

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

A market in which individuals and institutions trade financial securities called securities market/capital market. Organizations/institutions in the public and private sectors also often sell securities on the securities/capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets. Both the stock and bond markets are parts of the securities/capital markets. For example, when a company conducts an IPO, it is tapping the investing public for capital and is therefore using the capital markets. This is also true when a country's government issues Treasury bonds in the bond market to fund its spending initiatives. The term securities market can be interchangeably used as capital market or stock market.

Globalization, privatization, free market, economic liberalization are the key phenomenon taking in this 21st century, making the activities of securities market more complex and challenging. Recent development in science and information technology has turned the whole world as a small village. A small mistake made by an organization effect in numerous sectors for the long run; to the organization, as well as to the nation. So the organization shall be aware about their activities. The relationship between capital market development and economic growth has received renewed attention of academicians and policy makers in the present decade both in the developed and developing countries. The growing importance of capital markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on developmental role of capital markets.

Securities markets provide an effective way of raising money for business enterprises and government and at the same time provide an investment opportunity for individuals and institutions. The securities markets serve as a reliable source for the collection of capital for the performance of companies, and thereby promoting efficiency. Securities market is one of

the main sectors of capital market where stock and bonds and other long-term securities are traded. The capital market is also considered as a barometer of national economic activities and policy makers use the securities/stock market index as a basis to take appropriate actions in order to protect the national economy against any possible deviation from national goals. It can be said that economic development with industrialization will be possible only by mobilizing sufficient amount of internal and external capital. People will invest their money when they feel that the market is efficient and transparent. So the market need to be more transparent with availability of different investment alternatives and sufficient systems should be developed to control possible fraud and errors. The capital (securities) market provides many important services and facilities to national policy maker as well as business decision makers from which we can list out the merits of securities market.

-) It channelizes funds efficiently to productive economic activities.
-) It facilitates issue of stocks and bonds and other long-term securities.
-) It creates continuous markets for security trading.
-) It determines and publishes regularly the price of listed securities.
-) It provides feedback to management for important decisions.

With the establishment of Nepal Arab Bank limited in 1984 financial sector in Nepal has grown significantly. Although some efforts were made to develop country's infrastructure during the Rana regime, they were not a single institution for the investment but in 1933 B.S Prime Minister Ranoddip Singh established "TejarathAdda" which does not collect money but provide loan to employees and public against the bullion (*Dahal&Dahal, 1999:10*). Efforts to achieve economic growth in the country in a planned way started only in 1956 with the adoption of the First Five – Year Plan by the government. Under different plans the government set targets for economic growth and adopted various policies and programs, which were directed towards developing infrastructure necessary for the creation of national wealth. Unfortunately, these policies and programs failed to take into account the need to develop the financial structure that ought to exist side by side with the development of infrastructure necessary for the growth of real sector. In one sense these policies were irregular because they required attractive growth in physical assets of the nation by suppressing the development of financial sector of the country. The policy of the government

to maintain control of the financial sector by restricting the entry of private sector into financial activities limited the growth of financial sector in the country. As a result the country had limited financial institutions to support its developmental activities for quite a long time. Till early eighties the country had only two commercial banks, two development banks, one provident fund and few insurance companies. As almost all of these financial institutions were under the government sector they operated more under social welfare concept than under commercial principles. As a result of the restrictive policy of the government, the gaps created in the resources needed for the development of the real sector and the resources available for it were met through foreign grants and loans under different plans. While this increased the country's dependency on the foreign aid, it also made the government less concerned for the need to mobilize resources locally to meet the resource gap.

Development of capital market is essential to develop the national economy. It required the development of different infrastructure to smooth out the transaction procedures. It is the outcome of long patient and continuous effort in our context too, present stage of capital 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. However, visible impact on the development of financial sector is observed only when the government changed its restrictive policy and opened up closed financial sector to private sector and foreign participation to establishment the banks. With the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal.

Before the establishment NEPSE, the volume of the market activity was very low through it tends to surge at the latter period. The capital market become highly floating and turnover increase manifold as many investors, both small and large investor tried to cash on this new opportunity not only with a hope to maximize benefit but also speculated on the possible capital gains in the investments. The initial surge in NEPSE activity lasted for a little more than six months guided by spectacularly good results in a few companies, particularly in the banking sector, where some companies were paying out dividends well in excess of 50 percent. The capital market performance during the initial phase far surpassed the modest

goals aimed at by the eight plans (1992-97), which laid the foundation for NEPSE with its first policy outline.

The initial surge did not last long lay less than a year, once it was apparent that capital gains and returns need not be consistently high across the board and the public became disillusioned and resultantly the market price and trading volume all decline. The situation worsened from 1995/96 onwards with the onset of political in stability. Both the investor climate as well as the operational climate suffered leading to poorer results in many companies. As a result the price at NEPSE fall and it incurred heavy losses. The worse period was 1997 to 1998, after which the situation improved somewhat with the commencement of operations by many finance companies, which paid out dividends. The improvement, however, was only marginal just to keep enough attentions. The economic and political scenario became more volatile and rise in insurgency which led to slow down of economic activities resulting at worsening performance in many sectors like tourism and manufacturing, thus leading to a more volatile and vulnerable situation of stock price at NEPSE. The cease-fire does not appear so far to be able to generate enough resurgence of activities and accordingly has not helped to improve neither the index nor the trading volume. As a result, the market has never been particularly vibrant not particularly liquid. Still the state is in crisis and an industrial sector does move towards resurgence

At present, NEPSE has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the capital market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the capital market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings. During this period some discernible improvements took place in the capital market. In 1993, Securities Board Nepal (SEBON) was established with the objectives to regulate, supervise and monitor the security market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities

transaction. An open outcry system was introduced by NEPSE for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

The equity market activities grow with the development and reform in the financial sector. Over the past twelve years the capital market of Nepal has made some progress. Important performance indicators in the period 2004/05 and 2012/13 are, the number of listed companies in NEPSE increased 1.84 times from 125 to 230 and the market capitalization value rose 8.38 times from Rs.61366million to Rs.514,492million likewise, during the same period and the number of annual transactions increased 2.75 times from 106,246 thousands to 292,370 thousands. During this period NEPSE index jumped from its base value of 286.67 to 518.33. Government has promoting the bond market transactions at the secondary market. Nepal Rastra Bank has auctioned Rs.100 million worth of National Developed Bonds at a primary market by enlisting these at stock exchange which are available for trade. On the other hand, additional hydroelectric projects need to be completed soon as the demand for electricity is growing day by day. By this, the companies operating retirement fund, insurance companies and general public will get appropriate investment mechanism. Private sector participation will be promoted in the business activities of the monopoly Public Enterprises. The ownership of the people in the share capital of the potential Public Enterprises will be enhanced through the capital market. Continuity will be provided to the privatization process of the selected Public Enterprises. A government recent decision on the study report of NAC submitted by International Civil Aviation Organization will be reviewed and the process of privatization of Nepal Airlines Corporation (NAC) will be pushed forward accordingly. 10 percent share of Nepal Telecom Company Ltd. is sold to the employees of the Company and to the public respectively through the stock exchange. The Corporation Financial Governance Project with the loan support from Asian Development Bank, NEPSE is started computerised trading system within this fiscal year 2005-06. But in comparison of stock exchange of other countries it can be said that a dim shapes of capital market has visualized in national scenario. Still a lot of things have to be done for the entire growth of the capital market so that it will stand in international standard.

1.2 Statement of the Problem

“The investment process is concerned with how an investor should go about making decision with regard to what marketable securities to invest in how extensive the investment should be and when the investment should be made”(Sharpe, 2002).

The relationship between financial development and economic growth has a highly dependent role with each other. With the development of financial sector investment will increase and with the increase in investment economic growth will be increased. Practical studies suggest that financial development helps to develop capital markets to drive pace of economic growth. Unfortunately, in Nepal little attention was paid to the development of financial sector, half a decade ago planned economic activities were carried out to develop real sector of the country, over the past one and half decade financial sector despite many problems for developed. However, most of the developments were confined to the banking sector. Capital market has mutually remained delayed because of the low priority in the government’s financial reform policies.

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

Stock exchanges in many countries have a long history of more than one century. These stock exchanges have faced so many ups and downs during this period including sacking of brokers. We must note that just twelve years period is not sufficient to make a history of a stock exchange but the Nepal Sock Exchange Ltd. (NEPSE) has created a history. All the features of a stock exchange have been applied and the possible happenings in a secondary market have already taken place during this short span of period. The big bullish period, the long bearish period, the unprecedented market capitalization, the quite fail market driven by innocent and honest market intermediaries, the quite unfair market driven by unfair practices, the rumour driven market, the big changes in ownership of joint venture banks, the addition

and subtraction is the listed companies, etc. are some of the key events in the history of the Nepalese capital market.

There are changes in the NEPSE since the inception of open outcry system of trading in 1993. The noted changes are the shifting of the office from a rented house to owned house, the introduction of computer hardware and software systems in the clearance, appointment of two brokers as member of NEPSE's Board of Directors, the shifting from T+5 system (which mean that settlement of transaction should be done within five working days following the transactions day) of settlement to T+3 system (which mean that settlement of transaction should be done within three working days following the transactions day) and changes in rules and regulations in favour of the market, etc.

Unfavourable macroeconomic conditions, political instability, weak tax system, low investors confidences, slow privatization process are the factors which have slowed the pace of stock market growth; so, to develop the capital market stock exchange need to introduce most needed changes that are basic for the development of stock market. Some of these needed changes have been out listed.

-) Lack of rating agencies and related laws.
-) Establish regional branches of stock exchange.
-) Lack of corporate investors.
-) The automation in the clearance system.
-) Deficiency of regulation and policy.
-) The electronic system of trading.
-) Privatization of stock exchange.

1.3 Objectives of the Study

The general objective of this study is to analyse the problems and prospects of Nepalese stock market. However, the specific objectives of this study can be enumerated as:

-) To evaluate and examine the securities market growth in Nepal.
-) To analyze the trend of Nepalese securities market.
-) To analyse the problems and prospects of Nepalese securities market.

-) To evaluate the various components for the good governance of primary and secondary market.

1.4 Importance of the Study

Investment practices under the organized stock exchanges are heading progressively in Nepal. But very few studies and researches have been undertaken regarding the stock market. Since we are moving towards the free and market friendly economy, such studies have become more significant. Due to growing number of investors (individual as well as corporate) such type of studies helps them make rational investment decisions. Securities market in Nepal is not fully sufficient for the development of economy of the country. Although, it is one of the most important characteristics of Nepalese economy it was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its difficulties and deficiencies.

This study helps us to find out different problems and prospects of stock market growth in Nepal. The importance of the study can be summarized as below:

-) The trend of securities market in Nepal.
-) The operation of NEPSE and its role towards greasing out the stock trading in Nepal.
-) The country's policies towards financial markets.
-) The views of potential investors and government and other financial institutions about the related organizations.
-) The need of different policies, regulatory acts and amendments to develop market efficiency.

1.5 Limitations of the Study

Each study is conducted under some constraints and limitations. Likewise, this study is also limited by some common constraints. This study is based on the fundamental analysis of the capital market growth. The research is made for the partial fulfilment of the requirements for the master degree in Business Studies (MBS). However, the specific limitations of the study can be:

-) The secondary data used covered only last 10 years.
-) Variations of data in itself are also found when comparing with different sources.
-) The main objective of this study is to fulfill partial requirement of Master Degree. Stipulated time and resources are also limitation of this study.
-) Reliability of this study depends upon the accuracy of published data and the genuineness of respondent.

1.6 Organization of the Study

The study is divided into following chapters:

- I. Introduction
- II. Review of Literature
- III. Research Methodology
- IV. Presentation and Analysis of Data
- V. Summary, Conclusions and Recommendations

Chapter I will consist of the general background of the study; capital; the focus area of the study, statement of the problem, importance, objectives, and limitations of the study.

Chapter II will consist of the review of literature. Various books, journals, articles, and the previous research reports on the related field will be reviewed. Review of literature will be divided into two sections viz. (i) Theoretical review, and (ii) Review of related studies.

Chapter III will consist of research methodology employed to achieve the objectives of the study. Under this, research design, population and sample, sources of data, data collection technique and data analysis tools are included.

Chapter IV will include the data presentation and analysis. It will consist of descriptive analysis of the gathered data and information using statistical as well as financial tools/models. Under this chapter, major findings of the study will be included based secondary and primary data analysis.

Chapter V has been subdivided into three subsections: (i) Summary, (ii) Conclusion, and (iii) Recommendations based on the analysis.

CHAPTER-II

REVIEW OF LITERATURE

The primary concern of this study is to focus on Securities Market growth in Nepal. This chapter is devoted towards the capital/securitymarkets in Nepal and abroad. In this regard, various books, journals and articles have been reviewed.

2.1 Theoretical Review

Conceptual review or theoretical review deals with the theoretical aspects of capital market, securities market, primary and secondary market, market intermediaries etc. For deriving the conclusion various books, periodicals and articles to be considered.

2.2 Securities

"Securities" means any shares, stocks, bonds, debentures, debenture stocks or collective investment scheme certificate issued by a body corporate or treasury bonds, saving bonds or bonds issued by the Government of Nepal or by a body corporate against the guarantee of the of the Government of Nepal, and this term also includes such other securities as may be specified by the Board to be transacted or transferable through the stock exchange or the instrument to purchase, sell or exchange such securities(Sec 2 (f) Securities Act, 2063).

Security, in general a piece of paper representing the investor's right to certain prospects of property and the conditions under which he/she may exercise these rights. The piece of paper serving as evidence of property rights is called a security, for example share, bond, commercial paper, preferred stock, Treasury bill etc. it may be transferred to another investor and with it will go all its rights and conditions. Moreover, the security is a legal representation of right to receive prospective future benefit.

2.3 Capital Market/Securities Markets

A market in which individuals and institutions trade financial securities called capital market/stock market. Organizations/institutions in the public and private sectors also often sell securities on the capital markets in order to raise funds. Thus, this type of market is composed of both the primary and secondary markets. Both the stock and bond markets are parts of the capital markets. For example, when a company conducts an IPO, it is tapping the investing public for capital and is therefore using the capital markets. This is also true when a country's government issues Treasury bonds in the bond market to fund its spending initiatives. The term capital market can be interchangeably used as stock market or securities market.

“The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and canalizing 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, 1988: 325*).

“The market in which long-term financial instruments as equities and bond are raised and traded” (World Bank).

In simple, Capital markets are mechanism for channeling savings to the ultimate investor in real assets or security. Securities market is the essential part of capital market. It has wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the resale of corporate securities. Security market doesn't mean a place but a mechanism dealing in securities trading. It is the mechanism created to facilities the exchanges of financial assets.

“A security market or financial market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading”(*Sharpe, et al.,2003: 47*).

“The securities market is the place where a large number of financial securities (shares, bonds, debentures etc) are traded according to prescribed rules (Investor’s Guide, 1978: 11 Nepal stock exchange).

Securities markets’ major function is to provide line between savings and investment thereby facilitating; creation of new wealth. It assists in deterring the security price on the basis of available information. Security market also assists in creating a new wealth and canalizing the flow of funds in the country economy.

2.4 Classification of Capital Market/Security market:

2.4.1 On The Basis of Issue of Securities

A. Primary Market

Primary market is the market where the primary issue of the securities is made i.e. the organization issues its securities for the first time in the market. The securities are traded between issuing company and the investors. For the purpose of issuing securities issue manager are assigned. Issue manager assist the company to sell their securities in the market. Primary market is the place where corporations and government issues new securities. All securities weather in the money market or capitals markets, are initially issued in the primary market. The primary market is 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. This is only market in which the corporation or government is directly involved in the transaction and receives direct benefit from issue that is the company actually receives the proceeds from the sale of securities. The issuer of such securities may directly sell through private placement without under writing to the investors. Besides, the securities may be sold after being made underwriting by the institution like investment banking.

Primary market is used to denote the market for the original sale of securities by an issuer to the public. The issuer receives cash and may be invested in productive assets or retirement of debt. Securities available for the first time are offered through the primary markets. The

issuer may be a new company or one that may be issuing from many years. The securities offered might be a new type for the issuer or additional amount of securities issued frequently. The primary market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in consumption or real capital investment. Primary market are distinguished by the flow of funds between the market participations, instead of trading between investors as in the secondary market participations in the primary market buy their assets directly from the source of the assets. Once the assets or securities are sold in primary market, they begin trading in the secondary market.

“When firms need to raise capital they may choose to sell or float new securities. These new issues of stock bonds or other securities typically are marketed to the public by investment bankers in what is called the primary market” (*Bodie, et al., 2002:65*).

B. Secondary Market

Trading securities after their issue by the company in the market is dealt with by the security market. In this market securities are traded between existing security holder and the new investor. In secondary market there is no involvement of the company in trading securities. The secondary markets are the markets where already outstanding financial assets are traded among old and new investors. The secondary market provides liquidity to the purchasers of securities. The existing and pre-developed securities are bought and sold in the secondary market. Secondary market remains as a center to convert stocks bond and other securities into cash immediately. So it provides liquidity to the securities. Secondary market is a place where the securities once sold are purchase and repurchase to provide liquidity to the government securities and secondary market is operated by securities exchange center. The market where second hand securities issued earlier are traded is known as secondary market.

The trading of government securities in secondary market is very thin because of limited distributions of the securities. Secondary markets are markets for existing assets, which are currently traded between investors. This is this market that creates the price 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. The interest increase or the

price of securities increase in secondary market, the interest and price of primary market also increase because of investment transfer from one market to another according to price and return.

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“Purchase and sale of already issued securities among private investor takes place in secondary market”(Bodie, et al., 2002:65).

2.4.2 ON THE BASIS OF NATURE OF TRADING

A. OTC Market

OTC is a mechanism in operation meeting the exchanging the securities. A security which is not traded on an exchange, usually due to an inability to meet listing requirements is traded through OTC markets. For such securities, market intermediaries negotiate directory with one another over computer network and by phone and their activities are monitored by the National Association of Security Dealers (NASD). OTC stocks are very risky since they ate the stocks that ate nit cindered large or stable enough to trade on a major exchange.

B. Third market

The market refers to the trading of any securities are listed on organized stock exchange in over the counter market It is notable that trading hours in the third market is not fixed like organized stock exchange . The third market is made up of securities dealers making markets in anywhere one who are in direct competition with the specialist that make markets on the organized exchange.

C. Fourth market

The fourth market refers to the institutional investors and wealthy investors who buy and sell securities directly from each other. Thus the fourth market participants completely bypass the broker services. Fourth market is essentially a communication network among institutional investors that trade large blocks without the aid of a broker house. The market organizer may collect a small commission of a flat amount or annual fee for arranging these large value transactions.

D. Organized exchange

It is a trading house where the facility for transacting securities is available. These are the easiest way for investment to each individual investor. Security brokers assist in buying and selling securities. Every country has at least one stock exchange in operation. Like this in Nepal, Nepal stock exchange is in operation, in India, Bombay stock exchange, Delhi stock exchange etc.

2.5 Stock Exchange

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, homogeneous like a commodity in a perfectly competitive market(*Joshi, 2002: 33*).

In the stock exchange, there is an active bidding and a two-way auction trading takes place. The basic laws of supply and demand determine the bargains that struck the fairest price. 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*).

In contrast to the bond market, security market in common parlance is the market for trading stock although it includes bond market too. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchanges – Nepal Stock Exchange, New York Stock Exchange, The American Stock Exchange, The Regional Exchanges and the over-the-counter market.

Stock exchange is the most highly centralized and visible institution where already issued securities are bought 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 Biratnagar Jute Mills Ltd. (BJM) had begun in 1937 under the Company Act, 1936. The SEC managed five public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84.

Only from 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 with paid up capital of Rs.307.32 million, market capitalization of Rs.318.67 million and 9852 shareholders till FY 1985/86.

Securities Exchange does not directly buy or sell securities; rather, they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange, an individual must be 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*).

The stock market is the only institution to mobilize substantial portion of public activity and the public share volume in other markets. This suggests that individual investors recognized the opportunities in these other markets and pursues them. Also, in some cases, institutional investors are restricted from these markets because the stock is often too small to meet their criteria or legal requirements. As will be seen in other markets, - the AMEX and the over-the-counter market have outperformed the NYSE in recent years in New York. Individual investors may know exactly what they are doing by not being the major force on the NYSE.

