & economic development are apparent. Investment in capital market has become the economic bloodline for nation. No nation today has been able to move ahead economically without the development of capital market. Investors will not invest unless there is a suitable & predictable rule of law framework to secure their investment in a country (Review Weekly, 13 July 2008:6).

Nepalese corporate sector has not properly developed. It has entered into WTO. Due to financial liberalization the concept of capital market is going smoothly developed.

Mobilization of saving fund is essential for the develop of capital market, but lack of exercises of investing knowledge & opportunity, large scale of population is out of saving fund.

Capital formation, its preservation & mobilization are necessary for rapid economic growth of any country. Similarly, mobilization of capital affects on production, growth economic activities in private sectors as well as reduction of dependency an external & get sources for investment purpose in private sector & distribution of capital, but Nepalese capital market has been criticized in many ways. Some years ago people were cheated by many financial companies by escaping with their deposited funds.

A great issue to investor's protection is facing unnecessary troubles in the name of legal provision from the authorizes bodies especially from government sectors (Thapa, Rajan, Director of a Travel Agency, in a Discussion).

Nepalese capital market is inefficient in comparison to other efficiently developed capital markets. There are few numbers of brokers, limited numbers of listed companies; very few transaction & most importantly investors are uneducated about security market. In such situation there is further requirement of sufficient rules & regulations, acts, regulatory institutions for development of capital market through investors' protection. If there occurs a single malpractice in functioning of securities market, the whole capital market and even national economy may be affected badly. Once the investors' confidence is lost it would be very difficult to regain it.

Disclosure is the foundation for the investors' protection. So the listed companies are constantly required to offer price sensitive information and other important information to their investors and to the stock exchange as well. Public companies are still not following first-rate disclosure practices. According to market estimates, the concerned authorities often leak proclamation of cash dividends and bonus shares by the decision of the board before making such information available to the public. Take for instance; market makers could take both unwarranted and surplus benefit from trading in shares of Nepal Bank, Standard Chartered Bank, NABIL Bank etc (Rising Nepal, 20 January 2008).

There are also various issues regarding voting rights of shareholders. Some limited companies have floated the shares to the general public without having shareholders representation in the board. There are many such companies, which conduct the annual general meeting just to fulfill their desire & do not consider the voices of the majority of the shareholders. In practice, the trend of collecting proxies has found to be misused.

More than three hundred thousand investors who have invested millions of rupees in Nepalese stock, with a hope to harvest reimbursement are always in suspicion

fearing the loss of their hard earned cash. Indeed, investors' self- confidence in the market is diminishing day by day (Raising Nepal 20 January 2007:3).

In the fiscal year 2006/07, out of 135 listed companies, 91 companies have submitted their annual reports for the fiscal year 2005/06 to SEBON. Out of 91 companies, only the nine companies have submitted the reports within the prescribed time.

In the fiscal year 2006/07, 82 companies submitted their annual reports for the fiscal year 2005/06 to SEBON after the expiry of the report submission period. These companies comprising 11 commercial banks, eight development banks, 37 financial companies, 10 insurance companies, 3 hotels, seven manufacturing and processing companies, two trading companies and four companies from other group.

As prescribed by the prevailing legislation, listed companies should conduct their AGM within six months of the expiry of the fiscal year. Accordingly, out of 135 listed companies, 57 companies have held their AGM for the fiscal year 2005/06 on time. In the fiscal year 2006/07, 98 companies comprising 14 commercial banks, eight development banks, 47 finance companies, 13 insurance companies, three hotels, seven manufacturing and processing companies, two trading companies and four companies from other sector held their AGM for the fiscal year 2005/06 (Annual Report of SEBON 2006/07).

The investors are also suffered by miss information. The true & accurate information remains with the directors & some high- ranking officials. The public gets the adjusted information only. The situation is further worsening because of unavailability of independent institution to analyze the information provided by the companies and to process them to make them understandable by general investors (Panday, 2002: 10).

Investors are facing the problems in following areas; prospectus, form of share application, details of advertisement and other details of company are not complete. Share allotment process is not satisfactory, debentures are not listed in proper time, distribution process of share is not in proper time, distribution process of share is not proper & quit, returnable money would not return in fixed time, bonus distribution process is not quit, malpractices & wrong details are written on prospectus. Similarly the stock exchange market system has not been developed in proper manner. So it would be necessary to find out the problem & recommended proper solution of these problems.

#### **1.4 Objective of the Study**

It is very essential to protect the right of investors for enhancement of smooth trading and transaction of securities and strengthen of capital market. The main objective of the study is to analyze about the legal provision for the protection of investors rights in Nepalese Capital Market.

The more specific objectives are:

1. To study and analyze the existing legal provisions regarding investors' protection in Nepalese capital market.
2. To analyze the trend of implementation of those legal provisions in regard to investors protection.
3. To identify the areas where the investors' protection is lacking in existing legal and institutional arrangements.
4. To test & analyze collected primary data regarding various investors' protection variables including sufficiency of legal provisions and effectiveness of regulation system from authorized bodies in Nepalese capital market.
5. To recommend for improvement in legal & institutional arrangements for investors' protection in Nepalese capital market.

### **1.5 Significance of the Study**

Stock market recognizes the situation of countries economy. There are various investors come & goes in the stock market. Most of them are unknown about their legal provision for their rights' because of their lack of knowledge regarding the existing legal provision for their protection of rights. Most of the investors have lost their wealth. After restoration of democracy, Nepal has adopted the open & liberal economy policy. Similarly, privatization policy has also adopted in Nepal. This has helped to promote investors for their investment but until & unless they are unknown about their right they hesitate to invest freely. Therefore, policy makers, regulators, investors, market intermediaries, students of law and management and other concerned would be benefited from this study.

### **1.6 Limitations of the Study**

This study has the following limitations.

1. Investments can be done in different ways for different things. This study has chosen investment regarding long-term securities.
2. The meaning of "Investors" in this study means those who invest in corporate securities only either in primary market or in secondary market. Those who invest in government securities are not included.
3. Only the legal, institutional & financial aspects are studied. Areas like behavioral aspects are excluded from the study.
4. This study is limited only in the context of present Nepalese capital market. It may not be relevant to the other capital markets & to the past & future period of Nepalese capital market.

### **1.7 Organization of the Study**

This study has been presented according to the research structure (format) prescribed by the faculty of Masters of Business Studies (MBS). The body of the reports has been broadly classified into five chapters; they are:

## **CHAPTER - I INTRODUCTION**

It covers general background; statement of problem; objective of the study; significance of the study; limitation of the study and general assumption about the study. This is the first chapter of the study.

## **CHAPTER- II REVIEW OF LITERATURE**

In the second chapter of the study devoted to review the conceptual framework for the study. The books, journals and available research documents have been reviewed and presented.

## **CHAPTER- III RESEARCH METHODOLOGY**

It contains those methods that make the convenience for the comparison of the performance made. This chapter contains research design, population and sample, method of data analysis and various financial and statistical tools and techniques applied.

## **CHAPTER- IV DATA PRESENTATION AND ANALYSIS**

The fourth chapter contains main body of the study, which is the description of study, presentation and data analysis. This chapter has highlighted objective wise description. Major findings have also been presented in this chapter.

## **CHAPTER -V SUMMARY, CONCLUSION AND RECOMMENDATION**

The objective of this chapter is to summarize findings of the previous chapters, derive conclusions from the study and recommended the findings of the study.

Beside these bibliography and appendices will also be present at the end of the thesis. Similarly, acknowledgement, table of contents, list of tables, abbreviations are included in the front part of the thesis report.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Frameworks**

##### **2.1.1 Investment**

The Major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their development process and thereby increase the welfare of their people. This can be done only through sound investment. Investment means the sacrifice of certain present values for future value (William F. Sharpe & Alexander, 1995:1) Investment is the employment of funds with the aim of achieving additional income of growth in value (Singh, 1987:3).

Investment, an expenditure to acquire property of other assets in order to produce revenue, the asset to acquire, the placing of capital or laying act of money in away intended to secure income or profit from its employment (Black's law Dictionary: 6th ed).

So we can say investment means the sacrifice of current savings for future income. Two different attributes, time and risk are generally involved in investment. Investors must take into account various types of risks associated with different investment program that is appropriate to their resources and particular investment objectives.

Various types of risks like; business risk, interest rate risk, purchasing power risk, management risk etc are normally involved in any kind of investment. Investment here means the business expenditures that result in the formation of capital in an organization. It means the financial investments, which involve contracts written on paper such as common stock and bonds etc. These are the piece of paper,

servicing as evidence of property rights may easily and effectively be transferred from one owner to another. Securities markets exist in order to bring together buyers and sellers of securities to facilitate the exchange of financial assets. In a primary market, securities are sold or issued for the first time. But, the secondary market refers to that market in which securities are traded that has been issued at some previous point of time. The main function of secondary market is to provide liquidity to the owner of securities (Pandey, 2002:14).

### **2.1.2 Investors**

Investor is an individual or organization that makes investment. In other words, investor is that person who postpones current consumption of income or surplus worth an expectation of getting more in future. Investors may be individual or even they can be foreign institutional investors (Pandey: 2002:15). Investors are those who invest in securities can also be grouped into two categories: first type of investors are those who involved management and the operation of business and second type of investors are those who do not involve in management or operation of business and get published information only. Investors' protection is largely concerned with second categories of investors. In Nepalese context, general investors can also be categorized as:

#### **Informative Investors**

Informative investors are those who are aware of price sensitive information and know capital market closely. Those types of shareholders can be called as VIP (Vigilant, Intelligent and Professional).

#### **Non-Informative Investors**

Those types of investors who once buy and hold the security and are not aware of day-to-day capital market conditions. Most of the Nepalese shareholders are non-informative.

## **Dependent Investors**

Dependent investors are those who run after rumors. They neither possess their own professional knowledge to analyze independently nor do they remain quiet. Thus, they are the shareholders who are highly sensitive to rumors. Some insider traders and VIP shareholders stimulate them through propagated rumors.

Investors have varying perceptions towards risk and enterprising ability. Investors will want their investment to yield a favorable return; hence they invest in those opportunities which have a greater expected return. A return is their main objective of the investment and a certain degree of risk is associated with it.

### **2.1.3 Investors' Protection**

Investors' protection consists of two separate words, investors and protection. Both words have separate and complete meanings. Like 'Investors' means that person who invests with the motive of profit and 'Protection' means a guarantee of their investment. Investment does not denote only profit. In simple words, protection of investors means safeguarding their principal amount of investments and providing a handsome return on a sustainable basis. Investors are protected if they feel themselves that they are protected.

With the development of the economy, the scale and patterns of investment also changed. The concept of collective and portfolio investment emerged. Gradually, it crossed the national border in the form of foreign direct investment (FDI). Due to the large number of shareholders in a company, it was not possible for every owner to engage in management and day-to-day operations of the business. That's why a separate group of agents called "management" was appointed to work on behalf of shareholders. Thus, management and ownership separated with the development of corporate culture. This separation was more relevant. The possibility of management not doing its agency role fairly and involving its own

vested interest is increased. Management might involve in activities against the investors in coalition with employees, auditors and other outsiders.

The most important means for ensuring investors' protection is the requirement of full disclosure of information material to investors' decisions. Investors invest in securities on the basis of public information, which can provide the economic condition and every details of the company. That information may be wrong and influenced by bad motive and fraudulent motive of management. Similarly, insider who has direct and indirect connection with the indoor management can get price-sensitive information and also make the securities trading on the basis of that information. Safe guarding investors' wealth and their interest from such misleading manipulative and fraudulent practices in investors' protection in their true sense. "Disclosure is all very well if the information disclosed is true. The accounts of companies are subject to audit that accords the investor a large measure of protection, but the overburdened Registration of Company (ROC) does not check the accuracy of prospectus, merely that they comply with the statutory regulations. Many of the scandals affecting companies and their shareholders are revealed, not by the Department of Trade and Industry, but by the investigations of publication (Pokharel, 2001:22-34). Investors' interest can be regarded as protected if all activities directly or indirectly related to their investment are in their favor. Following significant variables are identified regarding investors' protection.

- ) Prospectus has to reflect full and accurate information and be issued only after appropriate audition by concerned authorities.
- ) AGMs are to be regularly held.
- ) Financial reports of company are to be disclosed in time and to reflect true state of affairs of the company.
- ) No transaction should be based on inside information.

- J Shareholders should allowed to exercise their rights including voting rights freely and fairly.
- J Shareholders should get reasonable amount of return on sustainable basis.
- J Share issue, allotment and refund of application money should fair and as per legal provisions.
- J Management is to play truly as agent of shareholders.
- J Securities trading mechanism is to be efficient and transparent.
- J Market intermediaries are to be properly regulated.
- J Investors' grievances are go be listed and resolved.
- J It is to make sure that all legal provisions are properly and adequately complied by all concerned.

Ensuring these factors in investors' favor is a must for their protection. But investor himself should be careful about his investment. This is because investors, in many instances, can be their own worst enemies. However, regulations and ethical codes can do little to protect from their own greed and credulity. That is the task of education, of responsible brokers, dealers, and investment counselors, and of books like this one, dedicated, in part, to the proposition that no quick or certain road to riches exists. Nonetheless, the illusion lies on. Each booming market bears its crop of victims: men and women who rush blindly forward to sink their savings in vaguely described, ill-conceived enterprises which, legal or not, offer any analyzable probability of success or even long survival. "... All the measures described in the following pages will prove futile and unavailing unless investors themselves also show prudence, common sense, and self-control by limiting their hopes and expectations to what experience demonstrates is reasonable and by selecting their advisers with care and judgment" (Pandey, 2002:18).

Any person invests through securities market on the basis of public notice, which is provided the economic condition and every details of the company. That information may be wrong with the bad motive. Malpractices and fraud of managerial and employees of company similarly, insider who have direct or indirect connection with the indoor management, can get the price sensitive information and also can make the securities trading on the basis of those information. So, since 1930, some effective measures have been developed in the world to curb this problem to maintain corporate trust and integrity.

Investors should be protected from misleading manipulative or fraudulent practices including insider, front running and the misuse of client assets. The most important means for ensuring investors protection is the requirement of full disclosure of information material to investors' decisions. Investors are there by better able to protect their own interests. Key components of disclosure requirement, accounting and auditing standards should be in place and they should be of a high transparent and internationally acceptable quality.

Investors' protection hits the insider trading, malpractices, fraud activities, and recklessness and delay execution in capital market. Prevention and mobilization of capital is necessary for rapid economic development therefore various concepts were emerged, and enacted various laws and regulation to protect the interest of investors.

Thus, the first and foremost thing in protection of investors is to protect them from themselves but it does not mean that other measures are not necessary. Investors' protection can be ensured only when there are adequate and appropriate legal provisions and there is a powerful, efficient and effective regulating body, which can boldly enforce the laws and provisions.

### **2.1.4 Shareholders' Right**

Protection of investors' rights is a primary prerequisite to gain their confidence in the stock market. Really to secure investors' confidence means to protect their interest. The non-response of the investors to the stock market on investigative inquiry is found mainly due to the negligence or violation of their rights in practice. So it is essential that aware and those who know their rights learn to exercise their rights to reap benefits (Pathak, 1999: 90). The rights of the shareholders can be grouped as collective rights and specific rights; some of the major rights are listed below: -

#### **A. Shareholders' Collective Rights**

Collective rights are the joint rights of the shareholder, which they exercise in AGM. Collectively in passing important decision or proposals put forward by the company management board even the special resolutions come under this right from special collective rights are the following

- ) Right to demand the convening of an extraordinary general meeting whenever necessary.
- ) Right of holds Annual General Meeting if the board of directors is difficult in handling such a meeting.
- ) Right to elect the directors or remove them.
- ) Right to adopt and amend the Byelaws.
- ) Right to apply to the company registrar or court in case of operational mismanagement.
- ) Right to appoint auditor and fix his remuneration.
- ) Right to apply to the company registrar to investigate the affairs of the company.
- ) Right to run the concern honestly and carefully for the benefits of the shareholders within the scope of the authority of business.
- ) Right to compensate loss.

## **B. Shareholders' Information Rights**

Right to information is necessary to help investors in making sound investment decisions. Inadequate information leads the investors to evaluate investment alternatives on the basis of guesswork, unfound rumor or other less reliable news. As a result this hinders efficient allocation of resources and stock market becomes unable to transfer a stream of domestic savings into productive investments in the Nepalese economy. Under such situations investors often make inappropriate investment decision with adequate and maximum information about the result of business operations, investors could make sound judgments obviously, factual information assessment develops rationally, productive ability, and analytical skill of investors to have investigation before investing. Adequate and fair disclosures of all relevant material and reliable information will definitely prevent abuse. Generally investors prefer to invest in a listed profile company, which provides sufficient information than in a listed public company that does not provide such information. Following are the main information rights of the shareholders.

- ) Right to know financial reports of the company to understand its financial position.
- ) Right to information concerning the listed companies' director and executive indication to the extent of professionalism and quality of management.
- ) Right to get sound criteria based publicly available information in order to increase investors' confidence in the stock market.
- ) Right to demand timely information so as to decrease uncertainty and support the investment action in a rational way.
- ) Right to suggest improvement of the quality and quantity of information disclosures in the company's annual report as a medium of information disclosures.
- ) Right to demand enforcement of the suitable information disclosure laws in order to protect innocent investors.

- ) Right to have sufficient knowledge of public company's affairs on financial as well as non-financial aspect.
- ) Right to call explanation in the listed company, which publishes misleading information that misguides investors in buying share of overvaluation.
- ) Right to demand full information disclosures from the listed public company to measure its performance and maintain fair market price of the company share.

### **C. Voting Rights**

To practice the principles of majority rule into the company's annual general meeting, the shareholders must have voting rights. Voting rights are the most sensitive rights of shareholders because it decides the representative to the company's management. The company board and the management staff are often found to get involved in matter through proxy to vote include 'a bundle of rights to vote' under the Nepal company act, 2021 B.S. The shareholders enjoy voting rights, some of them are noted below.-

- ) Right to vote by presence
- ) Right to vote by proxy
- ) Right to vote on selection of auditor in the AGM.
- ) Right to vote on removal of directors in the AGM or extraordinary general meeting at any time.
- ) Right to vote on passing special resolution and bringing legal action against ultra virus acts of the company to prevent the company engaging in them.
- ) Right to vote on crucial matter of protection of the shareholders again manipulation and misdeed of the management.-Right to vote in shareholders' meeting to pass resolution on some specific matter that cannot be postponed to the next annual meeting.

- J) Right to vote to make amendments to MOA and AGA as and when necessary.-Right to vote on several matters covering large number of issues like adoption of the consolidation and merger scheme etc.

### **2.1.5 Transparency**

Transparency may be defined as the degree to which information about trading (both for pre-trade and post-trade information) is made publicly available on a real time basis. In other words, providing right in-formations at right time to the concerned by the concerned can be regarded as transparency. This element has significant impact on investors' decision regarding buying and selling of securities. Thus, may defect regarding transparency can be taken as against to investors' protection. Market regulation should ensure the highest level of transparency (Parajuli, 2002: 32).

### **2.1.6 Corporate Information Disclosure**

Corporate information disclosure refers to any kind of information relating to company's affairs and performances which is materially significant to the users of information's such as to shareholders and other stakeholders. In other worlds the term "disclosure" refers to the publications of economic information relating to a business enterprise quantitative or otherwise which facilitates the making of investment decision (Pandey, 2002:22).

