

CHAPTER - I

INTRODUCTION

1.1 Background

The world's economic sector is changing rapidly. Economic sector plays vital role for developing the Nations. Nepal is one of the least developed countries in the world. Nepal is practicing the development program by launching various capital formation activities in different sectors. Nepal launched planned economic policy more than forty-five years ago. Now it is actively trying to achieve the rapid pace of development through liberalization. To attain the rapid pace of economic development of the country, there should be good environment for potential investors in investment activities in the different sectors of the economy.

Economic growth of any nation is highly influenced and characterized by development and expansion of capital market. The growth of the economy of the USA has been due to in large part of the strength and efficiency of its capital market. Further, East Asian economic boom and crisis are largely effect of capital market fluctuations. The capital market has more significant role in developing economics like Nepal. The stock market plays vital role for encouraging and canalizing the saving to providing the entrepreneurs for investment in profitable projects in the Nepalese Economy.

“Capital market as a financial relationship created by a number of institutions and arrangement that allows suppliers and demanders of the term funds to make transactions. Thus, the main objective of the capital market is to create opportunity for

the minimum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital.”(Ninth Plan: 1998)¹. Capital market are the institutions, that are engaged in the mobilization of ideal saving in productive opportunity.

“Development and explanation of the capital market is essential for the rapid economic growth of the country. A capital market helps economic development by mobilizing long- term capital needed for productive sector. The main objectives of people to get benefits from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital” (Ojha:2000).²

Thus the stock market is a place where shares of listed companies are traded or transferred from one hand to another at a price through the organized brokerage system. Principal stock market refers to the secondary markets for securities whereas, stock market refers to the secondary markets for securities whereas, principally markets refer to the market for new issues, in the secondary market, to make transactions. Therefore, they are the backbone of the stock market growth and its smooth functioning (operation). The major function of the stock market is to provide ready and continuous market for purchase and sales of securities at competitive price. Thereby, imparting future market abilities and liquidity to them. Thus it is a medium through which areas that ultimately helped to economic development and industrialization of the nation (Aryal:1995)³.

In this respect, capital market plays a crucial role in mobilization a constant flow of saving and changing these financial resources for expanding productive capacity in

the countries. Stock market is a major component of the securities market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Similarly, stock market provides the best opportunity to the investor.

“Furthermore many profitable projects require a long-term venture capital to finance. Most investor tempt to provide risk and are reluctant to tie their saving into long term commitment. Liquid stock makes the investment less risky and more attractive. It encourages servers to invest in the long term projects because they can sell securities quickly and easily, if they want to get back their saving before the project matures. At the same time, companies receive easy access to capital through new issuance of shares” (Shrestha:1999)⁴.

“A corporation is an artificial being, invisible, intangible and exiting only in the contemplation of the law. Being a more creature of the law it possesses only those properties which the charter of its creation confers upon it either expressly or as incidental to its very existence” (Francis:1998).⁵

There are mainly two sources of financing in the profitable venture;

- a) Internal Financing, and
 - b) External Financing
- a) Internal Financing: Receiving funds from a company’s operating activities, as opposed to borrowing money from a bank or through means such as issuing equity or debt. A company with a strong business and solid sales is able to raise funds internally to fund new projects or initiatives. So, internal financing

becomes more important and popular for fostering the productive activities in the economy.

- b) External Financing: the external financing is mainly segregated into three categories.
 - i. Equity financing;
 - ii. Preference stock financing; and
 - iii. Debt financing.

Among the sources of equity financing is the most important source to the corporations.

The concept of stock market began with the flotation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills in the year 1937 A.D. under the Company Act 1936 A.D., it is still in growing stage. The institutional development of securities market in Nepal started from the year 1976 A.D. when Securities Exchange Center (SEC) was established under the Company Act with the joint capital contribution of Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC). The main objective of the establishment of the Center was to mobilize saving of public and encourage the people to participate in the ownership industries and business enterprises.

Every corporation acquires their needed long-term fund by selling the securities in the capital market. Capital market typically involves financial assets that have life spans of greater than one year. Capital market can be decomposed into securities market and non securities market.

Capital market is broadly divided into two types;

- Primary markets, and
- Secondary markets

Primary markets: The primary market is that financial market whereby the corporations/company acquires the needed capital by Initial Public Offering (IPO) and through right issue.

Secondary markets: The secondary market is that financial market where the securities once issued by the corporations/ company in the primary market are traded. So, secondary market plays vital role in liquidating the shares.

Stock market provides the best investment opportunity to the investors. It also provides liquidity to the securities. The liquidity affects the economic activities and there by affecting the development of the country.

1.2 Statement of the Problem

The problem of the study is directed on “Brokering Services in Nepal Stock Exchange”. Brokering services in Nepal Stock Exchange play vital role for determining the prices of shares, motivating the potential investors in investing activities and developing the Securities Market of the nations. Brokering Services are major issues for the development and improvement of the trading shares in NEPSE.

It is known that investors are the major sources of capital and the backbone of the securities market. Unless, investors begin to analyze the good or bad institutions

before making investment decisions, the market cannot develop smoothly. The provisional behaviors of the investors also play vital role for setting the price of the stock in the market.

Investment in the past was done in whim. Even officials at the Stock Exchange and Securities Board, refuting investor's of marketing manipulation and insiders trading last February, discreetly claimed that the Nepal stock market is in a nascent stage. And that investment are made more on an impulse, rather than through market study and credit rating (Sharma:2001)⁶.

The price of common stock in primary market is par value but in the secondary market may be price i.e. more than par value or less than par value and equal to par value. Stock price in the secondary market is the main issue of the brokering services. What could be the reasonable price paid for a stock in secondary market? What is the impact of price trend and volume of stock trade? Do the investors see the reputation or goodwill of the company and others views while making investment decision? These are the burning issues of general investors regarding investment in securities in NEPSE.

It is frequently heard that the majority of the investors are not satisfied with the services presently provided by the brokers. Investors frequently complain about the inadequacy of required information about the trading of shares from brokers. Investors are not able to identify the good or bad stock due to lack of proper information. The limited numbers of brokers are doing business only on part time basis. Some brokers do not have enough stock market education and adequate

knowledge and expertise in brokering services. The brokers are not able to provide various education services related to the trading of the stocks as compared to brokers of the stock market in other countries.

The theories and principles related to the stock market and share price/ value calculation are also based on some assumption. Hence this does not represent the practical situation in a reliable way.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their capacity successfully because of the various obstacles presented in the economic environment. So, the necessity to analyze practical situation of brokering services in Nepalese stock market in the present situation.

The price of the common stock is also affected by quality of brokering services. The price of the stock is fixed by few brokers who represent the investors in the Nepal Stock Exchange. They play the vital role for brokering services. So, the market is loyal to these few investors.

Followings are some of the serious problems that play vital role for brokering services in Nepal Stock Exchange.

- There is a lack of professional brokers and they do not provide full time service in NEPSE. Most of the brokers are brokering as a part time. So the investors are unable to make investment in proper time due to lack of proper information of trading system.

- The market is totally captured by amateur who buy very little number of shares. These investors hold the share in view of making profit also affects in brokering services.
- The actual clearing and settlement process takes long period than that mentioned in the regulation.(i.e. within 15 days of application given for ownership transfer). This also affects price determination and the image of the brokers in regard to their services in the stock exchange.
- There were various complaints from the investors about the services of the brokers. Such as:
 - Absence from the stock market for a long period without pre-notice to the Nepal Stock Exchange, and
 - The maintenance of verbal contracts with some investors by disobeying the rules and regulations.
 - Besides, some complaints about the performance and maintenance of some dummy transactions made by some brokers and investors in some specific time period, the stock exchange is said to be responsible for when the price of the shares change tremendously in some situations.
 - The brokers in Nepal Stock Exchange were not able to provide various services related to the trading of the stocks as compared to brokers of the stock market in other countries.

Due to the fluctuating trend of the stock price, the researcher is interested to find out what actually is the situation in the stock market in respect to brokering services in Nepal Stock Exchange.

1.3 Research Hypothesis

The following hypotheses are set about the different aspects related to the effectiveness of brokering services in Nepalese securities market. These hypotheses have been tested by analyzing the data primarily received from two sectors investors and brokers. These data have been collected by using the questionnaire and tested by using chi-square test.

The Null Hypotheses were set as under:

- There is no significant difference between the opinions of Investors and brokers so far as adequacy and reliability of information provided by the brokers are concerned.
- There is no significant difference between opinions of brokers and investors so far as mutual trading as a stock market disorder.
- There is no significant difference between opinions of brokers and investors so far as the role of brokers in different types of stock market disorders such as wash sale, cornering, insider trading, churning, pool and mutual trading are concerned.

The Alternative hypotheses were set as under.

- There is significant difference between opinions of brokers and investors so far as adequacy and reliability of information provided by brokers are concerned.
- There is significant difference between opinions of brokers and investors so far as mutual trading as a stock market disorder is concerned.

- There is significant difference between opinions of brokers and investors so far as the role of brokers in different types of stock market disorders such as wash sale, cornering, insider trading, churning, pool and mutual trading are concerned.

1.4 Objectives of the Study

This study has three main objectives.

- To analyze the performance and effectiveness of Brokering Service in NEPSE.
- To analyze the general investors opinions on Brokering Service.
- To recommend the findings from the study.

1.5 Significant of the Study

Investors invest their money with the hope of getting good return in their investible fund. But due to many reasons they lose their hard earning, while investment is made without required information about trading of shares. Many times investors blindly invest their funds by just reading the prospectus availed by the issuing companies and many times they purchase shares without any required information about trading of shares but with the hope of getting good return only.

The role of intermediaries (i.e. brokers and market markers) in stock market is essential in providing reliable and adequacy of the information to the investors about trading of shares in NEPSE. But the majority of the investors are unsatisfied with the presently available services from brokers.

While investing in shares the investors should receive the benefits from his investment more than the opportunity income that could be received investing elsewhere. But the lack of adequate knowledge, inability in using modern technologies and insufficient use of communication technologies to spread the information about the price-earning relationship of the company enforces people to invest the amount by analyzing the trend of the market. It indicates that is extreme necessity to establish clear conception about the price-value relationship to secure the invested amount.