Some parallels exist between the stock market and the bond market in terms of trading. As we know that although the market for U.S. government and the agency bonds are active, liquid markets, the corporate and the municipal sectors are much less so, at least, for the average investors. In case of stocks, the New York Stock Exchange (NYSE) is a very active, liquid market, with trades occurring smoothly within a carefully monitored framework. Prices may fluctuate sharply as a result of changes in investor's expectations, but such changes are orderly and investors can buy or sell with reasonable confidence that the prices are "fair" (i.e. represent orderly transactions within a monitored environment).

The American Stock Exchange is designed to imitate the NYSE, and thus has similar trading procedures. The role of specialist is initially the same as on the NYSE, although the capital requirements are smaller. Active stocks are usually assigned to specialist firm that may have several partners at the post to handle orders. Certain trading policies are different because of the relatively "thin" supply of shares for many AMEX stocks.

In over-the counter market, the corporations being traded may range from very large (e.g. Food Lion Supermarkets and Coors Bell) to very small firms unknown to most investors; the market for particular shares may be very active or very inactive. Bid – ask spreads may range from 1/8 point or more. The small investors can trade in the OTC market more easily than in the corporate or municipal bond markets, investing only a few hundred dollars or less. The OTC market is of increasing importance and continues to enhance its position relative to the organized exchanges. But in Nepal, OTC is not practiced yet.

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.

2.6 History of Capital Market Development

The history of capital/securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets.

The history of stock market in Nepal dates back to the era of Rana Prime Minister JuddhaShamsher when Gunjaman Singh, the first secretary at the Nepalese Embassy for England returned back to Kathmandu and set up the 'Industrial Council'. The council drafted the Company Act and Nepal Bank Act for the first time in 1936. The first public flotation of share in the securities market was initiated by Biratnager Jute Mills Ltd in 1937. There were very few companies in Nepal issuing share to the general public until another Company Act come into operation in 1951. Because of the world-wide increase in the demand for consumer goods during the Second World War, import of such goods becoming difficult many domestic industries were encouraged to established. Jute being exportable item was on the priority list. Therefore, many industries including jute, sugar match, textile, chemical and furniture were established in Nepal. Many war driven industries remain closed till 1950 because of competition faced with the goods imported from abroad and Nepal passed through a trauma of series of political in stability. During the Panchyat regime (1961-1990), the economy was based on central planning and most of public industries were opened in public sector and private sector was eventually discouraged. Private sector productive saving was transferred to the more inefficient government sector by issuing government securities.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

The non-security market of Nepal came under regulatory framework when Nepal Rastra Bank the central bank was established in 1956. In the absence of developed securities market

in Nepal, the government was the sole issuing authority of Development Bond and National Saving Certificates. Therefore the securities generally floated in the market were mainly the Government securities. Nepal Rastra Bank has been managing the issue of short-term treasury bills and various types of development bonds to collect public debt for the Government from time to time.

Institutional development of stock market in Nepal actually started in 1976 when the government established Securities Exchange Centre under the Company Act with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial development Corporation. The industrial policy of the government also encouraged the promotion of securities exchange activity in Nepal. The main objective of the established of the center was to mobilise public saving and encourage the people participation of the ownership of industries and business enterprises. As a securities market intermediary, its role was to organise and provide marketing facilities of channeling securities exchange business through the centre. Its activities included the purchase, underwrites and sale, directly or through the licensed brokers or sub-brokers of the centre, the share, stocks and debentures of public limited companies and also development bond as well as treasury bill issued by the government (*Timilsina, 2001:1-4*).

2.7 Nepal Stock Exchange (NEPSE)

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 2063(2007).

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

Government of Nepal, Nepal Rastrya Bank, Nepal Industrial Development corporation and members are the shareholders of the history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the company Act in 1951, the first issue of Government Bond in 1964 and the establishment of

Securities Exchange Centre Ltd. in 1978 were other significant development resulting to capital markets.

Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institutions undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Government of Nepal, under programme initiated to reform capital market, converted Securities Exchange Centre into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit making organization, operating under Securities Exchange Act, 2003.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as broker, market makers etc. 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 is the shareholder of the NEPSE.

2.7.1 Board of Directors:

The Board of Directors of NEPSE consists 9 (Nine) directors in accordance with Securities Exchange Act, 2063. Six directors are nominated by Government of Nepal and different institutional investors. Two from the licensed members and the General Manager of the NEPSE is the Ex-Officio Director of the Board.

Table: 2.1

Directors in NEPSE's Board

Mr. Krishna Prasad Devkota	Chairman
Mr. Hari Prasad Kafle	Member
Dr. Min BahadurShrestha	Member

Dr.Basudev Sharma	Member
Mr. ArunShrestha	Member
Mr.SitaramThapaliya	General Manager (Member)
Mr.Narayan Prasad Timsina	Company Secretary

Source: www.nepalstock.com

2.7.2 Members:

Members of NEPSE are permitted to act as intermediaries in buying and selling of securities. At present, there are 60 member brokers and 2 market makers, who operate on the trading floor licensed as per the Securities Exchange Act, 2063, rules and bye-laws.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public offering of securities whereas securities trader (Dealer) works as individual portfolio manager.

At present there are 11 sales and issue manager and 2 dealers (Secondary market). As per the Securities Exchange Act, 2063, rules and byelaws of the exchange the tenure of the membership is of one year and the license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 60 member brokers and 2 market maker, who operate on the trading floor as per the Securities Exchange Act, 2063, rules and byelaws of the exchange. Besides these NEPSE has also licensed to dealer (primary market) and dealer (secondary market). Dealer (primary market) operates as a manager to the issue and underwriter whereas dealer (secondary market) operates as a portfolio manager. Presently, NEPSE licensed to 11 dealers (primary market) and 2 dealers (secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

2.7.3 Listing:

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. At present, 230 companies have listed their securities to make them eligible for trading. Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

2.7.4 Process to Obtain Membership:

Corporate bodies wishing to be member shall have to submit application in prescribed format within specified time along with certificate of incorporation, tax certificate, Memorandum of Association, Articles of Association and concerned Act, rules and regulations in the case of corporate body other than company after the incorporation and the projected B/S and PL A/C for the next three years, last three years audited financial statement, if the year of incorporation is less than three years, the B/S and A/C of investment in shares of subsidiary company or investment made in its parent company's share capital, details of share investment in any other company other than subsidiary, the name, address, number of shares subscribed and the amount invested by shareholders having more than 5% of the share capital need to be submitted.

Listing & Annual Fee to be submitted

Table: 2.2
Share of NEPSE

S.No	Issued Capital	Listing Fee	Annual Fee As Per issued Capital
1.	UptoRs. 10 million	0.20% or minimum 15,000	Rs. 15,000
2.	Rs. 10 million to Rs. 50 million	0.15% or minimum 45,000	Rs. 25,000
3.	Rs. 50 million to Rs. 100 million	0.10% or minimum 75,000	Rs. 35,000
4.	Above Rs. 100 million	0.075% or minimum 100,000	Rs. 50,000

Source: www.nepalstock.com

Table: 2.3
Debentures and Mutual Funds

S.No	Issued Capital	Listing Fee	Annual Fee As Per issued Capital
1.	UptoRs. 10 million	0.20% or minimum 15,000	Rs. 15,000
2.	Rs. 10 million to Rs. 50 million	0.15% or minimum 45,000	Rs. 25,000
3.	Rs. 50 million to Rs. 100 million	0.10% or minimum 75,000	Rs. 35,000
4.	Above Rs. 100 million	0.075% or minimum 100,000	Rs. 50,000

Source: www.nepalstock.com

The listing fee and the annual fee to be paid by the listed company is based on the issued capital of the company (*sources: NEPSE site*).

2.7.5 Overview of NEPSE Trading Procedures

Trading Days and Hours:

NEPSE has fixed stock trading days and hour during which the numbers are allowed to enter the floor to make the transactions as tabulated below:

Table:2.4
Stock Trading Days and Hours

Type of Trading	Trading Days	Trading Hours
Regular Trading	Sunday - Thursday	12 Noon – 3 P.M.
Odd Lot Trading	Friday	12 Noon – 1 P.M.

Source: www.nepalstock.com

Board Lot:

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. The transactions on regular trading should be done on at least one board lot. The transaction of less than 10 shares is permitted only on odd lot trading hours.

Settlement:

NEPSE has adopted T+3 systems, which mean that settlement of transaction, should be done within 3 working days following the transactions day. Settlement will be carried out on the basis of paper verses payment. However, in case of blank transfer NEPSE has adopted T+5 system.

Securities Available for Trading:

NEPSE facilitates trading in the following instruments

A. Shares

- Equity Shares
- Preference Shares

B. Debentures

C. Government Bonds

D. Mutual Funds

Circuit Breakers:

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities.

The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%, . These circuit breakers when triggered bring about a trading halt in all equity.

- In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first hour of trading i.e. 13:00 hours. In case this movement takes after 13:00 hours there will be no trading halt at this level and market shall continue trading.

- In case of 4% movement either way, there would be a market halt for half an hour if the

movement takes place before 14:00 hours. In case this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading.

- In case of 5% movement in either way, trading shall be halted for the remainder of the day.

Price Range:

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range.

- The price band is 10% of previous close on either way. *

* During the ATO session the range is 5% on either way of Previous Close Price. After the band is 2% on either way of the Last traded price till it reaches to 10% of the previous close.

Trading Location:

The trading can be done either from NEPSE's trading floor or from the broker's office. NEPSE uses sophisticated technology through brokers can trade remotely from their office located inside the Kathmandu valley. This remote trading facility was started from 1 November 2007.

Brokerage:

The rate brokerage on equity transactions ranges from 0.7 percent to 1 percent depending on the traded amount. (www.nepalstock.com)

2.7.6 Trading Automation

To develop Computerized Trading System (CTS) NEPSE has made an agreement with the British Company COMDAQ Limited in November, 2006 under the Asian Development Bank (ADB) loan assistance project- Corporate and Financial Governance (CFG) at the cost of 300,000 US dollar. The project completed on 24th August 2007 which completely substitutes the open outcry system by present electronic system (NEPSE automated trading System). Traditionally, NEPSE has adopted an "Open-Out-Cry" system for the trading purpose. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offers will post the price and code number on the selling column on the quotation board. The market makers

quote their bid and offer price on their own board before the floor starts. Once the bid and offer price matches, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

Advantages of Trading Automation

) Easy to Operate

Introduction of stock automation reduces the prevailing communication method (i.e. circulation of information by the staff for the individual buyer and seller). Messaging employees can be engaged in operating activities.

) Information Circulated Through the Electric Mean

Individual computers are assigned for the single person so there is no need for double communication. It is also the new step in the up growing economy and easy to operate for the increasing interest of individual for investment in stocks (i.e. common stock, preferred stock, bonds and debentures as well as government bonds).

) Fast Flow of Information

Since all the in formations are circulated through the individual computer hence there is no necessity to wait until the staff circulates information, hence each person can enjoy the quick information by the help of computer. Individual response by the computer with in a second can be obtained.

) Quick and Fast Processing Time

As the computer responses for individual query so the admin staffs can be shifted towards operation hence each and every transaction can very quickly be processed.

) Reduces Communication Gap

People to people communication may raise communication gap by the crowd of persons at the floor. Using the computer system it can be reduced to the tolerable level.

) Circulated Between Large Population

Since the information is circulated by the computers in network hence the information can be obtained by the interested individuals in parallel form.

) Reduce Operating (Staffing Cost)

Engaging available staffs for operating activities no further staff engagement is required it can similarly seen as the usages of automated teller machine in banking sector which has reduced clerical work and withdrawal and deposit of cash by the person at the available ATM terminals . Similar to the advantages of ATM and debit or credit cards stock automation helps in reducing operation cost through staff deduction.

) Technological Advancement

As the time passes it require a new use in the working environment and reduces the manual functioning. It is the adaptation of technology commonly used in developed countries all over the world.

Disadvantages of Trading Automation

) Single View for One Computer

A single computer is engaged for circulation large number of computers are required for the information circulation. Each computer is the single user only so it requires large number of peoples to stay at queue for long time too.

) High Expansion Cost

For the first time for the operation it requires to invest large amount for installing the system. Training and development for the person engaged on the system.

2.7.7 Privatization of Stock Exchange:

In spite of a GN's policy and the interest of donor community to privatize the stock exchange, the process of privatization is in slow move. Progress of secondary market is

difficult without effective operation of Stock Exchange. Lots of investors have large amount of fund to invest but there is dearth of opportunities. Bank interest rates are going down, Government bonds are rarely available, there is a persistent slump in the real estate business, and the bullion market is unorganized, which can be capitalized by the help of secondary market.

The primary market seems to be doing well as they are usually subscribed especially with issues of banks and financial companies. But the secondary market is solely dependent on one or two industrial companies, banks, financial companies, and insurance companies. Ample opportunities for development are available in Nepal. The big water resource, the favourable time zone, the centre of natural resources including the Everest, the big consumer markets in neighbour (India, China, Pakistan, Bangladesh etc.), are all favourable conditions for economic development of this country. But, we are very much unfortunate not to explore the opportunities.

As the money market as well as capital market is increasing day by day it is the most important function to make the security market in large volume and coverage so a single stock exchange with the Kathmandu centered functioning cannot fulfill all the needs of the prospective buyer as well as seller, hence the private sector involvement is of most necessity. Being the member of WTO and the free entry of multinational companies by the end of December 2009 it is most important to establish other stock exchanges in Nepal.

It is another advantage for the government as well as to the common people by the different value quote by different stock exchange and by the duties and taxes collection by the government. If there are choices exist in the market one can make his or her investment by their own thinking and price hiking and deficit can be control since the control over security is not limited the small number of people.

Distributed functioning is one of the important parts of economic progress, by the equal growth over the country.

2.8 Trading of the Government Bonds Started

Stock Exchange has started secondary trading of the government bonds on 29 December 2006 through the formal inauguration by finance minister Dr. Ram Sharan Mahat. On the first day bonds worth Rs. 7 hundred thousands were traded. The objective of the secondary trading of the bond is to boost the liquidity and reduce the cost of borrowing of the government. However, investors' response to government bond was not encouraging. Low number of individual investors and differential income tax on interest for individual and corporate were the major reason for minimal transaction of the bond.

2.9 Securities Board of Nepal (SEBON)

SEBON was established as an apex regulator of the securities market in Nepal by GN on June 7, 1993, under the Securities Exchange Act, 1983. The main objective of SEBON is to regularize and manage the securities market and protect investors' rights.

As per the securities rules and regulations, following are the major functions of SEBON:

-) Frame policies and programmes required in securities market and advise GN in this aspect.
-) Register securities and grant issue approval.
-) Provide license to corporate bodies to operate stock exchange business.
-) Provide license to operate securities businesses.
-) Supervise and monitor stock exchange and securities businesspersons.
-) Conduct research, study and awareness programmes regarding securities market.

A board composed of seven members including a Chairman governs SEBON. The board has representatives from various institutions of the government as well as private sector. The Chairman of SEBON is appointed by GN for the tenure of four years. Other members of the Board include representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal

RastraBank (the central bank), Federation of Nepalese Chambers of Commerce and Industries and Nepal Chartered Accountants' Association.

SEBON, in order to implement its policies and programs effectively, has two departments, six divisions and ten sections in its organizations structure. Each department is headed by deputy director and each division by officer. Presently, there are 25 staffs in SEBON. The major source of financing of SEBON is basically the government grant. Other financing sources include registration of corporate securities, registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund. (Source: www.sebon.gov.np).

2.10 Members of Stock Exchange

For the purpose of providing the Membership of the Stock Exchange, the Stock Exchange shall classify the Membership as follows: - (a) Brokers, (b) Securities Dealer, (c) Market Makers. (*Securities Exchange Regulation 1993, Rule 29*)

Stock Brokers:

An individual, a firm or company which does not purchase the Securities directly by its name and is involved in purchase and sale of the Securities and other related acts by transacting the Securities for the customers only as in intermediary shall be awarded the Membership as a Broker. If a Broker who has obtained the Membership of the Stock Exchange needs to purchase the Securities for him or by his name or needs to sell the Securities owned by him, it shall be notified to the Stock Exchange and transacted through another Broker. (*Securities Exchange (First Amendment) Regulation, 2063 Rule 30*)

A broker acts as a middleman who matches 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 (*Bradley, 1963: 304*).

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

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.

Security Dealer:

The Stock Exchange may provide the Membership of the Securities Dealer by classifying the Securities Dealers into the following groups on the basis of the acts relating to the Transaction of securities to be carried out by the Securities Dealers :-(a) Securities Dealer (Primary Market), and (b) Securities Dealer (Secondary Market).

In providing the Membership of the Securities Dealer pursuant to sub-rule (1), Membership to act as a Stock Exchange (primary market) shall be generally awarded to such Securities Dealer who provides the pre-issue and post-issue services for the sales management of the securities to be newly issued either through public issue method or circulation method by a corporate body, makes the underwriting to purchased the unsold shares on their issuance or acts relating to that.

Membership to act as a Stock Exchange (secondary market) shall be awarded to such a Securities Dealer who carries out, in his name the transaction of securities presented to the Stock Exchange for the transaction or by concluding an investment management contract in accordance with the prevailing laws, with the objective of managing the investment carries out the transaction of securities through a broker from the name of the investor or his own name (*Securities Exchange (First Amendment) Regulation, 1995, Rule 31*).

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.

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 except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers(*Joshi, 2002: 28*).

The Membership of Securities Market Marker shall be awarded to a company or Corporate Body which carries out the transaction of securities in its name or from its name in the Stock Exchange on the basis of the commitment of providing liquidity on the Securities issued by His Majesty's Government and on the Securities listed on the Stock Exchange subject to that in the case of such listed Securities a reasonable contract shall be concluded with the concerned Corporate Body or on the securities of at least three Corporate Bodies and not letting unreasonable instability in the price of such securities (*Securities Exchange (First Amendment) Regulation, 1995, Rule 32*).

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 GN, 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.

2.11 Price and Trading Procedure

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. Then market price moves upward and downward independently.

There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors. One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which, together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price. The next major influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advances.

Market factors, or internal factors of the market, consisting of the tone of the market and supply – demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of excessive expectations, which takes the form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply-demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. Although margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal.

The buying and selling of securities takes place in the floor of the Nepal Stock Exchange Limited. The transactions are carried out only through licensed brokers and market makers. However, brokers cannot transact shares in their own account. Market makers are not

allowed to do transaction on behalf of other investors. In the floor, trading is carried out on “open outcry system”. Each broker’s representative should be present in the floor and participate through written bids and offers. The trading reports are published after the floor is closed.

2.12 Regulations of Stock Market

Legal system of securities operation in Nepal falls under following Acts, Regulation, By-law and guidelines. Securities Exchange Act 1983 is the main law to regulate the securities market in Nepal. Till, now this act has been amended 3 times within the 22 years of its history. Under this act, Securities Exchange Regulation 1993 and membership of stock exchange and transaction by-laws, 1998 have been formulated and enforced. Last year both regulations as well as by-laws have been amended to suit the changing environment of the securities market.

Companies Act, 2053 have been replaced by new companies act, 2063 with a view to make simple transparency in formation, operation and administration of the companies. Various formats related with articles and Memorandum of Association, prospectus, application form for purchase of shares, balance sheet and profit and loss account have been prescribed.

2.12.1 Major Regulating Agencies:

Three government agencies, viz., Securities Board, Company Registrar’s Office and Nepal Rastra Bank are involved in approving and registration of public issues. Through Securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the market, the functions performed by other two agencies seems to be of duplication of works. Here, how all these three bodies work in approving and registering the public issue are elaborated.

2.12.2 Securities Board:

Securities Board is empowered by Securities Exchange Act, 2063 for the development of capital market, protection of investors’ interest, approval of stock exchanges, regulation of

market intermediaries, secondary and primary markets, mutual funds and conducting investment awareness programs for various interest groups.

When prospectus is submitted for the registration purpose, the securities board does betting and if disclosures in the prospectus are found adequate then Board registers the securities to be issued in the public and grants permission on it. During the review period of FY 2004/05, Securities Exchange Board, under the implementation of Corporate and Financial Governance (CFG) project relating to securities market reform, prepared the draft regulation on securities registration and disclosure, licensing of stock exchange, the Operation guidelines for stock exchange, working procedures for the stock market and members, format relating to annual and quarterly reporting by indexed companies, and format for reporting special events and circumstances directly affecting the price of stock.

