

# **CHAPTER -1**

## **INTRODUCTION**

### **1.1 Background of the Study**

#### **1.1.1 Introduction to Commodity Market**

Commodity market refers to physical or virtual transactions of buying and selling involving raw or primary commodities. A soft commodity generally refers to commodities harvested as products like wheat coffee, cocoa, sugar, corn, wheat & soybean in the commodity market. Hard commodities usually refer to commodities that are extracted such as (gold, rubber, oil). While commodities may be grouped for regulation purposes etc., in large classes such as energy, agricultural including livestock, precious metals, industrial metals, other commodity markets, these are broken down into about a hundred primary commodities (soybean oil, recycled steel). Investors access about 50 major commodity markets worldwide uses growing numbers of exchanges with virtual transactions increasingly replacing physical trades (Wikipedia, 2013).

A financial derivative in the commodity market is a financial instrument whose value is derived from a commodity as item or underlying asset. Derivatives' trading employs various techniques to increase profit and manage risk. Derivatives in the commodity market are assets that are either exchange-traded derivatives or Over-The-Counter (OTC) derivatives. With the increased diversity and complexity of commodities derivatives, new international institutions have emerged, such as clearing houses some with Central Counterparty Clearing, which provide clearing and settlement services on a futures exchange, as well as off-exchange in the over-the-counter (OTC) market (Wikipedia, 2013).

Derivatives in the form of the futures contracts are the oldest and most direct way of investing in commodities. Commodity market derivatives are securitized by physical assets or commodities. Commodity markets can include direct physical trading and derivatives trading in the form of spot prices, forwards, futures and options on futures. Farmers have used a simple form of derivative trading in the commodity market for centuries for price risk management. In the basic agricultural futures contracts a farmer (the future seller) agrees with a counterparty, a future buyer to sell a set number of units of corn to a broker for a fixed

future date at an agreed upon quality and price and point of delivery. If the price of corn drops the farmer is protected from losses thereby reducing risk. If the price rises the farmer loses potential profit. Derivatives' trading employs various techniques to increase profit and manage risk through hedging (Wikipedia, 2013).

### **1.1.2 Commodity Market in Nepal**

At present, investment scenario in Nepal is not as heartening and productive as expected. With stock market touching new lows and real estate being hampered by high interest rates and government caps on mortgage loans, the next promising investment option could be investing in commodities as it is one of the mostly used and preferred investment options to diversify the portfolio globally. Commodity exchange facilitates a market where one can enter and exit anytime during trading hours. There are options of cash settlement or having the physical delivery of those traded products. One can withdraw the profit on the same trading day with no delays in the payment unlike others. The investors have the option to define their risk exposure according to their tolerance for risk. Another advantage of commodity market is the fact that in this market one can benefit from both rising and falling prices even if they don't hold any physical products. And above all this is automated too and follows the internationally accustomed standards and parameters which eventually develop a concrete system for Nepalese investors to manage their investment portfolio through commodities trading.

After almost one and half century from the date of initiation of commodity market in global era of business from Chicago, Nepal adopted this emerging global concept of e-business as the world has already witnessed the unavoidable impact of commodity markets in the global economy. Dynamism of Commodity market compelled Nepalese entrepreneurs to cope with the pace of technological and economical change going all over the world as Nepal found its first initiation of commodity exchange in 2006. Somehow, people were in a way to get familiarize with this global business while Mercantile Exchange Nepal (2007/9) changed the overall scenario of commodity market of Nepal by facilitating state-of-art technology, globally tested and accepted standards and excellent service which indeed created huge amount of faith in between Nepalese people for this untraditional market. Future Exchanges were in pipeline to follow the same trend and get established in this market when Nepal Spot Exchange Limited introduced itself as a Nepal's first online commodity spot exchange which

was more concerned and determined to develop an organized electronic trading platform for local domestic products targeting to benefit the real producer, farmers and consumers by decreasing intermediary cost and increasing the value of product. Establishing spot exchange in Nepal was more challenging than futures as there were numerous obstacles in the way but considering the situation of Nepalese traditional market structure and value of local products Nepal Spot Exchange came across those challenges and showed some rays of hope as it identified possibility of development of spot market in Nepal for couple of agro-products and metals. Nepal Spot Exchange, from the very beginning was clearly involved itself in introducing the every possible products in most efficient way for the sustainable growth of this market as well as the nation and people living here. Today many exchanges are getting established in Nepalese commodity market, some as spot and some as futures, on the other hand such invaluable global market is still waiting to be regulated.

### **1.1.3 Introduction to Mercantile Exchange Nepal Ltd.**

Mercantile Exchange Nepal Ltd. (MEX) is nation's one of the premier commodity exchange which has introduced Automated Trading System (ATS) in commodity trading for the first time in the history of Nepalese Commodity Market. Considered as leading commodity exchange, MEX was established on August 14, 2007 as a public limited company and started its operations from January 5, 2009. MEX is managed and driven by team of experienced professionals in this particular field combining solid business and technical expertise, profound knowledge of market which has indeed made the MEX management superlative.

MEX has been established in Nepalese commodity market to assist merchandisers, producers, food processors, livestock operators, importers; businessmen and general public alike to participate in commodities trading whose price fluctuates frequently, thus futures market protects traders from the probable risk of loss and provides a better investment opportunity by managing risk and helps in earning profit.

MEX provides the state-of-art electronic commodity trading platform that facilitates online trading and clearing & settlement operations for commodity trading across the country, offering 17 commodities for trading and more than 30 contracts of commodities to choose from any time across precious metals, base metals, energies products, agro products etc.

MEX has affiliation with different national and international associations which enables to attain greater heights in its constant endeavor for information sharing to expand the business

horizon. MEX is the first ISO 9001:2008 certified commodity exchange, which is also affiliated with South Asian Federation of Exchanges (SAFE) under the affiliate membership and the only exchange to have Full Membership of Association of Futures Markets (AFM), Buenos Aires, Argentina. MEX Nepal has also taken the commodity market in Nepal to a very new level by signing MOU with Chicago Mercantile Exchange (CME) for the international information sharing between MEX Nepal and CME Group, which shows that MEX's services and parameters are equal to the global standards.

## **1.2 Statement of the Problem**

Agreed by all, Commodity market holds high potential as one diversified investment opportunity for all especially for developing economies which can largely help in developing a stable economy for the nation. Commodity exchanges are the means of connecting this investment opportunity to the general public of nation. Nepal, being agriculture based country and not having any systematic platform for organized trading of its produces, seems to require an organized commodity market to develop fair and binding trading practices for local produces with standardized contracts. It is also one great source of generating higher financial and substantial liquidity in the market which is the need of Nepalese time.

Having said all of these, Nepalese commodity exchanges equally possess many difficulties to come across to a whole new level as described in theories. These various challenges need to be understood and taken into consideration with great care as the industry is in very beginning phase. Views and suggestions regarding the challenges of Nepalese commodity market from a sample group of industry participants should be accessed to understand the major challenges present at the moment.

The research questions of the study are mentioned below:

- ) What are the current challenges of Nepalese Commodity Exchanges?
- ) What strategies are applied by the Exchange in present conditions?

## **1.3 Objectives of the Study**

The research objective of this study will be to examine the ways of overcoming marketing challenges of commodity exchanges (ref-MEX) in the country. For this purpose, the study

will analyze the present scenario of commodity market in Nepal and then focus on the problems it has been facing till the date. The objectives of this study will be reached by conducting an empirical research with a semi-structured questionnaire asking responses from Marketing Manager of Mercantile Exchange Nepal and also by analyzing the literature that had earlier attempted to address these topics.

. The objectives are explained so far as:

- i. To identify the prospects of Mercantile Exchange Nepal limited in current trend.
- ii. To interpret the marketing strategies followed by Mercantile Exchange Nepal.

#### **1.4 Significance of the Study**

When the existing literatures were gone through, the marketing challenges of commodity exchange in Nepal were stereotypically limited to the financial analysis and negative influence on general investors with prevailing practices. This has not yet seen to get more of the attention by the researchers. Therefore, the motive of this study will be to evaluate the existing challenges of Nepalese commodity market and find out the possible solutions to those problems from the perspective of Nepal's leading commodity exchange, Mercantile Exchange Nepal Ltd.

#### **1.5 Limitations of the Study**

The major limitations of the study can be pointed out as follows:

- a) As this qualitative type of researches need a lot of time for the desired output, doing these studies in limited time frame becomes a bit difficult, therefore, time constraint stands as a limitation to go into the depth of the subject matter.
- b) As said earlier, there is a dearth of literature for Nepalese context; therefore there are very few and slightly related literatures which could actually be referred to for the review.
- c) Inclusion of all aspects of the Marketing would be more than difficult to get the desired result; therefore challenges of Marketing from overall perspective at present are taken into consideration for the study.
- d) Managers of the departments and other employees from Mercantile Exchange will be interviewed with the semi-structured questionnaires to make the responses inclusive.

## **1.6 Organization of the Study**

This study will be divided into five chapters as follows:

### **Chapter 1: Introduction**

This chapter deals with the subject matter consisting general background of the study, statement of the problems, objective of the study, significance of the study, limitations of the study and the organization of the study

### **Chapter 2: Review of Literature**

This chapter concerns with the review of literature that are done from the various sources such as books, newspapers, journals, websites, master degree thesis etc related with marketing of commodity exchange.

### **Chapter 3: Research Methodology**

This chapter describes the research methodology adopted in carrying out the present research. It consists of research design, sources of data, population and sample, statistical tools and other tools.

### **Chapter 4: Presentation and Analysis of Data**

This chapter is the main part of the study which fulfills the objectives of the study by presenting data and analyzing them with the help of various statistical tools as per methodology.

### **Chapter 5: Summary, Conclusion and Recommendation**

This chapter includes the major findings and conclusion of the study. This chapter deals with the summary and conclusion of the study and gives recommendations for understanding the challenges of commodity exchange and finding the solutions.

## **CHAPTER – 2**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Review**

##### **2.1.1 Developments on Global Commodities Markets**

Fundamentals, including unexpected changes in global economic conditions linked to the strong growth in demand of emerging market economies have played a key role in driving developments on commodity markets. Other factors that have also played a role are supply shortfalls and monetary policy, and in recent years, various ad hoc policy interventions. Export restrictions, border measures, and shifts in storage policies had an impact on food prices in the run up to the 2008 food price crisis. Increased use of agricultural land for the production of renewable energy has strengthened the link between developments in agricultural and energy prices. Price movements have also been exacerbated by various structural problems in the supply and distribution chains of different commodities. Each commodity market functions differently depending on the nature of the commodity, the needs of traders and historical developments. There is no single model for the organization of commodity markets and hence of how prices evolve. Some commodity trading exhibits a high degree of standardization, while on other markets the way in which trades are done may change according to the particular needs of individual market participants. Derivative markets based on commodities have existed for a long time and play a role in the hedging of exposures of both producers and users of various commodities. Just as the underlying commodities can be traded in different ways, derivatives can be traded on a bilateral basis, generally called over the counter or OTC, or using organized exchanges. Additionally, the role of financial institutions as well as the importance of derivatives is very different from one market to another. The following sections examine specific developments on the markets for energy and agricultural commodities and the increasing interdependence of commodities and related financial markets. (Brussels, 2011)

### **2.1.2 Challenges of Commodity Trading in Modern Age**

The marketing of financial services is a unique and highly specialized branch of marketing. The practice of advertising, promoting, and selling financial products and services is in many ways far more complex than the selling of consumer packaged goods, automobiles, electronics, or other forms of goods or services. The environment in which financial services are marketed is becoming more competitive, making the task of marketing financial services increasingly challenging and specialized. Financial services marketers are challenged every day by the unique characteristics of the products they market. For example, often financial services cannot be visually communicated in advertisements as easily as consumer goods can. Furthermore, the relatively unexciting nature of financial services makes the task of attracting consumer attention and inspiring consumer desire a difficult one. However, the study of financial services marketing is in many ways far more fascinating than other areas of marketing. There are many predictable behaviors that consumers often exhibit in their dealings with financial services providers. The predictability of these behaviors and the abundance of data on existing and potential customers enable a uniquely scientific approach to developing and executing successful strategies for the marketing of financial services, much more so than in other markets.

The commodity trading universe is now based on a modern, open, well regulated network of commodity exchanges across all time zones. Primary producers and end users can trade commodities within agreed and well defined regulations and using standardized contracts and dispute mechanisms. With the result that today it is much easier to smoothly trade across the range of commodities from gold to rice and from crude oil to aluminum and sugar (Davies, 2009a).

Consider that a few commodities like crude oil and coffee have been traded for a very long time in mature markets, but now we see early 21st century markets innovating with different types of futures contracts being introduced. Among these more colorful types of commodity are carbon in the form of emission permits. With the rising anxiety about the serious environmental damage from climate change caused by greenhouse gases, a fast growing market has mushroomed in emissions permits, a form of activity known as carbon trading (Davies, 2009b).

For the foreseeable future it is likely we will see continual growth of markets which place a price on the environment, with further development in emissions, plastics and perhaps even

water. The basis of commodity trading activity is the buying and selling of futures contracts for a whole range of commodities. While the nickel or cocoa producer will use commodity futures contracts to hedge their future sales, commercial end users will also use these contracts for hedging against sudden spikes in prices (Davies, 2009c).

The main actors in the commodity markets are the speculators who trade futures contracts for profit and their activity brings liquidity, while commodity end users and producers play a smaller role. In essence a futures contract allows a trader to sell or buy a specified quantity of a particular commodity at an agreed future date, where price is subject to the forces of supply and demand when the contract is made (Davies, 2009d).

Global commodity markets now see traders being more active using electronic trading platforms which are open 24 hours as the traditional open outcry on exchange floors fall away in overall terms. We now see the volumes of electronic trading increasing and many exchanges have merged to consolidate their platforms and achieve synergy (Davies, 2009e).

Small retail speculators are now able to commit small amounts of capital to these global commodity markets due to ease of online access and use of real time data and online trading software availability. Some traders will prefer to focus on fundamentals like demand and supply of basic commodities to decide when to trade, while others tend to follow the price action of a commodity irrespective of sector, on the basis that technical analysis suggests it is offering significant opportunities for making profits (Davies, 2009f).

The BRIC economies refer to China, Brazil, India and Russia and these emerging countries look set to continue growing over the long term and with them the growth in regional commodity markets should continue. In the Middle East we see how Dubai is rapidly emerging as an important financial centre, where one can trade WTI light, sweet crude oil, gold and silver, steel, plastics and Indian Rupee at Dubai Gold and Commodities Exchange. In China, Dalian Commodity Exchange has plans to expand beyond its traditional area of agriculture commodities and move into industrial metals and other areas (Davies, 2009g).

The global credit crunch has had a profound impact on the world economy with growth being cut sharply and this has had knock-on effect on commodity prices and demand, with major companies and some economies being hit badly, yet as an asset class commodities seem unimpaired. If we look beyond the short term problems, the world economy will still need the major commodities like crude oil, iron ore, aluminum, and copper, as well as softs like sugar,

cocoa and coffee, and the grains like soybean and rice. So looking ahead commodity markets will recover and the environment for commodity trading will be such that it will continue to be at the heart of world finance' (Davies, 2009h).

### **Indian Context**

Commodity derivatives have achieved one of the fastest growth rates, probably the highest among any other developmental initiatives undertaken either in agricultural sector or in financial sector of a developing economy like India. But certainly this achievement is not just erecting a castle in air. Reasons are deep-rooted. Indian traders have century old experiences in trading commodity derivatives. Permitting commodity exchanges to set up an anonymous electronic trading platform accessible across the nation has given all the required mileage for commodity trading to scale new heights. Compared to the 130 years old stock market, the commodity market is in its nascent stage. It is very much in consensus that by the advent of commodity derivatives trading, a silent revolution is building up in the economy. Though trading volumes in this new market is gradually catching up that in the stock market, yet commodity exchanges are facing challenges that need to be addressed now. There are certain set of challenges where commodity exchanges require regulatory amendments to make this market vibrant and some other set of challenges, where commodity exchanges have to take up the initiatives (Ravikumar, 2011).

### **Amendment in FCRA Act**

According to the FCRA Act (1952) definition of goods is confined to whatever is deliverable. Due to this stringent definition, commodity exchanges are unable to deliver two important products:

### **Weather derivatives**

They will provide hedge on volumetric risk to the farmers who are exposed to the vagaries of monsoon and other climatic disturbances. Farm insurance, though seen in some pockets of the country is still not all-pervasive and weather derivatives could fill in this lacuna for the farmers.

## Trading on index

It will give small investors a diversified investment option that can be easily tracked with an overall knowledge of the commodity market. FCRA Act even does not allow trading of commodity options. Unlike options, futures are not able to give the upside price advantage to an investor, but act as a good tool for hedging and covering up downward risk. This constraint is a big challenge for a derivative exchange, as lot of investors, especially farmers, are reluctant to enter this market due to the unavailability of options.

## Amendment in Banking Regulations Act

According to the Banking Regulations Act, banks are not allowed to trade in the commodity derivatives. But contradictorily, banks have a big role to play in the development of the commodity market. As they have exposure to agriculture, they would be better off in case they were able to hedge their positions. Since banks have a strong rural reach and financial expertise, they can become aggregators and take an aggregative position on behalf of farmers.