The brokers' activities are also blamed to influence the tendency of investors in share trading activities in Nepal. Brokers in Nepal are mainly to be devoted to focus in trading activity. So, the possibilities of other services should also be studied and initiated in Nepal to increase the participants in the share trading activities.

Hence, this study targets to explore and assist stock investments by imparting the knowledge about the different aspects related to the brokering services in Nepalese stock market. This study will also be helpful for other researchers in the similar field as it provides suggestions on the related field to some extent.

1.6 Limitation of the Study

The study has been completed as the partial fulfillment of the requirement of the degree of Master of Business Studies. This study has some limitations.

- This study focuses only on the services of Brokers in NEPSE.

- This study is based on primary and secondary information/data. The primary data is collected by using the questionnaire and personal interview.
- This study is limited to financial and time constraints.

1.7 Organization of the Study

This study is presented on the following five chapters:

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Presentation and Analysis of data

Chapter V : Summary, Conclusion and Recommendations

The first chapter mainly contains the background of development of the securities market in Nepal, the statement of the problem, research hypothesis, objectives of the study, significance of study and the limitations of the study:

The second chapter includes: theoretical framework with the help of different books, articles, periodicals, previous thesis reports, and various published documents of the related organizations.

The third chapter deals with the 'Research Methodology'. It deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools are presented which are used to analyze the tabulated data collected from different primary and secondary sources.

The fourth chapter contains presentation and analysis of data collected from various sources about broking services in Nepal.

Finally, the fifth chapter states the 'Summary, Conclusion and recommendations' of the study. This chapter will also offer several avenues for future research in the field.

Endnotes

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3. Aryal, Mukti (1995). "**The general behavior of the stock market**". An Unpublished Master thesis, Central Department of Management, Tribhuvan University, P.2 .
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5. Francis, Jack Clark (1998) "**Management of investments**", 2nd Ed, New Delhi: McGrew-Hill Book Company), P.26.
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CHAPTER – II

LITERATURE REVIEW

2.1 Conceptual Framework

This chapter deals with the review relating to the topic “A Study on Brokering Service in Nepal Stock Exchange” (NEPSE) in more detail and descriptive manner. For this study various books, journals and articles, some previous thesis related to the topic have been reviewed.

2.2 Financial Market

Financial market is that market that provides a forum where suppliers of loans and investments can transact business directly. The two key financial markets are money market and capital market. Money market is a short-term financial market where the debt instruments or marketable securities are traded for a short-term. The long-term securities (Bonds and Stocks) are traded in the capital market.

2.3 Capital Markets

Capital market is a total financial market (long-term and short-term financial market) which relationship created by a member of institutions and arrangements that allows the suppliers and demands of long-term funds to make transaction. Capital market can be divided into securities market and non-securities market. The different types of securities are traded in the securities market. The term securities include long-term transaction (i.e. more than one year) financial tools, which are used by the companies to gather the needed long-term fund.

Capital Market includes

- Activities relating to the organization, distribution and trading of securities.
- Organization, which facilitates these activities.
- Individuals and institutions, which buy and sell securities.
- Rules and regulations, customs and practices that control the organization and conduct of business in the market.

“Securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditorship or ownership depending on whether it is a bond or a stock respectively. A bond is a loan that is paid off with interest; the investor lends money to the borrowing company that issued the bond. In contrast, stock ownership represents a cash investment in the future of a corporation; the investor owns a part of the corporation and shares in the profits” (Francis:1998).

“Common stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings....however, most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give way to hope, fear and greed” (Chandra: 1995).

2.4 Securities Market in Nepal

Security Market Center was started in 1970 AD as capital market development immediately after that, Securities Exchange Act was passed and the name of the Securities Marketing Center was changed to Securities Exchange Center (SEC) and the SEC converted into Nepal Stock Exchange in 1994 AD.

2.4.1 Nepal Stock Exchange (NEPSE)

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937AD. Introduction of the company act in 1964 AD, the issue of government bond in 1964 AD and the establishment of securities exchange center ltd. in 1976 AD were other significant development resulting to capital markets.

Securities Exchange center was established with an objective with an objective of facilitating and promoting the growth of capital market institution undertaking job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Government of Nepal, under a programme initiated to reform capital market, converted securities exchange center into Nepal stock exchange in 1993 AD. Nepal stock exchange, in short NEPSE is a non-profit organization, operating under securities Exchange Act 1983 AD.

The basic objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating 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.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed members are the shareholders of NEPSE.

The development of the stock market is directly linked with the development of the corporate firms and industries in the economy. Nepal's industrial development history is not so long in comparison to other countries. So, the essential thing for the rapid growth of capital market is to encourage business firms to convert business firms to convert into public limited companies. "Industrialization is the foundation of the economy. In this respect, the securities market is an important constituent and core of the capital market" (Shrestha:1983).

NEPSE performs several types of regulatory services including market surveillance and the on-going supervision of the brokerage firms. Some of the functions of NEPSE are:

- Trading
- Listing
- Clearing and settlement
- Market surveillance

2.4.2 The Board of Directors of NEPSE

The Board of Directors (BOD), which will govern NEPSE, constitutes of members representing different sectors as per Securities Act 2006. At Present, the BOD

constitutes 2 Members including a chairman from Nepal Government, 2 Members from Nepal Rastra Bank, 1 from NIDC. Moreover, one member will be nominated by BOD as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD.

Table 2.1

Board of Directors of NEPSE.

S.NO	Name of Director	Designation
1	Mr. Krishna Prasad Devkota	Chairman
2	Mr. Hari Prasad Kafle	Member
3	Dr. Min Bahadur Shrestha	Member
4	Dr. Basudev Sharma	Member
5	Mr. Arun Shrestha	Member
6	Mr. Sitaram Thapaliya	Member
7	Mr. Narayan Prasad Timsina	Company Secretary

Source: <http://www.nepalstock.com/about/director.php>

2.5 Right of the Stockholders

Ownership in a corporation is represented by its stock and a corporation may issue more than one type of stock. Whenever a corporation issues more than one type of stock, usually called classes of stock, they must clearly define the rights and privileges that belong to each class. If only one class of stock is issued it is referred to as a common stock. If two stocks are issued they are usually referred to as common stock and preferred stock, each enjoying specific rights and privilege and, perhaps each having a certain restrictive provision attached to them.

“Individual who buys the stock becomes the owners of a corporation and as a stock holder, they acquire the rights the corporate character. Stockholder has the following rights.

- The right to share in the corporate earnings. The owner of stock has the right to share proportionately in the corporate earnings that is distributed as a dividend to all holders of this class of stock.
- The right to vote, specifically the right to elect, by vote the members of the board of directors who in turn will represent the shareholders in determining board level corporate management policy.
- The right to transfer ownership. Stockholders have the right to sell or dispose of their shares of stock in any market that they wanted.
- The right to purchase any additional shares of stock, in the event that the corporation issues more stock of the same class. This right generally referred to as a preemptive right, entitles each shareholders to have the first opportunity to purchase, in proportion to his existing holdings, any additional shares that the corporation intends to issue, before they are offered for sale”(Hampton:1996).

2.5.1 Brokering Services in NEPSE

“Brokers have to get license from SEBO/N and Membership Certificate from NEPSE before starting their services. Under the provision of Securities Legislation, brokers have to review their License before the expiry of each fiscal year”(SEBO/N, Annual Report).

The role of broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth-investing or not. They should advice their clients by analyzing the company report and other information regarding the company, which can be affect the market and the companies concerned. Brokers are not obliged to offer advice to their clients, and even if they do, they cannot be held responsible for the quality of the information they offer. But, the quality of the information works as a main source of their goodwill and uplift the moral responsibility towards their clients.

As per the provisions requiring stockbrokers to submit their annual reports including profit and loss account, balance sheet, and cash flow statements to SEBON within three months of the expiry of the fiscal year, 41 stock brokers submitted their annual report for the fiscal year 2010/11. Similarly, eight new stock brokers have submitted their securities trading report to SEBON. The status of stock brokers report submission to SEBON is presented in table 2.2

Table: 2. 2

Submission of financial reports of F/Y 2010/11 by Stock Brokers

S.No.	Description	Number of companies submitted/ not-submitted financial reports of fiscal year 2010/11
01	Submitted	49
02	Not- Submitted	1
	Total:	50

Source: SEBO/N Annual Report 2010/11

Brokers are supposed to behave more legally and morally towards the fulfillment of the satisfaction of their clients. However, it is not the case in all and every situation. They were often intended to increase the trade volume and blamed for the stock price crash and thereby making profit by ignoring the clients' losses. The amount of commission is directly related to the amount of turnover (i.e. trading) in an investors account. This provides some temptation to recommend frequent changes in investor's holding. Such behavior may be advantageous for them in the short run.

There were some conditions and circumstances seen in the stock market when market brokers had done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with ample number of clients. For instance, there had been immediate reactions seen in the stock market against the political and legal changes.

“The number of stock brokers who have been charged with or found guilty of security exchange commission violations is frighteningly large...I believe the reason for brokerage abuse is simple. The commission sales system, which pays brokers for what they sell rather than for what they earn for their clients, is the root of the evil...the brokerage investment industry is highly regulated, yet broker abuses continue to escalate, why? Although the regulations are more than adequate, they are seldom enforced. Couple of this with the fact that brokers is constantly pressured by their house to sell, sell, sell, andit is easy to see why many forget that they are first legally and morally charged with the financial well being of their clients. The reality of the industry is that sales come first”(Edward:1991).

The first thing a prospective buyer or seller has to do is to locate a broker. In choosing a broker it is always preferable to select one who is recommended by someone who has dealt with him for some time and is satisfied with his integrity and honesty. But almost all the brokers' office is not placed in the convenient locality in Nepal.

“Because lack of confidence in their own business, brokers is not maintaining the offices to make it possible for the customers to come and contract. Brokers are undermining their business because of lack of their clear vision to perceive the relationship between brokerage business and their needed dedication and contribution of time, effort and fully energy to honor their market matching profession through the rational art, science and techniques of institutionalization”(Shrestha:2057).

Brokers are supposed to give the potential investors the adequate and the real information about the different stocks available in the market. But, in reality they have also been criticized for the use of imaginary words to persuade them to buy and sell the security as immediately as possible.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 50 stock brokers and 2 market makers, who operate on the trading floor as per the securities Ordinance 2005, rules bye-laws of the exchange.