2.12.3 Nepal Rastra Bank:

Nepal Rastra Bank, the central bank, approves prospectus when banks and finance companies propose public issue. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bonds. Under Bank and Financial Institution Act (BAFIA) 2063, bank and finance companies are required to issue shares equivalent to at least 30 to general public. But while in debentures and bonds issue NRB get assured, by vetting the prospectus, about the size of the issue interest rate, collateral and repayment of the loan.

2.12.4 Credit Rating

Credit Rating is an assessment of the credit worthiness of a borrower in general terms or with respect to a particular debt or financial obligation. An agency may rate the creditworthiness of issuers of debt obligations, the debt instruments and/or the servicers of the underlying debt. A credit rating can be assigned to any entity that seeks to borrow money, flood shares to public or for company that wants to disclose their obligation paying ability in general.

Worldwide Credit assessment and evaluation for companies and governments is generally done by a mainly three credit rating agency (with around 95% global market) viz. Moody's, Standard & Poor's, Fitch Rating. These rating agencies are paid by the entity that is seeking a credit rating for itself or for one of its debt issues.

In Nepal ICRA Nepal (subsidiary of ICRA Limited, as associate of Moody's Investor Service) is authorized rating agency and only one rating agency till date. ICRA Nepal Limited (ICRA Nepal), the first Credit Rating Agency in Nepal, is a Subsidiary of ICRA Limited (ICRA) of India. It was incorporated on November 11, 2011 and granted licence by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a Technical Support Services Agreement, which envisages ICRA helping ICRA Nepal in such areas as rating process & methodologies, analytical software, research, training, and technical & analytical skill augmentation.

ICRA Limited, an Associate of Moody's Investors Service, was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional Investment Information and Credit Rating Agency. Today, ICRA and its Subsidiaries together form the ICRA Group of Companies. Besides India and Nepal, ICRA operates in Indonesia and Sri Lanka through Subsidiaries.

ICRA Nepal Limited has started its operation from around one year and completed rating of 20 companies in the market till date. *(Source: icranepal.com)*

2.12.5 Central Depository System

A Central Depository System (CDS) is a specialist financial organization holding securities such as shares either in certificated or certificated (dematerialized) form so that ownership can be easily transferred through a book entry rather than the transfer of physical certificates. This allows brokers and financial companies to hold their securities at one location where they can be available for clearing and settlement. This is usually done electronically making it much faster and easier than was traditionally the case where physical certificates had to be exchanged after a trade had been completed.

In Nepal, CDS and Clearing Limited (CDSC), a company established under the company act promoted by Nepal Stock Exchange Limited (NEPSE) in 2010 to provide centralized depository, clearing and settlement services in Nepal. The company is inaugurated on 31st March 2011. Although, operation of the CDS has not started yet the capital market regulator has expressed hope that the operation of central depository company will change the face of the secondary market in coming days.

The main objective of the company is to act as a central depository for various instruments (Equity, Bonds, and Warrants etc) especially to handle securities in dematerialized form. This organization is entrusted with the safekeeping, deposit, and withdrawal of securities certificates and transfer of ownership/rights of the said instruments. The depository functions will be performed by the company under the securities regulations of Securities Board of Nepal (SEBON).

CDSC Update (As of 2014-04-04)

Registered Companies:	16
Registered Clearing Members:	50
Licensed Depository Participants:	10
Beneficial Owners' Demat Account:	529
No. of Shares in Demat Form:	6392
Companies in Pipeline for Admission of Securities:	10
DPs in Pipeline:	3

Source: www.cdscnp.com

2.12.6 Office of the Company Registrar:

Company Registrar is only agency where companies are registered monitors the operations of the companies and makes arrangements for winding up of the companies when required. Approval on prospectus is granted by CRO only. Before granting approval it obtains the advice/opinion from securities board and for banking and finance companies opinion/advises on prospectus is taken from Nepal Rastra Bank too.

2.12.7 Nepal Stock Exchange:

While, issuing securities to the general public consent should be obtained from the NSE. For the issuing companies and issue managers are required to submit the prospectus. In the meantime before concluding agreement along with the 5% of commission amount should be forwarded to the NSE. This is applicable for underwriting arrangements too.

2.12.8 Insurance Board:

When an insurance company makes a public issue, insurance Board also performs the inspection of prospectus as it is done by Nepal Rastra Bank.

2.12.9 Concerned Ministers of GN:

The companies which are incorporated by special Acts are required to get approved the prospectus from concerned ministers. For example, companies such as Nepal Industrial Development Corporation, Citizen Investment Trust and RastriyaBeemaSansthan (RBS) are under the preview of Minister of Industry and Ministry of Finance. Thus prospectus of these companies required to be approved from Ministry of Industry and Ministry of Finance instead of Company Registrar's Office.

2.13 Challenges in Stock Market Growth

Stock exchange in other countries has a long history of more than one century and these stock exchanges faced so many ups and down during this period. But in our country history of stock exchange is just ten years, which is not sufficient in relation to other country stock market. In our stock market all the features of a stock exchange have been applied and the possible happening in a secondary market have take place during this short span of period. Although, we have to do lots of thing to grab the opportunity of stock market development in Nepal.

Following points to be considered for future growth and better performance of Nepal stock exchange so as to reap opportunities and to and to tackle problems:

1. Establish Regional Branches of Stock Exchange:

We have centralized stock exchange located in Kathmandu with no diversification into regional branches to make available the need of the investors there. This is one of the main factors, which decrease the level of participation of general public in capital market. So the necessary study should be done to establish regional branches of stock exchange.

2. Automation in the Clearance System:

Presently the investors have to physically deliver or receive the share certificates for sales and purchases made 'Netting Out' system of delivery of shares should be introduced and the system should generate daily broker-wise statement, which shows the new share certificate or net amount payable by a broker. The system should be IT-based. There are so many disadvantages of keeping physical share certificates, as a proof of ownership on the shares. The hurdles like lengthy system of clearance from NEPSE, a big time taken by the listed companies for transfer of ownership, etc., can be overcome by introducing de-mat system. The chances of fake certificates, loss of certificates, etc., can also be minimized, by converting from paper based share certificates to electronic equivalents.

3. Lack of Mutual Funds:

Even in developed countries most of the investors are dependent on the mutual funds for investment in secondary markets. It is only because most of the investors have little knowledge on conducting financial analysis of the listed companies. Mutual funds get regular services of qualified financial analysts and the investments in securities made by them are based on their regular studies of available financial figures and regular watch of the factors affecting the market. An investor may rely more on a mutual fund and may invest in it instead of investing in shares of listed companies, which holds higher risk.

In Nepal, presently, there are two mutual funds: one established by NIDC Capital Markets and another by Citizen Investment Trust. Both of these mutual funds are not successful in attracting investment from general public. The rules for establishment of a mutual fund by private sector including banks and finance companies should be favourable and market oriented. They should have direct approach to participate in primary market and have direct access to the trading floor of NEPSE, like other market makers. The concept of secondary market was developed specially for the promotion of portfolio management of big business houses and big investors. But the concept has completely failed in our country due to restrictions on their direct participation in the market. Market makers, on the outset, had played a safe game to fill up the gap for mutual funds and institutional investors. However, as of today there are no market makers in the floor of NEPSE.

4. Absence of Corporate Investors:

Some of the finance companies had tried hard to participate in the secondary market but the changes in the regulations governing investment in shares by a bank or a finance company has compelled them to stop the purchase of shares; rather, they off-loaded some of their holdings. One has to understand that only the big investors like banks and finance companies can afford the expenses incurred in the analysis of the market. A restriction on them to participate freely in the secondary market means a restriction on the system as a whole. So, NRB restricted to purchase the share from primary and secondary market but now some options are given.

5. The Electronic System of Trading:

NPSE is following the order driven automated screen based trading system, which is one of old trading system in global context. The system does not allow the investor to place order for purchase or sale directly. Moreover, the screen based automated system (accessible to general investor in NPSE website) update normally 15-30 minutes after the actual transaction takes places. To develop the securities market an advanced electronic system of trading should be introduced without any further delay.

6. Operating of Secondary Market for Foreigners

Specially, the foreigners residing in Nepal should be allowed to participate in the secondary market. The demand of shares can increase by many folds by doing so.

7. Absence of Rating Agencies:

True, scrutinized, and credible information about the listed companies are not available because of the absence of credit rating agencies. So the concerned parties should rise the voice for the established of rating agencies.

8. Absence of Regulation Over Financial Information from the Listed Companies:

Secondary market is a calculative market based on financial information of the listed companies. It should be mentioned that information is not received on time and the available information does not meet the required standards. The Accounting Standards are not

sufficient to compel a listed company to generate financial figures, which are true and fair. Regulators must be sure that information is reaching to the public in time and that the quality of such information is held high.

9. Privatization of Stock Exchange:

In spite of a GN's policy and the interest of donor community to privatize the stock exchange, the process of privatization is in slow move. Progress of secondary market is difficult without effective operation of Stock Exchange . Lots of investors have large amount of fund to invest but there is dearth of opportunities. Bank interest rates are going down, Government bonds are rarely available, there is a persistent slump in the real estate business, and the bullion market is unorganized, which can be capitalized by the help of secondary market. The primary market seems to be doing well as they are usually subscribed especially with issues of banks and financial companies. But the secondary market is solely dependent on one or two industrial companies, banks, financial companies, and insurance companies. Ample opportunities for development are available in Nepal. The big water resource, the favourable time zone, the centre of natural resources including the Everest, the big consumer markets in neighbour (India, China, Pakistan, Bangladesh etc.), are all favourable conditions for economic development of this country. But, we are very much unfortunate not to explore the opportunities.

2.14 International Situation Review

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

The study conducted by BaryBorsworth on Industrial Production and Prices of common stock, 1953-1975 has revealed that the stock market and economic activity move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variables (*Borsworth, 1975: 78*).

The study conducted by the U.S. Department of Commerce on stock prices and the business cycle, 1948-84 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(*Kempton, 1985: 54*).

A number of studies on the relationship between stock prices and the national economy have found that changes in the stock market tend to precede changes in business conditions by an average of about four months. As a result, the stock price index is major component of the index of leading economic indicators, which consistently provides a warning about changes in economic activity(*Lorie, et al., 1985: 78*)

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 for 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 (*Kunt& Levine, 1996: 89*).

Ross Levine, a Senior Economist in the Finance and Private Sector Department Division of the World Banks' Policy Research Department, has mentioned in his article that stock markets may affect economic activity through the creation of liquidity. Many profitable investments 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(*Levine, 1996: 35*).

Ross Levine, at his same study, has found that stock market liquidity rather than stock market size and volatility of the stock market matters for growth. He has shown that with taking examples of 38 countries with more liquid stock markets in 1976 grew faster than those economics with less liquid stock market in 1976 between 1976 and 1993. Thus, stock market liquidity helps to forecast economic growth. He has used three measures of stock market liquidity, viz. value traded ratio turnover and the value-traded ratio divided by stock price volatility. The study has revealed that countries that had more liquid stock markets in 1976 enjoyed both faster rates of capital formation and greater productivity over the next 18 years, because liquid stock markets encourage more investment (*Levine, 1996: 52*).

However, there are various researches performed on the stock market liquidity and its effect on long-term economic growth. Levine & Zeroos have mentioned in his article that increased liquidity can deter growth through at least three channels. First by increasing the returns to investment, greater stock market liquidity may reduce saving rates through income and substitution effects. Second, by reducing the uncertainty associated with investment, greater stock market volatility may reduce saving rates because of the ambiguous effects on uncertainty on savings. While less uncertainty makes an investment more attractive to risk-averse agents, less uncertainty also lowers demand for precautionary savings. Thus, the ultimate impact of lower uncertainty on saving rates produced by greater stock market liquidity is uncertain. Third, stock market liquidity may adversely affect corporate governance; very liquid markets may encourage investor myopia. Because, more liquid markets make it easy for dissatisfied investors to sell quickly, liquid markets weaken investor's commitment and reduce investor's incentives to exert corporate control by overseeing managers and monitoring firm performance and potential.

Out of the 23 stock exchanges in the India, Mumbai's (earlier known as Bombay), Bombay Stock Exchange is the largest, with over 6,000 stocks listed. The Bombay Stock Exchange (BSE) accounts for over two thirds of the total trading volume in the country. Established in 1875, the exchange is also the oldest in Asia. Among the twenty-two Stock Exchanges recognized by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognized and it is the only one that had the privilege of getting permanent recognition ab-initio ([www.answers.com/ topic/Bombay-stock-exchange](http://www.answers.com/topic/Bombay-stock-exchange)).

Shares at India's benchmark Bombay Stock Exchange (BSE) have hit a record high on the back of falling oil prices and strong corporate performances. The Bombay sensitive index (Sensex) breached the 7,500 mark for the first time in its 130-year history. Stockbrokers say the boom is being spurred by foreign investors who are pumping money into the BSE. The previous BSE high was 7,423.25. Trading volumes on the 30 share stock exchange reached 32.36 billion rupees (\$747m)(www.news.bbc.co.uk/2/hi/south - Asia).

2.15 Review from Nepalese Context

No specific research studies have been available regarding the impact of stock market on economic development and vice versa in the Nepalese Context. However, in this context policy framework for capital market development and regulation of capital market & intermediaries is reviewed.

1. Policy Framework for Capital Market Development:

The economic institutional and regulatory framework provides the underpinnings for capital market development. At the early stage of an emerging market economy, it is important that the Government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issuers, and investors. Government can also create incentives for capital mobilization, remove impediments to private sector development, educate investors, and provide basic legal and regulatory reforms.

Legal reforms must provide for securities, law with adequate regulatory and enforcement powers to the Government regulator. In Nepal, legal reforms are also necessary in order to harmonize the Securities Exchange Act with the Company Act, Banking and Finance Company Act and Ordinance. Each of these acts as well as the Provident Fund Act and the Insurance Act has a significant impact on the development of the capital market, the securities industry, and institutional investment.

In most emerging capital markets, the securities commission has a legal mandate to facilitate capital market development. Government policies must facilitate rather than impede capital market development. In particular, sound macroeconomic policy can lay the foundation for

the development of long-term capital market instruments. Tax policy should encourage long-term investment through the capital market. In Nepal, the overall policy environment has not been conducive to the development of the capital market even though the Government has taken concrete steps to encourage the creation and development of the stock exchange and legal framework.

In Nepal, the main impediments have been the following: (i) tax policy that discourages investment in capital market instruments issued by the private sector; (ii) the channeling of most savings to state-owned banks, and Government debt; (iii) institutional arrangements that seem to discourage contractual savings and institutional investment flows into the capital market; and (iv) lack of investors' confidence in the stock market since many listed companies do not trade on a regular basis, or hold annual meetings and provide disclosure information to investors on a timely basis. Also there is a need for a strategic plan to link privatization policy to the growth and development of the capital market.

2. Regulation of Capital Market and Intermediaries:

The main regulators of the capital markets and intermediaries providing broker and dealer services to the primary and secondary markets are the Securities Board of Nepal (SEBON), Nepal Rastra Bank (NRB) and the Nepal Stock Exchange (NEPSE), a self-regulatory organization under the Securities Exchange Act, as amended. The NRB is responsible for the supervision of securities market intermediaries (other than brokers) while the Securities Board is responsible for the supervision of the NEPSE, the registration and supervision of stock brokers and the granting of licenses to finance companies and others acting as issue manager, underwriter, market-maker, or portfolio manager. In many countries insurance companies have established subsidiaries to provide money management services or to engage in capital market activities normally provided by a securities broker-dealer. In Nepal, there is a need to establish a regulatory body to supervise private provident funds.

Under the Nepal Rastra Bank Act with amendments, the NRB supervises and regulates finance companies and commercial banks. In Nepal, these organizations are also permitted to provide investment banking type services. In this regard, it is noteworthy that the risks associated with investment banking activities are quite different from those associated with

commercial banking or the quasi-banking functions performed by deposit-taking finance companies. In obtaining a license from the Securities Board, however, certain minimum capital requirements must be met by anyone proposing to act as issue manager, underwriter, market maker, portfolio manager, or stockbroker.

The Securities Board of Nepal(SEBON) was established in 1993, under the 1992 Amendments to the Securities Exchange Act 2063 (2007). Under the Securities Investment Trust Act of 1997, the Securities Board is also responsible for the registration and supervision of investment funds. Under a new Securities Exchange Act, as proposed, NEPSE would function as a self-regulatory organization under the oversight of the Securities Board. Under the Securities Exchange Act, the Securities Board also has a clear mandate to promote the development of the capital market.

Under the current regulatory scheme, the supervision of finance companies and commercial banks acting as underwriting, issue manager, market-maker or portfolio manager are supervised by the NRB, including the administration of prudential standards, financial reporting, off-site monitoring, and on-site inspections for compliance with applicable rules and regulations. The NRB of course, is also responsible for the overall supervision of commercial banks and finance companies, including their activities in the markets for Treasury Bills and Government securities. At the present time, the Securities Board does not participate in the NRB's program to inspect and monitor the financial conditions of finance companies and commercial banks that are licensed to conduct capital market activities. In view of the difference in risk associated with deposit-taking institution and capital market activities, it would be desirable for the Securities Board to participate in the supervisory program for financial institutions licensed by the Securities Board to conduct capital market activities.

The Board of Directors of the NEPSE consists of seven members. The Chairman of the Board is an official of the Ministry of Finance. Two Board members represent NRB Bank and one member is appointed by Nepal Industrial Development Corporation. Two licensed stockbroker members of the Exchange also serve on the Board of Directors. Finally the General Manager of the NEPSE is a member of the Board.

The Securities Board must be in a position to intervene in the event that the stock exchange is not performing its self-regulatory functions in accordance with the Securities Exchange Act, or otherwise engage in activities requiring enforcement action. If the main Government regulator is too closely identified with the day-to-day operations of a stock exchange, this could erode public confidence in the event of the demise of a listed company, member firm, or other market failure.

While the NEPSE is expected to perform self-regulatory functions, the existing securities law (as amended) and regulations do not clearly define the regulatory, supervisory, and enforcement functions of the stock exchange and the Securities Board. Thus, it is not surprising that self-regulation has not developed to any significant extent. Also, the NEPSE does not have the necessary committee structure to carry out basic self-regulatory functions. The bylaws of the exchange are not adequate for this purpose and there is a need to develop procedural manuals that can provide staff guidance to formalize the self-regulatory process.

In recent years, self-regulation has become an important regulatory tool in the near-by-Asia region. In Sri Lanka, Thailand, and Malaysia, self-regulation is viewed as relatively successful whereas in Bangladesh and the Philippines self-regulation historically has not performed up to expectations. In recent years, the Philippines and Bangladesh have endeavored to improve self-regulations in reorganization of its importance to protections of investors. In Thailand, the Securities and Exchange Commission has delegated certain regulatory responsibilities to the Stock Exchange of Thailand. The role of SEC is to establish overall regulatory policy and to approve the major stock exchange regulations with much of the on-going supervision of the market delegated to the stock exchange. In Malaysia, self-regulation with government oversight by the Securities Commission also plays an important role in the regulation of the Malaysian Securities Market.

In Sri Lanka, the Colombo Stock Exchange (CSE) serves as a self-regulatory organization under the oversight of the Sri Lankan Securities and Exchange Commission, which must approve all of the rules of the stock exchange. The CSE monitors securities company's prudential standards, review financial reports filed with the exchange by its members and

conducts on-sight examinations under the oversight of the Sri Lankan SEC. The stock exchange is also responsible for market surveillance and trading practices.

At the present time, the Privatization Act of 1994 governs the privatization process in Nepal. Prior to the passage of the Act, the privatization process was defined in the Government Policy Paper on Privatization (1991). In Nepal, the form and methods of privatization are specified in the Privatization Act with policy direction to the process provided by a high level Privatization Committee.

Under the Privatization Act, several methods of privatization are provided for: (i) sale of shares to the general public, employees, workers, and other interested parties; (ii) formation of a co-operative; (iii) selling the assets of an enterprise; (iv) leasing the assets of an enterprise; (v) seeking private management of a public enterprises (vi) or by other methods seemed appropriate by the Committee. The Act also specifies the factors that should be taken into account for the purpose of evaluating proposals submitted to the Government by interested parties following the announcement of a proposed privatization.

Section 15A of the Securities Exchange Act, 2063 required a listed company to submit annually to the Securities Board and to NEPSE its balance sheet, profit and loss account and directors' report within four months from the end of its financial year. An interim report is also required to submit within 60 days after the expiry of each six months period.

