

CHAPTER-I

INTRODUCTION

1.1 Background of the study

“Capital market is the one of the most important part of any financial market. It is the market place for the collection of long term funds. Entrepreneurs who have ideas but do not have funds to establish, manage and operate the business can collect the required funds by mobilizing the scattered public savings. They issue tradable securities like shares, debentures and others. The market through which they make new issue or additional issue is called IPO market or primary market. The success of the issue depends upon the public response is high with over-subscription, it is called successful issue. The purchase of securities is called investment. The investors sacrifice their present consumptions for future”(*Bhattarai, 2005 : 34*)

"The nature and volume of capital need in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labor, building up of stocks and miscellaneous expenses." (*Goldschmith, 1965: 54*)

There are two important aspects of capital market, namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities of transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer

without much difficulty. This aspect is called the liquidity of the stock market. Thus, the liquidity of the stock market affects the raising of new capital from the market. (*Bhatta, 1997: 8*)

Securities market is recognized as an effective way of raising capital for commercial enterprises, and at the same time providing an investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities markets are extremely important for the efficient allocation of capital within economies. The securities market is a requisite for the sound development of an economy because it not only provides stable long term capital for companies and an effective savings vehicle for the public, but also functions as an efficient tool for resource allocation. Mass participation in country's industrialization process is possible only through the efficient mechanism of securities markets as it promotes efficient collection of small and scattered savings from the investors and provides return to them in the form of dividend. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. (*Adhikari, 2005: 41*) In other words well developed capital market enable high quality firms to increasingly finance themselves from securities rather than from bank loans. (*Shirai 2004*) This type of behaviors of developed market enhances economic growth process by productivity growth.

Securities market plays a crucial role in the economy by channeling investment where it is needed and by putting it to best use. (*The World Bank, : 12*) The securities market help to channel public savings to industrial and business enterprises. Mobilization of such resources for investment is certainly a necessary condition for economy takes off, but the quality of their allocation to various investment projects is as important as a factor for growth. Securities market help agents manage liquidity and productivity risk by eliminating premature capital

liquidation, which increases corporate sector productivity. Securities market also accelerates growth indirectly by reducing liquidity risk, which encourages firm investment. (*SEBON, 2005:41*)

The development of securities market is a necessary factor for modern day economy. There should be no doubt regarding the significance of securities market as it is clear that countries having developed securities market mechanism are developed and countries with poor securities market mechanism are underdeveloped. (*SEBON, 2005:41*) Securities market must function well for the sustainable economic development. Firms need capital to grow and finance their investment needs. It requires efficient ways of raising funds.

Securities market plays a crucial role in mobilizing a constant flow of savings and challenging these financial resources for expanding productive capacity in the countries. Thus securities market assumes a greater role and significance in the present day economies.

Stock is a share of ownership in a corporation. Shares in a corporation can be bought and sold, usually on a public stock exchange. Consequently, the owner of shares can realize a profit or capital gain if the stock is sold at a price above what the owner originally paid for it. (*MS Encarta Encyclopedia, 2004: stock Introduction*)

A stockholder is considered a business owner and has the protection of limited liability. Limited liability means that a stockholder is not personally liable for the debts of the corporation. The most a stockholder can lose if the company fails is the amount of his or her investment—what he or she originally paid for the stock. This arrangement differs from that of other forms of business organization, which are known as sole proprietorships and partnerships. These business owners are

personally liable for the debts of their businesses. (*MS Encarta Encyclopedia, 2004: stock Introduction*)

Corporations issue stock in order to finance their business activities. This method of raising funds is only available to business firms organized as corporations; it is not available to sole proprietorships and partnerships. The corporation can use the proceeds of a stock offering in a variety of ways. Depending on the type of company, this might involve increasing research and development operations, purchasing new equipment, opening new facilities or improving old ones, or hiring new employees.

An alternative to stock financing is debt financing or the sale of bonds, an interest-bearing loan. This alternative is also available to sole proprietorships and partnerships. With the issuance of a bond a company typically promises to make periodic interest payments to the lender or bondholder as well as pay back the amount of the bond when the term of the bond expires. Thus bonds are evidence of loans while stocks are evidence of ownership. Stocks and bonds are collectively known as **securities**. (*MS Encarta Encyclopedia, 2004: stock Introduction/II*)

When a corporation first makes stock available for public purchase, it works with an investment banking firm to arrange an initial public offering (IPO). The investment bank acquires the first issue of stocks from the corporation at a negotiated price, and then makes the shares available for sale to its clients and other investors. Corporations that have IPOs are usually young companies in need of large amounts of capital. (Ibid)

A corporation can only have one IPO—the first time it makes stock available to the public. After its IPO, a company is said to be *public*. Public corporations that need additional financing for further business development may choose to issue

more stock at a later time. This is called a subsequent, or follow-on, offering. (Ibid)

Most of the information reported in the daily news media about the buying and selling of stock refers to transactions involving previously issued stock. The daily buying and selling of stock rarely involves IPOs. Almost all stock transactions are “second-hand transactions.” The corporation that initially issued the stock is not directly involved. (Ibid)

A corporation’s capitalized value refers to the market value of the stock that it has issued and that remains outstanding—that is, available for sale or purchase. A corporation’s capitalized value may be greater or less than its book value. Book value is the value of the corporation’s assets as reflected in its accounting statements—that is, on its books. Capitalized value may also be greater or less than the corporation’s replacement value, the amount that it would take to replace all of the corporation’s assets. (Ibid)

Corporations will sometimes split their stock. This means the corporation replaces outstanding shares with new shares on some multiple basis, such as a two-for-one or three-for-one split. When a corporation splits its stock, it does not obtain any new funding. Splits usually occur when the market price of shares is deemed too high by corporate management. With a split the price of shares falls, making purchase by smaller investors more affordable. Keeping a stock relatively affordable for smaller investors makes it easier for a corporation to raise money with a follow-on stock offering. (Ibid)

Economic gain represents the primary motive for the purchase of stock. The gain or return from stock consists of two parts: dividends, the periodic payments made from profits, and appreciation, the capital gain realized from selling a stock for more than its purchase price.

1.2 International Exchange (Ms Encarta Encyclopedia Delux 2004:

Stock/International Stock)

Exchanges started in Western Europe and then spread to other parts of the world. Some of the older exchanges, dating back as far as the 1100s, are the Paris Bourse in France; the Amsterdam Bourse in The Netherlands; the Deutsche Stock Exchange (formerly the Börse) in Frankfurt, Germany; the London Stock Exchange (LSE) in England; and the Borsa in Milan, Italy. Other European exchanges opened in the 1600s and 1700s, including those in Belgium, Spain, Portugal, and Sweden. Because stocks were uncommon before the 1800s, all of these early exchanges traded in commodities and currencies. In 1785 Amsterdam's Bourse was the first to formally begin trading in securities. By the mid-1800s, many countries outside of Europe traded in securities, including Canada and Australia. During the 19th and 20th centuries, major exchanges opened in Asia, Eastern Europe, and parts of Africa and Latin America.

Most of the world's major exchanges have become highly efficient, computerized organizations. Each has a charter for regulating operations and some are integrated within regional economic unions. For instance, the EU was instrumental in organizing the EASDAQ and drafted its charter. In addition, exchanges now trade securities from companies around the world. Computerization has enabled brokers to instantaneously monitor activities on foreign exchanges. Many exchanges also list indexes and averages—such as the Nikkei 225 Stock Average of the Tokyo Stock Exchange (TSE) and the Financial Times Stock Exchange 100 of the LSE—that are closely followed by options and futures investors.

1.3 Historical Development of Stock Market in Nepal (*Sebon, 2005: 42-43*)

The concept of the stock market in Nepal is very new. It is still in infancy stage, though the history of stock market began with the flotation of shares by Nepal Bank Limited and Biratnagar Jute Mills Limited in 1937. At that time, the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family. The development of stock market could not be a national policy for a long time. Then the industrial policy of Nepal led the development of stock market with the establishment of Securities Marketing Center (SMC) in 1976. Before the establishment of SMC, there were no institutional arrangements to undertake and to manage the new issues of securities. Initial Public Offerings had to be made as per the provision of Companies Act, 1936, which were not adequate and relevant. The Act had not even included preference share as corporate security. It was recognized as corporate security only by Company Act 1964.

SMC started secondary trading of securities in 1981, which was restricted to government bonds. Till 1983, the concept of well structure secondary market had not evolved in Nepal. No separate Act existed to regulate the trading of securities. The Securities Exchange Act, 1983 was enacted in 1983. The act restricted the exchange of unlisted securities. The SMC was renamed Securities Exchange Center (SEC) in 1984. The SEC was the only institution at that time managing and operating primary and secondary markets of long term government and corporate securities.

A need to developed different institution mechanism relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the securities market in Nepal, which led to the

establishment of Securities Board of Nepal (SEBO) in 1993 with a mandate to regulate and develop the securities markets. SEBO started to register securities and grant approval for issuing securities to the public in 1993. The first amendment in the Act also led to conversion of SEC into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with the objective of operating and managing secondary transactions of securities. The initial efforts led to the opening of a full fledged stock exchange in January 13 1994.

The second amendment in Securities Exchange Act 1983 was made in 1997. This amendment made provision for registering securities businesspersons in SEBO. As per the provisions of the second amendment, SEBO provided license to the securities businesspersons in 1997. The amendment made mandatory provisions for the listed companies submit annual and semi annual reports to SEBO. This amendment also required securities businessperson to submit annual reports incorporating the securities transactions carried out by them to SEBO.

Presently there are 24 stock brokers, 2 securities dealers, 9 issue managers, and one stock exchange and 125 listed companies in the Nepalese Securities market.

1.4 Statement of Problems

A low trading volume, absence of professional brokers, early stage of growth, limited movements of share price and limited information available to the investors characterize Nepalese stock market. They are not confidence to get appropriate returns from the listed companies. In the context of Nepal, capital market was initiated in the country with the establishment of securities market center in 1976 in the Government sector, Recently Nepal stock exchange has been acting as a secondary market to promote the stock market. The performance of companies listed in NEPSE plays an important role in the development of stock

market. At the early stage of an emerging market economy, it is important that the Govt. should create the right policy, environment to facilitate the creation of a critical mass of financial instruments, issues and investors.

To sum up, this study deals with following issues:

- What is the current (Value, Price & Volume) trend of stock market?
- Is there any legal obstacles for proper growth of stock market?
- Is the number of stock broker of NEPSE sufficient?
- Are investor aware of Stock market activities? (ask to brokers & investors)

1.5 Objectives of the Study

The main objective of the study is to deal with the analysis of the stock market in Nepal, which will bring revolution in the development of the capital market. Similarly, to provide report reader information in terms of prospective current scenario of stock market.

The basic of this study is to highlights of the following aspects of stock market:-

1. To analyze the trend of the stock market
2. To study the procedure and practice of entering the primary and secondary market.
3. To analyze the problem of the stock market

1.6 Importance of the Study

The establishment and operation of the stock exchange market has opened door to small investors otherwise limited by prevailing opportunities and inability to assemble diverse source. The only probable option left for them was bank deposits. Thus, enterprising and venturesome small investors were deprived of opportunities to invest. However, the establishment of the securities market in Nepal in 1985 and Nepal Stock Exchange Market in 1994 has opened an avenue to them. The Securities Exchange Board (SEBO) is operating since 1993. However,

to what extent, their interest is being given attention has remained an issue of concern in Nepal.

Security market is a place where buying and selling of securities takes place in an organized way. The parties involved in security market are investors, intermediaries and specialists. Investors who are willing to buy or sell securities quickly may be searching good offers or accepting poor offers with higher risk and of higher return. Securities markets provide options to all categories of investors and make the financial market most competitive in developing countries. The position of liquidity and profitability and the degree of risk embodied on it are indicators taken into consideration while selecting the best options for investment. (Bajracharya, 2004:5)

Intermediaries take temporary positions of securities during a time period in between a flow of buy orders and flow of sales order and make earning from the variations in supply and demand positions. Commission for security transaction is the source of income of intermediary.

1.7 Limitation of the Study

- The study is mainly based on primary and secondary data.
- The time period covers from 1999 to 2007.
- The study deals with overall companies listed in the Nepal Stock Exchange.
- The data provided by NEPSE, SEBO and other related sources are assumed to be corrected.

CHAPTER - II

REVIEW OF LITERATURE

There are several material, book, Acts, Provisions and financial periodic are used to prepare this report. The focus was given not only to the facts and figures but theoretical aspect of Nepalese capital market which has directly effect the primary market and underwriting of securities in Nepal. These reviews are as follows.

2.1 Conceptual Framework

In this section attempts have been made to review the theoretical concepts on stock market.

2.1.1 Capital Market:

The capital market is concerned with long-term finance. Broadly it consists of a series of the channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with those private saving., individual as well as corporate, that are turned into investments though new capital issues and also new public load floated by the government, the semi-government bodies. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of funds comes from individual or corporate savings. Institutional investors and surplus of governments.

"The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale and resale of corporate securities". (Gupta, 1978:325).

"An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles of interest". (Shakespeare, 2001:97-99)

2.1.2 Securities Markets:

"Holders of stock and bonds may decided to obtained cash for their investiments by selling their securities to other investors. Similarly, others in the economy have cash to invest and are desirous of buying stock and bonds. The problem is to bring together the order of prospective sellers and prospective buyers so that an exchange of sureties for cash may take place. An efficient system whereby investors can convert their securities in to cash quickly and at or near the current

market price makes investors more ready to put their saving into stocks and bonds". (Bradley, 1963:303).

Nepal stock exchange has defined the securities market in the following ways.

"The securities market in the place where a large number of financial securities (Share, bonds, debenture etc) is traded according to prescribed rules". (Investors Guide, 1978:11).

"So far as securities market in concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities". (Rugh, 1996:50).