There are many intermediaries involved in the Nepal stock Exchange for stock trading, brokers are one of them. Brokers (Appendix 1 - List of Brokers till date) play

an intermediary role on behalf of their client and receive certain commission for their service.

Beside this NEPSE has also licensed to dealer to Act in the Primary and 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 has licensed to 11 dealers (primary market) and 2 dealer (secondary market).

Brokers are the legal people who bring the perspective investors and the company together. Brokers have to get license from Securities Board of Nepal (SEBON) and member certificate from Nepal Stock Exchange (NEPSE). Under the provision of Securities Legislation, Broker has to review their license before expire of each fiscal year.

The rate of commission on equity transactions ranges from 0.70 percent to 1 percent depending on the traded amount. The rate of brokerage commission on government bonds ranges from 0.05 percent to 0.20 percent and brokerage from all other stocks which is not listed in 1 and 2. As per the rules the rate of brokerage commission rate is given in Table No. 2.3.

Table No. 2.3

Brokerage Commission

1. Brokerage for Equity

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	1
B	> 50,000 & < 5,00,000	0.9
C	> 5,00,000 & < 10,00,000	0.8
D	> 10,00,000	0.7

2. Brokerage for Government Bond

S.No.	Trading Amount	Brokerage %
A	Up to 5,00,000	0.2
B	> 5,00,000 & < 50,00,000	0.1
C	> 50,00,000	0.05

3. Brokerage for all others stocks which is not in the list 1 & 2

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.6
C	> 50,00,000	0.4

Source: <http://www.nepalstock.com/about/index.php>

NEPSE operates on the 'NEPSE Automated Trading System' (NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

2.5.2 Broker's Representative

The broker may also send the representative in the trading floor in the case of his/her being unable to present at the particular day or representative staff may help him/her on a great trading day. But the representative must appear in an examination. The

examination is taken by NEPSE where he/she must attend both written examination, and interview. Then if he/she passes the examination, NEPSE will give him/her permission to act as the representative of his/her brokering house on the trading floor.

2.6 Securities Board of Nepal (SEBO/N)

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

Under the present Act SEBO is responsible for the supervision of NEPSE, its members, disclosure requirements for listed companies, and the licensing of:

- I) Issue Manager
- II) Underwriters
- III) Portfolio Managers
- IV) Market Makers and
- V) Stock Brokers.

Under the Securities Investment Trust Act 1997, it is also responsible for the registration and supervision of investment funds.

“The securities Board was set up for the development of the securities market and to enhance the degree of investor’s protection. Securities Board (SEBO/N) realized that capital market reforms needed to be looked into broader perspective vis-a-vis the growth of the private sector. “Under the provisions of Securities Exchange Act, 1983 and Securities Exchange Regulation, 1993 AD, SEBO has been making attempt to develop an understanding with NEPSE on moving ahead in a coordinated way under which SEBO will act as an apex regulatory body and NEPSE as a frontline regulator”(SEBO/N, Annual Report).

In order to develop the securities Board as an effective regulatory body and forgo ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan. This had been implemented during the Ninth Plan period.

The strategic plan strives to attain the major policy development issues on:

- Improvement in the statutory and regulatory framework of the capital market.
- Development of market standard and information system.
- Development of widely participated capital market.

Improvement in the Securities Board institutional capacity. (SEBO/N, Annual Report).

The initial draft of the strategic plan was circulated among the policy makers, experts, Government official market operators, securities business persons, business community investors and has been improved based on available comments. This plan was approved by National Planning Commission and is being implement in the year 1998-2002 during the Ninth Plan period.

SEBO has seven members including a chairman. NEPSE should not be member of SEBO and the other hand SEBO should not be represented on the Board of Directors of NEPSE. It is also highly desirable that the government regulatory over right function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely identified with day-to-day functioning of the stock exchange, this could erode public confidence in the market failure.

At present SEBO have 34 staff in total including executives, officers, supervisory and support staff. This may not be an adequate number of staff to perform the different tasks assigned to SEBO/N such as: regulatory supervision, enforcement for the regulation and enforcement program as well as for training government regulators, self regulators and market practitioner. Income from registration of corporate securities and registration as well as renewal of the market intermediaries are the main financial sources of income of SEBO/N. In order to be a self-dependent institution it has created revolving fund from which it generated income that helps to cover part of its expenses.

2.7 Major Difficulties Faced in the Trading Procedure in NEPSE

There are many trading difficulties in NEPSE. The difficulty realized by brokers is the trading system employed in NEPSE that is order driven method. An order driven market may not have the same degree of liquidity as compared to quote driven market. The other problems are created because of the disobedience of the rules and regulations promulgated by the regulating bodies and the government. Besides, government and regulatory bodies there are also other parties involved in the trading procedure being responsible for the ineffective management of the trading of the shares.

After issuing the share of a company, the shares are traded on the secondary market. But some companies do not trade in the secondary market and have apparently become insolvent. In that case, NEPSE de-list the stocks of that company which should be approved by SEBO/N. Nearly all listed companies are majority owned by promoters. Thus corporate governance issues and the right of minority shareholders are of continuing concern.

One of the reasons for the enlistment of the companies in NEPSE is that many of the companies are listed not because they wish to be so, but because of statutory requirement of compulsory listing (the prohibition of share transaction if not listed). In NEPSE companies often list for legal or tax reasons rather than to obtain on going equity financing. There is also absence of prescribed for suspension cancellation and de-listing of shares.

Typical investors are likely either to rely solely on their brokers to be entirely on their own. Those who rely on their self-decisions usually over-invest, love to trade on the latest report or hot tip, and are unhappy when nothing is happening. Brokering house are a sources of both information and recommendations. The emphasis, however, is on recommendations because brokers earn commissions based on the amount of trading that investors do.

“Has your broker even used buzzword like...”Going to be double price’, ‘Can miss’, Have to get in now’, ‘Well both be rich’, ‘A once in a lifetime opportunity?.....Most investors make a mistake with their broker and allow him to became the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn’t produce, fire him. It’s sadly irohnic that we see so many aggressive business types who will not hesitate to fire an employee for one small mistake, and yet will allow their broker to make ten, twenty, thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problems. They not only cost you funds with bad advice, but even when they are right their dishonestly can penalize you.....if your broker is dishonest he can use your stock for months on end, even though you may have wished to sell” (Mrkvicka:1991).

The role of the broker in providing information plays significant role. Stock market, actually, is no place for amateurs but in spite of this knowledge potential investors come to invest their savings without adequate counseling and analysis of the information and data. It is mainly by their ignorance that they often feel cheated by the brokers when the time becomes too late to turn back.

2.8 Trading Procedure Followed by NEPSE

The trading of shares in the stock market affect the economic activities though the creation of liquidity. Investor's are often unwilling to surrender control of their savings for long period. Put succinctly, investor's will come if they can come. And the level of the price of the stock eventually affects this two different periods (i.e. buying price and sell price).

So, it is very obvious to conclude that the price of the stocks of different companies affect the national economy as a whole. Although the growth of the stock market is high relative to the growth of the economy, the shares of corporate sector in the national economy is still very low due to the negligible size of the corporate sector.

2.8.1 Trading System

NEPSE the only Stock Exchange in Nepal has replaced the open cry trading system with fully automated screen based trading since 24th August, 2007 under the CFG project of Government of Nepal aided by Asian Development Bank.

The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market.

According to this system, when there are two orders placed for a security in the market, the system matches the best buy order with the best sell order. An order may match partially with another order producing multiple trades.

For order matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market.

So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

2.8.2 Types of Orders

Generally four types of order can be placed in the system

Regular: An order which is completed on the exchange and that confirms the order of lot size of greater than that.

Odd- Lot: An order which is completed on the exchange and that confirms the order less than lot size.

Manual: An order which is placed by the brokers and is reported individually by the buying and selling brokers.

Block: An order which is placed by the brokers and confirms to the minimum block trade quantity specified by the exchange and is reported individually by the buying and selling brokers.

2.8.3 Trading Session

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

Table No. 2.4

Trading days and hours

Types Of Trading	Days	Trading Time
Regular Trading	Sunday to Thursday	12:00 Hours To 15:00 Hours
Odd Lot Trading	Friday	12:00 Hours To 13:00 Hours

Source: <http://www.nepalstock.com/about/index.php>

Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done. The exchange may however close the market on days other than schedule holidays or may open the market on days originally declared as holidays. The exchange may also extend, advance or reduce trading hours when it deems fit necessary.

2.8.4 Listing

Trading on the floor of NEPSE is restricted to listed corporate securities and government bonds. As on April 4, 2013, the number of listed companies are 334, which includes Commercial Banks, Hydro Power Companies, Insurance Companies and Finance Companies among others Listing and Annual Fee for share are as tabulated below:

Table No. 2.5

Listing and annual fee for share

S.No.	Issued Capital	Listing Fee	Annual Fee
1.	Up to Rs. 10 Million	0.20 % or Minimum Rs.15000	Rs. 15000
2.	Rs. 10 Million to Rs. 50 Million	0.15% or Minimum Rs 45000	Rs. 25000
3.	Rs. 50 Million to Rs 100 Million	0.10% or Minimum Rs. 75000	Rs. 35000
4.	Above Rs. 100 Million	0.075 or Minimum Rs. 100000	Rs 50000

Source: <http://www.nepalstock.com/>

2.8.5 Trading Procedure in NEPSE

Buyer and seller first be registered in this system, to do so one need to go to broker. Then the broker through Client Management service provided in the system register the interested party as a client. Without creating a client the broker will not be allowed to place order for that particular client. The broker has to insert various details of the client out of which client code is a unique code for that particular client for a particular broker. After a broker receives the order, the broker has to place order for that client on FIFO basis of the order registered by the client's in the broker's office.

2.8.5.1 Order and its Placement

Order is an expression of interest to either buy or sell a specified quantity of stock either at a specified price or at the current market price. To make any buying and selling activities of the securities in the secondary market, the investors must go through the channel of Brokers as per the Securities Exchange Act of 1983; this act

also prohibited these brokers to make transactions without getting orders from their clients.

So before an investors wants to involve in the activities of buying and selling of securities, s/he first need to register in the broker terminal as a client for which certain information and documents need to be provided to broker through which client code, unique code of the particular client for a particular broker, is generated.