## Issues on Warehouse Receipts

Currently, WR is not an instrument, against which banks lend comfortably. There are number of risks associated with it. Some of them are like fraud WR, credit risk with the warehouse owner, financial strength of the warehouse, quality of the warehouse and of course the credibility of the goods valuation. Closely analyzing the problem, NCDEX in particular has taken some initiatives to bring banks closer to the farmer in the field of structured finance. Farmers can get finance through a pledged dematerialized warehouse receipt of an accredited warehouse of the Exchange. This instrument is pledged by borrowers against the loan. Since they sell forward the underlying on the Exchange's platform, the value of the collateral is fixed in a futuristic perspective, which mitigates the default risk for the banks. This value addition can boost up agri-lending, thereby strengthening the agricultural development process. At the same time, it will mean a better business for the banks too which are lending around Rs 9000 Cr. as lending against commodities. The potential can be seen to be in the region of at least Rs 150,000 cr. But there are certain issues which need to be resolved. If dematerialized WRs issued by the commodity exchanges are recognized by the Depository Act, it will give credibility to the receipt and will provide an ease for banks to lend against

WRs. At the same time, WR should be allowed to become negotiable under the Negotiable Instrument Act.

Mutual Funds and FIIs are to be allowed to trade on commodity exchanges

For commodity markets to pick up, retail participation is essential as this has been the experiences of most western countries which have witnessed a boom in such business. The commodity derivatives market is still distant for retail investors who have neither the knowledge nor the ability to take such decisions in the commodity space. Unlike the financial derivatives market, one can enter the commodity derivatives market with a much lower investment, since margins are lower in the range of 5-10% compared to around 30% in the securities markets. But this highly leveraged market still remains out of the purview of the retail investor due to certain institutional reasons. A break can be achieved here in case mutual funds are allowed to participate in these markets by structuring commodity funds for retail investors. At the same time this financial instrument can stir up the awareness among the masses and become an excellent asset class and hedging tool in a retail portfolio. Unlike the stock market, commodity market has not yet gotten the exposure it deserves. This has led general investors away from the market. Tracking commodity prices is not just a balance sheet analysis or a company specific study. Global factors and rather macro factors play a much important role into it. That demands domain expertise in commodities, market dynamics and price forecasting. In this case, commodity mutual funds, equipped with qualified analysts and fund managers will undertake value investing and boost up the reliability for the retail investors. There is a strong conviction among mutual funds that there is need to move into commodities to diversify their portfolio and deliver better returns to investors. The exchange is also pursuing with the authorities to allow mutual funds to diversify into commodities so as to provide them with larger options. This particular avenue is believed to bring in revolutionary changes in the commodity market.

The presence of foreign funds in the securities market has been found to have a high correlation with the interest as well as activity in equity segment. A similar picture is expected to be replicated in the commodity market in case regulation permits the entry of foreign portfolio investors into this market. Foreign Institutional Investors (FIIs) parking their corpus in Indian commodity markets will certainly increase their depth and increase the liquidity in the system. Currently, Indian economy is being tracked very closely by all foreign

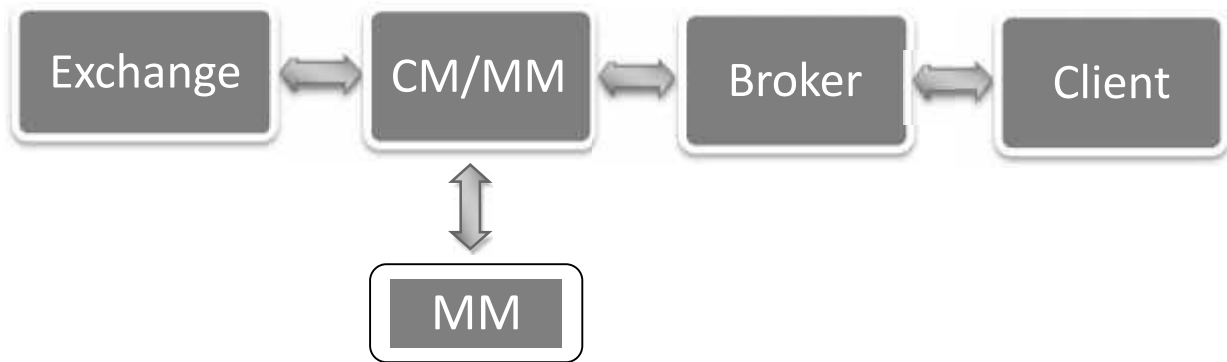
investors. Indian capital market is one of the highest recipients of emerging market funds. But unfortunately none of them are allowed to pump in funds in commodity market. This is rather the best time to open the market and make it a benchmark in the commodity market across the globe.

Yet the other set of challenges in front of the exchanges are creating awareness and information dissemination. While volumes are important for commodity exchanges, what is probably more critical is awareness. There is need for exchanges to keep relentlessly pursuing an awareness creation strategy. Awareness at the grassroots will be essential to materialize and sustain the success it is foreseeing. Information dissemination still stands to be a major challenge in front of a commodity exchange. Disseminating market discovered prices to the farmer level calls for a mammoth structural framework and massive investments. Over here, all options need to be explored from IT-enabled facilities such as display boards and ticker boards to manual information spread where such facilities are not available (Ravikumar, 2011).

### **2.1.3 Business Model of MEX**

With the rapidly-evolving Nepalese commodity market and the existing market challenges lying ahead in terms of regulation, MEX has its Business Model based on pure order matching system with brand new console made with the latest cutting edge technology that enables price discovery for local deliverable products. This is known fact today that investment scenario and opportunities in Nepal are limited. Meanwhile investment in commodities market has been appeared as an attractive and productive opportunity for Nepalese investors offering huge opportunities and enabling you to diversity portfolio. In almost more than half decade long Commodity trading history of Nepal, it has undergone various phases of developments in its pattern and mechanism. In order to upgrade the trading practices and expand the horizon of Nepalese commodity market, Mercantile Exchange Nepal Ltd. has once again brought an innovative business model in this industry. The new model follows the practice of clearing and settlement module of globally accredited Exchanges like CME and MCX; and also suitable to Nepalese scenario.

### 2.1.4 MEX Market Structure



### 2.1.5 Trading Mechanism

Exchange shall provide the reference price to the MMs for the listed products. MMs can choose competitive spread and can show their intentions of Buy and Sell quantity for different contracts; however the spread shall be within the maximum limit permitted by the Exchange. MMs must show their intentions of both buy and sell quotes, which will be available to all the clients and matching will be done based on Price-Time-Priority via Automated Trading System (ATS).

#### For example

If any client named A takes a BUY market order for any product then his/her order will be executed at the best price among and offered by number of market makers, let's say the quote is matched with MM4 at Rs. 11 under Price-Time-Priority system which means quotes put by MM4 is the best ask price and offered earliest to the client. Buy order will be open for client A and Sell for MM4 at the same time & price and both parties can close the position anytime during trading hours. If MM4 wants to close the position, then he will get the best available price at market by other market makers and it makes no difference in client's open order as his order will be continued with new MM. The calculation & adjustment of daily P/L will be done on MTM basis.

## 2.1.6 Market Participants

### Exchange (EX)

A commodity exchange is bound by the rules and bye-laws and also by the law of land. The main role of an Exchange is to provide an efficient trading platform with global standards and binding principles and administrative services to its market participants and members. Exchange supervises, observes and has surveillance over the market activities and ensures the smooth and fair operation of trade. It appoints Clearing Members and Market Makers. The other role of an Exchange is to look after the concerned grievances unsolved at Clearing Member's level. Exchange will have a very efficient dispute resolution system in place, with conciliation and arbitration in place for timely settlement of any trade related issues.

### Clearing Member (CM)

Clearing Member (CM) is the registered institution with financial requirement as prescribed by the Exchange which does the clearing and settlement of all the trades of their respective clients along with other administrative works like providing margin leverage, customizing transactional fees, client registration, introducing brokers and sub-brokers, margin call updates, fund transfer, offline support etc. They earn mainly from the transactional fees from their clients and can charge customizable commissions to their clients based on the market competition and services they provide. They also act as a Market Maker while clearing the given trades which means they can enjoy multiple benefits than any other entity. They can appoint other Market Makers, Brokers, Sub-Brokers and also introduce Clients. However, Market Makers will have to have an agreement with the Exchange, fulfilling the prerequisites. The major benefits of a Clearing Member are as follows:

- ) Transactional Fee: Each client and MM trading under a particular CM pays transactional fee to their respective CM and they can also customize the commission chargeable.
- ) Closing Fee: As CM acts as a MM by default; those MMs will be charged comparatively less closing fee than independent MMs.
- ) Empowered Status: CM in new module has highly empowered role and distinct status with the availability of valuable authorities like customizing the contracts & margin, registering clients & brokers, grievance handling responsibilities, view access, accounts maintenance, trade surveillance etc.

- )] Admission and Renewal Fee: CM can charge competitive Admission and Renewal fees to its broker and sub-broker which can be a source of revenue for CM.
- )] Market Maker's benefits: As CM acts as a MM too, all the benefits of MM will be their benefits too.
- )] Networking: CM can expand their networks all over the country by registering the endless number of Brokers and Clients and they can also target the existing members of the industry.

### Market Maker (MM)

Market Maker is any individual or institution, independent or appointed by CM, registered with the Exchange who quotes Bid and Ask prices for various contracts simultaneously by which the market depth is created and the best prices are generated to execute the orders initiated by the clients. They also trade for profit making but their orders get executed and matched when their quotes are available for Best ASK/BID and if clients take market order or other market makers close their open positions or clients' limit/stop orders reach to the level of Best ASK/BID price. However they also can close their open position any time during trading session. The major benefits of Market Maker are as follows:

- )] Market making benefits: Market Makers can benefit largely from competitive selection of quotes as well as proper risk management techniques. They can profit by doing Market Making for positions of other market makers and clients available in the market.
- )] Spread Benefit: Market Makers are allowed to use given range of spread to quote the prices, which results in good spread benefit if orders are executed at their price and can settle any of their open position quite often and when required.
- )] Competitive advantage: The more competitive prices MM quote more are the chances of getting their orders executed. They can deal with the huge number of trading crowd under Price-Time Priority principle.
- )] No need of Marketing: MM can flow the quotes for all the traders without any concern to which Clearing Member they belong to. Moreover, CMs along with the brokers will be responsible for the overall marketing and expanding client base.
- )] Greater Liquidity: Frequent quotes, trades, execution and settlement provide greater liquidity in the market.
- )] Lower Margin requirement to show the trade intention: Market makers need to have very minimum required deposit to show the trade intention unless the quotes are executed.

- ) Transparency leading to greater credibility: Under this model, all quotes are flown to the market and cleared & settled by the market itself which leads to complete transparency in trade. Because of competitive nature of order matching mechanism, clients will be getting the actual or closest quotes to trade and moreover they can also view the entire market depth too.
- ) Margin Release facilities: As MMs are quoting bid and ask prices simultaneously; in case of execution of both buy and sell quotes, the initial margin goes free for the particular quantities which allows MMs to increase their trade lots.
- ) Risk Transfer among MMs: As there will be many market makers in the trade; one MM can even transfer his open positions to other MMs by closing its open positions for the risk mitigation. In the absence of any MM to take the transferred position, Clearing House will take the ultimate liability.

#### Broker

A Broker is any individual or institution registered with CM who bridges clients with CM and Exchange and keeps their clients updated and informed about any of their concerns regarding trading opportunities, administrative works, grievances handling, trade notifications etc. They mainly introduce clients and sub-brokers and supervise and suggest for trading activities of their respective clients for which they ask/bargain for the share of transactional fee paid by clients with their CM.

#### Client

Clients are the actual traders i.e. speculators or hedgers in the market, trading for risk mitigation arises from price volatility or profit-making from price volatility itself. They trade with the help of their broker/sub-broker and get registered with CM or they can directly trade under any CM.

#### Banking Partners

Exchange designates banks for its financial transactions under which every associated entity or individual needs to maintain different types of accounts as per the requirement. Currently MEX has Laxmi Bank Limited and Bank of Kathmandu Limited as designated banks and association with other banks is also under consideration.

#### Designated Warehouse

Exchange also designates warehouses at different locations for facilitating physical delivery in possible products. Currently MEX has one warehouse vendor at Kavre for the delivery of Potatoes.

Designated Software Vendor

The trading software is developed by designated software vendor which is AMI No. One Holdings Pvt. Ltd.

### **2.1.7 Marketing Challenges of MEX Nepal**

Alike every other organization commodity exchanges have to consider marketing as one primary aspect to succeed in today's competitive business world. As a new concept in Nepalese financial market and more having no regulatory body to control and manage this market, it has been going through lots of challenges to establish itself as a promising industry in Nepal. In this past 5 years, it has faced various issues and developments in different sectors. Most of the concerned bodies and analysts are aware of great potential of commodity market to the national economy and its international success but still are not satisfied and convinced with how commodity market is being operated in Nepal. Basically there are three kinds of investors in Commodity market:

- ) Hedgers
- ) Speculators
- ) Arbitrageurs

So far, Nepal has witnessed speculation in Contract For Difference model (CFD) as commodity trading following the central counter party and clearing modality which has made the perception in the market that commodity is only about speculation the prices of internationally traded commodities or securities. Many have commented it as a kind of sophisticated gambling with no any entertainment. One can trade in commodity and exit with two basic options:

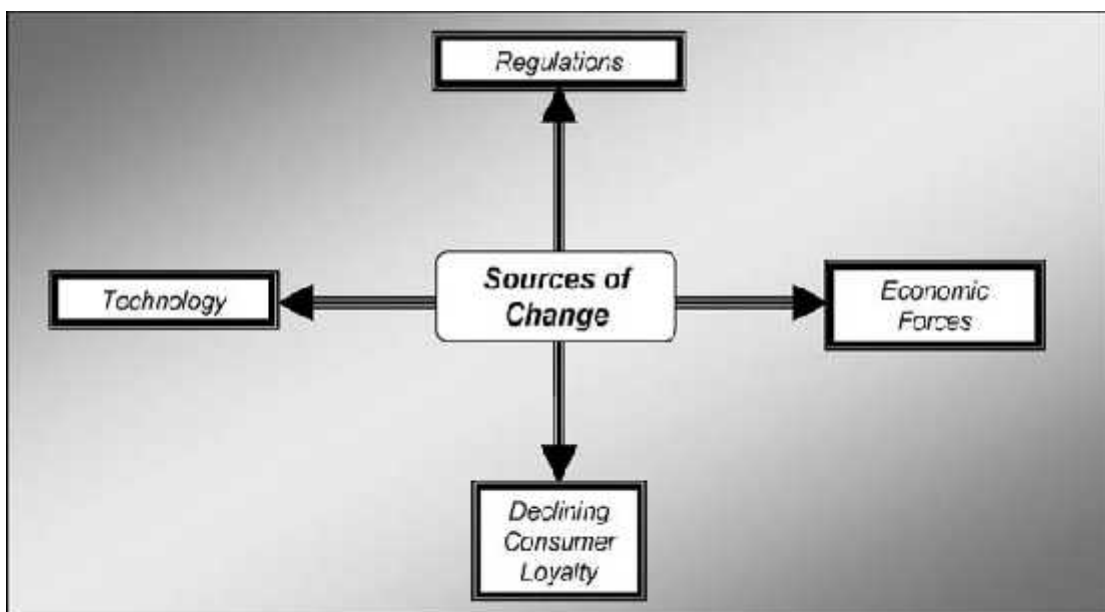
- ) Cash Settlement
- ) Physical Delivery

As speculation is in the practice in Nepal, people are trading randomly just to earn cash benefits in futures market where as in a proper system there should be facility of opting for physical delivery of that traded products if they don't want to continue their trade further which ensures physical ownership at least.

Basically commodity exchanges in Nepal have following marketing challenges ahead:

- ) Mushrooming of new commodity exchanges and level of competition
- ) Delayed regulation, Regulatory standards and resources available
- ) Poor financial literacy among investors
- ) Unaware market participants: clients, brokers etc
- ) Transparency issues and piled up unsolved complaints
- ) Accounting system and access on trading accounts
- ) Unrecognized products as trading/clearing software in the market
- ) Improper price competition on various aspects among market participants
- ) Varied channel distribution and hierarchy
- ) Destroyed image in public and media of current practices
- ) Improper management of information and database
- ) Discontented existing market participants
- ) Allegations raised in media
- ) Pricing of commodities issues
- ) Widely variable commission distribution structure etc.

### 2.1.8 Sources of Change in Financial Services Markets



(Fordham, 2012)

### **2.1.9 Challenges in Pricing Financial Services**

Financial services prices are unique in several ways. The unique aspects of price in financial services are important to recognize when developing marketing strategies and analyzing consumers' decision dynamics. Some of these unique aspects are listed below:

**Financial Services Prices are Often Multi-Dimensional:** One of the most notable characteristics of financial services prices is that they are complex and often consist of multiple numeric attributes. For example, an automobile lease is often communicated in terms of the combination of a monthly payment, number of payments, a down payment, the final balloon payment, wear-and-tear penalties, and mileage charges for driving over the allowed number of miles. Therefore, unlike the sticker price for the cash purchase of a car, which is a single number, the lease price consists of many different numbers. As a result, to evaluate an offered lease accurately, the consumer will have to conduct considerable amounts of arithmetic. To calculate the total dollar layout for an automobile lease, for example, the monthly payments and the number of payments have to be multiplied and added to the down payment. The complex numeric nature of financial services prices and the requirement of a minimal number of numeric computations make financial services prices among the most complex items that consumers have to evaluate in their purchase decisions. Research has established that conducting arithmetic tasks associated with the evaluation of a financial service price can be highly stressful, and consumers have a tendency to simplify such tasks by finding mental short-cut strategies that would allow them to avoid carrying out the demanding arithmetic. These simplification strategies may result in poor consumer decisions.