"Securities are traded in a market called securities markets. Although securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities such as equities, short and long-term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and securities firms securities issuing institutions such as government and corporate bodies and participants of the securities markets. Securities markets major function is to provide line between

savings and investment thereby facilitating the creation of new wealth ". (Baral, 1999: 8-9)

2.1.3 Primary Markets:

"A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue- that is the company actually receives the proceeds from sale of securities. Once the securities begin to trade among individuals, business, governments, or financial institutions, savers and investors, they become a part of the secondary market". (Nancy and Richardson, 1984:146)

"The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and suppliers of today's funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to existence of insignificant new issue market for industrial securities. The primary securities

market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in the consumption or real capital investment. The participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for funds. These brokers provided invaluable services. Their principle role is to assist in the pooling of the funds by the creation of securities forms that will appeal to the ultimate investors". (Nancy and Richardson, 1984:147)

2.1.4 Secondary Markets:

Secondary Market is the place where already issued securities are traded. It is not the place to raise the funds/ capital for the institutions. The resell and repurchase of securities takes place in secondary market which the institutions indirectly. The types of secondary market are as follows:

) Types of Secondary Market:

- Organized Securities Exchanges
- Over- the – Counter (OTC) Market
- Third Market
- Fourth Market

➤ Organized Securities Exchanges:

Organized Securities Exchanges are the physical locations where trading of securities is done under a set of rules and regulations. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary

market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange and this is the only stock exchange in Nepal. Similarly, the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), Bombay Stock Exchange (BSE) etc. are the example of organized stock exchange.

➤ **Over- the-Counter (OTC) Market:**

"The Over- the-Counter (OTC) exchange is not an organization but and intangible market for the purchase and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchanges. It neither requires membership for trading of securities nor listing of securities for trading, meaning that formal listing of securities are not necessary in the OTC market. A sophisticated telecommunication network links active traders in the market. The price at which securities are traded "Over- the-Counter" are determined by competitive bids and negotiation. The OTC in addition to creating a resale market for outstanding securities is a primary market in which new public issues are sold. Therefore, the OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both the primary and secondary market". (Gitman, 1988: 30).

➤ **Third Market:**

The third market is an OTC market where the securities listed in the organized stock exchange are also traded.

More generally the term 'third market' now refers to the trading of any exchanged listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange. In the third market dealers provide only execution and record services for their clients.

➤ **Fourth Market:**

The fourth market also exists in the over-the-counter market and here trades occur directly among investors. In other words, in this type of market the buyers and sellers deal directly with each other. This deal occurs in the exchange listed securities. Fourth market participants completely by pass normal dealers services.

In Nepal, organized securities exchanges are made through Nepal Stock Exchange (NEPSE). The securities exchange center was established with an objective of facilitating and promoting the growth of capital market. Before its conversion into stock exchange it was only a capital market institution undertaking the job of brokering, underwriting, managing public issue market making for government bonds and other financial services. In 1993, the center was converted into NEPSE with the basic objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading

floor through market intermediaries, such as brokers market makes etc. and it is a non profit organization, operating under Securities Exchange Act, 1993. NEPSE opened its trading floor on 13th January 1994 through licensed members. His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed members are the shareholders of the NEPSE.

"The over the counter market is broader in scope than stock exchanges. It will be recalled that stock exchange limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to public whereas the stock exchange are auction markets, the over the counter market is primarily a negotiated markets that is buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter markets buys securities with the hope of being able to resell them at a higher pries. This process resembles any merchandising activity in which the traded buys goods in the hope of reselling them at a higher price". (Bradely, 1963: 310)

"Secondary markets are markets for existing assets, which are currently traded between Investors. It is market that creates the prices and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all". (Geoffery, 1983: 25).

"Secondary (Indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investors and to make certain assets more attractive to buyers and seller secondary market comprises the stock exchange, the over-the-counter market". (Rimal, 1994:35)

"The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making more attractive. So secondary markets is a place where are securities once sold are purchased and repurchased to provided liquidity to the government securities and the secondary market is operated by Securities Exchange Center. The trading of government securities in secondary market is very thin because of limited distribution of the securities. Securities Exchange center in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The secondary market ever operated in the country was on DBs. The SEC initiated the secondary markets in the fiscal year 1975-76, since then the volume traded in generally increasing year by year". (Pradhan, 1997:5)

2.1.5 Stock Broker

"A broker acts as a middleman who matching buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities

involved in the transaction. A commission is charged by the broker for his assistance in consummating the transaction". (Bradely, 1963: 304).

"A stock broker as a member of stock exchanges; and sub-broker as any person who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such broker". (Bhatta, 1997:23).

Conditions for granting of certificates to stockbrokers:

The rules stipulate the registration is necessary for acting as broker or sub brokers.

The conditions for grant of certificate of registration to act as stock brokers are:

He holds the membership of a Stock Exchange Act.

He shall abide by the rules, regulations and by-laws of the Stock Exchange of which he is a member.

He shall pay the amount of fees for registration.

A stock broker is expected to maintain high standards of integrity, promptitude, and fairness in the conduct of his business. He is expected to exercise due to skill, diligence, and comply with statutory requirements and not to indulge in the manipulations and practices.

Commission Broker:

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to

whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

A brokerage firm, or stockbroker, accepts investors' orders to the appropriate exchange for execution for transmitting these orders to the appropriate exchange for execution. There are two broad types of brokerage firms-retail houses, which deal with individual investors, and wholesale houses, which deal with institutional investors. Some firms have both retail and wholesale customers. they include most of the well-known firms like Merrill lynch, pierce, fanner and smith. Inc. Prudential Bache Securities Inc. Others, such as Salomon Brothers, however, accept only institutional investors as clients. As soon as an order is placed with a brokerage houses it is relay by high-speed lines to the exchange floor. There it is received by a commission broker, the brokerage firm's representative. They are the members of the exchange who actually see that customer orders get executed according to instructions.

Floor Broker:

The floor brokers, not large in number, are officially attached to other members. The floor broker executes orders for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents.

Floor brokers may be described as brokers. They are simply members of the exchange not brokers for a member firm. At peak activity periods, they will accept

orders from other broker, execute them, and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

Floor brokers are independently employed commission brokers who work for brokerage firms on a free-lance basis. They have been referred to as “\$2 brokers.” a name acquired years ago based upon the then-existent commission schedule. They are available for hire when the commission broker is working at capacity or may temporarily be off the exchange floor. The floor brokers are paid a fee directly by the commission broker.

The floor brokers are not officially attached to other members. The floor broker executes orders for any member and receives as his compensation a share of the brokerage charged by the commission broker to his constituent.

Security Dealer:

"A dealer buys securities at one price and expects to sell them at a higher price".

(Bradley, 1963: 304)

Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sells actions added up liquidity of the securities.

"Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer". (Raju, 2000:66)

Market Makers:

"Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways expect that always stands ready to buy and sell securities at their bid and asked price for which they are market makers". (Joshi, 2001:28).

The market maker is any company or corporate body which deals in securities at the Stock Exchange in its own name or under its name on the basis of a pledge to provide liquidity to the securities issued by Government of Nepal, as well as to the securities listed at the Stock Exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies, and not to let to occur improper instability in the prices of such securities, shall be granted membership of securities market maker.

Institutional Brokers:

Institutional brokers specialize in bulk purchases of securities, including bonds, for institutional investors. Institutional investors include large investors such as banks, pension funds, and mutual funds.

Institutional brokers generally charge their clients a lower fee per unit than brokers who trade for individual investors. This is the case because the total cost of both large and small transactions is much the same. When this total cost is spread over a larger number of shares, then the cost per share is lower. Given the lower per-share cost, institutional brokers can charge a lower per-share fee.

Conditions for granting of certificate to stock brokers-

The rules stipulate the registration is necessary; for acting as broker or sub-broker.

The condition for granting of a certificate of registration to act as stock-broker are-

-) He holds the membership of a stock exchange act.
-) He shall abide by the rules, regulation an by laws of the stock exchange of which he is member.
-) He shall pay the amount of fees for registration.

A stock broker is expected to maintain high standards of integrity, promptitude and fairness in the conduct of his business. He is expected to exercise due to skill, diligence and comply with statutory requirements and not to indulge in manipulation and practices.

2.1.5 Stock Exchange:

"Securities Exchange does not directly buy or sell securities; rather, they provide trading floor on which a continuous auction market is conducted. To transact business on the trading floor of an exchange, an individual must be a member, that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must be transmitting their orders to an exchange member- usually a commission broker, -who sees that they are carried out". (Jacob, 1984:155)

"In the stock exchange, there is an active bidding and two-way auction trading takes place. The bargains that struck the fairest price and determined by the basic laws of supply and demand. The stock exchange provides an auction market in which numbers of stock exchange participants to ensure continuity of the price and liquidity to investors". (Panta, 2000:93).

"The stock exchange provides an organized market place for the investors to buy and sell securities freely. The market for these securities is an almost perfectly competitive one because a large number of sellers and buyers participate. The shares listed, however, are not really, homogenous like a commodity in a perfectly competitive market". (Joshi, 2002:33).

In contrast to the bond market, the stock market is basically a securities market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchange-Nepal Stock Exchange, New York Stock Exchange, The American Stock Exchange, The Regional Exchange and the over-the- counter market.

Stock exchange is the most highly centralized and visible institutions where already issued securities and brought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

The establishment of the Securities Exchange Centre (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Ltd (NBL) and Biratnager Jute Mills Ltd.(BJM) had began in 1937 under the company Act, 1936. The SEC management five public issue, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84.

Only for 1984, the floor was opened for secondary trading of shares to provide the liquidity for the already issued shares. It availed the liquidity to the shares of 16 stocks wit paid up capital of Rs 307.32 million, market capitalization of Rs 318.67 million and 9852 shareholders till FY 1985/86.

Stock Exchange, organized market for buying and selling of financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded over the counter—that is, by telephone or by computer.

Major stock exchanges in the United States include the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both in New York City. Far more corporations list their stock on the NYSE than on the AMEX, however. Nine smaller regional stock exchanges operate in Boston, Massachusetts; Cincinnati, Ohio; Chicago, Illinois; Los Angeles, California; Miami, Florida; Philadelphia, Pennsylvania; Salt Lake City, Utah; San Francisco, California; and Spokane, Washington. In addition, most of the world's industrialized nations have stock exchanges. Among the larger international exchanges are those in London, England; Paris, France; Milan, Italy; Hong Kong, China; Toronto, Canada; and Tokyo, Japan. These stock exchanges all have a central location for trading. The major over-the-counter market in the United States is the Nasdaq Stock Market (formerly, the National Association of Securities Dealers Automated Quotation [NASDAQ] system). The European Association of Securities Dealers Automated Quotation system (EASDAQ) is the major over-the-counter market for the

European Union (EU).Nepal has one an only stock exchange; Nepal stock exchange (NEPSE) .

Stock exchange transactions involve the activities of brokers and dealers. These individuals facilitate the buying and selling of financial assets. Brokers execute trades on behalf of clients and receive commissions and fees in exchange for matching buyers and sellers. Dealers, on the other hand, buy and sell from their own portfolios (inventories of securities). Dealers earn income by selling a financial instrument at a price that is greater than the price the dealer paid for the instrument. Some exchange participants perform both roles. These dealer-brokers sometimes act purely as a client's agent and at other times buy and sell from their own inventory of financial assets.

The extent of active stock market trading by individual investors should depend on several factors. One is their knowledge. Do they understand how stock is valued, traded and managed? A second factor is their belief about the relationship between a security value and its price. Are the two usually identical, and if not, can a typical investor expect to the difference? And the third factor is the trade-offs to be made between direct investing and indirect investing through the purchase of investment company share.

2.2 Review of International Studies:

Vast numbers of research studies have been performed internationally on the stock market. The findings of some of the research studies are as follows:

Doodha, (1962) on "*The Causal Connection Between Deficit Finance, Money Supply, and the General Level of Price and the Share Prices*", has shown relationship being positive and in the same direction, it can be deduced that, ceteris paribus, if the deficit finance is low, money supply increase will be small, the general price level will be little and, therefore, the growth in stock market prices will be small.

Borswort, (1975), on "*Industrial Production and Prices of Common Stock*", has revealed that the stock market and economics activity move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variable.

Kimpton, (1985), on "*The Study Conduct by U.S. Department of Commerce on Stock Price and the Business Cycle*", has found that the general correspondence between stock prices and business cycle, where weighted moving average of a stock price index is mapped against the peaks and troughs of business cycle since 1948. The market has reflected all the recessions in the economy since 1948.

Fisher and Jordan, (1990), on "*Common Stock Represents an Ownership Position*", has discussed that holders of common stock are the owners of the firm, have the voting power the among other things elects the board of directors, and have a right to the earning of the firm after all expenses and obligations have been paid but they also run the risk of receiving nothing in earning are insufficient to cover all obligations.

Levine, (1996) , on "*Stock Markets May Affect Economic Activity Through the Creation of Liquidity*" reveals that ,many profitable investment require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less

risky- and more cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating long-term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term, economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment.

Dimirgic - Kung and Levin, (1996), on *"Across Countries the Level of Stock Market Development is Positively Correlated Wit the Development of Financial Intermediaries"*., comments that stock markets and financial institutions are generally complements; they grow simultaneously.

Stock Exchange, organized market for buying and selling of financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded *over the counter*—that is, by telephone or by computer.

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2.3 Review of Legal Provisions

2.3.1 Securities Exchange Board Offices (Legal Rules, Regulations):

SEBO has defined the rules regarding issue of securities in primary market for concern firms in "Security Registration and Issue Approval Guidelines 2000 (B.S. 2057)." Apart from all, here are the major steps defined in this act.

➤ Appointment of the Issue Manager

Appointment of the issue manager is the first step for the public issue. When the company needs and wants to go to the public then they should draft its prospectus as a legal requirement. In this prospectus company should mention the brokerage of shares and new issue manager.

Drafting Prospectus

The issue managers or company itself may draft prospectus. It contains:

1. Full personal details of directors of the company and the sponsors, auditors, bankers and brokerage of shares, and also the managing agent, if any.
2. Date of incorporation of the company, information about capital structure including authorized and issued capital, voting rights, loan capital mortgages in forces and other borrowings.
3. Objectives of the company, summary of principal provisions of the company's articles of association with particular reference to the voting power of directors.
4. Extensive commentary on company's operation including minimum three years financial positions and list of subsidiaries and their business etc. if the company is already in operation.
5. Qualification share required for the board of directors an sales or remuneration applicable to them and shares or cash received as remuneration by the promoters of the company.
6. Total number of shares offered to the public for subscription provision for reserving the shares for the employees or any shares and minimum number of shares which must be subscribed prior to the allotment and the advance payment to be made on each share along with the application.

7. The assets purchased with the proceeds of the sales of shares the name of persons selling them and particulars of arrangement where payment is in the form of shares or debenture in lieu of cash and the loans raised through the sale of debenture.
8. Estimation of the income and expenditure of the company at least for the three years of operation and highlights of the balance sheet and profit and loss account for the previous years.
9. Information about the application for shares, place of application submission and the banker for money deposit.
10. Shares or cash received or to be received as remunerations by promoters of the company and whether any funds of a promoters or a directors are involved in the purchase or intended purchase of assets by the company and whether any promoters or directors is a partner in any firm or is connected with any other company, and ,

Other necessary details.