After registering, in future date if a broker receives the order then the broker has to place order for that client on FIFO basis of the order registered by the client's in the broker's office. The orders can be Buy or Sell order.

Buy Order

It is the order placed by buying brokers to purchase the securities on behalf of his clients/investors. In this order, s/he has to mention clearly the name of the companies, the number of securities that s/he wants to buy and the validity of the orders. If the validity period of the order is not mentioned, it will be valid for only 15 days.

Sell Order

It is the order placed by the selling client to the broker to execute the transactions. In this order too, the client has to mention the name of the company, number of securities, prices of the securities that s/he wants to sell for and the validity period of the orders. If the validity period of the order is not mentioned, it will be valid for only 15 days.

It should be noted that all the required information either for buying or for selling of a stock should be submitted by the broker.

Generally an investor can mention the price in 3 ways in his/her orders:

Fixed-Price:

In this the investors can state the fixed price for the purchase and sell of the securities in which the brokers are not allowed to execute at higher and lower than the stated price.

Range:

In this investors can quote the price in range where they give certain liberty to his/her brokers to negotiate and execute the transactions on his/her behalf. S/he can also quote the maximum and minimum price for buying or selling shares in order to maximize gain or minimize loss because of intra-day price fluctuations.

Open Price

In this the investors don't state any price level but solely leave it to the brokers to execute the transactions at the appropriate price or the market price. In this situation, the investors must have full trust with the brokers.

2.8.5.2 Order Execution

There are three phases during which the broker can place the order to execute the transactions. Such phases are:

At the Open (ATO):

ATO indicates the order should be executed when the market opens. In order to execute the transactions at ATO the member brokers have to place the orders to

execute it at ATO. All the ATO orders will be accumulated in the system till ATO execution time and after the time reaches the ATO orders will be executed at the best price at the opening of transactions.

ATO gives the price, quantity and time priority for the execution. At the present Npse has set 11:30 A.M. to 11:55 A.M. during which brokers can place ATO orders. The engine calculates the best price and matches the order at 12:00 noon i.e. when market opens. In this case price can be quoted within the range of 5 percent of previous close price. Once the ATO phase is over price can be quoted within the range of 2 percent of LTP. ATO determines the opening price of the stock. If there is no match available for ATO orders of a stock, then the open price of the stock will be equal to the previous close price.

Continuous Trading:

This is the phase that indicates the orders should be executed while the market in progress.

At the Close (ATC):

This is the last phase that indicates the order should be executed when the market closes. The system has provided facility to generate the ATC price of a stock either by taking the average of the price of last n transactions or the average of the price of the last n minutes.

Currently Npse adopts the average of last n transactions where n equals to 1 i.e. the LTP of the stock at close is the ATC price of closing price.

2.8.5.3 Order Life

Customer can give order to retain until the specified period as below unless it is executed.

End of Day (EOD): This indicates the placed orders if not executed will be retained until end of today.

Good Till Cancel (GTC): This indicates the order if not executed should be retained until it is cancelled. The system has provided facility for exchange to set the time period in days till which the pending orders can be retained in GTC.

Nepse has adopted order driven market system. So each and every order entered should be backed by written order. In those orders the clients must specify the validity period of the orders but if they do not mention the time period the order will be valid for 15 days. In this case GTC will be 15 days.

2.8.5.4 Conditions for execution of Order

One can specify the conditions under which the order could be executed. The conditions are as below:

None:

This indicates there are no conditions for execution of orders.

Immediate or Cancel (IOC):

This condition indicates that the orders should be executed in full or part immediately if not execute immediately the unexecuted order will not be sent to Public order book but cancelled immediately by the system.

Fill or Kill (FOK):

This condition indicates the order must get executed entirely or cancelled immediately. The unexecuted order is not sent to public order book but killed (cancelled) by the immediately. Npse has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size or greater than that.

All or None (AON):

This condition indicates the order must get executed entirely and if not executed the order is sent to public order book. In this condition too, Npse has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size of greater than that.

2.8.6 Clearing and Settlement Procedures in NEPSE

Under ATS (Automated Trading System), the broker has to fill up all the required information of his/her clients within the system after the transaction takes place.

NEPSE has adopted a T+3 (after 3 days of Trading day) settlement system. Settlement will be carried out on the basis of paper versus payment.

“T”: The trading is done

“T+1”: The buying brokers have to submit bank vouchers for settlement with covering letter

“T+2”: The selling brokers must submit share certificate with covering letter

“T+3”: NEPSE prepares billing for payment and this will be forwarded to the bank

For the PAPER, T+3 settlements system is adopted.

For the PAYMENT, T+2 settlements system is adopted.

“T+5”: Once the settlement is done, the buying brokers, after consultation with the clients, must decide and present the purchased shares if they want to record it as Blank Transfer. This must be completed within T+5.

And if buying clients do not want to record for blank transfer, the shares should be forwarded for Name Transfer.

NOTE: Blank Transfer is done to sell the shares immediately (within 15 days of buying). Generally Name Transfer takes 15 days to 30 days and at times, even more than 30 days (depends on the efficiency of concerned company). Hence, Blank Transfer is done to take advantage from short-term volatility of market price.

2.8.7 After Trade Procedures of Shares

There are two types of procedures adopted by NEPSE in case of blank transfer and order transfer, which is as follows:

2.8.7.1 Blank Transfer

BT is simply a system of not sending the bought share certificate for name transfer in the company but only recording in the system of Nepse. This mechanism is mainly opted to grab the opportunity provided through the market volatility. As the Name transfer is lengthy process, those who choose to make short term investment prefer to go for BT.

But presently, brokers must complete the BT process within T+5. The transactions that executed can be recorded in different way and Nipse has considered all possible retention. The followings are the major key points to be considered.

This is related only with buy of the securities.

The buyer may decide to have market benefit either to have capital gains or to minimize the loss.

In order to do this s/he may partly send for name transfer or may register it in blank transfer.

If investors register total purchase in blank transfer then they can put share for sale at any time. But in the future date, the investors opt to go for name transfer after registering in the BT; s/he can do so by cancelling the BT and forwarding the shares to the concerned company for name transfer.

2.8.7.2 Ownership Transfer

Despite the amendments to the Company Act to reduce the allowable period for making transfer of ownership in the register of shareholders, from 30 days to 15 days, it is time consuming and take weeks or even months in actual practice. The overall registration updates are slow and manageable.

To by-pass this problems a large portion of settlements are done by blank transfer at present. The signature verification process is also slow. It begins from the buying/selling broker sending a messenger with the share certificate to the company's premises in Kathmandu office to obtain the company's verification from their records.

This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market.

The whole procedure for clearing and settlement requires lots of paper work. The highly manual based procedure often results in delay, inefficiencies and potential risks for all participants.

2.8.8 Circuit breaker in Nepse

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). Index-based Circuit Breakers or market halt system applies at 3 stages of the Nipse index movement on either way by 3%, 4% and 5%. These circuit breakers when triggered bring about a trading halt in all equities.

- 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.

2.9 Mutual Trading Procedure in NEPSE

Mutual trading is performed in NEPSE when the broker get buy and sell order of a particular share at particular price from two different clients. The mutual trading is coded with green ink marker in the board of NEPSE. If the set of brokers announce the mutual trading with little lower price of the same security, then the previous mutual trading will be replaced with the new one.

The price of the mutual trading is generally coded at the last time period, i.e. 12:50 p.m. in the floor where the market shows the trend of the particular share at that particular day. The price of the mutual trade should be placed within the range of 5%.

“The criteria of mutual trading plays vital role because the price is determined independently by only two brokers. So, it is sometimes said that the criteria or the facility to perform mutual trade should be banned. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it creates distortion in the price determined by the market forces. Such action helps in avoiding fictitious names created by several different share brokers in share transaction and also to check on the creating an illusion of rising price (Shrestha: 2056).

With the objective of making securities transactions more transparent, SEBO has made attempts to establish a system of time stamping of the orders from clients. Likewise attempts have been made to make the mutual trading more transparent.

2.10 The Level of Capital Market Disorders

There are many unfair acts being performed by different parties in the stock market which eventually force the market to be inefficient.

There unfair share market practices cover wash sales, cornering of the share market, churning, formation of pools and cartels, misuse of insider information and so on” (Shrestha:2056).

Wash sale

“A wash sale is essentially no sale at all. If a person who owns some securities sells those securities to himself, this is a wash sale. The purpose of wash sale is to create a record of a sale. This may be done to deceive someone in believing that a market price has changed”(Francis:1998).

“In wash sales, there is simply record of a sale but there is no sale of shares at all. If a man sells securities to his wife, this is a wash sale. The market makers have taken shares in the name of their family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting shares transaction at a price agreed by mutual consent of buyer and seller is allowed in share market. This is a kind of wash sale since no money needs to be involved only the commission is to be paid to the broker”.

Cornering the Market

Cornering in some security occurs when an investor buys all of a particular security that is for sale. This person then owns the only source of supply and can raise the price. The person who obtains a corner on the market of some asset may then liquidate it at a high price for a capital gain. Cornering may be defined as large acquisition of shares by individuals to create a scarcity for delivery against the existing contracts.

Market makers are also found to conduct unhealthy practice of cornering the share market in some selective scripts available for sale....being price manipulators, they obtain a corner on the share market of some selective scripts and then liquidate them at a higher price for a capital gain.

Churning

Churning can occur when a client gives the broker an authority to trade the client's account without seeking the client's approval of every trade. So, it is a very safe way for securities brokers to steal funds from their client's account while escaping detection by all but the most watchful clients. When the client buys or sells the commission is generated for brokers without regard to whether or not the client gains from the transaction. This practice is called churning because it involves 'turning over' the client's account.

“Another way how the market makers and share brokers deceive the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all.... It is the practice of turning over a client's fund for the personal benefit of brokers by frequent transaction. However, it is difficult for an

investor who has been deceived by broker to prove that churning has occurred” (Shrestha:2056).

Pool

A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there from. When this objective is attained the pool is dissolved....some of the members may provide capital, some may provide inside information, some may operate the pool's operations or all members may participate in all these functions.

Insiders Trading

Insider is one who is restricted from trading in a company's shares because he has access to price sensitive information. Insiders include officers, directors, auditors, and large shareholders. It is the sale or purchase of securities by persons who possess price sensitive information about the company on account of their fiduciary capacity. Insider transactions include also those who receive confidential price sensitive information from insiders who have access to it. Trading on the basis of insider information is prohibited because the information is not available to all market participants.

“Insider activities are growing in both volume and speed among company promoters, directors, officers other executives and technicians to influence the prices of share in the market...There has been frequent release of price sensitive information by insiders to earn speculative profits by trading on shares of such companies. Having no access to such price sensitive information. Investors in general are put into disadvantage”.

2.11 Review of Previous Thesis's

(Bhatta :1997)⁸, says “Dynamic of stock market in Nepal”. His research objectives are the follows:

- To analyze the trend of the Nepalese stock markets.
- To diagnose and compare sectoral financial status of the stocks in Nepalese stock market.
- To analyze the market share prices of the Nepalese stock marker.
- To find out the impact of the secondary on primary market and vice versa.
- To recommend for the improvement of stock market in Nepal.

- The conclusion of his study was;
- The stock market economic activities move in similar direction. They influence each other. The development of the former in reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, cad be regarded as a heart of economy.
- The investors are interested to invest their resources in the shares of corporate sector though the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurship to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key better performance of the firms. Government should launch programs o enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.
- Development of manufacturing sectors is the backbone of an economy, which in turn assists to foster banking, finance and insurance sectors. Unfortunately,

the manufacturing sector doesn't have a good perform in Nepalese economy.

Almost all firms in this sector have a sustained loss.

- The secondary aspect of the stock market is not also functioning well in Nepal.

There is almost no liquidity in the stock market except that of banking and some finance and insurance sectors.

Bhatta has analyzed the market price of the shares of 10 companies; four from manufacturing sector, one from hotel sector, two from trading sector, three from finance sector and four from banking sector for his study. Bhatta tries to analyze the trend of the market, to diagnose and compare the sectoral financial status of the stocks in Nepalese stock market. He also tries to analysis the market share price of the Nepalese stock market and to find out the impact of the secondary market on primary market and vice-versa.

Bhatta has concluded that the liquidity in the Nepalese stock market is very poor and the trading of only fifty percent of the listed stocks takes place in the stock exchange when the market is boom. The trading of stocks takes in terms of number of transactions, number of shares traded and value or shares traded are very low.

He has primary used secondary data in his study. He did not use any of the primary data for collecting tools. He tremendously used different ratios to calculate the financial status of the companies under study. He missed about brokering services for stock market in Nepal.

(Shrestha:1999)⁹, says 'Stock price behavior in Nepal'. His research objectives are the follows:

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

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and run of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange ltd. the random walk theory is not a suitable description for the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price change of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return).

Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the adolescent investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices, which establish independence of successive price changes.

(Dahal :2002)¹⁰, says “Stock Market Behavior of Listed Joint Stock Companies in Nepal”. His research objectives are the follows:

- To study and analyze stock price trend and volume of stock traded on the secondary market.
- To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal stock exchange ltd.
- To study and analyze the investors views regarding the decision on stock investment.
- To study and examine the signaling factors’ impact on stock price with the help of NEPSE index.
- To suggest the abstract to the interested parties related to stock market.

The major findings of Dahal’s study were:

- Most of the investors were asked for their performance of investment sector. Major portion of them said that they were attached with banking sectors for investment,

- On analyzing primary data it was found that the stock market in Nepal is in a developing stage as investors are not well aware about the investment process and its other factors like NEPSE index, price trend and investment facilities are not doing their work in a systematic way.
- The investors were not satisfied with their investment as they were asked whether they were satisfied or not to their investment.
- It was found that the investor's motivation for owning shares of a company is to receive the dividends from the shares.
- The investors were found interested to be elected in a company's management.
- When investors were asked if they faced any difficulties in the stock market, majority of them replied that they were facing difficulties there. Therefore it implies that there are many difficulties in the Nepal Stock Market.
- It was found that investors in the stock market take the investment decision on the basis of the market price of shares.
- It was found that rumor is the most predominant factor to determine the market price of a share.
- The efficiency of stock markets' different parties, brokers, market makers, and security exchange limited were not getting required support from these parties.
- On analyzing the price trend of two years NEPSE index in different months with the help of months of the year 2000 was in an increasing trend, while that of year 2001 is in decreasing trends. So from this trend analysis we can say there is no relationship of price trend between two successive years.
- While analyzing the rate of listing of new companies showed that an increasing trend from the year 1997 to the year 2001.

- Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend.
- On analyzing paired t-test for signaling factors with reference to major seven events it was found that signaling effects had played major role in fluctuate of the stock price.

Dahal in his study said that the major portion of the potential investors is like to invest in banking sectors. He started that Nepalese Stock market is still infancy stage and Nepalese investors are not well aware of investing process. He primarily based his study on secondary data. He also claimed that on his study the NEPSE index, price trend and investments facilitators are not doing their work systematically. The investors were found interested to get elected in company's management

Further more, he added, the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of stock market's different parties, like, brokers, market makers, security exchange limited were not found efficient by analyzing interviewers' expression as they were not getting required support from these parties.

Dahal has concluded that the investment decision is based on market price of shares volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of the stocks but not in brokerage services.

(Guragai:2002)¹¹, says “Price formation and brokering services in Nepal Stock Exchange.” His research objectives are the follows:

- To study the price formation at Nepal Stock Exchange.
- To analyze whether the price formation in Nepal stock exchange is effective or not.
- To analyze the trend of market price of the stock of the companies under study.
- To analyze the brokering services and the role of the brokers in price formation in Nepalese Stock Market.
- To provide recommendation on the basis of finding.

- The major conclusions of Mr. Guragai’s study were;
- The efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The efficiency in pricing of shares in the market can also be reduced by increasing the involvement of the related sectors in share trading activities. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of the shares.
- The effective price formation helps to create of liquidity of stocks, it provides a continuous market for securities where securities may be bought or sold at any time during business hour at comparatively small variations from the last quoted price, if the price formation is inefficient in the stock exchange,

prospective investors will find it hard to obtain securities at reasonable price, which discourage country's long-term investment, and ultimately savings will be affected in negative direction.

- The stocks should indicate the direction in which community's savings should be invested. In the market where price formation is effective, the price differences between shares represent differences in their profitability and prospects as judged by collective opinion of numerous competent operators. Thus the price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future.
- In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer bank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.
- This can be justified by very less number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have few investment alternatives rather than investing in the shares.
- The rationality of the Nepalese investors was found to be at low level. They have very little knowledge of the trading procedure and the price formation mechanism at NEPSE.

- People, in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares. So that, the rationality could be upgraded and the price formation may become more effective.

Guragai's study based on 20 companies out of 67 companies. Which are:

Table 2.6

S.No.	Sectors	No. of Companies Traded	No. of Sample Companies
1	Banking	10	3
2	Financing	27	8
3	Insurance	10	3
4	Manufacturing	10	3
5	Hotels	3	1
6	Trading	4	1
7	Others	3	1
	Total	67	20 (30%)

Guragai, in his study forced on the price formation of the stocks rather than brokering services of shares in NEPSE. His study primarily based on secondary data.

Guragai tried to find out the various aspects of price formation and brokering services in NEPSE. The selection of sample size has not been properly taken for the study and the analysis of data has been based on intuition. He had taken only 20 companies

(from the different sectors) for the research study. For the adequate result of the study, this 30% (20 Companies) of sample was quite low.

Furthermore, he added that the efficient price formation was one of the major requirements for the development of the stock market. The effective price formation helps to create liquidity of stocks. If the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at reasonable price.

The researcher found the fact that different research performed on different headings, which were directly or indirectly related to the efficiency and effectiveness of the price of the share in the security market and the price is directly related to the trading of shares and it affects the brokering services in NEPSE. The researcher tried to perform a detailed study on this topic perhaps; this might be the first Master's Thesis which deals with only brokering services in NEPSE.

End Notes

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CHAPTER – III

RESEARCH METHODOLOGY

This chapter is (has been designed and development as) a guide or plan for the fulfillment of objectives set in the first chapter. It includes research design, population and sample, nature of data, data gathering procedure and data processing procedures. This chapter guides for descriptive or empirical analysis of “Brokering Services in Nepal Stock Exchange (NEPSE)”

3.1 Research Design

This study is particularly based on the primary data. It is analytically as well as descriptively based.

3.2 Population and Sample

The universe of the brokers is taken as the sample size of the study.

3.3 Data Collection Procedure

This study fully depends upon the primary sources of data. The secondary is used for supporting primary data. Secondary data had been collected from published materials of different organizations such as: NEPSE, SEBO/N, Central Bureau of statistics, Nepal Rastra Bank etc. Some data were taken from trading reports of NEPSE. Questionnaires was distributed to brokers and individual investors to collect their opinion and views. The informal discussion and interviews were also performed to collect the views from different sources.

3.4 Data Processing Procedure

The uses of statistical tools, such as percentage analysis, range are used to analyze the primary data.

3.5 Analyses and Presentation of Data

The collected data are presented in tabular form and interpreted accordingly. Detailed calculations are presented in appendices.

3.6 Analytical Tools

On the basis of primary data collected from questionnaires and informal discussion with different investors, brokers and staff as well as officers of NEPSE and SEBO/N, statistical tools were used to perform the detail analysis as required by the study.

3.6.1 Statistical Tools

3.6.1.1 Percentage Analysis

The percentage analysis is done to compare the two or more data for general information. It is used as a method to divide the options of the related sectors into two or more sectors.

3.6.1.2 Range

Range is calculated to describe the distance of the data acquired from a source. The higher range describe that the response is highly scattered while the lower range describe that there is unity between the responses regarding that question.

3.6.1.3 Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations.

The arithmetic mean is denoted by (\bar{X}). It is computed as:

$$\text{Arithmetic Mean} = \frac{\sum fx}{N}$$

3.6.1.4 Median

Median divides the whole observations into two halves. One half comprising all the values greater and the second half comprising all the values smaller than median.

Median is denoted by Md. The formula used for computing the median is an under.

$$\text{Md} = \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item}$$

3.6.1.5 Chi-Square Test

Among many methods of testing hypothesis, chi-square popularly known as non-parametric test is used. It is very helpful when it is not possible to make the dependable assumptions about the parent population from which the sample is drawn.

Chi-square is denoted by (χ^2). This test does not require any assumption about the parameter. For testing chi-square, the total number of items must be as large as 50 and the expected frequency of any item or cell must not be less than 5. If it is less than 5, the frequencies of adjacent item or cells should be pooled together in order to make it 5 or more than 5. Chi-square test is broadly used as a test of goodness of fit and as a test of independence of attributes. In this study chi-square is used to test the independence of the responses found from different sectors.

The procedures followed to perform the chi-square test are described as under:

- a) The first stage is to set the null and alternative hypothesis. Null hypothesis, which is denoted by H_0 . H_0 , is set to suggest that there is no association between two attributes i.e. respondent sectors and the response where as alternative hypothesis which is denoted by H_1 , is set to suggest that there is association between the sectors and responses.
- b) The second stage is to make the contingency table for testing the independence of the responses in regards to the sectors. The rows of the table occupy the responses, whereas the column will occupy the respondent sectors. Then the expected cell,

Frequencies under H_0 are calculated by using the relation as under:

Expected frequency of a cell of i^{th} row and j^{th} column

$$= \frac{\text{Row total} \times \text{Column}}{\text{Total number of Observations}}$$

The third stage is to compute the test statistic under H_0 . This is computed as:

$$\chi^2 = \sum \frac{(O-E)^2}{E}$$

The fourth stage is to write down the tabulated value of chi-square at a certain level of significance, which is assumed to be of 5% in the calculation for $(r-1) \times (c-1)$ for degrees of freedom.

The fifth stage is to make the decision. If the computed value of chi-square is less than the tabulated value, H_0 is accepted at the level of significance 5%. If the computed value of chi-square is greater than its tabulated value, H_0 is rejected.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the relevant data and information had been taken from the distribution of Questionnaire and personal interview from the related sectors under this study, investor and brokers were taken as the sources to gather the relevant information by distributing the questionnaires. Appropriate statistical tools had been used to perform the analysis, which is described in the research methodology chapter.

Total of 135 questionnaires were distributed to investors and brokers. Among them 115 questionnaires were distributed to investors and 20 questionnaires to brokers. 61 questionnaires were returned (i.e. 47 from investor and 14 from brokers) and 74 questionnaires could not be collected (i.e. 68 from investor and 6 from brokers)

(See Appendix: 2)

4.1 Analysis of Primary Data

Number of years involved in investment in shares:

The first question was asked specially to the investors to know the general information of how long he/she was involved with the share investing activities in security market of Nepal. Forty-seven investors responded this question. From the acquired data it was known that the investors involving year was different. Eight investors were involved for six years. One investor however was involved for twenty years. The average year of involvement per investors was 5.6 years.

(See Appendix: 3)

Purpose of investment in shares:

The second question was asked specially to the investors to know the general ideas of investor's purpose to buy the shares. There were four options, which were: capital gain, dividend, social status and use of excess money. Forty-five investors responded the answer and two investors chose for the capital gain, twelve (i.e. 26.67 percent) investors for dividend gain, five (i.e. 11.11 percent) investors for social status and ten (i.e. 22.22 percent) investors chose for use of excess money. From the acquired data it was known that the highest percentage (i.e. 40.00 percent) of investor's purpose was to make capital gain and the lowest percentage (i.e. 11.11 percent) of investor's purpose was to make social status in society.

(See Appendix: 4)

Number of invested companies:

The third question was asked particularly to the investors to know the general information about number of company's shares per investor in the security market in Nepal. Forty-seven investors responded this question. From the collected data, it was known that one investor owns approximately 5 company's share on the average in the Nepalese security market. The range of the companies was 14.

(See Appendix: 5)

Investment sectors:

The fourth question was related to investment sectors of investors in Nepalese securities market. In this question, forty-five investors, responded and two investors did not respond the question. Among forty-five investors, twenty-five banking sector, eleven trading sector, nine manufacturing and processing sector and none of them

chose other sectors. It was found that the highest percentages (i.e. 55.56 percent) of investors were like to invest in banking sectors and lowest percentage (i.e. 20.00 percent) of investors were likes to invest in manufacturing and processing sector.

(See Appendix: 6)

Brokerage services:

The fifth question was asked particularly to investors to know what types of services they were presently getting from the brokers. Forty- five investors responded this question and two investors did not respond to this question. Among them 29 (64.44 percent) responded that they were getting only trading services from brokers, while 16 (35.56 percent) responded that they were getting only trading and information services.

(See Appendix: 7)

Satisfaction level on brokerage services:

The next question was asked to both investors and brokers to know the performance satisfaction level of brokering services in NEPSE. Forty- five investors and thirteen brokers responded but two investors and one broker did not respond this question. Among the investors, 18 (i.e. 40.00 percent) of investors were satisfied and 27 (i.e. 60.00 percent) investors were not satisfied with the performance of brokering services. 13 brokers of were satisfied with the performance of brokering services.

(See Appendix: 8)

Flow of information from listed companies:

The next question was asked to know if the listed companies were providing the information related to their performance and future planning. Forty- seven investors and thirteen brokers responded to this question. Among the investors, 14 (i.e. 29.78 percent) responded positively while 33 (i.e. 70.22 percent) responded “NO”. Among the brokers, 4 (i.e. 30.78 percent) responded “YES”, while 9 (i.e. 69.22 percent) responded “NO”.

(See Appendix: 9)

Preference of share transfer methods:

The eight questions were asked to both investors and brokers to know the attitude of their share transfer methods. Forty-five investors and thirteen brokers responded but two investors and one broker did not respond to the question. Among the investors, 6 (i.e. 13.33 percent) investors preferred blank transfer while only 3 (i.e. 23.08 percent) brokers preferred ownership transfer. Likewise, 39 (i.e. 86.67 percent) investors preferred ownership transfer while 10 (i.e. 76.92 percent) brokers preferred blank transfer.

(See Appendix: 10)

Adequacy and reliability of information:

The tenth question was asked to measure the extent to which investors get reliable and adequate information provided by brokers regarding the transaction of shares in NEPSE. The medians were calculated independently of these different sectors to measure the level of responses.

Forty-one investors and eleven brokers responded this question. The medians of investors were found very low and were getting very low reliable and adequate of the information from brokers in transaction of shares in NEPSE. While the broker's median found to be moderately and they claimed that they were providing moderately reliable and adequate information to investors regarding the transaction of share in NEPSE.

(See Appendix: 11)

Mutual trading as stock market disorder:

The eleven question was related to measure the extent to which different sectors think that the manual trading was responsible for stock market disorder. The medians was calculated independently of these different sectors to measure the level of responses. Forty- two investors and twelve brokers responded to this question. The medians were found to be high and low in regard to the mutual trading as stock market disorder, as responded by the two respondent sectors. i.e. investors and brokers respectively.

(See Appendix: 13)

Level of responsibilities of brokers in different stock market disorders:

The twelfth question was asked to measure the extent to which different sectors think brokers as responsible for stock market disorders. Such as: wash sale, cornering the market, inside trading, churning, pool and mutual trading. The medians were calculated independently of these different sectors to measure the level of responses. This question was responded by forty-seven investors and twelve brokers. The medians were found to be very high, and moderate in regard to the responsibility of

brokers in different stock market disorders, as responded by the two responded sectors i.e. investors and brokers respectively.

(See Appendix: 15)

The last question was asked to the two sectors to share their suggestions and comments. Their suggestions and comments were considered for future improvement of brokering services of NEPSE. Five investors and three brokers responded this question. Their suggestions and comments were presented below on their own words.

4.2 Testing of Hypothesis

The chi-square test was performed to test whether the attributes or characteristics (responses, in this case) manifest themselves independently or some related inner. For testing the independence of two attributes the contingency table of two rows and five columns had been formulated. The row frequency included the level of response while the column included the sectors. The responses of different sectors were put in the cell frequencies while the totals of the frequencies in each of the rows and columns were put in the marginal frequencies.

Adequacy and reliability of information provided by brokers to the investors:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, thus null hypothesis (Ho) was accepted. So, we may conclude that there is no significant difference between the responses given by two sectors as far as the adequacy and reliability of information provided by brokers to investors regarding the transactions of shares in NEPSE was concerned.

(See Appendix: 12)

Mutual trading as stock market disorder:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so null hypothesis (Ho) was accepted. So, we may conclude that there was no significant between the responses given by two sectors as far as mutual trading as stock market disorder was concerned.

(See Appendix: 14)

Level of responsibilities of brokers in different stock market disorders:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so null hypothesis (Ho) was accepted. So, we may conclude that there was no significant difference between the responses given by two sectors so far as the level of responsibilities of brokers in different stock market disorders was concerned.

(See Appendix: 16)

4.3 Suggestions and Comments from Investors

Investors said that the flow of financial information from the listed companies was especially at a very poor level. Investors said the activities and services of brokers were not enough in NEPSE regarding the distribution of information and data. That is why mainly the lack of information was hampering the efficiency in the stock market.

The time span to complete a share trading was too long in actual situation. Transfer of shares takes too much of time and it increase the inefficiently of brokers. So the concerned sectors should take necessary action to correct these inconveniencies in share transaction.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study was conducted to analyze the brokering serves in NEPSE. Questionnaires were distributed to investors and broker to acquire the information relevant to the study problem. The information was then analyzed by using different statistical tools as described in the Research Mythology. The major findings of the present study are briefly summarized as follows:

- It was found from the data acquired from the questionnaire that years of investor's involvement shares investing activities were found 5.6 years which is regarded as a short period.
- The purpose of investment of the investors in securities market were found to be 40.00 percent for capital gain, 26.67 percent for dividend, 11.11 percent for social status and 22.22 percent for use of excess money.
- It was found from the data acquired from the questionnaire that out of 14 companies, the number of companies per investor is 5 companies.
- Investor's investment sectors were found 55.56 percent in the banking sectors, 24.44 percent in the trading and 20 percent in manufacturing and processing sector.
- In comparison to the wide array of services investors are getting from broker in many developing and developed countries. Nepalese investors are getting mostly trading services only (64.44 percent), while few (35.56 percent) are getting both trading and information services.

- Forty percent of the total investors were satisfied and sixty percent of the total investors were not satisfied with the performance of brokering services of NEPSE. While the entire broker were satisfied with the performance of brokering services of NEPSE.
- 29.78 percent of the total investors responded that they are satisfied with the information they are presently receiving from the listed companies, while 70.22 percent remain not satisfied. While 30.78 percent of brokers were satisfied and 69.22 percent of brokers were not satisfied with the performance of brokering services of NEPSE.
- Investors were mostly found to prefer ownership transfer (86.67 percent of total investors) and blank transfer were found only 13.33 percent of total investors. So, it showed that investors were mostly of speculative nature and they get involved in trading of shares for capital appreciation rather than dividend appreciation in Nepalese Securities Market. But the trading of shares in NEPSE was very less and only 5 to 17 listed companies' shares were traded in the NEPSE during the observation period. It can be said that investors are investing in the shares as long-term investment rather than for short period.
- The involvement of investors in the securities trading and investment were found to be 6.49 years. It is regarded as very short period. So, the market cannot be regarded as matured.
- It was found from the data collected from the questionnaire that the median value of investors is very low. Investors themselves said that they are getting very low level of reliable and adequate information from brokers regarding the transaction of shares in the securities market. So, brokers should think at this point to serve their clients by providing a wide array of services related to the

share trading activities. The Chi-square test showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of reliable and adequate information are getting / providing from brokers regarding the transaction of shares in NEPSE.

- The mutual trading was found to be high and low. This is responsible for stock market disorders. So, it should be restricted to create highly competitive environment in the stock market. The Chi-square test also showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of mutual trading in stock market disorder.
- Brokers were found to be less responsible as compared to investors in different types of stock market disorders, such as: wash sale, cornering the market, inside trading, churning, pool and mutual trading as responded by two sectors. The Chi-square test also showed that there was no significant difference between the views of two sectors in regards to the level of responsibility of different types of stock market disorders. Such as: Wash sale, cornering the market, inside trading, churning, pool and mutual trading.

5.2 Conclusions

The effective price setting of the shares is one of the major requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilities in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of the shares.

The effective brokering service helps to increase the transaction and thereby create liquidity of stocks. It would also help to create the efficiency in the price of the shares. If there are shortages in the brokering services, it will not help to create the effective price of the share in the stock exchange and the prospective investors will find it hard to obtain securities at reasonable price, which discourage country's long-term investment, and ultimately saving will be affected in negative direction.

In Nepal, the dynamism of stock market has been reduced by the domination of shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

This can be justified by number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investor has very few investment alternatives rather than investing in the shares. The rationality of the Nepalese Investors was found to be at low level. They have very knowledge of the trading procedure and the price setting mechanism at NEPSE.

People, in Nepal, simply invest in shares because they have very little alternatives for investment. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel more responsible to provide sufficient and

reliable information about investment in shares, though they are doing right now. So, that the rationality could be upgraded and the price setting may become effective.

5.3 Recommendations

The following recommendations are made to the different sectors to brokering services in NEPSE.

The pace of economic development should be accelerated in order to have its positive impact on the stock market development.

- Beside, the investors who live out of valley could not complain their grievances to the concerned authorities because of the span of time and distance. It is believed that one third of the share investors live out of Kathmandu valley. So, NEPSE should increase its information dissemination activities to meet the expectations of investors of different parts of the country so that the involvement of the investors out of the Kathmandu valley could be increased.
- The listed companies should fulfill their liabilities of providing the financial status of the companies timely and comprehensively and they should hold the Annual General Meeting regularly.
- Brokers should help regularly bodies to perform their activities by providing the financial statements and other required information on time regularly. They should strictly obey the rules and regulations made for them to help the regulatory bodies in creating the price formation in security market.
- Brokers should open their offices in the place easily accessible to the present and potential investors as it was seen during the observation period that almost all of the brokerage offices are not opened in accessible place. They should

also focus in other activities apart from trading the shares in NEPSE. Such services includes, information dissemination about the listed companies to the investors, providing margin-trading facilities to the small investors etc.

- The stock market lacks the existence of rational investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional.
- The size of the market is pitifully small in Nepal because of small size of the corporate sector in the economy. The shares of the corporate sectors is also negligible compared to total investment in the country as a whole because of the negligible size of corporate sector, so government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy.
- The level of knowledge of the Nepalese investor was found very low. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- The brokers should also provide reliable and adequate information regarding the transaction and other aspects so that maximum number of investor could participate in investing into stocks.
- The brokers should perform their activities within the limitation of the rules and regulations. They should provide right and authentic information about all the companies to help investors chose the share of particular company that

best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefit.

- The brokers should act as an important and responsible sector for the development of the securities market and should strictly avoid involving themselves into stock market disorders.
- The concerned authorities should take very strict action to those responsible for creation of stock market disorders.

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WEBSITES

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<http://www.sebonp.com/>

<http://www.sharemarket.com/>

QUESTIONNAIRE

I am Deepak Raj Chataut, student of Master of Business Studies (MBS) at Nepal Commerce Campus, Faculty of Management, Tribhuvan University. I am conducting a in the topic **A Study on Brokering Service in Nepal Stock Exchange (NEPSE)** in partial fulfillment of the requirement of the Degree of Master of Business Studies (MBS). So, I would like to request you to answer the following questions related to my study topic help me to get the research objectives. I assure that your response will be kept strictly confidential.

1. How long have you been involved with the share investing activities? Please specify the number of years.

- Since the last years.

2. For which purpose do you buy the share? Please tick in the box.

For capital gain

For dividend gain

For social status

For use of excess money

3. How many company's share do you have presently own?

Companies

4. In which of the following sectors do you want to invest in share?

Banking sector

- Trading sector
- Manufacturing and processing sector
- Others please specify the sector.....

5. What types of service are you presently getting from the brokers?

- Trading services only.
- Information service only.
- Trading and information service.
- Others, please specify.....

6. Are you satisfied with the performance of brokering services of NEPSE?

- Yes
- No

7. Do you think that the listed companies are sufficiently providing the information related to their performance and future planning?

- Yes
- No

8. Which transfer do you prefer while buying the share and why?

- Blank transfer
- Ownership transfer

9. To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares of NEPSE?

5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

10. To what extent do you think that mutual trading is responsible in stock market disorder?

5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

11. To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

12. Do you have any Comments/suggestions about Brokering services of Nepal Stock Market?

For Investor

Name:.....
Occupation.....
Signature:.....
Date:.....

For Broker

Name:.....
Code No.....
Signature:.....
Date:.....

Thank you:

APPENDIX 2

LIST OF THE QUESTIONNAIRE DISTTRIBUTED AND COLLECTED

Description	Investors	Brokers	Total
No. of Questionnaire distributed to	115	20	135
Questionnaire returned	47	14	61
Questionnaire not returned	68	6	74

Q. No.	No. of Questions Answer by Investors	No. of Questions Answered by Brokers	Total
1	45	5	
2	45	7	
3	47	3	
4	45	4	
5	45	3	
6	45	13	
7	47	13	
8	45	13	
9	47	14	
10	41	11	
11	42	12	
12	45	12	
13	5	3	

APPENDIX 3

Question No: 1

How long have you been involved with the share investing activities?

No. Of years Involved (X)	No. Of Investors (F)	FX
1	2	2
2	3	6
3	5	15
4	6	24
5	7	35
6	8	48
7	6	42
8	2	16
9	2	18
10	1	10
11	2	22
14	1	14
Total	45	252

Average involvement in years = $\Sigma FX/N = 5.6$ years

The average involvement in year is 5.6 per Investor.

APPENDIX 4

Question No: 2

For which purpose do you buy the share?

- For capital gain
- For dividend gain
- For social status
- For excess money

Response	Answered by Investors	Percentage
For capital gain	18	40.00
For dividend gain	12	26.67
For social status	5	11.11
For use of excess money	10	22.22
Total	45	100

APPENDIX 5

Question No: 3

How many Company's share do you have presently own?

No. Of company's owned by Investor (X)	No Of Investors (F)	FX
1	6	6
2	9	18
3	7	35
4	5	20
5	8	40
6	2	12
7	4	28
8	1	8
10	2	20
12	1	12
14	1	14
15	1	15
Total	47	228

Average no. of shares per Investor = $\Sigma FX/N = 4.85$

Average number of companies shares per investors = 4.85 companies.

Range of shares = Highest no of companies shares- lowest no of companies.

= 15-1

= 14 companies.

APPENDIX 6

Question No: 4

In which of the following sectors do you want to invest in share?

- Banking sector
- Trading sector
- Manufacturing and processing sector
- Others please specify the sector.....

Response	No. Of Investor	Percentage (%)
Banking sector	25	55.56
Trading sector	11	24.44
Manufacturing and processing sector	9	20.00
Others	0	0
Total	45	100

APPENDIX 7

Question No: 5

What types of services are you presently getting from the brokers?

- Trading services only. Information service only.
 Trading and information service. Others, please

specify.....

Response	No. Of Investors	Percentage (%)
Trading services only	29	64.44
Information service only.	-	-
Trading and information service	16	35.56
Others	-	-
Total	45	100

APPENDIX 8

Question No: 6

Are you satisfied with the performance of brokering services of NEPSE?

Yes

No

Response	No. Of Investor	Percentage (%)	No. Of Brokers	Percentage (%)
Yes	18	40.00	13	100
No	27	60.00	-	-
Total	45	100	13	100

APPENDIX 9

Question No: 7

Do you think that the listed companies are sufficiently providing the information related to their performance and future planning?

Yes

No

Response	No. Of Investor	Percentage (%)	No. Of Brokers	Percentage (%)
Yes	14	29.78	4	30.78
No	33	70.22	9	69.22
Total	47	100	13	100

APPENDIX 10

Question No: 8

Which transfer do you prefer while buying the share and why?

Blank transfer

Ownership transfer

Response	No. Of Investors	Percentage (%)	No. Of Brokers	Percentage (%)
Blank transfer	6	13.33	10	76.92
Ownership transfer	39	86.67	3	23.08
Total	45	100	13	100

APPENDIX 11

Question No: 9

To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares in NEPSE?

5 Very highly 4 Highly 3 Moderately 2 Low 1 Very

Investor				Broker			
Original Table		Amended Table		Original Table		Amended Table	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Low	14	Very High	5	Very High	5
High	6	Very High	9	High	4	High	4
Moderate	5	Very Low	7	Moderate	2	Moderate	2
Low	14	High	6	Low	0	Very Low	0
Very Low	7	Moderate	5	Very Low	0	Low	0
Total	41		41		11		11

low

n= no of observation, 5

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left(\frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

INVESTOR: Since median value of investor is very low, Investors consider that they are getting very low information from broker regarding the transaction of share in NEPSE.

BROKER: Since median value of broker is high, it is known that the brokers consider that investors are moderately getting adequate and reliable information from brokers regarding the transaction of shares in NEPSE.

APPENDIX 12

Question No: 9

To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares in NEPSE?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	6	5	14	7	41
Brokers	5	4	2	0	0	11
Column Total	14	10	7	14	7	52

H_0 : There is no significant difference between option of investors and brokers so far as adequacy and reliability of the information provided by brokers.

H_1 : There is significant difference between option of investors and brokers so far as adequacy and reliability of the information provided by brokers.

Computation of expected frequencies under H_0 and Chi-square

R,C	(O)	$E(RT \times CT)/n$	(O-E)	(O-E) ²	$(O-E)^2/E$
1,1	9	11.038462	-2.038462	4.155324	0.376441
1,2	6	7.884615	-1.884615	3.551775	0.450469
1,3	5	5.519231	-0.519231	0.269600	0.048847
1,4	14	11.038462	2.961538	8.770707	0.794559
1,5	7	5.519230	1.480769	2.192678	0.397279
2,1	5	2.961538	2.038462	4.155325	1.403097
2,2	4	2.115385	1.884615	3.551775	1.679021
2,3	2	1.480769	0.519231	0.269601	0.182068
2,4	0	2.961538	-2.961538	8.770710	2.961539
2,5	0	1.480769	-1.480769	2.192678	1.480770
Total	52				8.77409

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 8.77409$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488.

Since the computed value of Chi-square is less than its tabulated value at 5% level of significant for 4 d.f. H_0 is accepted, i.e. we may conclude that the response given by two sectors are almost same.

APPENDIX 13

Question no: 10

To what extent do you think that mutual trading is responsible in stock market disorder?

5 Very highly 4 Highly 3 Moderately 2 Low 1 Very low

Investor				Broker			
Original Table		Amended Table		Original Table		Amended	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Very Low	13	Very High	0	Very Low	6
High	11	High	11	High	0	Low	4
Moderate	5	Very High	9	Moderate	2	Moderate	2
Low	7	Low	7	Low	4	High	0
Very Low	13	Moderate	5	Very low	6	Very high	0
Total	45		45		12		12

n= no of observation, 5

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left(\frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

INVESTOR: Since median value of investor is high, it is known that investors consider mutual trading as highly responsible in stock market disorder.

BROKER: Since median value of broker is low, it is known that the brokers consider mutual trading as lower responsible in stock market disorder.

APPENDIX 14

Question no: 10

To what extend do you think that mutual trading is responsible in stock market disorder?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investor	6	7	11	5	13	42
Broker	5	1	3	2	1	12
Column Total	11	8	14	7	14	54

H_0 : There is no significant difference between option of investor and brokers so far as mutual trading as a stock market disorder.

H_1 : There is significant difference between option of investor and brokers so far as mutual trading as a stock market disorder.

Computation of expected frequencies under H_0 and Chi-square

R,C	(O)	E(RT x CT)/n	(O-E)	(O-E) ²	(O-E) ² /E
1,1	6	8.555556	-2.555556	6.530864	0.763348
1,2	7	6.222222	0.777778	0.604938	0.097222
1,3	11	10.888889	0.111111	0.012346	0.001134
1,4	5	5.444444	-0.444444	0.197531	0.036281
1,5	13	10.888889	2.111111	4.456790	0.409297
2,1	5	2.444444	2.555556	6.530864	2.671717
2,2	1	1.777778	-0.777778	0.604938	0.340278
2,3	3	3.111111	-0.111111	0.012346	0.003968
2,4	2	1.555556	0.444444	0.197531	0.1269841
2,5	1	3.111111	-2.111111	4.456790	1.4325398
Total	54				5.8827688

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 5.8827688$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488

Since the computed value of Chi-square is less than its tabulated value at 5% level of significant for 4 d.f. H_0 is accepted i.e. we may conclude that the response given by two sector are almost same.

APPENDIX 15

Question No: 11

To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

5 Very highly 4 Highly 3 Moderately 2 Low 1 Very low
 n = no of observation, 5

Investor				Broker			
Original Table		Amended Table		Original Table		Amended	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Very Low	13	Very High	0	Very Low	6
High	11	High	11	High	0	Low	4
Moderate	5	Very High	9	Moderate	2	Moderate	2
Low	7	Low	7	Low	4	High	0
Very Low	13	Moderate	5	Very Low	6	Very High	0
Total	45		45		12		12

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left(\frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left(\frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

INVESTOR: Since median value of investor is very high, it is known that the investors consider broker to be very highly responsible for different stock market disorders.

BROKER: Since median value of broker is moderate, it is known that the brokers consider themselves to be moderately responsible for different stock market disorders.

APPENDIX 16

Question No: 11

To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	11	5	7	13	45
Brokers	0	0	2	4	6	12
Column Total	9	11	7	11	19	57

H_0 : There is no significant different between option of investor and brokers so far as the role of brokers in different types of stock market disorder such as : Ware sale, Cornering, Insider trading, Churning, Pool and mutual trading.

H_1 : The option given by two sectors are significantly different.

Computation of expected frequencies under H_0 and Chi-square

R,C	(O)	E (RT x CT)/n	(O-E)	(O-E) ²	(O-E) ² /E
1,1	9	7.105263	1.894737	3.590028	0.505263
1,2	11	8.674212	2.315789	5.362881	0.618256
1,3	5	5.526316	-0.526316	0.270083	0.050125
1,4	7	8.684212	-1.684212	2.836565	0.326635
1,5	13	15	-2	4	0.266667
2,1	0	1.894737	-1.894737	3.579002	1.894737
2,2	0	2.315789	-2.315789	5.362881	2.317899
2,3	2	1.473684	0.526316	0.277008	0.187970
2,4	4	2.315789	1.684212	2.836565	1.224880
2,5	6	4	2	4	1
Total	57				8.392432

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 8.392432$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488

Since the computed value of Chi-square is less than its tabulated value at 5 % level of significant for 4 d.f. H_0 is accepted i.e. we may conclude that the response given by two sectors are almost same.

APPENDIX 1

Licensed broker members of NEPSE

S. No	Firm Name	Code	Remarks
1	Kumari Securities Pvt. Limited	1	
2	Kumari Securities Pvt. Limited	1_RWS	
3	Arun Securities Pvt. Limited	3	
4	Opal Securities Investment Pvt. Limited	4	
5	Market Securities Exchange Company Pvt. Limited	5	
6	Agrawal Securities Pvt. Limited	6	
7	Agrawal Securities Pvt. Limited	6_RWS	
8	J.F. Securities Company Pvt. Limited	7	
9	J.F. Securities Company Pvt. Limited	7_RWS	
10	Ashutosh Brokerage & Securities Pvt. Limited	8	
11	Pragyan Securities Pvt. Limited	10	
12	Pragyan Securities Pvt. Limited	10_RWS	
13	Malla & Malla Stock Broking Company Pvt. Limited	11	
14	Thrive Brokerage House Pvt. Limited *	13	* Formerly:- Annapurna Securities Service Private Limited
15	Thrive Brokerage House Pvt. Limited *	13_RWS	* Formerly:- Annapurna Securities Service Private Limited
16	Nepal Stock House Pvt. Limited	14	
17	Nepal Stock House Pvt. Limited	14_RWS	
18	Primo Securities Pvt. Limited	16	
19	ABC Securities Pvt. Limited**	17	** Formerly:- Khandelwal Securities Pvt. Ltd.
20	Sagarmatha Securities Pvt. Limited	18	
21	Nepal Investment & Securities Trading Pvt. Limited	19	
22	Nepal Investment & Securities Trading Pvt. Limited	19_RWS	
23	Sipla Securities Pvt. Limited	20	
24	Midas Stock Broking Company Pvt. Limited	21	
25	Siprabi Securities Pvt. Limited	22	
26	Siprabi Securities Pvt. Limited	22_RWS	
27	Sweta Securities Pvt. Limited	25	
28	Asian Securities Pvt. Limited	26	

29	Shree Krishna Securities Limited	28	
30	Trishul Securities And Investment Limited	29	
31	Trishul Securities And Investment Limited	29_RWS	
32	Premier Securites Company Limited	32	
33	Premier Securites Company Limited	32_RWS	
34	Dakshinkali Investment and Securities Pvt. Ltd.	33	
35	Vision Securities Pvt. Ltd.	34	
36	Kohinoor Investment and Securites Pvt. Ltd.	35	
37	Secured Securities Ltd.	36	
38	Swarnalaxmi Securities Pvt. Ltd.	37	
39	Dipshikha Dhitopatra Karobar Co. Pvt. Ltd.	38	
40	Sumeru Securities Pvt. Ltd.	39	
41	Creative Securities Pvt. Ltd.	40	
42	Linch Stock Market Ltd.	41	
43	Sani Securities Co. Ltd.	42	
44	South Asian Bulls Pvt. Ltd.	43	
45	Dynamic Money Managers Securities Pvt. Ltd.	44	
46	Imperial Securities Co. Pvt. Ltd.	45	
47	Kalika Securities Pvt. Ltd.	46	
48	Neev Securities Pvt. Ltd.	47	
49	Trishakti Securities Public Limited	48	
50	Online Securities Pvt. Ltd.	49	
51	Crystal Kanchanjungha Securities Pvt. Ltd.	50	
52	Oxford Securities Pvt. Ltd.	51	
53	Sundhara Securities Ltd.	52	
54	Sri Hari Securities Pvt. Ltd.	56	
55	Investment Management Nepal Pvt. Ltd.	53	
56	Sewa Securities Pvt. Ltd.	54	
57	Bhrikuti Stock Broking Co. Pvt. Ltd.	55	
58	Araya Tara Investment And Securities Pvt. Ltd.	57	
59	Naasa Securities Co. Ltd.	58	
60	Deevyaa Securities & Stock House Pvt. Ltd	59	

Source: <http://www.nepalstock.com/members/brokers.php>