**Elusive Measures of Quality:** A second challenge in the pricing of financial services is the elusive and intangible nature of the quality of a financial service. In contrast to manufactured goods, which can be scientifically tested in laboratories and are often rated by well-established third party organizations such as Consumer Reports, J.D. Power and Associates, and the Insurance Institute for Highway Safety, the quality of financial services is far more difficult to determine. Objective levels of service quality as determined for example by the likelihood that a mutual fund will have good returns, the transaction processing accuracy and efficiency of a commercial bank, and the ability of a tax accountant to secure the highest possible tax returns, are difficult to assess. The fact that these measures of quality are difficult if not impossible to quantify often forces consumers to examine other pieces of information,

in particular price, as an indicator of service quality.<sup>3</sup> Therefore, while a high price may discourage some consumers from purchasing a financial service, it may also serve as a positive signal for others and may increase their desire to use the service.

**Economic Forces:** The pricing of financial services is further complicated by the fact that the attractiveness of a financial service may be affected by the general economic environment. For example, in order to appreciate the value of an investment option a consumer must compare the expected rate of return with the rates of return experienced in the financial markets. A change in the prime rate or U.S. Treasury rates might make an investment option look more or less attractive to the consumer. As a result, financial services providers need to take relevant economic indicators such as interest rates and stock market returns into account when setting prices for specific financial products and services.

**Poor Consumer Price Knowledge:** The pricing of financial services needs to take into account the fact that consumer memory for financial services prices is quite weak.<sup>4</sup> The unexciting and complicated nature of financial services often results in poor recall of the prices of financial services. For example, many consumers have a difficult time remembering the cost of their banking services, such as the monthly maintenance fees for checking account services and ATM transaction charges, or what yearly premiums they are paying for their automobile insurance. As a result, the general level of price knowledge with which consumers interact with financial services providers might be quite limited.

**Difficulty in Determining Customer Profitability:** An additional challenge presented in the pricing of financial services is that the profitability associated with a given customer may be difficult to assess. This is because a single customer may purchase multiple services from a financial services provider, some of which are highly profitable and others that represent losses. For example, a bank customer might use the bank's checking and savings account services, which may not be highly profitable to the bank. However, she may also conduct her investment and retirement planning, which are typically higher margin services, at the same bank. Therefore, while certain transactions with this customer may be perceived to be unprofitable, other transactions may compensate for this shortfall making the individual a highly valuable customer to the bank overall.

**Indeterminable Costs:** Determining the costs associated with a specific financial product or service might be a numerically challenging task given the fact that various elements of a financial services organization contribute to the service experience that is delivered to the

customer. The limited ability to pinpoint costs accurately can therefore complicate the task of pricing a financial service.

**Conflicts of Interest:** The pricing of financial services is further complicated by the significant conflicts of interest that may exist in the selling process. For example, brokers may use different components of price, such as trading fees or commissions earned on the sale of specific financial products, as the means for their earnings. Therefore, the link between price and the incentive mechanism used to compensate the broker might influence the types of products that the broker would be inclined to recommend to the client. The expected broker behavior would be to recommend products with a price structure that provides her with higher commission earnings. This further complicates the pricing decision by introducing issues of trust and ethics to the already complex pricing process.

#### **2.1.10 Success Factors in Financial Services Advertising**

Several factors influence successful advertising in financial services. In this section, we will discuss some of these factors. In assessing the quality of an advertising campaign, one may use the factors outlined below as a checklist to diagnose potential areas for improvement.

**Having a Unique Selling Proposition:** A fundamental requirement for advertising financial services is to possess a unique selling proposition. A unique selling proposition reflects the one attribute that a financial services provider must possess that makes it uniquely superior to its competitors. Not possessing a unique selling proposition implies that there is no basis for differentiation between one's offering and other choices that the consumer might have. In financial services advertising, identifying the unique selling proposition is even more critical than in other contexts because the amount of time that a consumer will commit to paying attention to an advertisement is generally limited to a few seconds, and the products being advertised are often quite complex. As a result, the advertiser must make the unique selling proposition a fundamental feature of the ad's execution objectives.

For example, GEICO features cost savings as a consistent unique selling proposition throughout most of its advertising campaigns. The typical GEICO ad would feature the unique selling proposition of GEICO by stating that a simple call to GEICO could result in significant savings on car insurance premiums. Metropolitan Life on the other hand, focuses on the payout behavior of the company's insurance product as its unique selling proposition.

Similarly, Allstate Insurance's unique selling proposition is the integrity and accessibility of its agents. Not having a unique selling proposition makes the task of producing convincing advertising campaigns a challenging and often expensive one. It is therefore essential that financial services advertisers expend sufficient effort in understanding the underlying attributes and unique benefits of the financial products and services for which they're advertising.

**Target Marketing:** Successful financial services advertising requires that the financial services being promoted are relevant to the targeted groups of consumers. While this is true of all advertising, it is especially true in financial services marketing since consumer needs in financial services significantly vary from one consumer to the next. Furthermore, the abundant availability of data on consumers and access to segmentation tools make accurate target marketing possible. However, a mismatch between the financial service being advertised and the target audience could result in a complete loss of advertising effectiveness. For example, selling homeowners insurance policies to college students most of whom may not yet own homes, promoting high-end investment products to low-income families, and advertising a home warranty product to renters would be highly ineffective uses of advertising dollars driven by a total lack of appreciation for the needs of the ad's target audience. In contrast, advertisements selling term life insurance policies to new parents and automobile insurance to drivers whose policies are about to expire are wise target-based applications of advertising in financial services.

**Creating Memorable Ads:** Successful advertising often requires the completion of all phases of the communications process – exposure, attention, processing – as discussed earlier in this chapter. However, the creation of a memorable advertising message is critical to generating long-term impact. Memorable ads might be recalled years after the consumer has been exposed to them, with subsequent effects on sales. This can be achieved through creative execution of advertising, use of humor or emotions, and a carefully planned schedule of media exposures. It has been established that, when purchasing advertising time and frequency, a minimum frequency level of three exposures is necessary for creating memorable messages. In addition, use of memorable brand names, celebrities, and creative jingles can help improve consumers' recall of the ad. Maintaining a consistent ad execution style and focusing on a single unique selling proposition throughout the ad campaign further enhance consumer memory and the long-term effects of an ad campaign.

**Facilitating Consumer Action:** The fact that financial services are often individually customized to specific consumer needs, and typically require one-on-one contact in order to be sold means that advertisers should facilitate the process for consumers to contact the financial services provider. This may require the inclusion of toll free telephone numbers, web site addresses, instructions on how to obtain additional information, and the address of the nearest agent or retail location where the product or service could be obtained. Advertisements that do not provide this information may not be very effective, especially for financial services providers that have a low market share and lack a well-recognized brand name or large scale presence in the retail environment.

**Coordinated Use of Media:** A successful advertising strategy used in a variety of markets is referred to as coordinated media campaigns. This involves the simultaneous use of various media to display ads with similar messages. For example, a TV ad featuring a celebrity might be combined with a direct mail ad featuring the celebrity on the outside of the promotional envelopes. Targeting consumers through various forms of media but with the same message significantly improves the impact of the advertising campaign. For example, a \$300,000 television advertising campaign for an insurance policy may result in 200 new policies. In contrast, a coordinated media campaign might be achieved by reducing the TV advertising budget to \$200,000 and utilizing the remaining \$100,000 in direct mail, resulting in 250 new policies. The incremental policies generated (50) are attributed to the reinforcing impact of the combined media, both of which contain the same underlying message. Clearly, such an effort would require careful targeting and coordination between the different types of media options used.

**Use of Direct Marketing:** Financial services advertising has recently become more reliant on the use of direct marketing techniques, reflected in an array of activities such as direct mail, direct e-mail, direct response advertising and telemarketing. These forms of advertising are uniquely capable of initiating personal communications between the financial services provider and potential or existing customers. Direct marketing serves multiple objectives: it helps facilitate contacts with the consumer and may motivate consumers to take further action by requesting additional information related to the service being advertised. This may help to create a direct line of communications with the financial services provider. By doing so, direct marketing allows one to separate serious leads from the less likely prospects and to prioritize selling efforts. For certain types of financial services, in which customization and personalization of products are typical (for example, insurance, investment services, home

mortgages), it is critical for direct marketing to be integrated with follow-up sales procedures in order to ensure maximum results.

Direct marketing presents several strategic advantages to financial services organizations. It enables one to communicate the details of certain financial services offers, which in some cases may be elaborate and complex. Furthermore, it is a form of advertising that is easily measurable. Direct marketing campaigns and associated promotional material often have tracking information that consumers communicate in their contacts with the company, providing objective measures of which advertisements have been most effective. This helps one gauge the response rate associated with various direct advertising materials that may have been sent out to consumers. It also helps quantify the financial benefits of different direct advertising approaches using the estimated response rates. Return on investment computations can then be carried out in order to determine the financial feasibility of a direct marketing campaign.

Direct marketing has been shown to be most effective with existing customers of financial institutions. For example; consumers have a tendency to open direct mail envelopes received from financial services providers with whom they currently transact. Therefore, consumers with established relationships with a company typically exhibit response rates that are higher than those consumers with whom no prior relationships exist. From a strategic perspective, use of direct marketing is therefore most effective on current customers. This has proven to be especially true in recent years due to industry consolidation. Mergers and acquisitions in the financial services sector facilitated by the Bank Modernization Act of 1999 have resulted in the formation of mega-databases, which consist of massive amounts of information on a large number of customers, increasing the efficiency of advertising efforts using direct marketing techniques.

The most popular form of direct marketing is direct mail. In the financial services sector, the volume of direct mail has exploded in the recent decade. For example, between 1992 and 2004, the number of credit card solicitations mailed out to consumers grew by more than 5 times. The typical response rate for such solicitations in the credit card business is currently running at about 0.5%. This means that only 5 of every 1,000 households who are mailed a credit card offer will respond. It is important to note that, prior to 1999 response rates exceeding 1% were common in the credit card direct solicitation business. In 1992, the average response rate for credit card solicitations was estimated to be close to 3%. The

decline in response rates is associated with the fact that consumers increasingly consider direct marketing material as junk mail, and the mass of direct mail material received by consumers has become excessive. Nevertheless, the low response rate has not discouraged mailings of financial services solicitations, which now account for the majority of mail solicitations received by consumers.

Another form of direct marketing is direct e-mail. Direct e-mail has witnessed trends similar to direct mail. In the early 1990s, the response rate to direct e-mail solicitations was around 10%; today, the typical response rate to such solicitations is estimated at 5 per 100,000. Several factors account for the decline in response rates for direct e-mail. These include the use of spam blockers to protect Internet users, and anti-spam legislation, which has limited the distribution of e-mailed direct marketing material. Furthermore, the increased threat of computer viruses has resulted in consumer reluctance to open direct e-mail solicitations. Consumer confidence in the use of direct e-mail is further reduced by the fact that only 17% of spam is estimated to be legitimate. Also, consumers are reluctant to provide their e-mail addresses to marketers. Almost seven in every ten individuals refuse to provide their e-mail address in business transactions because they recognize that promotional direct e-mails and spam are likely to follow.

It is no surprise that, loyalty-marketing programs utilizing email which could theoretically be a highly cost-effective mechanism for marketing to existing customers rarely succeed. This is especially true in the context of financial services in which an underlying sense of trust and security is essential for establishing a transactional relationship. Similar difficulties have also been experienced in the context of telemarketing. The use of caller ID and telemarketing call screening features provided by some local phone companies have further complicated the task of telemarketing financial services. The complex numeric nature of financial services prices and the requirement of a minimal number of numeric computations make financial services prices among the most complex items that consumers have to evaluate in their purchase decisions. Research has established that conducting arithmetic tasks associated with the evaluation of a financial service price can be highly stressful.

### **2.1.11 Steps in Advertising Financial Services**

Step 1: Determining the objectives of the advertisement

Step 2: Determining the available budget

Step 3: Estimating the return on investment

Step 4: Establishing the ad content

Step 5: Selecting among media choices

Step 6: Campaign execution

Step 7: Quantifying the effects of the ad campaign

### **2.1.12 Regulations and Financial Services Advertising**

As pointed out earlier in this chapter, the large numbers of regulations that limit the contents of financial services ads result in creative challenges for advertisers. Regulatory bodies such as the Securities and Exchange Commission (SEC), the Federal Reserve, the National Association of Securities Dealers (NASD), and the insurance departments of the individual states closely monitor the contents of financial services advertisements. Regulations, restrictions, and rules of conduct enforced by these regulatory authorities impose specific limitations on what can or cannot be included in the ads.

The primary objective of regulating financial services advertisements is to protect consumers against misleading advertisements. In addition, regulations are in place to ensure that consumers have the necessary information available to them prior to making decisions on financial services. The types of regulations that are in place vary depending on the financial service category. For credit products, the cost of credit is a critical decision-making variable, and the Truth in Lending Act dictates some of the restrictions that apply to ad content. Conversely, for savings products, the Truth in Savings Act needs to be closely examined. For investment and brokerage services, the rules and guidelines set by the Securities and Exchange Commission and the National Association of Securities Dealers regulate much of the ad content. Similarly, the Department of Insurance of the state in which an insurance company is operating typically regulates advertisements for insurance products. Readers are encouraged to examine additional resources on regulations governing financial services advertising in order to ensure regulatory compliance. Furthermore, the legal advice of attorneys specialized in financial services advertising regulations may be necessary to ensure

regulatory compliance. Below, we will examine some of the regulations that have a direct influence on advertising specific financial services.

**Advertising Commercial Banking Services:** Advertising of commercial banking services is monitored through the various regulations enforced by the Federal Reserve as well as the Office of the Comptroller of the Currency. For example, the Truth in Savings Act specifies items of information that depository institutions should disclose about deposit accounts featured in their advertisements. Terms such as the rate of interest, applicable fees, and terms of the deposit such as the minimum length of time that is required prior to withdrawal of the funds need to be clearly communicated to consumers. For credit products, the Truth in Lending Act (regulation Z of the Federal Reserve) dictates that the true cost of credit must be communicated in written form to consumers. Regulation Z also establishes the method to be used to determine the cost of credit and requires that lenders communicate this information in the form of the annual percentage rate (APR). Regulators may also monitor advertisements to ensure that banks do not exaggerate the extent to which they claim to make credit available to customers as a means for generating leads. In addition, commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), need to mention their coverage status with the FDIC in their ads and other consumer communications.

**Advertising Insurance:** Each state's department of insurance regulates insurance advertising. The objectives of insurance advertising regulations are twofold. The first objective is to prevent the creation of biases in consumer assessment of the probability of catastrophic events. This objective relates to the established fact that consumers typically are unaware of the risks and probabilities for events for which they purchase insurance products. For example, insurance advertising that bolsters the fear of catastrophic events through dramatic imagery is not allowed. Negative outcomes of disasters should also not be overstated in insurance advertisements. The second objective of insurance advertising regulations is to prevent the creation of inferences that suggest that an insurance company is unusually generous in its payout behavior. As a result, insurance advertisers have to take great care not to exaggerate either the severity of harmful events or their own willingness to payout customer claims. In addition, images of currency and checks should not be included in advertisements for insurance products as they may make consumers infer unconsciously that the insurance company has a high propensity to payout claims and is usually generous.

An additional objective in insurance advertising is to prevent misleading information from being communicated to consumers. Formally, an ad can be considered misleading when it causes individuals with average levels of intelligence to arrive at inferences that conflict with reality. In order to establish if such inferences are a result of the advertisement, formal market research utilizing third-party companies and random samples of consumers would be used. Insurance advertising is further restricted by the terminology that may be used. Terms such as “liberal” and “generous,” for example, cannot be used as they boost impressions of the payout behavior of the insurance company. Similarly, references to words such as “financial disaster” and “catastrophic” are not allowed because they may exaggerate the extent of the harm consumers might face if they do not have insurance coverage. The fact that insurance prices vary from one consumer to the next due to varying risk levels also limits the pricing terminology that can be used in insurance advertising. Therefore, terms such as “low,” “budget,” and “low-cost” cannot be used.

Advertising, Investment and Brokerage Services: The advertising of investment and brokerage services is regulated by the SEC as well as the NASD. These regulators require that advertisers ensure that consumers understand that past returns of an investment may or may not be realized in the future. As a result, statements to this effect need to be mentioned in consumer communications, including advertisements in mass media and direct mail. Advertisements for mutual funds must also encourage potential investors to seek the detailed technical information on the fund by requesting the fund’s prospectus. The ads should facilitate such action by providing consumers the necessary contact information. Additional Securities and Exchange Commission rules should be consulted for the details of information that must be included in mutual fund advertisements.

(Fordham, 2012)

## **2.2 Review of Articles/Journals**

### **2.2.1 Challenges of Nepalese Commodity Market**

Commodity market, one of the oldest markets of the world, is in practice since the civilization of human being. For centuries, it remained as the core business of the society, physically transferring both the goods and ownership of them. Over time, the commodity

market turned virtual one, as it is at present. The goods are traded very frequently by transferring the ownership but moved from one place to another is much less often. They are bought and sold through standardized contracts in organized commodity exchanges.

Although, CFD (contract for difference) of different commodities, FOREX and other financial instruments are traded by the selected parties in unorganized ways for centuries, the organized commodity market is very recent development for Nepal. The trading in the commodity futures formally started in Nepal since December 2006 with the establishment of the Commodities and Metal Exchange Nepal Ltd. (COMEN). Mercantile exchange Nepal limited (MEX) started its operations from January 2009. Though it is the second commodity exchange of Nepal, it is the first to provide the electronic trading platform. The trading of commodity CFD has been growing rapidly with a number of commodities listed in the three commodity exchanges. The turnover of these futures exchanges is much higher now than that of the Nepal's Stock Exchange while the stock exchange is decades old whereas the futures exchanges have not completed even a decade.