Securities Exchange Regulation requires a company, before listing, to enter into a listing Agreement with NEPSE in which the company has to give various undertakings including an undertaking concerning the continuing disclosure obligations of listed companies; NEPSE must notify the Securities Board of the entering into of the Listing Agreement. The form of the agreement is prescribed by Schedule 1 of NEPSE Securities Listing Bye-Laws and specifies 46 items relating to disclosure obligations.

In order to make informed decisions, investors must have access to accurate and timely information. This is often not the case in Nepal. While banks, finance companies and insurance companies are perceived to provide meaningful information to investors on a timely basis, disclosure to investors is not adequate for many non-financial listed companies.

Some financial market professionals have suggested it, leaders of private industry and independent authorities that a major reason why financial information is not presented correctly in disclosure documents is that the system of tax collection works against it. The lack of accurate and timely information is cited as an important reason why investors to a considerable extent have lost confidence in the stock market. In some instances, companies listed on the exchange may have ceased operations or at least are in non-compliance with reporting requirements to the stock exchange, Registrar of Companies and the Securities Board.

2.16 Review of Related Studies

Under review of related studies some books, articles, periodicals and dissertations etc. related to stock market are consulted and reviewed.

2.17 Books Review

The scholars create books under so many years of practice. So, it is 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:

Henderson has analyzed in his book "New issue market and finance for industry" that the new issue market has three important functions; they are origination, understanding, underwriting and distribution. The NIM (New Issue Market) facilitates the capital market to raise long-term funds. Industries, new issues are further classified as "initial" issues and "further" issues. Initial capital can be raised only through equity or preference shares. When existing companies raise issues it is called "further" capital. Such organization can raise debentures (Henderson, 1951: 24). The interplay of these functions helps to transfer resources from the resource of surplus funds to those who require these funds in ultimate users of these funds.

In the book “The Stock Market: Theories and Evidence” by James H. Lorie, Peter Dodd and Mary Hamilton Kimpion, mainly two points about the stock prices markets and investors are following:

1. The first that it is relatively easy for the individual investors to make substantial returns by investing according to some simple rules so that he can make prediction about the market mechanism and its growth prospects.
2. The second point is that the individual investors is manipulated or exploited by the financial institutions to such extent that investing in the common stock is intolerably hazardous. This means, the simple rules regarding the prediction of market mechanism whether it is growing or not, for investments cannot be expected to produce extraordinary returns. Nor is the small individual investor at substantial disadvantage as compared with the professional investors or the financial institutions.

This book helps to evaluate the security price in primary and in secondary market. The use of formal models and empirical inquiry has provided new knowledge and has cast light on the validity of some old and new theories of securities valuation in the recent market condition. So that one can show the condition either the market is in growth form or in declining stage and the share price condition in the point of simple investors are clearly analyzed.

Prof. M.K. Shrestha in his book “Shareholder’s Democracy and AGM Feedback” has focused various issues related to protection of shareholder’s expectation. “Success of companies directly depends on the protection of their owners. But how 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” (Shrestha, 1992: 92).

The investors are losing faith on the performance of share market since companies are not providing timely and adequate disclosure of information and the continuous violence of shareholders' rights by the company management. This is responsible for losing faith of general public to buy and sell shares of such companies.

According to the journal of SEB named as "Meeting the Challenges ahead (1998-2002): clearly defined the policy development regarding to the growth of the market. As an apex regulatory body for the Nepalese Securities Market. The securities board has adopted following set of strategies policies to handle the strategic issues that are inhibiting the growth and development of the market. These policies consist of:

-) Improvement in the statutory and regulatory framework of the capital market.
-) Development of widely participated capital market.
-) Improvement in the securities board's institutional capacity.
-) Development of market standard and information system.

SEBON has also made some improvements in the statutory and regulatory framework of the capital market. Such improvements contribute to the development of capital market in the following ways: -

-) Bring clear demarcation in the role and responsibilities borne by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.
-) Reduce the duplication in the role and responsibilities of Board and other regulatory agencies.
-) Show the ways of coordination between the services Board and other regulatory agencies.
-) Promote public confidence in the regulatory system and market structure.
-) Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.

-) Establish securities board as a central market regulator and rest in with wider investigation and enforcement power.
-) Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.
-) Promote the development of ‘full-survive’ securities house and,
-) Gives focused attentions for the establishment and up grading of necessary legislative infrastructure to address on-going needs.

Nepalese capital market offers a wide range of financial services and instruments. It also has to provide the opportunity for a large number of investors to participate directly or through mutual savings schemes with ultimately enhances the breadth and depth of capital market. While implementing this policy the securities board:

-) Advises the government regarding the development of a secondary market for government securities and the opening of foreign portfolio investment.
-) Coordinates with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
-) Includes necessary provision in laws and regulation for the privatization and automation of Stock Exchange as well as for the establishment of Central Depository of Securities (CDS).
-) Studies the possibility of introducing as over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

2.18 Review of Articles

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

Shrestha, (1993) in his article “*ISDDC*” *Bulletin*, has brought certain policy issues related to stock market development such as lack of suitable financing planning, negligence of working capital management, deviation between turnover and return on net working capital. At the end, he has also made some suggestive measures to overcome the above policy issues viz. identification of needed funds, developments 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.

In the fiscal year 2008/09, SEBON published its special publication, SEBON Journal (Volume-3) by incorporating the articles written by internal and external experts. The journal has incorporated the research and other articles on the topics like building a dynamic capital market, price volatility and measurement of risk, NRB monetary policy and stock market impacts, regulation and development of Nepalese securities market, performance of Nepalese IPO's, dividend policy in Nepalese enterprises, and Institutional Investment in Nepalese securities market.

According to the journal of SEBO, it was clearly defined the policy development regarding to the growth of the market. These policies consist of:

-) Improvement in the statutory and framework of the capital market.
-) Development of widely participated capital market.

SEBO also made some improvement bond's institutional capacity. SEBO also made some improvements in the statutory and regulatory frameworks of capital market have to be revised to rationalize and simplify the regulatory system. Such improvement contributed to the development of capital market in the following ways.

-) Brings clear demarcation in the role and responsibilities born by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.
-) Shows the ways of coordinates between the service board and other regulatory agencies.
-) Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.

-) Gives focused attention for the establishment and up grading of necessary legislative infrastructure to address ongoing needs.
-) Establishes securities board as a central markets regulators and rest it with insider investigation and enforcement power.
-) Promotes the development of full –service securities house.
-) Promotes public confidence in the regulatory system and market structure.
-) Reduce the duplication in the role and responsibilities of board and other regulatory agencies

Implementation of the policy:

-) Enactment of news securities act and sub coordinated there on
-) Amendment of securities investment trust act and a sub coordinate legislation there on and
-) Preparation of new guidelines and directives to accommodate changing needs and circumstances under the new provisions.

While implementing this policy the securities board

-) Advise the government regarding the development of a secondary market for government securities and the opening for foreign portfolio investment.
-) Co-ordinate with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
-) Studies the possibility of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

According to the Nepalese Stock Market, An Introduction, “These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snail’s pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revive the economy, it has not been applied

into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal's stock market position, however, no action has been taken from the government. The government has not been able to regulate the companies, and the corporate culture is also not being developed among companies.”

“Share Marketplace plays a fundamental role in channeling economy of an individual and a corporate region. On that account, it is a prolific zone of a country's financial system. In other words, share market is an important component of financial sector that provides and facilitates an ordinary exchange of long-term economic allegations. The concept of provincial market has also emerged in the stock exchange. If we can't move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and Central Depository System (CDS) of securities' is another challenge. The ADB has clearly stated in its report that CRA and CDS are essential for the successful operation of the capital market”.(The Rising Nepal, January 20, 2006: 4)

Due to a strong control and monitoring mechanism created by the Nepal Rastra Bank (NRB), banks and finance companies are required to publish their periodic financial performance every quarter or every six months. But such a strong control mechanism does not exist for other companies. Therefore, many other companies (those that fall in the other sectors like manufacturing, trading, insurance, hotel and other sectors) do not publish their periodic financial report to inform the shareholders, creditors and the prospective investors. Thus the stakeholders must wait until their AGM is held to know their reality. This is why the other sectors are not playing the driving role in the market.

2.19 Review of Previous Research Works

Various researchers in past years have written many dissertations about stock market. Among them some dissertations are reviewed here for analysis of literature.

A study done by **Mr. Baral** (2003) entitled with “*Stock Price Movement in Nepalese Security Market*” has following facts and findings:

Main objectives:

-) To study and analyze the stock price and volume.
-) To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
-) To study and analyze the investors views regarding the decision on stock investment.
-) To suggest the finding of the study to the interested parties related to stock investment.
-) To study and examine the signalling factors in part on stock price with the help of NEPSE index.

Hypothesis of the Study:

Hypothesis has been made to test the signaling effects and after different events which are given below.

Null Hypothesis (Ho):

- 1) There is no significant difference between NEPSE index before and after Royal Palace massacre event.
- 2) There is no significant difference between NEPSE index before and after the state of emergency in the country.
- 3) There is no significant difference between NEPSE index before and after the Ashoj 18th 2059.

Alternative Hypothesis (H1):

- 1) There is significant difference between NEPSE index before and after Royal Palace massacre event.
- 2) There is significant difference between NEPSE index before and after the state of emergency in the country.
- 3) There is significant difference between NEPSE index before and after the Ashoj 18th.

As per the nature of study secondary data as well as primary data sources such as survey methods was followed with exploratory and analytical approach. Companies that were in existence and doing share transaction in NEPSE were considered as the sample for the study. A total of 96 companies were listed. Data collected from secondary source were analyzed by using Statistical tools. Data collections from questionnaires were in raw form.

Major Findings:

-) Company's dividend affects the stock price and bullish trend of stock price movement is suitable for Nepalese Security market
-) Most of the investor said that they were attached with banking sector for investment because they will give more return than other sectors.
-) GN's policy is not clear and perfect in Nepalese stock price market.
-) Investors of Nepalese stock market take decision on the basis of their own analysis and they were not aware about investment.
-) Nepalese stock market follows technical and fundamental analysis method for stock price movement.
-) Stock price is in decreasing trend and investments facilitators are not doing their work in systematic way.
-) Stock market in Nepal is in developing stage and investors are not aware about this.
-) Studying the sector wise monthly trend analysis for one year, it was found that unsystematic activities of the Nepalese stock price market.
-) Analyzing paired T- test for signalling factor with reference to major three events it was found that signalling effect has played major role in fluctuation at stock price..

From the analysis, he found that Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in matures stage as defined stock price trend is running in unsystematically. Majority portion of investors of Nepalese stock market invests their money from the view point of income. Bullish trend of the price movement is suitable for Nepalese

security market. The major influencing factors of stock price movement were company's dividend.(Baral 2003: 1-124)

A study done by **Mr. Aryal**, (2005) entitled with “*The General Behavior of Stock Market Price*” has followings facts and findings:

Main objectives:

-) To discuss theoretically the movement of stock price as predicted by the random walk model.
-) To develop the empirical probability distribution of successive price changes of an individual common stock and stock market as a whole.
-) To examine whether the successive price change of stock market are independent to each other or not.

Major Findings:

-) On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behaviour in Nepal Stock Exchange.
-) The stock price changes are dependent on each other.
-) The random walk of security speculative price behaviour has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
-) The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities do not reflect their intrinsic value. In other words, in case of sample securities, they are incorrectly adjusted those past information to the present market prices.
-) There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behaviour that causes the irrational movement of prices of stock.

-) The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing public is not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behaviour follows a random walk or not. He concluded that the knowledge of the past is useful in predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges for securities can make higher than expected profits in the future based solely on the historical price series under the existing trading mechanisms than they would be under a buy and hold strategy.

A study done by **Mr. Sharma** (2006) entitled with “*Problems and Prospects Primary and Secondary Market in Nepal*” has the following facts and findings:

Main objectives:

-) To specify the state of primary and secondary market.
-) To identify the problems and prospects of primary as well as secondary market.
-) To assess the past and present behaviours of business operation in the Nepal Stock Exchange.
-) To provide suggestions on the basis of findings.

This study is primarily based on primary and less on secondary source of data for showing problems and prospects of primary and secondary market in Nepal. The primary sources of data used are interviews and questionnaire.

Major Findings:

-) Due to lack of access to the information supposed to be made available to the potential investors the secondary market is still lagging behind.
-) With the provision of stockbrokers in the secondary market and market makers in primary market, Nepalese securities market has gained incentive for its future growth.

-) Primary market enjoys overpowering oversubscribed status, then secondary market.
-) The liquidity position of our country is also high; this could have also led to high public response to share application.
-) Growth of primary market in Nepal was growing slowly.
-) Proper rules & regulations should be enforced to make sure that the issuing companies gave true picture and existing laws relating to primary issue are not sufficient for healthy growth of primary market.
-) There is lack of investment opportunities for the general public.

From the analysis, he found that Public are attracted towards share than other sector, basically to increase their value of investment. The dynamism of stock market has been greatly reduced by the domination of long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of share that is traded on stock market. Even through this reduces the dynamism of the stock market in investors have very few rather no alternative to holding shares. As compared to the growth of public companies, the growth of listed company still constitutes only a small proportion. The structure of both segment of the primary and secondary market has witnessed significant change.

A study done by **Mrs. Joshi**, (2009) entitled with “*Study on the Role of NEPSE in Securities Market*” has following facts and findings:

Main objectives:

-) Introduction of securities market, composition of primary and secondary market, and its performance behaviors.
-) To prescribe way and means by which secondary market would be more effective and meaningful.
-) To forecast the future trends of business and other various kinds of activities in the NEPSE in terms of quality, volume and value.
-) To assess the past and present behavior of business operation in NEPSE market.
-) Study on legal provision relating to protection of investors interest.

Major Finding:

-) Public response is high due to lack of investing opportunity in other fields.
-) There is significant increment in the number of listed companies in stock exchange, as compared to the growth of public companies.
-) The dynamism of the stock market has been greatly reduced by the domination of the long term shareholders.
-) The performance of banking group is highly attractive and liquid.
-) The secondary market which presents an institution mechanism that was inadequate, nontransparent, hardly regulated and rarely geared to investor's protection.
-) The stock price should indicate the direction in which community's saving should be invested. Price system established on the share exchange provides guidance to investors and helps them directly.
-) Significant changes have been found in the primary market which is the establishment or merchant's banks, provision of speedy allotments, proportionate allotment of shares etc.

A study done by **Mr.Poudel** (2011) entitled with "*Role of NEPSE in Nepalese securities market*" has following facts and findings:

Main objectives:

-) To evaluate stock price behavior in Nepal
-) To analyze the rate of newly listed companies and inter sector comparisons
-) To examine the future of business and economic activity of NEPSE

Major Findings:

-) Studying the annual trends analysis of Nepalese stock price market, it was found that stock price trends is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
-) Most of the investor was asked for their preference of investment sector and they said that they were attracted towards banking and financial for making investment.
-) According to the major portion of respondents of Nepalese stock market it were found that government policy is not clear and perfect in Nepalese stock price market.

-) According to the field of survey in the Nepalese stock market, it was found that investors are not aware about investment.
-) Studying the sector wise monthly trend analysis one year the systematic activities of Nepalese stock price market were found, no experts can certainly forecast about the stock price.
-) It was found that investor's motive owing shares of company is to receive the dividend from the shares.
-) While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to 2001 but decreasing in year 2002 and again it is in increment trend to 2005.

2.20 Research Gap

Today's world is marked by rapid changes and new development such as researcher conducted a few years back, may not be adequate to explain current phenomena. Thus continuous effort needs to make an investment decision. Through many affiliate researches have been done in this area but there have been very few exclusive researchers on this subject. The recent research by Mrs. Joshi suffers a short coming of having inadequate graphical analysis. Moreover the tremendous development calls for new researches to be conducted. To bring the forth new development and to bridge the gap between the past research and the present situation, I see out to conduct the research in this intriguing topic. I have been through many literature reviews and given best to fulfill this work.

Also this researcher had a burning desire to understand the reasons behind the slow pace development in the area of stock exchange, in spite of being established since 1994. I wanted to unveil reasons behind common people ignorance and lack of participation in this field and their tendency to pursue the traditional system of investment. In my research effort had been made to understand the role of NEPSE and hope this research will be helpful to the future researchers for references.

CHAPTER-III

RESEARCH METHODOLOGY

Research Methodology is a systematic way to solve the research problem, Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain object/objects in view. In other words, we know that research methodology describes the method and process applied in the entire aspects of study. Thus, this chapter highlights the research methodology used for the study of problems and prospects of stock markets in Nepal.

This chapter mainly deals with the research methodology used to find objectives listed out under “Objectives of Study”. Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods and processes applied in the entire aspects of study. Under this research design, population and sample, sample selection method, data collection, use of statistical tools and analysis techniques will be explained in this chapter.

3.1 Research Design

“A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures.”
(Kothari, 1994: 55).

Research design in other words, can also be defined as plan, structure and strategy of investigation concerned so as to obtain answer to research questions for which it is not possible for a researcher to conduct a research project without research design. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This research attempts to analyse the opinion of the respondents. It includes nature of data, specification of the method of the proposed study and detail plan for carrying out the study with various practical data for the analysis of problems etc. Thus, the design is basically based on presentation, analysis and interpretation of result. First the data are presented in table (or

diagram), second presented data are analysed by using various financial and statistical tools and at last analysed data are compared and interpreted for the conclusion. The stated objectives in mind, both the descriptive and analytical type of research are employed. A descriptive analysis is used because the secondary sources of empirical data have been employed to analyse the using variables, which is related to condition and growth and prospects of stock market. According to the topic “The problems and prospects of securities market in Nepal,” Primary sources of data as questionnaire, interviews related to higher officials are used to show the present trend and market responses, present situation of market.

3.2 Population and Sample

The analysis of stock market, its problems and prospects and its impact to the growth of economy largely depends on the number of companies listed in the Nepal Stock Exchange, share issuance by these companies and contribution of stock market to capital mobilization. Therefore, all the companies listed in the stock exchange and major economic indicator (GDP, Turnover etc) is taken as total population. Moreover the companies that are in existence and doing share transaction in NEPSE (altogether there were 230 companies listed in the NEPSE) and the factors that affect the present economic growth are considered as the sample of the study.

3.3 Sources of Data

The research will be based mainly on secondary data partially on primary data. Primary data will be collected from public, students and employees of different companies through schedule of questioners. Secondary data will be collected from companies annual reports, related journals, websites, internet and security board of Nepal.

To meet the objectives of the study primary as well as secondary source of have been used. Primary sources of data are mainly based on interviews and structured questionnaire survey. Secondary sources of data refer to those data, which were already gathered by others. External as well as internal secondary data has been used. Secondary sources of data are mainly includes Booklets, Periodicals, web sites of related companies and Trading Volume issued by Nepal Stock Exchange and Security Board.

3.4 Data Collection Techniques

This study is primarily based on primary and secondary sources of data for showing problems and prospects of securities market in Nepal. The techniques used to collect primary sources of data are interviews and structured questionnaire to the different group of people (investor in the securities market, Banking professionals, Capital Market professionals, Chartered Accountants), which were asked to focus group but the secondary sources of data used for historical investigation. The secondary data are collected from following areas for analyze.

-) Trading Report published by stock exchange Nepal.
-) Financial statements and other transactions of listed companies listed by NEPSE.
-) Outside published material directly related to problems and prospects of primary and secondary market.
-) Booklets published by other related agencies like SEBON, Ministry of Finance.
-) Significant information collected from Internet and various websites.