Filling of the prospectus with the Registrar of Companies:

The prospectus contains information about the company and the proposed security issue to the investing public. The draft prospectus signed by the directors application from along with the article and memorandum of association must be forwarded to the Company Registrar, along with required documents by the company act.

Application for the public issue to the Securities Board of Nepal

Once the office of the company registrar approves the prospectus, it should be submitted to the Securities Board of Nepal along with issue fees to get approval for new issue.

Appointment of underwriter:

As underwriter agrees to subscribe to a given number of shares in the event the public do not subscribe to them. The underwriter, in essence, stand as a guarantee for public subscription in consideration for the underwriting commission. The principal underwriters are the banks, finance companies, insurance companies etc. The most common practice now is to go to for consortium underwriting, they underwrite an arrangement whereby the public issue. Underwriting of shares is optional for the company. Normal practice of Nepal is that a few company show desire to underwrite its share, because it increases issue cost.

Appointment of the banker:

The banker to the issue collects money on behalf of the company along with the application form.

Printing of prospectus and application form and dispatch

After completion of all the activities to take approvals the next step of new issue is printing of prospectus and application form. The quantity of the prospectus and application form depends upon the issue size and the nature of the company. But it should be sufficient to distribute.

Promotion

Although, the promotional campaign typically commences with the filing of the prospectus to the concerned authorities but when the company release announcement of the issue, it actually started. Public brochure, investment forum, broker forum can be held and advertisement may also release in newspapers and periodicals to generate interest among potential investors.

The announcement of the issue must be made at least 15 days before the opening of subscription list.

The announcement of the issue will specify when the subscription would open and when it would close, and the application collection center. During the period the subscription is kept open, the collection center will collect the application form from the investors. When the issue is over subscribed, the issue will be closed. But subscription must be made open minimum of seven working days and maximum of 30 days once.

Allotment of shares

If the issue is under-subscribed or just fully subscribed the company may allot the shares applied for the applicants after securing the formal approvals from the concerned authorities. If the issue is over subscribed, the frequency distribution of applications of different size categories is prepared and on the basis of this an alternative patterns of allotment are prepared and allotted. The guiding principal is that the allotment be should titled in favor of the smaller application.

When the allotment is completed company will distribute allotment letters and then after share certificates.

2.3.2 Legal Provision:

) Bank and Financial Ordinance 2005:

One of legal provision placed includes "Bank and Financial Ordinance 2005". It is stated as follows in the Section 2 of this Act.

Provision Concerning Establishment of Banks or Financial Institutions, and Securities Thereof

a) Prospectus

1. Before publicity issuing its securities, every bank or financial institution must secure the approval of the Securities Board in relation to the registration of the prospectus according to current law relating to securities, and have the prospectus registered at the Rastra Bank. Until the prospectus is so registered, the concerned bank or financial institution, or anybody acting on its behalf, may not publish its prospectus.
2. The formalities to be fulfilled while issuing a prospectus under Sub-section (1) and the matters to be mentioned in the prospectus shall be as mentioned in the current law relating to securities.
3. For the purpose of securing the approval of the Securities Board for the registration of its prospectus, the concerned bank or financial institution must, subject to current law relating to securities, apply to the Securities Board in writing.
4. The Rastra Bank shall not register a prospectus until it receives in writing information about the grant of its approval by the Securities Board in relation to the registration of the prospectus.
5. The bank or financial institution must allow every person desirous of perusing the prospectus to peruse the same without collecting any fee or charge.

b) Allotment of Shares

1. Every bank or financial institution must set apart at least 30 person of its issued capital for public subscription. The bank or financial institution may set apart not more than five percent of the shares so set apart for its employees.

Provident that every bank or financial institution to be established with the joint investment of a foreign bank or financial institution must sell and allot to the public shares in the percentage prescribed by the Rastra Bank from time to time.

2. While inviting applications from the public for the purchase of its share, every bank or financial institution must demand payment of cent percent of the shares along with the application.

c) Transaction in Securities

1. While issuing its securities for public subscription, every bank or financial institution must perform all functions relating to their sale and allotment and collection of payments in consideration thereof according to current law relating to securities.

2. Every bank or financial institution must submit to the Rastra Bank and the Securities Board one copy each of the agreement signed by it in relation to conducting transactions in its securities through any institution dealing in securities within seven days from the date of signing the agreement.

d) Prohibition on Selling or Pledging as Collateral or Mortgaging Shares and Debentures

1. Notwithstanding anything contained in current law, the promoter of a bank or financial institution may not sell, mortgage or pledge as collateral any share registered in his/ her name for at least five years from the date of commencement of financial transactions.

2. In case the promoter of bank or financial institution wishes to sell, mortgage or pledge as collateral any share registered in his/ her name after five years from the date of commencement of financial transactions by the bank or financial

institution, he/ she, any do so subject to the conditions prescribed by the Rastra Bank.

e) Prohibition on Banks or Financial Institutions to Purchase Their Own Share

1. No bank or financial institution may purchase (buy back) its own shares or supply credit against the security of its own shares.
2. Notwithstanding anything contained in Sub- Section (1), a bank or financial institution may, with the approval of the Rastra Bank and in a percentage not exceeding the percentage prescribed by the Rastra Bank, purchase its own shares by utilizing its accumulated profits that may be distributed as dividends:
 - a. In case the shares issued by the bank or financial institution are fully paid-up.
 - b. In case the shares issued by the bank or financial institution are already registered with the Securities Board.
 - c. In case the Articles of Association of the bank or financial institution provides for the purchase of its own shares.
 - d. In case the general meeting of the bank or financial institution adopts a special resolution authorizing the bank or financial institution to purchase its own shares.
 - e. In case the amount of loan to be repaid by the bank r financial institution is not going to be more than double the amount deposited in the capital and general reserve funds after it purchases its own shares.

Explanation: For the purpose of this clause, the term "amount of loan" means the entire amount of secured and unsecured loans obtained by the bank or financial institution.

- f. In case the value of its own shares to be purchased by the bank or financial institution is not going to be more than 20 percent of its total paid-up capital and the amount deposited in the general reserve fund.
 - g. In case the act of purchasing its own shares is not going to be prejudicial to the directives issued by the Rastra Bank from time to time in that connection.
3. Every bank or financial institution must apply to the Rastra Bank for permission to act as mentioned in Sub-Section (2) by explicitly mentioning the following matters. On receipt of such an application, the Rastra Bank may, if it deems so appropriate on the basis of the particulars received, grant permission to the bank or financial institution to purchase its own shares.
- a. The reason and the need for purchasing its own shares.
 - b. Particulars of the evaluation of the possible impact on the financial condition of the bank or financial institution of its act of purchasing its own shares
 - c. Types and numbers of shares proposed to be purchased
 - d. The maximum or the minimum amount needed for the purchase of shares under Clause (c), and the source thereof.
 - e. Period by which (the bank or financial institution) may purchase its own shares;
 - f. Mode of purchase of shares;
 - g. Other necessary matters prescribed by the Rastra Bank and to be mentioned under current law in relation to the purchase of its own shares.
4. On receipt of permission under Sub-Section (3), the concerned bank or financial institution may purchase its own shares in any of the following

- ways within six months from the date of receipt of the permission, or within 12 months from the date of adoption of the special resolution by the general meeting, whichever is the latest:
- a. By making purchases through the Stock Exchange;
 - b. By purchasing from the concerning employees the shares set apart for the employees of the bank or financial institution under this Ordinance.
 - c. By purchasing shares from the current shareholders on proportionate basis.
5. In case a bank or financial institution purchased its own shares under sub-section (4) it must furnish information to the Rastra Bank about the number of shares so purchased, the amount paid in consideration thereof, and other necessary particulars related thereto within 30 days from the date of purchase.
6. A separate capital refund fund shall be established and an amount equal to the face value of the shares purchased (by a bank or financial institution) under sub-section (4) shall be credited to it. The amount credited to the fund must be maintained as in the case of the paid-up capital.
7. In case any bank or financial institution has purchased its own shares as mentioned in sub-section it must cancel all such shares within 120 days from the date of purchase.
8. The circumstances in which a bank or financial institution may not purchase its own shares and other matters concerning such purchases shall be as prescribed by the Rastra Bank.

e) Restriction on transactions in securities

1. No director, executive chief auditor or secretary of a bank or financial institution or any person directly involved in the management or accounting functions of a bank or financial institution may sell or purchase pledge as collateral or mortgage give away or accept as gift or donation or exchange the securities of the concerned bank or financial institution or those of its subsidiary companies, or cause or allow any of such activities under his/her own name or in the name of his family, or in the name of any firm, company or institution under his/her own or his/her family's control while he/she remains in his/her post, or for at least one year from the date of his/her retirement from his/her post.

Provided that this restriction shall not be applicable in respect to newly issued shares.

2. In case any person takes any action in contravention of sub-section (1) the concerned bank or financial institution shall confiscate the concerned securities.
3. Shares confiscated under sub-section (2) may not be sold and allotted in the manner deemed appropriate by the securities board.

2.3.3 Issue Approval Guidelines:

The provision related to the "Issue Approval Guidelines 2060" has been laid down by SEBO. Here are the related matters for the primary issue of securities in Nepal.

Registration and Issue of the Securities

1. **Securities to be registered for the issuance:** If any Corporate Body has to issue and sell its Securities in an open market or by circular system, such Securities shall be required to be registered in the Board.
2. **Application to be submitted for the Registration:** In order to register the securities in accordance with section 7F the concerned corporate body shall submit an application to the board in the form as prescribed along with statements and documents as prescribed as well as prescribed fees.
3. **Registration of Securities and Permission for the Issuance :** (1) After conducting necessary inquiry upon the application received under section 7G the board shall if it deems appropriate register the securities and grant permission in a form as prescribed for issuing the securities, provided that unless obtaining the license of issuance the corporate body shall not issue the securities
(2) While making inquiry upon the statements and documents received along with the application under section 7G for the registration of securities the board may ask the concerned corporate body to clarify the statement or document direct to make amendment or may specify the terms and conditions to be followed by such corporate body for issuing such securities
(3) The corporate body which has obtained the license to issue the securities being registered pursuant to sub-section (1) shall give the information of the matter of issued securities to the board
4. **Exemption for the Registration of Securities :** (1) Notwithstanding anything contained in this act the board may specify the limit and type of the securities and on such basis it may give exemption for the

registration of securities in the board while issuing the securities by any corporate body.

(2) The notification to the effect that the board has exempted for the registration under sub section-(1) shall be published in the leading newspaper of national standard

5. **Documents to be Shown:** The certified copies of the documents relating to the particulars and information submitted to the board for the purpose of registering the securities by the corporate by the corporate body shall have to be shown, if the investors so desires.
6. **Responsibility to be Taken:** The concerned corporate body and at the board or directors of such corporate body shall have to take the responsibility personally or collectively on the authenticity of the documents relating to the particulars information submitted to the board pursuant to section 7g for the purpose of registering the securities.

2.3.4 Issue Manager- Their Functions and Responsibilities:

In Nepal issue managers are regarded to be "Investment Bankers". So, issue managers functions are considerable familiar to the functions of investment bankers.

The people responsible for finding investors for the initial public offering (IPOs) of securities sold in the Primary Market are called Investment Bankers. Investment bankers are also called Underwriters; they purchase new issue from security issuers and arrange for their resale to the investing public.

The investor banks are following functions. They advice their clients, handle the administrative tasks, underwrite the issue, and distribute the securities as follows.

- J The Advisory Role: In the first few meetings with a potential security issuer, the investment banker typically serves as an advisor. The underwriter helps the issuing firm analyze its financing needs and suggests various ways to raise the needed funds. The underwriter may also function as an advisor in mergers, acquisitions and refinancing operations.
- J 3The Administrative Function: The investment banker share with the issuer the responsibility of seeing that everything is done in accordance with relevant securities laws. Filling up the registration after the issue approval in accordance with laws. Producing prospectus after the issue approval in Nepal is done by Securities Board (SEBO) Nepal and then distributing to the potential investors.
- J Underwriting: Underwriting refers the guarantee by the investment banker that the issuer of the new securities will receive a fixed amount of cash. The brief period between the times the investment banking houses purchase an issue from the issuer and the time they sell it to the public is Risky. Because of unforeseen changes in market conditions, the underwriters may not be able to sell the entire issue, or they have to sell it at less than the price they paid for it.

Not all new securities issues are underwriter. If the investment banker finds one buyer for an entire new issue and arranges for a direct sale form the issuer to these large investors, a **Private Placement** is said to have occurred. In a private placement, this investment banker is compensated for bringing buyer and seller together, for helping to determine a fair price, and for executing the transaction.

- J **Distribution:** Investment bankers can distribute securities to investors in different ways. The investment bank may buy the issue and then sell the securities an underwriting. Or, the investment broker may simply act as an intermediary in bringing together issuer and investors in a private placement.

2.4 Review of Nepalese Studies:

No specific research studies have been available regarding the A study on "Problems of Stock Market in Nepalese Perspective" and vice versa in the Nepalese Context. However, some articles, related to stock market are consulted and reviewed.

The Scholars create books under so many years or practice. So, it considered here to put scholars' view in regards with the investors protection. What have they spelled out and in what way investors should be protected in the capital market is picked-up from the books like below:

Articles, journals and bulletins are of great significance for thesis writing. In the context of Nepal, No specific studies have been available regarding the impact of stock market on economic development and vice versa number of research studies has been performed internationally on the stock market but in this chapter, the main focus will be on the review literature in the Nepalese context only. So in order to make this study more comprehensive, however some articles, books and dissertation etc. related to stock market are consulted and reviewed.

Mahat, (1981), in "*Capital Market, Financial Flows and Industrial Finance in Nepal*" has said that "there is absence of secondary market to ensure liquidity to the securities on demand. Any attempt to stimulate investment in industrial sources would naturally depend on the extent to which the securities are salable in the market only the existence of a stock exchange market can enable the security holders to sell their securities for cash and purchase alternate securities if they wish. In Nepal, in the absence of such a stock market an industrial security is a liquid form of asset even more liquid than the real estate for all practical purposed".