It is a well known fact that a structured and efficient commodity market plays a complimentary role in the overall development of a country's economy. To realize such positive outcomes, it is essential to ensure growth and sustainability of such market. The Nepali commodity market is facing the following challenges which need to be addressed for the country to derive benefit from this market.

First, as per the evidences of the last four years, the growth of Nepal's commodity market was good. But the challenge is to maintain the positive momentum by generating a viable and sustainable spot market with the mechanism of physical delivery of the traded commodities. For this, the market is facing some structural as well as institutional bottlenecks such as weak and poor infrastructures including roads, power, irrigation and warehouses; lack of skilled man power; lack of suitable government policy etc.

Second, in order to rationalize the expansion of any sector the stakeholders of the sector concerned should benefit by one or another way. This is likely only through the vigorous involvement of such stakeholders to maximize their own interests. In the context of Nepal, the stakeholders of an organized commodity market such as farmers, wholesalers, manufacturers, processors, consumers etc. are not fully aware of the benefits they can derive from such market. So, they are not confident about the operation of the market and its

favorable impact to them. Therefore, creating, retaining and accelerating the public awareness and confidence to the market is more challenging.

Third, the commodity market should play the role of the facilitator to the growth of the so-called 'real' sectors of the economy rather than just being a platform for speculators. Because of this reason, the commodity market should be mainly based on the domestic products of the country and should be guided to raise the wellbeing of the producers as well as end users of such products. But the Nepal's commodity exchanges are highly concentrated in trading of foreign market-based metals, fuels and agro-products. Based on this bitter truth, another challenge of Nepal's commodity market is to discourage the speculation on commodities grown and traded in distant lands and simultaneously encourage the trading of domestic products by providing price discovery mechanism and developing physical delivery system.

Fourth, the prices in the commodity market change very fast as the goods are not delivered, the purchases are made in document only and the rumor plays a very important role to drive the price up or down. When a rumor causes serious and unfounded rise in prices of basic goods such as petroleum and food grains, the final users will be adversely affected. This has led the governments in some countries, including India, to ban trading in the futures contracts of some daily essential commodities. Another point to be kept in mind is that the commodity market is not totally risk free, it carries considerable amount of risk that must be minimized. Currently, the market participants or more specifically the speculative investors are benefiting due to the persistent bull phase in the market in general and in metals in particular. It is not necessary that this Bull Run will continue for long. The moment it starts falling down, it will hurt the small investors very badly.

Fifth, in order to avoid such shocks and protect the small investors, there is need for a regulator of the commodity market of Nepal with clear rules and full autonomy (Lamsal, 2006, MEX Express).

## **Issues**

Along with the benefits there are some risks of the commodity derivative market as well. The severe global financial crisis of 2008 have put derivative regulation as a hot subject of talks, debates and conversation in various economic, regulatory and market circles across the globe. With this regulatory tightening was made in United States as well as other developed markets

around the globe. For the past five years, commodity derivative market is burgeoning in Nepal without any regulatory framework. The major issue in case of commodity derivative market in Nepal is not the loose/deficient regulation rather it is the absence of regulation which is more dangerous. Hence the need of the hour is to support, develop and enhance the well-functioning and regulated commodity derivative market in Nepal.

The essence of commodity market lies in hedging, arbitrage and speculation. Due to lack of required infrastructures like clearing house, ware house, inspector, central counter party, settlement guarantee fund, disaster recovery mechanism, arbitrary margin determination process, lack of independent product quality assurance and grading institution-standardization/specification, absence of facility of availing reference price and availing depth of the market, less transparency in margin requirements, absence of publishing every day open interest, less transparency in clearing and settlement process, absence of trade related information, and training and awareness building institute, Nepalese commodity market lacks the scope of hedging and arbitrage. Currently the commodity exchanges of Nepal are highly concentrated in trading future contracts of metals, fuels and some foreign market based agro- products.

The price determination of foreign commodities is also not clear, some exchanges have been pegging the NPR vis-à-vis Indian rupees to obtain the exchange rate between NPR and USD, and others are using the market exchange rate. Trading platforms and system are yet to be certified and audited respectively. Similarly, it is not yet clear whether they have proper contract derivation mechanism, margin fixation mechanism and disaster recovery mechanism. Amid these deficiencies, the estimated daily average turnover of the overall commodity market is approximately NPR.50 million, higher than that of the stock market daily average turnover of NPR.30 million. Stock market is three and half decades old whereas the commodity market had started since 2006 in Nepal. This rapid growth of the Nepal's commodity market has not been accompanied by the real sector's growth including commercialization of agriculture and overall performance of economy. The deficiencies and rapid growth show commodity derivative market is being purely speculative market in Nepal. In order to prevent the economy from the unwanted consequences of excessive speculative commodity derivative market and also for sustainable and credible development of commodity derivative market in Nepal, there is a need for a regulatory mechanism with proper rules and regulations as well as autonomous regulator.

In order to safeguard against uncontrolled speculation certain regulatory measures are introduced from time to time in the global commodity derivative markets. They include limit on open position of an individual operator to prevent over trading; limit on price fluctuation to prevent abrupt upswing or downswing in prices, special margin deposits to be collected on outstanding purchases or sales to curb excessive speculative activity through financial restraints, minimum/ maximum prices to be prescribed to prevent future prices from falling below the levels that are unremunerative and from rising above the levels not warranted by genuine supply and demand factors. During shortages, extreme steps like skipping trading in certain deliveries of the contract, closing the markets for a specified period and even closing out the contract to overcome emergency situations are taken. Briefly, commodity derivative market regulation makes sure that prices discovered for future delivery of the underlying assets are best reflectors of the future situation, traders and producers/processors are able to manage their risks in a cost-effective way and the risks spread thinly within the economy, reduces market instability and, hence, financial, economic, and political instability (Adhikari, 2011 MEX Year book-a).

### **Initiatives and Prospects of Commodity Derivative Market Regulation**

To ensure effective and efficient functioning of commodity derivative market, it is necessary that an independent regulator regulates market where participants are prone to collective irrationality. The independent regulator could stop markets/ participants from becoming victims of herd mentality and, thus, play an instrumental role in maintaining efficiency of market in its economic functions.

Government of Nepal has committed to introduce rules and regulation for this market and also has included in tax network. Securities Board of Nepal (SEBON) being a Government agency regulating capital market has been involved in drafting the amendment in Securities Act, 2007 and drafting commodity derivative market regulations. The drafting process has been already completed which has been submitted to the Ministry of Finance for fulfilling the legislative process and approval. Now it is Government prerogative for fulfilling the legislative process of the amendment in the Securities Act and approving commodity derivative market regulations. Further, SEBON has also assessed commodity derivative market in the country with the stakeholders' consultation and prepared supplementary report

on five years capital market development master plan, which is implemented through Government budgetary announcement of the current fiscal year.

Commodity derivative is subject to a comprehensive regulatory regime administered and enforced by the government entities that includes, among other things fit and proper criteria for industry participants; functions, duties and powers of exchanges and intermediaries; reporting and record keeping requirements; procedures governing the trading, treatment of customer funds and property; definition of commodity market and commodity intermediaries; licensing and revocation of licenses of commodity exchanges and intermediaries; listing, sales practice, trading limit, administrative measures taken against industry intermediaries, and other conduct of business standards; report on transactions; provisions designed to protect the integrity of the markets; provision for compensation; statutory prohibitions on fraud, abuse, and market manipulation. In addition, a self-regulatory organization (SRO) may also be set up for self-regulation and enforcement of obligations with respect to operation of the market in a sound manner and free from trading, market or customer abuses.

After the establishment of regulatory set up, the Registrar of Companies will register commodity exchanges with the recommendation of regulator and exchanges have to maintain capital base and necessary infrastructures as per specified provision. Regulator can ask any information needed for inspection and investigation of the market, specify necessary conditions on minimum capital and economic resources considering the status, fair transactions and interest of clients, and regulator with the consideration of Government policy, market status, and investors' interest can issue directives on the transactions of commodities for taking or not taking any action. Regulator will have major concern on fraud transactions, price fluctuations/ market manipulation, misstatement, insider trading and accordingly imposes civil and criminal offences against these activities. Regulator will have power in appointing auditor for examining books of accounts of commodity exchanges and intermediaries, and restructuring board of directors of commodity exchanges and intermediaries, and requiring bye laws on listing, clearing & settlement, transfer and establishment and operation of investors' protection funds. Regulator may also restrict trade for specified days consulting with commodity exchanges.

For the benefits of commodity derivative market to the large populace, there is a need to identify tradable commodity useful to all public or economy. Presently investors are overwhelmingly entering in commodity derivative market, however, they are quite unaware

to the rights and protection, they do not have united voice, and grievances are being presented only in informal way. Software used in the commodity exchanges should be user friendly, presently it is not being clear whether the exchanges using software are user friendly. Regulator, if provisioned will not delay in conducting system audit of commodity derivative exchanges. Government of Nepal needs to be serious to have strong regulator for the commodity derivative market along with adequate human resources, technical sophistication and required infrastructures like ware house and inspectors. Further, just assigning the commodity derivative market regulatory responsibility to any regulator is not sufficient in any case. If it is taken in that easy way, it will further deteriorate the credibility and sustainability of the whole financial market and consequently irrecoverable impact in the economy of the country.

Local commodities are not being traded in commodity derivative market in Nepal rather contracts are offered in world commodities based on commodity prices determined in international exchanges. With this the benefits that results from the commodity derivative market in Nepal are limited, amounting to only the taxes paid by and the employment offered by the exchanges and clearing and non-clearing members. As it is globally accepted that significance of commodity derivative market is enormous, it is grossly wise to go for well-regulated market. If the Government of Nepal wish to obtain the benefits of local commodity trading in particular and commodity derivative market as a whole, it would be necessary to enact legislation at the earliest possible to assign the regulatory responsibility to the existing regulator or establish a new regulator for monitoring and supervising the market, a network of warehouses and inspectors for setting and enforcing standards in respect of the quality of commodities and the quantity supplied in each tradable unit of a commodity. Such legislation and enforcement would require considerable resources. It is high time for the Government to go ahead with regulation of the commodity derivative market by committing the adequate number of staff and incentives to do the job properly (Adhikari, 2011 MEX Year book-b).

### **2.2.2 Need of Regulation in Nepalese Commodity Market**

We are discussing to celebrate an investment year, which was already officially announced, Likewise ministry of industry has moved to amend various acts and policies to provide the various incentives to the foreign investors' to increase the FDI (Foreign Direct Investment) in the country, which is the part of capital formation in the nation. But the major question which must be answered is by providing the penny incentives through tax rebate, will it attract the

foreign investors. In the context of our financial indicators such as share market index and commodity market index are in pathetic situation, in fact regulation for commodity market is yet not to start. In this current context how can we expect the outsiders to invest in this country, how can we expect investors will invest without knowing proper information about our financial/ capital market indicators? If we are really serious on this matter then government must provide facilities to improve both the stock and commodity market instrument.

Despite the fact that we are having massive opportunity in agro industry, we don't even are able to produce enough agro products to fulfill even our own demand. So to build the sophisticated market mechanism to get rid of the hurdles of agro economy we can welcome FDI through it, but for that we must build the proper agro commodity exchange mechanism. The current issue in our capital market regarding the regulation of commodity derivative act seems less concern; don't know why this ignorance? But it is for sure that the wealthy commodity market will definitely attract the foreign investors to invest in this country. But it doesn't mean that only proper exchange mechanism will solve all the issue at the same time regulators must facilitate the warehousing system which certainly amenities farmers, it helps them to market their products, which definitely encourages the farmers to work resourcefully in agro industry. Warehousing system will help farmers to professionalize their products through warehouse receipts which can be used as collateral for credit obtained from banks, which definitely helps to increase the banking habits in the grassroots' level and helps economy to formulate a capital providing high liquidity. The upcoming Nepalese commodity market regulation must answer clearly whether banks, foreign traders, retail individuals and institutes likes pension funds, mutual funds etc be allowed to participates in commodity derivative market.

The market that opens platform allowing sales and purchase of commodity listed on the exchange, it provides investment tools to build the capital. In this true sense, exchange regulators must further define the price discovery made in the futures market and they must define the role and function of speculation in this market, they should also find out the benefits of different types of speculation. To eliminate the current rumor between speculation and manipulation and to control it they must find out the group of traders causing manipulation so that they can fix the maximum number of lots size for the speculation. Capital formation can be done through this mechanism that is for sure, so the upcoming regulation must facilitate the market practices of trading on the price differences between two

market prices of our existing price difference of various agro commodities. This trading practice through arbitrage mechanism helps to commercialize the agro commodities which eventually help to ease the farmers as well as definitely attract the foreign agro investors to invest in our soil. Serious efforts on the development on market will surely result to attract the FDI in the country. So the suggestion to the regulators is to pay a serious attention to build the vigorous and progressive capital market in the country. (Pudasaini, MEX Year book 2012)

### **2.3 Review of Previous Thesis**

**Limbu (2012)** has conducted a study on '**Investor's Perception on Commodity Market in Nepal**'. The study has following objectives:

- ) To examine Nepalese investor's perception on a commodity & derivative market.
- ) To analyze the market condition of commodities market.
- ) To examine the factors before or while making an by investors.
- ) To analyze the facilities information provided by the commodity exchanges, clearing house and brokerage firms.
- ) To suggest and recommend to the concerned bodies with the help of major finding.
- ) To analyze the fundamental and technical analysis of commodity market.

The major findings of study are:

- ) Most of the respondents are aware of derivative instruments and many of the traders heard Gold, Silver, Crude Oil and other items like Heating Oil, Platinum and Aluminum.
- ) With regards majority of the investors preference invest in a future market and very few of them invest in both market (i.e. future & spot market).

- ) As a regard to frequency of the investment in commodity, among the total respondents who are the clients of the brokerage firm, greater part of them invest frequently and very few of them invest non-frequently in the commodity market.
- ) Regarding evaluation of the investment alternatives, majority of the respondents evaluate alternative while making investment in the commodity market.
- ) As a regard to indispensable purpose of the investment, among the total respondents, majority of them sight their main crucial aspect of investment is to earn good profit/return and very few of them want to make diversification.
- ) In case of significant thing that they take in their mind while making investment on a commodities; most of them stress a need to have a sound knowledge of technical analysis and followed by fundamental analysis and remaining other aspects need to be considered.
- ) Regarding source of information that investors relay on while making investment on a commodity, many of them transmit information from broker advice and suggestion and then followed by depend up on international news.
- ) Regarding aware of all trading mechanism, rules and procedures of trading before committing investment, very large majority of the respondents stated that they are much understandable of the trading rules and procedures.
- ) Regarding the main factors which makes investors decide to buy particular commodities instruments contract, most of them said that increasing market price of commodities instruments contract that makes them come to a decision to buy a particular commodities.
- ) Regarding the factors that the investors considered while buying and selling of the instruments contract in the commodity market, there are various factors that were classified under highly consideration to least consideration is a kind of rating measure

question. The most of respondents said that international news need to be highly considered while buying and selling of a commodity followed by return of the commodity instrument contract need to be highly considered while buying and selling of a commodity.

- ) As regard to price volatility on a commodity, it has given not too much high consideration, just a consideration and broker advice & suggestion also not consider to high while buying and selling of a commodity.
- ) In case of how often investors monitor their investment after they make it, among the total respondents; majority of them monitor their investment continuously.
- ) With respect to if commodity price falls after they buy particular commodity instrument contract, among the total respondents views their thought that they will wait time to increase the price and followed by invest more to cover loss if the commodity price falls after buy.
- ) As regarding to whether investors are satisfied with the return of commodity contracts, majority of the respondents are satisfied from the return of commodity and followed by many of them are neutral satisfied from the return.
- ) With respect to the sufficiency of information provided by exchange and brokerage firm, most of the respondents said that they are getting real time information correctly and timely and followed by very similar number of the respondents said they do not know about getting information on a time from these agencies.
- ) One of the interesting aspect who should regulated commodity exchange, majority of the respondents said that exchange should be regulated by separate body not a under SEBON to regulate market.

- ) Regarding 'investor's education program' majority of them participated on investor education program or any other workshop/training/awareness program offered by exchanges and brokerage firms.
- ) In the case of type of investors categories they fail when make their trading on a commodity market, majority of the investor's trade on the basis of speculation and majority of them think that trading on the basis of speculation lead to market danger/risk.
- ) For the recommendation that investors like to give others about this market half of the respondents stated that they would likely to encourage others investors to invest in this market.

**Maharjan (2013)**, has recently conducted a study on '**An Overview of Derivative Market in Nepal**'. The study has following objectives:

- ) To know the present status of Derivative market in Nepal.
- ) To identify the challenge and opportunities for the growth of derivative market in Nepal.
- ) To identify the problem in the growth of derivative market in Nepal.
- ) To provide necessary suggestions and recommendations

The study has following major findings:

- ) Derivative market is important for the economic development of the nation as it is contributing in revenue collection to the government and source of employment opportunities to many people.
- ) Lack of policy formulation is the main problem in the overall development of the derivative market in Nepal.