3.5 Data Analysis Tools

Data collected from questionnaire were in raw form. They were classified and tabulated in the required format. It is then presented and analyzed in descriptive way. Simple arithmetic percentage and analysis of time series tools were used for analysis. Data collected from secondary sources were analyzed and presented in bar diagram and pie chart. Major finding are based on the analysis and interpretation of data.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Presentation and Analysis of Secondary Data

4.1.1 Group-wise Description of Listed Companies

Table: 4.1

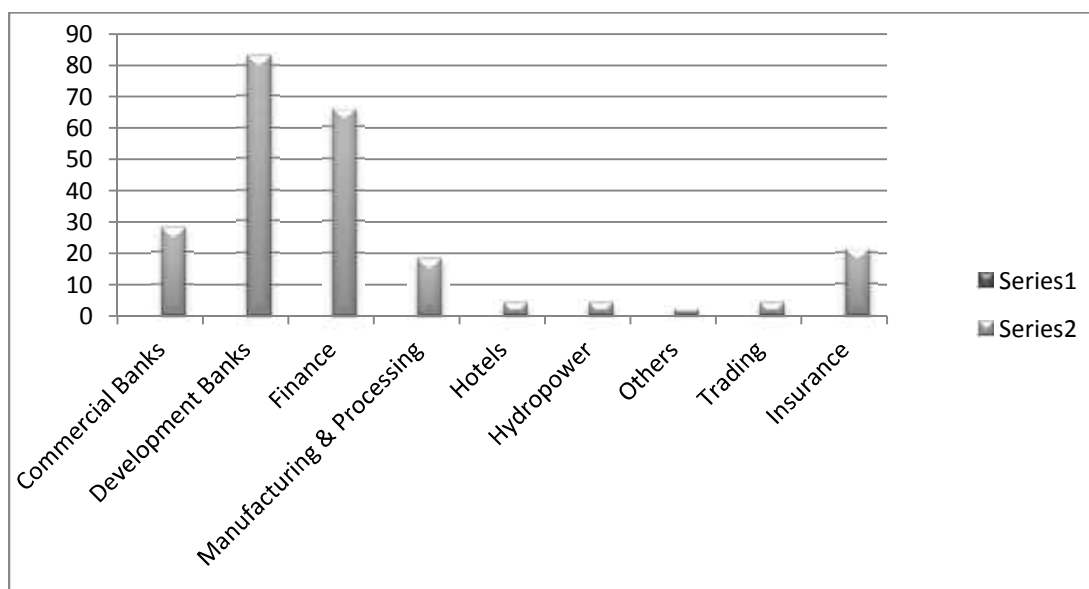
Group Wise Description of Listed Companies in mid July 2013

	Number	Percentage
Commercial Banks	28	12.17%
Development Banks	83	36.09%
Finance	66	28.70%
Manufacturing & Processing	18	7.83%
Hotels	4	1.74%
Hydropower	4	1.74%
Others	2	0.87%
Trading	4	1.74%
Insurance	21	9.13%
	230	100.00%

Source: www.nepalstock.com

Figure: 4.1

Group Wise Description of Listed Companies in mid July 2013



The above table and figure show that, there are 230 listed companies in NEPSE in this fiscal year 2012/13 with the entry of 14 new companies. In this year the 6.49 percentage growth of listed companies listed in NEPSE. Out of total listed companies banking & insurance companies occupies 86.09 percent of total listed companies. Among them 76.96 percent are banking companies (including finance) and 9.13 percent are insurance companies.

4.1.2 Yearly Volume of Traded Stocks and NEPSE Index

Table: 4.2

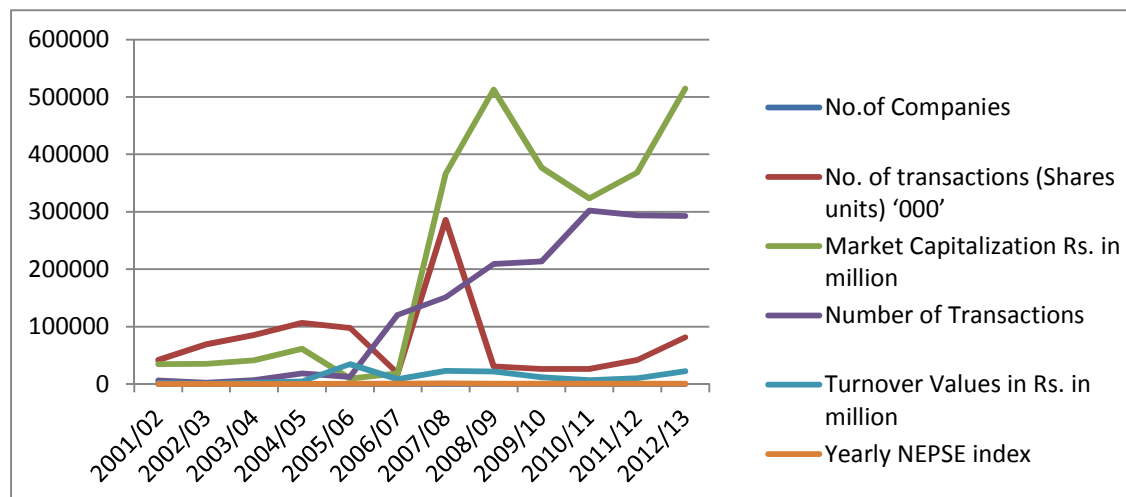
Yearly Volume of Traded Stocks and NEPSE Index

Year	No.of Companies	No. of transactions (Shares units) '000'	Market Capitalization Rs. in million	Number of Transactions	Turnover Values in Rs. in million	Yearly NEPSE index
2003/04	114	6,468	41,425	85,533	2,144	222
2004/05	125	18,434	61,366	106,246	4,508	287
2005/06	135	12,222	9,681	97,374	34,514	387
2006/07	135	18,147	18,630	120,510	8,360	684
2007/08	147	28,599	366,248	150,800	22,821	963
2008/09	159	30,547	512,939	209,091	21,681	749
2009/10	176	26,231	376,871	213,733	11,851	478
2010/11	210	26,240	323,484	302,364	6,665	363
2011/12	216	41,885	368,262	293,489	10,279	390
2012/13	230	81,572	514,492	292,366	22,049	518

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.2

Yearly Volume of Traded Stocks and NEPSE Index



Above table& figure show the trend of capital market for last 10 years. From above table we can conclude that although there is continuous increase in the volume of transaction, the market indicators (NEPSE Index) of securities have been decreasing in a fast trend till 2011 and start to increase from 2011 onwards.

4.1.3 Analysis of Transactions

Annual Transactions: Annual transactions constitute an important indicator for measuring the nation’s economic activity. It also reflects the stock market liquidity as higher the amount of trading of stock market size, the greater is the stock market liquidity.

Table: 4.3

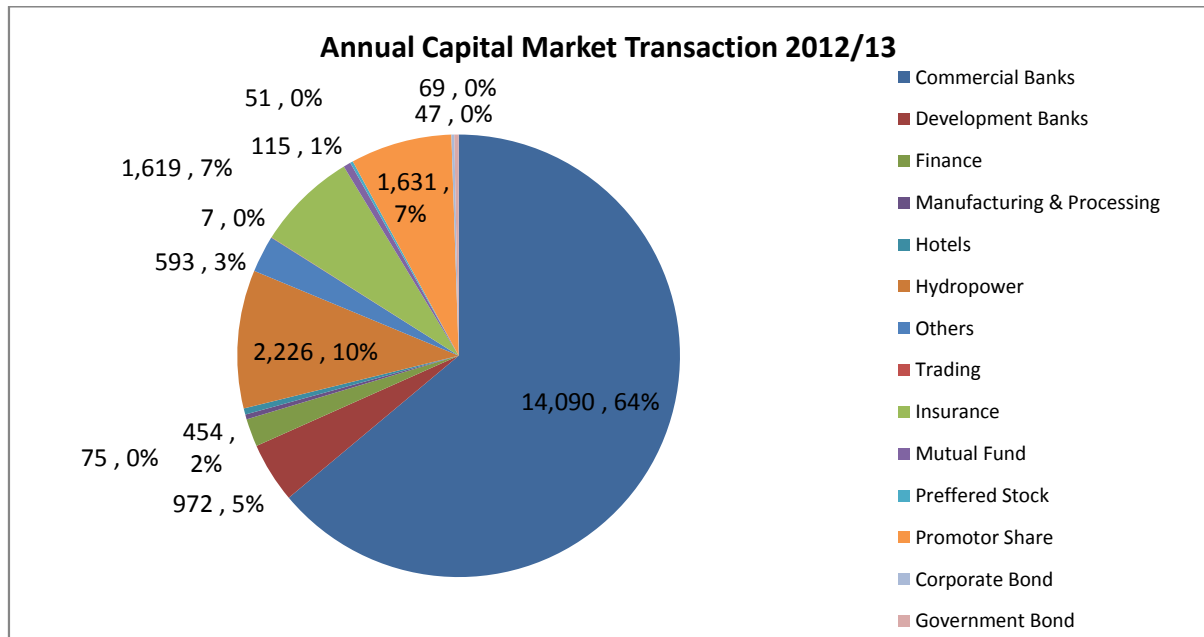
Annual Transactions of Listed Companies

Companies	Rs. in Millions	Percentage
Commercial Banks	14,090	63.9%
Development Banks	972	4.4%
Finance	454	2.1%
Manufacturing & Processing	75	0.3%
Hotels	100	0.5%
Hydropower	2,226	10.1%
Others	593	2.7%
Trading	7	0.0%
Insurance	1,619	7.3%
Mutual Fund	115	0.5%
Preffered Stock	51	0.2%
Promotor Share	1,631	7.4%
Corporate Bond	47	0.2%
Government Bond	69	0.3%
Total	22,049	100.0%

Source: www.sebon.gov.np

Figure: 4.3

Annual Transactions of Listed Companies



The above table and figure show that, in the fiscal year 2012/13 the annual transactions of commercial bank is very high (i.e. 64 %) from which we can say that the annual transactions of commercial banks has dominated the stock market trading. Hydro power and insurance companies are second and third lead on transactions with around 10 percent & 7 percent respectively. The annual transaction of securities traded in the fiscal year 2012/13 is Rs.22,049 million.

4.1.4 Sector wise Paid-up Value of Listed Companies

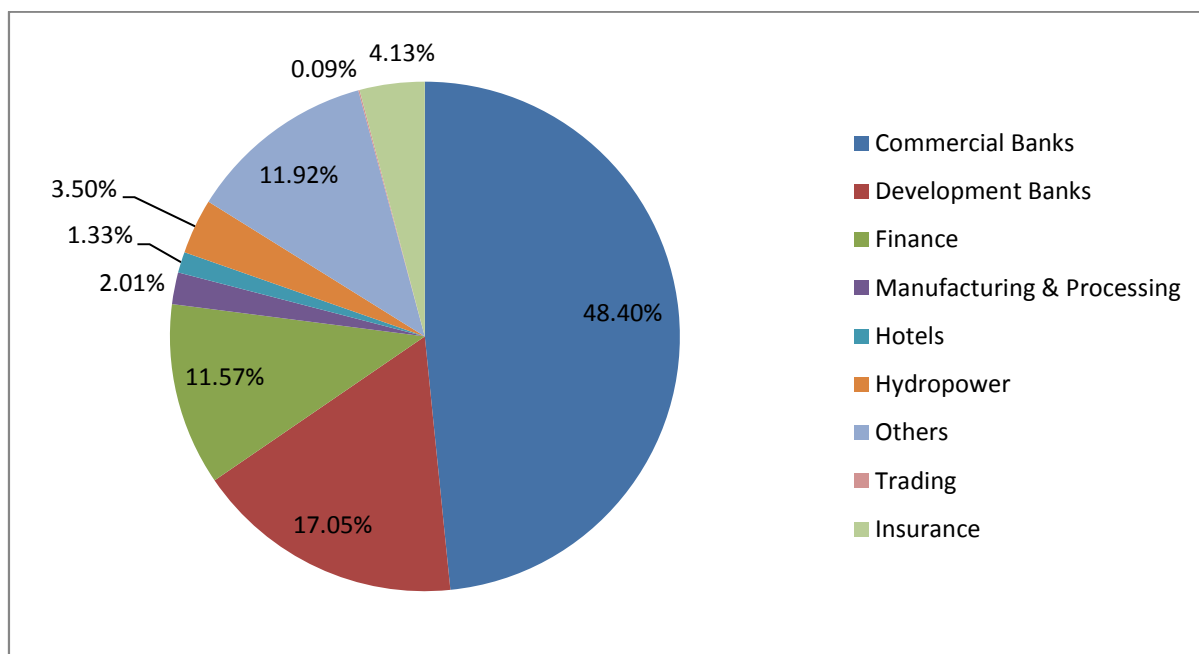
Table 4.4

Paid up Value

Companies	Paidup Value	Percentage
Commercial Banks	61,106	48.40%
Development Banks	21,534	17.05%
Finance	14,610	11.57%
Manufacturing & Processing	2,540	2.01%
Hotels	1,681	1.33%
Hydropower	4,423	3.50%
Others	15,049	11.92%
Trading	112	0.09%
Insurance	5,210	4.13%
Total	126,265	100.00%

Source: www.sebon.gov.np

Figure: 4.4
Paid up Value



The above tables & figures show the paid-up value of listed securities in the end of the fiscal year 2012/13 is Rs. 126,265 millions. The total figure of commercial banks has been 48.4% and development bank has been 17.5% of total value. Finance companies have 11.57% which is lower than developments banks.

4.1.5 Paid up Value of Listed Securities for Different Years

Table: 4.5

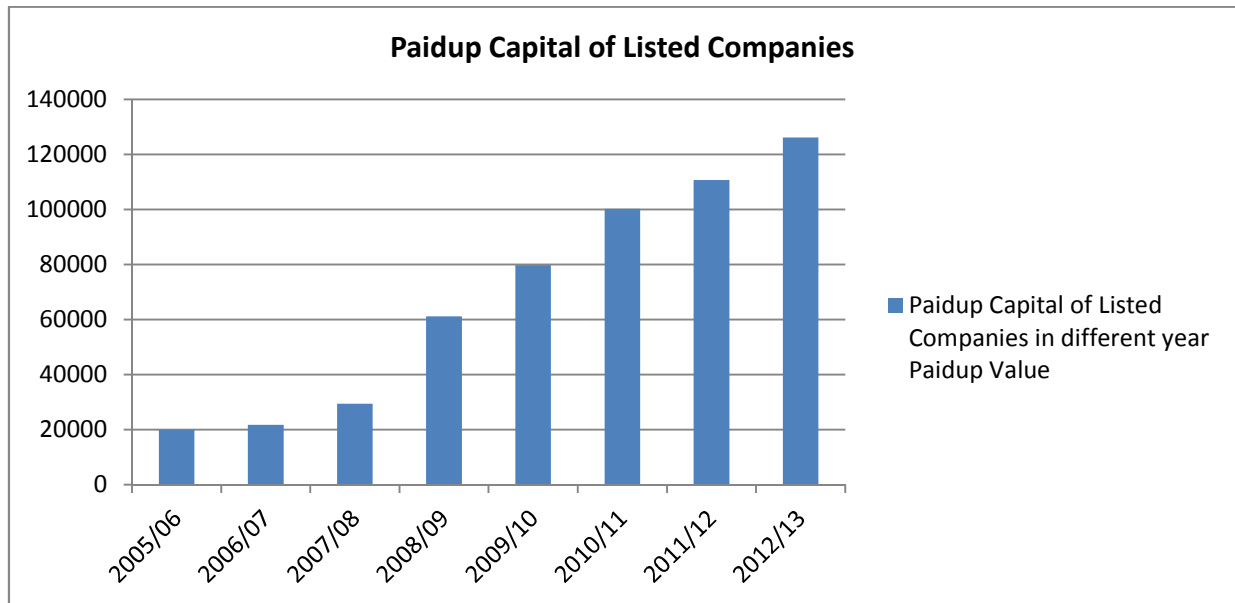
Paid up Value of Listed Securities for Different Years

Year	Paidup Value (Rs. in million)	Percentage Change
2004/05	16,771	40%
2005/06	19,958	19%
2006/07	21,746	9%
2007/08	29,465	35%
2008/09	61,140	108%
2009/10	79,786	30%
2010/11	100,238	26%
2011/12	110,610	10%
2012/13	126,064	14%

Source: www.nepalstock.com

Figure: 4.5

Paid up Value of Listed Securities for Different Years



The above table and figure show that, by the end of the fiscal year 2012/13, the paid-up value of listed securities has been increased by only 14% percent and reaches to Rs.126,064 million. The highest increase in percentage of paid-up value is in the year 2008/09 by 108% and lowest is in the year 2006/07, which has only 9% percent increase rate during review period.

4.1.6 Analysis of Sector Wise Market Capitalization

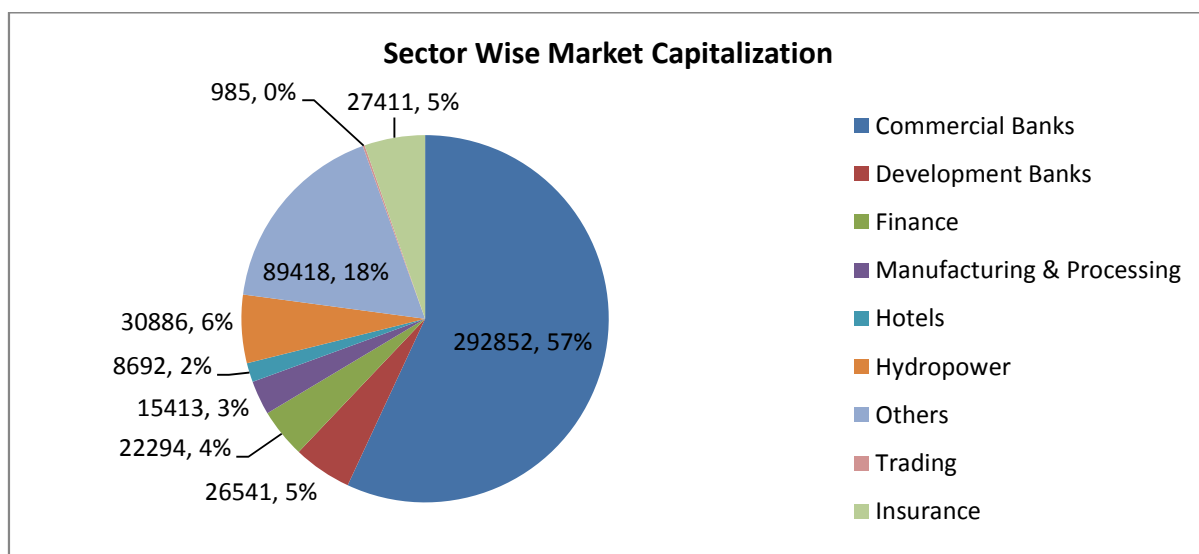
Table: 4.6

Sector Wise Market Capitalization

Sector	Amount(in million)	Percentage
Commercial Banks	292,852	57%
Development Banks	26,541	5%
Finance	22,294	4%
Manufacturing & Processing	15,413	3%
Hotels	8,692	2%
Hydropower	30,886	6%
Others	89,418	17%
Trading	985	0%
Insurance	27,411	5%
Total	514,492	

Source: www.sebon.gov.np

Figure: 4.6
Sector Wise Market Capitalization



The above table and figure show that, the market capitalization value of listed securities of the fiscal year 2012/13 is Rs.514,492millions. 57% of total market capitalization has been occupies by the commercial bank while the other sector in the second position with 17% of total market capitalization.

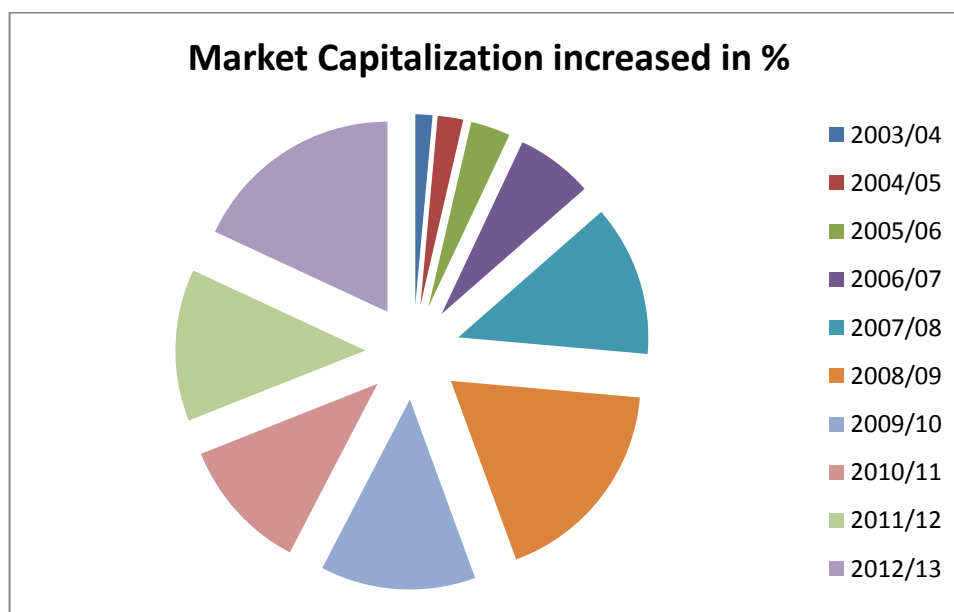
4.1.7 Analysis of Market Capitalization for Different Years

Table: 4.7
Yearly Market Capitalization

Year	Market Capitalization increased in %	
2003/04	41,425	
2004/05	61,366	48%
2005/06	96,764	58%
2006/07	186,301	93%
2007/08	366,248	97%
2008/09	512,939	40%
2009/10	376,871	-27%
2010/11	323,484	-14%
2011/12	368,262	14%
2012/13	514,492	40%

Source: www.sebon.gov.np

Figure: 4.7
Yearly Market Capitalization



The above table and figure shows that, the market capitalization of listed companies in fiscal year 2012/13 is Rs 514,492 million. It has been increased by 40 percent during the income year 2012/13 while the same was decreased by 14 percent in 2010/11 and increase by 14% in 2011/12. The market capitalization of listed during review period has been increased by 1142% from Rs. 41,425mn to Rs. 514,492mn. The highest increase in market capitalization rate is 97% in the fiscal year 2007/08.