Prof. Manohar Krishna Shrestha in an article(1982-83), in “ISDDC” has brought certain issues related to stock market development such as lack of suitable financing planning, negligence of working capital management, deviation between liquidity and turnover of assets and in ability to show positive relationship between turnover and return on net working capital. At the end, he had also made some suggestive measures to over conform the above policy issues viz, identification of needed funds, development of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long-term sources of fund to finance working capital.

Shrestha, (1992), in “*Shareholders Democracy and AGM Freedom*” has focused various issues related to protection of shareholders expectation. “Success of companies directly depend on the protection of their owners, but now can this be accomplished is main question. Thus, it is necessary to develop a possible guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. At present the overall shareholders democracy in terms of the protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders wealth by appreciating the value of shares they hold”.

According to IMF staff country Report “A well functioning capital market is important for Nepal to support the efficient channeling of private savings to investment and facilitate the transactions to direct monetary control. While headway has been made through various reforms since the late 1980’s the capital market is still in early stage of development with much structural weakness”.

In country economic review : Nepal, ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market, including “Major Tax Reforms and Further Measures to Improve Efficiency in the Financial Sectors as well as be Revitalize the Capital Market.”

“Investors Say that no finance minister has been able to address the problems of the capital market although it has witnessed five challenging years. Finance ministers have time and admitted that capital market is a critical component of the economy however, all the finance ministers in the past ended up literally doing nothing for the upliftment of the market. Dr. Ram Sharan Mahat, pundit of the capital market, did not case much in boosting the country’s crucial stock market. Bharat Mohan Adhikari and Rabindra Nath Sharma also followed suit”

Sharma, (1996),in "*The Movement of Degree of Response in New Issue Market is Significantly and Positively Related With the Movement in Price*", has studied on the liquidity and cost of capital in the secondary segment of the market .

Joshi, (1996) in "*The Price, Turnover of Stock Increased Tremendously After The Opening of The Trading Floor*", has explained that prices of stocks with huge accumualate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high pries are accounted for the poor transparency and the pouring of large number of people without having a minimum knowledge on shares in the market .

2.5 Review of Journals and Articles:

Articles are not full research framework for giving complete direction to the concerned authorized however it gives cooperation to the researcher. So it is taken into the account for the literature reviews that how persons have written so many articles in favour of the protection of investors in the capital market of Nepal is reviewed here.

"Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country is significant. The Strategic plan released by the security board can, to a great extent, energize the investors by increasing investor interest in it. The security market has experienced both boom and decline soon after the beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the price of shares to an unexpected level, it could not be sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focused mainly on corporate financial disclosure practices and transparency, corporate accounting, auditing, securities markets regulation and corporate governance. To implement the above, the Security Board has a great responsibility as to reviewing and developing regulatory standards to make them relevant with the need of issuers, investors along with promoting efficient capital formation." (Business Age, April 1999:15).

"There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod

Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhali Rubber Udhog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the institutional buyers are not felling secure investing in stock market." (Business age, January 2000:25)

Now the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done whim. Even officials at the stock exchange and the securities board. refusing investor's allegations of the market manipulation and insiders' trading of last February, discreetly claimed that Nepalese Stock Market is in a nascent stage. And that, investment are made more on an impulse rather than market study and credit rating." (Business Age, June, 2001:25).

2.6 Review of Thesis

There are many thesis written by various researchers in past years. Among them some thesis are reviewed here for analysis of literature.

Bharat Prasad Bhatta (1997) has conducted research on the topic "*Dynamics of Stock Market in Nepal*", "The study was carried out by primary as well as secondary data fro 1990 to 1998.

The objectives of the research were as follows:

- ❖ To analyze the trend of the Nepalese stock market.
- ❖ To diagnose and compare sector-wise financial status of the stocks in Nepalese stock Market.

- ❖ To analyze the market share prices of Nepalese stock Market.
- ❖ To find out the impact of secondary on primary market and vice versa.
- ❖ The recommend for the improvement of stock market in Nepal.

He has found his studies were the stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latte. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs so start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return form the investment.

Development of the manufacturing sectors is the backbone of an economy, which in turn, assist to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all farms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning will in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good

prospect for the resources mobilization to finance the productive enterprises in Nepalese economy.

Surya Chanra Shrestha (1999) has conducted research on "*Stock Price Behaviour in Nepal*", This study aims to examine the efficiency of the stock market in Nepal.

He analyzed only 30 listed companies with the following objectives:

- ❖ To examine the serial correlation of the successive daily price changes of the individual stocks.
- ❖ To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
- ❖ To determine the efficiency of the stock market through the theoretical model of efficiency market hypothesis in the Nepalese stock market.
- ❖ To provide feedback policy inputs towards institutional development of efficient market.

He finally concluded that the NEPSE is not efficient in pricing shares even in its weak form. He had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes are independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the analysis of total market return and banking sector stock return will be useful to verify his finding as well.

Jyoti Joshi (2003) has conducted research on *"Role of Nepal Stock Exchange in the Secondary Market"* She using the secondary data from 1996/97 to 2002/03.

The main objectives of this study were:

- ❖ To assets the past and present behavior of business operation in the Nepal Stock Exchange Market.
- ❖ To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- ❖ To prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusions of her study were:

NEPSE should introduce digital technology and online marketing in its trading procedure, the rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

Tax system should be reformed which should encourage and stimulate capital formation.

Risi Khanal (2003) has prepared the thesis on *"Growth, Problems and Prospects of Nepalese Stock Market."* Using the secondary data from 1993/94 to 2001/02.

The main objectives of his study were:

Tax system should be reformed which should encourage and stimulate capital formation.

- ❖ To examine the investors' awareness
- ❖ To examine the stock broker's and other related institution performance,
- ❖ To analyze sector wise financial performance of NEPSE,
- ❖ To observe the coordination among SEBON, NEPSE and Rastra Bank.

In this study, he concluded that the development of stock market in Nepal so far can not be considered satisfactory. This is evident from the facts and figure available in the stock market performance. But there is enough long term liquidity in the market. Again he added that the stock market and economic activity move in similar direction. They influence each other. Nepal Stock Exchange is the only one institution in the country to regulate and control and control the financial system of a country. The official stock market in Nepal, NEPSE is ten years old. It means it is infant stage thus equity market and related Institutions are still in their infancy stage.

Sarada Mainali (2006) has conducted research on "*A Study of Share Price Behavior of Listed Companies*". The main objectives of this study were:

- ❖ To Analyze the behavior of stock price of Listed Companies
- ❖ To examine the stock price trend and volume of stock traded on the secondary market
- ❖ To identify the factors affecting stock price.
- ❖ To analyze the investors' view regarding the decision on stock investment.

In her study, she concluded the Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic

operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to put into practice to make the share market effective and competitive.

The public investors not direct their savings in share haphazardly. They should at least analyze or get suggestion from experts about financial position and the level of risk prior to taking and investment decision. Because of the persistence in the stock price movements professional traders either institutional or individual can be beat the market. Thus it is suggestion that the investors should be alert to exploit the opportunities.

Overall, previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

2.7 Research Gap

There is a gap between the previous research and the present research. The previous research were conducted only the growth the size of the stock market. They were analyzed only on the basic of secondary data. Few of the previous research were concerned with problems of stock market. However, they were not analyzed taking such variable like sufficiency of legal rules and regulations, availability of information, provision to attack institutional investors etc. To do this research, the researcher does not find the any previous research on the topic of prospects of Nepalese Stock Market . So to fulfill this gap. This present study in conducted both analyzing the secondary data and primary data analysis as well as analyzing over the 7 years data. The problem and prospects of Nepalese Stock Market are analyzed on the basic of only primary data analysis using the Likert scale Method.

There are many researches done before in Stock Market. All of those researches have many useful findings and their own limitations. Like Shrestha in 1999 carried out a study based on data of randomly selected thirty stocks out of all listed securities mostly started from the commencing day of organized trading system on NEPSE. His study covers the period 13th January 1994 to Mid July 1998. However, his study implies technical concept but not emphasis has been given on fundamentalism. His study remains silent to say whether the trading with the help of past information could earn profit in both bull and bear market. Likewise Khanal, concluded that the development of stock market in Nepal so far can not be considered satisfactory. Mainali has carried out another study in Share price behavior in 2006 but her study only selected finance companies.

The researches helpful in different areas. The findings of previous researches are equally important. The main focus of the research will be to analyze the performance, growth and downfalls of the Stock Market. This will help to analyze whether the Stock Market is in increasing trend or in decreasing trend. By analyzing these aspects, focuses can be set on the weakness. So, that in future these weaknesses can be turned into the strength of the Stock Market. This will help to make the existence of the Stock Market more robust. Further more, by being able to point out the weakness; more investors can be made contribute for the growth of Stock Market.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the main body of the study. Research means to search or study about a phenomenon. Generally research in an effort to search new fact, knowledge and principle in scientific ways. Research is the process of a systematic in-depth study or search or any particular topic, subject or area or investigation backed by the collection, complication, presentation and interpretation of relevant details or data. Methodology refers to the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. So that research methodology is a systematic ways of conducting the research in an effective and practical so that it can explain how the research is done.

Therefore this chapter highlights the research methodology used for the study of A study on "Problems of Stock market in Nepalese Prospective". In this regard, this chapter explains not only talk of the research methods but also consider the logic behind the methods, which are used in the context of our research. This chapter consists of the research design, population, sampling procedure and sources and analysis of data.

3.2 Research design

Research design is the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variances. It provides a way to research objectives; the research design refers to the entire process of planning and carrying out research study.

Present study covers the collection of data, tabulation and compilation of data, computation of compiled data to find out the required financial parameters, analysis of compiled data and financial parameters, findings, conclusion and recommendations. Analysis is the core of this study which consists of trend of the stock market, status of the stock market, development of stock market. The data are from fiscal year 1999/00 to 2006/07 of the stock market as a whole is used.

3.3 Population and sample

The analysis of stock market its growth, problems and prospect depends on the total number of (141) company listed in the Nepal Stock Exchange and major economics indicator (GDP, inflation, Turnover etc) are taken as total population. More ever, the companies that are in existence and doing share transaction in NEPSE and the factor that affects the present economic growth are considered as the sample of the study. The required data have been collected from the various sources; but mainly from the annual reports of securities exchange board, Nepal covering a period 1999/00 to 2006/07. Therefore, all the companies listed in stock exchange are taken as samples.

3.4 Sources of Data

The main place of data was the central office of Nepal Stock Exchange (NEPSE). Securities Boards office, Thapathali, Kathmandu and Economic Survey published by Ministry of Finance (MOF/N). The study is primarily based on the secondary sources of data. The data are obtained form the publications and official records of the Nepal Stock Exchange (NEPSE), Nepal Rastra Bank (NRB), Central Bureau of Statistics (CBS), Securities Board of Nepal (SEBO), Internet, various articles and publications etc. The required data will be collected through the corporate office of the security Board of Nepal.

Primary Data

The primary data are collected through questionnaire and informal interview of concerned person like staff of SEBON, share broker, and investors. All together 50 copies of questionnaires were distributed to the persons and institution irrespective of their professions and nature of activities.

Collection of Primary Data/Sector	Population	Sample
Stock Broker	23	5
SEBON Staff	27	5
Investor (Attendance in NEPSE Chaitra 3, 2064)	120	30
Student of Shanker Dev Campus (Pass out MBS)20645	60	10
Total	230	50

Secondary Data

The secondary sources of data are the annual report of the Security Board Nepal, different books from library, periodicals, newspaper cutting, company's magazines etc. Guidelines and unpublished thesis, research work that directly related to the financial performance and stock would form secondary data for the purpose of the study, Significant information are also collected from Internet and various websites like www.nepalstock.com, www.sebon.com.np etc.

3.4 Data collection Technique

To collect the secondary data, published materials are viewed in various spots such as books by different authors, unpublished thesis reports, journals, Internet websites, online library, AGM reports of listed company, NEPSE SEBON etc. To collect these secondary data, the researcher visited campus library of SDC, TU

central library, SEBON library. On the other hand, the primary data collected through scheduled questionnaire.

3.5 Data processing

Data so obtained have no meaning unless they are arrangement present in a systematic way. Data processing technique is on of the most important parts of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research study. The available information and data should be present in different way, which can easily be understood by the general public, In this study, the required available data and information are shown in figures. The computation has been done with the help of the calculator and computer.

3.6 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is most based on the analysis of secondary and primary data with the help of different statistical tools like Diagrammatic presentation and mean. The empirical result has been extracted in the study by using annual data of listed companies from 1999/00 to 2006/07.

3.7 Data analysis Variables

Gross Domestic Product (GDP)

Issue Approval

Public Issue

Issue Manager

Stock Broker

Paid-up value

Turnover and Market Capitalization

3.8 Tools of Data Analysis

On the basis of secondary and primary data collected from the trading report, published books, journal and questionnaire with different financial and non-financial expert and staff as well as officers of NEPSE and SEBON were done, so effective analysis of data could be done on effective manner. To draw the conclusion by analyzing the collected data simple statistical tools are used as follows:

3.8.1 Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than sets of data.

CHAPTER – IV

DATA PRESENT AND ANALYSIS

4.1 Background:

This chapter is basically focused upon the analysis of data collection from different secondary sources. It will reveal the development of Nepalese stock market in terms of turnover, issued- capital, paid-up capital, contribution of market capitalization to GDP etc. comparing with different years. With reference to various reading and view of literature in the preceding chapters, effort is made to analyze and diagnose the recent Nepalese Stock Market Development. Different tables and diagrams are drawn to make the result more simple and understandable.

Group-wise Description of Listed Companies:

The relevant information and data are collect from Nepal Stock Exchange (NEPSE), Security Board (SEBON) and form different books and articles. All companies listed in stock market (NEPSE) are taken as a sample and appropriate statistical and financial tool have been used to perform the analysis.