- ) No regulating body for the operation of derivative market in Nepal.
- ) Derivative market of Nepal is in introductory phase and there is no support from Government in this market.
- ) The derivative trading in Nepal is conducted for speculative purpose only and the main reason of behind limitation in speculative purpose is lack of policies formulation and no mechanism of warehouse management.
- ) If the current situation of derivative market is not improved or controlled then it may create bad financial impact resulting assisting in inflation rate enhancement and increasing in cost of living.
- ) The main reasons behind the slow development of derivative market in Nepal are lack of policies, slow development of industries, lack of public awareness and political instability.
- ) The authority should take prompt action to develop the regulated derivative market in order to introduce our agricultural in international level.
- ) The main reasons for the maximum losses suffered by the investors are the lack of transparency of operations by the exchanges and lack of sufficient knowledge about the trading of derivative instruments.
- ) While formulating the policies it should incorporate the standards to be complied as per International Organization of Securities Commissions (IOSCO) in order to compete with the international market.

## **2.4 Research Gap**

Many research studies have been conducted by various foreign researchers about issues and challenges of global commodity exchanges but prospective of Nepalese Commodity Exchange were not studied thoroughly in Nepal as of present date. So, this study is helpful to the interested groups to understand Nepalese perspective. It gives the overview of prospects

of Nepalese Commodity Exchange with evidence of one leading Commodity Exchange – MEX Nepal.

## **CHAPTER – 3**

### **RESEARCH METHODOLOGY**

Research methodology is a process of arriving to the solution of problem through planned and systematic dealing with collection, analysis & interpretation of the facts & figures. It is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives (Joshi, 2010). Research Methodology is concerned with various methods and techniques which are used in the process of research studies. It includes wide range of research methods including the quantitative techniques for the purpose of data collection, presentation analysis and Interpretations.

This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers qualitative methodology in a greater extent and also quantitative method. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. The research methodology has been followed to attend the basic objective and the solution of the research problems.

#### **3.1 Research Design**

The research design in this study is descriptive as well as analytical. The study uses both qualitative and quantitative research methods. In this study, marketing challenges of commodity exchanges have been assessed. The opinions of concerned people about the challenges are gathered. Hence, for this both questionnaire and published data are used. The questionnaire has been prepared in such a way that will help to get both subjective and objective answers from the respondents. The respondents themselves with the help of the researcher fill in most of the questionnaires. The data collected are strictly their opinion and their own habits and answers.

### **3.2 Population and Sample**

There are 50 respondents from various sectors relating to Nepalese commodity industry with varied authorities and responsibilities interviewed during the process of data collection, age group ranging from 24 to 50, 38 male and 12 female. All the samples are taken from different places of Kathmandu. The sample includes people concerned and related with commodity market of Nepal.

### **3.3 Data Collection Procedure**

The study is based on primary data. The collection of data is done on the basis of different factors found in most of the samples of the population. The total samples are classified on the basis of different roles they are at. The samples are divided into five basic groups containing 10 respondents each, they are:

1. From Exchanges
2. From Brokers
3. From Investors
4. From Market Makers
5. From Experts

Simultaneously departmental managers and other employees from Mercantile Exchange Nepal are interviewed along with semi-structured questionnaire containing 4 to 5 major subjective questions. Multiple choice questionnaires containing 15 questions each will be asked to fill up from the sample group of 50 respondents.

### **3.4 Data Analysis Procedure**

The findings are tabulated, described or quoted while data presentation after the thorough analysis of the same. Different sets of tables have been prepared for every important questionnaire. Simple listing method is used for the tabulation of data and different responses made by them are presented on percentage and priority basis. Interviews and qualitative responses are explained where as quantitative results are demonstrated through various statistical tools.

In order to accomplish the objective of the study, various graphs, diagrams including pie chart have been applied for the purpose of analysis. The result of analysis has been properly tabulated, compared, analyzed and interpreted as far as practicable.

### **3.5 Statistical Tools and Techniques Used**

Simple statistical tools such as percentage, ratio along with diagrams have been used in the process of analysis. Simple bar diagram and pie chart too have been used to show weightage of the responses for different questions.

#### Questionnaire Survey

A semi-structured questionnaire will be prepared and a questionnaire survey will be done. General questionnaire forms will be distributed to a sample group belonging to the commodity industry like employees of exchanges, brokers, traders, registered users and others to be filled up to get the individual approach on overall industry.

#### Key Respondents' Interview

Department representatives and other employees of MEX Nepal are interviewed and asked to fill up the questionnaire and give their response.

## CHAPTER - 4

### PRESENTATION AND ANALYSIS OF DATA

This chapter incorporates presentation and analysis of data. Data and information collected from the various sources are presented, analyzed and interpreted in this chapter for attaining the stated objective of the study. The data and information collected from the respondents are presented interpreted and analyzed according to the research questions formulated for this study.

Altogether 50 respondents have been selected for the study. A questionnaire has been developed for the purpose of data collection and distributed to different respondents from different roles in commodity industry of Nepal.

#### 4.1 Status of Nepalese Commodity Market

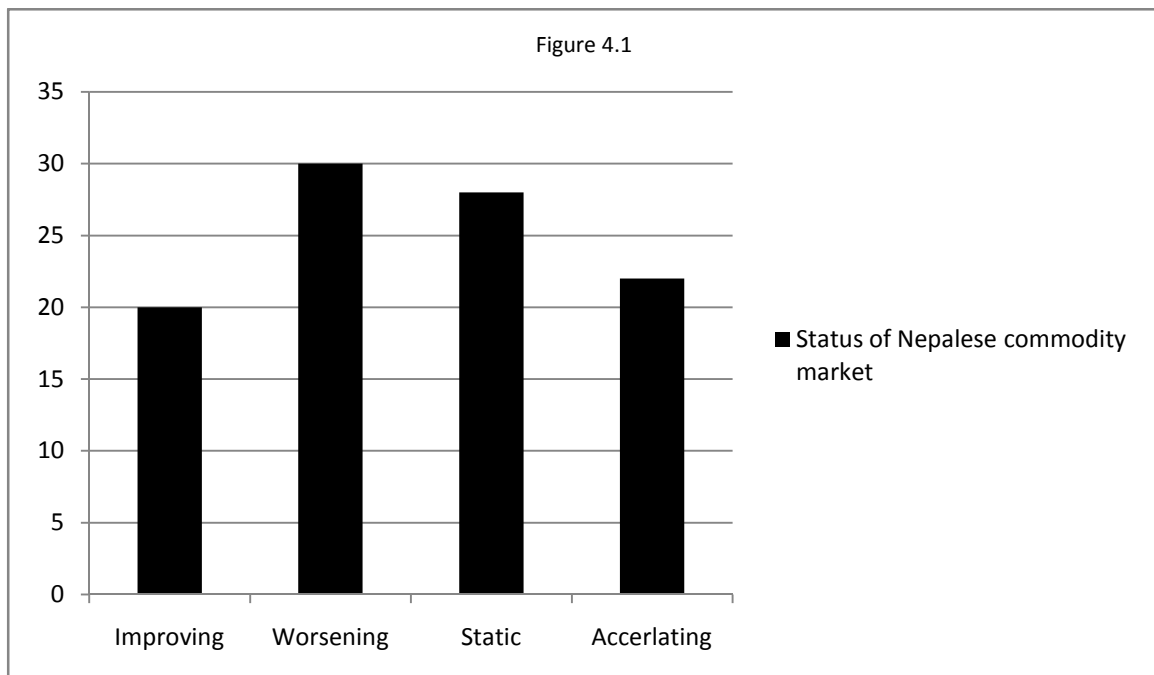


Figure 4.1 depicts that 30% of respondents are of opinion that commodity market situation in Nepal is worsening though there are 20% respondents saying that the condition is improving and 22% respondents saying that its accerlating, proves that 42% respondents are positive

towards the present condition of Nepalese commodity market where as 28% respondents believe the condition as quite static i.e. no any important change to consider.

#### 4.2 Satisfaction Level on Prevailing Practices of Nepalese Commodity Exchanges

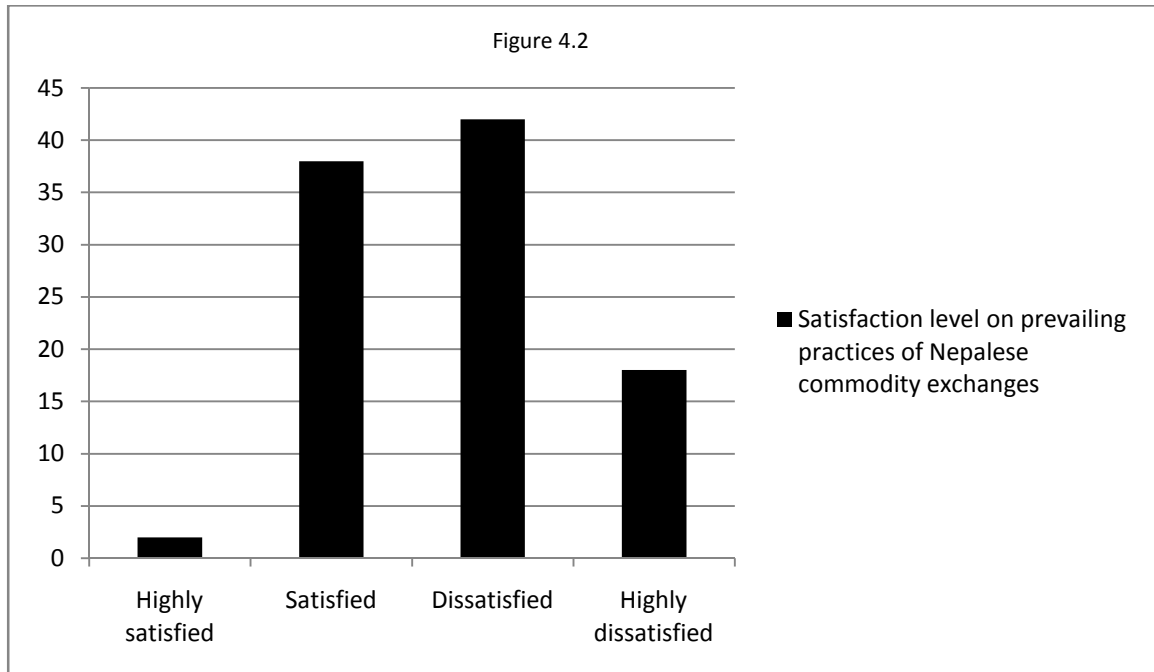


Figure 4.2 clearly shows that majority of people are not satisfied with the prevailing practices of Nepalese commodity exchanges so far as 42% respondents choose dissatisfied and 18% highly dissatisfied. On the contrary there is also healthy number of respondents who choose satisfied (38%) although it seems there are very few who are highly satisfied (2%) with whatever they are getting or offering.

### 4.3 Prime Challenge of Nepalese Commodity Market

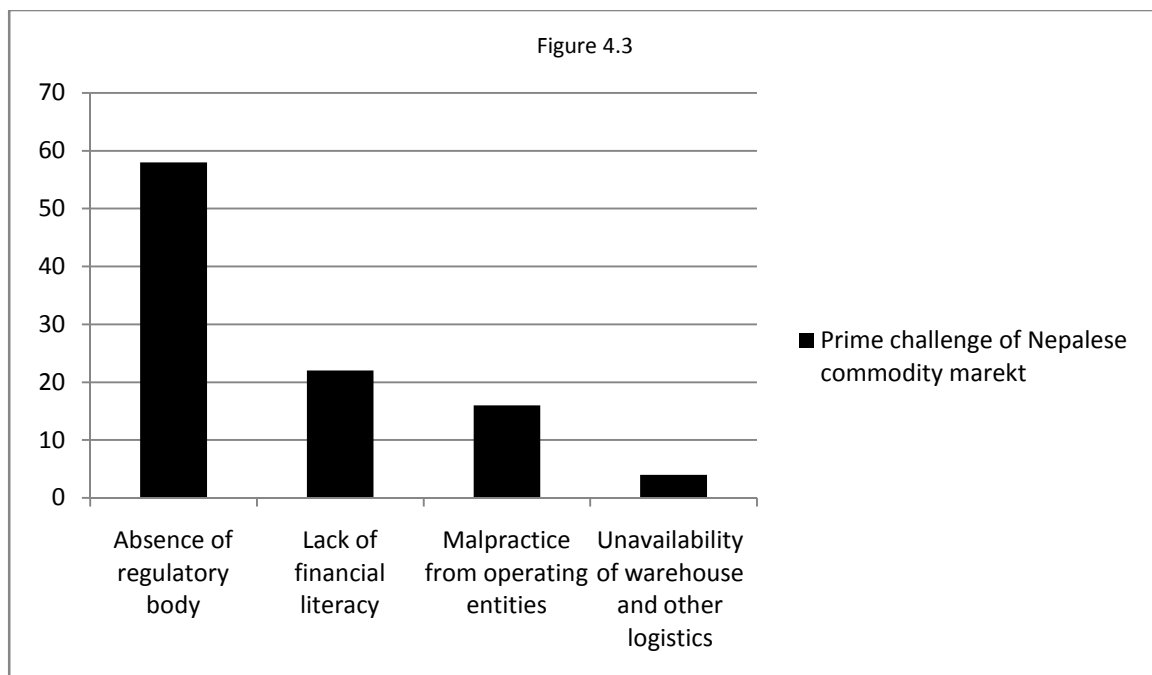


Figure 4.3 depicts that large majority of respondents consider absence of regulatory body in Nepalese commodity market is the major challenge giving it 58% of weight. 22% choose lack of financial literacy is causing the major problems where as 16% say malpractice from operating entities is the cause. Few of respondents i.e. 4% say that unavailability of warehouse and other logistics for proper mechanism of physical delivery is the prime challenge today.

**Table 4.4 Priority of Challenges to be solved**

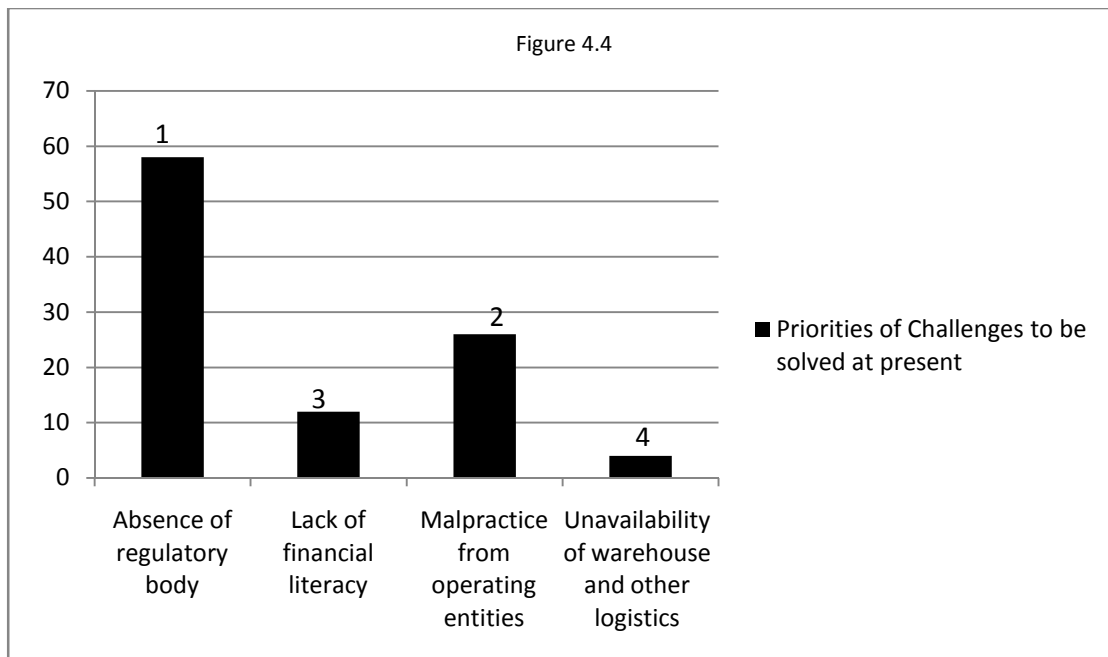


Figure 4.4 shows 58% respondents choosing absence of regulatory body as the first priority, 26% choosing malpractice from operating entities as the second priority, 12% choosing lack of financial literacy and 4% choosing unavailability of warehouse and other logistics. In table 4.3 lack of financial literacy appeared as second prime challenge of Nepalese commodity market at present but when ranking of the issues are done again, it is found that remaining respondents choosing malpractice from operating entities as second big problem based on urgency to solve the problem.