4.1.8 Analysis of Turnover with Market Capitalization

Table: 4.8
% turnover to Market Capitalization

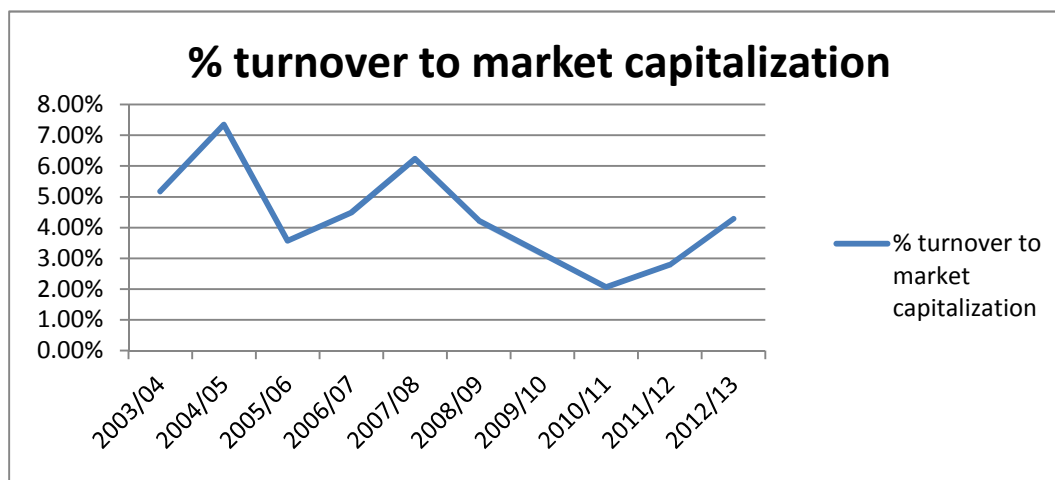
Figures in millions

Year	Market Capitalization	Turnover	Percentage
2003/04	41,425	2,144	5.18%
2004/05	61,366	4,508	7.35%
2005/06	96,764	3,451	3.57%
2006/07	186,301	8,360	4.49%
2007/08	366,248	22,821	6.23%
2008/09	512,939	21,681	4.23%
2009/10	376,871	11,851	3.14%
2010/11	323,484	6,665	2.06%
2011/12	368,262	10,279	2.79%
2012/13	514,492	22,049	4.29%

Source: www.sebon.gov.np

Figure: 4.8

% turnover to Market Capitalization



The above table and figure show that, the highest percentage of turnover to market capitalization is in the year 2004/05 by 7.35% percent. The lowest percentage turnover to market capitalization is in the year 2010/11 by 2.06%. This % of turnover to market capitalization clearly shows that the securities market was as boom condition up to 2008/09 and starts to decrease up to 2011/12 and from this year again market starts to increase. The percentage of turnover to market capitalization is 4.29 percent in this year 2012/13 increased from 2.79 percent of previous year 2011/12.

4.1.9 Analysis of the Growth Trend of Stock Market Indicator

Table: 4.9

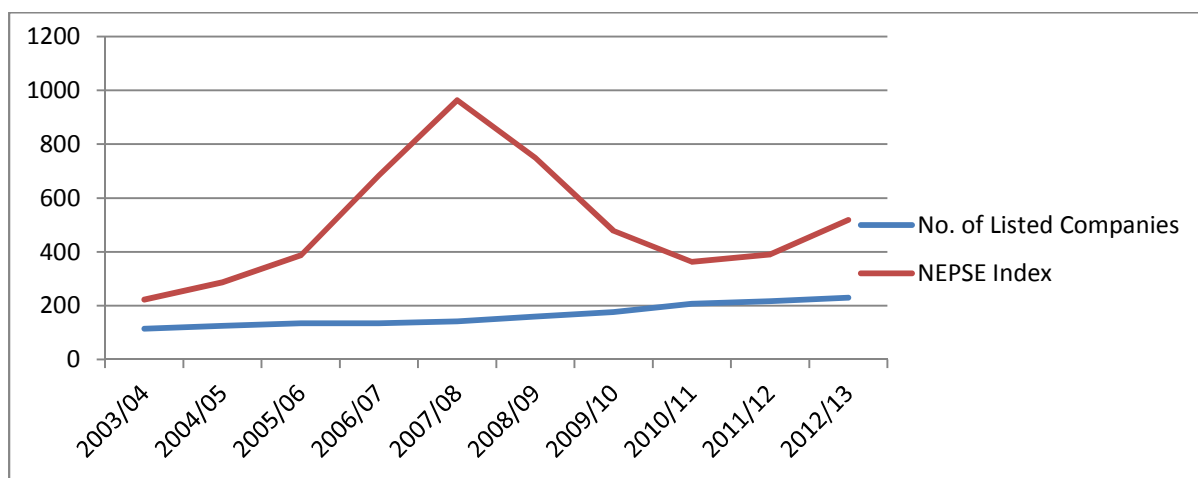
Analysis of Growth Trend of NEPSE Index

Year	No. of Listed Companies	NEPSE Index
2003/04	114	222.04
2004/05	125	286.67
2005/06	135	386.83
2006/07	135	683.95
2007/08	142	963.36
2008/09	159	749.10
2009/10	176	477.73
2010/11	207	362.85
2011/12	216	389.74
2012/13	230	518.33

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.9

Analysis of Growth Trend of NEPSE Index



The above table and figure show that, the number of listed companies is 114 in the base year 2003/04, till now it has been increased up to 230 numbers. In this period some companies are de-listed from NEPSE because of non-disclosure of necessary information correctly and timely and not renewal of its securities and many new companies are listed. The growth rate of listed companies is positive in all these years except in the year 2006/07 with no growth. However, NEPSE index seems volatile in the analyses period. NEPSE Index increase constantly from Rs. 222 in 2003/04 to Rs. 963 in 2007/08 and fall down constantly to Rs. 363 in 2010/11 and again started to increase from 2011/12.

4.1.10 Number of Share Traded in NEPSE

Table: 4.10

No. Of Shares traded in NEPSE

Year	No. of Share Traded in''000''
2003/04	6,468
2004/05	18,434
2005/06	12,222
2006/07	18,147
2007/08	28,600
2008/09	30,547
2009/10	26,231
2010/11	26,240
2011/12	41,885
2012/13	81,572

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.10

No. Of Shares traded in NEPSE



The above table and figure show that, the number of traded share is 6,468.18 thousands in the base year 2003/04. Only 92 companies are traded in the trading floor in the starting year but now it rise up to 230 in the year fiscal year 2012/13. Number of share trading in floor is also in increasing trend and reached 81,571.70 thousands in year 2012-13.

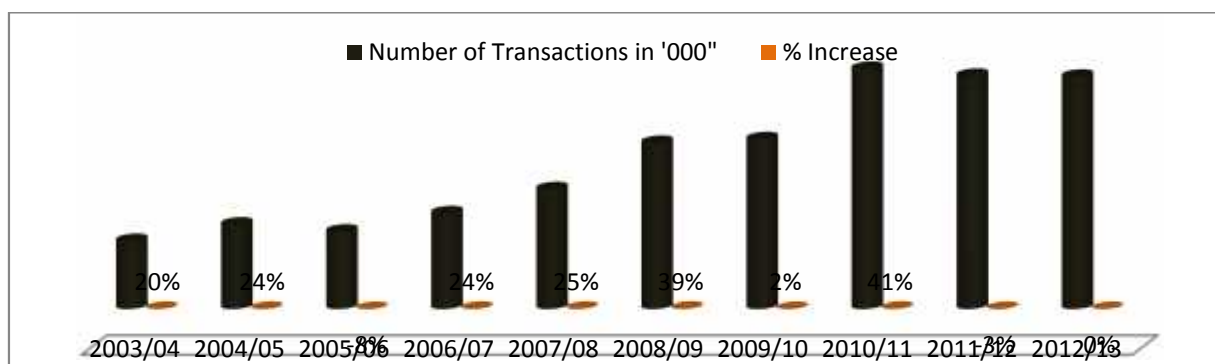
4.1.11 Number of Transaction and Listed Securities in NEPSE

Table: 4.11

Number of Transaction and Listed Securities in NEPSE

Year	Number of Transactions in '000'	% Increase
2003/04	85,533	
2004/05	106,246	24%
2005/06	97,374	-8%
2006/07	120,510	24%
2007/08	150,800	25%
2008/09	209,091	39%
2009/10	213,733	2%
2010/11	302,364	41%
2011/12	293,489	-3%
2012/13	292,366	0%

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.11**Number of Transaction and Listed Securities in NEPSE**

The above table and figure show that, number of transactions is very much varies comparing with different years. In the year, 2003/04 the number of transaction is 85,533 thousands while in 2004/05 it rose up by 24% percent with transaction of 106,246 thousands. There is a negative growth rate in transaction in the year 2005/06 by -8.35 percent. The significant growth rate can be trace in the year 2008/09 by 38.65 percent as compare to the growth rate of 23.76 of 2006/07. The growth rate in number of transactions in 2010/11 is by 41.47 percent as compare to the low growth rate of 2.22 percent of 2009/10. However, numbers of transactions are in decreasing trend from 2011-12.

4.1.12 Market Day per Year and Daily Turnover

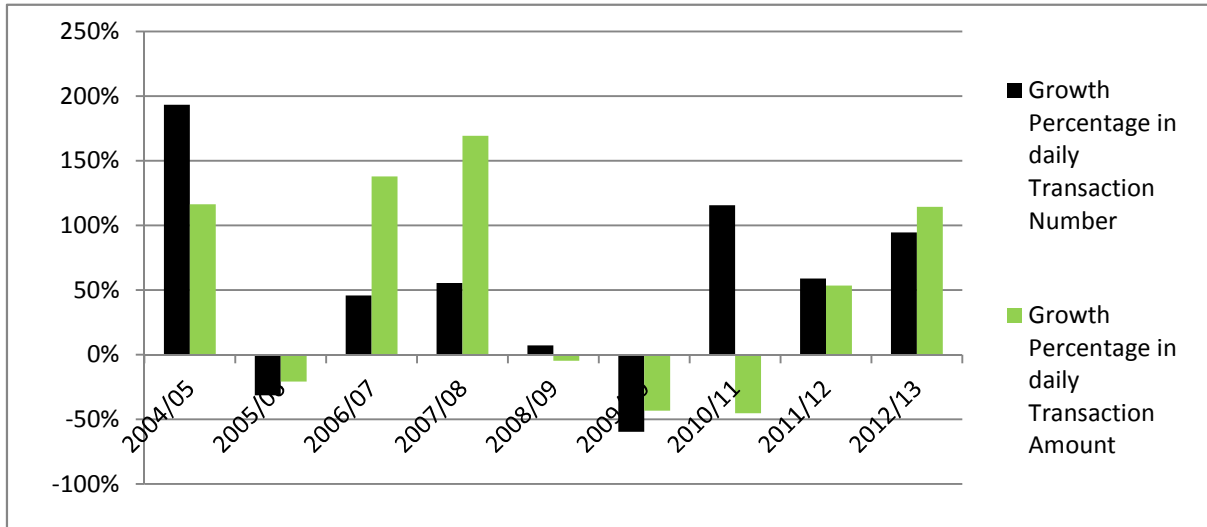
Table: 4.12
Market Day per Year and Daily Turnover

Year	Market Days	Securities Traded		Average Daily Transactions		Growth % in daily Transaction	
		Numbers in '000'	Amount Rs. in millions	Numbers in '000'	Amount Rs. in millions	Number	Amount
2003/04	243	6,468	2,144	26.62	8.82	0	0
2004/05	236	18,434	4,508	78.11	19.10	193%	116%
2005/06	228	12,222	3,451	53.60	15.14	-31%	-21%
2006/07	232	18,147	8,360	78.22	36.03	46%	138%
2007/08	235	28,599	22,821	121.70	97.11	56%	169%
2008/09	234	30,547	21,681	130.54	92.65	7%	-5%
2009/10	225	26,231	11,851	52.67	52.67	-60%	-43%
2010/11	231	26,240	6,665	113.59	28.85	116%	-45%
2011/12	232	41,885	10,279	180.54	44.31	59%	54%
2012/13	232	81,572	22,049	351.60	95.04	95%	114%

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.12

Market Day per Year and Daily Turnover



The above table and figure show that, market day also affect the average daily turnover in stock market. Higher the market day per year, higher will be the chance of stock market growth. As per above table the market day is quite consistent. The highest number of market days is 243 days in the year 2003/04. The highest growth rate is 193 percent positive in the year 2004/05 with 236 market days per year. The Lowest growth rate is 60 percent negative in the year 2009/10 with 225 market days per year.

Average daily turnover is one of the most important indicators of stock market development. Daily turnover provides liquidity to the stock market and commission to the stockbrokers. Stockbrokers will not survive without having transaction in stock market. The above figure shows the inconsistency of Average Daily Turnover in NEPSE during different years. It is Rs.8.824 million in the year 2003/04. It has been increased up to Rs.97.01 million in 2008/09, decreased to Rs.28.85 million in 2010/11. The growth rate is negative during the years 2005/06, 2008/09, 2009/10 and 2010/11 by 21, 5, 43 and 45 percent respectively. The highest growth rate is 169% percent in the year 2007/08 with the average daily turnover of Rs.97.1 million as compared to Rs.36.03 million of 2006/07. Now the average turnover is in increasing trend and reached to Rs.95.04 million with the growth rate of 114 percent positive in year 2012/13.

4.1.13 Market Turnover in Volume and Value

Table: 4.13

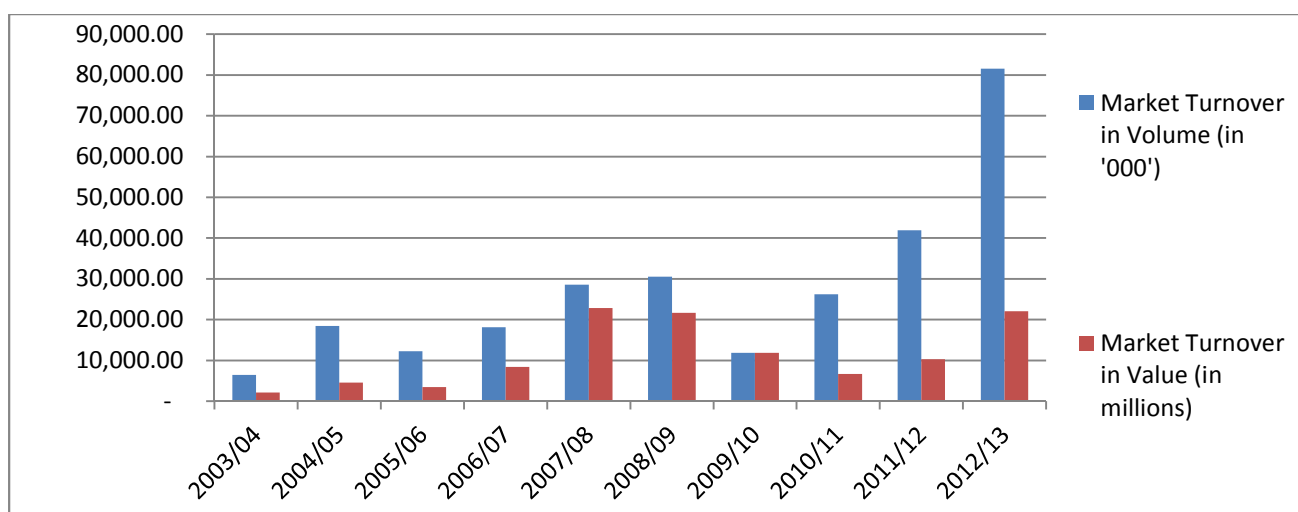
Market Turnover in Volume and Value

Year	Market Turnover	
	in Volume (in '000')	in Value (in millions)
2003/04	6,468	2,144
2004/05	18,434	4,508
2005/06	12,222	3,451
2006/07	18,147	8,360
2007/08	28,599	22,821
2008/09	30,547	21,681
2009/10	26,231	11,851
2010/11	26,240	6,665
2011/12	41,885	10,279
2012/13	81,572	22,049

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.13

Market Turnover in Volume and Value



The above table and figures show that, the volume and value of annual market turnover is highest in the year 2008/09 and 2007/08 respectively which has 30,547,160 turnovers in volume and Rs. 22,820,760,000 in value. Annual market turnover in value is lowest in the

year 2003/04 which has only Rs.2,214 million and lowest volume is in the base year 2003/04 which has only 6,468,180.

4.1.14 Top Ten Companies (on the basis of amount traded) in 2012-13.

Table: 4.14

Top Ten Companies (on the basis of amount traded) in 2012-13

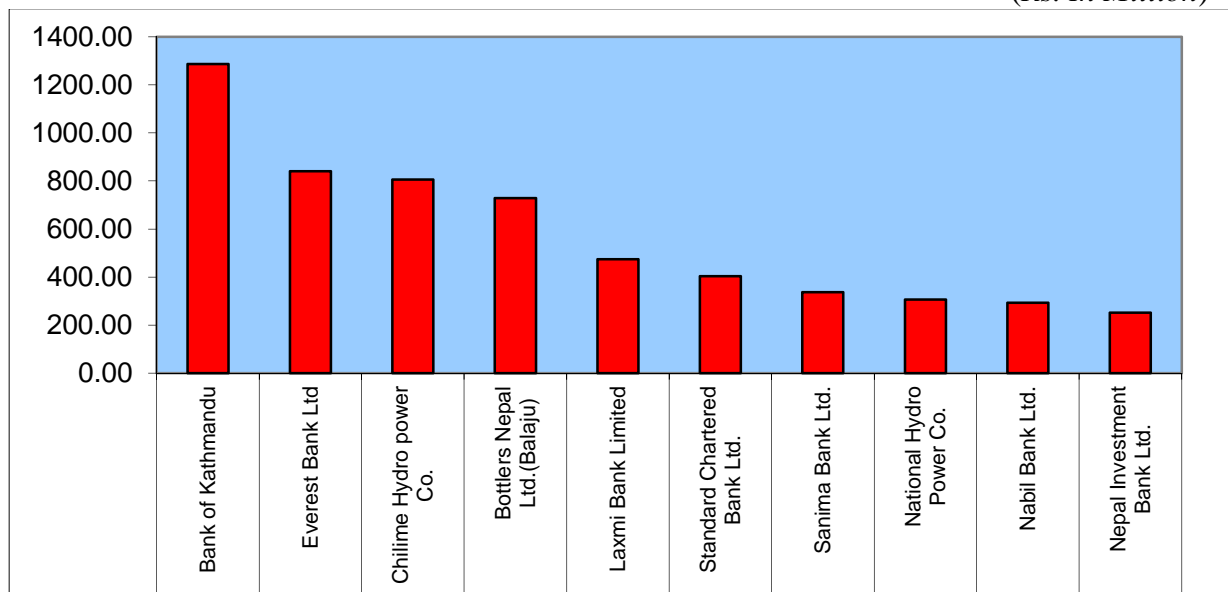
SN	Name of the Companies	Traded Amount
		Rs. in million
1	Bank of Kathmandu	1,286.30
2	Everest Bank Ltd	840.43
3	Chilime Hydro power Co.	805.22
4	Bottlers Nepal Ltd.(Balaju)	728.71
5	Laxmi Bank Limited	474.50
6	Standard Chartered Bank Ltd.	404.19
7	Sanima Bank Ltd.	336.86
8	National Hydro Power Co.	307.05
9	Nabil Bank Ltd.	293.15
10	Nepal Investment Bank Ltd.	252.26

Source: www.nepalstock.com, www.sebon.gov.np

Figure: 4.14

Top Ten Companies (on the basis of amount traded) in 2012-13.