Table 4.1

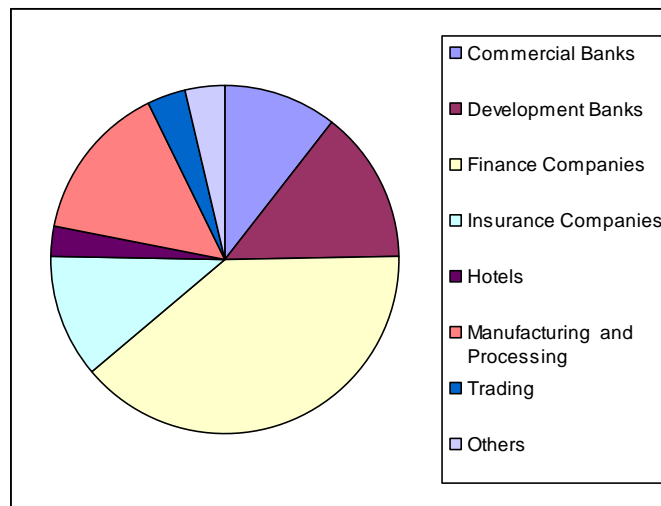
Group Wise Description of Listed Companies

S.N	Sector	No of Listed Co. Group wise	Percentage
1.	Commercial Banks	15	10.63
2.	Development Banks	20	14.18
3.	Finance Companies	55	39.0
4.	Insurance Companies	16	11.34
5.	Hotels	4	2.83
6.	Manufacturing and Processing	21	14.89
7.	Trading	5	3.54
8.	Others	5	3.54
	Total	141	100.00

Source: Annual Report of NEPSE 2006/07

Table 4.1 and the Chart 4.1 represents that 141 companies listed in NEPSE in this fiscal year 2006/07, 39 percent (55) finance company are listed out of 141 listed companies and only 5 Hotels companies are listed in NEPSE. 15 new organized companies are listed in this fiscal year 2006/07.

**Group Wise Description of Listed Companies
Figure No. 4.1**



4.1.1 Yearly: Volume of Traded Stock and NEPSE Index

Table 4.2

Volume of Traded Stock and NEPSE Index

(Rs. in million)

Year	No. of Companies	No. of Transitions (Shares Units)'000'	Market Capitalization	Traded Total Volume '000)	Turnover Values in Rs.	Yearly NEPSE index '000'
1999/00	110	29136	43123.33	7674	1157	360.70
2000/01	115	46095	46349.4	4987	2344.20	348.43
2001/02	96	42028	34704	5791	1540.60	227.54
2002/03	108	69163	35240.40	2427.89	575.99	204.86
2003/04	114	85533	41424.77	6468.18	2144.27	222.04
2004/05	125	106246	61365.89	18433.55	4507.68	286.27
2005/06	135	97374	96813.74	12221.93	3451.43	386.83
2006/07	141	120510	186301.30	18147.25	8360.10	683.04

Sources: Trading Report of NEPSE 2006/07

Table 4.2 Shows that the yearly volume and values of traded stocks are fluctuating. However, there is a sharp rise in the volume of traded stock in fiscal year 2006/07. The major reason for the sharp rise in the trading volume in fiscal year 2006/07 may be attributed to heavy transaction of banking sector. We can see that the significant increase in NEPSE Index in the fiscal year 2006/07 by 296.21 points

4.2 Analysis of Turnover:

Annual Turnover:

Annual turnover constitutes an important indicator for measuring the nation's economics activity. It also reflects the stocks market liquidity as higher the amount of trading of stock market size, the greater is the stock market liquidity.

Table 4.3
Monthly Turnover in 2006/07

S.N	Months	Amount Traded (in million)
1.	July/August	3424.20
2.	August/ September	3740.80
3.	September/October	2458.60
4.	October/November	7117.6
5.	November/December	9444.80
6.	December/January	10816.70
7.	January/February	6077.50
8.	February/March	7164.20
9.	March/April	5102.30
10.	April/May	4990.40
11.	May/June	8942.90
12.	June/July	14320.60

Figure 4.2
Monthly Turnover in 2006/07

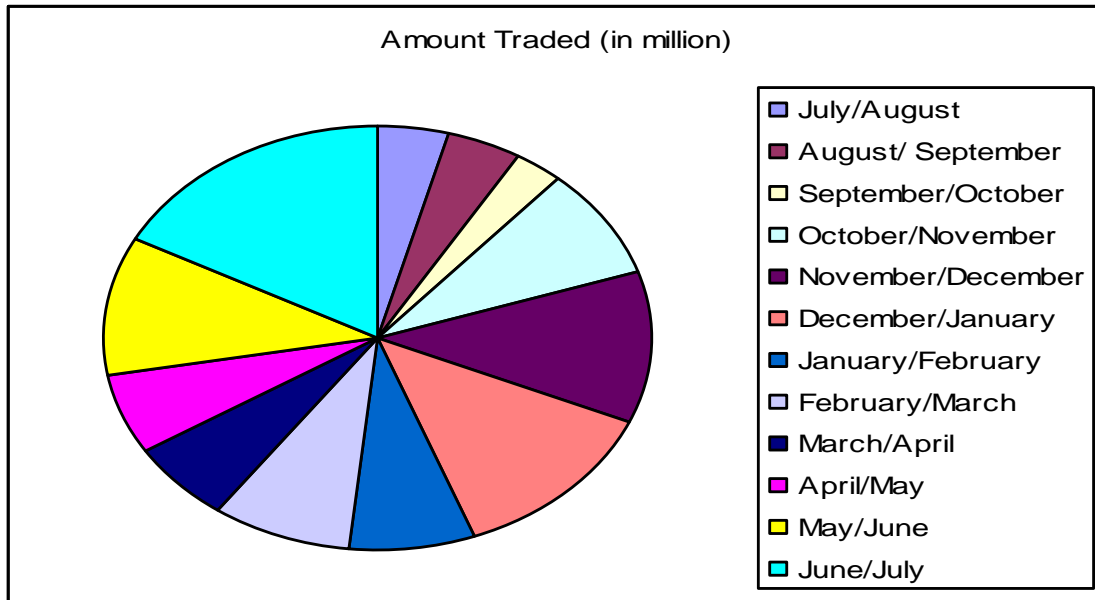


Table 4.4 and chart Figure 4.2 represents that the highest amount traded in June/July Rs. in 14320.60 million and lowest is September /October Rs. in 2458.60 million.

4.2.1 Paid-up Value of Listed Securities:

The Paid-up value of listed securities in the end of this fiscal year was Rs. 186301.3 million as compared to the paid-up value of Rs. 9613.74 million in the previous year 2005/06. The paid-up value of securities in the end of this fiscal year is given below:

Table 4.4

Paid-up Value of Listed Securities:

S.N	Sector	Paid-up Value (Rs. In million)	Percentage
1	Commercial Banks	135588.40	72.78
2	Development Banks	6010.60	3.23
3	Finance Companies	9889.30	5.31
4	Insurance Companies	8059.80	4.33
5	Hotels	3261.10	1.75
6	Manufacturing and Processing	6200.00	3.33
7	Trading	796.40	0.43
8	Others	16495.70	8.85
	Total	186301.30	100

Source: Trading Report NEPSE 2006/07.

Figure 4.3

Paid-up Value of Listed Securities:

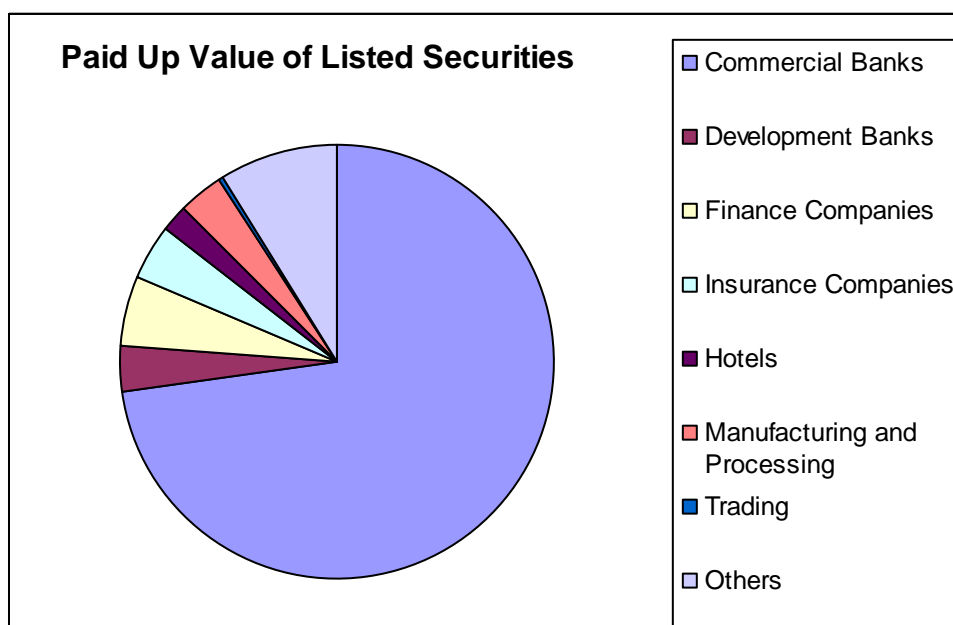


Table 4.4 and chart Figure 4.3 shows that the amount of paid-up value covered by the commercial Banks. It's Cover 72.78 percent (Rs. 135584.40 million out of Rs 186301.30 million) and lowest paid-up values are equally Trading and manufacturing and processing companies only 0.43 Percentage

4.2.2. Paid up Value of Listed Securities for Different Years:

Table 4.5

Paid-up Value of Listed Securities

Fiscal Year	Paid-up value (Rs in million)	% increase in Paid- up Value	% of Turnover in Paid-up Capital
1999/00	7347.40	13.26	15.75
2000/01	8165.20	11.13	28.71
2001/02	9685.04	18.61	15.91
2002/03	12560.07	29.69	4.84
2003/04	13404.90	6.73	15.99
2004/05	16771.80	25.11	26.87
2005/06	19958.00	18.99	17.29
2006/07	21798.80	8.94	38.35

Source: Annual Report, SEBO 2006/07 Trading Report, NEPSE 2006/07

Figure No. 4.4

Paid-up Value of Listed Securities

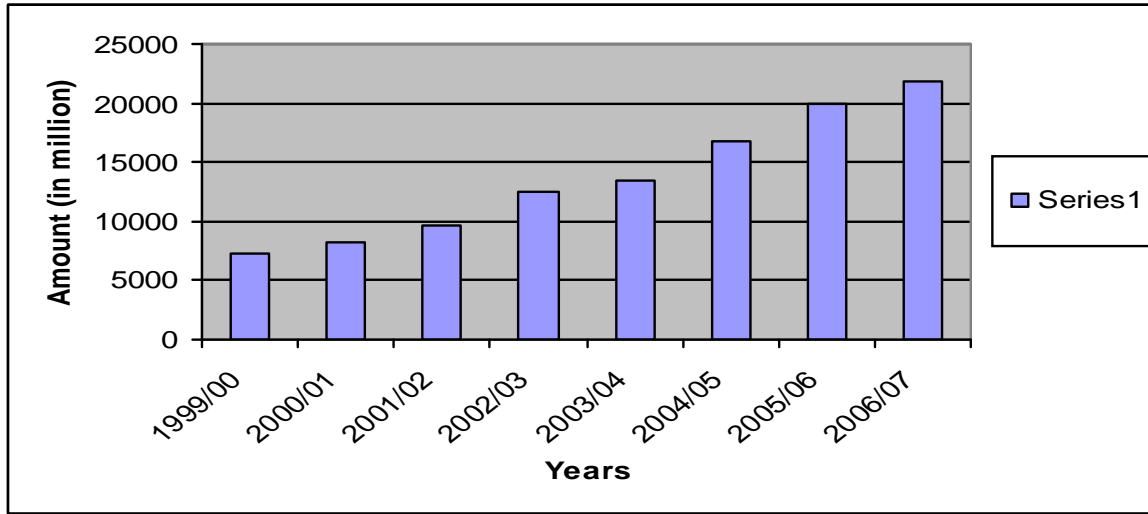
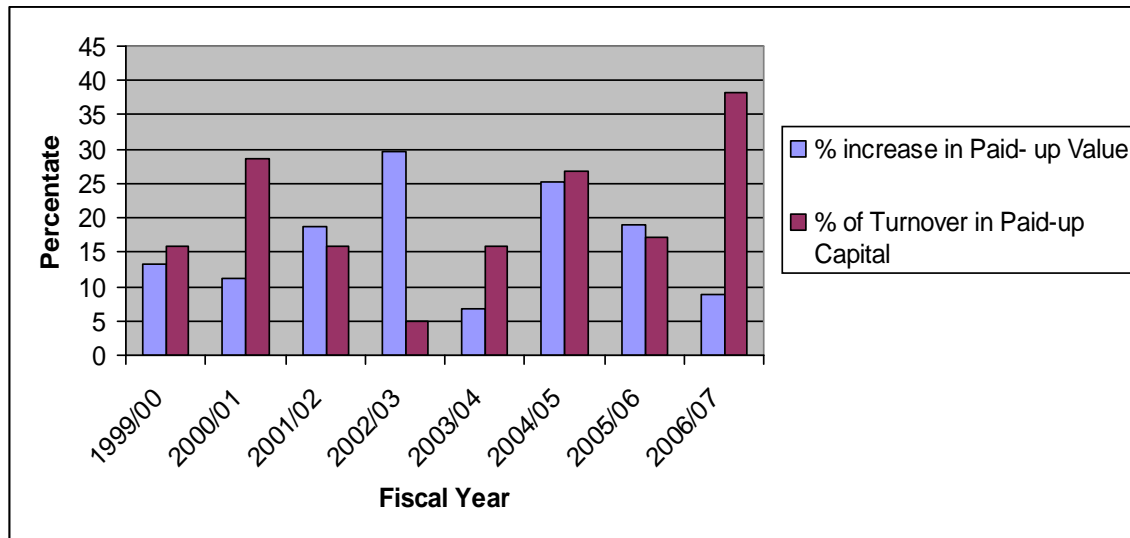


Figure No. 4.5

Paid-up Value of Listed Securities

Percentage increase in Paid- up Value & Percentage of Turnover in Paid-up Capital



By the end of the fiscal year 2006/07, the paid-up value of listed securities increased by only 8.94 percent and reached to Rs. 21798.8 million as compared to the increase rate of 29.69 percent of the fiscal year 2002/03 which was Rs.

12560.07 million. The highest increase in percent of paid-up value was in the year 2002/03 by 29.69 and lowest is in the year 2003/04 by only 6.73 percent.

The percentage of Turnover on paid-up capital is highest in the fiscal year 2006/07 with 38.35 percent and lowest in the fiscal year 2002/03 with 4.84 percent. The percentage of turnover was 15.75 percent in the fiscal year 1999/00 and 38.35 percent in the fiscal year 2006/07. It has been increased from 17.29 to 38.35 percent from the year 2005/06 to 2006/07.

4.4.3 Market Capitalization:

The market capitalization value of listed securities in the end of this fiscal year 2006/07 is Rs. 186301.30 million. The market capitalization value was Rs. 96813.74 million in the last year.

Table 4.6
Market Capitalization

S.N	Sector	Market Capitalization Value (Rs. In million)	Percentage
1	Commercial Banks	135588.40	72.78
2	Development Banks	6010.60	3.23
3	Finance Companies	9889.30	5.31
4	Insurance Companies	8059.80	4.33
5	Hotels	3261.10	1.75
6	Manufacturing and Processing	6200.00	3.33
7	Trading	796.40	0.43
8	Others	16495.70	8.85
	Total	186301.30	100

Source: Trading Report NEPSE 2006/07.

Figure 4.6

Market Capitalization of Listed Securities

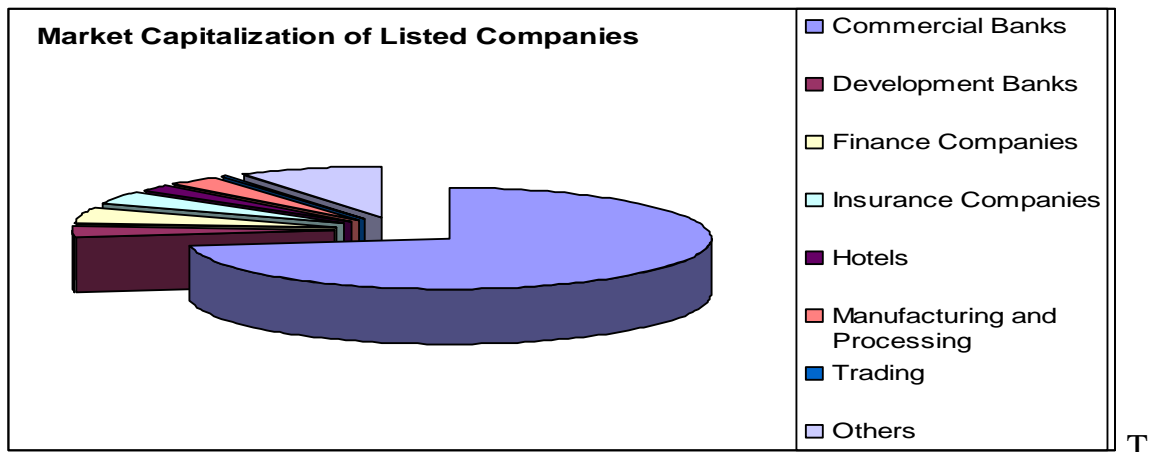


Figure 4.6 represents that the highest market capitalization is by commercial banks and it's covered the 72.78 percent (135588.40 million out of 186301.30 million). Here the lowest market capitalization is by trading sector and it's covered only 0.43 percent.

4.2.4 Analysis of Market Capitalization.

Table 4.7

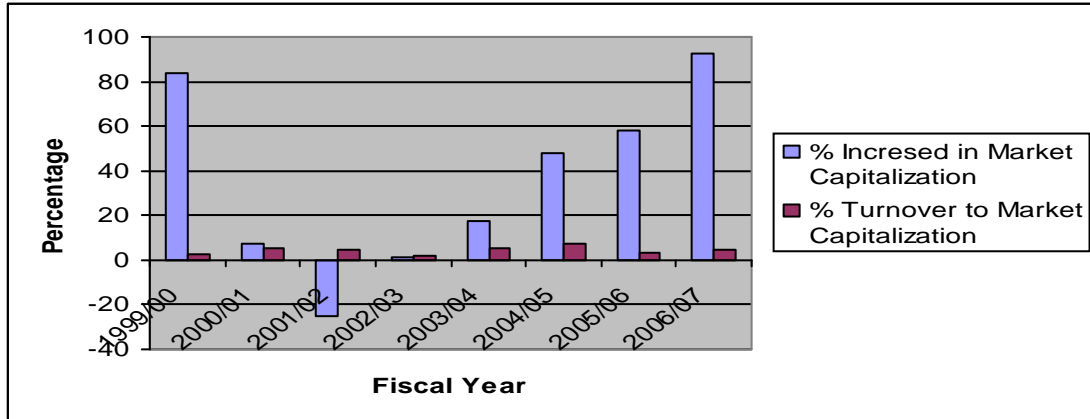
Market Capitalization in NEPSE

Fiscal Year	Market Capitalization (Rs. in million)	% Increased in Market Capitalization	% Turnover to Market Capitalization
1999/00	43123.3	83.44	2.68
2000/01	46349.4	7.48	5.06
2001/02	34703.87	-25.12	4.44
2002/03	3520.4	1.55	1.63
2003/04	41424.77	17.55	5.18
2004/05	61365.89	48.13	7.34
2005/06	96813.74	57.76	3.56
2006/07	186301.3	92.43	4.48

Source: Annual Report, SEBO 2006/07 Trading Report, NEPSE 2006/07

Figure 4.7

Percentage Increased in Market Capitalization & Percentage Turnover to Market Capitalization



4.2.5 Analysis of Growth Trend of Stock Market Indicator:

Table 4.8

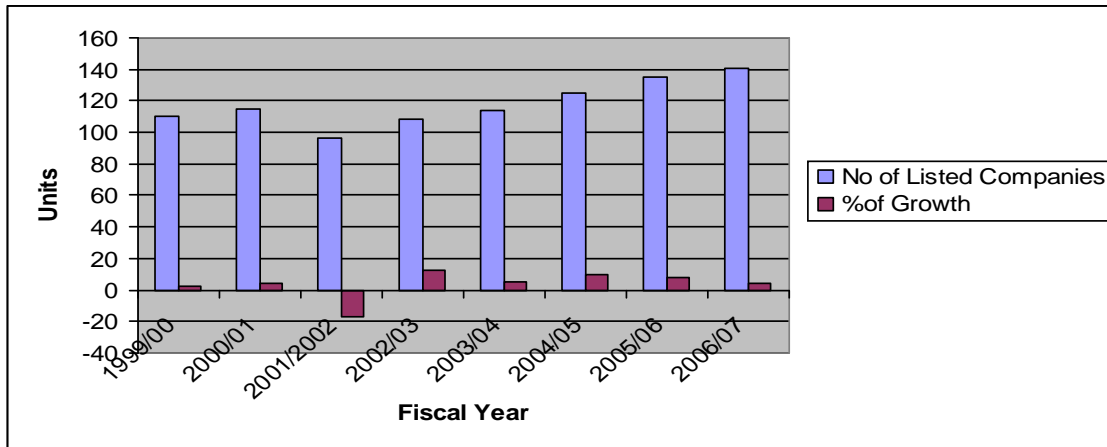
Stock Market Indicator

Fiscal Year	No of Listed Companies	%of Growth	No. of Traded Company	% of Growth	No. of Share Traded '000'	% of Growth
1999/00	110	2.80	69	0.0	7674	58.00
2000/01	115	4.55	67	-2.9	4989	-34.99
2001/02	96	-16.52	69	3.0	6005	20.36
2002/03	108	12.50	80	15.9	2428	-59.57
2003/04	114	5.56	92	15.0	6468	166.39
2004/05	125	9.64	102	10.9	18433	184.98
2005/06	135	8.00	110	7.5	12221	-33.70
2006/07	141	4.25	116	5.5	18147	48.49

Source: Annual Report, SEBO 2006/07

Figure 4.8

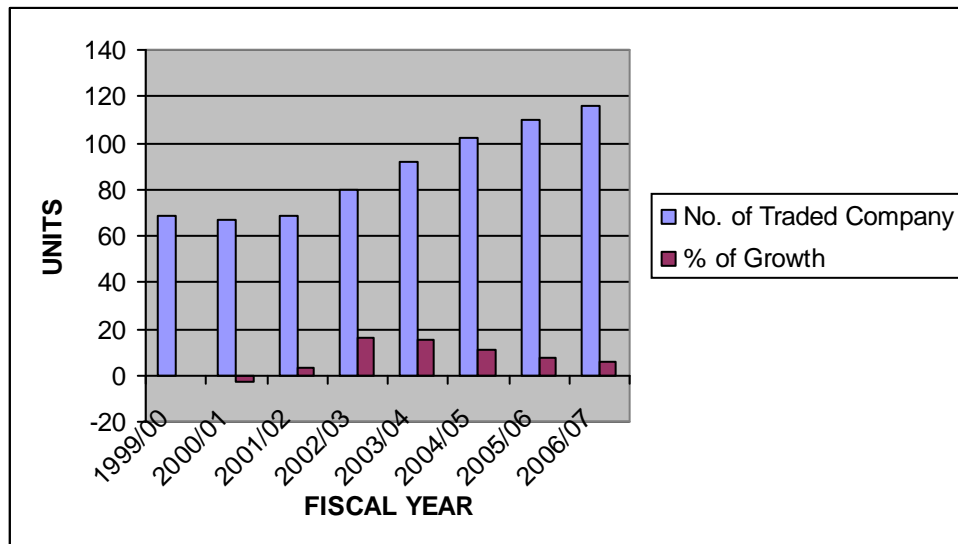
No of Listed Companies in NEPSE & % of Growth



The number of listed company was 110 in the base year 1999/00, 115 in 2000/01 and 96 in 2001/02. The growth rate of listed companies is positive in all these years except in the year 2001/02 with the negative growth rate of 16.52. In that year NEPSE deleted some companies from its list because of non-disclosure of necessary information correctly and timely. The growth rate was highest in 2002/03 with 12.50 and lowest in 2001/02 with -16.52 percent.

Figure 4.9

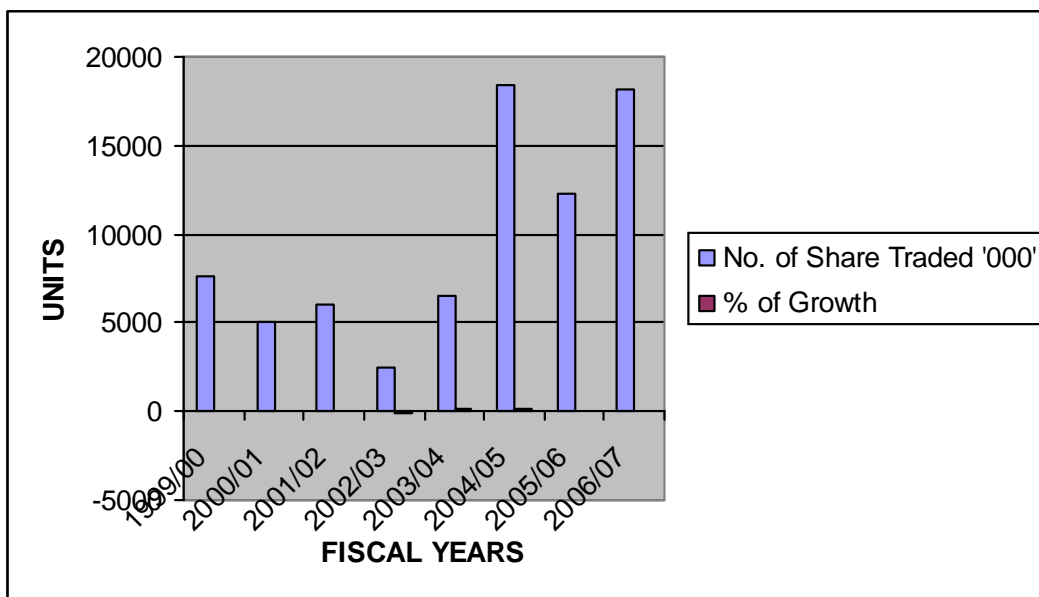
No. of Traded Company & its % of Growth



The number of traded companies was 69 in the base year 1999/00 and 110 and 116 in the year 2005/06 and 2006/07 respectively. Only 69 companies were traded in the trading floor. The number of decreased to 67 in the year 2000/01 with the negative growth rate of -2.90 percent. However, the no of trading companies is increasing after the year 2000/01, Then Continue to increase under the Study period.

Figure 4.10

No of Share traded & it's % of Growth



The number of share traded in different years. We conclude that it is very much fluctuating. The impact on growth rate is also affected. The number of share traded in the year 1999/00 was only 7674000 whereas in the year 2001/02 it was declined and came to 4989000 with the negative growth rate 2.90 percent. But in the year 2003/04 the growth rate was significantly increased and became 166.39 percent with the shares traded 6468000 as compared to the preceding year of 2428000. Then also decrease the fiscal year 2005/06 by 33.70% but it's recover in fiscal year 2006/07.

4.2.6 Number of Transaction and Listed Securities in NEPSE:

Table 4.9

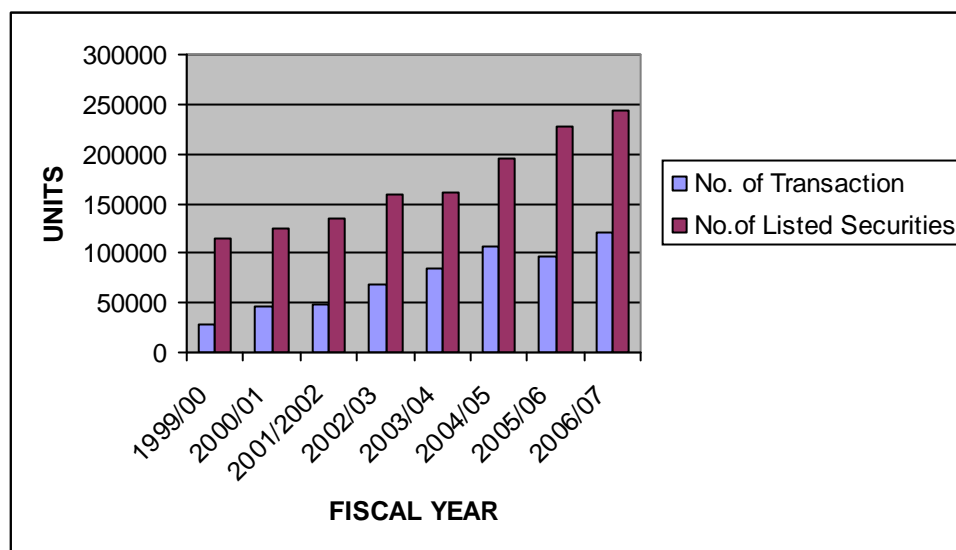
Number of Transaction and Listed Securities in NEPSE

Fiscal Year	No. of Transaction	% of Growth	No. of Listed Securities	% of Growth
1999/00	29136	84.24	114057	7.98
2000/01	46095	58.21	124971	9.57
2001/02	48028	4.19	134150	7.34
2002/03	69163	44.00	159958	19.24
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.21	194673	87.91
2005/06	97374	-8.35	226540	16.36
2006/07	120510	23.75	243504	6.96

Source: Annual Report, SEBO 2006/07 NEPSE, Summary Sheet of Transaction 2006/07

Figure 4.11

No of Share traded & it's % of Growth



The number of transaction is very much varied comparing wit different years. The significant growth rate can be traced in the year 1999/00 by 84.24 percent. The negative growth rate in number of transaction in 2005/06 was by -8.35 percent as compared to the growth rate of 24.21 percent of 2004/05. The growth rate in 2006/07 was by 23.75 percent with 120510 no. of transactions.

The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. The growth rates of number of listed securities are all positive with lowest in the year 1999/00 and highest in the year 2006/07 and the number are 114057 and 243504 respectively. The highest growth rate is in the year 2004/05 by 87.91 percent wit 194673 numbers or listed securities and the lowest growth rate is 0.74 percent with 161141 numbers of listed securities in the year 2003/04.

4.2.7 Market Day per Year and Daily Turnover:

Table 4.10

Market Day per Year and Percentage Growth Rate

Fiscal Year	Market Day Per Year	% of Growth
1999/00	240	3.90
2000/01	231	-3.75
2001/02	246	6.50
2002/03	238	-3.25
2003/04	243	2.10
2004/05	236	2.88
2005/06	228	3.38
2006/07	232	1.75

Source: Annual Report SEBO

Figure 4.12

Market Day per Year and Percentage Growth Rate

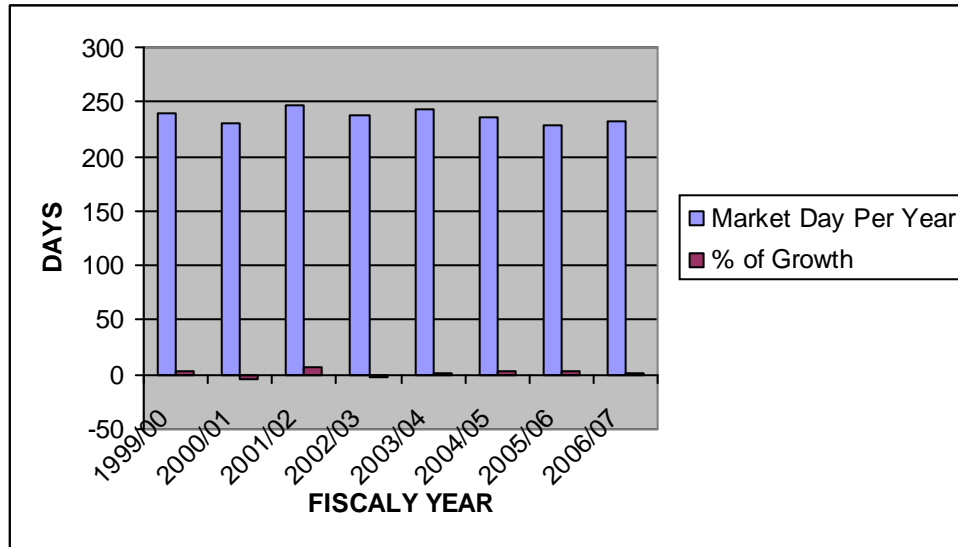


Table 4.10 and Figure 4.12 represents that the highest turnover day was 246 days in Fiscal Year 2001/02 and lowest turnover year was 228 in fiscal year 2005/06.

4.2.8 Market Turnover in Volume and Value:

Table 4.11

Annual Market Turnover in Volume and Value:

Fiscal Year	Annual Turnover in Volume (00000)	Annual Turnover in Value (Rs. on million)
1999/00	76.74	1157.00
2000/01	49.87	2344.20
2001/02	57.91	1540.60
2002/03	24.28	575.99
2003/04	64.68	2144.27
2004/05	184.33	4507.68
2005/06	122.21	3451.43
2006/07	181.47	8630.10

Source: Annual Report, SEBO 2006/07

Figure 4.13

Annual Market Turnover in Volume and Value:

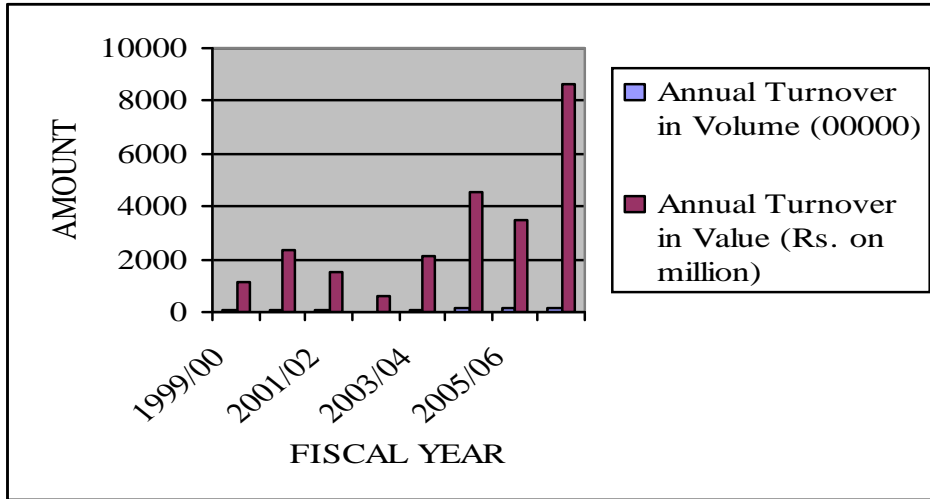


Table 4.12 Figure 4.13 Shows that highest Annual Market Turnover values was Rs. 8630.1 million in the fiscal year 2006/07 and lowest was Rs 575.99 million in fiscal year 2003/03. But the volume of Market Turnover was highest in the year 2006/07 and lowest in the year 2003/03.

4.2.9 NEPSE Index:

Market indexes are used to determine the relationship between historical price movements and economics variables and to determine the systematic risk for individual securities and portfolios.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focused on the price of stock that is increasing or decreasing in the market. Because the price of stocks go up and down in a particular period compared to the previous period as disclosed by index. The

highest index suggests the increase in market price of the stock and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Each day's index} = \frac{\text{Each day's total market value}}{\text{Base day's total market value}} \times 100$$

Where,

P0 = Base Market Price

Po1 = NEPSE Price Index

P1 = Today's Stock Price

Q1= Listed Shares (i.e. no. of Shares outstanding)

Q0= Base Listed Shares

Table 4.12
NEPSE Index

Year	NEPSE Index	%Change in Index
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.10
2005/06	386.83	34.93
2006/07	683.95	76.80

Source: Trading Report NEPSE, 2006/07

Figure 4.14
NEPSE Index (Fiscal year 1993/094 to 2006/07)

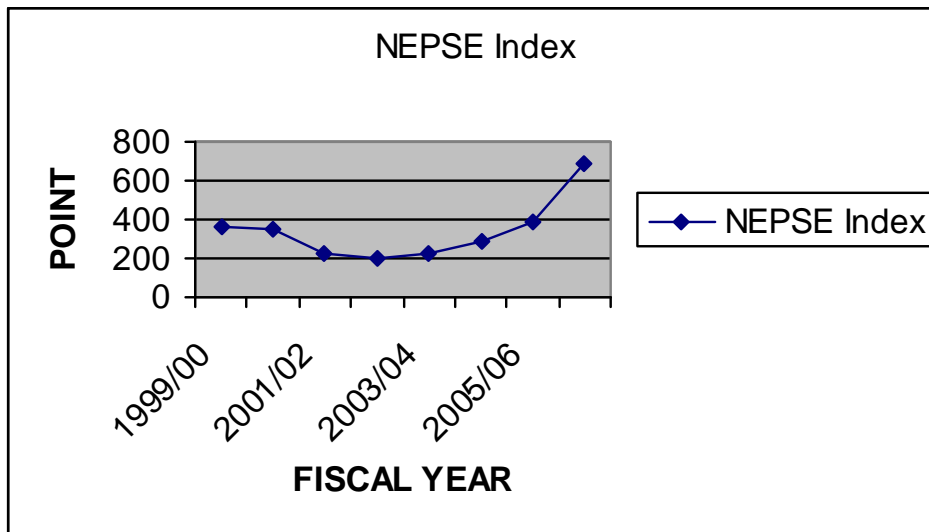


Table 4.12 Figure 4.14 represents that the NEPSE index is fluctuating trend before fiscal year 2003/04, but after that fiscal year NEPSE index is increasing trend over the study period. The NEPSE index was highest in the fiscal year 2006/07 with 683.95 and it was lowest in the year 2002/03 by 204.86 points. The NEPSE index

for the fiscal year 2006/07 is 683.95 which is somewhat high than 386.83 of the previous year 2005/06.

4.2.10 Market Capitalization Vs Nominal GDP:

Table 4.13

Market Capitalization Vs Nominal GDP:

Fiscal Year	Market Capitalization (Rs in Million)	GDP (Rs. in Million)	% Increased in Capitalization on Nominal GDP
1999/00	43123	365465	11.77
2000/01	46349	392532	11.78
2001/02	34703	405632	8.56
2002/03	35240	435531	8.09
2003/04	41424	472424	8.77
2004/05	61365	548484	11.18
2005/06	96813	603672	16.03
2006/07	186301	670588	27.78

Source: Annual Report, SEBO 2006/07 Trading Report, NEPSE 2006/07.

The highest percentage of market capitalization on nominal GDP was 27.78 percent in the year 2006/07. Likewise the lowest was 8.09 in 2002/03. The contribution of market capitalization on GEP for the year 2003/04, 2004/05, 2005/06 and 2006/07 is 8.77, 11.18, 1603, and 27.78 respectively.

4.3 Presentation and Analysis or Primary Data

The questionnaire survey method is used to analysis the "A Study on Problems of Stock Market in Nepalese Perspective". Samples are taken from different sectors such as investors, office of SEBO & NEPSE, Share brokers, students. The results are analyzed carefully so that it could lead to real "A Study on Problems of Stock Market in Nepalese Perspective".

Questionnaire survey

1. Analysis of the problems faced by stock market.

Table 4.14

S.N	Problems	No. of respondent	% of respondent
A	Shortcoming of rules and regulation	6	12
B	Lack of sufficient knowledge among investors	30	60
C	Lack of proper coordination between authoritative body	4	8
D	Restriction of foreign investors	8	16
E	All of the above	2	4
	Total	50	100

Source: Field Survey 2008

Regarding this question, almost the same percentage of respondents agrees about the lack of sufficient knowledge among investors and stock market intermediaries. Actually Nepalese investors as well as stock market intermediaries do not have sufficient knowledge about the stock market.

2. Analysis of the problems faced by stock market.

Table 4.15

S.N	Variables	No. of respondent	% of respondent
A	Yes	6	12
B	No	40	80
C	Do not know	4	8
	Total	50	100

Source: Field Survey 2008

Regarding this question, 80 Percent of respondent are of the view that the information provided by NEPSE and SEBO are not correct and timely.

3. Analysis of the Performance of Nepal Stock Exchange

Table 4.16

S.N	Variables	No. of respondent	% of respondent
A	Yes	22	44
B	No	18	36
C	Do not know	10	20
	Total	50	100

Source: Field Survey 2008

Regarding this question, more than 40 Percent (44) are satisfied about the performance of Nepal Stock Exchange. 36 percent are not satisfied and 20 percent do not know about the performance. In fact, despite of many rise and fall the work of NEPSE is satisfactory.

4. Analysis of growth trend of Nepal Stock Exchange

Table 4.17

S.N	Variables	No. of respondent	% of respondent
A	Good	18	36
B	Bad	28	56
C	Do not Know	4	8
	Total	50	100

Source: Field Survey 2008

Regarding this question, more than 36 Percent agree the growth trend of Nepalese Stock Market is good, 56 percent feels it bad and other 8 percent are unknown about it. If I were put forward my opinion about growth trend of stock market, I am to some extent satisfied with the growth trend of Nepalese Stock Market.

5. Analysis of growth trend of Nepal Stock Exchange

Responses about factors which motivate investment

Table 4.18

S.N	Variables	No. of respondent	% of respondent
1	Marketability & Profitability	22	44
2	Limited opportunity to invest in other sector	8	16
3	Friends and Family	14	28
4	Share brokers consultation	4	8
5	If other, please specify	2	4
	Total	50	100

Source: Field Survey 2008

Regarding this question, 44 percent of the respondents invest in stock because of marketability and profitability, 28 percent invest with consolations from family and friends, 16 percent are of the view that they see limited opportunities of investment, 8 percent consult brokers and 4 percent say that they act on a whim of the market, political legal environment. We can clearly observe that Nepalese investors are more profit concerned, and a large number also invest taking suggestions with friends and family. We may conclude that a scenario for tendency of observation and analysis has been developed quite among Nepalese investors.

6. Analysis of Share Purchase decision

Responses to share purchase decision

Table 4.19

S.N	Variables	No. of respondent	% of respondent
1	Increasing Market price of the share	20	40
2	Profit/ Loss trend of the Company	18	36
3	Act of whim	8	16
4	Broker's consolation	3	6
5	If others; please specify	1	2
	Total	50	100

Source: Filed Survey 2008

Answer to this question, about 40 percent purchase the same observing the trend of market price, other 36 percent observe Profit/ Loss situation of the company, 16 percent act on the on the whim of market, 6 percent consults brokers and rest 2 percent analyze management team.

7. Analysis of disclosure requirements

Responses to weakness of Players

Table 4.20

S.N	Variables	No. of respondent	% of respondent
1	The office of the company register	25	50
2	Security Board Nepal (SEBO/N)	15	30
3	Nepal Stock Exchange (NEPSE)	5	10
4	Investors/Brokers	2	4
5	Particular Company	3	6
	Total	50	100

Source: Field Survey 2008

In response to this question, 50 percent of the respondents are of the opinion that company register office is responsible for not presenting the financial statement of particular company to SEBO and NEPSE. 30 percent blame it to SEBO, 10 percent to NEPSE and other 4 and 6 percent to Investors/Brokers and to particular company respectively.

8. Analysis of interrelationship between Stock Market and Economy

Responses to relationship between stock market

Table 4.21

S.N	Variables	No. of respondent	% of respondent
1	High	30	60
2	Moderate	15	30
3	Low	5	10
	Total	50	100

Source: Field Survey 2008

Regarding this question, 60 percent agree towards high relationship between stock market and economy, 15 percent say it moderate and other 10 percent rank it low correlated. Undoubtedly, we can say that stock market and economy is positively correlated i.e highly related to each other.

9. Analysis of performance of stock market for the development of the economy

Responses to performance of stock market for development of economy

Table 4.22

S.N	Variables	No. of respondent	% of respondent
1	Yes	25	50
2	No	20	40
3	Do not know	5	10
	Total	50	100

Source: Field Survey 2008

In response to this question, 50 percent are satisfied with the performance to stock market. 40 are not and 10 percent do not know about it.

10. Analysis of risky investment

Responses of risk for investment

Table 4.23

S.N	Variables	No. of respondent	% of respondent
A	Buying the share when first issued	12	24
B	Buying the share in secondary market	8	16
C	Both of them	30	60
D	None of them	-	-
	Total	50	100

Source: Field Survey 2008

Regarding this question, 60 percent feel both investments mentioned above in 1. and 2. are risky, 16 percent feel investment through buying from secondary market is risky, while the other 24 percent feel investment in primary issue is more risky. As an analyst, I feel both of them are risky as it is said profit is the consideration of risk.

11. Analysis of time to sell the share.

Responses of time to sell the share

Table 4.24

S.N	Variables	No. of respondent	% of respondent
A	When company's profit declines	15	30
B	When company fails to pay dividend	13	26
C	When market price of the share starts declines	12	24
D	When cash is needed	8	16
E	If other, pleasure specify	2	4
		50	100

Source: Field Survey 2008

Regarding this question, 30 percent sell their share when company's profit declines, 26 percent sell their share when it fails to pay dividend, 24 percent sell it when market price of the share starts declining, 16 percent sell it when cash is needed and other 4 percent sell it to maintain portfolio investment.

12. Analysis of the points that provide prospects to Nepalese stock market growth

Responses of prospects of stock market growth

Table 4.25

S.N	Variables	No. of respondent	% of respondent
A	Stock market provides max returns	10	20
B	Limited opportunities for investment	8	16
C	Liquidity & Marketability of securities	12	24
D	Increasing concerns of generals and academicians in stock market	8	16
E	All of the above	12	24
	Total	50	100

Source: Field Survey 2008

Regarding to the question, the highest 24 percent agree on liquidity & marketability in the prospects of stock market development, while the other 24 percent agree that all the points are equally important. Other 20 percent, 16 percents are divided into maximum returns, limited opportunities and growing concerns in this sector.

13. Analysis of the points that provide prospects to Nepalese stock market growth

One question was asked to respondents to share the view regarding the problems of stock market in Nepal. 4 respondents have given many suggestions answering their views out of the 50 respondents. They are presented below:

- (1) The operation of NEPSE is not transparent.
- (2) There is not efficient information system and much delay in providing company's financial status.
- (3) Brokers do not provide proper advice and suggestions to the clients.
- (4) Brokers are commission oriented and have very little knowledge about stock market mechanism.
- (5) The stock market is trading with open out-cry system even in these computerized business days.
- (6) The process of transferring of ownership of shares is lousy and time consuming.

They provide many suggestions to solve these problems.

- (1) The securities board should monitor and regulate stock market by following strict controlling mechanism and appropriate penalty system. It should withdraw traditional operation by introducing modern International standards of trading.
- (2) The stock exchange should carry out periodic research and analysis and findings should be made public.

- (3) The open-out- cry system of trading should be replaced by e-trading mechanism.
- (4) Laws governing the stock market should be more liberal but strict to maintain stock market discipline.
- (5) Investors should be provided with investment guidelines.
- (6) The role of market player is the stock market should be made more effective.

4.4 Major findings of the study

The major findings of the study from the analysis of primary and secondary data are as follows:

1. It was found that the stock market in Nepal is in developing stage, however, majorities of the respondents are not fully satisfied with the growth trend of the market.
2. The major portions of Nepalese investors do not have sufficient knowledge about investment.
3. Majority of respondents are not satisfied with the performance of stock market for the development of the economy.
4. NEPSE and SEBO do not provide information accurate and timely. They further added that information provided is not sufficient.
5. Marketability and profitability are the major motivating factors of investment for investors. Majority of them make share purchasing decision without analysis the financial performance of the company and without consulting the experts.
6. Most of the respondents feel the company registrar's office should play vital role in providing the financial statement of particular company to SEBO and NEPSE. They further added that the government should play the important role to increase investment in stock.

7. Among the listed companies during the year 2006/07, majority are from the finance companies which is 39% of the whole.
8. The numbers of listed securities are increasing gradually whereas the numbers of transactions in NEPSE are in fluctuating manner.
9. Growth of market day per year, average turnover in volume and value are in satisfactory level.
10. Paid-up value is increased by 8.94 percent in fiscal year 2006/07 and paid up capital is 38.35 percent increase in this fiscal year.
11. The highest increase in market capitalization rate was 92.43 percent in fiscal year 2006/07. Banking sectors covered most of the market capitalization in NEPSE.
12. NEPSE index continuously declined form the year 1993/94 till 1997/98. It was highest in the year 1999/00 by 360.70 points. Because of weak law and order situation, industrial service and trading sectors cannot perform well. But after fiscal year 2003/04 NEPSE index increasing trend to reach 683.95 points in fiscal year 2006/07.
13. Percent of market capitalization on nominal GDP is positive in all the years and is maximum in year 2006/07 with nearly 28 percent.
14. There are many problems by which stock market is suffering but the prospects of it is also equally strong.

CHAPTER-V

SUMMARY, CONSULATION AND RECOMMENDATION

5.1 Summary

As started earlier, the process of stock market development in the country actually started in 1976 when the government established Securities Exchange centre to provide and develop market for securities, both the government bond and corporate securities. In 1993, Securities Board Nepal was established with the objectives to regulate, super vise and monitors the securities market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting on open out-cry system, where the investors were allowed to deal in securities out through licensed brokers.

The equity market activities grow wit the development and reform in the financial sector. Over the past 15 years the stock market of Nepal has made some progress. For example, between the fiscal year 1993/94 and 2006/07, the number of listed companies in NEPSE increased almost two-fold from 62 to 141 and market capitalization value rose almost thirteen times from Rs. 13872 million to Rs. 186301 million. Likewise, during the same period the number of annual transaction increased more than ten times from around 12 thousands to 120 thousands. During this period NEPSE index jumped from its base value of 100 to 683.

The paid-up value at the beginning of the fiscal year 1993/94 was Rs. 2182 million as compared to the paid-up value of Rs. 21798 million of the fiscal year 2006/07. But annual turnover has lot of fluctuations during this period. Average daily turnover and market day per year in 2006/07 are also in satisfactory level.

Despite the large volumes traded on stock exchange many listed stocks trade infrequently: or their balances are trading is not sound. For example, in NEPSE mostly the commercial banks shares are transacted. The reason behind this might be traditionally guided investors return principle where most earnings of investors have been in the form of divided rather than capital gains. Though regular and high dividend are provided only by commercial banks in past day, it becomes the only potential investment destination comparing to the other stock market is among various sectors only the banking sectors is doing well in terms of liquidity, but other sectors rarely do so.

Unfortunately, in Nepal, despite a history of about half a decade of planned economics activities to development real sector of the country, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector, despite many problems has developed significantly in Nepal. However, most of the developments were conformed to the banking sector stock market has virtually remained stalled because of the low priority in the government's financial reforms policies.

Various measures of stock market development indicate that the stock market in Nepal in underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover rates and value-traded-rate to volatility, and high concentration ratio indicate that the stock market in Nepal in highly illiquid and risky. Investors tend to avoid stock market because they do not have option to invest in securities according to the risk-return performs. Similarly firms shun it because stock market is less reliable sources of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

5.2 Conclusion

The development of stock market in Nepal so far cannot be considered satisfactory. This is evident from the facts and figure available in the stock market performance during the last 15 years. The diverse sector is coming up that need capital. The only requirement to fulfill objectives of both parties is to create a conducive atmosphere where investors can avail the required capital from the market at low cost.

The dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market the investors have very few rather no alternative to holding shares.

There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although, it has become to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy.

Despite in the increase in the number of companies and paid-up value of the securities listed with the exchange. Most of the companies that are listed with the exchange belong to banking, finance and insurance sectors, while only few companies from the trading, hotel, manufacturing and aviation sectors are listed with the exchange, not a single company from power information technology and construction sectors has entered organized stock exchange of the country. This indicates that firms tend to avoid stock market as alternative sources of long-term capital in Nepal. Significant increase in the number of companies registered as private limited during the last one and half decade also supports this view. This has adversely affected the liquidity and supply of securities in the stock market.

All Brokers agreed that there should be right code of conduct and monitoring for brokers operations. It was observed that the prescribed code of conduct is hardly enforced.

In the context of primary share issue, there should be strict time frame for allotment of share, refund of money, distribution of share certificate and history of shares. There should be strict punishment if the prospectus is misleading and investors are affected by misleading prospectus.

The brokers do not have problem with each other in share transaction and settlement. But they have experiences conflicts in buying and selling of shares, mostly in signature verifications and cash payment. Investors do not pay when prices fall and do not accept share price when price rise. Shouting system is not effective because sometimes the board market (person who writes in the board places on the wall) may not listen to the first broker's quote and writes another broker's number in the board. It creates conflicts in the floor.

Majority of brokers agree that certain requirement like minimum qualifications and experience should be met. Some added the brokers should be allowed to operate according to volume of transaction.

Investor's confidence in Nepalese stock market is relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instruments and investors not knowing about the risk of the stock market investment. The size of the market in terms of market capitalization and number of issue is relatively small. Market for corporate debt instrument is undeveloped. The retailers also dominate present stock market in the absence of foreign investors and local institutional investors. Only a small portion of shares is actively traded while others are traded either in small number or infrequently which leads to poor liquidity and small turnover in the market.

Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal and supervisory framework are the urgent needs of Nepalese stock market.

5.3 Recommendations

- ❖ The Government, Securities Board Nepal (SEBO/N) should not make policies should regulate NEPSE and other financial institutions adequately, appropriately and effectively.
- ❖ The securities Board in co-ordination with the Ministry of Finance and NEPSE should develop research, public awareness and investor education program, should encourage and stimulate capital formation, Manipulative practices like wash sales and churning should be strictly controlled., Investment in corporate sector should be encouraged., The listed firms whose shares are not traded should provide the financial status publicly in order to make the investors aware about their exact financial condition.

The government should make appropriate policies and programs for the enhancement of the entrepreneurship development in the Nepalese economy. Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors. The procedure for offering public issue should be simplified and rationalized, information and financial statements of the companies should be disseminated properly and timely, different market intermediaries should be educated, trained professionalized.

Beside it the most needed changes which are fundamental for stock market development are listed below:

- ❖ The electronic system of trading, automation in the clearance system. De-mat system of securities. Mutual saving schemes should be enhanced, Stock Exchange should be privatized.

Beside these other factors which have slowed the stock market growth should be adjusted and improved. They are:

- ❖ Unfavorable macro economics conditions, Political instability. Low investors confidence. Weak tax system. Slow privatization process.
- ❖ NEPSE is still following the old and outdated open out-cry system of trading. Such a system is neither efficient nor scientific. The online trading system or an advanced electronic system of trading should be introduced without any further delay.

THE END

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APPENDICES

Dear Sir/Madam,

I am preparing my research work on the topic A Study on "Problems of Stock Market in Nepalese Perspective." for the partial fulfillment of the requirement for the degree of Master in Business study. The questionnaire given below will be very helpful to collect primary data in respect of my research work. Therefore, I would like to request for your grateful opinions and correct information's regarding these questions.

I hope forward for your kind cooperation.

Respondent

Name: -----

Education:-----

Occupation:-----

Position:-----

Date:-----

Researcher

Arjun Prasad Rimal

Shanker Dev Campus

T.U. Regd No. 37432-91

M.B.S

Questions

1. Which of the following problem that the Nepalese stock market has been suffering from?
 - (a) Shortcoming of rules and regulations []
 - (b) Lack of sufficient knowledge among investors. []
 - (c) Lack of sufficient knowledge among market intermediaries. []
 - (d) Restriction to foreign investors. []
 - (e) All of the above. []

2. Do you think Nepal Stock Exchange and Security Board Nepal (NEPSE & SEBO) provides information correctly and timely?
 - (a) Yes []
 - (b) No []
 - (c) Do not Know []

3. Are you satisfied with the performance of Nepal Stock Exchange?
 - (a) Yes []
 - (b) No []
 - (c) Do not Know []

4. What do you think about the growth trend of Nepalese Stock Market?
 - (a) Good []
 - (b) Bad []
 - (c) Do not Know []

5. What factors motivates you to make investment in stock?
 - (a) Marketability and profitability. []
 - (b) Limited Opportunity to invest in other sector. []
 - (c) Friends and Family []
 - (d) Share Brokers. []
 - (e) If other, please specify. []

6. Which of the following factor makes you decide to buy share of particular company?
 - (a) Increasing Market Price of the share. []
 - (b) Profit/Loss trend of the company. []
 - (c) Act of whim. []
 - (d) Brokers, consultation. []
 - (e) If other, please specify. []

7. Listed companies do not present financial statement in time to NEPSE & SEBO who is responsible for this?
- (a) The office of the company registrar. []
 - (b) Security Board Nepal (SEBON/N) []
 - (c) Nepal Stock Exchange (NEPSE) []
 - (d) Particular Company. []
8. To what Nepalese Stock Market and Nepalese economy are interrelated?
- (a) High []
 - (b) Moderate. []
 - (c) Low []
9. Are you satisfied with the performance of stock market for the development of the economy?
- (a) Yes []
 - (b) No []
 - (c) Do not Know []
10. Which is risky to invest?
- (a) Buying the share when first issued. []
 - (b) Buying the share in secondary market. []
 - (c) Both of them. []
 - (d) None of them []
11. When would you like to sell your share in secondary market?
- (a) When company's profit decline. []
 - (b) When company fails to pay dividend. []
 - (c) When Market Price of the share starts declining. []
 - (d) When cash is needed. []
 - (e) If other, please Specify []

12. Which of the following is more relevant in the prospect of Nepalese Stock Market growth?
- (a) Stock market provides maximum return. []
 - (b) Limited opportunities of investment other than in stock []
 - (c) Liquidity and Marketability of securities. []
 - (d) Increasing concerns of academicians and general public in stock market. []
 - (e) All of the above. []
13. Express your views for the development of Nepalese Stock Market?

Problems:

Solutions:

Thank you, for your co-operation.