Without disclosure, investors cannot encourage investing and if information is not disclosed to the public, there will be the possibility of insider dealing. So, it is necessary to inform the public as soon as possible of not\n-publish price-sensitive information in relation to securities for the purpose of fair open trade of securities, Because, disclosure is an important instrument which provide the economic condition and other details to investors. Every investor searches the profitable

ground of investment. Investors are free; they can choose any company that are in good condition by economically and other aspect.

The London Stock Exchange as the competent authority which regard to listed securities are admitted to listing. Thus such companies have a continuing obligation to release immediately to the company. Announcement office of the Exchange information in order to avoid the creation of a false market and any information which is not public knowledge and which may lead to substantial movement in the price of its listed securities. Moreover, such information may not be released to a third party pending its notification to the exchange, except in restricted circumstances. This, emphasis on disclosure is designed to reduce the opportunities for insider dealing (Parajuli, 2003:23).

Requiring the disclosures to public is support of protection of the interest of investors price-sensitive information of company was in the hand of insiders. Which are not available to the public without the publishing the disclosures. So, it can bring the effect on insider dealing by the bad motive of insider. If it happened, the stock market and the related company will be ruin. So, this concept of disclosure is developed for the protection for investors and avoiding the fraudulent and mal activities.

Now, the concept of disclosure is adopted in corporate legislation world-wildly. There are various case decisions on this field.

### **2.1.7 Mismanagement**

The concept of investors' protection is also belongs with the prevention and operation of mismanagement. For the protection of the interest of minority shareholders, corporate law has adopted the provision for prevention and oppression of the mismanagement. Majority shareholders are holding the

management of company. They have the specific fiduciary duties and obligation. Sometimes those duties and obligations can be used against the interest of minority investors. In addition to the protection afforded to the minority by the exceptions to the rule of the supremacy of majority, the modern company ordinance contains special provisions for prevention of oppression and mismanagement. The protection of the minority shareholders within the domain of corporate activity is being one of the most difficult problems. The aim of prevention and oppression of mismanagement is to strike a balance between the effective control of the company and the interest of the individual shareholders.

A proper balance of the rights of majority and minority shareholders is essential for the smooth functioning of the company; majority powers must be exercised in good faith for the benefit of the company as a whole. If they have not been so exercised there is a fraud on the minority. Thus, the fundamental question arises who should control the company. From the administrative point of view, the company is a collection of the members. Therefore, it may be assumed, a company is controlling under its members.

### **2.1.8 Insider and Insider Dealing**

#### **A. Insider**

Insider dealing denotes in company's securities on the basis of confidential information not known to make profit or avoid losses in the securities transactions of the company. Corporation is the common institution of all Investors, Directors, Managerial Directors, Auditors and key employees. But, company management can involve against the interest of the investors in various circumstances. Insiders, who are directly involve in the management of company sometimes, can involve on the insider trading on the basis of price-sensitive information, which are not available to common investors. Insider is a person who has knowledge of fact, which is not available for outsider. Those price-sensitive information have an

impact on company securities price in the market. Thus, insider trading is said to be indulged in persons connected with the company possessing confidential information, which is likely to affect the price in the securities for their own profit.

Insiders can involve in the insider trading providing the price-sensitive information for the connected close relatives. Therefore, insider himself can be an insider with an employment or other relation of trust and confidence of the corporation. Specially, insider trading is in against the interest of investors. Besides that, it will be harmful the trust of corporation sectors because a few days after those scandals will be public and knows everybody. It could cut the trusteeship of capital market and corporate sectors. So, controlling concept of insider trading is emerging and enacted various laws on this field world widely.

After defining the meaning of insider dealing, hence question arises who may be insiders. Therefore, it would be better to define the insider before the insider dealing. In generally, insiders means those persons or firms who receive the price-sensitive confidential information by virtue of their affiliation in a company and also those persons who have the access to obtain insider information, by virtue of close relation to insider.

Information about a company's financial situation that is obtained before the public obtains it is the fraud and breaching the fiduciary duties and obligation. Corporate officers or other insiders who have the close relation with the insiders usually know true inside information. We can observe an example. There is insider where company directors knows that the company in bad financial condition and sells his share in it knowingly, in a few days time this news could be made to publish together with an announcement of a cut undivided payment. Likewise, the director would be insider dealing it. On being informed, before it was generally that the company has discovered oil or gold on its own land, he bought more

shares in the company is not unrealistic expectation of an increase in their market value as a result of the subsequent public announcement (Parajuli, 2003:21).

## **B. Insider Dealing**

Insider dealing means 'deals with stock on the basis of price-sensitive information which are not published for all'. Only insider can make the access to use that information against of the interest of investors. According to Gower, "insider dealing means trading in securities, which in possession of price-sensitive information, which are not available to the person with whom one is contracting or to other participants in the security market at the relevant time. The information may be used by the person who has it to buy securities at their current price before the information in question became public and causes the price to rise or to sell securities at their current price before their value falls up on the publication of the information (Gower, 1997: 443).

Insider trading refers to transaction in shares of public hold corporation by persons with insider or advance or advance information on which the trading is based. Usually, the trader himself is an insider with on employment or other relation of trust and confidence with the corporation such transaction must be reported monthly to Securities and Exchange Commission (Phokharel, 2001:30).

Insider dealing, in general trading in the shares of the company or are closely to them on the basis of undisclosed price-sensitive information regarding the working of the company which they possess but not avoidable to others. Insider dealing is done by insiders of company, which is always on the opposite of legal, and moral standard and which information the insider obtains has to be kept secretly. Otherwise, the security market and the investment of company surely go to the ruin. So, protection of investors from the insider dealing is being important to develop the fair and competitive corporate sectors.

The protection of the investors, on the corporate bodies, is itself more important from the impact of the insider dealing. By knowing secret, information of a company, insider can manipulate and deceive the investors for their personal benefit. That is why each state has been trying to enact the law to check those malpractices in order to promote economic integrity and prospering as well. Insider dealing is a newly innovation in the realm of investors protection. It has not long history. There were scattered rules and norms against insider dealing from begging of corporate sectors. But there were not enacted any separate or specific laws on this ground. The first country to tackle insider trading effectively was the United States on the legislate against it until 1980. In 1989 the European countries adopted a directive in this area, and the British legislation consequently had to be revised a task achieved by the 1993 Act (Pokharel, 2001:31).

In our country, we have not enacted specific Act for dealing the insider trading. But, there were introduced various legal provisions for the investors protection from the first company Act, 1993 B.S. Like, following concept of controlling the insider trading was incorporated on first Nepalese Company Act, 1936. If shareholders, managers and employees of company do the fraud and hide the accounts, bills and other documents with the motive of deceiving, they would be punished two thousand rupees and punished two years imprisonment (Company Act, 1936: Sec 92).

In this way, with the motive of protection the interest of investors there were enacted various laws against the insider trading and it is taken against the morality and natural justice. For the fair and competitive corporate sectors, there are various laws against the insider trading and insider trader would be liable as criminal offences. Insider trading is an unfair practice and against the interest of investors, so the insider trading is being the major components of investors' protection.

### **2.1.9 Corporate Governance**

There is a growing awareness that corporate governance is highly significant for the health of the economy of a nation./ In a corporation, a large number of the customers, clients, shareholders and other stakeholders have adequate rights to know about their company and its governance practices. Investors need detailed information, more quickly and with greater certainty. Transparency and accountability at high level can only ensure good corporate governance.

### **2.1.10 Wash Sales**

A wash sale is essentially, no sale at all. In wash sales a seller of securities, immediately repurchases the securities. For example, if a person who owns some securities sells those securities to himself, this is a wash sale or a person may buy and sell the same quantity of some security in the same day at either the same or a different prices; this, too is a wash sale. The purpose of wash sale is to create a record of a sale. Dishonest investor can generate such wash sales with the help of fraudulent brokers.

### **2.1.11 Concerning of the Market**

Concerning the market in some security or commodity occurs when investors buy all that is for sale of that security or commodity. This person then owns the only source of supply and can raise the price. Price manipulator who obtains a 'Corner' on the market of some assets may then liquidate it at a high price for a capital gain. Thus, a manipulating speculator may corner a market in hope of trapping short-sellers.

### **2.1.12 Churning**

Churning is one of the forms of fraud made by brokers, it is very common and also a very safe way for securities brokers to steal funds from their clients' account while escaping detection by all but the 'most watchful' clients. Churning can

occur when a client grants the securities broker blanket permission to trade the clients' account without seeking the clients' approval of every trade.

### **2.1.13 Pools**

A pool is a formal or informal association of two or more persons with the objective of manipulation prices and profiting there form.

## **2.2 Review of Journals & Articles**

Only limited articles have been found in this studies some of them are as follows:-

Upadhaya, Basu D. (2004), associated with Rural Development Society, Nepal (RDS, Nepal) Bhaktpur wrote one article on the topic “Regulation of Nepalese Securities Market and Investor’s Protection” in SEBON journal.

According to his article, securities market in Nepal, till the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However, after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies (SEBO Journal, Vol 1, 2004: 92).

In his article he has discussed on the relevant legal provisions associated with the investors’ protection according to his own word, the securities exchange regulation 1993, provides for those reforms in stock exchange trading methods and practices. The regulation has added further functions, powers and duties of the Securities Board, Nepal (SEBO/N). The regulation has authorized the SEBO for internal housekeeping matter, made provision regarding licensing stock exchange and their subsequent operation, specified requirements for the registration and

listing of securities along with authority for the registration of market intermediaries such as brokers, market makers, dealers and issue managers.

The companies Act, 1997 marks an important stage in the development of corporate enterprises in Nepal. The provisions made under this act especially relevant to the securities market are provisions regarding the issuance and publication of the prospectus, which is necessary for public issue of securities. As per this provision, the details of the content of prospectus are prescribed and the prospectus is to be approved by the Companies Registrar's Office (ROC). Under this act, different provisions have been made for the establishment of a company (either public or private) and its liquidation, conduction of AGM, incorporation of Memorandum and Articles of Association, issue of shares and debentures, preparation of annual accounts and their audit and the annual report.

In order to manage sales and promotion of securities and make the sales and issue manager accountable for their services, SEBO/N has issued the Securities Issue Management guidelines, 1998. This 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 (SEBO Journal, Vol 1, 2004:93).

He further agree that the Securities Exchange Act, 1983 (second amendment) and Securities Exchange Regulation 1993 set up a general framework for regulating securities market, which has facilitated and encouraged the development of securities market of Nepal.

He has mentioned the major deficiencies and further suggestions as below:-

- J SEBO/N and NEPSE are operating under the government ownership. this has put breaks on the development of Nepalese securities market. the ownership of NePSE should be handed-over to the private and develop it as a self-

regulatory organization. It helps SEBO/N to regulate the activities of NEPSE and market intermediaries.

- J The current securities legislations do not have sufficient room for regulation and enforcement. It is therefore recommended that SEBO/N should be strengthening by amending rules and regulations, providing it with adequate regulatory powers. This can enable SEBO/N to carry out investigations and enforcement activities.
- J The prevailing securities legislations are silent on the transfer of shares including paperless trading, validity of transfer deed, transfer deed fees and duration of receiving share certificate. In most developed countries, securities transaction, the transfer of securities ownership, known as clearing is now done electronically. This should be followed in Nepal and Central Depository System (CDS) should also be established. This will make hassle free securities transaction.
- J Securities Exchange Act, 1983 (second amendment) provides prohibition in insider trading. But it lack clear-cut pictures to prohibit such trading. This creates problems in the enforcement of the provision. In the context of developed capital market, the United States Securities Exchange Act, 1934 prohibits corporate insiders from short selling. In the United States it is illegal for any one to enter into a securities transaction, if he or she has taken advantages of inside information about the company that is unavailable to other people involved in the transaction. This prohibition includes not only insiders but also those to whom they give such secret information.
- J The securities legislation lacks creation of Investors' Protection Fund. It is required to compensate the investors in the event of loss incurred on account of defaults committed by stock brokers. Each member of the stock exchange should obtain insurance cover with a view to protecting the investors against the loss of documents in transit or by fire and in the event of fraudulent acts committed by its staff members.

Thapa, Kiran (2007) the lecturer of Finance in Shanker Dev Campus wrote one article in SEBO/N Journal Vol III, July 2007 on the topic “Nepalese Securities Market: Regulation and Development” in his article he mentions the major issues as follows:

The major regulatory framework for the securities markets is provided by Securities Act, which has given authority to the SEBO/N for the regulation of securities market. As per the provision of Securities Act, SEBO/N prepares regulations and issued with the approval of the Ministry of Finance (MOF), which is also the reporting authority of the SEBO/N. At present, there is only one stock exchange which is in the ownership of government. By the authority of government, the responsibility for the management of stock exchange goes to MOF being the reporting ministry of SEBO/N, the MOF official chairing the NEPSE board would have conflict of interest while approving the rules and regulations related to NEPSE functioning (SEBON Journal Vol III July 2007:24).

As per the provision of securities Act, the governing board of SEBO/N comprises of seven members representing various government and private sector agencies which also includes full-time Chairman appointed by the Government. However, if we look at the governing structure of securities regulation of other countries, in most of the cases we can find at least two full time members from the legal and accounting field. The other deficiency in structure is that there is no restriction for the board members to be involved in the listed companies as board member or chief executives or to pay other key roles, which may hamper be effective regulatory function of SEBO/N.

As visualized by the Act, many rules and regulations have to be developed for the implementation of the Act, It is often heard in the media that the licensing of stockbrokers has been hindered due to lack of stockbroker regulation. Besides,

three is also a lack of basic legal infrastructure for the operation of mutual funds in the market. The trust act is also very important for the operation of central depository system of securities and development of bond market. He further added there is slow process of enactment of laws.

The Central Depository System of Securities (CDS), which is very important from the aspect of market efficiency, has not been established. Absence of CDS is one of the reasons why the process of clearing and settlement and ownership transfer has not been efficient and transparent. Similarly, the markets also lacks in the services of institutions like Credit Rating Agencies, which in view of the development of bond market is very important.

Companies are often complaining about the delay in listing. A study of SEBO/N on performance of issue manager for the period between the fiscal year 1993/94 to 2002/03 published in SEBO/N journal Volume II reveals that out of 74 issues, only 12 were listed timely.

Lack of easy entry and exist mechanism for stockbrokers in the market has limited their number and put constraint in providing fair and competent services. They are not concerned with expanding their services out of the valley and mostly are fond to be taken this business as a secondary business.

The market is dominated by individual investors and most of them are not making informed investment decision rather driven by market rumors. Because of lack of institutional investors in the market, there is no pressure for the issuers to make timely and regular disclosure. The price formation process of the market is also not fair as the market is lacking the role of such investors in stabilizing the price of securities in case of unusual ups and downs.

He conclude his article saying SEBO/N should focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in market, this can give confident to investors for their protection.

### **2.3 Review of Unpublished Thesis**

In this part of the chapter some of paste related research works are critically reviewed.

Pandey, Magh Nath (2002) has made an unpublished early effort towards investors' protection in the faculty of management. Payday's main objective of the study was to show the provision of legal and institutional arrangements for investors' protection in Nepalese Capital Market. He has following specific objectives.

- ) To study & analyze the existing Legal provisions regarding investors' protection in Nepalese Capital market.
- ) To study & analyze the institutional arrangements
- ) To identify the areas where the investors' protection is lacking.

The research was basically based on primary data. He had taken four banking companies, seven finance companies, four insurance companies, two manufacturing companies and two trading companies as samples from total listed companies. He further took thirteen market intermediaries as sample. He had taken statistical tools to analyses data.

He founds following major points from his research:-

- ) Legal provisions are inefficient especially in case of 'timely disclosure of price sensitive information' and 'insider trading'

- ) Companies are not fulfilling their commitments in prospectus and most of the companies' performance is significantly deviated from their projections.
- ) Shareholders are getting share certificates and declared dividends in time.
- ) Most of the Brokers in the NEPSE are not professionally qualified and while advising their clients, most of them do not base on some kind of fundamental analysis. Further they are engaged in scandalous activities too.
- ) Regulation made by SEBO/N to listed companies are ineffective
- ) Practice of holding AGM is very poor and most of the shareholders do not take part in AGM.

He recommends these points for better improvement in the field of legal protection of investors' rights.

- ) Separate and perfect legislation like 'Investors' Protection Act' and 'Insider Trading Regulation Act' are to be enacted for investors' protection.
- ) Accurate and timely information should be provided by companies in their financial reports.
- ) Accounting and Auditing Standards should be released in Nepal.
- ) No proxy before two months of AGM should be accepted and once proxy is given, it can be withdrawn before 12 hours of AGM so that dual attendance in AGM can be avoided.
- ) Existing brokers are to be trained for theoretical knowledge of securities analysis and practical knowledge of consoling investors.
- ) NEPSE should stop the scandalous activities from brokers.
- ) Listing requirements are to be imposed from the viewpoint of investors' protection.
- ) In order to insure good corporate governance, the accountability and transparency should be raised at high level.

- ) Any unnecessary as well as fragmental provisions or requirements and compliance in the legislation should be amended.

Parajuli, Sachita (2003) has made the second research efforts towards investors' protection in the faculty of management. Parajuli's main objective of the study was to show legal and regulatory framework for the protection of investors' Rights in Nepalese Capital Market.

She had following specific objectives:

- ) To study investment criteria for investment in securities.
- ) To analyze investors' rights, perception & grievance
- ) To know about the current facilities & problems born by investors.

Parajuli has emphasized that there should be efficient Legal & regulatory frameworks to protect the investors' rights in the development of capital Market. She has analysis of her study basically base on primary data. In her thesis she has found the following major points.

- ) Most of the companies are not fulfilling their commitment or projections expressed in prospectus.
- ) Companies are not disclosing 'price sensitive information' timely and accurately through regular media before insider trader get benefit of it.
- ) Most of the Brokers in the stock exchange are not professionally qualified and they have involved in scandalous activities.
- ) Regulatory controls and supervision of SEBO/N and NEPSE are not effective to discover and punish problems of insider trading and manipulation in capital market of Nepal.
- ) The performance of Company Board is unsatisfactory to hear and dispose lawsuits and advice to Government.

- ) Current regulation of NRB to Banks and Finance Companies are adequate for investors' protection.

She has recommended the following points:

- ) Legal provisions are especially inadequate in case of 'corporate disclosure' and 'insider trading' so separate and perfect legislation should be enacted for investors' protection.
- ) Strict norms and rules are to be adopted for timely submission of financial reports with detail format, necessary schedules and with appropriate methods of preparation and presentation of financial statements for companies of various sectors.
- ) Awareness among investors should be raised so that brokers cannot cheat them easily. Powerful code of conducts and ethical guidelines are to be developed and legal provisions relating to broking services are to be tightened so that fraud and scandalous activities can be avoided.
- ) Listing in NEPSE is to be made only after detailed auditing and investigation of company ensuring that trading of that security in secondary market does not go against investors' protection.
- ) Sufficient and qualified manpower in Office of Company Register should be introduced.
- ) There should be establishment of separate organization to promote and protect the activities in favor of investors' protection.
- ) There should be flexibility in policy of management because to change under changing situation of the world.
- ) The concerned authorities, associated investors' organization and investors themselves should establish one information center regarding share market which can give information frequently as per necessary.
- ) To develop capital market of Nepal in the context of world and to protect investor's rights, transparent system in administrative work should be applied.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

As research methodology helps to solve the research problem in systematic way. This chapter has been designed and developed as a guide or plan for the fulfillment of objectives set and hypotheses developed in the first chapter. Reliability and validity of research work is facilitated by research methodology and the basic objective of this chapter is to guide chapter IV, analysis of legal provisions and practices in regards to investor's protection and Chapter V of Data presentation and analysis. Suitable research methodology as demanded by the study has been followed.