(Rs. In Million)



The above table and figures show that, top ten companies on the basis of traded amount of Nepal stock exchange Ltd. F/Y 2068/69. This year highest traded is Bank of Kathmandu Limited (BOK) and lowest traded of share within top 10 companies is Nepal Investment Bank Limited (NIBL). The traded amount of BOK Rs.1,286.30million and lowest traded company NIBL is Rs.252.26 million.

4.1.15 Top Ten Companies (on the basis of number of share traded) in 2012-13.

Table: 4.15

Top Ten Companies (on the basis of number of share traded) in 2012-13.

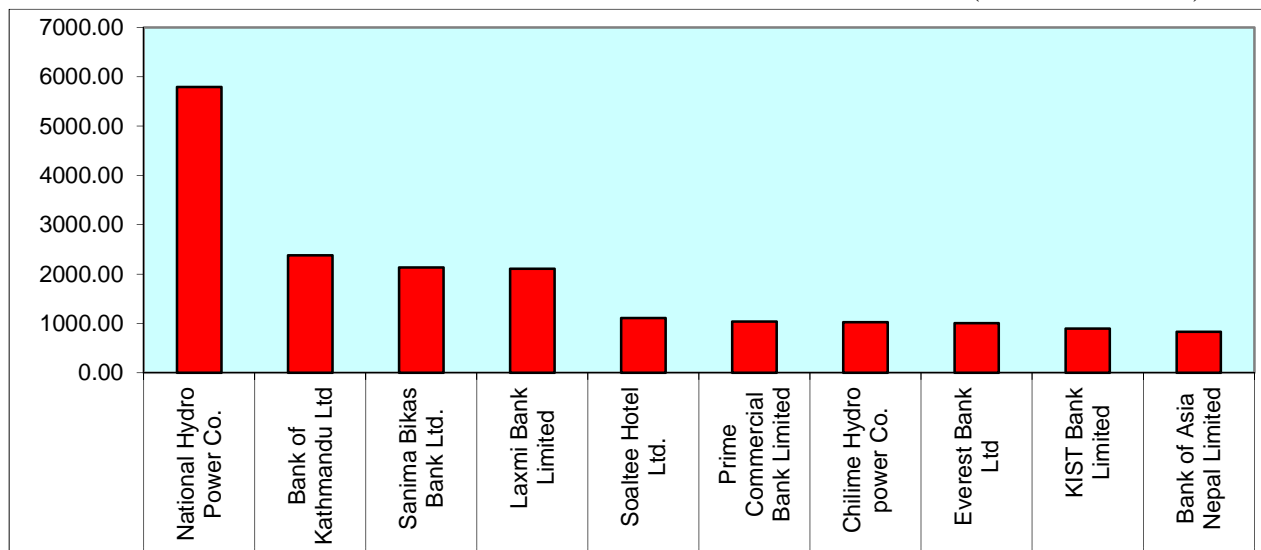
SN	Name of the Companies	No of Share traded in '000'
1	National Hydro Power Co.	5,794.43
2	Bank of Kathmandu Ltd	2,380.41
3	SanimaBikas Bank Ltd.	2,133.20
4	Laxmi Bank Limited	2,108.03
5	Soaltee Hotel Ltd.	1,110.08
6	Prime Commercial Bank Limited	1,035.46
7	Chilime Hydro power Co.	1,022.61
8	Everest Bank Ltd	1,005.81
9	KIST Bank Limited	894.27
10	Bank of Asia Nepal Limited	832.15

Source: www.nepalstock.com,

Figure: 4.15

Top Ten Companies (on the basis of number of share traded) in 2012-13.

(Number in '000')



The above table and figure show that, On the basis of share transactions National Hydropower is highest position with share traded 5794.43 thousand and lowest transaction within top ten companies is Bank of Asia Nepal Limited (BOA) which is 832.15 thousand share transactions within year.

4.2.16 Top Ten Companies (on the basis of number of Market Capitalization) in 2012-13.

Table: 4.16

Top Ten Companies (on the basis of number of Market Capitalization) in 2012-13

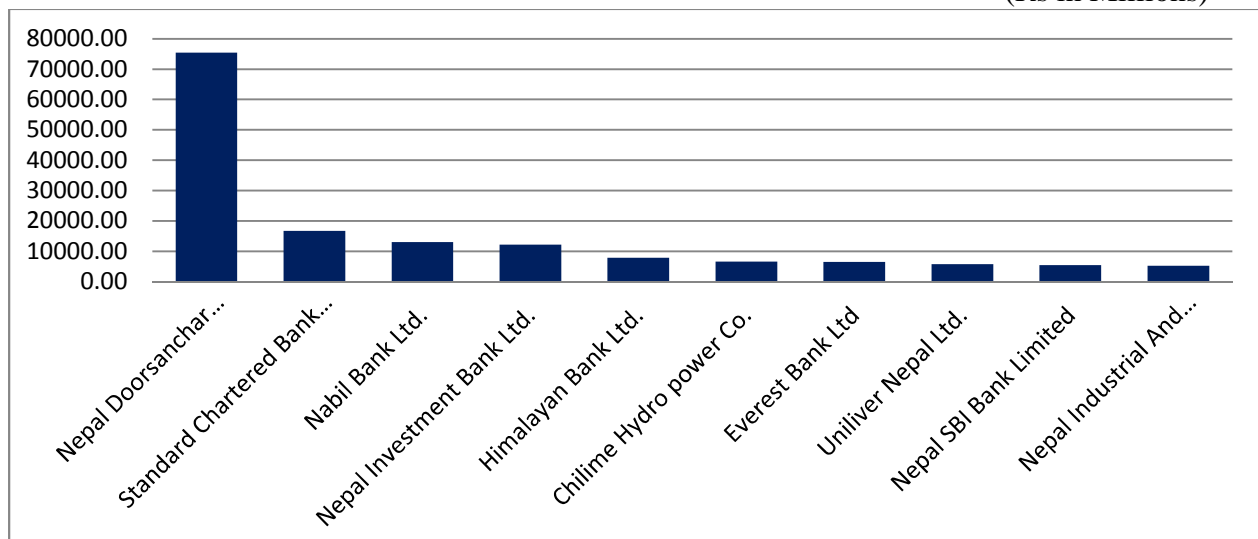
SN	Name of the Companies	Capitalization
		Rs. in million
1	Nepal Doorsanchar Company Limited	75450.00
2	Standard Chartered Bank Ltd.	16766.08
3	Nabil Bank Ltd.	13085.87
4	Nepal Investment Bank Ltd.	12300.12
5	Himalayan Bank Ltd.	7941.88
6	Chilime Hydro power Co.	6639.36
7	Everest Bank Ltd	6599.01
8	Uniliver Nepal Ltd.	5800.41
9	Nepal SBI Bank Limited	5546.59
10	Nepal Industrial And Co.Bank	5337.45

Source: www.nepalstock.com,

Figure: 4.16

Top Ten Companies (on the basis of number of Market Capitalization) in 2012-13

(Rs in Millions)



The above table and figure show that, On the basis of market capitalization Nepal Doorsanchar Company Limited is highest position with Rs. 75,450 million and Nepal Industrial & Commercial Bank Limited is in lowest position with Rs. 5337.45million market capitalizations.

4.1.16 NEPSE Index

Market indexes are used to determine the relationship between historical price movements and economic 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 focuses on the price of stocks that is increasing or decreasing in the market. Because the prices 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 stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behaviour of stock prices in the capital market.

4.1.17 NEPSE Index and Percentage of Growth

Table: 4.17

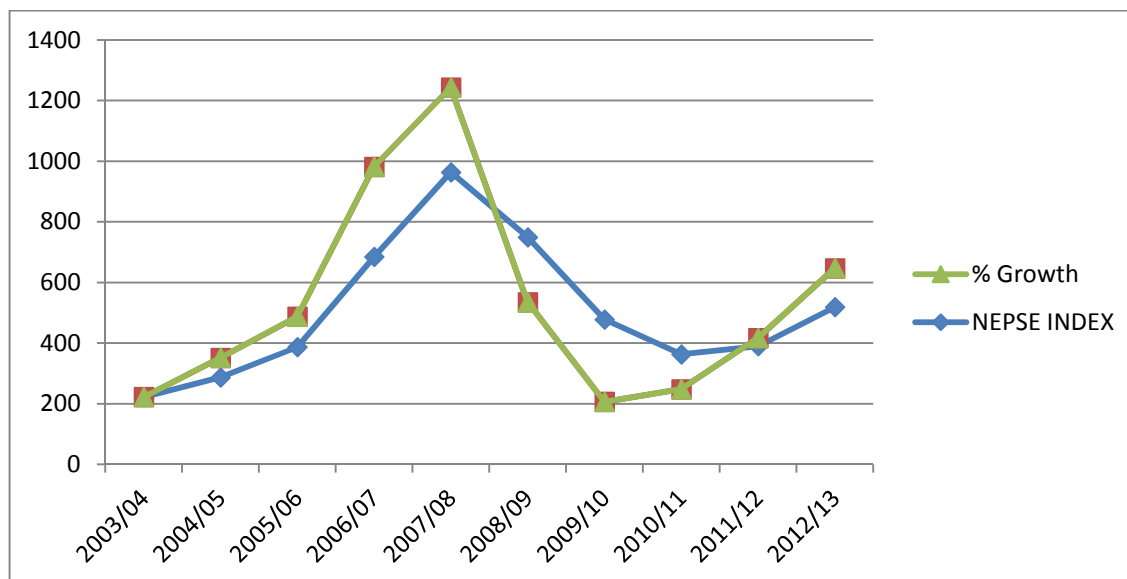
NEPSE Index and Percentage Growth

Year	NEPSE INDEX	Growth	% Growth
2003/04	222.04		
2004/05	286.67	64.63	29%
2005/06	386.83	100.16	35%
2006/07	683.95	297.12	77%
2007/08	963.36	279.41	41%
2008/09	749.10	-214.26	-22%
2009/10	477.73	-271.37	-36%
2010/11	362.85	-114.88	-24%
2011/12	389.74	26.89	7%
2012/13	518.33	128.59	33%

Source: www.nepalstock.com.

Figure: 4.17

NEPSE Index and Percentage Growth



Above table and figure show that, the NEPSE index is highest in the year 2007/08 with 963.36 and it is lowest in the year 2003/04 by which has 222.04 points. Up to fiscal year 2007/08 NEPSE index continuously rise to 963.36 points form 222.04 of fiscal year 2003/04 with the increase percentage of 334 in total. From the income year 2008/09 NEPSE index is continuously decreased till 2010/11 to Rs. 362.85. From 2011/12 Nepse Index again shows signal of improvement and reached to Rs. 518 by the end of 2012/13 with increment of 33% in the year.

4.2 Presentation and Analysis of Primary Data

For the purpose of the study on the topic “Problems and Prospects of Securities Market Growth” questionnaire survey method has been used as a source of primary data. Samples are taken from different sectors such as officials of NRB, investor; lectures and students etc. To meet the objective of the study seventy copies of questionnaire were distributed to above respondent to express their view about the stock market. So returned answers of respondent are analyzed suspiciously to find actual problems and prospects of stock market in Nepal.

4.2.1 Analysis of Questionnaire Survey

1. Analysis of the growth trend of Nepalese Capital Market.

Table: 4.18
Responses to Growth Trend

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	30	38.46%
2	No	35	44.87%
3	Don't Know	5	6.41%
	Total	70	89.74%

Source: Field Survey 2014

Regarding this question, 38.46 percent satisfied to some extent with the growth trend of Nepalese Securities market because it is the backbone of economic states as of the nation. 44.87 percent are dissatisfied with the growth trend of Nepalese Securities market because the growth trend is slow and 6.41 percent were unknown about the growth trend of Nepalese Securities Market.

2. Analysis of relation between Stock Market Growth and Economy Growth.

Table: 4.19
Response to relation between stock market and economy growth

S. N.	Variables	No. of Respondent	% of Respondent
1	High	25	35.71%
2	Moderate	28	40.00%
3	Low	17	24.29%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 35.71 percent agree towards high relationship between stock market growth and economy growth, 40 percent say it moderate and other 24.29 percent rank it low relation. So in the view of respondent, we can say that stock market growth and economy growth has moderate related to each other. If I have to put forward my opinion about the relation between the stock market growth and economic growth there is not consistent.

3. Analysis of Response to Macro Economic Variable.

Table: 4.20
Response to macro-economic variable

S. N.	Problems	No of respondent	% of respondent
1	Rising consumer price index	6	8.57%
2	Sustainable growth rate	16	22.86%
3	Stable exchange rate	4	5.71%
4	Money supply	6	8.57%
5	Increase industrial employment	12	17.14%
6	Above all	26	37.14%
	Total	70	100.00%

Source: Field Survey 2014

Regarding the question, when I asked which macro-economic condition respond favorably to capital market growth in response 8.57 percent of them said rising consumer's price index; 22.86 percent said sustainable growth rate; 5.71 percent said stable exchange rate, 8.57 percent said money supply; 17.14 percent said increase industrial employment and at last 37.14 percent said above mention macro-economic condition will respond favorably to capital market growth. Observably we can say that all above mention macro-economic condition will respond favorably to stock market growth.

4. Analysis of Investor Satisfaction with Current System of Trading

Table: 4.21
Response to current system of trading

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	37	52.86%
2	No	33	47.14%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, around 53 percent of respondent are satisfied with current system of trading (i.e. NEPSE Automated Trading System). But around 47 percent said they are not satisfied with current system of trading. Most of the dissatisfies respondent said order driven trading system facilitates only to broker, although it is automated system the investor cannot

place their order to purchase or sale without going to stock broker. (i.e. investor cannot directly participation in current trading system)

5. Analysis of Investor Awareness of Benefit and Risk

Table: 4.22
Response to investors aware ness on benefit and risk

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	27	38.57%
2	No	29	41.43%
3	To some extent	12	17.14%
4	Don't Know	2	2.86%
	Total	70	100.00%

Source: Field Survey 2014

Regarding the question, when I asked investor's awareness of benefit and risk associated with the equity investment. 38.57 percent respondents said 'Yes'; 41.43 percent said 'No'; another 17.14 percent said 'to some extent' and finally 2.86 percent said that they 'don't know' about the benefit and risk associated with equity investment. Most of unawareness respondents said they are unknown about such types of information and they seem to run after the whim.

6. Analysis of International Environment Effect

Table: 4.23
Response to effect of international environment

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	37	52.86%
2	No	27	38.57%
3	Don't Know	6	8.57%
	Total	70	100.00%

Source: Field Survey 2014

Regarding the question, when I asked the effect of international environment on Nepalese capital/stock market. In response 52.86 percent respondents said 'Yes', 38.57 percent respondents said 'No' and another 8.57 percent said that they 'don't know'. International environment effect the Nepalese capital/stock market but we cannot say so easily because there must be empirical finding. Most of the respondents said immediate transformation;

today's the activities of one country affects the other country and there are interrelated in business.

7. Analysis of Stock Exchange Diversification into Regional Branches

Table: 4.24

Response to Stock Exchange Diversification into Regional Branches

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	59	84.29%
2	No	11	15.71%
	Total	70	100.00%

Source: Field Survey 2014

Regarding the question, 84.29 percent of respondents think that the centralized stock exchange located in Kathmandu with no diversification into regional branches decrease the level of participation of general public in capital market. 15.71 percent said 'No'. It can be concluded that the stock exchanged should be centralized with adequate branch or trading floor to systematize the trade.

8. Analysis of Introduction of Tradable Investment Alternative.

Table: 4.25

Response of introducing tradable investment alternative

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	70	100
2	No	-	-
	Total	70	100

Source: Field Survey 2014

Regarding the question, 100 percent of respondent said that development and introduction of tradable investment alternatives in the secondary market would help in the growth of capital/stock market.

9. Analysis of Opening Secondary Market for Foreign Investor.

Table: 4.26

Response to opening of secondary market for foreign investor

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	44	62.86%
2	No	19	27.14%
3	Don't Know	7	10.00%
	Total	70	100.00%

Source: Field Survey 2014

Regarding the question, 62.86 percent of respondents said that opening of secondary market for foreign investment will enhance stock market but 27.41 percent said 'No' and 10 percent said don't know the effect. In conclusion, we can say that opening of secondary market for foreign investor will increase investment. With the increase in investment there is increased in capital/stock market transaction and economy as a whole.

10. Analysis of Information Provided by NEPSE and SEBON.

Table: 4.27

Response to information provided by NEPSE and SEBON

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	29	41.43%
2	No	41	58.57%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 42.43 percent of the respondents are satisfied with the necessary information concerning future risk and return of securities provided by NEPSE and SEBON are correct and timely. 58.57 percent of respondents are not satisfied and they said 'No' and most of them said they do not provide any information concerning future risk and return of securities. NEPSE and SEBON provide the information by Internet and published different journal and annual report but information are not sufficient and information disclosure system is not adequately developed.

11. Analysis of Entry and Exit in Stock Market.

Table: 4.28

Responses to main player for entry and exit in stock market

S. N.	Variables	No. of Respondent	% of Respondent
1	Government	14	20.00%
2	Investor	5	7.14%
3	SEBON	7	10.00%
4	NEPSE	4	5.71%
5	Stock broker	6	8.57%
6	Above all	34	48.57%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 20 percent of respondent said government could play significant role for the easy entry & exit and increase investment in capital market. 7.14 percent said investor; 10 percent said SEBON, 5.71 percent said NEPSE play important role; 8.57 percent said stockbroker and 48.57 percent said all above. So there must be coordination between these bodies for easy entry & exit in stock market and to increase investment in stock market.

12. Analysis of Existing Laws Related to Primary Issue.

Table: 4.29

Responses to existing laws related to primary issue

S. N.	Variables	No. of Respondent	% of Respondent
1	Yes	31	44.29%
2	No	34	48.57%
3	Don't Know	5	7.14%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 44.29 percent respondents feel that the existing laws related to primary issue are sufficient for healthy growth of stock market. 48.57 percent of respondents said 'No'. 7.14 percent said that they don't about this. Most of disagree respondents said there must be new rules and regulation related to primary issue should be drafted.

13. Analysis of Purpose of Owning Share.

Table: 4.30
Responses to purpose of owning share

S. N.	Variables	No. of Respondent	% of Respondent
1	Social status	4	5.71%
2	Income	39	55.71%
3	Value Maximization	12	17.14%
4	Above all	15	21.43%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 5.71 percent of respondent said that purpose of owning share of company is for higher social status, 55.71 percent said for income. 21.43 percent said for value maximization and 21.43 percent said all above mention factors is considered while owing share of particular company.

14. Analysis of Share Purchase Decision.

Table: 4.31
Response to share purchase decision

S. N.	Variables	No. of Respondent	% of Respondent
1	Increasing Market price of share	25	35.71%
2	Profit/Loss trend of the Company	36	51.43%
3	Act of whim	3	4.29%
4	Broker's consultation	6	8.57%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, about 35.71percent purchase the share observing the increase market price of share; other 51.43percent make decision on the basis of Profit/Loss trend of the company, 4.29 percent act on the whim of market and 8.57 percent make decision on the basis of broker's consultation.

15. Analysis of Motivating Factors to make investment.

Table: 4.32
Responses about factors that motivate investment

S. N.	Variables	No. of Respondent	% of Respondent
1	High regular return	30	42.86%
2	Marketability & Liquidity	12	17.14%
3	Limited opportunity to invest in other sector	9	12.86%
4	Value Appreciation	19	27.14%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 42.86 percent of the Respondents invest in stock because of high regular return; 17.14 percent invest because of marketability and liquidity; 12.86 percent invest by considering limited opportunities of investment and 27.14 percent invest because of value appreciation. In addition to above some of the respondents said they also considered other factors like Government policy, NRB policy and regulation joint ventures with foreign companies and political legal environment. We can clearly detect that Nepalese investors are more profit oriented. We may conclude that a scenario for trend of observation and analysis has been developed quite among Nepalese investors.

16. Analysis of the problem faced by capital market.

Table: 4.33
Response to problem faced by respondent

S. N.	Problems	No of Respondent	% of Respondent
1	Shortcomings of rules and regulations	13	18.57%
2	Lack of knowledge among investors and stock market intermediaries	27	38.57%
3	Lack of proper coordination between authoritative body	8	11.43%
4	Restriction to foreign investors	6	8.57%
5	Unfavourable macroeconomic condition	7	10.00%
6	Above all	9	12.86%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, respondents are asked to know about the given problem of Nepalese capital/stock market. 18.57 percent respondents said main problem is shortcoming of rules and regulation; 38.57 percent said main problem is lack of knowledge among investors and stock market intermediaries; 11.43 percent said main problem is lack of proper co-ordination between authoritative bodies; 8.57 percent said restriction to foreign investors; 10 percent said due to unfavorable macro-economic conditions and at last 12.86 percent said that all above mention factors are the problem of the Nepalese capital market.