#### 4.5 Reason of Negativity in the Market about Commodity Trading

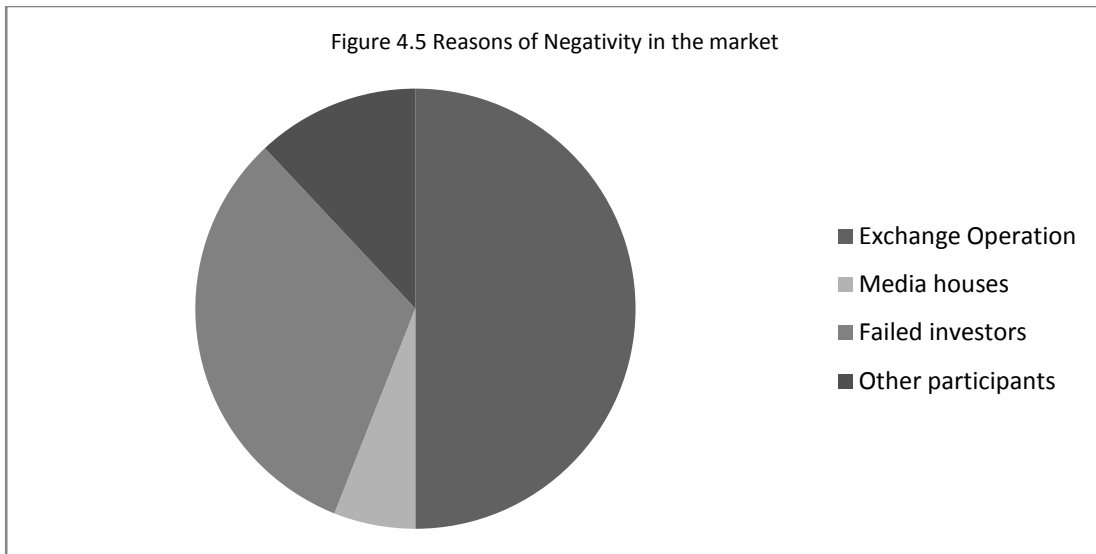
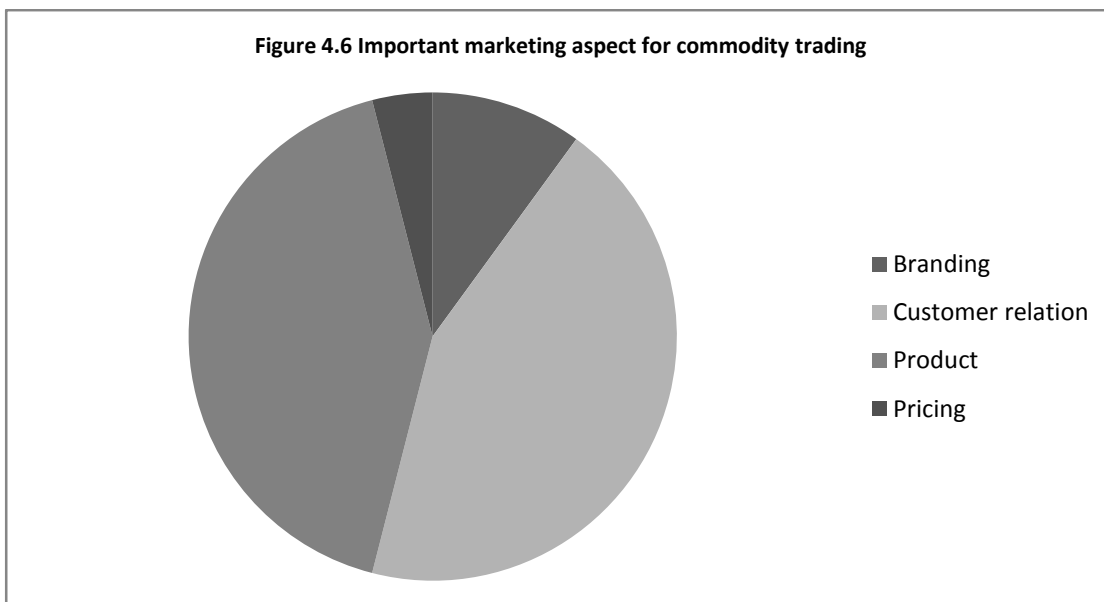


Figure 4.5 displays the reasons of negativity in the market about commodity trading where it is easily understandable that 50% of respondents believe that Exchange operation has been the important reason for such negativity. Little number of respondents i.e. 6% blames media houses for spreading negativity in the market where as 32% consider failed investors are the actual reason. 12% says there are other various parties causing the negativity.

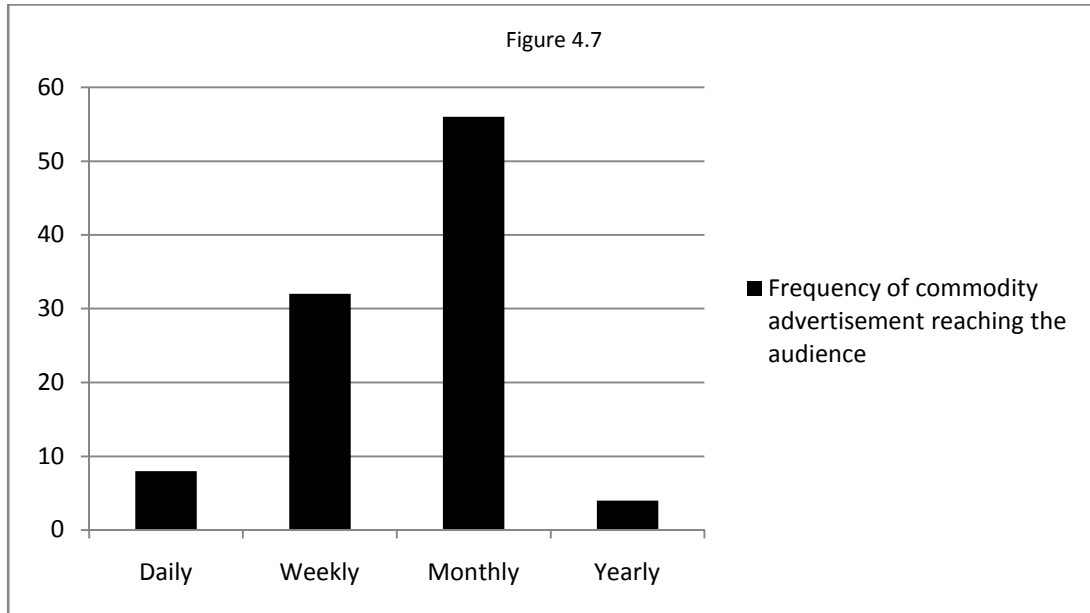
#### 4.6 Important Marketing Aspect for Commodity Trading



In figure 4.6 relationship with existing customer (44%) and quality of product i.e. trading platform (42%) are considered highly important aspect while doing the marketing of commodity exchanges. Pricing factors like admission and renewal fees, transactional fees etc

have got very less importance comparatively i.e. only 4% and also similar for branding aspect which is 10%. Few have also commented in comment section that proper distribution channel should be in place primarily.

#### 4.7 Frequency of Commodity Advertisement reaching the Audience



According to the figure 4.7 there are 56% of respondents who view any form of advertisement by a commodity exchange once a month, 32% view once a week, 8% view once in a day and 4% view just once in a year. These figures also clarify that the mediums used for promotion through advertisement are not reaching all the respondents; in fact few of the respondents believe that commodity exchanges are giving ads on yearly basis.

#### 4.8 Suitable Promotion Media for Commodity Exchange

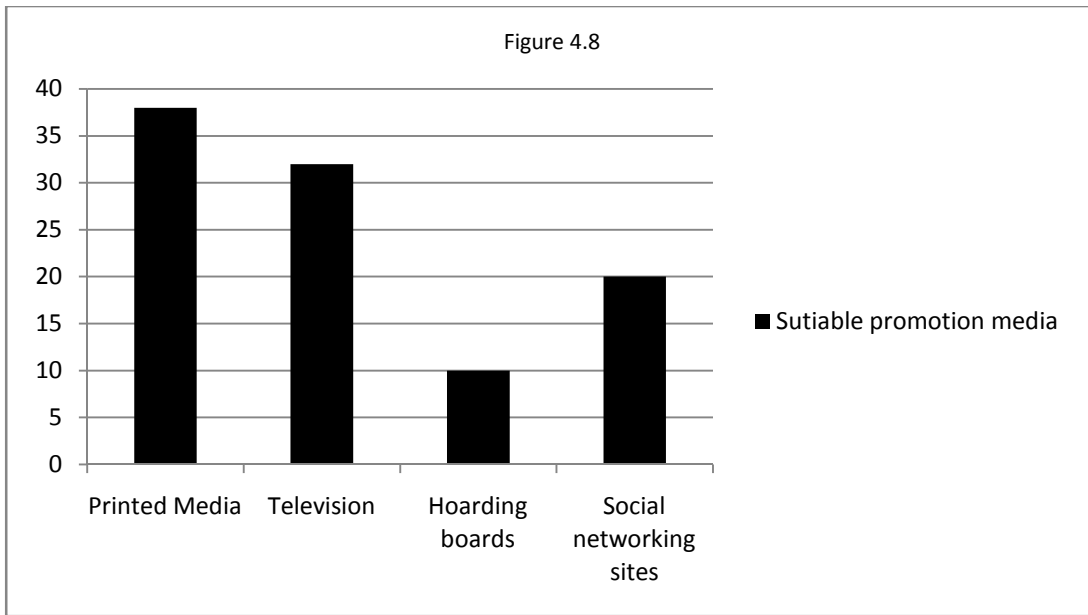
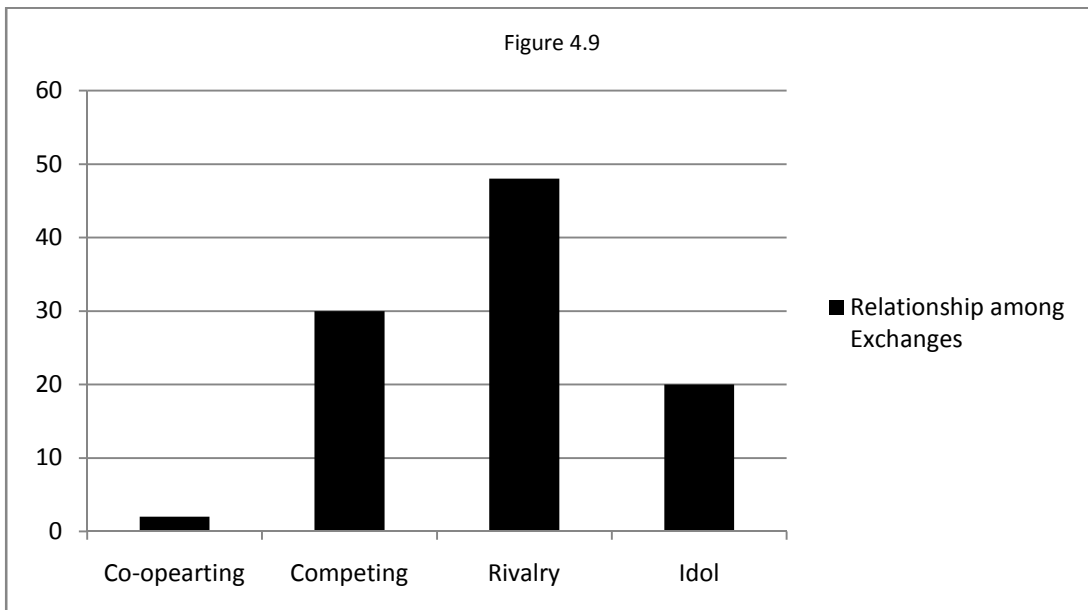


Figure 4.8 displays the preferred promotion media for a commodity exchange, where printed media is chosen by 38% respondents, television by 32%, social sites by 20% and hoarding boards by 10%. From this it can be understood that reach of printed media and television is larger in Nepal and can be much effective to reach interested customers in mass.

#### 4.9 Relationship among Operating Exchanges



It is very amazing to know that running exchanges are not co-operating to each other under such a difficult circumstances as many of respondents believe exchanges are taking each other either as a competitor (30%) or strictly rivals (48%). Only when the negativity speeded in the daily news, they have come together to discuss under one roof; that is why 2% of people believe the relation as co-operating while 20% says its idol, that they don't really care about others.

#### 4.10 Restricting Factors for Marketing of Commodity Exchange

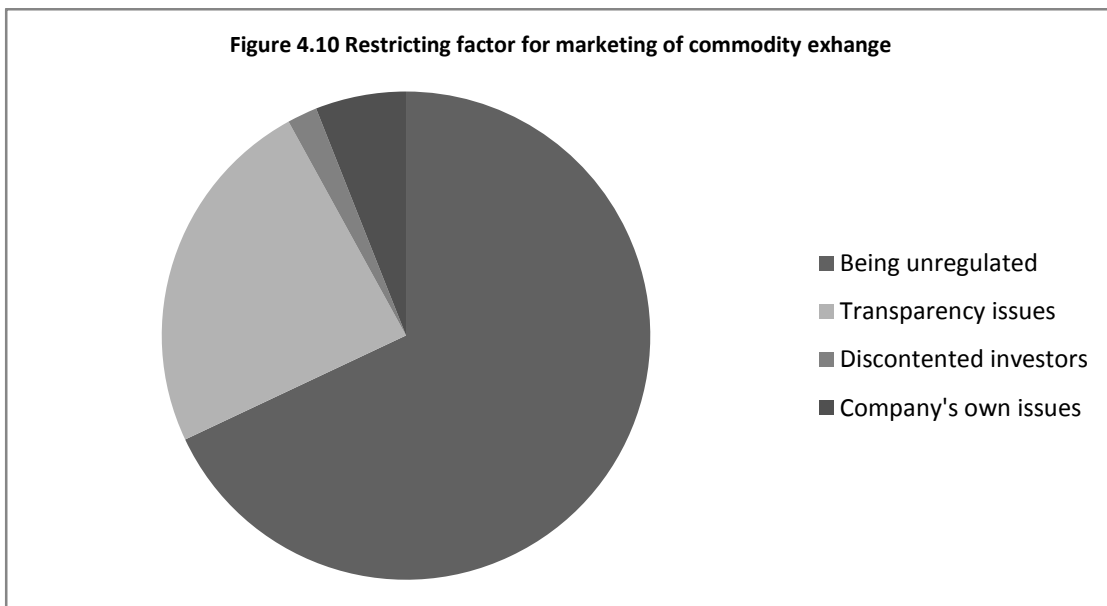


Figure 4.10 shows that being an unregulated industry is been one major restriction for marketing department of any exchange while promoting the concept. 68% respondents are of that opinion; second weight is given to transparency issues by 24% of them. Where 6% says that exchange and other companies have their own individual issues for not being able to do full-fledged marketing; other merely 2% of respondents say its discontented investors who doesn't want to hear anything here onwards.

#### 4.11 Customer Service and Information System

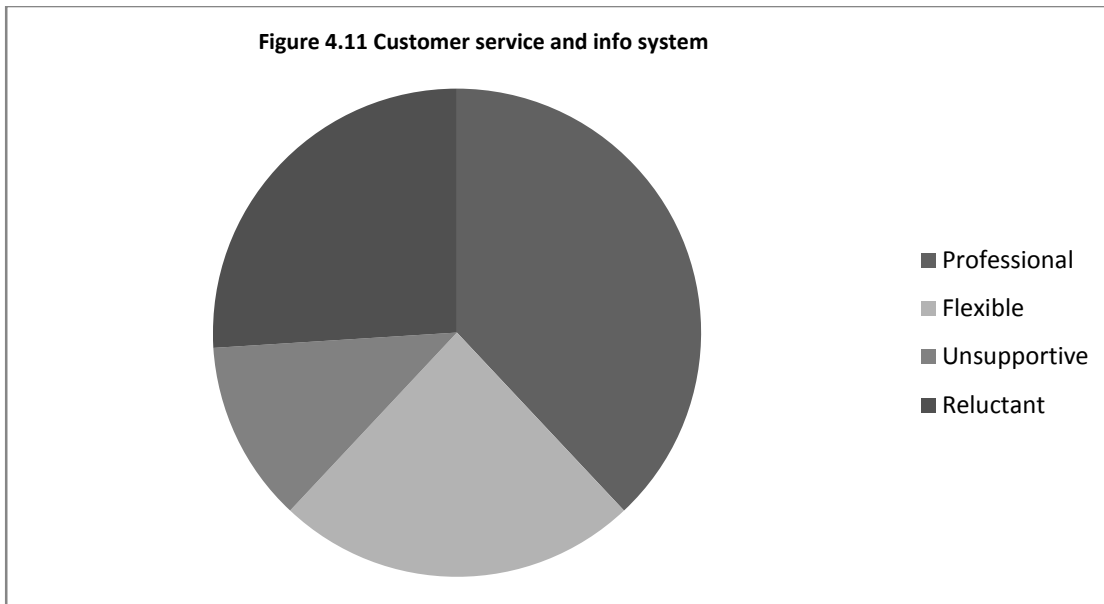


Figure 4.11 shows that 38% respondents say the customer service and info system is professional; 26% says exchanges are reluctant on this regards. 24% believes exchanges are flexible on this part but 12% finds them unsupportive mostly.

#### 4.12 Important Role to Overcome the Existing Challenges of the Industry

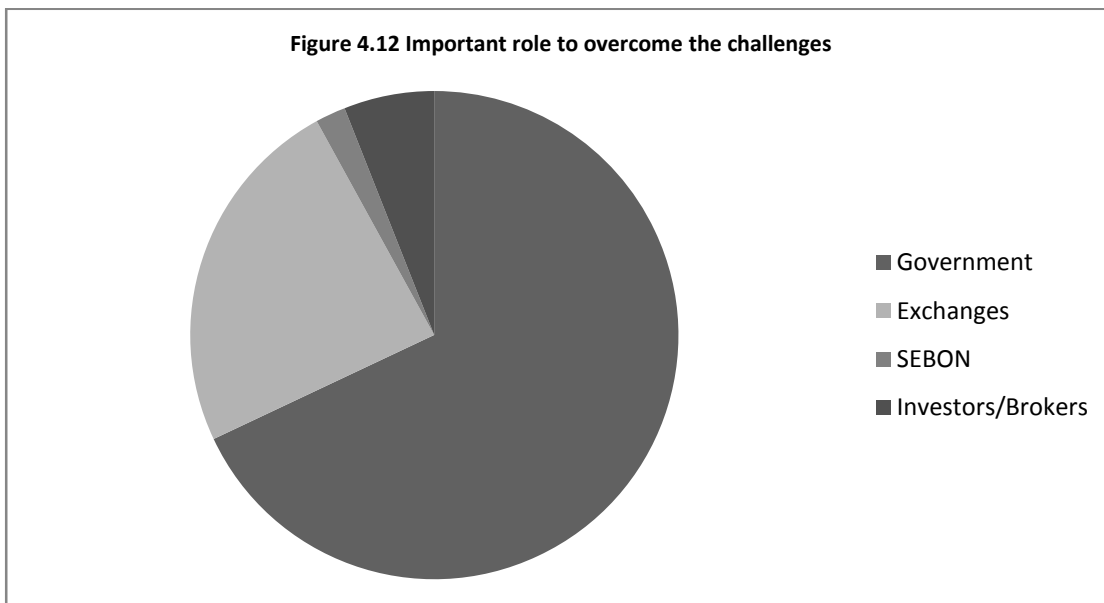


Figure 4.12 shows that majority of respondents (68%) think that Government should play the vital role in solving the issues. 24% says exchanges should come ahead and take initiative. 6% says investors/brokers have the vital role where as 2% says proposed regulatory body SEBON should be pivotal.

#### 4.13 Level of Marketing Required in Prevailing Stage

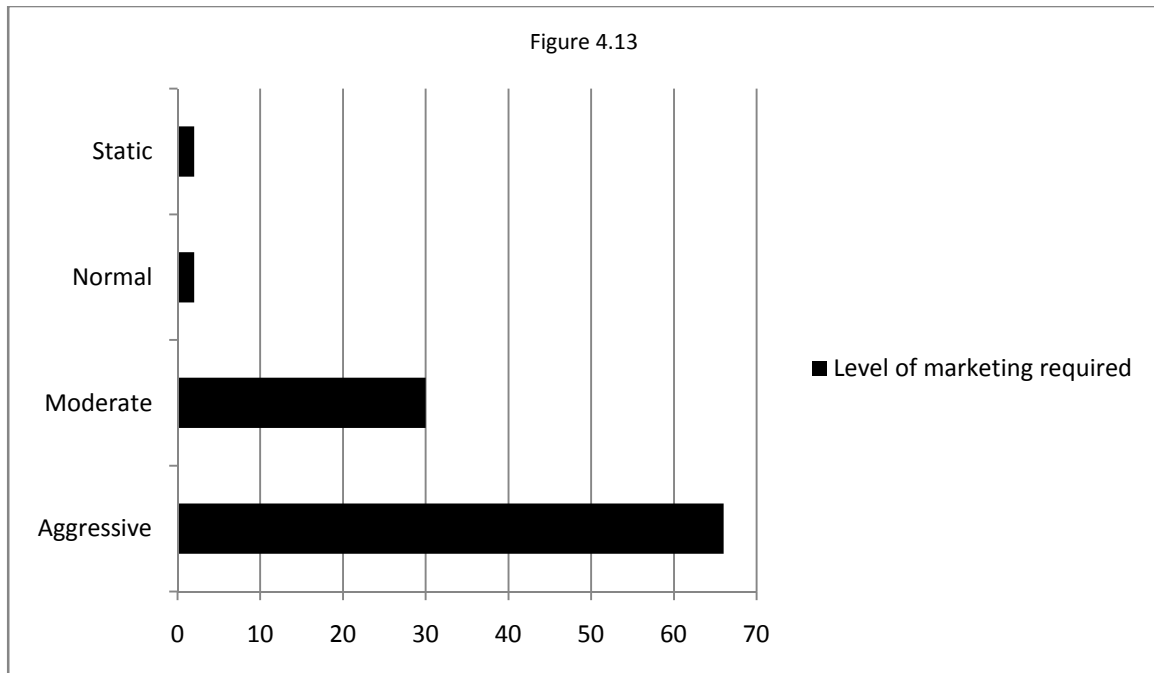


Figure 4.13 show that 66% believes aggressive marketing policy is required at this stage; 30% chooses moderate policy and 2% each has chosen normal and static policies for marketing. It clarifies that running exchanges lack in marketing aggression.

#### 4.14 Ranking of Factors for Successful Marketing

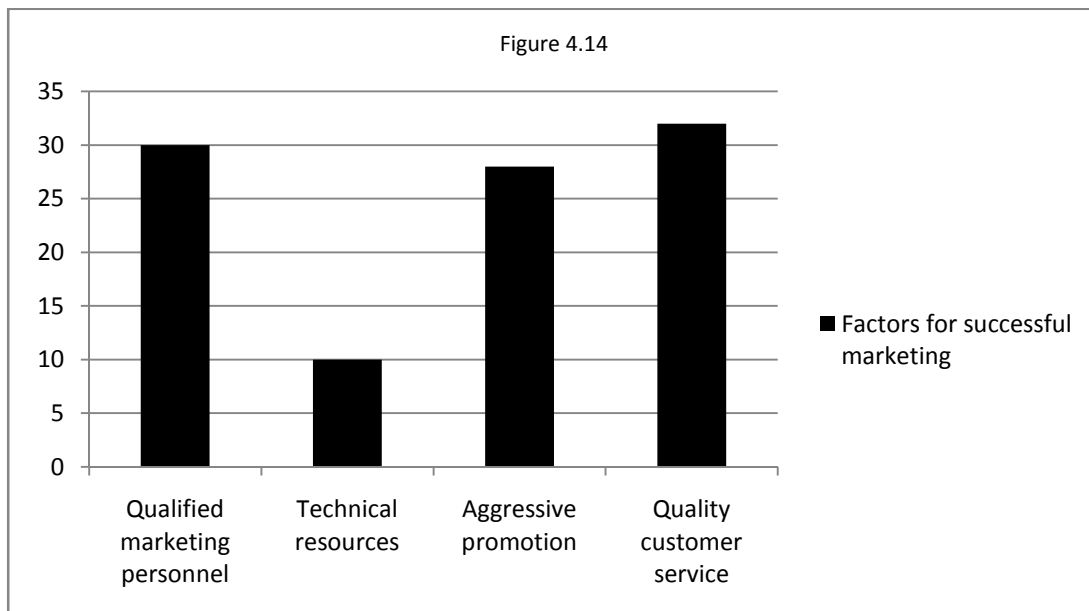


Figure 4.14 shows that 32% gives quality customer service a first priority; 30% gives qualified marketing personnel second priority; 28% puts aggressive promotion as third

priority and technical resource being fourth with 10%. It seems that respondents have given equal weight to first three factors.

#### 4.15 Most Important Marketing 'P' for Commodity Exchange

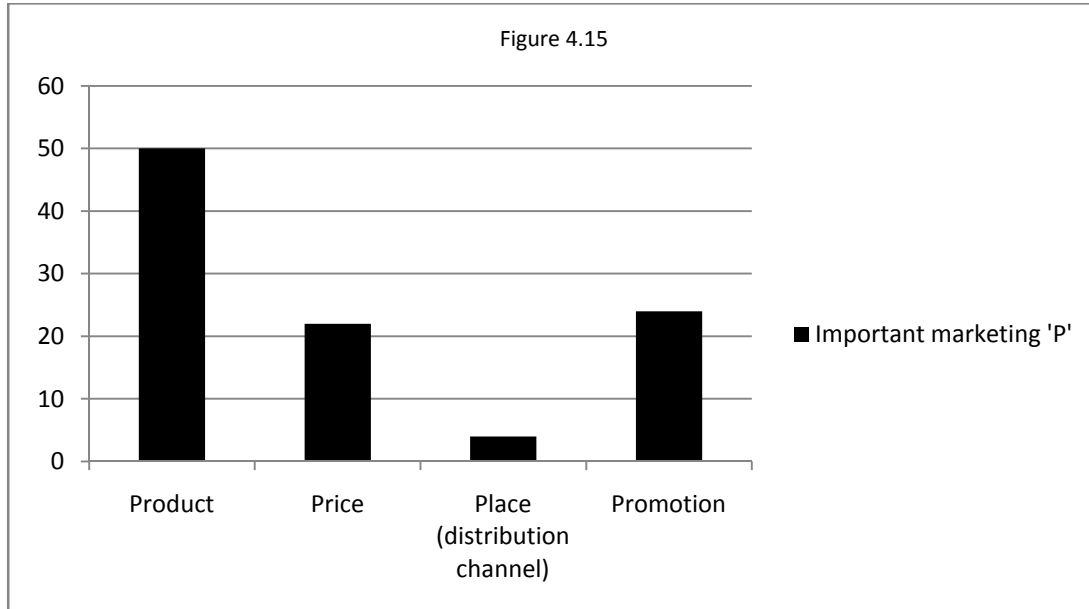


Figure 4.15 shows that product with 50% of choice is the most important marketing 'P' for achieving marketing objectives. 24% says exchanges need to focus on promotion; 22% says price and only 4% says place needs to be focused. As everybody agrees on the importance of all marketing Ps, they just think that software of trading as a product of the exchange is the most important element to be marketed effectively.

#### 4.16 Interviews with Key Informants

Interviews were taken recently with the department representatives and employees of Mercantile Exchange Nepal;

##### Respondent I

Mr. Narendra Prasad Bhatt is the manager of Business Development Department of MEX Nepal and also acting as Exchange Relationship Manager simultaneously. He is currently a member of Forum for Commodity Markets Nepal established to develop the commodity market in Nepal. Major responsibility of Mr. Bhatt is to develop marketing strategies in order to increase business of company as well as to maintain healthy customer relationships. He has

been actively working in this industry for more than 3 years and has been monitoring all the developments this industry has been through. Below is the major caption of the interview with Mr. Bhatt:

) How do you perceive the current status of Nepalese Commodity Market?

Nepalese Commodity Market is still in growing phase. A hope of regulation in near future has kept the market alive and active. Though there are people negative about this market time will prove the potential this market has for Nepal.

) What are the challenges of a Commodity Exchange in today's time?

Having no regulatory body has made people doubtful about the operations of commodity exchanges. Exchanges differ in various aspects and are not seemed to be united as an industry. Qualified and efficient resource persons are lacking. Technology is not adequate for an Exchange. These are basic challenges I see today.

) As a Marketing Manager, what are the marketing issues in specific?

We don't have awareness programs; people respond to us surprisingly. They relate the concept of commodity investment with other failed concepts such as networking business. We are not being able to invest in promotional sector; advertisement is relatively ineffective. Investors seek globally successful product i.e. trading platform to work upon. Customer service is mere satisfactory. We must plan strategies to market this concept again.

) What do you think are the five major marketing challenges of a Commodity Exchange in Nepal?

Major five marketing challenges can be pointed out as follows:

- Absence of Regulatory body
- Poor Customer Service
- Unpopular software as the product

- Lower investment on Promotions
- Absence of standard principles of operation, license distribution and trade

) How's MEX Nepal responding to these challenges?

MEX has just brought a novel concept of OMS – Order Matching System which has brought some positive vibes in the market. We are working on product part, to make it more users friendly. We have some promotional plans on the line too. Awareness has been given utmost priority and we are organizing few programs in major cities too.

## **Respondent II**

Ms. Anura Rana is head of Client Service Department, MEX Nepal and has been dealing with the customers from last 3 years. Her major responsibility is to understand and record the clients' queries, complaints, issues or any form of grievances and to act in order to reach to a binding solution for both the parties so that the relationship remains healthy. Below is the major caption of the interview with Ms. Rana;

) How do you see the relationship grown over the years between the Exchange and customers?

Well, talking about relationship it has been through many ups and downs. I must say we still have growing number of associates and customers, so I have to say it is in positive growth but yes things could have been better than what we have today.

) What aspect of customer service you want to improve in your Exchange?

One thing I want to be improved here is; we don't have highly trained employees to look after some technical issues and respond at first hand. Communication at times has lead to the confusion, it would be better if there is technical arrangement to actually understand the real problem with evidence with it. We are soon arranging 24\*5 service facilities to customers as the trades run throughout the day.

) What are positive aspects of client service at MEX?

First, we are serious about each and every concern of customers. We go through all the minor details of the issues so that the best solution can be provided to the involving customers. Secondly, what I like here is we are always taking feedbacks from customers for better improvements. Also we arrange trainings and workshops for them on regular basis for free that enhances their knowledge in this field.

) How do you perceive commodity industry from career perspective?

This is an emerging industry; we are on the verge of being regulated. I believe this will prove as one new and broad opportunity added in Nepalese industry for people like us or aspiring students. They can be entrepreneurs, investors, professionals, strategist, vendors and employees of all these institutions. It really possesses great career ahead.

) What are the prospects of commodity exchange in Nepal?

Commodity exchange in Nepal holds great potential in coming days. In terms of career opportunities, investment opportunities and options, tax generation to economy, organized market to local products etc defines the horizon of this industry in future.

### **Respondent III**

Mr. Sharad Raj Koirala is member of media section at Mercantile Exchange Nepal. He has been looking after the media concerns and handling all the promotion related activities along with one formed team. Here is the major caption of the interview with him;

) How do you like to define presence of MEX in media?

As a leading exchange in the country and in such difficult conditions for the industry, it is true that company is not quite focused in promotional areas but we are in media in a regular interval. Situation is also such that we cannot go that aggressive in the market unless we are regulated.

) What are the future plans of the company to promote itself in the industry?

We are looking forward for regulation and its regulatory requirements. Exchange is planning to assign some healthy budget for promotional activities too; most of them are cost effective too. We are mainly focused on creating brand awareness and educating the mass about commodity trading opportunities.

) What you have to tell about negative information raised in media against commodity exchanges?

What I believe that media seeks news and negative news gets bigger space and attention by public. There are people who might have lost so many money in this market but this is like this, if you invest either result you can get profit or loss; one shouldn't provoke his/her failure in media for no reason. They should have detail knowledge first before speaking or writing.

) What is the market share of MEX in this industry?

It is little difficult to be numerical on such questions but we believe our share is more than 50% knowing the fact that there are other 7 exchanges operating in Nepal.

#### **Respondent IV**

Mr. Vivek Risal is the senior assistant manager of Research and Development department at MEX. He is involved in conducting various researches and publishing organized data. R&D analyzes the market conditions, customer feedbacks, emerging trends and suggest for the change accordingly. Here is the major part of the interview with him;

) How difficult or simpler is research work in a commodity exchange?

We have limited sources to research in field; our research broadly is based on secondary data. We browse most of the information we require in the internet. Foreign practices are best materials for us. It is somehow difficult here to predict the future of this industry and response of the environment though we are happy to produce some good research findings in back past months.

) According to the latest findings how potential you see this market in Nepal?

Every aspect is improving in its way. We are catching that momentum we lost last year. People are visiting us; new Brokers are being added and also trade volume has gone higher than previous year. I see this market very potential in years to come.

) What research has suggested as the most challenging aspect for MEX in the industry?

Clearly it is to be performing without any regulation and also importantly lack of awareness in the market is another major challenge today.

) Any recommendations R&D have submitted lately to company management for improvement?

Yes we have suggested about conducting few productive workshops for investors inside and outside the valley. We are talking with some international professionals for this. We have some recent tie-up with media houses for promotional things. We have also been suggesting for the continuous change in the trading software.

## **Respondent V**

Ms. Ruchika Baidya is assistant manager at Compliance Department at MEX Nepal. She looks after compliance related activities such as developing bye-laws, surveillance of members' activities, grievance handling, issuing circulars and notices etc. Below is the major caption of interview with her;

) How effective is been the compliance system in place in your Exchange?

Our one major strength is professionalism and that is justified by the compliance procedures we have maintained throughout these years. We never compromise on our standards; all the rules and system are in place and well defined to all parties. We are happy to say that we have very sound compliance system at MEX.

) How have you evaluated the growth of MEX in these years?

As an organization we have grown in real good pace. We have improved so many aspects and we are now one full fledged exchange in Nepal. Our market presence is also good; although the whole industry faced sluggish growth this year.

) What is the frequency of problems you face here, and are they solved completely?

Problems come to us in a very small number; then also they are of different nature. Sometimes it is just because misunderstanding of the person who is registering the compliant. Mostly we reach to a satisfactory end to any issue but yes sometimes some clients remain unsatisfied as there's whole difference in the perspective of understanding the issue by them and us.

) How is the working environment at MEX?

Working environment here is very good; even a newcomer would be comfortable to start with. Everybody is co-operative. Here you get exposure to showcase your talent. Your creativity is highly encouraged and any suggestion from us matters to the management. Pay and other facilities are also satisfactory.

) How much is the employee turnover at MEX?

It is there in a way but they leave because of their abroad study purposes mainly or their social responsibility but not because they are not satisfied here. People keep coming and fresh concepts are explored.

#### **4.17 Major Findings**

After detailed discussion with above mentioned interviewees and with respect to results of the questionnaire survey, here are the combined challenges of Nepalese commodity exchanges at present;

- ) Situation of commodity market in Nepal is slowly improving from static stage.
- ) Prevailing practices of Nepalese commodity exchanges are dissatisfactory.
- ) Absence of regulatory body is the prime challenge of Nepalese commodity market.
- ) Exchange operations are a reason of negativity in the market.
- ) Customer relationship has higher importance in commodity market.
- ) Advertisement about commodity reaches the target group on a monthly basis mostly.
- ) Printed media is considered most suitable promotion media in commodity exchange.
- ) Exchanges are operating as rival institutions in Nepal.
- ) Absence of regulatory body is major restriction in marketing commodity concept.
- ) Customer service and information system in place is professional in exchange.
- ) Government should play the major role to stabilize the commodity market and develop it as required.
- ) Aggressive nature of marketing is required at the moment in Nepalese commodity exchange.
- ) Qualified marketing personnel are key factor of successful marketing strategies.

) Product is most important aspect of marketing in commodity exchange.

## **CHAPTER - 5**

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

#### **5.1 Summary**

Undoubtedly, commodity market is an advanced and potentially diversified investment opportunity to Nepalese investors and economy. Economy like Nepal can be largely benefited with this globally successful trading concept because of its dependency on agriculture. Nepal and Nepalese investors lack the opportunity to use and liquidate the available money and brain too. Commodity market in Nepal is very young, thus comes with different dimensions and perspectives which brings maximum number of difficulties up front. Nepalese commodity market in its growing phase has various challenges, specifically for marketing department of any commodity exchange. Being unregulated after constant attempts is one major head ache for Nepalese commodity market which has resulted in negativity in market about this rising concept. No any governing body is there to look after this industry, to care, to promote and to control.

Still the preparation of regulation appears as a hope of brighter tomorrow for this market and there is healthy number of people believing in this format of investment and have been trading consistently. On the other hand, Nepalese investors lack financial literacy. Financial market is very much complex and technical at times. Commodity prices are moved with the change in global economy, demand and supply of that commodity and other geo-political reasons which is mostly difficult to understand; more difficult to anticipate in advance and make money out of it. There is no such proper training facility, neither for traders nor for brokers who consult them in their trading. More than 80% investors are in negative figures in their trading accounts which have created an opinion that this market is no different to gambling in Casinos. Exchanges have many questions to answer to this market, many issues where they have to admit their fault and many developments and concepts to make people understand. It seems people are losing faith from the commodity exchanges for whatever they have witnessed in past five years. Although, nobody doubts what the future has for this productive concept.

Marketing for a commodity exchange in Nepal is like selling a completely new product for one sector as market still is saturated among 10,000 investors which has its own challenges to make people understand what actually is commodity market and how can one benefit from this; for another sector it's like re-positioning it's to re-gain the faith which has been destroyed to some extent in past few years. Marketing team in Nepalese commodity exchanges look satisfactory and very much capable also at some of the organizations. Knowledge and capabilities of a marketing team is directly co-related with the success of an Exchange. But the competition among running exchanges are little unusual as they are quarreling like anything. Industry misses unity. Exchanges have given promotion a less priority where as few exchanges are worried to be noticed to public so far. Exchanges are self-regulated and have varied norms exchange to exchange that has differentiated the concept of standardization of practices. Customer service at times is very unprofessional and Exchange-favored. Few exchanges are over professional in their behavior which has made clients feel unassociated. Technical errors have caused many troubles to trading clients in a healthy margin.

These marketing challenges are very much clear and have direct solutions. Commodity exchanges must understand Nepalese scenario and must be lobbying to government for best and soonest regulation.

Some of observations of commodity market Nepal are mentioned below:

- ) Status of commodity market in Nepal is improving with the latest news regarding the regulation of the market coming very soon under financial acts.
- ) Traders and Brokers are mainly dissatisfied with the prevailing practices of the Exchange. They have many allegations against commodity exchanges and many unsolved complaints.
- ) Commodity market lacks proper grievance handling system; Exchanges are not listening to the customers.
- ) Prospect customers or interested individuals/entities are demanding for core training facilities for the betterment of their performance, trade wise or brokerage wise.

- J Most of the involved parties are hit by the news flown in the market in past few months very badly. Slowly market is in recovery way.
- J There are people who prefer whatever they are getting at the moment and believe that they don't need any further change. Involvement of Government is not trusted by few.
- J There is no such specific criterion for becoming Broker/Clearing Members which is highly demanded by the existing members.
- J Many exchanges have given very less importance to customer services, mainly post services which has discontented customers with the exchange.
- J Exchanges are opting for social networking sites' advertisements lately because of its reach and cost effectiveness.
- J Active traders belong to varied backgrounds, from farmer to the politicians.
- J Few commodity exchanges are knowingly not going out for aggressive marketing because of their own internal issues.
- J Absence of Regulatory body: All of them were very much clear and unanimous about the prime challenge in the market today and that is absence of regulatory body. They said market lacks the faith because there is no any such governing body to look forward when there is any sort of problem or grievances. More, commodity exchanges don't have any organization supporting them to develop further.
- J Co-ordination among Exchanges: Operating exchanges don't co-operate with each other, rather compete in unhealthier way. Time demands to unite together but exchanges are united only when things come to worst condition, from where it's difficult to make the change. Negative marketing of competing exchanges is in practice.

- J Lack of financial literacy in market: They all have similar opinion about investors in Nepalese market having very little financial literacy. Investors trade randomly. Brokers are not well aware of global commodity market and no such initiative to educate the trader/brokers has been considerably taken. It becomes difficult to market when your target customers are not literate about the concept.
- J Software Quality: Trading platform used by exchanges is not up to the mark and error-free. Instead it is doubted on many aspects. While interviewing, informants seemed to have soft corner for their respective trading platform whichever it is. Prospects hardly believe in the exchange's trading software.
- J Transparency issues: Market has many doubts on operation of the exchange and other involving parties such as clearing member, trading-cum-clearing member, software vendor, broker member etc which largely has affected the customer's perception towards the transparency aspects. People are not sure about investing in this sector and hesitate to trust whatever exchange comes up with.
- J Price Competition: Competition at different level, either its exchange defined admission fee to members or broker's commission from clients, is not fair and consistent. Exchanges charge variable fees to their member/clients and even one exchange charges vary from one to other which has given birth to different types of market participants, some eligible and some quite not. Every exchange is almost coming to null figure for its membership which stands as a challenge for every other exchange.
- J Uniformity of standards and trading norms: All exchanges have their different trading norms and policies which in case of financial market should be more of similar and binding so that investors may not get confused. The situation is as such that no any trader can compare one exchange's practice with other to verify.

- J Untrained and less qualified marketing employees: As a new concept in Nepal, most of the employees at exchange level are not as qualified as required and they seem to follow whatever company management asks them to. They are not able to train the people or prospects properly. Focus is only on making people involved and trade.
  
- J Short-term vision of exchanges: Number of exchanges is mushrooming with the hope of huge profit in a very short time. Most interviewee agreed that they are planning for short run objectives. They think about profit in given days.
  
- J Management-Marketing department relation: One of the interviewee raised one issue that exchange management never clearly defines the objectives, vision and strategies of the company. They lack the proper and simple communication. Exchange management tries to look strictly professional and always push employees to get traders/members only. Quantity is given priority over quality performance.
  
- J Promotional mediums: Selection of the promotion medium seems satisfactory although the frequency of advertisement is very less. Direct marketing is first and prime tool of every exchange. They don't want to open up completely in the market in absence of Regulation. Printed Medias are highly used for publicity and information sharing. The research suggests commodity exchange now should opt for electronic media too as the reach of electronic media is so high with powerful presence.
  
- J Networking: Reach of most commodity exchanges are saturated with in Kathmandu valley. There are traders/brokers outside the valley too but the presence of exchange is unnoticeable. Marketing is done rarely in those very potential areas for such concept. Cities like Pokhara, Biratnagar, Dharan, Dhangadhi, Butwal, Jhapa have not felt the presence of commodity exchanges in years.

## **5.2 Conclusion**

In conclusion, Commodity Market of Nepal holds immense possibilities in future as the country lack options in investment, that too with the higher return. Commodity exchanges in Nepal are running as self-regulated bodies as of now and have been offering investment opportunities in various commodities but the opportunity is not fully justified in absence of a system and recognition by the governing body. Here, the major challenge of Commodity Exchange is to hold the nerve and work continuously with a hope of positive tomorrow. They should create the pressure for government to look after them as a regulated industry. Meanwhile, they must educate the investors in many forms and try to develop standard industry principles of trading so that no clients can suffer with other faults or technical errors. Unless there's any regulating body they have to be responsible for solving the issues arise. Customer service is not up to the mark which needs to be worked upon. On a whole, commodity exchanges in Nepal must act as a team and in specific Mercantile Exchange Nepal as a leading commodity exchange in the country must respond to the challenges market has at the moment. They should carefully plan about their marketing strategies and execute with great care.

## **5.3 Recommendations**

Research findings in this study clarify the changes an exchange requires for fulfillment of its objectives. Based on the responses and information collected, here are the major recommendations for solution of existing marketing challenges of Nepalese commodity exchanges:

- ) Exchanges must have qualified personnel in marketing department. Marketing department should be separate and resource full.
- ) Exchange management should communicate with employees regarding the vision, mission and strategies of company. Management should listen to employees' feedback and suggestion.
- ) Exchange must seek quality in results and train employees timely.

- ) Exchanges should unite together to build up a binding and standard industry norms and should also stand strong for perfect form of regulation in near future.
- ) Exchanges should have standard criterion for membership. Costs should not vary largely.
- ) Exchanges must come ahead to educate the general investors and brokers.
- ) Exchange should invest in promotional media more frequently and aggressively.
- ) Customer service should be very much effective and continuous throughout the trading hours.
- ) Regular meeting and seminar should be held with the concerned parties time to time.
- ) Forum of Commodities Markets, Nepal should be active.
- ) Trading software as a main product of the exchange should be advanced, user friendly and preferred.
- ) Issues and complaints should be handled with great care by having strong grievance handling mechanism in place.
- ) Electronic media should be used to promote trading opportunities.
- ) Information data base should be maintained, analyzed and presented effectively.
- ) Exchanges have to upgrade at least to moderate or aggressive marketing policies.
- ) Exchange must co-ordinate with SEBON as the proposed regulatory body for the development of the capital market as a whole.

- ) Branding should be given importance and planned strategies accordingly.
- ) Relationship with various Medias should be maintained and they can be used as a platform to get exposure in mass.
- ) Exchange must think on Social responsibility aspects.
- ) Exchange must build up the presence nationwide and target other major cities.
- ) Seminars at various locations can be effective to educate people and expand the horizon of market.
- ) Transparency should be one key focus in business operations. As a public company they have to be liable for public concerns.

## Bibliography

- Agrawal, G. R. (2010). *Marketing Management in Nepal*. M.K. Publishers and Distributors.
- Brussels. (2011). *Tackling the Challenges in Commodity Markets and on Raw Materials*.
- Chance, D.M. (2006). *An introduction to derivative risk management*. Singapore: Thomson: South Western Publication.
- Choudhary, M. (2005). *Fixed income securities and derivatives*. New Jersey: Bloomberg Press.
- David, A.D. & Thomas, W.M. (2003). *Derivatives valuation and risk management, Emerging derivative market in Asia*, (2006), Oliver Fratzsher (World)
- Davies, W. (2009). *Commodity trading challenges, opportunities in commodity markets*.
- Francies, J.C. (1991). *Investment Analysis and Management*. New York: Mc Grew Hill Inc.
- Grundey, D. (n.d.). *The marketing philosophy and challenges for new millennium*.
- Hall, J.C. (2009). *Option, futures, and other derivatives*. New Delhi: Person Education Inc.
- Keith, R. (2005). *Financial Derivatives*. New Delhi: Prentice Hall of India
- Kolb, R.W. & Overdhal, J.A. (2003). *Financial Derivative*. New Jersey: John Wiley & Sons Inc.
- Kumar, S. (2007). *Financial derivatives*. New Delhi: Prentice Hall of India
- Mukhebi, A. W. (2003). *The challenges and opportunities of a young commodity exchange in an emerging market economy: the experience of the Kenya agricultural commodity exchange*.
- O'Harrow, R. (2010). *A primer on financial derivatives*. Washington Post.
- Opportunities and Risk: an educational guide to trading futures and options on futures*. (2006). Chicago: National Futures Association.
- Parameswaran, S.K. (2007). *Future market made easy with 250 questions and answers*. New Delhi: Tata McGrew - Hill Publishing Company Ltd.
- Raghanunathan, V. & Rajib, P. (2009). *Stock exchange, investment and derivative*. New Delhi: Tata McGrew - Hill Publishing Company Ltd.
- Regulation Draft: Study of Commodity Exchanges in Nepal*. (2011). Securities Board of Nepal (SEBON).

Reilly, F.K. & Brown, K.C. (2008). *Investment Analysis and Portfolio Management*. Singapore: Thomson South Western Publication.

Sheeba, K., Kanwal, N.K. (2006). *Commodity Trading Advisors (CTAs) for the Indian commodity market: International journal of emerging markets*, Vol 5 Iss: 2, pp. 124-137

Strong, R.A. (2006). *Derivatives: An introduction*. Singapore: Thomson South Western Publication.

Thapa, K. (2008) *Financial derivatives and risk management*. Kathmandu: Asmita Books Publication & Distributors Pvt Ltd.

### **Websites**

[www.abccommodity.com](http://www.abccommodity.com)

[www.ames.com](http://www.ames.com)

[www.axisbroking.com](http://www.axisbroking.com)

[www.bloomberg.com](http://www.bloomberg.com)

[www.cmegroup.com](http://www.cmegroup.com)

[www.cbot.com](http://www.cbot.com)

[www.cnbc.com](http://www.cnbc.com)

[www.ecpulse.com](http://www.ecpulse.com)

[www.euronex.com](http://www.euronex.com)

[www.bnet.fordham.edu](http://www.bnet.fordham.edu)

[www.forexfactory.com](http://www.forexfactory.com)

[www.hcbnepal.com](http://www.hcbnepal.com)

[www.iibf.org.in](http://www.iibf.org.in)

[www.ime.com](http://www.ime.com)

[www.investopedia.com](http://www.investopedia.com)

[www.kitco.com](http://www.kitco.com)

[www.mexnepal.com](http://www.mexnepal.com)

[www.ndex.com.np](http://www.ndex.com.np)

[www.nsenepal.com](http://www.nsenepal.com)

[www.oilngold.com](http://www.oilngold.com)

[www.opec.com](http://www.opec.com)

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

[www.sfe.com](http://www.sfe.com)

[www.utvi.com](http://www.utvi.com)

### **Publications**

Advertising Research (2006)

Fordham: *Marketing challenges of financial services sector*. (2009)

MEX Nepal Business Proposal

MEX Year Book (2010-12)

NDEX Prospectus

SEBON Regulation Draft (2011)

## ANNEXURE I

### Questionnaire:

Dear Respondent,

I am collecting data regarding my thesis entitled 'Prospects of Commodity Exchange in Nepal: Evidence from Mercantile Exchange Nepal Ltd.' for partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) and it would be of great help in this research work, if you provide your valuable time by filling up the following questionnaire.

Sincerely,

Rajesh Shrestha

Researcher, Shanker Dev Campus

Kathmandu, Nepal

1. How do you acknowledge the current status of commodity market in Nepal?
  - a. Improving
  - b. Worsening
  - c. Static
  - d. Accelerating
  
2. How much are you satisfied with the prevailing practices of Nepalese commodity exchanges?
  - a. Highly satisfied
  - b. Satisfied
  - c. Dissatisfied
  - d. Highly dissatisfied

3. What do you think is the prime challenge of Nepalese Commodity Market?
  - a. Absence of regulatory body
  - b. Lack of financial literacy
  - c. Malpractice from operating entities
  - d. Unavailability of warehouse and other logistics

Other

.....  
 .....

4. Rank the following challenges according to the urgency to have solution of them;
  - a. Absence of regulatory body
  - b. Lack of financial literacy
  - c. Malpractice from operating entities
  - d. Unavailability of warehouse and other logistics

5. What do you think is the main cause of negativity in the market about commodities trading?
  - a. Exchange operation
  - b. Media houses
  - c. Failed investors
  - d. Other participants

6. While marketing the concept of commodity trading, which aspect do you think needs to be focused?
  - a. Branding
  - b. Customer relation
  - c. Product
  - d. Pricing

Other.....  
 .....

7. How frequently you see any form of an advertisement done by Commodity exchanges in Nepal?
  - a. Daily
  - b. Weekly
  - c. Monthly
  - d. Yearly

8. Which form of promotion media is suitable for Nepalese commodity market?

- a. Printed medias
- b. T.V.
- c. Hoarding boards
- d. Social networking site

Other.....  
.....

9. How have you understood the relation among operating exchanges?
- a. Co-operating
  - b. Competing
  - c. Rivalry
  - d. Idol
10. What has restricted the full fledged marketing of commodity exchanges?
- a. Being unregulated
  - b. Transparency issues
  - c. Discontented investors
  - d. Company issues
11. How do you find the customer service and information system of Nepalese commodity exchange?
- a. Professional
  - b. Flexible
  - c. Unsupportive
  - d. Reluctant
12. Who should play the vital role in solving the existing challenges of the industry?
- a. Government
  - b. Exchanges
  - c. SEBON
  - d. Investors/brokers
13. What level of marketing is required in prevailing stage to raise commodity market in Nepal?
- a. Aggressive
  - b. Moderate
  - c. Normal
  - d. Static
14. Rank the importance of following factors for successive marketing in near future?

- a. Qualified marketing personnel
  - b. Technical resources
  - c. Aggressive Promotion
  - d. Quality customer service
15. Which 'P' of marketing needs to be focused for achieving better marketing results?
- a. Product
  - b. Price
  - c. Place (distribution channel)
  - d. Promotion

## **ANNEXURE II**

### **List of Commodity Exchanges in operation in Nepal:**

- ) Mercantile Exchange Nepal Ltd-MEX (Merged with Nepal Spot Exchange Ltd.)
- ) Commodities and Metal Exchange Nepal Ltd-COMEN
- ) Nepal Derivative Exchange Ltd-NDEX
- ) Wealth Exchange Pvt. Ltd-WEX
- ) Commodities Futures Exchange Ltd-CFX
- ) Rigel Commodities and Derivatives Exchange Ltd-RCDEX
- ) Everest Commodity Exchange Ltd-ECX
- ) Derivative Commodity Exchange Ltd-DCX
- ) Asian Derivative Exchange Ltd-ADX