#### **3.2 Research Design**

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 the arrangement of conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This research is a combination of two different designs. It is an "ex-post facto" (as chapter IV of analysis of legal provisions and practices in regards to investors protection) research because it is based on past and existing facts and no more variable is manipulated on the other hand; it is a survey research (as chapter V is based on primary survey) where collected data are tested through non-parametric tests.

'Population' or 'Universe' for this study comprises number of listed companies categorized into different sectors by NEPSE, like Banking, Finance and Insurance companies. It also covers Market Intermediaries- including Brokers and Issue

Managers, Regulatory authorities of Capital Market such as SEBO/N, NEPSE, ROC, and NRB and the Financial/legal experts and professional shareholders.

### **3.3 Data/Information Collection Procedure**

Basically this study is based on published sources of information's as equally as primary source of information. Primary data are collected through structure and open-ended questionnaire from various respondents. Questionnaires are personally presented by hand to all the respondents. Information also gathered by means of direct interviews with some of the respondents on the other hand, various Acts, Laws, Bye-Lays, Regulations, Guidelines and Directives etc. that directly related to investors' rights protection are collected as secondary sources of information for the purpose of study. So, the study is based on secondary and primary data to fulfill above-mentioned objectives. The secondary data are collected from various publications of Bar Association, Nepal Rastra Bank, NEPSE, SEBO/N and different sources of legal aspect.

### **3.4 Sampling Procedure**

Total population has been stratified into four categories as; Listed Companies, Market Intermediaries, Regulating Authority and Professional Shareholders/Legal and financial Experts of the field like Finance, capital Market and Law.

Regulatory authorities or institutions are SEBO/N, NEPSE, ROC, and NRB. All are included in sample exhaustively. Questionnaires are personally presented to each Institution. Listed Companies are categorized into different sectors by NEPSE. Initially, sampling is done to cover up all the sectors or listed companies but during the course of study due to high degree of non-response problem in sectors like Manufacturing, trading, Hotels and Others, this could not be included in this study.

Market intermediaries are sub-categorized into four groups (i) Brokers (ii) Issue Manager (iii) Dealer (iv) Market-Maker. Sample of Brokers are drawn on the basis of higher volume of annual trading in terms of Rupees. Issue Manager is chosen on the basis that they were listed both as finance company and as issue manager. Out of total dealers, one is chosen at random and one out of Market maker without any problem of choice. The sampling of last category i.e. Financial and legal experts and professional shareholders are based on judgment.

Thus, the sampling procedure could be termed as stratified random judgmental sampling.

### **3.5 Research Hypotheses**

Following are the research hypothesis set for the study:

#### **Question No -1**

Null Hypothesis (H<sub>0</sub>): There is not sufficiency of legal provisions.

Alternative Hypothesis (H<sub>1</sub>): There is sufficiency of legal provisions.

#### **Question No -2**

Null Hypothesis (H<sub>0</sub>): Companies are not fulfilling their Commitments

Alternative Hypothesis (H<sub>1</sub>): Companies are fulfilling their Commitments

#### **Question No -3**

Null hypothesis (H<sub>0</sub>): Shareholders are not getting share certificate in time.

Alternative Hypothesis (H<sub>1</sub>): Shareholders are getting share certificate in time.

**Question No- 4**

Null Hypothesis (Ho): Companies are not disclosing 'Price Sensitive information timely

Alternative hypothesis (hi): Companies are disclosing  $\pm$ 'Price Sensitive' information timely.

**Question No - 5**

Null Hypothesis (Ho): Accounting and auditing standards of Nepal are not adequate.

Alternative Hypothesis (Hi): Accounting and auditing standards of Nepal are adequate

**Question No- 6**

Null Hypothesis (Ho): Issue managers are not fair in allocating and refunding application money in time.

Alternative Hypothesis (Hi): Issue managers are fair in allocating and refunding application money in time.

**Question No -7**

Null Hypothesis (Ho): Brokers in secondary markets do not execute order and make the payments in time.

Alternative Hypothesis (Hi): Brokers in secondary markets execute order and make the payments in time.

**Question No - 8**

Null Hypothesis (Ho): Brokers in the secondary markets are not professional qualified.

Alternative Hypothesis (Hi): Brokers in the secondary markets are professional qualified.

**Question No - 9**

Null Hypothesis (Ho): Brokers in the stock exchange are not engaged in scandalous activities.

Alternative Hypothesis (Hi): Brokers in the stock exchange are engaged in scandalous activities.

**Question No -10**

Null Hypothesis (Ho): Current listing requirement and listing practice of NEPSE are not adequate in protecting investors' rights.

Alternative Hypothesis (Hi): Current listing requirement and listing practice of NEPSE are adequate in protecting investors' rights.

**Question No- 11**

Null Hypothesis (Ho): Regulatory controls and supervision of SEBO/N and NEPSE is not strong enough to discover and punish problems of insider trading and manipulation.

Alternative Hypothesis (Hi): Regulatory controls and supervision of SEBO/N and NEPSE is strong enough to discover and punish problems of insiter trading and manipulation.

**Question No -13**

Null Hypothesis (Ho): Current practice of clearing and settlement period in NEPSE is not effective and suitable from view of investors' rights protection.

Alternative Hypothesis (Hi): Current practice of clearing and settlement period in NEPSE is effective and suitable from view of investors' rights protection.

**Question No -14**

Null Hypothesis (Ho): There is not need of separate securities Rating Agency in order to facilitate investors in their decision to invest in.

Alternative Hypothesis (Hi): There is need of separate securities Rating Agency in order to facilitate investors in their decision to invest in.

**Question No -15**

Null Hypothesis (Ho): Current NEPSE index is not reliable.

Alternative Hypothesis (Hi): Current NEPSE index is reliable.

**Question No- 16**

Null Hypothesis (Ho): Office of Company registrar does not regularly monitor and supervise the listed companies as authorized by company act.

Alternative Hypothesis (Hi): Office of Company registrar regularly monitors and supervises the listed companies as authorized by company act.

**Question No -17**

Null Hypothesis (Ho): Investors are not exercising special facilities provided by law.

Alternative Hypothesis (Hi): Investors are exercising special facilities provided by.

**Question No- 19**

Null Hypothesis (Ho): Current regulations of Nepal Rastra Bank to Banks and Finance Companies are not adequate for investors' right protection.

Alternative Hypothesis (Hi): Current regulations of Nepal Rastra Bank to Banks and Finance Companies are not adequate for investors' right protection.

**Question No- 22**

Null Hypothesis (Ho): Existing Regulating Institutions (SEBO/N, ROC, NRB, NEPSE and Company Board) collectively and co-coordinately are not effective and successful in protecting current investors' rights.

Alternative Hypothesis (Hi): Existing Regulating Institutions (SEBO/N, ROC, NRB, NEPSE and Company Board) collectively and co-coordinately effective and successful in protecting current investors' rights.)

All the above research variables have significant impact in investors, rights protection. All these are analyzed descriptively and empirically in the chapter IV. Questionnaire has been developed on the basis of those hypothesis and data are collected accordingly. Analyses of data are therefore also based on these research variables.

**3.6 Presentation and Analysis of Data**

Analysis forms the main body of any research work. This study consists of two types of analysis which is included in chapter four a descriptive or empirical type of analysis where each and every research variables are analyzed for their provisioning in the law and their practice in the field. The analysis of legal provisions and practices in regards to investors' protection are also descriptively analyzed in this chapter four. The excerpts of interviews are also taken from different interviewee and added in appropriate place for more clarification of the matter. The interview excerpts are not presented in separate interview schedules or in appendix.

In the chapter four, data gathered from primary and secondary sources are first coded, tabulated and presented in a meaningful manner. Therefore percentage and ratio analysis for each and every research data is conducted. In order to validate each research question from primary data, Chi-Square statistics is employed to test hypotheses and the results of tests are interpreted. Findings from analysis of each research variables are observed and presented logically at the end of chapter four.

### **3.7 Limitation of Methodology**

The study aimed at analyzing adequacy of legal provisions and effectiveness of regulatory institutions arranged for investors' protection. As per the topic of study, the descriptive type of analysis is employed. On the other hand, primary survey is conducted in order to know opinions of various capital market players. Therefore, the design of study is limited to a combination of 'Ex post facto' and 'survey' research.

The legal provisions relating to each variable of investors' protection are descriptively analyzed on the basis of facts. Similarly, the institutional arrangements are also analyzed descriptively from point of view of investors' protection.

Sampling is done on random as well as judgmental sampling basis. 30 % to 40% of samples is taken from each strata for the study. Whole population of the study is divided into four categories viz. regulatory institutions, listed companies, market intermediaries and legal and professional shareholders. The primary data and information is collected through questionnaires and direct interviews. Questionnaires are sent directly to respondents, other methods of sending questionnaires are not employed. No separate schedules or appendixes are included for direct interview.

In the listed companies category; manufacturing, trading, hotels and other sectors are not included because of heavy non-response problem. Therefore, it is assumed that the sectors included in the study represent the phenomenon of whole listed companies. Since, general investors are at large scattered numbers, the questionnaires are not sent to them. There was also problem of sampling and statistical test in covering general investors. Therefore, it is assumed that the legal and financial experts and professional shareholders included in the study can better represent the whole community of general investors. The analysis and test of data is confined to Chi-Square test only. The level of significance for test is taken at 5 percent.

The findings of both descriptive and statistical analysis are presented in a single place at the end of chapter four.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This is the main part of the research where secondary as well primary data have been analyzed. Secondary data has been received from different published sources of NRB, Government, Public Magazines, Journals, Reports published by concern Parties etc. For primary data questionnaire had been presented. This parts is further divided into two major parts which are Analysis from secondary data and Analysis from primarily data.

#### **4.1 Analysis from Secondary Data**

In this part legal provisions and practices in regards to investors protection has been analyzed on the basis of secondary data. This part is further divided in to three sub parts first is belongs with legal loophole for investors protection second part will denote the implementation mechanism of existing legal provision in regard to investors protection and third parts will be the present situation of implementation of existing legal provisions for investors protection.

##### **4.1.1 Legal Loophole for Investors' Protection in Nepal**

Though, Nepal has promulgated various legal provisions as the scattered form in various Acts, Regulations and bye-lays in regards to investors protection beside those, there are some legal loophole on this ground till now. One the one hand, Nepal has not any particular separate Act and Rule for protection of investors and other hand; there is absence of some norms and provisions. If we observe, in the international realm of this context, there are some secured grounds of investors' protection. Manly, effective jurisdiction of investors' protection, investors protection fund, separate and perfect insider dealing act and rule, criminal liability are also incorporated in course of protection of investors which are not adopted on

Nepalese laws or in somewhere adopted, those norms are not complete and effective.

Manly, Nepal has adopted three types of laws to protect of investors like general legal provision for investors protection, legal provisions for primary capital market investors and legal provision for secondary market investor protection.

General legal provisions are effected on the general investment pattern. Now, investment processes are changed in various forms like investment in banking sectors, investment in industrial or manufacturing sectors. This ground is going to accept the domestic investment and foreign investment in the form of direct foreign investment and portfolio foreign investment. On this ground, NRB Act, 2063 has played the major role as being the apex monitor of banking investment and it had emphasized on the financial statement, or fair and adequate auditing system and industrial enterprises Act has made the secured the investment from make the provisions to non- nationalized of industrial investment without special circumstances and reasonable compensation.

Company Act and Stock Exchange Legislation has protected the investors who invest from the primary capital market and secondary capital investors. Those laws has emphasized on the ground of prospectus as the initial information to invite the investors to invest throughout the securities transaction. Similarly, there are the provision for provide the information of actual condition of the company and procedure of allotment of share. Beside these, main concept of individual liability of concerned authority on the fraudulent activities and malafide motive with the proper compensation of loose and damages with the civil and criminal liability of fraudulent activities.

Nepal has adopted the concept of disclosures, in fair manner as the accurate source of the information as the financial statement of company, annual reports, reports of auditors and reports of concerned persons. It has also emphasized for the protection of minority shareholders by vesting the liability of fiduciary duties and obligation of concerned person. Beside these, secondary capital market investors are protected by SEA, SER and bye-laws, which are promulgated by the SEBO and NEPSE. These provisions are belongs to require fair and perfect disclosure, control insider trading and fraud or malpractices in the securities transaction. These are the major concept of investors' protection but there are also some legal loophole in this regards which are critically discussed hereunder.

### **I. Concept of Insider Trading**

Insider trading is against the investors' protection, because it happens on the base of price sensitive information which are not disclose to the public. This concept is adopted in Nepalese laws but those are not sufficient to prohibit insider trading on the securities transaction. Persons like Broker, Issue manager, Market maker and Agents, Auditor, Promoter, Company Secretary can involve on such insider trading. Section 53 of the Company Act 2053, had mentioned about it, but the new company act 2063 has not mentioned about such practice. Securities Exchange Act and Regulation has defined the insiders on the broad sense and hits some major points like directly or indirectly related who affect on the price of concerned securities and the motive of unfair advantages on the securities transaction by the means of insider trading. Nepalese laws have the gap of the specific Act in regards of insider trading.

### **II. Lack of Investors Compensation Fund**

Investors' protection or compensation funds are useful to develop investors' confidence in the securities transaction. Nepalese system of securities transaction is related to various determine their own criteria to discharge their function and

duties which should make the administrative function but not there any funds which can make the guarantee of securities transaction.

There shall be established an investor protection fund according to section 183 in Company Act 2063, where if any investors does not present a claim to have refunded the amount invested in the shares of a company even within five years. But the amount credited in this fund does not spent for the protection of any investors right it may be spent for the improvement in the capital market, investment policy, companies law or law relating to trade business and profession, training to the employees of the office or the company or in any other activity relating to the company administration.

### **III. Lack of Single Jurisdiction of Investors Protection**

Nepalese laws have not stated the clear jurisdiction of investors' protection. There are various provisions in scattered form in various laws similarly there in not any separate or effective administrative body on this regards. The territorial jurisdiction of investor's protection vested on various institutions like Company Board, District Court, Security Exchange Board and NEPSE. Here is absence of separate jurisdiction body.

Similarly, Nepalese laws have not clearly mention the concept of ex-territorial Jurisdiction of investor's protection and the concept of the jurisdiction of arbitration. The present era is the globalization and liberalization. This trend is extended out of the national broader, Now world is became a single global village and Nepal is also adopted the open-economy system so it is being necessary to adopt the extra territorial jurisdiction in relation to the investors protection so this concept is also absence in Nepalese laws.

#### **IV. Restriction on Utilization of Application Money**

Share shall be allotted within a maximum period of three months after the date when the public company invited application from the public for the purchase of share and in case the office can extend the time-limit for the allotment of shares by not more than three months, in this way within a period of six months investors losses their interest of that money which was used as the application moneys of share. But there is provision on this regards in section 28 of company act 2063 that if time limit of this six month has been expired then the amount of application money shall be refunded with interest from the day of expiration of such six month time limit to the day of refund of such amount which is not proper.

#### **V. Criminal Liability**

In Nepalese context, there is not any bar and controlling mechanism to be a promoters and directors who may be prosecuted in the civil and criminal crimes under the company and securities legislation, though there are some criteria to be a director. These criteria are not sufficient to protect the interest of investors. There are large numbers of company which have violated the various norms and legal provisions in concern of investors protection like, large numbers of company directors do not held the AGM, do not require the disclosure of financial information in time, do not furnish such financial information and other details in according to the company act and stock legislation. Some directors and promoters mention any false matter in any document of the company with mala fide intention, any directors or officer of a company damage books of account as required to be maintained pursuant to this Act, any auditor of a company states a false matter in his report in his report in the course of carrying our his duty or omits necessary comments while making audit, liquidator does not convene the meeting or creditors, or makes payments of loans or liabilities contrary to the order of priority or fails to maintain such books of account. Some director or officer who

issues the prospectus of a company prior to its being registered with the office gives false details in the prospectus. In this ground, they may be liable to punish in criminal and civil crimes not exceeding the fifty thousands and two years of imprisonment. Those persons are disqualified on their position for only a certain period e.g. no extending one years and Company Act has not mentioned any barrier to be on their position forever so these provisions has the contradiction and against the interest of investors.

#### **VI. Minimum Subscription of Share**

It is not permitted to allot the share, if 50% of the shares can not be sold according to company act 2063. It is also compulsory to underwriting the shares for the openly sale of the shares and debentures. This concept is played the vital role to protect the investors who invest through the share and debentures. But this criteria of 50% is not sufficient for the protection of interest of investors. In other countries there are incorporated various provisions for minimum subscription of share. Like in India, there are the provisions of minimum subscription of 90% of shares, for to make the allotment of the share (section 26(1) of CA 1997, India)

#### **VII. Underwriting the Shares**

Underwriting of security means an agreement signed by an institution which takes up the responsibility for the sale of security stipulating that will itself purchase any security that it is unable to sell according to its stipulation. In Nepalese context, any corporate from underwriting securities from the stock traders before the securities issued in case that firm has not submitted the project evaluation to obtain the loan from the bank and financial institution for the purpose of industrial functions. So the concept of underwriting the shares is so much limited only on industrial functions.

Underwriting of securities is the major factor to protect the investors like in the other developing countries. Nepal has not a developed and competitive security market and securities transaction. We are in the initial phase of securities investment culture. So, it would be better to extend underwriting provision in the transaction and issue of securities.

### **VIII. Listing the Securities**

Nepalese laws has made the mandatory provision for the listing the securities before the transaction and issue but we have not the concept of pre-contract of the listing the securities before the offered for subscription before issue of prospectus to ensure liquidity of the funds invested by the investors. These types of pre-contracts concept of the listing the securities is incorporated in the Indian laws (Sec 27 of CA 1956 India)

### **IX. Lack of Promoters Contribution**

The contribution of promoters is so much limited in Nepalese laws. We have odd types of concept to involve in the large numbers of investors. Promoters' contribution is the main factors of investors' protection. But, the contribution of promoters is deemed in Nepalese context. Nepalese laws have not incorporated a little description of the role, function, responsibility and duties of promoters which may be secured to protect the investors. In India there are clear provisions on this ground (Unpublished Thesis of Bhadrakali Phokharel LLM)

### **X. Lack of Investors Associations**

In Nepalese context, we have not any active and powerful associations to advocate the protection of investors. There is one association which is running in the name of "Investors' Forum" but this association is the bunch of big investors only. Small investors are far from such bunch.

## **XI. Lack of Regional Branch of Executive Authority**

Nepal has the various mechanism for implementation the legal provisions to protect the interest of investors under the case jurisdiction like, Company Board, Office of Company Registrar, SEBON and NEPSE. These institutions have not any one branch so here is difficult to take any action or application. The concepts of regional branches are essential to protect the interest of investors. It would be also help to develop the reasonable industrialization and securities transaction. Securities investment and saving protection would be developed so this concept is also essential to develop the trend of investors' protection.

These, above mentioned legal loophole of investors protections are still exist in the Nepalese legal frameworks of investors' protection. If we want to develop the complete and effective legal frameworks to protect the interest of investors would be incorporated those concept and enacted the complete and perfect laws.

### **4.1.2 Implementing Mechanism of Legal Provisions for Investors Protection**

Investors' protection hits the insider dealing, fraudulent activities, prevention and operation of mismanagement, public disclosures and delay execution and not transparency aspect of stock market. In generally, there are activated various laws and regulation in this ground. Though, Nepalese laws to protect for interest of investors are not sufficient, there are various legal loopholes which are observed in above part of this chapter; but there do exist various concept and trend incorporated in acts, regulations and bye-lays in regards of investors' protection. Only legal provisions are not complete matters, for this effective and speedy mechanism will be active. So, the implementing mechanism of legal provisions for investors' protection and the impact are observed hereafter.

After enactment of the new Company act 2063 B.C, it has incorporated the various mechanisms to implement the legal provisions for protection of the interest of investors, like case jurisdiction vested on the company Board [sec 169, company act 2063]. Besides these, other body are also empowered to pay the role for investors protection among them, Office of the Company Register, Securities Board of Nepal, Nepal Stock Exchange, Nepal Rastra Bank are the majors mechanism for the implementation of legal provision to protect of interest of investors.

### **I. Securities Board of Nepal**

SEBO was established as an apex regulator of the securities market in Nepal by HMG on June 07, 1993 A.D under the first amendment make in Securities Exchange Act, 1983. The main Objective of SEBO is to regulate and systematize the securities transaction for the development of securities market by protecting the interest of investors. Mainly, the functions of SEBO is to formulate policies and regulations, to register securities and grant permission for public issue, to provide license for the operation of securities market and securities business to the corporate bodies and to supervise, regulate and monitoring their activates/transaction, and to conduct study research and awareness activities regarding securities market which is directed by existing statutes and Regulations.

At the primitive stage, SEBO has given emphasis on regulation and systematization the public issuance of securities. For that purpose, Board has framed and enforced Directives on public issue of securities. Board has made compulsory provision regarding to registration of issue and sale managers and receive their services by the issuing companies for making issuance of securities more simple, credible and transparent. For the systematic and transparent transaction of securities issuance in primary market Board has given license to the Nepal Stock Exchange Ltd for transacting such securities. After the second

amendment in Securities Exchange Act in 1997, it has provided the provision of compulsorily submitted the disclosure of securities transaction by the Securities Businessperson to the Board and they have to registered in the Board.

Now it has been regulating the securities market under the Securities Exchange Act 2063, Securities Exchange Regulation 2063 and other subordinate legislations.

As per the provision mentioned in Securities Exchange Act, 2063 a Board has been established with name of Nepal Securities Board in order to manage and regulate the activities of person involved in securities market and securities business by regulating issuance, subscriptions purchase and sale for exchange of securities for protection of interest of investors who invest in securities by developing capital market.

## **II. Nepal Stock Exchange Ltd.**

It has also played an important role to regulate and systematize the securities market in Nepal. The history of securities market Began with the flotation of shares by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937. Introduction of the Company Act in 1964 and the establishment Nepal securities Trading Center (NSTS) were other significant development relating to capital markets. After the enactment of first Securities Exchange Act 1983, the NSTS was converted in to Securities Exchange Center which was effective from 1984.

Securities Exchange center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion in to Stock Exchange it was the sole institution regarding to operating and regulating primary and secondary markets of government and public securities. Government of Nepal under a programmed initiated to reform capital market, converted Securities Exchange Center into Nepal stock Exchange in 1993 by amending the existing

Securities Exchange Act, 1983. Nepal Stock Exchange (NEPSE) is a non-profit organization, operating under Securities Exchange Act 2063 BC. The Basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as Broker, Market Maker etc. In 1994 SEBO granted permission to the NEPSE to operate securities market and NEPSE opened its trading floor and open and competitive securities transaction system was started by Securities Brokers. Gov of Nepal, Nepal Rastra Bank, NIDC and Licensed members are the shareholders of the NEPSE.

NEPSE is established and operating under the Securities Exchange Act 2063 BC. According the provision mentioned in this act the functions, duties and powers of securities market (also NEPSE) shall be as follows:-

- a. To healthily and regularly operate and cause to be operated the securities market to be operated by it.
- b. To operated and cause to be operated securities market taking into account of the interest of the public investors
- c. To cause its members to be fully complied with this Act and rules and Bye-Laws framed under this Act, and to supervise and monitor and cause to supervise and monitor thereof
- d. To make arrange for adequate and equipped premises to carry on securities transactions
- e. To make arrangement for competent personnel to carry on transactions
- f. To make arrangement for appropriate system and adequate facilities to meet emergencies ad securities measures
- g. To frame Bye-Laws by obtaining approval of the Board to make and cause to make listing or for the arrangement of exchange or purchase and sale of the securities and arrangement of membership.

- h. Other provisions providing by the Act relating to the regulatory role of Securities Market are as follows: -
- a) Information to be provided to the Board if any of its member has not complied with financial Rules and Bye-laws or he has been found to be incompetent or any of its members has caused any financial irregularities or any of its member has failed to fulfill any obligation to be fulfilled by him in accordance with the laws.
  - b) If a body corporate, which carries on securities transaction through the securities market or markets securities listing in the securities market, has violated the agreement concluded with the securities market, or if securities market deems it necessary to give instruction to such body corporate for taking into account the interest of investors or making securities transaction healthy or regular, the securities market may give necessary directions to such body corporate.
  - c) It helps to provide necessary assistance to the Board for the performance its function in accordance with the Act.
  - d) It helps to establish and operate compensation fund as prescribed by the Board to safeguard the investors from possible loss

### **III. Office of the Company Registrar**

The office of the Company registrar (ROC) is a principle administrative body of companies. It was established under Companies Act 2021 as a Department of Government under the ministry of Industry. Previous Company Act, 2053 and prevailing Companies Act 2063 has also the provisioned of ROC. According the Companies Act, 2063 the main function of ORC is to executed the act and administer the companies. in another word, OCR is a principle regulatory body of the companies in Nepal. In this context, it has to play some extent of regulatory role pertaining to securities markets which has clearly expressed in Act. According to the provision of Act, public companies shall have to register their prospectus in

the office before publication of prospectus, and before registering such prospectus they shall have to obtain approval from SEBO. ROC shall be registered the prospectus after obtaining a photocopy of approval letter of SEBO. ROC can be refused to register prospectus if it seems that such company has not comply the provision of Act. If it deems necessary, SEBO can be taken advice from the OCR while granting approval on prospectus.

In case company has file application to the ROC for extend the time limitation of allotment of shares with showing cause, ROC can be extended the time limitation for 3 months. Similarly Sec 31 has provided that company shall have to submit description of number of issuance and allotment of shares, total amount, shareholder's name, address, etc. to the office within 30 days of share allotment. Public company shall have to submit a copy agreement made between company and securities businessperson for issuance of securities. In case any public company desirous to collect loan or debenture from the public, such company shall have to inform to the ROC with reason. In case any company buy-back its share, such company shall have to inform to the ROC within 30 days with the description of number of shares, amount etc.

In practice, the office of company registrar is in deem, there is not any records of inspections, the office has done only registration of the new company. How much company obey their obligation or duties, there is not any records, the Register of Office of Company Registrar says though we haven't any records but there may be 60% of companies are completely follows the rules and regulation. They submitted their disclosures and financial statement but lack of export man powers, we cannot make actual records of companies. He further stress, we have not any records of any action of those company who are involve in fraud activities or malpractices because, we have not suit any petitions. In this way, Company Registrar Office is only being the facilitator and administrative body of corporate

sector, not being the implementing mechanisms of legal provisions protect the interest of investors.

#### **IV. Company Advisory Board**

According to section 168 of Company Act, 2063 The Government of Nepal shall, by a notification published in the Nepal Gazette, form a Company Advisory Board comprising a maximum of nine members consisting of one person from each of the fields of law, accounting profession, tax administration, commerce or trade administration, from amongst those who have done at least master's degree In the respective fields and gained expertise after having served for at least seven years in such fields in the government and private sectors, as well as a representative of the Federation of Nepalese Chamber of Commerce and Industries. So as to study the practical problems coming across in the field of implementation of this Act and prevailing law relating to company administration and give advice, as required, to the Government of Nepal on timely reforms to be made in the prevailing companies law and reforms in the company administration. The Registrar shall be the member secretary of the Company Advisory Board.

#### **V. Company Board**

According to section 169 of Company Act 2063, Pending the designation of a court by the Government of Nepal (GON) pursuant to the provisions contained in this Act, the government of Nepal shall, by a notification published in the Nepal gazette, form a three-member Company Board, consisting the chairman and members. The company board has vested the Jurisdiction of cases relating to offenses in regards to the investors protection. The concept of the Company Board is first time indorsed on the new Company Act, 2063. The power of formation of company board lies on Government of Nepal and board has authorized to hear and dispose law suits and advice to Government of Nepal.

Similarly, the jurisdiction of Company Board has stated on the sub-section 4 of section 169. The Board formed pursuant to this Act, shall exercise the jurisdiction conferred to the Court pursuant to this Act. We can compare with the jurisdiction of District Court. Practicable aspect of company board is also deemed. On the one hand, it has not vested the proper powers and other hand, it is also followed our national maxims of delay execution. Board has not any specific provisions for the procedure and recognition or enforcement of the decisions of Company Board.

## **VI. Nepal Rastra Bank**

Nepal Rastra Bank is the central bank of Nepal which was established in 1956 AD under Nepal Rastra Bank Act, 1956. It is the Bank of the Bank. It is the principle regulatory body of Bank and Financial Institutions. It has empowered for such regulatory role by Nepal Rastra Bank Act 2002 and BAFIA 2007. As a regulator of Bank of Financial Institutions it has to play some regulatory role of securities of such Bank and Financial Institutions. So it is also a regulatory body of securities Markets.

As per the provision of Nepal Rastra Bank Act 2002, Nepal Rastra Bank shall have to regulate all the activities/transactions of Bank and Financial Institutions. Bank and Financial Institutions shall have to obtain approval before issuance of debenture and financial instrument.

As per the provision of BAFIA, 2007 Bank and Financial Institutions shall have to register their prospectus to the Nepal Rastra Bank by obtaining prior approval from the SEBO/N before public issuance of securities. Nepal Rastra Bank shall not be registered such prospectus until and unless such bank and Financial Institution obtain grant approval from the SEBO/N regarding to register the prospectus. Similarly, bank and Financial Institution shall have to provide a copy of agreement made with Securities Business person regarding to securities

transaction to the Nepal Rastra Bank and SEBO/N within seven days. Other provision mentioned in BAFIA that, after expiry the five years the promoters of Bank and Financial Institutions can be sold and mortgaged their shares and debentures within the terms stated by Nepal Rastra Bank. BAFIA under its chapter seven provided the provisions of regulation, inspection and supervision. As per the provision, Nepal Rastra Bank shall be vested full power to regulate and systematize the transaction of licensed institutions. Regarding to regularize, NRB shall be framed Rules and issued orders, directions and circulars etc. NRB can inspect and supervise licensed institutions. NRB can take over the licensed institutions in case they failed to comply the provision of Nepal Rastra bank Act, 2002, BAFIA, 2007 and other regulatory provisions.

To some extent NIDC Act, 1990 and Public Debt Act, 1960 have also mentioned the provision pertaining to regulatory role of NRB. As per the provision of NIDC Act, in case NIDC desirous to issue bonds and debentures without mortgaging its immovable property it shall have to obtain prior approval of NRB. Similarly, as per the provision of Public Debt Act, Stock Promissory Notes, Treasury Bills, Bonds and National Saving Certificates, etc. issued by Government of Nepal shall be managed by NRB.

## **VII. Court**

Securities Exchange Act, 2007, and Company Act 2063 have provided the regulatory role of District court/Commercial Bench of court. As per the provision of Securities Exchange Act, District Court have the jurisdiction to hear the cases connection with the section 91, 94,95,97, 98,99 and 100. So, District court can play regulatory role through adjudication. Similarly, as per the provision of Companies Act, the Commercial Bench of the Court (Court may designate by the Supreme Court) have the jurisdiction to hear the complaint pertaining to interest of investors and to hear the case relating to company's operations. Such Commercial

Bench shall be heard the complaint under 28 (5) (allotment of share), Sec 30(3) (Change the right of special shareholders), Sec 57 (reduction of share capital), 138, 139, and 141 (protection of the interest of shareholders) and Sec 159 (to hear the cases connection with the company operation).

#### **4.1.3. Implementing Situation of Existing Legal Provisions in regards to Protection the Interest of Investor**

Nepalese laws have incorporated some of legal provision in regards to investors' protection and it has incorporated the various mechanisms for implementation of those legal provisions. Those implementing institutions has vested powers and authority to execution the legal provisions for protection of the interest of investors, which are observed in above mentioned parts of this chapter. Legal provisions and implementing mechanism are not contributed sufficient impact for investors' protection in Nepal. Nepalese laws have vested the powers, authority, duties and obligation to protect the investors for concerned authority. Among them, securities issued corporate body can play the vital role to implementing those legal provisions, because, investors protection is also belongs with the providing the proper information, financial statements and others related details to control the insider trading. Fraudulent activities and malpractices. Implementing mechanism can involve to make the mandatory to obey their duties and obligation and they can also take any; action against defaulter of investors protection. In this context, office of company register, Board of Company, District Court, SEBO and NEPSE are vested the powers and authorities with jurisdiction for prejudice. But, we have not effective and perfect practices due to various problems in this ground. On the one hand we are in the initial phase of corporate governance and other hand we have not developed the infrastructure of implementing mechanism.

Nepal has incorporated the various concepts to protect the interest of investors but there is not developed effective legal framework. So there is not any impact of

exceptional practices of implementing mechanism in regards of execution of the legal provisions for protection of investors. So, it would be better to observe the securities issued corporate body in context of obey the obligation and responsibility which are made the mandatory under the corporate laws. Around sixty three thousands companies are registered in Office of Company Register. All are not following their duties and obligation in according the laws. There are not any records about them. But according to Company registrar around 60% of company are in practice and they are following their duties and obligation but there are not any records of those companies due to the lack of manpower and other digital instruments. So, researcher has taken the securities listed companies as the respondents of this study to conclude the implementing situation of legal provisions for the investors' protection.

On this ground, researcher mainly observed the duties and obligation of concerned persons who are listed at SEBO for the purpose of the securities transaction like, they have furnished their financial statement and others details with in the prescribed time limitation or not? Or they have provided the proper information to investors or not? And they held their AGM within prescribed time limitation or not? For this study, researchers have taken the base of annual report of SEBO, as the secondary sources of date. There are 142 companies listed at SEBO for the purpose of securities transaction and 23 person are listed as the businesspersons as total number of the broker, issue manager, securities dealer, market maker for the development of systematic and transparent securities market. Similarly, timely discloser of market information and corporate information play significant role to protect the investors.

**Table 4.1**  
**Financial Statement Submitted at SEBO/N by Listed Companies**

<b>Year</b>	<b>Total No. of Listed Companies</b>	<b>No. of Companies Submitting Financial Statement</b>	<b>In %</b>	<b>Report submitted as per Security Exchange Law and within Prescribed Time</b>	<b>In %</b>
2003/04	114	71	62%	3	2.63%
2004/05	125	86	69%	8	6.4%
2005/06	135	95	70%	10	7.40%
2006/07	135	91	67%	9	6.67%
2007/08	142	115	81%	6	4.23%

*Source: - Annual Reports of SEBO/N*

**Table 4.2**  
**Stock Brokers Submitting the Financial Statement**

<b>Year</b>	<b>Total no of Stock Brokers</b>	<b>No. of Stock Brokers Submitting Financial Statement</b>	<b>In %</b>
2003/04	27	22	81%
2004/05	24	22	92%
2005/06	24	22	92%
2006/07	24	21	88%
2007/08	23	23	100%

*Source: - Annual reports of SEBO/N*

**Table 4.3**  
**Issue Manager Submitting the Financial Statement**

<b>Year</b>	<b>Total no of Issue Manager</b>	<b>No. of Issue Manager Submitting Financial Statement</b>	<b>In %</b>	<b>Report Submitted as per Security Exchange Law &amp; within Prescribed Time</b>	<b>In %</b>
2003/04	9	6	67%	--	0%
2004/05	9	8	89%	1( National fin...Co)	11%
2005/06	9	8	89%	1( National fin...Co)	11%
2006/07	9	8	89%	1( Ace dev bank)	11%
2007/08	9	8	89%	1( Ace dev bank)	11%

*Source: - Annual reports of SEBO/N*

**Table 4.4**  
**No of Listed Co. Held AGM**

<b>Year</b>	<b>Total no of Listed Companies</b>	<b>No. of listed Companies Held AGM</b>	<b>In %</b>	<b>No. of Listed Companies Held AGM in Time</b>	<b>In %</b>
2003/04	108	74	69%	34	31%
2004/05	125	83	66%	40	32%
2005/06	135	91	67%	69	51%
2006/07	135	98	72%	57	42%
2007/08	142	111	78%	52	37%

*Source: - Annual reports of SEBO/N*

**Table 4.5**

**Listed Companies Held AGM and Declare Cash Dividend and Bonus Shares**

<b>Year</b>	<b>Listed Companies</b>	<b>Declared Cash Dividend</b>	<b>Declared Bonus Shares</b>	<b>Both Declared (C.D &amp; B.S)</b>	<b>Total Declared Companies</b>	<b>% of total Declared Companies</b>
2003/04	108	32	9	2	43	40%
2004/05	125	22	7	4	33	26%
2005/06	135	25	13	12	52	39%
2006/07	135	21	21	18	60	44%
2007/08	142	16	28	25	69	49%

*Source: - Annual report of SEBO/N*

It is mandatory provision to submit the financial statement to the SEBO by listed companies. This function is vested with the securities Issuers Company as well as securities listed company, brokers, market intermediaries and concerned person in according to the companies and securities legislation. Under securities legislation, listed companies are continuously required to provide price sensitive information and others financial statement, reports and details immediately to theirs investors and concerned institution for the protection of interest of investors. The recent amendment of Security exchange regulation made it mandatory that the listed companies should submit their annual report along with financial statement to SEBO and within five months after the expiry of the fiscal year and every quarterly report within one month after the expiry of each quarter. Beside it, all companies have vested the mandatory duties and obligation to furnish financial statement, annual report, details of AGM and others details information in Office of Company Register within six month of the expiry of financial year and other concerned authority too on described time limitation.

Out of 114 listed companies 71 companies had submitted their financial statements and annual reports of fiscal year 2003/04 which had 62% and out of

those 71 companies only 3 companies had submitted their report on time which was 2.63%. That 62% rise on fiscal year 04/05 to 69%, it again rises on 70% on 05/06. It decline to 67% in the fiscal year 06/07 but rise on 81% in the year of 07/08. Regarding the report submitted as per security exchange law & within prescribed time the percentage is declining as comparison on fiscal year 05/06.

Similarly out of 27 stock brokers 22 stock brokers had submitted their financial statement in SEBO in 2003/04 it was 81%. This has been increased year by year and now in fiscal year 07/08 it has been 100%.

Regarding the issue manager, out of 9 only 6 had submitted its annual report and financial statement which was 67%, no one issue manager had submitted report as per security exchange law & within prescribed time. But from the FY 04/05 to FY 07/08 89% issue manager has been submitting its report and 11% are submitting as per law and within prescribed time.

On the ground of holding AGM, out of 108 listed companies 74 companies held AGM it was 69%, out of those 74 companies' only 34 companies held AGM in time which was 31%. Holding AGM by listed companies has been increasing from the FY 05/06 to FY 07/08. But the percentage in holding of AGM in time has been declining in same FY.

If we talk about the listed companies declare cash dividend and bonus shares, out of 108 listed companies 43 companies had declared it which was 40%. It was 26% on FY 04/05, 39% on FY 05/06, 44% on 06/07, and 49% on 07/08.

In conclusion of above mentioned description, though the trend of obeying their duties or obligations by listed companies, brokers, or market intermediaries are increasing but it has not been in proper and perfect manner. We have taken data

from the companies which has listed on SEBON, but there are many other companies which has not listed on SEBON and only registered on office of the company register, which may in the poor condition than on above illustration. So, in regards of investors protection there is not satisfactory result of implementation of legal provisions for protection of interest of investors.

## **4.2 Analysis of Primarily Data**

After analysis of legal provisions and practices in regards to investors' protection in Nepalese Capital market, through secondary data, this sub chapter is especially designed to test and validate the primary data collected from different categories of respondents regarding those variables. Chi-Square test is conducted in order to validate opinions of different categories of respondents regarding each of variables.

### **Variable Wise Responses and Chi-Square Analysis:-**

#### **4.2.1 Sufficiency of Legal Provisions**

Table 4.6 shows, total 56% (28 out of 50) of respondents responded that the legal provisions are not sufficient, 42% (21 out of 50), agreed that the legal provisions are sufficient and rest 2% (1 out of 50) opined do not know. Categorically, 53% Listed Companies (8 out of 15), 62% Market Intermediaries (8 out of 13), 40% Regulating Authorities (4 out of 10) and 67% Experts/Professionals shareholders (8 out of 12) responded that the legal provisions are not sufficient. 20% Listed Companies (7 out of 15), 38% Market Intermediaries (5 out of 13), 50% Regulating Authorities (5 out of 10) and 33% Experts/Professionals shareholders (4 out of 12) agreed that the legal provisions are sufficient. 0% Listed Companies (0 out of 15), 0% Market Intermediaries ( 0 out of 13), 10% Regulating Authorities (1 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.



**Table 4.6**  
**Sufficiency of Legal Provisions**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	7 (47%)	5 (38%)	5 (50%)	4 (33%)	21 (42%)
No	8 (53%)	8 (62%)	4 (40%)	8 (67%)	28 (56%)
Don't Know	0 (0%)	0 (0%)	1 (10%)	0 (0%)	1 (2%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					0.882
Tabulated value of Chi-Square at 5% level of significance and 4 d.f					9.49
Result: - Accept Null Hypothesis.					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 0.882 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (4 d.f. ) is 9.49. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.2 Fulfillment of Commitment in Prospectus**

Table 4.7 shows, total 58% (29 out of 50) of respondents responded that the Companies are not fulfilling their commitments or projections made in prospectus, 36% (18 out of 50), agreed that the Companies are fulfilling their commitments or projections made in prospectus, and rest 6% (3 out of 50) opined do not know. Categorically, 33% Listed Companies (5 out of 15), 46% Market Intermediaries (6

out of 13), 90% Regulating Authorities (9 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) responded that the Companies are not fulfilling their commitments or projections made in prospectus. 54% Listed Companies (8 out of 15), 46% Market Intermediaries (6 out of 13), 10% Regulating Authorities (1 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) agreed that the Companies are fulfilling their commitments or projections made in prospectus. 13% Listed Companies (2 out of 15), 8% Market Intermediaries (1 out of 13), 0% Regulating Authorities (0 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.

**Table 4.7**  
**Fulfillment of Commitment in Prospectus**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	8 (54%)	6 (46%)	1 (10%)	3 (25%)	18 (36%)
No	5 (33%)	6 (46%)	9 (90%)	9 (75%)	29 (58%)
Don't Know	2 (13%)	1 (8%)	0 (0%)	0 (0%)	3 (6%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					6.001
Tabulated value of Chi-Square at 5% level of significance and 2 d.f					5.99
Result:- Reject Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 6.001 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (2 d.f) is 5.99. Since, computed value of Chi-Square is greater than the tabulated value, the null hypothesis is rejected and i.e. there is significant difference among the opinions of listed

companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.3 Distribution of Share Certificates and Declared Dividend

Table 4.8 shows, total 61% (30 out of 49) of respondents responded that the Shareholders are getting share certificates and declared dividends in time. At the same time 39% (19 out of 49) responded that shareholders are not getting share certificates and declared dividend in time. Categorically, 67% of Listed Companies (10 out of 15), 83% Market Intermediaries (10 out of 12), 70% Regulating Authorities (7 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) responded that the shareholders are getting share certificates and declared dividends in time. 33% Listed Companies (5 out of 15), 17% Market Intermediaries (2 out of 12), 30% Regulating Authorities (3 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) agreed that the shareholders are not getting share certificate and declared dividends in time. 0% Listed Companies (0 out of 15), 0% Market Intermediaries (0 out of 12), 0% Regulating Authorities (0 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.

**Table 4.8**

#### **Distribution of Share Certificates and Declared Dividend**

<b>Options</b>	<b>Respondent Category</b>				<b>Total</b>
	<b>Listed Company</b>	<b>Market Intermediaries</b>	<b>Regulating Authority</b>	<b>Experts/Professionals</b>	
Yes	10 (67%)	10 (83%)	7 (70%)	3 (25%)	30 (61%)
No	5 (33%)	2 (17%)	3 (30%)	9 (75%)	19 (39%)
Don't Know	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Total	15 (100%)	12 (100%)	10 (100%)	12 (100%)	49 (100%)
Computed value of Chi-Square					3.8954
Tabulated value of Chi-Square at 5% level of significance and 4 d.f					9.49
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 3.8954 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (4 d.f ) is 9.49. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.4 Disclosure of Price-Sensitive Information**

Table 4.9 shows, total 60% (30 out of 50) of respondents did not agree that the companies disclose their price sensitive information timely and accurately through regular media before insiders get benefit of it. Only 26% (13 out of 50) opined in favor of companies. 14% (7 out of 50) responded their ignorance regarding this issue. Analyzing cross-sectional, 54% ( 8 out of 15), 54% Market Intermediaries (7 out of 13), 60% Regulating Authorities (6 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) disagreed that the companies are disclosing price sensitive information timely and accurately through regular media before insiders get benefit of it. But 33% Listed Companies (5 out of 15), 23% Market Intermediaries (3 out of 13), 20% Regulating Authorities (2 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) agreed that the companies disclose their price sensitive information timely and accurately. Same as 13% Listed Companies (2 out of 15), 23% Market Intermediaries ( 3 out of 13), 20% Regulating Authorities (2 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.

**Table 4.9**  
**Disclosure of Price-Sensitive information**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	5 (33%)	3 (23%)	2 (20%)	3 (25%)	13 (26%)
No	8 (54%)	7 (54%)	6 (60%)	9 (75%)	30 (60%)
Don't Know	2 (13%)	3 (23%)	2 (20%)	0 (0%)	7 (14%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					0.8049
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 0.8049 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f ) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.5 Accounting and Auditing Standards**

Table 4.10 shows, total 50% (25 out of 50) of respondents show the positive attitude towards the accounting and auditing standards of the companies to protect the investor's rights. Other 40% (20 out of 50) respondents responded that the accounting and auditing standards of the companies are not adequate. Rest of 10% ( 5 out of 50) respondents has not given any opinion on this matter. Categorically,

47% of Listed Companies (7 out of 15), 38% Market Intermediaries (5 out of 13), 70% Regulating Authorities (7 out of 10) and 50% Experts/Professionals shareholders (6 out of 12) respondent viewed that the accounting and auditing standards are adequate at the context of investor's right. 53% Listed Companies (8 out of 15), 24% Market Intermediaries (3 out of 13), 30% Regulating Authorities (3 out of 10) and 50% Experts/Professionals shareholders (6 out of 12) are not agreed about the accounting and auditing standard. 0% Listed Companies (0 out of 15), 38% Market Intermediaries (5 out of 13), 0% Regulating Authorities (0 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.

**Table 4.10**  
**Accounting and Auditing Standards**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	7 (47%)	5 (38%)	7 (70%)	6 (50%)	25 (50%)
No	8 (53%)	3 (24%)	3 (30%)	6 (50%)	20 (40%)
Don't Know	0 (0%)	5 (38%)	0 (0%)	0 (0%)	5 (10%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					2.9138
Tabulated value of Chi-Square at 5% level of significance and 5 d.f					11.07
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 2.9138 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (5 d.f) is 11.07. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e there is no significant difference among the opinions of listed companies,

market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.6 Allocating Shares and Refunding Application Money in Time

Table 4.11 shows, total 48% (24 out of 50) opined that the share allotment and refunding of application money held in time by the companies. At the same time 46% (23 out of 50) responded are not satisfied about it and 6% (3 out of 50) show ignorance about it. Categorically, 27% of Listed Companies (4 out of 15), 23% Market Intermediaries (3 out of 13), 90% Regulating Authorities (9 out of 10) and 67% Experts/Professionals shareholders (8 out of 12) respondent has not opined in its favor. 60% Listed Companies (9 out of 15), 77% Market Intermediaries (10 out of 13), 10% Regulating Authorities (1 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) agreed on this matter. 13% Listed Companies (2 out of 15), 0% Market Intermediaries (0 out of 12), 0% Regulating Authorities (0 out of 10) and 8% Experts/Professionals shareholders (1 out of 12) opined do not know about it.

**Table 4.11**

#### **Allocating Shares and Refunding Application Money in Time**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	9 (60%)	10 (77%)	1 (10%)	3 (25%)	23 (46%)
No	4 (27%)	3 (23%)	9(90%)	8 (67%)	24 (48%)
Don't Know	2 (13%)	0 (0%)	0 (0%)	1 (8%)	3 (6%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					13.1971
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Reject Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of

Chi-Square came out to be 13.1971 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f ) is 7.82. Since, computed value of Chi-Square is greater than the tabulated value, the null hypothesis is rejected and i.e there is significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.7 Execution of Orders and Payment of Money by Brokers

Table 4.12 shows, total 67% (33 out of 49) of respondents opined that execution of order and payment of money by brokers is not held in time. Only 33% (13 out of 49) opined in favor of this issue. Analyzing cross-sectional, 60% ( 9 out of 15), 69% Market Intermediaries ( 9 out of 13), 70% Regulating Authorities (7 out of 10) and 73% Experts/Professionals shareholders (8 out of 11) disagreed that the execution of order and payment of money by brokers is held in time. But 40% Listed Companies (6 out of 15), 31% Market Intermediaries (4 out of 13), 30% Regulating Authorities (3 out of 10) and 27% Experts/Professionals shareholders (3 out of 11) agreed that the execution of order and payment of money by brokers is held in time. Same as 0% Listed Companies (0 out of 15), 0% Market Intermediaries ( 0 out of 13), 0% Regulating Authorities (0 out of 10) and 0% Experts/Professionals shareholders (0 out of 11) opined do not know about it.

**Table 4.12**  
**Execution of Orders and Payment of Money by Brokers**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	6 (40%)	4 (31%)	3 (300%)	3 (27%)	16 (33%)
No	9 (60%)	9 (69%)	7 (70%)	8(73%)	33 (67%)
Don't Know	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Total	15 (100%)	13 (100%)	10 (100%)	11 (100%)	49 (100%)
Computed value of Chi-Square					0.371
Tabulated value of Chi-Square at 5%level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 0.371 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.8 Professional Qualification of Brokers**

Table 4.13 shows, total 65% (32 out of 49) of respondents opined that the brokers in secondary market are not professionally qualified and their advises to the investors are not based on some kind of fundamental analysis. Only 27% (13 out of 49) opined in favor of this issue. Analyzing cross-sectional, 74% ( 11 out of 15), 46% Market Intermediaries ( 6 out of 13), 70% Regulating Authorities (7 out of 10) and 73% Experts/Professionals shareholders (8 out of 11) disagreed that the brokers in secondary market are professionally qualified and their advises to the investors are based on some kind of fundamental analysis. 13% Listed Companies (2 out of 15), 46% Market Intermediaries (6 out of 13) 20% Regulating Authorities (2 out of 10) and 27% Experts/Professionals shareholders (3 out of 11) agreed that there is professional qualification of brokers and their advised to the investors are based on some kind of fundamental analysis. Same as 13% Listed Companies (2 out of 15), 8% Market Intermediaries ( 1 out of 13), 10% Regulating Authorities (1 out of 10) and 0% Experts/Professionals shareholders (0 out of 11) opined do not know about it.

**Table 4.13****Professional Qualification of Brokers**

<b>Options</b>	<b>Respondent Category</b>				<b>Total</b>
	<b>Listed Company</b>	<b>Market Intermediaries</b>	<b>Regulating Authority</b>	<b>Experts/ Professionals</b>	
Yes	2 (13%)	6 (46%)	2 (20%)	3 (27%)	13 (27%)
No	11 (74%)	6 (46%)	7 (70%)	8(73%)	32 (65%)
Don't Know	2 (13)	1 (8%)	1 (10%)	0 (0%)	4 (8%)
Total	15 (100%)	13 (100%)	10 (100%)	11 (100%)	49 (100%)
Computed value of Chi-Square					1.0731
Tabulated value of Chi-Square at 5%level of significance and 2 d.f					5.99
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 1.0731 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (2 d.f ) is 5.99. Since, computed value of Chi-Square is greater than the tabulated value, the null hypothesis is rejected and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

**4.2.9 Involvement of Brokers in Scandalous Activities**

Table 4.14 shows, total 66% (33 out of 50) of respondents has responded that some broker in the stock exchange are engaged in any of scandalous activities like, wash sales, cornering the market, churning, pools and insider trading. Other 8% (4 out of 50), respondents do not agree on it. Rest of 26% (43 out of 50) respondents has not given any opinion on this matter. Categorically, 73% of Listed Companies (11 out of 15), 38% Market Intermediaries (5 out of 13), 70% Regulating

Authorities (7 out of 10) and 83% Experts/Professionals shareholders (10 out of 12) respondent viewed that the some broker in the stock exchange are engaged in any of scandalous activities like, wash sales, cornering the market, churning, pools and insider trading. 0% listed Companies (0 out of 15), 23% Market Intermediaries (3 out of 13), 10% Regulating Authorities (1 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) are not agreed about on it. Other 27% Listed Companies (4 out of 15), 39% Market Intermediaries (5 out of 13), 20% Regulating Authorities (2 out of 10) and 17% Experts/Professionals shareholders (2 out of 12) opined do not know about it.

**Table 4.14**

**Involvement of Brokers in Scandalous Activities**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	11 (73%)	5 (38%)	7 (70%)	10 (83%)	33 (66%)
No	0 (0%)	3 (23%)	1 (10%)	0 (0%)	4 (8%)
Don't Know	4 (27%)	5 (39%)	2 (20%)	2 (17%)	43 (26%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					2.1886
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 2.1886 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies,

market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.10 Current Listing Requirement & Listing Practice in NEPSE

Table 4.15 shows, total 50% (25 out of 50) of respondents opined that current 'Listing requirements and listing practice of NEPSE is not adequate in protecting investors rights' time. Only 42% (21 out of 50) opined in favor of this issue. Rest 8% (4 out of 50) has not given any opinion on it. Analyzing cross-sectional, 40% ( 6 out of 15), 69% Market Intermediaries ( 9 out of 13), 10% Regulating Authorities (1 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) disagreed that current listing requirements and listing practice of NEPSE is adequate in protecting investors rights. But 53% Listed Companies (8 out of 15), 31% Market Intermediaries (31 out of 13), 60% Regulating Authorities (6 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) agreed that current listing requirements and listing practice of NEPSE is adequate to protect investors rights. Same as 7% Listed Companies (1 out of 15), 0% Market Intermediaries ( 0 out of 13), 30% Regulating Authorities (3 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) opined do not know about it.

**Table 4.15**  
**Current Listing Requirement & Listing Practice in NEPSE**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	8 (53%)	4 (31%)	6 (60%)	3 (25%)	21 (42%)
No	6 (40%)	9 (69%)	1 (10%)	9 (75%)	25 (50%)
Don't Know	1 (7%)	0 (0%)	3 (30%)	0 (0%)	4 (8%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					6.2164
Tabulated value of Chi-Square at 5% level of significance and 4 d.f					9.49
Result:- Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 6.2164 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (4 d.f) is 9.49. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.11 Regulatory Controls & Supervision of SEBON & NEPSE**

Table 4.16 shows, total 72% (36 out of 50) of respondents opined that regulatory controls and supervision of SEBO/N and NEPSE is not strong enough to discover and punish problems of insider trading and manipulation. Just 16% of respondent ( 8 out of 50) are in favor of this issue. Only 12% (6 out of 50) respondent did not give any opinion on it. Analyzing cross-sectional, 60% ( 9 out of 15), 70% Market Intermediaries ( 9 out of 13), 80% Regulating Authorities (8 out of 10) and 83% Experts/Professionals shareholders (10 out of 12) disagreed that regulatory controls and supervision of SEBO/N and NEPSE is strong enough to discover and punish problems of insider trading and manipulation. But 27% Listed Companies (4 out of 15), 15% Market Intermediaries (2 out of 13), 20% Regulating Authorities (2 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) agreed that the regulatory controls and supervision of SEBO/N and NEPSE is strong enough to discover and punish problems of insider trading and manipulation. Only 13% Listed Companies (2 out of 15), 15% Market Intermediaries ( 2 out of 13), 0% Regulating Authorities (0 out of 10) and 17% Experts/Professionals shareholders (2 out of 12) opined do not know about it.

**Table 4.16****Regulatory Controls & Supervision of SEBON & NEPSE**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	4 (27%)	2 (15%)	2 (20%)	0 (0%)	8 (16%)
No	9 (60%)	9 (70%)	8 (80%)	10 (83%)	36 (72%)
Don't Know	2 (13%)	2 (15%)	0 (0%)	2 (17%)	6 (12%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					2.0109
Tabulated value of Chi-Square at 5% level of significance and 2 d.f					5.99
Result:- Result:- Accept Null Hypothesis					

*Source: - Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 2.0109 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (2 d.f) is 5.99. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

**4.2.12 Procedure of SEBO/N to Handle Investor's Grievance**

Table 4.17 shows, 44% of total respondents ( 22 out of 50) expressed that procedure of SEBO/N to handle investor's grievance is unsatisfactory, 42% of total respondents (21 out of 50) expressed it is satisfactory. Like wise, 14% (7 out of 50) respondents expressed that they do not know about the procedure of SEBO/N. But 0% (0 out of 50) respondents said it is excellent. Categorically 40 % of Listed Companies (6 out of 15), 31% of Market Intermediaries ( 4 out of 13),

50% of Regulating Authorities ( 5 out of 10), 59% of Experts/Professionals ( 7 out of 12) respondent said it is unsatisfactory. Likewise, 40% of Listed Companies (6 out of 15), 54% of Market Intermediaries (7 out of 13), 40% of Regulating Authorities (4 out of 10) and 33% of Experts/Professional (4 out of 12) said it is satisfactory. Same as, 20 % of Listed Companies ( 3 out of 15), 15% of Market Intermediaries ( 2 out of 13), 10% of Regulating Authorities ( 1 out of 10), and 8% of Experts/Professionals ( 1 out of 12) said nothing on it. No test is conducted to validate these rating.

**Table 4.17**

**Procedure of SEBO/N to Handle Investor’s Grievance**

<b>Options</b>	<b>Respondent Category</b>				<b>Total</b>
	<b>Listed Companies</b>	<b>Market Intermediaries</b>	<b>Regulating Authorities</b>	<b>Experts/ Professionals</b>	
Excellent	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Satisfactory	6 (40%)	7 (54%)	4 (40%)	4 (33%)	21 (42%)
Unsatisfactory	6 (40%)	4 (31%)	5 (50%)	7 (59%)	22 (44%)
Do not Know	3 (20%)	2 (15%)	1 (10%)	1 (8%)	7 (14%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50(100%)

*Source: Field Survey*

**4.2.13 Clearance & Settlement Practice in NEPSE**

Table 4.18 shows, total 46% (23 out of 50) of respondents show the positive attitude towards the current practice of settlement T+2, T+3 in NEPSE is effective and suitable from view of investors’ rights protection. Other 36% (18 out of 50) respondents responded that it is not adequate. Rest of 18% ( 9 out of 50) respondents has not given any opinion on this matter. Categorically, 60% of Listed Companies (9 out of 15), 54% Market Intermediaries (7 out of 13), 50% Regulating Authorities (5 out of 10) and 17% Experts/Professionals shareholders (2 out of 12) respondent viewed that the current practice of settlement T+2, T+3 in NEPSE is effective and suitable from view of investors’ rights. 27% Listed

Companies (4 out of 15), 31% Market Intermediaries (4 out of 13), 30% Regulating Authorities (3 out of 10) and 58% Experts/Professionals shareholders (7 out of 12) are not agreed on it. 13% Listed Companies (2 out of 15), 15% Market Intermediaries (2 out of 13), 20% Regulating Authorities (2 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) opined do not know about it.

**Table 4.18**  
**Clearance & Settlement Practice in NEPSE**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	9 (60%)	7 (54%)	5 (50%)	2 (17%)	23 (46%)
No	4 (27%)	4 (31%)	3 (30%)	7 (58%)	18 (36%)
Don't Know	2 (13)	2 (15%)	2 (20%)	3 (25%)	9 (18%)
Total	15 (100)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					2.7505
Tabulated value of Chi-Square at 5% level of significance and 1 d.f					3.84
Result:- Result:- Accept Null Hypothesis					

*Source: Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 2.7505 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (1 d.f) is 3.84. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.14 Need of Separate Security ‘Rating Agency’

Table 4.19 shows, total 80% (39 out of 49) of respondents advocated that there is need of separate security rating agency in order to facilitate investors in their investment decision. Only 6% (3 out of 49) respondents said that there is no need of separate security rating agency. Rest of 14% (7 out of 49) respondents has not given any opinion on this matter. Categorically, 100% of Listed Companies (15 out of 15), 54% Market Intermediaries (7 out of 13), 80% Regulating Authorities (8 out of 10) and 82% Experts/Professionals shareholders (9 out of 11) respondent viewed that there is need of separate security rating agency in order to facilitate investors in their investment decision. 0% Listed Companies (0 out of 15), 15% Market Intermediaries (2 out of 13), 10% Regulating Authorities (1 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) are not agreed on it. 0% Listed Companies (0 out of 15), 31% Market Intermediaries (4 out of 13), 10% Regulating Authorities (1 out of 10) and 18% Experts/Professionals shareholders (2 out of 11) opined do not know about it.

**Table 4.19**

#### **Need of Separate Security ‘Rating Agency’**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	15 (100%)	7 (54%)	8 (80%)	9 (82%)	39 (80%)
No	0 (0%)	2 (15%)	1 (10%)	0 (0%)	3 (6%)
Don't Know	0 (0%)	4 (31%)	1 (10%)	2 (18%)	7 (14%)
Total	15 (100%)	13 (100%)	10 (100%)	11 (100%)	49 (100%)
Computed value of Chi-Square					1.875
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source : Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 1.875 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.15 Reliability of NEPSE Index**

Table 4.20 shows, total 46% (22 out of 48) of respondents opined that there is no reliability of NEPSE index. Another 40% of respondent (19 out of 48) are in favor of this issue. Only 14% (7 out of 48) respondent did not give any opinion on it. Analyzing cross-sectional, 57% (8 out of 14), 54% Market Intermediaries (7 out of 13), 11% Regulating Authorities (1 out of 9) and 50% Experts/Professionals shareholders (6 out of 12) disagreed that NEPSE index is reliability. But 36% Listed Companies (5 out of 14), 46% Market Intermediaries (6 out of 13), 67% Regulating Authorities (6 out of 9) and 17% Experts/Professionals shareholders (2 out of 12) agreed that there is reliability in NEPSE index. Only 7% Listed Companies (1 out of 14), 0% Market Intermediaries (0 out of 13), 22% Regulating Authorities (2 out of 9) and 33% Experts/Professionals shareholders (4 out of 12) opined do not know about it.

**Table 4.20****Reliability of NEPSE Index**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	5 (36%)	6 (46%)	6 (67%)	2 (17%)	19 (40%)
No	8 (57%)	7 (54%)	1 (11%)	6 (50%)	22 (46%)
Don't Know	1 (7%)	0 (0%)	2 (22%)	4 (33%)	7 (14%)
Total	14 (100%)	13 (100%)	9 (100%)	12 (100%)	48 (100%)
Computed value of Chi-Square					1.4904
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 1.4904 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

**4.2.16. ROC Regularly Monitors and Supervises Listed Companies**

Table 4.21 shows, total 78% (39 out of 50) of respondents opined that there is no regularly monitoring and supervision of Listed Companies by ROC. Another just 12% of respondent (6 out of 50) are in favor of this issue. Only 10% (5 out of 50) respondent did not give any opinion on it. Analyzing cross-sectional, 80% (12 out of 15), 69% Market Intermediaries (9 out of 13), 90% Regulating Authorities (9 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) disagreed

that ROC regularly monitors and supervises Listed Companies. But 13% Listed Companies (2 out of 15), 31% Market Intermediaries (4 out of 13), 0% Regulating Authorities (0 out of 10) and 0% Experts/Professionals shareholders (0 out of 12) agreed that there is regularly monitors and supervises of Listed Companies by ROC. But 7% Listed Companies (1 out of 15), 0% Market Intermediaries ( 0 out of 13), 10% Regulating Authorities (1 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) opined do not know about it.

**Table 4.21**

**ROC Regularly Monitors and Supervises Listed Companies**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	2 (13%)	4 (31%)	0 (0%)	0 (0%)	6 (12%)
No	12 (80%)	9 (69%)	9 (90%)	9 (75%)	39 (78%)
Don't Know	1 (7%)	0 (0%)	1 (10%)	3 (25%)	5 (10%)
Total	15 (100)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					0.3547
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 0.3547 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.17 Investors are Exercising Special Facilities Provided by Law

Table 4.22 shows, total 58% (29 out of 50) of respondents opined that investors are not exercising special facilities provided by law. Another 26% of respondent (13 out of 50) said investors are exercising special facilities provided by law. Only 16% (8 out of 50) respondent did not give any opinion on it. Analyzing cross-sectional, 87% (13 out of 15), 15% Market Intermediaries (2 out of 13), 60% Regulating Authorities (6 out of 10) and 66% Experts/Professionals shareholders (8 out of 12) disagreed that investors are exercising special facilities provided by law. But 13% Listed Companies (2 out of 15), 54% Market Intermediaries (7 out of 13), 20% Regulating Authorities (2 out of 10) and 17% Experts/Professionals shareholders (2 out of 12) agreed that investors are exercising special law. But 0% Listed Companies (0 out of 15), 31% Market Intermediaries (4 out of 13), 20% Regulating Authorities (2 out of 10) and 17% Experts/Professionals shareholders (2 out of 12) opined do not know about it.

**Table 4.22**

#### **Investors are Exercising Special Facilities Provided by Law**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	2 (13%)	7 (54%)	2 (20%)	2 (17%)	13 (26%)
No	13 (87%)	2 (15%)	6 (60%)	8 (66%)	29 (58%)
Don't Know	0 (0%)	4 (31%)	2 (20%)	2 (17%)	8 (16%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					7.3005
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of

Chi-Square came out to be 7.3005 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### 4.2.18 Performance of Company Board

Table 4.23 shows, 50% of total respondents (25 out of 50) expressed that performance of Company Board is unsatisfactory. 28% of total respondents (14 out of 50) expressed it is satisfactory. Like wise, 22% (11 out of 50) respondents expressed that they do not know about its performance. But 0% (0 out of 50) respondents said it is excellent. Categorically 73 % of Listed Companies (11 out of 15), 31% of Market Intermediaries ( 4 out of 13), 70% of Regulating Authorities ( 7 out of 10), 25% of Experts/Professionals ( 3 out of 12) respondent said it is unsatisfactory. Likewise, 27% of Listed Companies (4 out of 15), 15% of Market Intermediaries (2 out of 13), 30% of Regulating Authorities (3 out of 10) and 42% of Experts/Professional (5 out of 12) said it is satisfactory. Same as, 0 % of Listed Companies ( 0 out of 15), 54% of Market Intermediaries ( 7 out of 13), 0% of Regulating Authorities ( 0 out of 10), and 33% of Experts/Professionals ( 4 out of 12) said nothing on it. No test is conducted to validate these rating.

**Table 4.23**  
**Performance of Company Board**

Options	Respondent Category				Total
	Listed Companies	Market Intermediaries	Regulating Authorities	Experts/Professionals	
Excellent	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Satisfactory	4 (27%)	2 (15%)	3 (30%)	5 (42%)	14 (28%)
Unsatisfactory	11 (73%)	4 (31%)	7 (70%)	3 (25%)	25 (50%)
Do not know	0 (0%)	7 (54%)	0 (0%)	4 (33%)	11 (22%)

Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
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Source: Field Survey

#### 4.2.19 Regulation of Nepal Rastra Bank(NRB)

Table 4.24 shows, total 52% (26 out of 50) of respondents opined that current regulation of Nepal Rastra Bank (NRB) to Banks and Finance Companies are not adequate for investors' protection. Another 46% of respondent (23 out of 50) said its regulation is adequate for investors' protection. Only 2% (1 out of 50) respondent did not give any opinion on it. Analyzing cross-sectional, 40% (6 out of 15), 69% Market Intermediaries (9 out of 13), 40% Regulating Authorities (4 out of 10) and 59% Experts/Professionals shareholders (7 out of 12) disagreed that NRB regulation is adequate. But 60% Listed Companies (9 out of 15), 31% Market Intermediaries (4 out of 13), 60% Regulating Authorities (6 out of 10) and 33% Experts/Professionals shareholders (4 out of 12) agreed that current regulation of NRB is adequate. But 0% Listed Companies (0 out of 15), 0% Market Intermediaries (0 out of 13), 0% Regulating Authorities (0 out of 10) and 8% Experts/Professionals shareholders (1 out of 12) opined do not know about it.

**Table 4.24**  
**Regulation of Nepal Rastra Bank (NRB)**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/Professionals	
Yes	9 (60%)	4 (31%)	6 (60%)	4 (33%)	23 (46%)
No	6 (40%)	9 (69%)	4 (40%)	7 (59%)	26 (52%)
Don't Know	0 (0%)	0 (0%)	0 (0%)	1 (8%)	1 (2%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					2.7723
Tabulated value of Chi-Square at 5% level of significance and 4 d.f					9.49
Result:- Accept Null Hypothesis					

Source: Field Survey

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 2.7723 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (4 d.f) is 9.49 Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

#### **4.2.20 Ranking of the Level of Effectiveness of Regulation made by SEBO/N**

A question to rank 'Level of effectiveness of regulation' made by SEBO/N to all other market participants is asked to all types respondents. The rating was varied in three scales as 'highly effective', 'moderately effective' and 'ineffective'. Market participants to be regulated were, Listed Companies, Market intermediaries and Securities Exchange (NEPSE). Referring Table 4.25, regarding Listed Companies, 48% of total respondents (19 out of 40) rated the regulation are 'highly effective'. 27% (11 out of 40) said it is 'ineffective' and the rest 25% ( 10 out of 40) agreed Listed Companies are being 'moderately effective' regulated by SEBO/N. Similarly, table 4.26, shows 30% (12 out of 40) said the regulation made to Stock Exchange by SEBO/N is 'highly effectively' another 40% (16 out of 40) said, it is 'ineffectively' but 30% (12 out of 40) of respondent response it is 'moderately effective'. Same as table 4.27, show 43% of total respondent (17 out of 40) rated the regulation to Market Intermediaries is 'ineffective'. 37% (15 out of 40) said it is 'moderately effectively', and rest 20 % (8 out of 40) said it is 'highly effective'. No test is conducted to validate these rating

**Table 4.25****Ranking of the Level of Effectiveness Made by SEBO/N**

<b>Market Player</b>	<b>Category of Respondent</b>	<b>Ranking</b>			<b>Actual Response</b>
		<b>“1”</b>	<b>“2”</b>	<b>“3”</b>	
Listed Companies	Listed Com.	5	2	3	10
	Market Intermediaries	3	1	6	10
	Regulating Authorities	4	4	2	10
	Experts/ Professionals	7	3	0	10
	Total	19	10	11	40
	Percentage	48%	25%	27%	100%

*Source: Field Survey***Table 4.26****Ranking of the Level of Effectiveness Made by SEBO/N**

<b>Market Player</b>	<b>Category of Respondent</b>	<b>Ranking</b>			<b>Actual Response</b>
		<b>“1”</b>	<b>“2”</b>	<b>“3”</b>	
Stock Exchange (NEPSE)	Listed Com.	2	4	4	10
	Market Intermediaries	6	2	2	10
	Regulating Authorities	3	4	3	10
	Experts/ Professionals	1	2	7	10
	Total	12	12	16	40
	Percentage	30%	30%	40%	100%

*Source: Field Survey*

**Table 4.27****Ranking of the Level of Effectiveness Made by SEBO/N**

Market Player	Category of Respondent	Ranking			Actual Response
		“1”	“2”	“3”	
Market Intermediaries	Listed Com.	1	5	4	10
	Market Intermediaries	0	7	3	10
	Regulating Authorities	4	0	6	10
	Experts/ Professionals	3	3	4	10
	Total	8	15	17	40
	Percentage	20%	37%	43%	100%

*Source: Field Survey*

**4.2.21 Overall Effectiveness of Regulating Institutions**

The question asked to all respondents was general type of question, whether all regulating institutions taken together are effective and successful to protect general investor in a coordinate manner. A collective performance of regulating institutions like SEBO/N, ROC, NEPSE and NRB is expected in responses.

Table 4.28 shows, total 68% (34 out of 50) of respondents said that institutions are not effective and successful in protecting general investor’s interest. Another 32% of respondent (16 out of 50) said institutions are effective and successful in protecting general investor’s interest. Only 0% (0 out of 50) respondent did not give any opinion on it. Analyzing cross-sectional, 60% (9 out of 15), 69% Market Intermediaries ( 9 out of 13), 70% Regulating Authorities (7 out of 10) and 75% Experts/Professionals shareholders (9 out of 12) disagreed that theirs performance are good. But 40% Listed Companies (6 out of 15), 31% Market Intermediaries (4 out of 13), 30% Regulating Authorities (3 out of 10) and 25% Experts/Professionals shareholders (3 out of 12) agreed that effectiveness of

regulating institution are adequate. But none of the respondent categories opined do not know about it.

**Table 4.28**  
**Overall Effectiveness of Regulating Institutions**

Options	Respondent Category				Total
	Listed Company	Market Intermediaries	Regulating Authority	Experts/ Professionals	
Yes	6 (40%)	4 (31%)	3 (30%)	3 (25%)	16 (32%)
No	9 (60%)	9 (69%)	7 (70%)	9 (75%)	34 (68%)
Don't Know	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
Total	15 (100%)	13 (100%)	10 (100%)	12 (100%)	50 (100%)
Computed value of Chi-Square					0.5108
Tabulated value of Chi-Square at 5% level of significance and 3 d.f					7.82
Result:- Accept Null Hypothesis					

*Source: Field Survey*

In order to validate whether these opinions, expressed by different categories of respondents, are significant, Chi-Square test is performed. The computed value of Chi-Square came out to be 0.5108 while tabulated value of Chi-Square at 5% level of significance for appropriate degree of freedom (3 d.f) is 7.82. Since, computed value of Chi-Square is less than the tabulated value, the null hypothesis is accepted and i.e. there is no significant difference among the opinions of listed companies, market intermediaries, regulating institutions and experts/professional shareholders.

### **4.3 Major Findings**

After analyzing of legal provisions and practices in regards to investors protection in chapter IV, various facts are disclosed. After analyzing, researcher has found many short comings and weakness of the Listed Companies, Market Intermediaries & Regulating Authorities. In the chapter V, collected opinions of Listed Companies, Market Intermediaries, Regulating Authorities and

Experts/Professional Shareholders are analyzed through Chi-Square statistics and their significance is found out. On the basis of analysis conducted in the chapter four following major findings are observed.

- ) The existing legal provisions under various Acts, Laws, Guidelines and Regulations are not sufficient in protecting investors rights specially in 'insider trading' and 'disclosure of price sensitive information'
- ) It is found that the most of the listed companies are not fulfilling their commitments expressed in prospectus. It is due to not strong implementation of the rule.
- ) It is found that shareholders are getting share certificate and declare dividends in time. They have no significant problem in this regard.
- ) Companies are not disclosing 'price sensitive' information timely and accurately through regular media before 'insider trading'. Insider traders are getting huge benefit due to lack of proper supervision on it.
- ) The institution of Charter Accountant of Nepal (ICAN) have developed our own accounting and auditing standards which are in international standard level. Those standards are adequate to reflect the real financial picture of company. The problem is, those standards are only limited on standards, no Registered Auditors, No Charter Accountants follows the norms and values of those standards this is the reason no true financial position of the Companies have been came out through which investors can appropriate decision.
- ) Some 'Issue Mangers' in the primary market are fair and efficient in allocating shares and refunding application money in time but most of them are not.
- ) It is found that most of the Brokers in the stock exchange does not execute order and make payments in time.

- ) It is found that almost most of the Brokers are not professionally qualified and while advising their clients, most of them do not base on some kind of fundamental analysis.
- ) It is found that almost all of the Brokers in the NEPSE are engaged in scandalous activities, like wash sales, cornering the market, churning, pools and insider trading.
- ) It is found that current listing requirements and listing practice of NEPSE are not adequate to protect investors interest in our Capital market.
- ) There is almost not any mechanism and implementation regarding the supervision of SEBO/N and NEPSE to discover and punish problems of insider trading and manipulation.
- ) From collected data, 44% of respondent has on opinion that unsatisfactory system of handle investors' grievance by SEBO/N, another 42% of respondent said it is satisfactory. On the time of questionnaire with legal experts and shareholders researcher has found it is satisfactory for big investors but it is unsatisfactory for small investors.
- ) Clearance and settlement period in NEPSE is found to be effective and suitable. However, some of the respondents suggested reducing it in T+1
- ) It is highly found that there is need of separate securities rating agency in order to facilitate investors in their investment decision. Currently investors are confused to decide which company to invest in for what reason.
- ) Out of 48 respondent 22 means 46% said there is no reliability in NEPSE index and other 19 means 40% said there is reliability on it. but according to small investors NEPSE index has been handle by big investors.
- ) Office of the Company Register(ROC) regularly does not monitors and supervises the Listed Companies as authorized by company act.
- ) Investors are not exercising special facilities provided by law

- ) It is found that most of the respondents do not know about the performance of Company Board. Half of respondent rated Company Board's performance as 'unsatisfactory' with regards to investors' protection.
- ) Current NRB regulations to banks and finance companies are not to be found adequate in protecting investors' interest as much it is necessary to be.
- ) It is found that, the regulations made by SEBO/N to listed companies are 'highly effective', to Stock Exchange (NEPSE) 'ineffective' and to market Intermediaries are also 'ineffective'.
- ) Collective performances of regulating institutions like, SEBO/N, ROC, NEPSE, NRB and Company board are found to be less effective and unsuccessful. No proper coordination among regulator is found.
- ) Collective performance of regulating institutions like; SEBO/N, ROC, NEPSE, NRB and Company Board are found to be less effective and unsuccessful. No proper coordination among regulator is found.
- ) Most of the listed Companies have submitted their financial statement to SEBO/N but report submitted as per security exchange law & within prescribed time is very few.
- ) 100% of stock brokers have submitted their Financial statement to SEBO/N
- ) Most of the issue managers are submitting financial statement to SEBO/N but report submitted as per security exchange law & within prescribed time is very few.
- ) There is no satisfactory result on listed companies held AGM and held AGM in time.
- ) The percentage of Listed Companies held AGM and declare cash dividend and bonus Shares are not satisfactory.
- ) Insider trading practice exists in Nepalese Securities Market. Sufficient legal provisions to check insider trading do not exist. Regulatory authority

- like SEBO/N has no appropriate and adequate power to make investigation and take actions.
- ) The main ground of investors deceiving are belongs with insider trading, malafide motive, on the prospectus, financial statements of company, auditing reports, performance details of company or other details of company and public information. Beside these, various grievances like, wrong details of advertisement, delay on share allotment process, delay on underwriting and listing the share, delay on returnable money, delay on distribution bonus share, dispatching proper information to share holders or potential investors, misusing the application money for share investment are the main grounds of investors deceiving in Nepalese Context.
  - ) There is no any particular, specific and separate legislation for the protection of investors.
  - ) Promoters, Directors, key employees and concerned bodies have not followed their fiduciary duties and obligation to requiring the financial statements and related information to investors within the prescribed time-limitation.
  - ) Concept of prohibition the insider trading is not adopted in broader sense. There is not any specific definitions of insiders, price sensitive information and primary or secondary insiders.
  - ) Existing legal provisions are not properly exercised due to weak implementing mechanism, contradiction on jurisdiction and lack of awareness of investors themselves. So the legal provisions for protection the investors and its practical impact is in weak condition in Nepalese context.

## **CHAPTER – V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

This research aimed to study legal protection of investors' rights in Nepalese capital market. This study organized in 6 chapters. This first chapter dealt introduction of study, statements of problems, objectives of study, needs and significance of the study and limitation of study.

The second chapter is literature review where contained conceptual review and review of related studies.

The third chapter described research methodology, where contain research design, nature and source of data, research hypothesis, sampling procedure, limitation of research etc.

In fourth chapter there is Analysis of legal provisions and practices in regards to investors' protection where secondary data has been used.

Chapter five is the main part of this study which is presentation and analysis of data where all data are from primary source. Objective wise description and major findings are presented in this chapter.

Investors are identified as domestic investors, foreign investors, informative investors, non-informative investors, dependent investors, primary investors, secondary investors etc. In general meanings, investors means those person who invest with the motive of profit but the word "Investment" brings fourth visions those are profit, risk, speculation and wealth. Investment and investing process

both are separate but inter related to each other. Under the corporate investment, investors invest through the primary capital market and secondary capital market, secondary capital market belongs with the securities investing process.

Being separation between ownership and management, there is possibility of negligence or disregard, from those persons who are involved in to the indoor-management of the corporate sector, with the view of personal profit. They may involve on the fraudulent and malpractice. None of the investors want to loose their assets. So, the concept of the investors' protection emerged and developed, in the context of corporate investment.

The main ground of investors deceiving are as follows, insider trading, malmotive on the prospectus, wrong financial statements of company, wrong auditing reports, wrong performance details of company or others wrong details of company and delay public information. Beside these, various grievances like, wrong details of advertisement, delay on share allotment process, delay on underwriting and listing the share, dispatching proper information to share holders or potential investors, misusing the application money are the main deceiving grounds of investors in Nepalese context.

Investors' protection belongs to the various rights of investors as like; make an action against the insider traders, fraud defaulter and malpractices over investors. Similarly investors' protection hits the timely requirement of the disclosures; obey the fiduciary duties and obligation and protection of the interest of the minority shareholders and creditors.

Though, Nepal has also been forming laws to protect the rights of investors' on the scattered forms in various Acts, Regulations and Bye-laws but there is still

absence of a particular, specific and separation legislation for the protection of investors' rights.

Existing Nepalese Legal provisions are in connection to protect the rights of investors, like on the ground of requiring financial statement other details information of company, reports of concerned authority, the fiduciary duties and obligation and control the prevention and oppression of mismanagement with the individual or collective suits rights against defaulter. But those legal provisions are not sufficient and perfect as well as the situation of practices of implementing mechanism is not satisfactory.

Promoters, Directors, Key Employees and concerned bodies have not followed their fiduciary duties and obligation to requiring the financial statements and related information to investors within the prescribed time-limitation.

The various implementing mechanism are incorporated as Company Board, Office of Company Register, Securities Board of Nepal, Nepal Stock Exchange with powers of inquiry, inspection, adjudication and suspension, but those are not effective and perfect in their power due to weak legal provisions and contradiction between their jurisdiction.

The study found regulatory institutions; SEBO/N, NEPSE, ROC and CB are all inefficient in protecting general investors' rights. The redundancy and duplication in duties, responsibilities and exercise of authorities are found among regulators. Regulator, facilitator, and administrator authorities are incorporated for the fair and proper securities transaction system but those have not executed their power properly due to lack of development of the corporate culture.

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. This is major problem in this realm because if they do not use their rights themselves legal provisions only cannot create any impact to protect their rights.

One the one hand, Nepalese legal provision are not sufficient to protect the rights of investors and other hand, there exists the genuineness legal lacunas and loopholes. Beside these, existing legal provisions are not properly exercised due to weak implementing mechanism, contradiction or jurisdiction and lack of awareness of investors about their rights and obligations themselves. So the legal provisions for protection of investors' and Its practical impact is in weak condition in Nepal.

Though there are adequate auditing and accounting standards as international standard but those standards are not followed by the related parties. There are many auditors, accountants and financial mangers who even don't know about the auditing and accounting standards. Those who know it, even they are not applying in preparing financial statement according to those standards. This is the reason investors are not getting true and real information about companies where they have invested. Legal provisions are found scattered and inadequate especially in respect to disclosure of submitting annual financial reports in time, holding AGM in time, voting practice and insider trading.

Thus, legal and regulatory frameworks are found to be inadequate and There found no adequate and appropriate coordination and cooperation among regulatory ineffective of investors' rights protection.

## 5.2 Conclusion

Country's land lock location, limited exportable resources, low economic growth, low savings, low income, higher rate of population growth, limited transportation facilities and infrastructure etc are the major factors that have proved obstacles in economic development of the country.

The role of corporate investment has been very crucial in overall economic development of the country. After initiation of the liberal economic policies, global investment trend has been strengthening and extending their services, meanwhile, the investments process like securities investment, financial investment, foreign direct investment, joint venture, and foreign portfolio investment etc have played an enormous role with respect to the capital formation and its effective role for the economic development of the country.

Though, Nepal has not long history of the corporate investments, during the Lichhavi Period trade and industry played significant role in the national economy and late king Prithive Narayan Shah emphasized on trade and rural cottage industries for national economic growth. But, there were not any legal frameworks until first enacted Company Act in 1936. Biratnagar Jute mill and Nepal Bank Limited was established after the enacted first Company Act 1936. Biratnagar Jute Mill was the first joint stock enterprises, which is the first landmark of corporate investment in Nepal.

After restoration of democracy, Nepal adopted liberal and open economic system that invited foreign direct investment and portfolio foreign investment as new trend of global investment process. In this way, investing trend and process growth in various forms, which made separation between ownership and management of the corporate. Due to the separation between management and ownership, there

happened neglect and disregard other concerned stakeholders. So, the concept of investors' rights protection emerged under the corporate realm.

Mainly investors' rights protection hits insider trading, requirement of disclosures, fiduciary duties or obligation. The concept of investors' rights protection avoids the fraudulent activities and malpractice in investing sectors with the purpose of developing the fair and proper manner of investing process for growth of capital market. So, it is necessary to enact legal frameworks and to incorporate the perfect or effective implementing mechanism of those legal provisions for the protection of the rights of investors under those legal frameworks.

In this regard, Nepal has enacted legal provisions on the scattered forms in various Acts and Regulations. Specially, there are general legal provisions for the protection of investors' rights under Company Act 2063, Bank and Financial Institutional Act 2063, Insurance Act 2063, Security Exchange Act 2063, Audit Act 2048, Nepal Chartered Accountants Act 2053, Industrial Enterprises act 2049, foreign technology Transfer Act 2049. Though, Nepal has incorporated various legal provisions to protect the rights of investors but those are not complete and perfect for this purpose.

There exist genuine lacunas or loophole under the Nepalese legal provisions. Similarly, legal provisions are not enough matters to protect rights of investors, so there are various implementing authorities of those legal provisions. In this respect, the office of Company Registrar (ROC), Company Board (CB), Commercial Bench, Securities Exchange Board of Nepal (SEBO/N), and Nepal stock exchange (NEPSE) has vested the power to take an action regarding protection of investors with jurisdiction, inspection and inquiry. Mainly CB, Commercial Bench, SEBO/N has vested the case jurisdiction and ROC and NEPSE have been empowered as administrator, regulator and facilitator of

investment with the inspection, inquiry and suspension power for the purpose of the investors' rights protection. But, these provisions have made the confusion and contradiction with jurisdiction and powers, like, ROC has power to prosecute the punishment in term not exceeding fifty thousand rupees and in terms not exceeding two years of imprisonment but there are provisions to follow of summary procedure Act 2028 which is quite uneasy for investors. However, existing institutional set up/regulatory agencies may be capable to regulate the growing Nepalese securities markets if and only if they strengthen their institutional management such as sufficient subject wise experts (account, legal , etc) sufficient trained personnel, etc., adequate economic resources, sufficient physical infrastructures, etc. Especially NEPSE need more reforms to establish it as self-regulatory organization. The existing legislative framework and institutional set up and regulatory agencies must enhance the good corporate governance practices.

Legal provisions are especially inadequate in respect to information disclosure and insider trading. Unless and until companies disclose price sensitive information timely and accurately, there could not be protection of investors' rights. Insider trading practice is regarded as 'White Color Crime'. This practice ruins confidence of investors in the capital market. There is duplication and redundancy of roles and responsibilities regarding protection of investors' rights among regulatory institutions. This has caused inefficiency and ineffectiveness on supervision and monitoring. Only well defined rules, responsibilities and accountabilities in a consistent manner can improve the efficiency and effectiveness of regulatory institutions of Nepalese Capital Market.

In totality, existing legislative framework as regards to Nepalese securities markets has provided strong regulation provision to regulate, manage and systematize the Nepalese securities markets by establishing SEBO as an apex

powerful regulatory body in comparison to previous regulatory framework. The regulatory objectives of Securities Act can fulfill only by effective implementation of regulatory provisions. Laws are not static things, they should be changed or amended as per the changing need of time, so existing securities legislations should be amended to make compatible with Nepal's commitment on WTO to make Nepalese securities markets more regular and systematic. Researcher has made necessary measures as recommendations for further improvement of existing regulatory framework which will make them more effective and also make Nepalese securities markets more regular, systematic and viable. The strong regulation is the main basis of Nepalese securities markets' bright future.

### **5.3 Recommendations**

Based on findings of the study following recommendations are proposed in order to solve the problem related to protection of investors' rights in Nepalese Capital Market.

- ) The concept of prohibition of insider dealing should be adopted in broader sense by including specific definition of price sensitive information as well as primary and secondary insiders like the provision of USA, UK and India. Legal provisions are especially inadequate in case of 'corporate disclosure' and 'insider trading'. Separate and perfect legislation like 'Investors Protection Act' and 'Insider trading regulation Act" are to be enacted for investors' protection. The provision of civil liability should be included under insider dealing like the provision of USA, UK and India. A perfect procedure for investigation, inquiry and prosecution for defaulter of insider trading is to be established.
- ) There are many provisions in Company Act, Security Exchange Act regarding the matter of disclosure of the real and detail information of Concern Company in Prospectus but due to not strong implementation of such provisions by ROC, SEBO/N investors have been cheated.

- J Thought there are Nepal Accounting Standards (NAS) and Nepal Standards on Auditing (NSA) for guide to disclosed real financial position of the companies but non of the companies are following this standards and non of the Charter Accountants and Registered Auditors are applying this standards while auditing the financial documents of the companies. So Institution of Charter Accountant of Nepal (ICAN) should give attention on this regards. And Government also should give enough right to ICAN to work on this sector.
- J The proper and fair tax system is to be follow. Fraudulent activities to hiding tax should be stopped by government my making one strong committee.
- J Disclosure of accurate and timely necessary information as per law, regarding companies' activities should be submitted in concern regulatory body in time and as per law. AGM should hold in time and as per law. For improvement of this action, provision relating to high penalties and punishments are to be explicitly made for the companies.
- J There is distance between management and ownership. Management one hand hesitate to expose themselves before shareholders and in other management think they are they have played vital role in company. The management's attitude toward shareholders is to be changed by keeping interaction program time to time and get the views and ideas of the shareholders for further improvement of Companies.
- J Sometime there is dual attendance in AGM due to improper management system in Proxy practice of voting. This should be stopped by applying strong monitoring mechanism.
- J Moat of the Brokers are not qualified in stock market who are giving information to investors. In such situation, exiting brokers are to be trained for theoretical knowledge of securities analysis and practical knowledge of

consulting investors. New memberships to brokers are to be given to those who possess degree in Finance or in Investment or who are Charter Accounts. Brokers in secondary market do not execute order and make the payments in time; some of the brokers have been involved in some kind of improper scandalous activities. In this regard, concern regulatory body should develop powerful code of conducts and ethical guidelines, legal provisions relating to broking services are to be tightened, provision of civil and criminal fines are to be made against brokers involving in fraud and scandals activities and at last make proper and adequate supervision and regulation mechanism on it.

- J) Regarding listing practice of NEPSE, listing is to be made only after detailed auditing and investigation of company ensuring that trading of that security in the secondary market does not go against investors' protection.
- J) Clearance and settlement period of T+2, T+3 in NEPSE is found to be adequate theoretically but in practice, the transaction is not settled within this period. It is recommended to implement in practical aspect. Further, it is recommended to adopt Central Depositing System (CDS) of securities transaction for efficient and transparent trading.
- J) For the effective regulation of securities markets, SEBO/N should be empowered to audit the registered corporate bodies, mutual funds, custodians and clearing houses in relation to their financial reporting issues. For the execution/enforcement of the decision of SEBO/N, necessary arrangement should be incorporated to effectively execute/enforce that from the District Court as a decision of court. SEBO/N should work closely with Securities Market, Broker's Association and other front line regulators to strengthen market surveillance activities. SEBO/N further can monitor the stock price and should control the manipulation.

- ) Sufficient economic resources and infrastructures should be provided to the SEBO/N for efficiently performing regulatory functions and duties.
- ) The necessary provisions should be included in the securities law for the establishment of separate securities 'Rating Agency' to give benefit to investors.
- ) From research it is found the current system of rise and fall of NEPSE index is not base on proper mechanism. it runs as per cartel ling and speculation system. Big investors have big hand to control the NEPSE index to avoid from this system; Current role of NEPSE should be improved and reformed.
- ) Existing organizational structure and functioning system of Office of the Company Register (ROC) should be reviewed and it should be made well managed including regulatory activities and record keeping system. There are no sufficient and qualified manpower that can have proper knowledge regarding securities transaction in ROC, such matter should be noted by Government. Regional branches of ROC would help rural industrialization and help to save and to make the investing in the corporate sectors.
- ) Investors are not exercising special facilities provided by law it is due to not having any knowledge on it. SEBO/N, ROC, NEPSE and NRB have to lunch different programs directly related to investors' awareness in time to time. NEPSE should take suitable steps for educating the existing investors and potential investors and should be organized lectures, seminars and press conferences and furthers, NEPSE should be encouraged to establish the investors' clubs and investors' bureaus for protection the interest of investors.
- ) Company Board's activities should be focus on investors' protection and awareness.

- ) There is grievance of small investors that, Nepal Rastra Bank (NRB) issue guideline on favor of big investors; small investors are also to be included in advisory board while issuing new guideline by NRB.
- ) There should be proper co-ordination between regulatory authorities ROC, SEBO/N, NEPSE and NRB during functioning their duties.
- ) In Nepalese context, there is not any barrier and controlling mechanism to be a promoters and Directors, who may be prosecuted in criminal liability in pursuance of fraud and malafide practices, they may be appointed as the Directors due to lack of any recording mechanism of their prosecution.
- ) Section 28 of Company Act 2063 has permitted to allot the share in Nepal, on the condition of 50% of minimum subscription. It is not sufficient to protect the interest of investors. So, it should be extended 90% of minimum subscription of share for the allotment of shares like in India.
- ) The contribution of promoters is so much limited in Nepalese laws. Promoters should be vested the minimum takes of 20% in the issue capital as like in the India. For the purpose of confidence determination of investors.
- ) Nepalese laws have not incorporated the extra territorial jurisdiction for investors' protection. It has only domestic jurisdiction for the investors' protection. So, extra territorial proceedings jurisdiction should be adapted in to recommended new investors protection Act.
- ) Auditors who involved in the fraud activities over the investors. They may be prosecuted but we haven't any record of Auditors who are prosecuted on the fraud activities. So, it should be considered by ICAN.
- ) There should be needed proper dividend policy such as there should be compulsory provision of distribution of minimum basic dividends. It should also be stated to make compulsion to the listed companies to give regular proposed dividend that also influence the present and potential,

small or big investor to stay or invest in the capital market. If the companies are in more profitable situation, then they have to give interim dividend to the investors.

) There are certain institutions that are affiliated with the small, medium, big and foreign investors in the capital market of Nepal at present but these institutions are not able to fulfill the rights of the investors. Most of those institutions are not in organizational form. As a result, investors are not completely exercising their rights and also not protected in the capital market. So it requires new institution in a bold situation, active motion and powerful condition like court for the protection of the investors and capital market.

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## **Annex – I**

### **Questionnaire**

Dear Respondent,

I have been conducting a research on "**LEGAL PROTECTION OF INVESTORS' RIGHTS IN NEPALESE CAPITAL MARKET**". This questionnaire has been developed and presented before you as part of this study. The issues raised in this questionnaire are the key problems identified by researcher related to topic during the course of study.

I humbly request you to fill it up at the best of your knowledge. Your co-operation in this regard will be of immense value for me.

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

Thank you,

Bhupal Dhakal

(Researcher)

Shanker Dev Campus,

Ramshah Path, Kathmandu

Instruction: - Please tick ( ) in appropriate place and put your views in open-ended questions.

Respondent Category:-

A. Listed Company:

Company's Name:-

B. Market Intermediaries

[ ] Broker [ ] Issue Manager [ ] Dealer [ ] Market- Maker

C. Regulating Authority

[ ] SEBO/N [ ] NEPSE [ ] ROC [ ] NRB

D. Legal and Financial Experts/Professional Shareholders:

Name (Optional):

1. Do you think existing legal provisions under various Acts, Laws, Guidelines and Regulations are sufficient in protecting general investor's interest?  
 Yes       No       Do not know
  
2. Do you think companies are fulfilling their commitments expressed in prospectus?  
 Yes       No       Do not know
  
3. Do you think shareholders are getting share certificates and declared dividends in time?  
 Yes    No       Do not know
  
4. Do you think companies are disclosing "Price sensitive" information timely and accurately through regular media before "Insider" acts benefits of it?  
 Yes    No       Do not know
  
5. Do you believe the existing accounting and auditing standards of Nepal are adequate to reflect the financial picture of company?  
 Yes    No       Do not know
  
6. Do you think the "Issue managers" in the primary market are fair and efficient in allocating shares and refunding application money in time?  
 Yes       No       Do not know
  
7. Do you think brokers in the secondary market execute order and make the payments in time?  
 Yes       No       Do not know
  
8. Do you think brokers in the secondary markets are professionally qualified and their advices to investors are based on some fundamental analysis?  
 Yes       No       Do not know

9. Do you agree that some broker in the stock exchange are engaged in any of scandalous activities like, wash sales, cornering the market, churning, pools and insider trading?

Yes             No             Do not know

10. Do you think current 'Listing requirements and listing practice of NEPSE is adequate in protecting investors rights?

Yes             No             Do not know

11. Do you think regulatory controls and supervision of SEBO/N and NEPSE is strong enough to discover and punish problems of insider trading and manipulation?

yes             no             Do not know

12. What do you think about the procedure of SEBO/N to handle investors' grievance?

Excellent)     Satisfactory    {  Unsatisfactory     Do not know

13. Do you think current practice of settlement T+2, T+3 in NEPSE is effective and suitable from view of investors' rights protection?

Yes             No             Do not know

14. Do you think there is need of separate securities "Rating Agency" in order to facilitate investors in their decision to invest in?

Yes     No             Do not know

15. Do you think current NEPSE index is reliable (as it also takes number of shares of not traded stocks into account)?

Yes             No             Do not know

If 'No', what do you suggest for this?

.....



**Annex- II**  
**Chi- Square Test**

**Q No. 1 Sufficiency of legal Provision**

$F_o$	$F_e$	$F'_o$	$F'_e$	$(F'_o - F'_e)^2$	$\frac{(F'_o - F'_e)^2}{F'_e}$
7	6.3	7	6.3	0.49	0.078
5	5.46	5	5.46	0.21	0.038
5 4	9.24	9	9.24	0.058	0.006
4					
8	8.4	8	8.4	0.16	0.019
8	7.28	8	7.28	0.52	0.071
4	5.6	4	5.6	2.56	0.46
8 0 0 1 0	7.72	9	7.72	1.64	0.21
0					
0					
1					
0					
Computed Value of Chi- Square $\chi^2$					<b>= 0.882</b>
Degree of Freedom (7-1-2)					4
Tabulated Value of - Square					9.49

$F_o$	$F_e$	$F'_o$	$F'_e$	$(F'_o - F'_e)^2$	$\frac{(F'_o - F'_e)^2}{F'_e}$
8	5.4	8	5.4	6.76	1.25
6 1	8.28	7	8.28	1.6384	0.198
1					
3 5	13.02	8	13.2	27.04	2.048
5					
6	7.54	6	7.54	2.37	0.315
9	5.8	9	5.8	10.24	1.77
9 2 1 0 0	9.96	12	9.96	4.16	0.42
2					
1					
0					
0					
Computed value of Chi- Square $\chi^2$					6.001
Degree of Freedom( 6-1-3)					2
Tabulated Value of Chi- Square					5.99

**Q. No. 2 Fulfillments of Commitments in Projectus**

**Q. No.3 Distribution of Shares Certificate & Declare Dividend**

$F_o$	$F_e$	$F'_o$	$F'_e$	$(F'_o - F'_e)^2$	$\frac{(F'_o - F'_e)^2}{F'_e}$
10	9.184	10	9.184	0.666	0.0725
10	7.345	10	7.345	7.049	0.960
7	6.122	7	6.122	0.77	0.1259
3	7.347	3	7.347	18.896	2.572
5	5.816	5	5.816	0.666	0.1145
2 3 9	4.653 3.878 4.653	14	13.184	0.666	0.0505
9	-	-	-	-	-
0	-	-	-	-	-
0	-	-	-	-	-
0	-	-	-	-	-
Computed Valley of Chi Square $\chi^2$					3.8954
Degree of Freedom ( 6-1-1)					4
Tabulated Value of $\chi^2$ Chi -Square					9.49

**Q. No. 4 Disclosure of Price Sensitive Information**

$F_o$	$F_e$	$F'_o$	$F'_e$	$(F'_o - F'_e)^2$	$\frac{(F'_o - F'_e)^2}{F'_e}$
5 3	3.9 3.38	8	0.5184	0.5184	0.0712
2 3	2.6 3.12	5	5.72	0.5184	0.0906
8	9	8	9	1	0.1111
7	7.8	7	7.8	0.64	0.082
6	6	6	6	0	0
9	7.2	9	7.2	3.24	0.45
2 3 2 0	2.1 1.82 1.4 1.68	7	7	0	0
Calculated Value of Chi Square $\chi^2$					0.8049
Degree of Freedom (7-1-3)					3
Tabulated Value of Chi- Square					7.82

**Q. No. 5 Accounting & Auditing Standards**

$F_o$	$F_e$	$F'_o$	$F'_e$	$(F'_o - F'_e)^2$	$\frac{(F'_o - F'_e)^2}{F'_e}$
7	7.5	7	7.5	0.25	0.0333
5	6.5	5	6.5	2.25	0.346
7	5	7	5	4	0.8
6	6	6	6	0	0
8	6	8	6	4	0.8
3	5.2	3	5.2	4.84	0.93
3 } 6 } 9	4 } 4.8 } 8.8	9	8.8	0.04	0.0045
0 } 5 } 0 } 0 } 5	1.5 } 1.3 } 1 } 1.2 } 5	5	5	0	0
Calculated value of $\chi^2$ Chi -Square					2.9138
Degree of Freedom 8-1-2					5
Tabulated Value of Chi- Square					11.07

**Q. No. 6 Allocating Shares & Refunding Application Money in Time**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
9	6.9	9	6.9	4.41	0.6391
10	5.98	10	5.98	16.16	2.70
1 } 3 } 4	4.6 } 5.52 } 10.12	4	10.12	37.45	3.70
4	7.2	4	7.2	10.24	1.42
3	6.24	3	6.24	10.50	1.68
9 } 8 } 2 } 0 } 0 } 1 } 20	4.8 } 5.76 } 0.9 } 0.78 } 0.6 } 0.72 } 13.56	20	13.56	41.47	3.058
Calculated Value Chi – Square					13.1971
Degree of Freedom (6-1-2)					3
Tabulated Value of Chi Square					7.82

**Q. No. 7 Execution of Orders and Payment of Money by Brokers**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
6 } 4 } 10	4.900 } 4.25 } 9.15	10	9.15	0.7225	0.0790
3 } 3 } 6	3.27 } 3.59 } 6.86	6	6.68	0.7396	0.1078
9	10.10	9	10.10	1.21	0.1198
9	8.76	9	8.76	0.0576	0.0066
7	6.73	7	6.73	0.0729	0.0108
8	7.41	8	7.41	0.3981	0.0470
0	0	0	0	-	-
0	0	0	0	-	-

0	0	0	0	-	-
0	0	0	0	-	-
Calculated Value Chi – Square $x^2$					0.371
Degree of Freedom (6-1-2)					3
Tabulated value of Chi- Square					7.82

**Q. No. 8 Professional Qualification of Brokers**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
2 } 6 } 8	3.98 } 3.45 } 7.43	7.43	7.43	0.3249	0.0437
2 } 3 } 5	2.65 } 2.92 } 5.5	5	5.57	0.3249	0.0583
	7				
11	9.80	11	9.80	1.44	0.1469
6	8.49	6	8.49	6.2	0.7303
7	6.53	7	6.53	0.204	0.0338
8 } 2 } 1 } 12	7.18 } 1.22 } 1.06 } 11.1	12	11.18	0.6724	0.0601
1 } 1 } 0 }	8 } 0.82 } 0.90 }				
Calculated Value Chi – Square $x^2$					1.0731
Degree of Freedom (6-1-3)					2
Tabulated Value of Chi -Square					5.99

**Q. No. 9 Involvement of Brokers in Scandalous Activities**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
11	9.9	11	9.9	1.21	0.1222
5	8.58	5	8.58	12.8164	1.4938
7	6.6	7	6.6	0.16	0.024
10	7.92	10	7.92	4.3264	0.5462
0 } 3 } 1 } 8	1.2 } 1.04 } 0.8 } 7.9	8	7.9	0.01	0.0013
0 } 4 }	0.96 } 3.9 }				
5 } 2 } 9	3.38 } 2.6 } 9.1	9	9.1	0.01	0.0011
2 }	3.12 }				
Calculated Value Chi – Square $x^2$					2.1886
Degree of Freedom (6-1-2)					3
Tabulated Value of Chi- Square					7.82

**Q. No. 10 Current Listing Requirements & Listing Practice in NEPSE**

$F_0$	$F_e$	$F'_0$	$F'_e$	$F'_0 - F'_e$	$\frac{(F'_0 - F'_e)^2}{F'_e}$
8	6.3	8	6.3	2.89	0.4587
4	5.46	4	5.46	2.1316	0.39
6 3 } 9	4.2 5.04 } 9.24	9	9.24	0.0576	0.0062
6	7.5	6	7.5	2.25	0.3
9	6.5	9	6.5	6.25	0.9615
1	5	1	5	16	3.2
9 1 0 3 0 } 13	6 1.2 1.04 0.8 0.96 } 10	13	10	9	0.9
Calculated Value Chi - Square $x^2$					6.2164
Degree of Freedom (7-1-2)					4
Tabulated Value of Chi - Square					9.49

**Q. No. 11. Regularity Controls & Supervision of SEBO/N and NEPSE**

$F_0$	$F_e$	$F'_0$	$F'_e$	$(F'_0 - F'_e)$	$\frac{(F'_0 - F'_e)^2}{F'_e}$
4 2 2 } 8	2.4 2.08 1.6 } 6.08	8	6.08	3.6864	0.6063
0 9 } 9	1.92 10.8 } 12.72	9	12.72	13.8384	1.0879
9	9.36	9	9.36	0.1296	0.0138
8	7.2	8	7.2	0.64	0.0888
10	8.64	10	8.64	1.8496	0.21401
2 2 0 2 } 6	1.8 1.56 1.2 1.44 } 6	6	6	0	0
Calculated Value Chi - Square $x^2$					2.0109
Degree of Freedom (6-1-3)					2
Tabulated Value of Chi -Square					5.99

**Q. No 13. Clearance & Settlement Practice in NEPSE**

$F_0$	$F_e$	$F'_0$	$F'_e$	$(F'_0 - F'_e)$	$\frac{(F'_0 - F'_e)^2}{F'_e}$
9	6.9	9	6.9	4.41	0.6391
7	5.98	7	5.98	1.0404	0.1740
5 2	4.6 5.52	7	10.12	9.7344	0.9619
4 4	5.4 4.68	8	10.08	4.3264	0.4292
3 7	3.6 4.32	10	7.92	4.3264	0.5463
2 2 2 3	2.7 2.34 1.8 2.16	9	9	0	0
Calculated Value Chi - Square $x^2$					2.7505
Degree of Freedom (6-1-4)					1
Tabulated Value of Chi -Square					3.84

**Q. No.14. Need of Separate Security “Rating Agency”**

$F_0$	$F_e$	$F'_0$	$F'_e$	$F'_0 - F'_e$	$\frac{(F'_0 - F'_e)^2}{F'_e}$
15	11.94	15	11.94	9.3636	0.7842
7	10.35	7	10.35	11.2225	1.084
8	7.96	8	7.96	0.0016	0.0002
9	8.76	9	8.76	0.0576	0.0062
0 2 1 0 0 4 1 2	0.92 0.80 0.61 0.67 2.14 1.86 1.43 1.57	10	10	0	0
Calculated Value Chi - Square $x^2$					1.875
Degree of Freedom (5-1-1)					3
Tabulated Value of Chi- Square					7.82

**Q. No.15 Reliability of NEPSE Index**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
5	5.54	5	0.2916	0.2916	0.0526
6	5.15	6	0.7225	0.7225	0.14
6 } 2 } 8	3.56 } 4.75 } 8.31	8	8.31	0.0961	0.0116
8	6.42	8	6.42	2.4964	0.3888
7	5.96	7	5.96	1.0816	0.1815
1 } 6 } 7	4.125 } 5.5 } 9.625	7	9.625	6.8906	0.7159
1 } 0 } 2 } 4 } 7	2.042 } 1.90 } 1.3125 } 1.75 } 7	7	7	0	0
Calculated Value Chi - Square $x^2$					1.4904
Degree of Freedom (7-1-3)					3
Tabulated Value of Chi -Square					7.82

**Q. No. 16 ROC Regularly Monitors & Supervisors Listed Companies**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
2 } 4 } 0 } 0 } 6	1.8 } 1.56 } 1.2 } 1.8 } 6.36	6	6.36	0.1296	0.0204
12	11.7	12	11.7	0.09	0.0077
9	10.14	9	10.14	1.2996	0.1282
9	7.8	9	7.8	1.44	0.1846
9	9.36	9	9.36	0.1296	0.0138
1 } 0 } 1 } 3 } 5	1.5 } 1.3 } 1 } 1.2 } 5	5	5	0	0
Calculated Value Chi - Square $x^2$					0.3547
Degree of Freedom (6-1-2)					3
Tabulated Value of Chi -Square					7.82

**Q. No. 17 Investors are Exercising Special Facilities Provided by Law**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
2 } 7 } 9	3.9 } 3.387 } 7.28	9	7.28	2.9584	0.4064
2 } 2 } 4	3.12 } } 5.72	4	5.72	2.9584	0.5172
13	8.7	13	8.7	18.49	2.1253
2	7.54	2	7.54	30.6916	4.070
6	5.8	6	5.8	0.04	0.0069
8	6.96	8	6.96	1.0816	0.1747
0 } 4 } 8 2 } 2 }	2.4 } 2.08 } 8 1.6 } 1.92 }	8	8	0	0
Calculated Value Chi - Square $\chi^2$					7.3005
Degree of Freedom (7-1-3)					3
Tabulated Value of Chi - Square					7.82

**Q. No. 19 Regulation of Nepal Rastra Bank**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
9	6.9	9	6.9	4.41	0.6391
4	5.98	4	5.58	3.9204	0.6556
6 } 4 } 10	4.6 } 5.52 } 10.12	10	10.12	0.0144	0.0014
6	7.8	6	7.8	3.24	0.4154
9	6.76	9	6.76	5.0176	0.7422
4	5.2	4	5.2	1.44	0.2769
7 } 0 } 7	6.24 } 0.24 } 6.48	7	6.48	0.7723	0.0417
0	0	-	-	-	-
0	0	-	-	-	-
1	0	-	-	-	-
Calculated Value Chi - Square $\chi^2$					2.7723
Degree of Freedom (7-1-2)					4
Tabulated value of Chi -Square					9.49

**Q. No. 22 Overall Effectiveness of Regulating Institutions**

$F_o$	$F_e$	$F'_o$	$F'_e$	$F'_o - F'_e$	$\frac{(F'_o - F'_e)^2}{F'_e}$
6 } 4 } 10	4.8 } 4.16 } 8.96	10	8.96	1.0816	0.1207
3 } 3 } 6	3.2 } 3.84 } 7.04	6	7.04	1.0816	0.1536
9	10.2	9	10.2	1.44	0.141
9	8.86	9	8.86	0.0256	0.0029
7	6.8	7	6.8	0.04	0.059
9	8.16	9	8.16	0.7056	0.0865
0	0	0	0	0	0

0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
Calculated Value Chi – Square $\chi^2$					0.5108
Degree of Freedom (6-1-2)					3
Tabulated Value of Chi -Square					7.82

## ANNEX - III

### NAME AND ADDRESS OF RESPONDENTS

#### Listed Companies

S.N	Name of Company	Address	Telephone No.
<b>A.</b>	<b>Banks</b>		
01	Nabil Bank Ltd.	POB 3729, Nabil House Kamaladi, Kathmandu	4429546
02	Nepal Investment Bank Ltd.	POB 3412, Durbar Marg, Kathmandu	4228229
03	Standard Chartered Bank (Nepal) Ltd	POB 3990, Naya Baneshwor, Kathmandu	4782333
04	Himalayan Bank Ltd	POB 20590, Tridevi Marg, Thamel, Kathmandu	4250201
05	Everest Bank Ltd	POB 13384, Lazimpat, Kathmandu	4443377
06	Bank of Kathmandu Ltd.	POB 9044, Kamal Phokhari, Kathmandu	4414541
07	Nepal Development Bank Ltd.	POB.11017, age Plaza, Kathmandu	4245740
<b>B.</b>	<b>Finance Company</b>		
08	National Finance Co. Ltd	POB. 6942, Pako, New Road, Kathmandu	4242302
09	Gorkha Finance Co. Ltd	POB. 10951, Diddhi Bhowan Kantipath, Kathmandu	4222508
10	Union Finance Co. Ltd	POB. 9263, Kathmandu Plaza, Ktm.	4240779
11	Goodwill Finance Co. Ltd.	POB. 8867 Dillibazar, Kathmandu	4422290
<b>C.</b>	<b>Insurance Company</b>		
12	National Life & General Insurance Co. Ltd	POB. 4332, Lazimpat, Kathmandu	4412625

13.	Everest Insurance Co. Ltd.	POB. 10675, Hattisar, Kathmandu	4240363
14	Sagarmatha Insurance Co. Ltd.	POB. 12211, Kathmandu Plaza, Kamaladi, Ktm.	4241245
15	Nepal Life Insurance Co. Ltd.	Heritage Plaza, Kamaladi, Kathmandu	4241212

### Market Intermediaries:

S.N	Name of Market Intermediaries	Address	Phone No.
<b>A.</b>	<b>Brokers</b>		
01	Kumari Securities (P.) Ltd.	POB. 20189, Dillibazar, Kathmandu.	4418036
02	Arun Securities (P.) Ltd.	POB. 8136, Putlisadak, Kathmandu.	4419051
03	Agrawal Secuties (P.) Ltd.	POB. 4760, Sankerdev Marg, Ktm	4430780
04	Nepal Stock House (P.) Ltd.	POB. 8978, Anamnager, Kathmandu	4265887
05	J.F Securities (P.) Ltd	POB. 20946, Putalisadak, Kathmandu	4231339
<b>B.</b>	<b>Issue Managers</b>		
06	Nepal Finance & Saving Co. Ltd.	Kamaladi, Kathmandu.	4220031
07	NIDC Capital Markets Ltd.	Kamal PHokari Kathmandu.	4423219
08	Citizen Investment Trust	PUtalisadak, Kathmandu	4228759
<b>C.</b>	<b>Dealers</b>		
09	Nepal Sri Lanka Merchant Bank Ltd	Kamaladi, Kathmandu.	4440824
10	United Finance Ltd.	Darbar Marg, Kathmandu.	4241648
<b>D.</b>	<b>Market-Makers</b>		
11	Nepal Merchant Banking & Finance Ltd.	POB. 11543, Durbarmarg, Kathmandu.	4246160
12	Nepal Share Markets & Finance Ltd.	POB. 7958, Ramshah Path, Ktm.	
13.	Ace Finance Co Ltd. (now Ace Bank Ltd.)	POB. 13383, Narayan Chour, Naxal, Ktm.	4441110