17. Analysis of Relevant Factors for the Prospects of Nepalese Capital Market Growth.

Table: 4.34

Responses in prospect of capital market growth

S. N.	Variables	No. of Respondent	% of Respondent
1	Maximum returns from capital market	10	14.29%
2	Limited tradable investment alternative	3	4.29%
3	Liquidity & Marketability of securities	17	24.29%
4	Increasing concerns of public and academicians in Capital market	12	17.14%
5	Establishment of Credit Rating Agency	17	24.29%
6	All of the above	11	15.71%
	Total	70	100.00%

Source: Field Survey 2014

Regarding this question, 14.29 percent said maximum return from stock in the prospect of capital market development; 4.29 percent said limited tradable investment alternative; 24.29 percent agree on liquidity & marketability of securities, 17.14 percent said that increasing concerns of academicians and general public in stock market, while the other 24.29 percent said establishment of credit rating agency in Nepalese capital market is the new prospect of systematic development of capital market and 15.71 percent said that all the points are equally important.

18. Analysis of effect of Credit Rating Regulation 2068 in Capital Market.

Table: 4.35

Responses in prospect of capital market growth

S. N.	Variables	No. of Respondent	% of Respondent
1	Positive	59	84.29%
2	Negative	5	7.14%
3	No effect	6	8.57%
Total		70	100.00%

Source: Field Survey 2014

Regarding this question, 84.29 percent said implementation of credit rating regulation will have positive long-term impact in development of capital market, while 7.14 percent said it will carry negative long-term effect in capital market and 8.57 percent of respondent said it will not have any effect in capital market. Now, we can conclude implementation of credit rating regulation 2068 will bring long-term positive impact in capital and financial market of Nepal.

4.3 Experience about the Problems Faced in Secondary Market (NEPSE).

Out of 19 questions one question is asked to respondents to share the view regarding the problems and prospects for the development of Nepalese secondary market. Out of the 70 respondents 62 respondents expressed their views. Which were presented below:

-) Lack of automation on trading and operation system is not transparent.
-) Lack of product diversification.
-) Weak and inadequate laws and regulation
-) Lack of Credit Rating Agency in country
-) Lack of sufficient power, authority and financial resources to securities board for market regulation.
-) Poor information system and delay in providing company's financial status.
-) The process of transferring of ownership of shares is lousy and time consuming.

-) Lack of professional stockbrokers. They do not provide proper advice and suggestions to the clients and they were commission oriented and have very little knowledge about stock market mechanism.
-) Slow growth rate of industrial sectors and small size and unlimited sectors.
-) Lack of implementation of Accounting Standard.
-) Lack of skilled and experienced manpower and low level of investor awareness & confidence
-) Limited awareness among general public about capital market.
-) Economic and political instability and high tax rate.

They provide many suggestions to solve these problems. They are as follows:

- All the securities should be rated by Independent international standard credit Rating Agency before fallen in the public by establishment of Credit Rating Agency in the country.
- Mechanization and automation in trading should be established. New laws and regulation related to online trading should be made.
- 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. It should drafted new securities act that should be made effective soon. Appropriate policies related to foreign investors should be made.
- The stock exchange should carry out periodic research and analysis and findings should be published to general public.
- Stockbroker should be professional and capacity enhancement of major regulators.
- Emphasis should be given to develop necessary skill for the manpower; enhance aggressive investor awareness programmes and education should be given to general public about the primary securities market as well as secondary markets.
- Widened the sphere of NEPSE.

- Tax rate should be revised and appropriate accounting standard should be introduced.
- Political and economic stability
- Should be re-open another stock market for better competitive.

Prospects of Capital Market

Capital plays a vital role in the economic development of a country. Being capital deficient country, Nepal has to make endeavor to mobilize available capital market efficient. Stock market can be growing with the development of production and service sectors activities. Capital/Stock market can become an effective medium for capital formulation by prudent and expanded operation. Capital markets provide mobility of scattered saving. Investors with limited capital fund could also participate in the industrial development process of country through their investment opportunities in the stock market. Nepal enters into WTO; if the government opens secondary market for foreign investor it widened market opportunities from which more companies can be established in telecommunication, hydropower, tourism and transportation. Presently, stock exchange facilities are available only in Kathmandu valley. Hence, there is a prospect of opening branches of stock exchange and expanding its facilities in other region of the country and there may be different trade able investment instruments. With the establishment and commencement of service of Credit Rating Agency by ICRA in Nepal, there is a scope of developing a fair, efficient and transparent securities market with the improved corporate governance there by improving compliance practices, diversified securities market instrument as per the preference of different investors, Large numbers of institutional investors; More informed market can be developed; increased liquidity & high investor awareness.

4.4 Major Findings of the Study

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

Finding from Secondary Data:

-) Among the listed companies majority of them are from the Development Bank that cover 36.09percent in the year 2012/13. Further Banking industries including

- commercial bank, development bank and finance companies cover 76.96percent of listed companies in the year 2012/13.
-) Banking sector cover most of the market capitalization (66%) and annual turnover volume (70.4%) in NEPSE. It is obvious that both the price appreciation and dividend rate is high in these sectors. Investors generally prefer to invest in safe instruments.
 -) The numbers of listed securities are increasing gradually whereas the numbers of transactions; numbers of company traded and no of share traded are in fluctuating manner.
 -) Growth of market day per year is in satisfactory level. Average daily turnover and market turnover in volume and value are very much fluctuating.
 -) Paid-up value is increased by range of 9 to 108 percent whereas lowest turnover in paid up capital is 9 percent in 2006/07 and highest in 2008/09, which has 108 percent.
 -) The highest increase in market capitalization rate is 97 percent in the year 2007/08 whereas highest percent of market capitalization rate is 7.35 percent in the year 2004/05 but in 2010/11 it has 2.06 percent.
 -) NEPSE index continuously increased from the year 2003/04 till 2007/08. Then it is in decreasing trend till 2010/11. Because of industrial and trading sector cannot perform well; weak law and order situation, and political and economic instability. Now it is in increasing trend from 2011/12.

Finding from Primary Data:

-) It is found that growth trend of Nepalese stock market is slow and in developing stage however, majorities of the respondents are not satisfied with the growth trend of the stock market.
-) There is moderate relationship between Nepalese stock market growth and Nepalese economic growth.
-) Macro economic variables like Rising consumer's price index; Sustainable growth rate; Stable exchange rate; Money supply and Increase industrial employment would response favorably to stock market.

-) Around half portions of respondents are not satisfied with current system of trading. The further added that NEPSE automated trading system does not allow the investor participation as it is order driven through broker.
-) The major portion of current investor is unaware about the benefit and risk associated with the equity investment and they seem to run after the whim.
-) Majority of respondents said that international environment affect the Nepalese stock market but they further added there must be empirical evidence.
-) Stock exchange should expand its facilities and open its branches in different region of the country.
-) Development and introduction of trade able investment alternatives in the secondary market would help in the growth of stock market.
-) Secondary market should be open for the foreign investors. They further added it creates pressure to develop NEPSE; this will motivate new issues to come in the market and investor will increase.
-) NEPSE and SEBON provide the information by Internet and published different journal and annual report but information are not sufficient and information disclosure system is not adequately developed. The information provided by NEPSE & SEBON does not help in assessing future risk and return of securities.
-) Majority of respondents has said there must be coordination between government, investor, SEBON, NEPSE and stockbroker for easy entry and exit in stock market and to increase investment in stock market. But they further added that NRB, company register office and other regulatory authorities could play important role.
-) Existing laws of primary issue are not sufficient for the growth of stock market. They further added the new law should be drafted.
-) Income is the main factors for the owing the share of a particular company.
-) They choose Profit and loss trend of the company to buy the share of particular company. High return is the major motivating factors to make investment in stock.

-) It is found that Stock market is suffering from various problems but the prospects of stock market is also equally fruitful. Literacy about capital market should be developed to develop capital market.
-) Majority of the investor feels that establishment of Credit Rating Agency to rate the capital market instrument and make the securities more liquid & Marketable is the major prospectus to develop capital market of Nepal.
-) Credit Rating Regulation 2068 will effect positively to capital market with mandatory provision of rating the share & any other instrument before public issue.

CHAPTER-V

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The basic purpose of the study is to get over all picture of problems and prospects of capital market development in Nepal. As stated early the process of stock market development in the country actually started in 1976 when the government established Securities Exchange Center to provide and develop market for securities, both the government bond and corporate securities. In 1993, Securities Board Nepal was established with the objectives to regulate, supervise and monitor the securities market. Similarly, the Securities Exchange Center was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting an open out-cry system, where the investors were allowed to deal in securities out through licensed brokers.

Capital market is the backbone of investment sector of the country so by promoting the capital market government can also develop the economic as a whole. Important performance indicators in the period 2003/04 to 2012/13 are, the number of listed companies in NEPSE increased almost two-fold from 114 to 230 and the market capitalization value rose almost twelve and half times from Rs. 41,425 million to Rs. 514,492 million likewise, during the same period the number of securities listed with the exchange increased almost eleven times from 120.16 million to 1297.84 million and the number of annual transactions increased three and half times from 85.53 million to 292.37 million. During this period NEPSE index jumped from its base value of 222.04 to 518.33. On the other hand, additional hydroelectric projects need to be completed soon as the demand for electricity is growing day by day. Nepal Electricity Authority issued power bond by FY 2005/06 to construct new projects. By this, the companies operating retirement fund, insurance companies and general public will get appropriate investment mechanism. Various measures of capital market development indicate that the capital market in Nepal is underdeveloped and has failed to show impact on the overall national economy.

Of the overall transaction on the Nepal Stock Exchange the major portfolio contains on banking, insurance and finance sectors. It is clear that both price appreciation and dividend rate are high in these sectors compared to other sector. Investors generally prefer to invest in these sectors.

Therefore, the serious problem facing by nepali capital market among various sectors only the banking sector is doing well in terms of liquidity, but other sectors lacking behind. Due to this financial system in Nepal has remained basically bank-dominated. However, most of the developments were confined to the banking sector stock market has virtually remained slowed down because of; the low priority in the government's financial reform policies, increasing trend of declare financial institutions as problematic, unfair competition among the financial institutions in the small market etc.

At presently, general investors have limited opportunities for investing their saving. However, both individuals and institutional are putting most of their saving into bank deposits and bullion market because of present states of securities market. Lacking of awareness among the general investors about the capital market regarding the risk and return associated with stock market, unavailability of credit rating agency to rate the every securities (equity & debt as per credit rating regulation 2068) before issue and Stock exchange facility is available only in the Katmandu is draws back for the growth of Nepalese stock market.

5.2 Conclusions

The development of capital market in Nepal so far cannot be considered satisfactory level; the growth trend is slow and is in developing stage. This is evident from the facts and figure available in the stock market performance during the last 10 years. But investors are in search of tradable investment alternative for the investment opportunities. Now Nepalese capital market is in the growth stage: it has crossed the initial stage but not reached in the matured stage as defined stock price trend is running unsystematically.

- Lack of automation on trading and operation system is not transparent of NEPSE.
- Lack of Credit Rating Agency in country to give independent & professional opinion to the prospective investor.
- Public response is high due to lack of opportunities for the investment in other fields. No proper investment analysis has been made. Despite of this public attracted towards shares than other sector basically to increase their value of investment.

- Majority portion of the investors of Nepalese stock market invest their money from the view point of the income which is found from the field survey.
- According to the major portion of the investors international economy directly affects the Nepalese stock market.
- It is found that government policies are not clear to handle the Nepalese securities market in Nepal.
- It is also found that investors motive for owing shares of company is to receive the dividends from shares.
- It is also found that investors are not aware about investment.
- Total market capitalization of the listed companies at the end of this fiscal year 2012-13 is recorded to be Nrs.514,492 million which is increased by 40% than the last fiscal year 2011-12.
- Lack of professional stockbrokers. They do not provide proper advice and suggestions to the clients and they were commission oriented and have very little knowledge about stock market mechanism.
- Limited awareness among general public about capital market.
- Various measure of capital market development indicates that the capital market in Nepal is underdeveloped and has failed to show the impact on the overall national economy. Small market size has made it weak to manipulation and price. Low turnover and value traded shows that capital market in Nepal is highly illiquid. There is illiquid in the capital market for shares except that of banking and some finance and insurance sectors excluding some exception of Unilever & Bottlers share. Country with liquid market tends to grow faster than countries with illiquid market. Although, it has become late to take steps to overcome such problems of the Nepalese capital market in order to make it active and supportive, the stock market has a better prospect for the resource mobilization of the country.
- Most of the companies that are listed with the exchange belong to banking, finance, and insurance sectors. While only few companies from the hydro, trading, hotel, manufacturing, and other sectors are listed with the exchange.

- The present law in the country requires lengthy approvable process from concerned regulatory authorities before offering shares to general public. Financial institution have to obtain approve from the company register's office (CRO), SEBON and last NRB. If any changes recommended by NRB after receiving the final approval from CRO and SEBON, the same changes have to approve by all regulatory bodies too before seeking its final issue approval process from the NRB. 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 for misleading prospectus presented by issuing company.
- 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; small turnover in the market and centralized stock exchange located in Katmandu only. Investor's confidence in Nepalese stock market is relatively low because of investors don't know about the risk and return associated with the stock market investment, stock market volatility, inadequate information and lack of investment alternatives. Generally large stock market indicates developed stock market. The size of the market in terms of listed companies and listed securities is relatively small. Market for corporate debt and bond instrument is undeveloped.
- 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. Government has to play major role to encourage institutional investor in order to develop Nepalese stock market.

5.3 Recommendations

-) All the securities should be rated by Independent international standard credit Rating Agency before fallen in the public by establishment of Credit Rating Agency in the country.
-) Mechanization and full automation in trading should be established. New laws and regulation related to online trading should be made.

-) 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. It should drafted new securities act that should be made effective soon. Appropriate policies related to foreign investors should be made.
-) Increase awareness among the general public about the capital market, regarding nature of risk and return, rating of the securities and its significance through promotional campaigns, seminars, publications and programs in FM /TV.
-) NEPSE and SEBON have to provide information on a timely basis so that the stock prices reflect their company's status more accurately.
-) The provisions of Credit Rating Regulations 2068 should be implemented effectively. Moreover, SEBON should issue directives that every securities traded in secondary market have to be rated by the international level credit rating agency.
-) Securities Board Nepal (SEBON) should regulate NEPSE and other financial institutions adequately, appropriately and effectively. Evaluation and inspection of work done by stock member is essential.
-) At a moment when the country has already acceded to WTO, domestic market should be prepared to benefit from enlarge market and enhance competition. NEPSE has to expand its facilities and services to the regional levels and open regional branches at industrial cities rather than concentrating solely in Kathmandu. NEPSE should be privatising.
-) Approval process should be smooth to make it easy and hassle free. If possible one window policy should be adopted in providing approval.
-) The old and out-dated open outcry auction system should be replaced with on-line trading system following international standards. In this regard new laws related to on-line should me drafted and made effective soon.
-) Encourage active participation of other sectors of the economy besides bank, financial companies and insurance companies through the enforcement of good corporate governance.

-) International accounting systems need to be follow strictly.
-) Open secondary market for foreign investors and the government should make necessary policy to allow foreign investors to invest in Nepalese Capital Market.
-) Government should make environment for diversification of trade able investment alternative. All Government bond must be transacted on NEPSE.
-) Broker must be professional and development of institutional investor is essential. There must be competition between stock broker, market maker and dealer.
-) To increase investment in capital market the government should make appropriate policies and programs for the enhancement of the entrepreneurship development in the Nepalese economy and infrastructure should be developed.
-) Information dissemination is essential to gain the public confidence non-banking sectors never disseminating information timely and regularly. 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.
-) Large and ineffective government corporations like Agricultural Development Bank, Nepal Electricity Authority, Nepal Air Lines and NEPSE must be privatized in order to develop the Nepalese capital market through the wide spread distribution of shares to public investors. The share should be distributed in market price if the company is yielding profit and share should be issue from primary market if the company suffer from losses.

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Annexure: Letter to Respondent for primary data collection

Dear Sir,

I have attached herewith a questionnaire which is used for the purpose of collection of primary data of my thesis entitled "*Problem and Prospects of Securities Market in Nepal*". This questionnaire is used for academic purpose and to be kept confidential.

Regards,

Usha Upreti

Researcher

Nepal Commerce Campus

Annexure-I: Questionnaire for the field study

Problem & prospectus of Securities Market of Nepal

(In partial fulfilment of the requirement for the degree of M.B.S.)

-By UshaUpreti

1. Whether growth trend of Nepalese capital market is satisfactory?
 - i. Yes
 - ii. No
 - iii. Don't Know

Suggestion/remarks:

2. Degree of dependency of Capital Market Growth on economy growth of the country?
 - i. High
 - ii. Moderate
 - iii. Low

Suggestion/remarks:

3. Which macro-economic condition responds favorably to capital market growth?
 - i. Rising consumer price index
 - ii. Sustainable growth rate
 - iii. Stable exchange rate
 - iv. Money supply
 - v. Increase industrial employment
 - vi. Above all

Suggestion/remarks:

4. Are you satisfied with current system of trading (i.e. NEPSE Automated Trading System)?
 - i. Yes
 - ii. No

Suggestion/remarks:

5. Are you aware of benefit and risk associated with the equity investment?
 - i. Yes

- ii. No
- iii. To some extent
- iv. Don't Know

Suggestion/remarks:

6. Whether international environment effect on Nepalese capital/securities market?

- i. Yes
- ii. No
- iii. Don't Know

Suggestion/remarks:

7. Whether level of participation of general public in securities market is affected by centralized stock exchange located in Kathmandu with no diversification into regional branches?

- i. Yes
- ii. No

Suggestion/remarks:

8. Development and introduction of any new tradable investment alternatives in the secondary market would help in the growth of capital/securities market?

- i. Yes
- ii. No

Suggestion/remarks:

9. Opening of secondary market for foreign investment will enhance stock market?

- i. Yes
- ii. No
- iii. Don't Know

Suggestion/remarks:

10. Are you satisfied with correctness and timeliness of the necessary information concerning future risk and return of securities provided by NEPSE and SEBON?

- i. Yes
- ii. No

Suggestion/remarks:

11. Who could play significant role for the easy entry & exit and increase investment in capital market?
- i. Government
 - ii. Investor
 - iii. SEBON
 - iv. NEPSE
 - v. Stock broker
 - vi. Above all

Suggestion/remarks:

12. Are existing laws related to primary issue are sufficient for healthy growth of stock market?
- i. Yes
 - ii. No
 - iii. Don't Know

Suggestion/remarks:

13. What is the purpose of owning share of company?
- i. Social status
 - ii. Income
 - iii. Value Maximization
 - iv. Above all

Suggestion/remarks:

14. Which factor you considered to arriving share purchase decision?
- i. Increasing Market price of share
 - ii. Profit/Loss trend of the Company
 - iii. Act of whim
 - iv. Broker's consultation

Suggestion/remarks:

15. Which factor encourages you to invest in securities?
- i. High regular return
 - ii. Marketability & Liquidity
 - iii. Value Appreciation
 - iv. Limited opportunity to invest in other sector

Suggestion/remarks:

16. What are the main problems of securities market development?
- i. Shortcomings of rules and regulations
 - ii. Lack of knowledge among investors and stock market intermediaries
 - iii. Lack of proper coordination between authoritative bodies
 - iv. Restriction to foreign investors
 - v. Unfavorable macroeconomic condition
 - vi. Above all

Suggestion/remarks:

17. What are the Relevant Factors for the Prospects of Nepalese Capital Market Growth?
- i. Maximum returns from capital market
 - ii. Limited tradable investment alternative
 - iii. Liquidity & Marketability of securities
 - iv. Increasing concerns of public and academicians in Capital market
 - v. Establishment of Credit Rating Agency
 - vi. All of the above

Suggestion/remarks:

18. What will be the effect of Credit Rating Regulation 2068 in the Securities market?
- i. Positive
 - ii. Negative
 - iii. No effect

Suggestion/remarks:

19. Share your view regarding the problems and prospects for the development of Nepalese securities market. (please give your analysis in 5-6 points)

Suggestion/remarks: