

CHAPTER – I

INTRODUCTION

1.1 General Background of the Study

The financial market consists of the money market and capital market. The trading of stocks takes place in the stock market. Nepalese stock market is very small as compare to the other countries stock market. Further Nepalese capital market is highly concentrated on the financial sector. Banking, non-banking, finance and insurance company occupy about 85% of total market capitalization of the market. Stock market is an important institutional mechanism that plays a crucial role in the economy by channeling investment where it is needed. The activities of buying and selling securities in the stock market are extremely important for the efficient allocation of capital within economics (Adhikari, 2011).

Stock market is an institution, area and process where stocks and other securities are bought and sold continuously. Principally, stock market refers to the market that is the secondary market for quoted securities where primary market refers to the market in which newly created securities are sold by open offer. The trading of shares of stock takes place in the stock market on one hand it directly provides liquidity to the investors who provides fund for the establishment of the production enterprises and on the other hand it encourage the saver to save more and more enterprising economic units to start the productive ventures (Shrestha, 1999).

Stock exchanges are the structured market for buying and selling financial instruments known as securities, which include stocks, bonds/debentures, convertibles, warrants options, right etc. Most stock exchanges have specific locations where the traders are completed. For the stock of a company to be listed, the company must satisfy certain requirement. Stock exchange

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

The Nepal Stock Exchange Limited (NEPSE) is the only Stock Exchange of Nepal. It is located in Singha Durbar Plaza, Kathmandu Nepal. On April 4, 2013, the equity market capitalization of the companies listed on NESPE was approximately US\$ 5674 million. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13 January 1994. As on April 4, 2013, the numbers of listed companies are 334, which include Commercial Banks, Hydro Power Companies, Insurance Companies and Finance Companies among others. The Exchange has 59 registered brokers as of April 2013. The NEPSE Index is primary all equity market index of NEPSE (Bhattraai, 2005).

Securities Board, Nepal (SEBO) was established by HMG/N in 1993 as an apex regulator of the securities market under the Securities Exchange Act 1983. Its objective is in line with the regulatory bodies of other countries such as to regularize and manage the securities market and protect investors' interest. Since a decade has passed of its establishment, I think it is time to assess the regulator in terms of international benchmark and best practices. However, one should keep in mind that, often there is no single correct approach to regulatory issues. Legislation and regulatory structures vary between jurisdictions and reflect local market conditions and the historical development (Bhattraai, 2005).

Ever since its establishment, SEBO has been performing the role of a regulator as well as that of a market developer. In both the roles, SEBO has not been able to perform satisfactorily though it has made significant achievements along the way. The work of SEBO is being hampered by the duplication and overlapping provisions in the laws regarding regulatory duties like enforcement and supervision, entry and exit of market intermediaries etc. This, in fact, is the essence of the principles relating to regulator. The responsibilities of the regulator are still not clearly and objectively stated in the legislations and it still does not have adequate powers and resources to perform its functions and to exercise its powers. It also lacks the operational independency. SEBO does not have a comprehensive inspection, investigation and surveillance authority, which have hampered its effort to build a fair, efficient and a credible market

Another aspect that comes into the forefront is the performance of NEPSE. Self regulatory organization is a valuable complement to the regulator in achieving the objectives of securities regulation. The present regulation has provisions for the development of NEPSE as a self-regulatory organization, which gives it the authority to regulate some part of the securities market like trading and market intermediaries' activities. But NEPSE has not been able to develop as a self-regulatory organization.

1.2 Statement of the Problem

The act of raising funds by issuing shares to the general public in Nepal started in 1937. Though, the development of securities markets could not be a national policy for a long time, the then industrial policy of Nepal led to institutional development of securities markets with the establishment of Securities Exchange Center in 1976. Securities Exchange Center used to manage and operate primary and secondary markets of long-term government securities and corporate securities. After some years of establishment policies and programs were made to develop and promote stock exchange, issue manager, underwriter, securities dealer, stock broker and portfolio manager in the

markets with the objective of avoiding possible conflict of interest between various market participants.

With the objective of regulating securities transactions and protecting interest of investors, Securities Exchange Act was enacted in 1983. The Act provided some legal and institutional basis for the securities markets development. The first amendment in the Act in 1993 led to the establishment of Securities Board, Nepal (SEBO) to regulate and manage securities markets. The Securities Exchange Center was converted into Nepal Stock Exchange Ltd. (NEPSE) with the objective of operating and managing secondary transactions of securities. After this conversion, the open outcry system of trading among stock brokers started (Shrestha, 1999).

The second amendment of the same Act was made in 1997. This amendment made provisions for registering securities businesspersons in SEBO. The amendment also made mandatory provisions for the listed companies to submit semi-annual and annual reports to SEBO.

In the Nepalese context, the concept of capital market is not very old. It is running in the primary phase. Within the comparisons of developed countries, Nepalese capital market is very small. Even after 15 years of establishment of security, exchange center in Nepal there seems to be a very slow growth in Nepalese capital market.

In the fiscal year 2011/012, out of 216 listed companies, 167 companies have submitted their annual reports for the fiscal year 2011/012 to SEBON. Out of these 167 companies, only 41 companies have submitted their annual reports within the prescribed time and other 126 companies submitted their annual reports after the expiry of report submission date (SEBON, 2011)

In Nepalese context, not all investor are educated. They have a little knowledge about stock market so they want to take a return without the calculation of risk.

The focus point of research should be the performance evaluation of SEBON following questions have developed for the study.

- How the SEBON is able to make the investor aware by promoting and protecting their rights?
- Do the existing regulations, provisions, act and guidelines are sufficient for investor right?
- What is the market capitalization and annual turnover of NEPSE?
- What is the overall performance of NEPSE?
- What are the problems of stock market in Nepal?

1.3 Objective of the Study

In the Nepalese context, the general people and the investor do not have good knowledge about the capital market. Such investors have less knowledge about the share transactions and share. As a result, they are not interested in the capital market. The specific objectives of this study are as follows.

- To know SEBON is able to make the investor aware by promoting and protecting their rights.
- To analyze how far capital market is able to making securities transactions fair, healthy, efficient and responsible.
- To explore the overall performance & Problems of NEPSE.

1.4 Limitations of the Study

The main limitations of the study are as follows.

- This study covers only five fiscal year data since, 2008/09 to 2012/013 for the research purpose.
- This study is concern only the performance of SEBON.
- The data used in this study are primary as well as secondary sources.

- The study is done for the particular fulfillment for MBS degree in Management, so it is not a comprehensive study.
- Only few financial and statistical tools are used in the study.

1.5 Organization of the Study

This research study will be divided into five chapters.

Chapter – I: Introduction

The first chapter introduces background of study, statement of problem, objective of the study, limitations of the study and organization of the study.

Chapter – II: Review of Literature

The second chapter includes pilot studies and textual concepts with regard to conceptual framework on Capital market, NEPSE, SEBON along with the review of major books, journal, research work and previous theses.

Chapter – III: Research Methodology

The third chapter includes research design, population & sample, sources and types of data, data processing technique and method & tools of data analysis.

Chapter – IV: Presentation & Analysis of Data

The fourth chapter deals with the presentation and analysis of data. It analyzed the data and interprets the results using different financial and statistical tools, table, chart and graphs. It also includes major findings of the study.

Chapter – V: Summary, Conclusion & Recommendation

This chapter contains Summary, Conclusions and Recommendation. This chapter briefly represents the summary of the whole study and the conclusions and the recommendations for the effective and smooth running of the concerned commercial banks under the study.

Besides these, bibliography and annexure are presented at the end of the thesis. Similarly acknowledgements, table of contents, list of tables, list of figures, abbreviations are included in the front part of the thesis report.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature means reviewing research studies and other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. The literature review may also serve as a kind of bibliographic index and guide for the readers. It also demonstrates where the current study fits into the scheme of things. The objective of reviewing the literature is to develop certain expertise and knowledge in one's area. This chapter is divided into mainly two parts (Kothari, 1999).

1. Conceptual / theoretical review
2. Review of related studies
 - Review of Journal and Articles
 - Review of Previous Research Work

2.1 Conceptual Framework

2.1.1 Stock Market

Stock market, as any other markets is a mechanism created to bring the buyers and sellers together with or without particular place or location since market can exist even without location or place; however, time, price, product and its unit are fundamentals for the market to subsist. The stock market is said a forward-looking market and stock prices reflect anticipations about future economic activities. Various instruments of the securities are the products exchanged per unit of their respective price within given time frame. Stock market facilitates the exchange of financial securities which helps to mobilise the internal and external financial resources. The companies can collect the funds from the market by issuing various instruments of securities, i.e.,

equities, corporate bonds etc. Similarly, the state can issue and sell the government bonds in the securities market and pull the funds from the market for financing the short term budgetary deficit and for the long term development appetite. Nonetheless, the selling of securities is possible only if individual and institutional investors could make easy come back into the markets, for whom stock market provide ample opportunities for the long term capital investment and short term speculative venture, for which liquidity and lucrative market are the fundamentals. So, the safeguarding the interests of the investors is equally important together with overall development and management of the market for attracting more number of the investors in which assertive role and need of strong, free, and independent market regulator is often highly acknowledged (Fisher & Jordan, 2000).

The role of stock market as the part of financial market in economic developmental process is highly emphasised by modern economic growth theories. The capital market development is positively correlated with economic growth with feed-back effects, but the strong link is from economic growth to capital market suggesting that financial development follows economic growth and at the same time economic growth determines financial institutions to change and develop. However, financial liberalisation as a special case of capital market development which determines equity market liberalisation the impact of financial structure on the economic growth and concluded that in the countries with inflexible judicial system, the impressive impact on economic growth is generated by the development of the financial and banking system whereas in the countries with greater flexibility of judicial system, the development of the capital market has shown a robust influence on economic growth. Stock market development has a greater effect on economic growth for Denmark, Finland, France, Germany, Greece, Netherlands, Italy, Portugal, and Spain compared to other countries. Nevertheless, causal relationship is claimed to exist between stock price movement and economic growth in the short run indicating that the stock markets act as a leading

indicator of economic growth . A study on the effects of different components of financial system on economic growth in Taiwan, Korea and Japan underscored the positive effects of stock market development on economic growth. (Ossoo, 2010).

As far as the development of the stock market in Nepal is concerned it is still in infant stage in which one can not expect its strong association with economic growth, as it is evidenced by the various empirical studies, through assisting in capital formation vis-à-vis mobilisation of small savings from the household sector. One of the crucial factors in this context is the institutional strengthening and capacity building of the Securities Board of Nepal (SEBON).

The further improvement of Nepalese stock market is critical in the sense that without it, the funding in long term development activities from internal source seems to be far-flung. The number of urban households especially with easy money has recorded a substantial increase during last few decades, seems to have been attracted in the absence of the incentives to invest in stock market to unproductive spending and luxurious consumption largely that is evidenced by the mushrooming growth of super stores selling foreign goods in city centres such as Kathmandu, Pokhara and in other urban areas. Part of the remit money from abroad could have been mobilised in the country to the stock market; however, at present the bulk of it are largely, for sure, spent in lavish consumption and unproductive areas contributing in aggravating the country's adverse balance of payments further by way of increasing total import values. So far there are no evidences in the country that remit money has been invested in stock market (Thapa, 2007)

2.1.2 Efforts for Development of Stock Market in Nepal

Historically first time in 1936, the shares of Biratnagar Jute Mills Ltd., the oldest organised business entity, were floated in the country which was followed by the establishment of Nepal Bank Ltd in 1937 and with the

introduction of Company Act in 1964, which had paved the roads for issuing shares and bonds for the companies and government respectively. Following Company Act, Nepal Rastra Bank- the central bank subsequently had first issued development bond on behalf of the government so as to financing deficit budget (Pradhan, 2003).

Securities Marketing Centre (SMC) was established under Industrial Policy, 1974 which was perhaps the first ever step for the development of stock market in the country with the aim of facilitating the issue and trading of government bonds and corporate securities. With wider domain and perspective, Securities Exchange Centre (SEC) was established in 1976 with an objective of promoting the growth of stock market in the country, which later on, with the enactment of new Securities Related Act 2007 replacing Securities Exchange Act 1984, was converted into Nepal Stock Exchange Ltd (NEPSE). NEPSE now operates under Securities Related Act 2007 as a profit making state owned business entity. According to existing Securities Related Act, the basic objective of NEPSE is to impart free marketability and liquidity to all types of securities by facilitating transactions in its trading floor through market intermediaries such as brokers and market makers. All licensed stockbrokers mandatorily require having membership of NEPSE. NEPSE opened its trading floor for its members first on January 13, 1994, which could only accommodate 50 members adopting an open out-cry system, which later on was replaced by the partial automation system for the transaction of securities. With the establishment of Depository together with inbuilt system of clearing and settlement, NEPSE is expected to have fully automated trading system without which the system can not be compatible with other counter parts system in the rest of the world (Bhattarai, 2005).

The existing number of stockbrokers is 23, which is obviously very small considering their institutional capacities to handle the business in the face of growing number of listed companies, their shares transactions and number of buyers and sellers. However, their functions are strictly limited so far in taking

sale and buy orders from retail investors. NEPSE claims that it faces some technological constraints to provide the trading permissions to more than 50 brokerage companies at a time can have a valid reason. Although the efforts to increase the number of brokerage companies up to 50 so far has been halted for a couple of times because of visible and invisible reasons, which is expected to resume soon. Equally it is expected not to have any technological constraints for more than 50 brokerage companies coming into market after the full automation of trading system of NEPSE just like in India and other countries stock markets.

SEBON was incepted as an apex regulator in the country in 1993 under Securities Exchange Act, 1984 and currently has been operating under Securities Related Act 2007. As provisioned in the Act, SEBON acts as an advisor of the government for the development of stock market, regulates the activities of securities markets and securities businesspersons and protects the interests of securities investors. It registers the securities and approves the public issues, provides license to operate stock exchange, stock brokerage firms, issue management, share registration, portfolio management and underwriting businesses, and mutual fund and depositories as well, and more importantly it supervises and monitors the operational activities of all its license holders. Thus, its mission is to facilitate the orderly development of a dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness.

Present efforts for the development of the stock market include the regulatory and institutional strengthening of SEBON itself. At the same time it is trying hard to get functional autonomy compatible to other countries, which is believed to be crucial for the promptness in regulatory job and effective enforcement of regulation of the stock market in which growth of stock market largely depends. The establishment of infrastructures such as depository company, on-line trading, mutual fund companies, credit rating agencies, FIIs is imperative for the development of the market depth which demand for

regulatory patronage. For the reasons, SEBON drafted Mutual Fund Act and regulations, Central Depository System (CDS) regulations, credit rating agency regulations and presently these are in the process of enactment. Enactment of these Act and regulations will apparently expedite the process of the market development since it is mandatory to all of the securities businesspersons to have the operating license from SEBON. For instance, mutual fund companies the small investors that encourages the companies to work as institutional investors in the securities market and in the similar count, establishment and operation of depository companies for securities helps rapid and radical growth of the market. With the technical assistance of World Bank/IMF, preparation of the five years stock market development master plan for the regulatory strengthening and long term development of the stock market has already been initiated. Similarly, technical assistance granted from Securities and Exchange Board of India (SEBI) for institutional strengthening of SEBON coupled with regulatory reform is on the half-way. Since investor's education, covering various aspects of stock market, corporate performance, corporate fundamentals plays vital role in increasing awareness among the small investors, has been conducted in the SEBON on the regular basis. Further extension of such education programmes in collaboration with different colleges and their free student unions has already been made conducting classes outside SEBON premises in Kathmandu valley. Furthermore, investor's education programmes in the collaboration with industrial associations such as Federation of Nepalese Chambers of Commerce and Industries (FNCCI) especially outside the valley are planned to conduct soon in near future (Bhattarai, 2005)

A major programme for institutional strengthening of SEBON and improving disclosure practices of stock market has just completed with the establishment of securities data management system of Nepal (SDMSN). The SDMSN was funded with the grant assistance of International Development Agency under the economic reform programme of Government of Nepal. The major outputs

of SDMSN include two websites for SEBON namely www.sebon.gov.np and www.sedfar.gov.np, web service, econ stat, analytics, central securities data bank, on-line report submission modules, uninterrupted power back up, efficient and effective internal networking and internet service.

Moreover, it contributed to develop the required skills and abilities of SEBON staff on advanced level data management system and practices. Besides, the formats for manual networking between SEBON and Nepal Rastra Bank, SEBON and Central Bureau of Statistics, SEBON and Nepal Stock Exchange Ltd are envisaged. The strict enforcement of compliance provisioned by SEBON based on the information generated through SDMSN to the market participants is expected to bring the improvement in information disclosure practices leading to more transparent stock market in the country. Furthermore, this initiative expected to provide scope to the issuer companies, listed companies, securities businesspersons, and stock exchange to submit reports and information through the online report submission modules developed under SDMSN after the completion of testing and debugging and further improvement in the modules.

SEBON is effortful so as to make regulatory provisions more issuers and investors friendly. Quarterly, half yearly, annual reporting along with reporting of price sensitive information have been made mandatory and planning to impose in near future one or another kinds of penalties in the case of their non-compliances. Issuing at premium and issuing in construction phase have recently been provisioned with necessary incorporation and amendments in new issues and registration regulation which is expected to encourage the real sector companies to go for the public issue. One claims it as the radical departure from the traditional blanket approach that had put the all sorts of companies in one basket trying to govern by the same rule. Recognising the fact that local people have rights on the local natural resources, the percentage share of stake of the local people especially from the industry affected area in the issue of securities has recently been increased making necessary

amendments in the existing Issue and Registration Regulation, 2007, which can be categorised as one of the major achievements in favour of local people.

2.1.3 Introduction to SEBON

The Government of Nepal established securities Board of Nepal (SEBON) on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows (www.sebon.gov.np).

- To offer advice to Government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- To supervise and monitor the functions and activities of stock exchange
- To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act. In addition, to suspend or cancel the license of any stock exchange, which is not found to be doing so.
- To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- To supervise and monitor the functions and activities of securities-dealers
- To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them

- To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- To systematize the task of clearing accounts related to transactions in securities.
- To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.

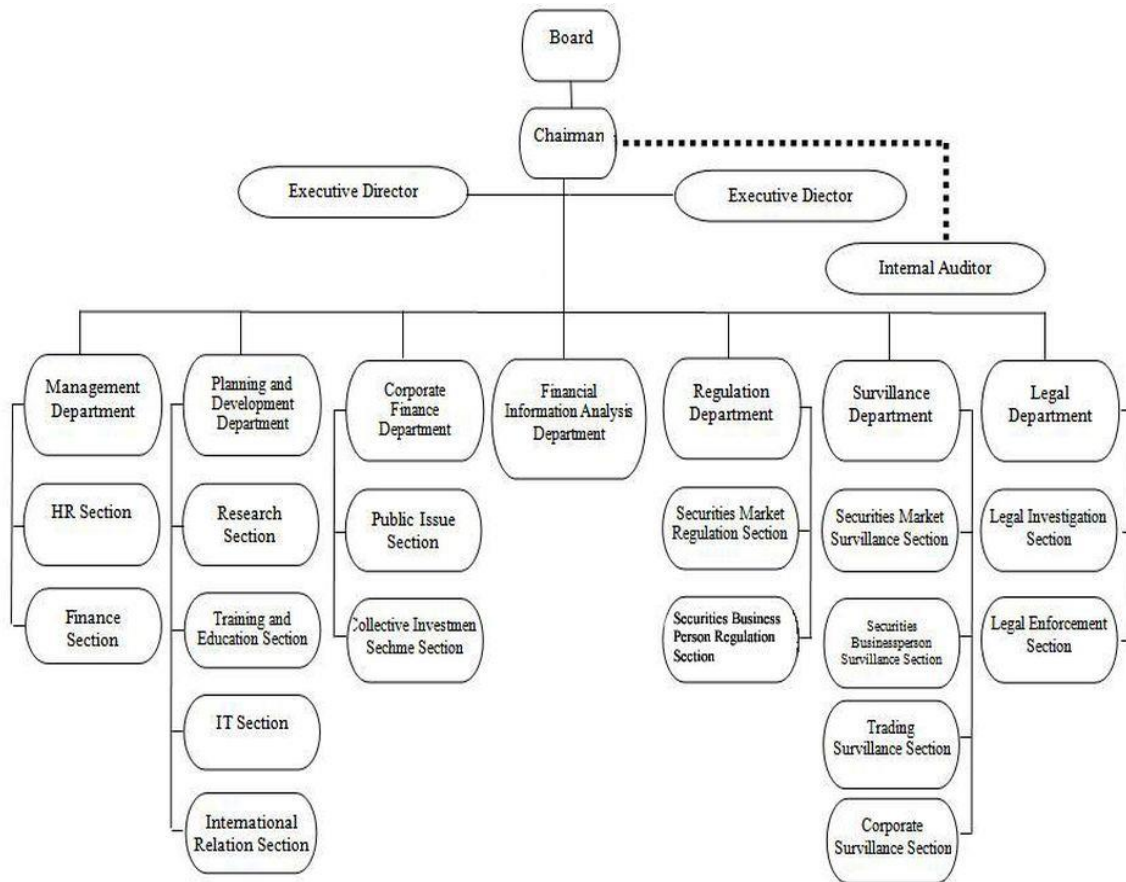
- To discharge or arrange for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairperson appointed by the Government for tenure of four years. Other member of the Board includes;

- Joint secretary of Ministry of Finance,
- Joint secretary of Ministry of Law,
- Justice and Parliamentary Affairs, representative from Nepal Rastra Bank,
- Representative from Institute of Chartered Accountants of Nepal,
- Representative from Federation of Nepalese Chambers of Commerce and Industries, and
- One member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

Figure: 2.1

Organization Structure of SEBON



Source: www.sebon.gov.np

There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance

Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section.

The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

2.1.4 Introduction to NEPSE

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets (Shrestha, 1999).

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

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 50 member brokers who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bylaws (SEBON, 2012).

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

2.1.4.1 Securities Available For Trading

A. Shares

- Equity Shares
- Preference Shares

B. Debentures

C. Government Bonds

2.1.4.2 Trading System

NEPSE operates on the 'NEPSE Automated Trading System '(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & Sell of Physical Share certificates is done through NATS. The Automated Trading System was started from 24 August 2007 (www.nepalstock.com).

2.1.4.3 Market Timings

Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done. The market timings of the equities are (Nepal Stock Exchange-Wikipedia, 2012).

Market Open: - 12:00 Hours

Market Close: - 15:00 Hours

Odd Lot Trading is done on Fridays. For Odd Lot Trading Market Timings are;

Market Open: - 12:00 Hours

Market Close: - 13:00 Hours

Note:- The exchange may however close the market on days other than schedule holidays or may open the market on days originally declared as

holidays. The exchange may also extend, advance or reduce trading hours when it deems fit necessary.

2.1.4.4 Index-based Circuit Breakers

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities. The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%. These circuit breakers when triggered bring about a trading halt in all equity (Nepal Stock Exchange-Wikipedia, 2012).

- In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first hour of trading i.e. 13:00 hours. In case this movement takes after 13:00 hours there will be no trading halt at this level and market shall continue trading.
- In case of 4% movement either way, there would be a market halt for half an hour if the movement takes place before 14:00 hours. In case this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading.
- In case of 5% movement in either way, trading shall be halted for the remainder of the day.

2.1.4.5 Price Range

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range (Nepal Stock Exchange-Wikipedia, 2012).

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

2.1.4.6 Trading Location

The trading can be done either from NEPSE's trading floor or from the broker's office. NEPSE uses sophisticated technology through which brokers can trade remotely from their office located inside the Kathmandu valley. This remote trading facility was started from 1 November 2007 (Nepal Stock Exchange-Wikipedia, 2012).

2.1.4.7 Order Matching Rules

The system adopts principle of order driven market. The best buy order is matched with the best sell order. An order may match partially with another order producing multiple trades. For order, matching the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of the sellers and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price (Nepal Stock Exchange-Wikipedia, 2012).

2.1.4.8 Settlement

NEPSE has adopted a T+3-settlement system. Settlement will be carried out based on paper versus payment. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank.

Once the settlement is done the buying, brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as

blank transfer. This must be completed within T+5 (Nepal Stock Exchange-Wikipedia, 2012).

2.1.5 Role of government & Future of the Stock Market

The future of Nepalese stock market largely depends on the positive role of the government. Government of Nepal without debate should have supportive role in the development of stock market like in other developed markets. It can support in amending and revising securities act and in giving more functional autonomy to the market regulator which will strengthen the functioning of SEBON (Shrestha & Bhandari, 2006).

- Government has a greater role on development of stock market and on stock market reform in the country. Government of Nepal has to be well aware on the role and significance of stock market in terms of the effective mobilisation of funds, and it should give high priority in its reform and development. Government has to entrust SEBON for its special business of regulating stock market and provide functional autonomy in its operation and thereby making accountable in its assigned role and responsibilities.
- Government should not take unnecessary long time to approve amendment in Securities Act so as to handover the rights of making rules and regulations to SEBON and until then it should speed up the enactment of process of securities related acts and regulations. Government should help to create an environment suitable for professionalising SEBON in its regulatory business without delay.
- Government should help to bring coordination between banking regulator, insurance regulator and stock market regulator for the balanced and sustainable development of the financial market of the country.

- Government should help to establish basic infrastructure such as central depository system of securities, online reporting system, credit rating agency, and full automation of the stock exchange.
- Government should have to rationalise the tax provisions relating to stock market and stock investment as well; and government should set fiscal policy favourable to stock market growth and development.
- Government can play a significant role to bring the institutional investors like Employees Provident Fund, Citizen Investment Trust, retirement and pension funds, and insurance companies into stock market with suitable policy and guidelines of investment working together with SEBON. It is also necessary to develop bond market and mutual funds industry so as to attract institutional investors into the stock market. It is almost impossible to open secondary market for Non-resident Nepalese and foreign institutional investors without the necessary policy guidelines and coordination of responsible agencies including government and central bank. In short, government has a greater role to play ahead in the process of growth and development of the stock market in the country. On the other SEBON leadership is equally responsible to take the lead role for generating visionary mission and driving the things in right direction to happen successfully.

2.1.6 Issues of Securities Market in Nepal

The securities market in Nepal is still at a nascent stage and has failed to show impacts on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging, low turnover ratio indicates that the market is highly illiquid. Dominance of equity instruments has restricted the participation of risk averter types of investors in the market. There are also the various lapses in legal as well as institutional framework of the market. The major issues of the market are briefly dealt below (Bajracharya & Bhattarai, 2005)

1. Structural deficiency in formulation of regulation

As per the provision of Securities Act, SEBON prepares regulations and issued with the approval of the Ministry of Finance (MOF), which is also the reporting authority of the SEBON. At present, there is only one stock exchange which is in the ownership of government. By the authority of government, the responsibility for the management of stock exchange goes to MOF being the reporting ministry of SEBON, the MOF official chairing the NEPSE board would have conflict of interest while approving the rules and regulations related to NEPSE functioning.

2. SEBON's structure is not broad based and the conflict of interest is not properly balanced

As per the provision of Securities Act, the governing board of SEBON comprises of seven members representing various government and private sector agencies, which also includes a full-time Chairman appointed by the Government. Other members of the Board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, a representative from Nepal Rastra Bank (the central bank), a representative from Institute of Chartered Accountants of Nepal, a representative from Federation of Nepalese Chambers of Commerce and Industries, and a member appointed by the Government of Nepal amongst market experts (SEBON, Annual Report, 2005/06). However, if we look at the governing structure of securities regulator of other countries, in most of the cases we can find at least two full time members from the legal and accounting field. This is important in view of the securities regulators responsibilities requiring frequent inputs from these fields.

The other deficiency in structure is that there is no restriction for the board members to be involved in the listed companies as board member or chief executives or to play other key roles. SEBON being a quasi-judiciary agency,

can penalize the listed companies in case of violation of laws, and if the member is from that particular company being penalized, may defend against the action of SEBON resulting to a situation of conflict of interest, which may hamper the effective regulatory function of SEBON

3. Inadequacy in securities market legal framework

As visualized by the Act, many rules and regulations have to be developed for the implementation of the Act. It is often heard in the media that the licensing of stockbrokers has been hindered due to lack of stockbroker regulation. Besides, there is also a lack of basic legal infrastructure for the operation of mutual funds in the market. The trust act is also very important for the operation of central depository system of securities and development of bond market. Recently, it was highlighted in the newspapers that a company could not issue rights shares on time with the provision of rights renouncement as enabled by the new provision made in the Companies Act, 2006 and Securities Act, 2006, because SEBON could not give proper modality for rights renouncement as per the provision of the acts. This also shows the deficiency in the legal framework.

4. Slow process of enactment of laws

It is noted that the enactment of securities laws has taken near about a decade. The securities act was prepared considering the suggestions of the capital market study report of ADB conducted in 1995 and submitted by SEBON to the parliament in 1999 (SEBON, Annual Report, 2000/2001). This act was passed in 2005 in the form of ordinance (SEBON, Annual Report, 2005/06). Later in 2006, this ordinance has been approved by the parliament and issued as Securities Act, 2006. Not only the act, also the enactment of regulations is also taking unusually long time. SEBON submitted some regulations related to stock exchange and broker dealer to MOF after the issuance of Ordinance (SEBON, Annual Report, 2005/06), however, they were not approved by the

MOF. Later, when the Ordinance was passed in the form of Act, these regulations were again submitted to MOF (Gorkhapatra, June 8, 2007). All these indicate the slow rule making process, which in view of the dynamic nature of capital market is very embarrassing. Such type of delay may be attributed to the fact that either the lawmakers do not understand the technical nature of market and/or the regulator does not have sufficient capability to convince the lawmakers as well as the government about the importance of particular law to be issued.

5. Lack of Institutional Infrastructures

The Central Depository System of Securities (CDS), which is very important from the aspect of market efficiency, has not been established. Absence of CDS is one of the reasons why the process of clearing and settlement and ownership transfer has not been efficient and transparent. Similarly, the markets also lacks in the services of institutions like Credit Rating Agencies, which in view of the development of bond market is very important. Lack of alternative trading mechanism such as OTC markets and third and fourth markets is the other prominent issue of the market. The securities, which do not meet the listing criteria of stock exchange or are de-listed from the stock exchange, have no avenue for trading due to lack of such trading arrangements.

6. Efficiency of Stock Exchange

It is usually heard in the market and read in the newspaper that the services provided by the stock exchange are very inefficient. Companies are often complaining about the delay in listing. It has even been published in the newspapers in the past that the debentures listing of Himalayan Bank Limited had taken months because NEPSE could not develop appropriate criteria for listing and trading of such instruments. A study of SEBON on performance of issue manager for the period between the fiscal year 1993/94 to 2002/03,

published in SEBON Journal Volume II reveals that out of 74 issues, only 12 were listed timely.

The trading of stocks in the floor of NEPSE is still carried out through open-out- cry system, which has been obsolete from most exchanges in the world. Due to lack of automated trading system of securities, the trading has not able to gain confidence in terms of efficiency and transparency. The trading facility is limited only in Kathmandu valley and there is no any provision for providing this facility to the people in other parts of the country. This has also hindered in increasing public participation in the securities markets.

7. Efficiency of stock broking services

Currently, there are 50 stockbrokers in the stock market, out of which about 49 are actively involved in the trading. Lack of easy entry and exit mechanism for stockbrokers in the market has limited their number and put constraint in providing fair and competent services. They are not concerned with expanding their services out of the valley and mostly are found to be taken this business as a secondary business. Questions on their professionalism are often raised and the media time to time has also highlighted their involvement in manipulative trading. They are often blamed for not being well equipped to provide investment counselling services to the investors. They are also lagging behind in keeping updated records of trading. In the fiscal year 2005/06, SEBON and NEPSE, on their joint on-site inspection of stockbrokers, found many brokers not keeping updated records of securities transactions and transaction orders for which they were suspended from trading securities (SEBON, Annual Report, 2011/12).

8. Absence of institutional investors

The market is dominated by individual investors and most of them are not making informed investment decisions rather driven by market rumours. Because of lack of institutional investors in the market, there is no pressure for

the issuers to make timely and regular disclosure. The price formation process of the market is also not fair as the market is lacking the role of such investors in stabilizing the price of securities in case of unusual ups and downs. The role of institutional investor in the market is known to add up new instrument through collective investment schemes, play role in stabilization of the securities prices, make rational analysis of information and pressurise the issuer for the regular flow of credible information.

3.9 Information disclosure

Information is an important element of securities market. Investors can make rational investment decision if there is sufficient information. The institutions disseminating information are issuing companies and stock exchange. Issuing companies have to prepare prospectus at the time of public issue. After listing they have to disclose periodic and other material information (Securities Act, 2006). However, specific format of the prospectus has not been prescribed yet to confirm the requirement of the Securities Act, 2006 and Companies Act, 2006. In lack of specific standards the listed companies under the same group do not have uniformity in corporate disclosure. The credibility of the information has always been questionable in case of many companies as evident from the issues raised by the newspapers from time to time on the professionalism of accountants and auditors. Also there is no any mechanism within the securities regulator for the review of corporate information to test the reliability (Securities Act, 2006).

Stock exchange has to receive and disclose the price sensitive information, periodic information and other information of the listed companies and also provide the trading information. Timely disclosure of market information such as ask and bid prices, trading amount and price, traded companies, actual demand and supply of securities, types of transaction etc. helps investors to make rational decision and to determine the time to enter the market and exit from it. However, only the information on price and quantity of traded securities is available in the market.

9. Securities instruments

The diversity in securities market instruments attracts the investors of various risk preferences providing the choices in the investment alternatives. But in case of Nepalese securities market, it is mostly dominated by risky instrument (equity share), which constitutes more than 80 percent of the total paid up value of the securities listed in the stock exchange and the rest consisting of preference shares, debentures/bonds and mutual funds. Recently government securities was listed in the stock exchange, however, these securities are mostly held by institutions and free float securities are not in the hands of individuals resulting in limited or no trades. Lack of benchmark interest rate provided by government securities market and the trustee mechanism, the corporate bonds issue practice has still not been popular. So, the market has not become attractive to risk averter and risk neutral investors.

2.1.7 Eligibility for Trading of Securities and Challenges

Listing means registration of securities that are floated by corporate sector to raise funds for the establishment and operation of a company. The importance of listing cannot be overemphasized with few words. The company by means of listing arranges liquidity on the floated securities. The Securities and Exchange Board of India (SEBI) guideline defines listing as admission of the securities of a public limited company on a recognized stock exchange which provides a forum for the purchase and sale of securities. If the listed company is in need of additional fund, it can raise such required fund from the market. Besides, listing also facilitates to value the securities daily on the trading floor. The listing has several advantages like the investor gets periodic reports of the listed companies which help them to know company performance, the transaction of listed companies are reported in daily newspapers and they are able to know the intrinsic value of their investment (Securities and Exchange Board of India, 1972)

If all other things remain constant, the investors attempt to sell higher volume of securities at higher prices and tend to buy less number of securities at higher prices. If the market price of the particular securities increases beyond the intrinsic value of the securities then the investors holding that securities starts to sell, which in turn, increases the selling pressure. The increased selling pressure due to overvaluation of securities or over pricing reduces the demand and ultimately the price will come down and equals the intrinsic value of the securities. In the same way, if the securities are priced below the intrinsic value or net value the demand for such securities increases and the increased demand and lower supply of securities increases the market price, which again levels up with the intrinsic value of the securities. In fact, transactions are be made at the price where both the bid and ask price matches. Therefore, Capital Assets Pricing Model (CAPM) assumes that capital market has to be in a state of equilibrium; if not, the market will move towards the equilibrium position. Over-pricing and under-pricing are temporary phenomena; the market price should equal the intrinsic worth of the securities. It is the listing that facilitates occurrence of such situation in the market (Shrestha, 2002)

Price is also a function of information and investors' perception. If the investors perceive that the particular company will do better in future and also if the present situation is far better than the forecast situation then such investors may be ready to pay higher price as compared to others. In this situation the investors cannot be blamed as being irrational. They are rational but, the prevailing economic situation and quality of information affects their decisions as some investors trade on the basis of asymmetric information.

2.1.7.1 Listing Provision

Different stock exchanges incorporated in different countries have their own listing criteria depending on their geo-political and economic status. Stock exchange provides the opportunity to invest when people have surplus funds and to exit when they are in need of funds and also want to minimize the risks

and maximize the return. CAPM assumes that if there exists several financial instruments having different rate of returns, but the same level of risks, investors prefer the high rate yielding securities. On the other hand if there exists the same rate yielding securities with different risk levels, the investors prefer less risky instruments because the investors are risk averse. Therefore, Securities Exchange Act 1983 of Nepal has made provision for listing considering the fact of giving exit to the investors. Section 8 of Securities Exchange Act, 1983 prohibits securities trading without being listed. This means that all the securities of public limited company must be listed in the stock exchange to make them eligible for trading. The listing by-laws has clearly spelled out that all issued and allotted securities should be listed under the section 11 of the Act. The Act has defined the term "issue" as all the issue made by issuing announcement or by private placement to sell the securities. It has a wide coverage indicating all transactions before listing are void. However, the securities listing by-laws spell out the minimum requirements to be eligible for listing, which includes minimum number of shareholders to be 500, the minimum paid up capital to be Rs.2.5 million above others. Besides this, several information and documents along with dues should be submitted. Now the question can be raised- What will happen to the securities of those companies, which do not meet such criteria as Nepal does not have over-the-counter (OTC) market. It reveals that some of the existing public limited companies are violating the existing laws by trading without being listed on the exchange. In other words, listing is not compulsory but the transactions of securities without listing is against the prevailing laws of the country. In fact, this is the major weakness of our legal enforcement regime (Securities Exchange Act, 1983).

2.1.7.2 Grouping of Listed companies

Nepal Stock Exchange Ltd. (NEPSE) has developed and executed the system for the grouping of listed companies. It has developed certain criteria for it. Such criteria includes- paid up capital of the company to be Rs.20 million, the

number of shareholders to be 1000, the company must have furnished all the information on timely basis and as prescribed by the listing by-laws, the net worth per share should not be less than paid up value and the company must be in profit for the last three years. Companies that meet the above said criteria are categorized in group "A" and the rest in group "B". If a company does not meet any one criterion from the first two criteria, the company will be kept in group "B". Although it may appear unfair for the company when put among the sick companies the listed companies are, however not interested whether to be in group "A" group "B" as they do not have any incentives to be in group "A". If certain incentives are provided to companies in group "A" they might be encouraged to be on this group. Earlier 5 percent tax was exempted to the listed companies. It is also good to adopt the policy to provide tax incentives to the "A" group companies.

2.1.7.3 De-listing of securities

De-listing means cancellation of registration of listed securities from the stock exchange. It is said that listing facilitates the investors to exit from investment and this is also one of the targets of the stock exchange. However, if de-listing is executed the objectives of the Act cannot be attained. Actually, this provision is contradictory and impracticable in our context. As the provision for listing says no securities can be traded without listing, on the other hand, several conditions are given for de-listing on section 14 of the Act. This provision titled De-listing of Securities also consists the provision for suspension or de-listing. The conditions for de-listing as per the provisions are (Securities Exchange Act, 1983).

- If companies engage in activities that are contradictory to what the Act says.
- If directives or orders issued by the stock exchange are not obeyed by the companies.

- If stock exchange feels it is necessary to de-list or suspend the transactions of the listed companies to protect the interest of the investors.

Section 8 of Securities Exchange Act, 1983 makes the listing compulsory to make securities trading eligible whereas the de-listing provision made in section 14 of the same Act, if implemented, makes the securities illiquid. The Act also spells out the protection of the investors' interest. In this contradictory situation, how can the interest of the investors' be protected? In the absence of OTC market, de-listing of a company could trap their investment for unknown period of time. In the US even if the company is listed, it can trade in OTC.

However, in order to be de-listed, the opinion from the audit committee must be obtained, the board of directors of the exchange must approve the de-listing proposal, and 20 to 60 working days must be given to the general public to react on it. After which, the de-listed company can be traded on OTC market. In our case, in order to enlist the securities the decision from the board of directors is essential . This board also consists the representatives from the general public. Therefore, the basic requirement for de-listing is the approval from the BOD. Besides this, the alternative arrangement for providing liquidity should also be made. Recently, NEPSE has de-listed Nepal Bank Ltd. making its securities illiquid. The bank had about 10,000 shareholders (Securities Exchange Act, 1983)

Under the financial sector reform program, Nepal Rastra Bank took over the management of the bank and contracted out the same to the foreign management group. Despite their best efforts if the situation deteriorates causing loss both to the shareholders and depositors then what will be the role of central bank? Will the management take the responsibility? This is a very critical point and all the investors should be aware of this. In the course of attaining their commitments, the management committee of the bank requested the stock exchange to de-list the bank. Their basic logic for de-listing the bank

was that the market price of the share did not reflect the performance, as the bank was in huge loss with very high levels of NPL/NPA. However, the prevailing Act does not have provision to de-list on the request of the listed company. NEPSE sought the opinion of the central bank on this regard and was informed that it is logical to de-list the bank. The board of directors of NEPSE approved the proposal and the bank was de-listed. However, the consequences are that the investment of the general public has become illiquid. Recently, news was published that the bank is going to buy back its own share. In fact, according to the Companies Act, 1997 no company can buy back its share. Such shares are known as Treasury Shares in financial terminology, and the recently promulgated Bank and Financial Institutions Ordinance has permitted it. However, this should be done through secondary market creating sinking fund and others so that the investors can be benefited. It has been said that the bank is going to buy its own share at the price fixed by its management. In this light, the rights and powers empowered to the management committee should be questioned as well as their authority to request for de-listing (Securities Exchange Act, 1983).

2.2 Legal Provisions

2.2.1 Provisions of Revenue to SEBO

As provisioned in the Securities Laws, SEBO receives securities registration fees from the issuer and licensing and renewal fees from the securities businesspersons and stock exchange.

A. Licensing and Renewal Fee for Stock Exchange

As per the provision of Rule 12, sub-rule 1 and annex 2 of Securities Exchange Regulation, 1993, a company applying to operate stock exchange should pay to SEBO Rs.0.2 million as licensing fee. The annual renewal fee for the stock exchange is Rs.0.05 million.

B. Licensing and Renewal Fee for Securities Businesspersons

Rule 28, sub-rule 1 and annex 12 of Securities Exchange Regulation has made provision regarding the licensing and renewal fees for the securities businesspersons as presented in Table 2.1.

Table: 2.1

Licensing and Renewal Fees for Securities Businesspersons

S.N.	Particulars	Licensing Fees (Rs.)	Annual Renewal (Rs.)
1	Stock Broker	2,500	1,500
2	Market Maker/ Securities Dealer	5,000	3,000
3	Issue Manager	10,000	5,000
4	Other functions relating to securities transaction	10,000	5,000

Source: Security Exchange Regulation Act 1993, Rule 28, sub-rule 1

The securities businesspersons should renew their licenses for the coming fiscal year before the expiry of the current fiscal year. In this regard, rule 34, sub-rule 2 of the Regulation states that the securities businesspersons not being able to renew their licenses within the stipulated period should pay additional 25% of renewable fees as penalty.

C. Securities Registration and Issue Approval Fee

Rule 17, sub-rule 1 and annex 5 of the Securities Exchange Regulation, 1993, has made provisions for securities registration and issue approval fees as presented in Table 2.2.

Table: 2:2

Securities Registration And Issue Approval Fees

S.N.	Amount of Issue	Approval Fees
1	Up to Rs. 50,00,000	0.25%
2	Rs. 50,00,001 to 1,00,00,000	0.20%
3	Rs. 1,00,00,001 & above	0.15%

Source: Security Exchange Regulation Act 1993, Rule 17, sub-rule 1

2.2.2 Provision of Revenue to NEPSE

A. Securities Listing Fees

Rule 23, sub-rule 2, and annex 9 of Securities Exchange Regulation, 1993 has made provisions for the listing fees and annual listing renewal fees for a corporate body as presented in Table 3. As per the provision, the annual fees should be paid to NEPSE within three months of the expiry of fiscal year.

Table: 2.3

Securities Listing & Annual Listing Renewal Fees

S.N	Amount of Securities	Listing fees	Renewal Fees
1	Up to Rs. 10 Million	0.20%, or Minimum Rs. 15,000	Rs. 15,000
2	Rs. 10 to 50 Million	0.15%, or Minimum Rs. 45,000	Rs. 25,000
3	Rs. 50 to 100 Million	0.10%, or Minimum Rs. 75,000	Rs. 35,000
4	Above Rs. 100 Million	0.075%, or Minimum Rs. 1,00,0000	Rs. 50,000

Source: Security Exchange Regulation Act 1993, Rule 23, sub-rule 2

B. Membership Fees

By-Law 3, sub-by law 1 and annex 2 of Membership of Stock Exchange and Transaction By-Laws, 1998 has made provision for the membership and annual renewal fees, as presented in Table 4.

Table: 2.4

Membership Fees for Securities Businesspersons

S.N.	Type of Membership	Membership Fees	Annual Fees
1	Stock Broker	Rs. 30,000	Rs. 10,000
2	Market Maker/Securities Dealer	Rs. 1,25,000	Rs. 40,000
3	Issue Manager	Rs. 1,25,000	Rs. 40,000

Source: Membership of Stock Exchange and Transaction Law 1998, By-Law 3

C. Trading Commission

As per the by-law 11, sub-by-law 2, part 3 of Membership of Stock Exchange and Transaction By-laws, 1998, Stock Exchange receives 25% of total commission received by stock brokers on trading of securities. Similarly, as per the provision of by-law 11, sub-byelaw 4, part 24; Stock Exchange receives 10% of the total commission received by the members who provides portfolio management services. Stock Exchange also receives 5% of the total commission from the issue managers providing issue management and underwriting services as per the provision of sub-by-law 5, part 17 of Membership of Stock Exchange and Transaction By-laws, 1998.

D. Fees for Changing Representative

By-law 16, sub-by-law 5 of Membership of Stock Exchange and Transaction By-laws, 1998, states that stock brokers and the market makers while appointing new representatives in place of earlier, should pay Rs.500 and Rs.700 respectively to the Stock Exchange.

2.2.3 Provision of Fees to Securities Businesspersons

A. Brokerage Fees

Rule 36, sub-rule 1 and annex 16 of Securities Exchange Regulation, 1993 states that the securities businesspersons can take the following commissions for providing securities business services.

Table: 2.5

Stock Broker's Commission on Securities Trading

S.N	Amount of Securities Trading	Commission
1	Up to Rs. 25,000	1.50%
2	Rs. 25,000 to Rs. 50,000	1.40%
3	Rs. 50,000 to Rs. 1,00,000	1.30%
4	Rs. 1,00,000 to 5,00,000	1.20%
5	Rs. 5,00,000 to Rs. 10,00,000	1.10%
6	Above Rs. 10,00,000	1.00%

Source: Securities Exchange Regulation Act 1993, Rule 36, sub-rule 1

B. Issue Management & Underwriting Commission

Issue managers could take commission as presented in Table 6 for providing issue management services to the public issue of securities or issuing securities through circular method.

Table: 2.6

Issue Management Commission

S.N	Amount of Issue Managed	Commission
1	Up to Rs. 25,00,000	2.25%
2	Rs. 25,00,000 to Rs. 50,00,000	2.00%
3	Rs. 50,00,000 to Rs. 1,00,00,000	1.75%
5	Above Rs. 1,00,00,000	1.50%

Source: Securities Exchange Regulation Act 1993, Rule 26, sub-rule 1

Securities businesspersons providing underwriting services to public issue or circular issue of securities can charge up to 3% of the underwritten amount as underwriting commission. Similarly, securities businesspersons involved in public issue or circular issue of securities can charge a commission up to 0.50% of amount of securities sold by the businessperson.

2.2.4 Revenue to HMG

HMG receives taxes at the rate of 15% levied on brokerage commission as TDS and capital gain tax at the rate of 10% on capital gain at the time of trading.

2.3 Review of Related Studies

Shrestha (2005) “*Revenue Structure in Nepalese Securities Markets*” SEBO has a dual role of regulating and developing the securities market in the country. Nepal's accession to the World Trade Organisation has added greater challenges in the securities markets, as it should be opened to foreign investors and foreign securities businesspersons. Fulfilling more roles and responsibilities with limited resources can seriously compromise the potential of a thriving capital market.

Due to low level of income from the securities market, SEBO has no alternative than to depend on government funding to carry out its regulating and market development roles. However, in the long term, SEBO can not rely only on government grant and would have to look for other alternatives to provide SEBO with greater operational and financial autonomy. Additional roles and responsibilities of SEBO would justify such increment in resources.

If we see the practice of Indian securities markets, the stock exchanges contribute, on average, 5 percent of the total listing fees to Securities Exchange Board of India (SEBI) every year. Additionally, stock brokers provide service fee at the rate of 0.01 percent of the turnover if the turnover is more than Rs. 10 million in case of corporate securities and 0.001 percent of the turnover in case of government securities. Similarly, mutual fund managers pay service fee to SEBI based on net assets value of the fund managed. We find similar practices in the other securities markets too. In this context, SEBO's share on market revenue should be increased, which can be done by increasing licensing and renewal fees of market intermediaries, allocating some portion of listing fees

and trading commissions to SEBO and bringing securities services like underwriting and registrar to the securities within the ambit of SEBO's regulation and making provisions for charging some fees for such services.

Thapa (2007) in his article "*Nepalese Securities Market: Regulation and Development*" his analysis reveals the weak performance of the market and slow pace of development. Several efforts were made to reform the market and improve market performance. However, these efforts have not become fruitful because of structural deficiencies in market mechanism. Lack of appropriate and standard legal framework has been the major reason for not improving efficiency of regulation. Various kinds of frauds and malpractices from the service providers have been noted. Investors are being the victims of market hypes, as their awareness level could not be raised adequately.

SEBON as being the regulator of securities market must be responsible for proper functioning of market. With the enactment of new Securities Act, SEBON should gear up for the overall development of the market. For this SEBON should give maximum emphasis to bring into implementation of the various regulations as provisioned by the Act. A prerequisite for this would be the capacity building of the regulator with adequate authority and operational autonomy, proper resources and experts, and technological enhancement. SEBON should focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in the market.

Shrestha (2010) in his article "*Stock return and Trading Volume in Nepal*" the proper understanding of stock returns and trading volume helps to understand the portfolio management and investment management services. The relationship between stock returns and trading volume form the basis of profitable trading strategies, and this affects the efficiency of market. Stock

returns and trading volume are two major pillars, around which entire stock market revolves.

The Jarque-Bera statistic of stock returns and trading volume data series are significant. Thus, the stock returns, trading volume and return volatility data series are not normally distributed. Augmented Dickey-Fuller statistics and Philips-Perron test reported that the stock returns, trading volume and volatility series are considered as stationary. This series need not be subjected to be co integration analysis. There is a positive contemporaneous relationship between stock returns and trading volume. There is an asymmetric V-shaped relationship between positive and negative stock returns and trading volume.

Mainali (2011) in his article *“Problems & Prospects of Stock Market in Nepal”* the stock market development is unable to show significant positive impact on the national economy. Small number of listed companies, low market capitalization ratio, characterizes Nepalese stock market, low value traded ratio, low turnover ratio, high volatility, high concentration, illiquid and risky market. The correlation results indicate that there is positive relationship of GDP with stock market. Regression results show the positive but insignificant relationship of stock market variables with GDP. The finding based on regression analysis is not consistent with the findings of Demurguc-Kunt and Levine (1995), and Levine and Zervos (1998). The inconsistent findings may be due to the factor like small size of market relative to GDP. The increasing number of listed companies, market capitalization ratio, turnover ratio, and value-traded ratio indicate that the stock market is developing steadily. The results of primary data analysis indicate that the poor co-ordination among SEBON, NEPSE, NRB and Insurance Board; insufficient information of stock market; unavailability of CSD service; poor institutional strengthening of SEBON; low instrument diversification; mal-practices on stock transaction; frequent changes on policies; poor attention of government for its development are the major problems of Nepalese stock market.

Furthermore, the survey results underscore the importance of political stability in the development of stock market in Nepal.

2.4 Review of Thesis

Sharma (2008) conducted a study on “*Problem & Prospects of Primary and Secondary Market in Nepal*” had the main objective of to study and analyze problem and prospects of primary and secondary market in Nepal. The other objectives of the study are as follows.

- To specify the state of primary and secondary market
- To identify the problems and prospects of primary and secondary market
- To access the past and present behaviors of business operation in the NEPSE

To achieve the objectives of the study the researcher used different financial as well statistical tools like growth rate, percentage changes, average, trend analysis, hypothesis and present the data table in the different table figure, Pie charts and graphs.

The major findings of this study were as follows.

- Performances of many listed companies especially in the manufacturing sector are poor.
- There is no tax benefit in investing in secondary market
- The price and liquidity in the secondary market affect the growth of primary market
- People are showing great trust and faith in the stock market and large numbers of people investing in share in a very positive sign though the price of share are increasing

Shah (2009) conducted a study on “*Nepalese securities market and its clearing and settlement system*” had the main objective of to study and analyze the

clearing and settlement system in Nepalese security market. The other objectives of the study are as follows.

- To study and analyze the present provisions regarding the clearing and settlement system in Nepalese security market
- To study whether the present provision are strictly follow or not
- To analyze the investor awareness regarding the clearing and settlement system in Nepalese securities market

To achieve the objectives of the study the researcher used different financial as well statistical tools like chi square test, market capitalization, growth rate, percentage changes and present the data table in the different table figure, Pie charts and graphs.

Major findings of the study were as follows;

- The current provisions are inadequate to modernize the clearing and settlement system and to develop Nepali capital market.
- Provisions related to stock exchange and brokers, which they should follow, are strictly followed but the provisions related to companies are not followed.
- Investors are aware about most of the steps of the clearing and settlement system. Added to that, they should bear 5-10 percent annual cost within the clearing and settlement period.

Amatya (2010) conducted a research on “*Present status of Nepalese Debt securities market*” with the main objectives were.

- To study the position of debt securities market in the structure of Nepalese securities market.
- To explore the problems of debt securities market of Nepal.

To achieve the objectives of the study the researcher used different financial as well as statistical tools like annual turnover, market capitalization, growth rate, percentage changes, average and present the data table in the different table figure, Pie charts and graphs.

Major findings of the study were as follows;

- Nepalese debt market is still at infant stage. Government debt securities market is slightly at maturity stage in comparison to corporate debt securities market.
- There major problems of debt securities market are investor's increasing attraction towards common stock, lack of public awareness, limited supply of quality bonds, difficult process of issuing debenture, high preference in purchasing banking sector's debentures and low preference in other sectors debentures.

Maharjan (2011) conducted a research on "*A study on stock market in Nepal with concentrate to problems and prospects*" the main objective of the research was to deal with the analysis of the stock market in Nepal, which will bring revolution in the development of the capital market. The basic objective of this study was to highlight the following aspects of stock market.

- To analyze the trend of the stock market
- To study the procedure and practice the primary and secondary market
- To analyze the problem of the stock market

To achieve the objectives of the study the researcher used different financial as well as statistical tools like growth rate, percentage changes, average, trend analysis, hypothesis and present the data table in the different table figure, Pie charts and graphs.

Major findings of the study were as follows;

- Capital market in Nepal is confined to equity market only; Debt transaction is negligible in Nepal Stock Exchange.
- Turnover as well as market capitalization are very small relative to its GDP. Besides, NEPSE is not integrated into world markets.
- The actors of financial market are loosely tied together from legal provisions, which are not effectively implemented. As the financial institutions predominate the market, it has not been able to diversify.
- The result has been poor, security to investors, particularly minority shareholders, who are not fully aware of the risk and return consideration.

Dhamala (2012) has conducted research on “*Determinants of share price in Nepalese Financial Market*” the basic objective of the study are to examine whether MPS of listed companies, especially for selected companies under the study and to what extent the risk is involved in the investment of common stocks of those. In pursuance of the basic objectives, the following specific objectives are set.

- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To identify whether stocks are equilibrium priced or not.

To achieve the objectives of the study the researcher used different financial as well as statistical tools like Correlation analysis, growth rate, percentage changes, hypothesis testing and present the data table in the different table figure, Pie charts and graphs.

Major findings of the study were as follows;

- The same financial indicator that has significant role in determining MPS for one company is not significant for another company.

- There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies.
- MPS of financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS and such relationship is significant.
- The market price of share in Nepal is not indicative of a company's financial performance in stock market.

Gautam (2013) conducted a research on "*Equity Right Issue and the Efficiency of the Nepalese Stock Market*". The objectives of this thesis were as follows.

- To analyze whether Nepalese investors are well known about right issue.
- To test whether share prices fully reflect all the information accompanying right issue announcement.
- To find out whether Nepalese investors use available information regarding the right issue announcement to maximize their wealth.

To achieve the objectives of the study the researcher used different financial as well as statistical tools like growth rate, average, trend analysis, correlation, regression and presented the data table in the different table figure, Pie charts and graphs.

Major findings of the study were as follows.

- Most of the investors buy share from both primary and secondary market.
- Most of the Nepalese investors invest in common stock mainly for dividend and capital gain.
- Most of Nepalese investors collect information regarding the right share issue through the magazines and newspaper.

- Few of the Nepalese investors perform company analysis to make investment in common stock.
- Majority of the Nepalese investors making trading of shares daily.

2.5 Research Gap

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about Nepalese stock market. There have been fund numerous research studies on Nepalese securities market & SEBON some studies are related to NEPSE Index some others are related to IPO, problems and propects of stock market, determinants of stock price but the study on ‘Performance & Problems of Nepalese Security Market’ has not been found yet.

The financial and statistical tools used by most of the researchers were ratio analysis, correlation and regression analysis. This study includes different tools Hypothesis testing, correlation analysis, trend analysis as specific tools. Thus the research study made on “Performance & Problems of Nepalese Security Market " will be an effort to eveluate the performance & Problems of security market in present situation with the help of various related financial as well as statistical tools and techniques. The study can be beneficial to all the concerned parties and people as well.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Research Design

To achieve the objective of this study, descriptive and analytical research design has been used. A descriptive study is one in which information is collected without changing; the environment (i.e., nothing is manipulated). A descriptive research design refers to the process of describing what current conditions or attitudes exist at the moment and the analytical surveys describe and explain why certain situations exist. Primary as well as secondary data has been used for analysis and the discussion and interview with the concerned persons is used for analysis. So, the present study emphasis on descriptive and analytical research (Kothari, 1999).

3.2 Nature & Sources of Data

The present study is based on primary as well as secondary data as per the objective and requirement of the study. For the characteristic of the study, the secondary data is collected from different libraries and journal as well as annual report of SEBON and websites of SEBON, NEPSE. The primary data have been collected through structured questionnaire and asked to the related staffs of SEBON, NEPSE, brokers and other general public who are investing their money in securities.

3.3 Population & Sample

The term population of data denotes for the data of each organization which is within the boundary of specific organization whereas sample data are the data of those organization which has been selected from that whole population for study. The population data for this study comprises SEBON staff, NEPSE staff, Brokers and professional investors. For clear understanding about the

performance of SEBON, selected focus group from the deferent sectors had been taken as the sample for the study. The samples of the study are shown in the following table.

Table: 3.1
Sample of the Study

S.N.	Group of Respondents	Sample No.	Response No.	Percentage
1	SEBON Staff & NEPSE Staff	10	10	100
3	Brokers	10	10	100
4	Professionals Investor	15	15	100

3.4 Data Presentation & Analysis

Presentation and analysis of the available data is the major task of the study. The methods of analysis are applied as simple as possible so that the nonprofessionals and the students can understand it. Every result is tabulated and clear interpretations on it are given simultaneously. Data are presented in tabular, graphical and chart wherever necessary and possible.

3.5 Data Analysis Tools

Various financial and statistical tools to be used in this study. The analysis of data will be done according to pattern of data available. Mainly the analysis will be done by using simple financial & statistical analysis.

3.5.1 Growth Ratio

Growth Ratio is calculated to find out the growth of certain variables in certain period. The following formula has been used to calculate growth ratio.

$$D_n = D_0 (1+g)^{n-1}$$

Where,

D_n = Total amount in current year.

D_0 = Total amount in beginning year

G = Growth rate of amount

N = Total no. of years during the study period.

3.5.2 Percentage Change

To find out the changing positions of different amount this ratio is used. This ratio is calculated to measure the acceleration or retardation of any variables to the company is to take the suitable direction. It is calculated in following way.

$$\text{Annual percentage change} = \frac{\text{Amount of This Year} - \text{Amount of Last Year}}{\text{Amount of Last Year}}$$

3.5.3 Trading Ratio

The company trading ratio is the ratio of the number of traded companies to the total number of listed companies. It is not necessary that share of all the companies listed in the stock exchange are traded. So, the listed companies whose shares are traded in the stock exchange are called traded companies. The company traded ratio measures the liquidity and vice-versa. The company traded ratio can be calculated as;

$$\text{Trading ratio} = \frac{\text{Number of Traded Companies}}{\text{Number of Listed Companies}}$$

3.5.4 Turnover Ratio

The turnover ratio is the ratio of turnover to the market capitalization. Though, it is not direct measure of theoretical definition of liquidity, high turnover is often used as indicator of low transaction cost. The turnover ratio complements to market capitalization ratio. A large but inactive market can have large market capitalization ratio but a small turnover ratio. The turnover ratio can be calculated as;

$$\text{Turnover ratio} = \frac{\text{Turnover}}{\text{Market Capitalization}}$$

3.5.5 Chi-Square Test

Chi-Square test is a non-parametric test because it depends only on the set of observed and expected frequencies and degree of freedom. Since, Chi-square test does not make any assumptions about population parameters; it is also called a distribution free test. Chi-square test is a test, which describes the magnitude of difference between observed frequencies and expected frequencies under certain assumptions. In other words, it describes the magnitude of the discrepancy between theory and observation.

It is defined as;

$$\text{Chi-square} = \text{Sum of } (O-E)^2/E$$

Where,

O = Observed Frequencies

E = Expected Frequencies

Null Hypotheses (H₀): There is no significance difference between in the opinion made by the different groups of respondents.

Alternative Hypothesis (H₁): There is significance difference between in the opinion made by the different groups of respondents.

Tabulated Value;

Find the tabulated value/critical value of Chi-square for (c-1) (r-1) degree of freedom at 5% level of significance.

Decisions;

If calculated Chi-square is less than the tabulated Chi-square, it is not significance H₀ is accepted otherwise it is rejected.

CHAPTER - IV

PRESENTATION & ANALYSIS OF DATA

In this chapter the data collected from surveys made among the SEBON/NEPSE staff, brokers & professional investor as well as the data collected from the secondary sources are presented and analyzed. This chapter has attempted to analyze and draw inferences from the collected facts in accordance to the outline laid down in the research plan. The collected data has been systematically presented in the form of tables and diagrams and analyze by using different tools.

4.1 Secondary Data Analysis

4.1.1 NEPSE Index Movement

Index is one of the most important indicators of secondary market which is considered as mirror of country's economic tend. NEPSE index group consists of various indices and they are calculated on the basis of market capitalization. Out of them overall NEPSE index is the oldest one which is being calculated from the initial days of NEPSE. Similarly the other indices are sensitive index, group wise index and Float index. NEPSE Index is calculated by considering all listed share including that of promoter share of all listed companies at NEPSE.

Table : 4.1

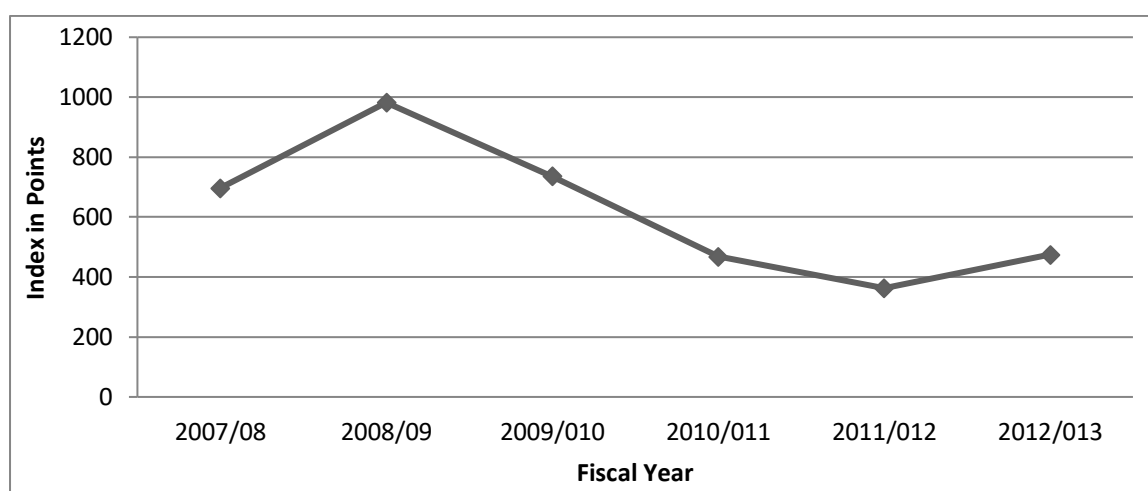
NEPSE Index Movement

Fiscal Year	Index (In Point)	Percentage Changes
2006/07	388.16	-
2007/08	696.58	79.46
2008/09	982.12	40.99
2009/010	735.87	-25.07
2010/011	468.53	-36.33
2011/012	362.85	-22.56
2012/013	474.74	31.84

Source: Annual Report of NEPSE from 2007/08 to 2012/13

Figure: 4.1

Trend of NEPSE Index Movement



Source: Table 4.1

Table 4.1 & Figure 4.1 shows that the NEPSE Index is in increasing trend at the beginning of the study period, it has highly increase in the fiscal year 2007/08 to 2008/09. After that, it is decreasing trend and NEPSE index falls less than 500 point in current days. The highest index is 982.12 points in the fiscal year 2008/09 after that it is decreases to 735.87, 468.53 & 362.85 in the

fiscal year 2009/10, 2010/11 & 2011/12 respectively, Finally in the fiscal year 2012/13 it is increases to 474.74 points.

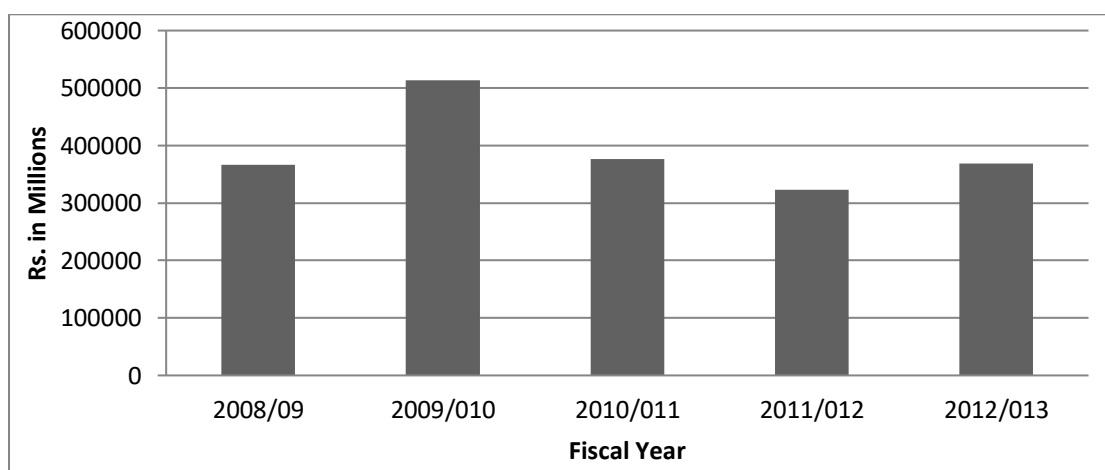
4.1.2 Market Capitalization

Table: 4.2
Market Capitalization of NEPSE

Fiscal Year	Amount	Percentage Changes
2008/09	366247.56	96.59
2009/010	512939.07	40.05
2010/011	376871.37	-26.53
2011/012	323484.34	-14.17
2012/013	368262.13	13.48
Average		21.89

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Figure: 4.2
Movement of Market Capitalization of NEPSE



Source: Table 4.2

Table 4.2 and Figure 4.2 show that the fluctuating trend of market capitalization each year during the study period. The highest market capitalization amount is Rs. 512939.07 million in the fiscal year 2009/010 and

that of lowest is Rs. 323484.34 million in the fiscal year 2011/012. The market capitalization amount is increases in the fiscal year 2008/09, 2009/010 & 2012/013 by 96.59%, 40.05% & 13.48% and decreases in the fiscal year 2010/011 & 2011/012 by 26.53% & 14.17% respectively than previous year. The average percentage change of market capitalization is 21.89%, it indicates that the average market capitalization is increased by 21.89% during the five year study period.

Table: 4.3
Sector wise Market Capitalization of NEPSE

S. N	Turnover	2008/09	2009/010	2010/011	2011/012	2012/013
A	Commercial Bank	218264.19	192611.17	174097.45	111938.05	119433.29
B	Finance	27113.59	17342.23	21834.23	13756.06	10117.97
C	Hotel	3484.13	3346.41	3521.89	3040.64	3213.71
D	Manufacturing & Processing	6576.18	5424.58	5491.21	9577.84	10767.20
E	Other	18.67	94350.00	69000.00	62850.00	75450.00
F	Hydro Power	25863.26	20769.65	18729.38	13550.98	12765.65
G	Trading	686.73	980.70	1599.41	1380.74	1072.04
H	Insurance	10897.16	8640.23	11285.39	9937.18	11254.32
I	Development Bank	15619.36	16648.39	21458.39	13210.54	12304.82
J	Mutual Fund	247.00	260.00	318.30	339.50	272.00

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Table 4.3 shows that the sector wise market capitalization amount of NEPSE. NEPSE divided the market into ten different sectors they are commercial bank, Finance, hotel, manufacturing & processing, hydropower, trading, insurance,

development bank, mutual fund and other. Commercial banking sector has the highest amount of market capitalization in each fiscal year during the study period but the trend of market capitalization of commercial banking sector is fluctuating each year. The highest amount of market capitalization of commercial banking sector is Rs. 218264.19 million in the fiscal year 2008/09 and that of lowest is Rs. 111938.05 million in the fiscal year 2011/012. Hydropower and finance sector covers the similar amount of market capitalization in each year these are the second highest sector of market capitalization but the trend of these sector are fluctuating in each year during the study period. The highest amounts of market capitalization of hydropower & finance sector are Rs. 25863.26 & Rs. 27113.59 million in the fiscal year 2008/09 and that of lowest are Rs. 12765.65 & Rs. 10117.97 million in the fiscal year 2012/013. Development bank sector has the third highest sector of market capitalization; the highest amount of market capitalization is Rs. 16648.39 million in the fiscal year 2009/010 and that of lowest is Rs. 12304.82 million in the fiscal year 2012/013.

4.1.3 Annual Turnover

Table: 4.4

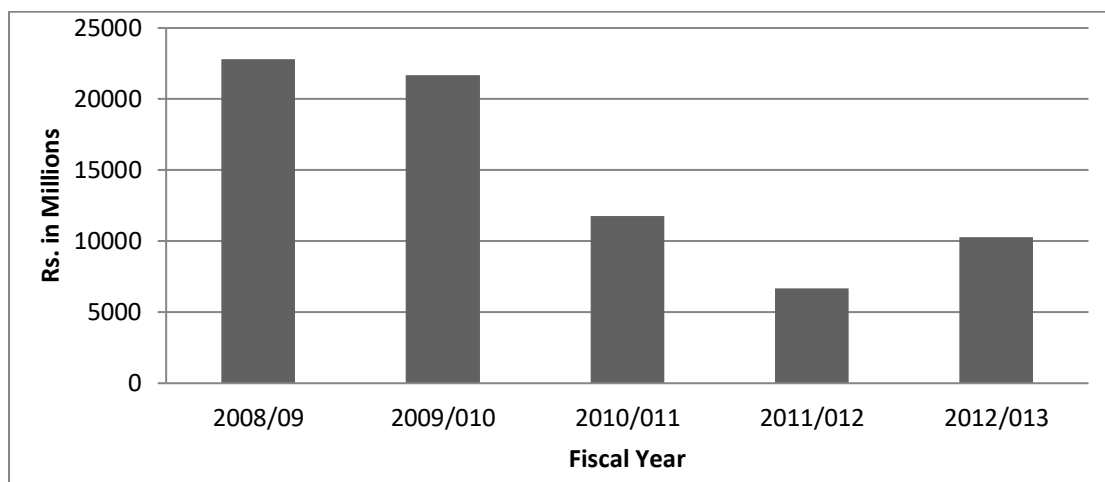
Annual Turnover of NEPSE

Fiscal Year	Share Units '000'	Amount '000000'	Percentage Changes
2008/09	28599.78	22820.76	172.97
2009/010	30547.16	21681.14	-4.99
2010/011	26122.82	11787.38	-45.34
2011/012	26240.39	6665.33	-43.45
2012/013	41885.40	10279.29	54.22
Average			26.68

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Figure: 4.3

Movement of Annual Turnover of NEPSE



Source: Table 4.4

Table 4.4 and Figure 4.3 show that the decreasing trend of annual turnover except the fiscal year 2012/013 during the study period. The highest annual turnover amount is Rs. 22820.76 million in the fiscal year 2008/09 and that of lowest is Rs. 6665.33 million in the fiscal year 2011/012. The annual turnover amount is decreases in the fiscal year 2009/010, 2010/011 & 2011/012 by 4.99%, 45.34% & 43.45% and increases in the fiscal year 2008/09 & 2012/013 by 172.97% & 26.68% respectively than previous year. The average increment in the annual turnover is 26.68% during the five-year study period.

Table: 4.5
Sector-wise Annual Turnover of NEPSE

S. N	Turnover	2008/09	2009/010	2010/011	2011/012	2012/013
A	Commercial Bank	13822.14	12406.45	7196.24	3,431.82	3978.65
B	Finance	2307.53	2615.40	1263.94	630.69	570.24
C	Hotel	27.67	18.69	10.15	151.93	182.48
D	Manufacturing & Processing	343.44	26.08	37.74	363.06	467.98
E	Other	0.29	494.39	217.83	122.67	104.09
F	Hydro Power	3199.94	890.30	752.45	343	394.98
G	Trading	33.65	33.49	35.43	27.53	22.45
H	Insurance	264.86	212.80	183.47	377.15	352.78
I	Development Bank	1981.05	2740.36	1323.53	813.24	912.89
J	Mutual Fund	6.09	22.40	5.21	14.68	9.67

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Table 4.5 shows the sector wise annual turnover of NEPSE. Commercial banking sector has the highest amount of annual turnover in each fiscal year during the study period but the trend of annual turnover of commercial banking sector is decreasing each year than previous year except the fiscal year 2012/013. The highest amount of annual turnover of commercial banking sector is Rs. 13822.14 million in the fiscal year 2008/09 and that of lowest is Rs. 3431.82 million in the fiscal year 2011/012. Development bank and finance sector have the similar amount of annual turnover these are the second highest sources of annual turnover. The total amount of turnover of these sector are decreasing trend each year than previous year. The highest amounts of annual turnover of Development bank & finance sector are Rs. 2740.36 & Rs. 2615.40

million and that of lowest are Rs. 813.24 & Rs. 570.24 million respectively. Hydropower sector has the third highest source of annual turnover; the highest amount of annual turnover is Rs. 3199.94 million in the fiscal year 2008/09 and that of lowest is Rs. 343 million in the fiscal year 2011/012.

4.1.4 Number of Transactions & Listed Securities

Table: 4.6

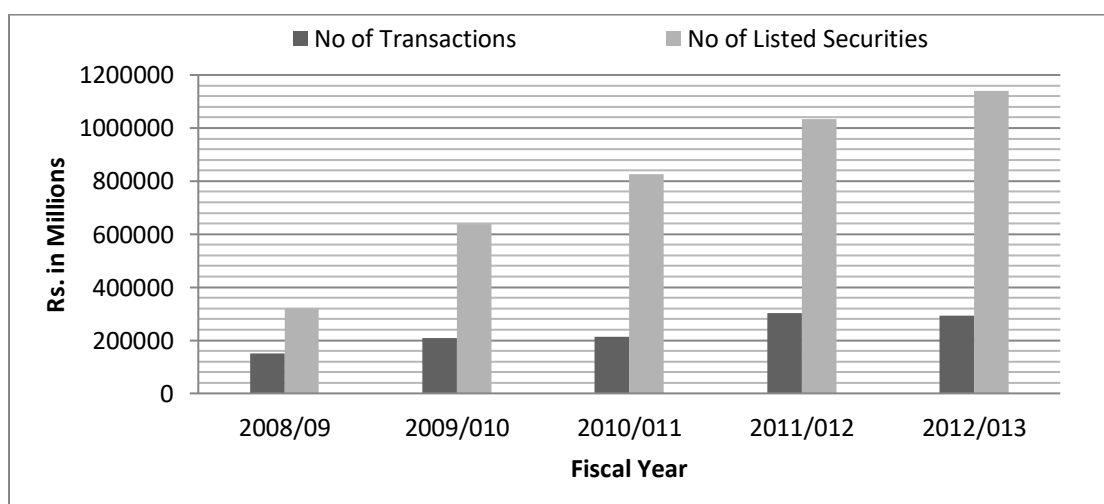
Number of Transactions & Listed Securities in NEPSE '000'

Fiscal Year	No of Transactions	Percentage Changes	No of Listed Securities	Percentage Changes
2008/09	150800	25.13	321131	31.88
2009/010	209091	38.65	637868	98.63
2010/011	213733	2.22	826046	28.83
2011/012	302364	41.47	1033674	25.14
2012/013	293489	-2.94	1140081	10.29
Average		20.91	Average	38.95

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Figure: 4.4

No. of Transactions & Listed Securities



Source: Table 4.6

Table 4.6 & Figure 4.4 show the number of listed securities, number of transactions and the percentage changes in each fiscal year. The numbers of listed securities are increases in each fiscal year than previous year during the study period but the numbers of transactions are increases up to the fiscal year 2011/012 and decreases in the fiscal year 2012/013 by 2.94%. The average increment in the number of transactions is 20.91% and number of listed securities is 38.95% during the five-year study period.

4.1.5 Listed Companies & Paid up Value

Table: 4.7

No of Listed Companies & Paid up Value of listed Share

Fiscal Year	No of Listed Companies	Percentage Changes	Paid Up Value of Share	Percentage Changes
2008/09	142	15.24	29465	35.50
2009/010	159	11.97	61140	107.50
2010/011	176	10.69	79786	29.79
2011/012	207	17.61	100238	25.63
2012/013	216	4.35	110610	10.35
Average		11.97	Average	

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Table: 4.8

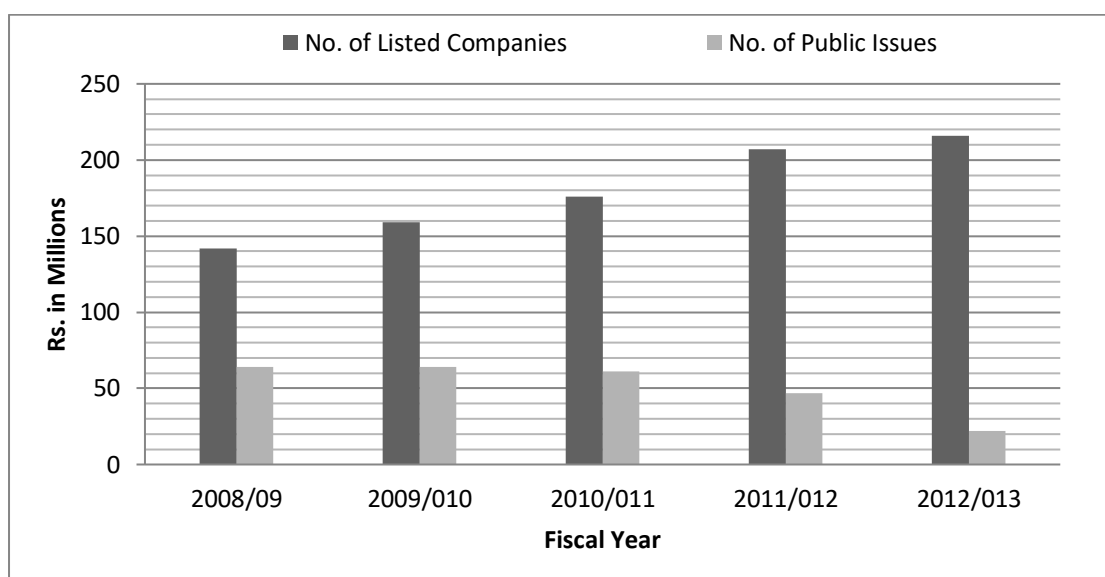
Number & Amount of Public Issues '000000'

Fiscal Year	No of Public Issues	Percentage Changes	Amount of Public Issues	Percentage Changes
2008/09	64	7.39	10668.20	13.17
2009/010	64	0	16828.50	57.74
2010/011	61	-4.69	10822.41	-35.69
2011/012	47	-22.95	6754.03	-37.59
2012/013	22	-53.19	2902.18	-57.03
Average	51.6	-	9595.06	-

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Figure: 4.5

No. of Listed Companies & No. of Public Issues



Source: Table 4.7 & 4.8

Table 4.7 & Figure 4.5 describe the number and amount of public issues during the five-year study period. The number of public issues made by the different companies is decreasing trend in each fiscal year in the fiscal year 2008/09 and 2009/010 there were 64 companies made public issues but it is decreases to 22 companies in the fiscal year 20011/012. In addition, the amount of public issues is fluctuating trend during the study period the highest amount of public is Rs.16828.50 million in the fiscal year 2009/010 and that of lowest is Rs. 2902.18 million in the fiscal year 2012/013. The average number of public issues is 52 and average amount of public issues is Rs.9595.06 million during the five-year study period.

4.1.6 Market Day & Average Turnover

Table: 4.9

Market Day per Year & Average Daily Turnover '000000'

Fiscal Year	Market Day per Year	Percentage Changes	Average Daily Turnover	Percentage Changes
2008/09	235	1.35	97.11	14.45
2009/010	234	-0.43	92.65	-4.59
2010/011	225	-3.85	52.39	-43.45
2011/012	231	2.67	28.85	-44.93
2012/013	232	0.43	44.31	53.59
Average	231	-	63.06	-

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Table 4.9 shows that the market day per year, average daily turnover & their respective percentage changes during the five-year study period. The market days in the fiscal year 2008/09 are 235 and it is decrease in the fiscal year 2009/010 by 0.43%, 2010/011 by 3.85% and increases in the fiscal year 2011/012 by 2.67% and 2012/013 by 0.43% than previous year. Similarly, the average daily turnover is decreases each year than previous year during the study period except the fiscal year 2012/013. The amount of average daily turnover is Rs. 97.11 million in the fiscal year 2008/09 after that it is decrease by 4.59%, 43.45% & 44.93% in the fiscal year 2009/010, 2010/011 & 2011/012 respectively and finally it is increase by 53.58% in the fiscal year 2012/013 then previous year. The average market day per year and average daily turnover are 231 days and 63.06 million during the five-year study period.

Table: 4.10

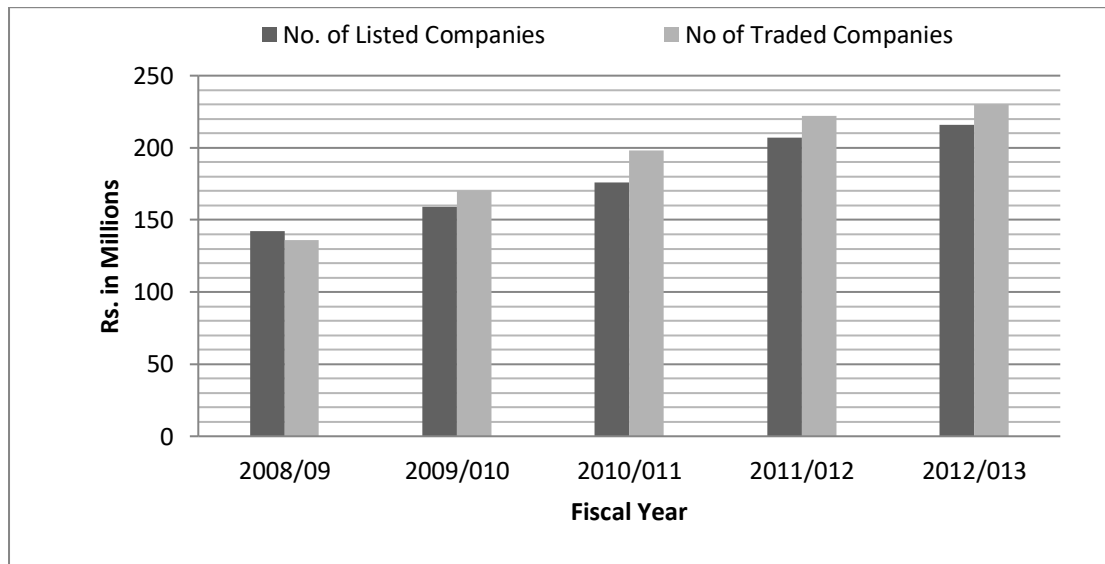
No. of Listed Companies, No. of Traded Companies & No. of Traded Share

Fiscal Year	No. of Listed Companies	No of Traded Companies	No. of Traded Share '000'
2008/09	142	136	28599.77
2009/010	159	150	30547.16
2010/011	176	170	26231.35
2011/012	207	203	26240.39
2012/013	216	213	41478.90
Average	180	174	30619.51

Source: Annual Report of NEPSE from 2008/09 to 2012/13

Figure: 4.6

No. of Listed Companies & No. of Traded Companies



Source: Table 4.10

Table 4.10 & Figure 4.6 show that the number of listed companies, number of traded companies and number of traded share during the five year study period. Numbers of listed companies and traded companies are going to increases each fiscal year in the fiscal year 2008/09 there are 142 companies are listed in the

NEPSE out of them 136 company's share are traded in NEPSE it is increases to 216 listed companies and 213 traded companies in the fiscal year 2012/013. The average number of listed companies and average number of traded companies are 180 and 174 respectively during the study period.

4.2 Primary Data Analysis

4.2.1 Legal Provisions

Questionnaire: Are the legal provisions under various acts, laws, guidelines and regulations of SEBON sufficient to regulate the capital marker?

Table: 4.11
Response Regarding the Legal Provisions of SEBON to Regulate the Capital Market

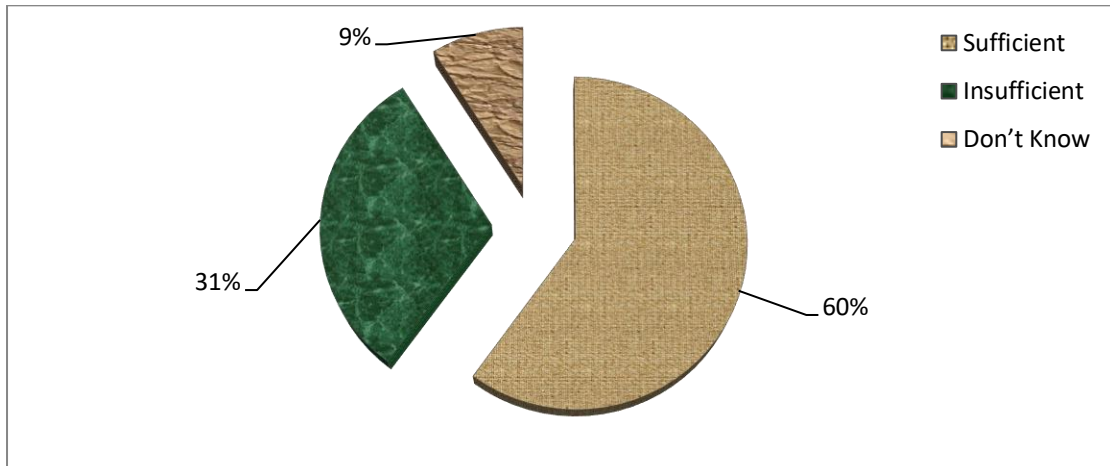
Respondents Responses	SEBON/ NEPSE Staff	%	Brokers No.	%	Investor No.	%	Total No.	Total %
Sufficient	7	70	6	60	9	60	21	60
Insufficient	3	30	3	30	4	27	11	31
Don't Know	0	0	1	10	2	13	3	9
Total	10	100	10	100	15	100	35	100

Source: Field Survey

The various acts, laws, guidelines and regulations are necessary to regulate the capital marker. The respondents were asked the legal provisions under various acts, laws guidelines and regulations of SEBON sufficient to regulate the capital marker. Table 4.1 presents that out of 10 respondents of NEPSE/SEBON officials; 70 percent of them replied that the legal provision under various acts, laws guidelines and regulations of SEBON are sufficient to regulate the capital marker. Similarly, 60 percent stockbroker out of 10, and 60 percent investors out of 15 replied that the legal provision under various acts, laws guidelines and regulations of SEBON are sufficient to regulate the capital marker.

Figure: 4.7

Pie Chart of Response Regarding the Legal Provisions of SEBON to Regulate the Capital Market



Source: Table 4.11

Table 4.11 shows that the out of total 35 respondents of NEPSE/SEBON, Brokers & Investor; 60% of them replied that the legal provision under various acts, laws guidelines and regulations of SEBON are sufficient to regulate the capital marker. Similarly, 31% of them replied that the legal provision under various acts, laws guidelines and regulations of SEBON are insufficient to regulate the capital marker. And only 9% of them replied that they do not know about the legal provision under various acts, laws guidelines and regulations of SEBON. The majority of respondents replied that the legal provision under various acts, laws guidelines and regulations of SEBON are insufficient to regulate the capital marker.

Table: 4.12

Chi Square Test for Response Regarding the Legal Provisions of SEBON to Regulate the Capital Market

Calculated Value	Tabulated Value	Level of Significance	Degree of Freedom	Hypothesis
1.42	9.49	5%	$(3-1) (3-1) = 4$	H_0 Accepted

Source: Appendix III & IV

The chi-square test is applied to check whether there are similar views among the different groups of respondents. The tabulated value of chi-square for 4 degree of freedom at 5 percent level of significance is 9.49 and the calculated value of chi-square is 1.42, which indicates that the opinions of responding groups are similar. The result signifies that the legal provision under various acts, laws guidelines and regulations of SEBON are sufficient to regulate the capital market.

4.2.2 Co-ordination among Institutions

Questionnaire: Whether the poor coordination among SEBON, NEPSE, NRB & Insurance Board is a problem for the development for stock market?

Table: 4.13

Response Regarding the Co-ordination among Institutions

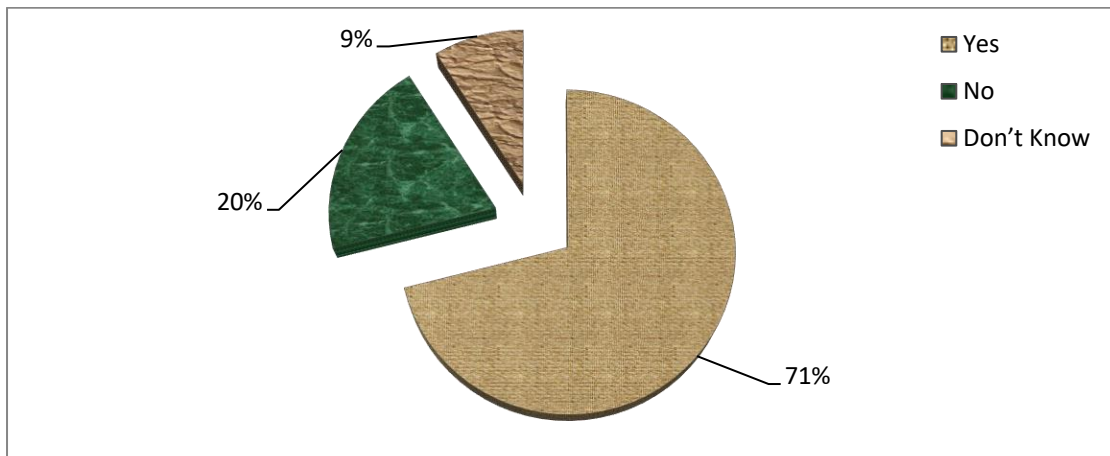
Respondents Responses	SEBON/ NEPSE Staff	%	Brokers No.	%	Investor No.	%	Total No.	Total %
Yes	6	60	7	70	12	80	25	71
No	4	40	2	20	1	7	7	20
Don't Know	0	0	1	10	2	13	3	9
Total	10	100	10	100	15	100	35	100

Source: Field Survey

The co-ordination among SEBON, NEPSE, NRB, and Insurance Board is necessary for good governance and transparent stock market. The respondents were asked whether the poor co-ordination among these institutions is a problem for the development for stock market development. Table 4.2 presents that out of 10 respondents of NEPSE/SEBON officials; 60 percent of them replied that the poor coordination among institutions is a problem for the development of stock market. Similarly, 70 percent stockbroker out of 10, and 80 percent investors out of 15 replied that the poor coordination among institutions is a problem regarding development of stock market.

Figure: 4.8

Pie Chart of Response Regarding the Co-ordination among Institutions



Source: Table 4.13

Table 4.13 shows that the out of total 35 respondents of NEPSE/SEBON, Brokers & Investor; 71% of them replied that the poor coordination among institutions is a problem for the development of stock market. Similarly, 20% of them replied that the poor coordination among institutions is not a problem for the development of stock market and only 9% of them replied that they do not know about the problem of stock market. The majority of respondents replied that the poor co-ordination among institutions is a problem for the development of stock market.

Table: 4.14

Chi Square Test for Response Regarding the Co-ordination among Institutions

Calculated Value	Tabulated Value	Level of Significance	Degree of Freedom	Hypothesis
4.9	9.49	5%	$(3-1) (3-1) = 4$	H_0 Accepted

Source: Appendix I & II

The chi-square test is applied to check whether there are similar views among the different groups of respondents. The tabulated value of chi-square for 4 degree of freedom at 5 percent level of significance is 9.49 and the calculated value of chi-square is 4.9, which indicates that the opinions of

responding groups are similar. The result signifies that the poor coordination among institutions is one of the problems for the development of stock market. Since, these institutions are the policy makers and regulators, it is necessary to have sound coordination among them.

4.2.3 Supervision & Monitoring Practices

Questionnaire: Are you satisfied regarding the supervision and monitoring practices of SEBON?

Table: 4.15

Response Regarding the supervision and monitoring practices of SEBON

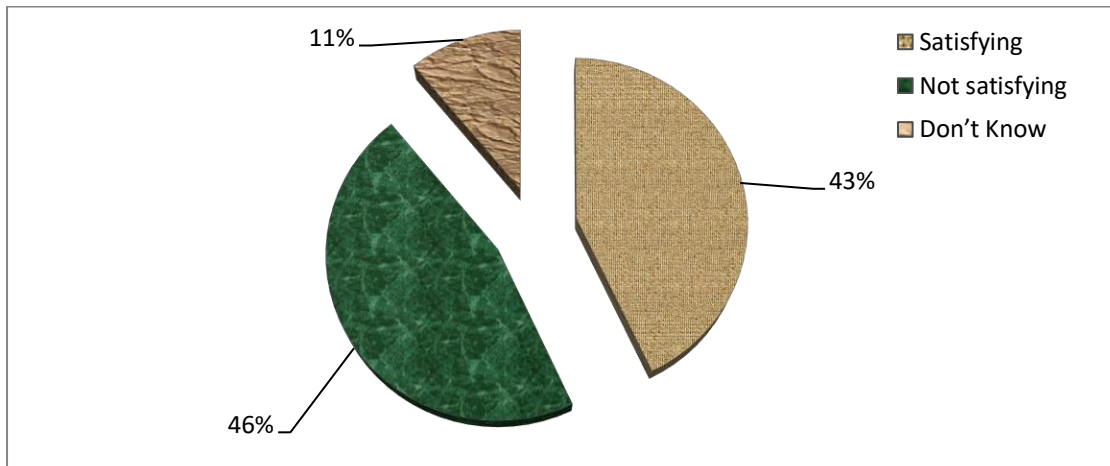
Respondents Responses	SEBON/ NEPSE Staff	%	Brokers No.	%	Investor No.	%	Total No.	Total %
Satisfying	8	80	3	30	4	27	15	43
Dissatisfying	2	20	6	60	8	53	16	46
Don't Know	0	0	1	10	3	20	4	11
Total	10	100	10	100	15	100	35	100

Source: Field Survey

The respondents were asked they are satisfying or not regarding the supervision and monitoring practices of SEBON. Table 4.1 presents that out of 10 respondents of NEPSE/SEBON officials; 80 percent of them replied that they are satisfying regarding the supervision and monitoring practices of SEBON. Similarly, 30 percent stockbroker out of 10, and 27 percent investors out of 15 replied that they are satisfying regarding the supervision and monitoring practices of SEBON. However, 20 percent NEPSE/SEBON staff, 60 percent brokers and 53 percent investor are not satisfying regarding the supervision and monitoring practices of SEBON.

Figure: 4.9

Pie Chart of Response Regarding the supervision and monitoring practices of SEBON



Source: Table 4.15

Table 4.15 shows that the out of total 35 respondents of NEPSE/SEBON, Brokers & Investor; 43% of them replied that they are satisfying regarding the supervision and monitoring practices of SEBON. Similarly, 46% of them replied that they are not satisfying regarding the supervision and monitoring practices of SEBON and only 11% of them replied that they do not know about the supervision and monitoring practices of SEBON. The majority of respondents replied that they are not satisfying regarding the supervision and monitoring practices of SEBON.

Table: 4.16

Chi Square Test for Response Regarding the supervision and monitoring practices of SEBON

Calculated Value	Tabulated Value	Level of Significance	Degree of Freedom	Hypothesis
8.73	9.49	5%	$(3-1) (3-1) = 4$	H_0 Accepted

Source: Appendix V & VI

The chi-square test is applied to check whether there are similar views among the different groups of respondents. The tabulated value of chi-square for 4 degree of freedom at 5 percent level of significance is 9.49 and the

calculated value of chi-square is 8.73, which indicates that the opinions of responding groups are similar. The result signifies that the respondents are not satisfying regarding the supervision and monitoring practices of SEBON.

4.2.4 Factors Affecting the Efficiency of NEPSE

Questionnaire: What may be the potential factors that affecting the efficiency of Nepalese Stock Market?

Table: 4.17
Response regarding potential factors that affecting the efficiency of Nepalese Stock Market

Respondents Responses	SEBON/ NEPSE Staff	%	Brokers No.	%	Investor No.	%	Total No.	Total %
Inadequate Rules & Regulations	2	20	4	40	4	27	10	29
Political Instability	5	50	3	30	6	40	14	40
Lack of Broker Firms	3	30	3	30	5	33	11	31
Total	10	100	10	100	15	100	35	100

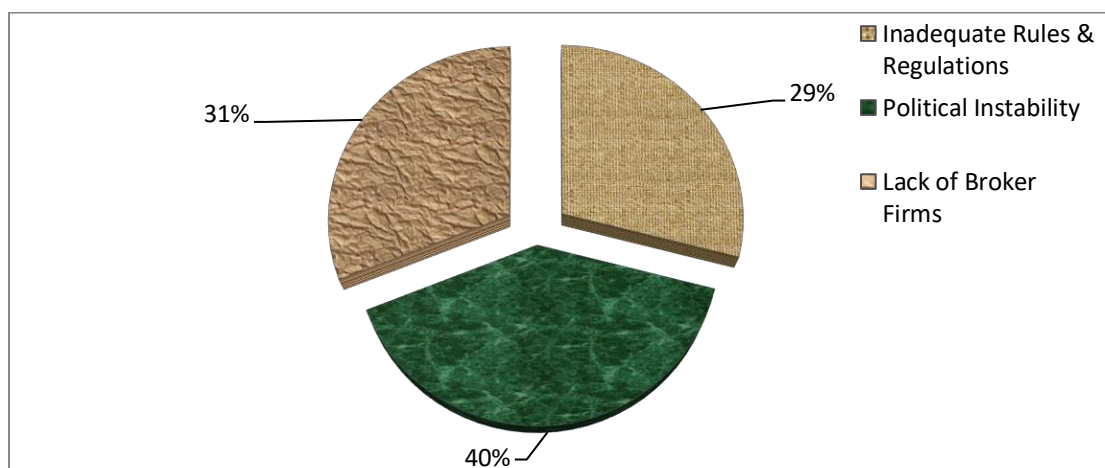
Source: Field Survey

The respondents were asked the potential factors that affecting the efficiency of Nepalese Stock Market. Table 4.1 presents that out of 10 respondents of NEPSE/SEBON officials; 20 percent of them replied that Inadequate Rules & Regulations are affecting the efficiency of Nepalese Stock Market. Similarly, 40 percent stockbroker out of 10, and 10 percent investors out of 15 replied that Inadequate Rules & Regulations are affecting the efficiency of Nepalese Stock Market. However, 50 percent NEPSE/SEBON staff, 30 percent brokers and 40 percent investor replied that Political Instability affecting the efficiency of Nepalese Stock Market and 30 percent NEPSE/SEBON staff, 30 percent

brokers and 33 percent investor replied that Lack of Broker Firms affecting the efficiency of Nepalese Stock Market.

Figure: 4.10

Pie Chart of Response Regarding potential factors that affecting the efficiency of Nepalese Stock Market



Source: Table 4.17

Table 4.17 shows that the out of total 35 respondents of NEPSE/SEBON, Brokers & Investor; 29% of them replied that Inadequate Rules & Regulations are affecting the efficiency of Nepalese Stock Market.. Similarly, 40% of them replied that Political Instability affecting the efficiency of Nepalese Stock Market and 31% of them replied that Lack of Broker Firms affecting the efficiency of Nepalese Stock Market.. The majority of respondents replied that Political Instability affecting the efficiency of Nepalese Stock Market.

Table: 4.18

Chi Square Test for Response Regarding the supervision and monitoring practices of SEBON

Calculated Value	Tabulated Value	Level of Significance	Degree of Freedom	Hypothesis
1.26	9.49	5%	(3-1) (3-1) = 4	H ₀ Accepted

Source: Appendix VI & VIII

The chi-square test is applied to check whether there are similar views among the different groups of respondents. The tabulated value of chi-square for 4 degree of freedom at 5 percent level of significance is 9.49 and the calculated value of chi-square is 1.26, which indicates that the opinions of responding groups are similar. The result signifies that the respondents replied that Political Instability affecting the efficiency of Nepalese Stock Market.

4.2.5 SEBON Ability to Make the Investor Aware

Questionnaire: Are you agreeing regarding to the SEBON is able to make the investor aware by promoting and protecting their rights?

Table: 4.19
Response regarding SEBON is able to make the investor aware by promoting and protecting their Rights

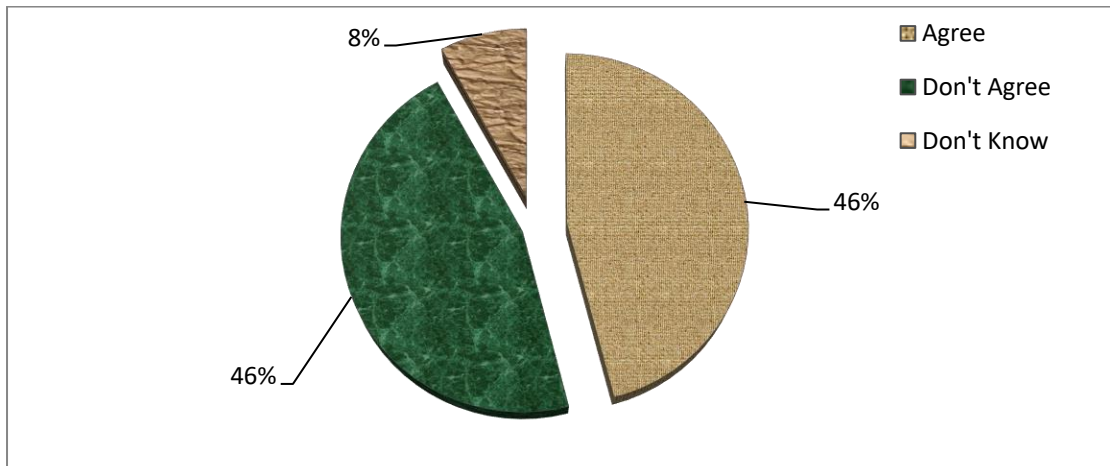
Respondents Responses	SEBON/ NEPSE Staff	%	Brokers No.	%	Investor No.	%	Total No.	Total %
Agree	7	70	4	40	5	33	16	46
Don't Agree	3	30	5	50	8	54	16	46
Don't Know	0	0	1	10	2	13	3	8
Total	10	100	10	100	15	100	35	100

Source: Field Survey

The respondents were asked SEBON is able to make the investor aware by promoting and protecting their Rights. Table 4.1 presents that out of 10 respondents of NEPSE/SEBON officials; 70 percent of them replied that SEBON is able to make the investor aware by promoting and protecting their rights. Similarly, 40 percent stockbroker out of 10, and 33 percent investors out of 15 replied that SEBON is able to make the investor aware by promoting and protecting their rights. However, 30 percent NEPSE/SEBON staff, 50 percent brokers and 54 percent investor replied that SEBON is not able to make the investor aware by promoting and protecting their rights.

Figure: 4.11

Pie Chart of Response Regarding SEBON is able to make the investor aware by promoting and protecting their Rights



Source: Table 4.19

Table 4.19 shows that the out of total 35 respondents of NEPSE/SEBON, Brokers & Investor; 46% of them replied that SEBON is able to make the investor aware by promoting and protecting their rights. Similarly, 46% of them replied that SEBON is not able to make the investor aware by promoting and protecting their rights and 8% of them replied that they do not know about the SEBON is able or not able to make the investor aware by promoting and protecting their Rights. The equal proportion of respondents replied that SEBON is able and not able to make the investor aware by promoting and protecting their rights.

Table: 4.20

Chi Square Test for Response SEBON is able to make the investor aware by promoting and protecting their Rights

Calculated Value	Tabulated Value	Level of Significance	Degree of Freedom	Hypothesis
3.91	9.49	5%	(3-1) (3-1) = 4	H ₀ Accepted

Source: Appendix IX & X

The chi-square test is applied to check whether there are similar views among the different groups of respondents. The tabulated value of chi-square

for 4 degree of freedom at 5 percent level of significance is 9.49 and the calculated value of chi-square is 3.91, which indicates that the opinions of responding groups are similar. The result signifies that the respondents replied that SEBON is able to make the investor aware by promoting and protecting their rights.

4.3 Major Findings of the Study

4.3.1 Findings from Secondary Data

- NEPSE index falls less than 500 point in current days. The highest index is 982.12 points in the fiscal year 2008/09.
- The average market capitalization is Rs. 21.89 million during the study period. The highest market capitalization amount is Rs. 512939.07 million in the fiscal year 2009/010 and that of lowest is Rs. 323484.34 million in the fiscal year 2011/012.
- The average increment in the annual turnover is 26.68% during the five-year study period. The highest annual turnover amount is Rs. 22820.76 million in the fiscal year 2008/09 and that of lowest is Rs. 6665.33 million in the fiscal year 2011/012.
- The average increment in the number of transactions is 20.91% and number of listed securities is 38.95% during the five-year study period.
- The number of public issues made by the different companies is decreasing trend in each fiscal year. The average number of public issues is 52 and average amount of public issues is Rs.9595.06 million during the five-year study period.
- The average market day per year and average daily turnover are 231 days and 63.06 million during the five-year study period.
- Numbers of listed companies and traded companies are going to increases each fiscal year. The average number of listed companies and

average number of traded companies are 180 and 174 respectively during the study period.

4.3.2 Findings from Primary Data

- The majority of respondents i.e. 60% replied that the legal provision under various acts, laws guidelines and regulations of SEBON are sufficient to regulate the capital marker.
- The majority of respondents i.e. 71% replied that the poor co-ordination among institutions is a problem for the development of stock market.
- The majority of respondents i.e. 46% replied that they are not satisfying regarding the supervision and monitoring practices of SEBON.
- The majority of respondents i.e. 40% replied that Political Instability affecting the efficiency of Nepalese Stock Market.
- The equal proportion of respondents' i.e. 46% replied that SEBON is able and not able to make the investor aware by promoting and protecting their rights.

CHAPTER – V

SUMMARY, CONCLUSIONS & RECOMMENDATIONS

5.1 Summary

This research study is focuses on the performance and problems of Security Board of Nepal in the capital market. Under this study various acts, guidelines and regulation of SEBON have been analyzed. The study periods of five years, begin from 2008/09 to 2012/13. As it is regulatory body, it has the responsibility to handle and make effective guidelines, various laws and regulations for the development of capital market in Nepal. SEBON focus is directed towards increasing the market credibility through strengthening of the regulatory system. However, the regulatory system in Nepalese capital market is still redundant and fragment. These are many obstacles to be solved in order to enhance an effective statutory and regulatory framework. Therefore, it is acceptable the Nepalese capital market is still in early stage.

To find out and analyzed the performance and problems of Security Board of Nepal in capital market, there are five questions have been distributed to the 35 persons for primary sources, which are directly related in the securities market. The respondents' persons and institutions are professional investors, staff of SEBON and staff of NEPSE. All the questionnaires have analyzed with the help of chi-square techniques as well as secondary data have been analyzed with the help of SEBON annual reports, different tables of SEBON and it has seen in bar-diagram and graphs.

Secondary data are based on annual reports of five years, current publications of SEBON journals, publication and reports of NEPSE. Whereas primary data is based on various respondents like professionals, non-professionals investors, SEBON staff, NEPSE staff and Brokers.

To achieve the objectives of the study, the whole study is divided into five chapters. The first chapter introduces background of study, statement of problem, objective of the study, limitations of the study and organization of the study. The second chapter includes pilot studies and textual concepts with regard to conceptual framework on Capital market, NEPSE, SEBON along with the review of major books, journal, research work and previous theses. The third chapter includes research design, population & sample, sources and types of data, data processing technique and method & tools of data analysis. The fourth chapter deals with the presentation and analysis of data. It analyzed the data and interprets the results using different financial and statistical tools, table, chart and graphs. It also includes major findings of the study. The last chapter of the study summarizes the result of analysis and suggestive framework.

5.2 Conclusions

After analyzing and presentation of primary and secondary data and testing of hypothesis of primary data, it can be concluded that SEBON and NEPSE are inefficient in their role and responsibilities. They need to improve acts regulation laws and guidelines for effectiveness in their performance. The SEBON & NEPSE for their regular and effective existing should be away for securities transactions fair, healthy, efficient and responsible. However, in practice they are found not perfect for issue. SEBON should present active way; general in formations should provide to investor, rules and regulations should be clear and understandable. The supervisions, monitoring, protecting activities of SEBON has been in practices or was the issue based on respondents view towards it, it can be concluded that it is average in practices. CHI- square refers its insufficiency in practices.

Based on respondents view SEBON has taken several initiatives creating investor awareness in securities market through research, studies and publication of relevant materials. SEBON has also developed several directives

and enforce them in order to perfect the interest of general investor. Supervision and monitoring activities of SEBON have not existed in practices because most of the respondents are against the issue and chi-square test also proved it. Listed companies are not aware about it holds AGM timely by which investor and other stakeholders are not able to know the company's performance. NEPSE index does not show the positive environment in current days.

Thus the researcher can conclude that existing laws, acts, guidelines and regulations are ineffective. The concern bodies should take the action to improve and amend where insufficiency and difficult in implementation. Proper coordination in between the SEBON, NEPSE & NRB should be brought with appropriate and clear decision of assignment and responsibilities under the legislation. The capital market should be open for disseminating the necessary information and guidelines for the investors. IN Nepalese Capital Market most of the investor is not rational very few investor or group of investor has been leading the capital market, it should also think about the issue practical compliance by all the market participants' i. e, market intermediates, companies & enforcement by relegating authorities are essential for protection of investor interest in the market.

5.3 Recommendations

On the basis of findings the following recommendations are proposes in order to solve the various problems of NEPSE.

- There should be proper co-ordination between concerned bodies like SEBON, NEPSE & NRB. But SEBON most play the prime role in the capital market from where the effectiveness of capital market can be guided.
- Various Laws, Acts and guidelines are not sufficient in proper to protect and promote the investor right. So, SEBON and other concern bodies

should think and take proper action for the issue from which only investors will not benefit but also capital market will be promoted e.g. recent issue of monetary policy by NRB made great fluctuation in capital market. SO, before issuing such policy, it is necessary to consult and discuss among the concerned bodies.

- The regularity mechanism should be made such that aromatic check and balance exist among brokers, market makers and other professional's engaged in the share market activities.
- Legal provisions are to be empowered enough to investigate on causes of insider trading and there should be heavily fine and punishment up to long imprisonment and with draw of wealth accumulated from insider trading.
- Most of the investor form outside of Kathmandu valley are facing various difficulties in taking information regarding to securities market, so it is recommended that to establish another stock exchange outside the valley of hand over the NEPSE to private sector to increase the participation of the investor who lived in the outside of valley.

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APPENDICES

Questionnaire

1. Are the legal provisions under various acts, laws guidelines and regulations of SEBON sufficient to regulate the capital marker?
 - a. Sufficient
 - b. Insufficient
 - c. Don't Know

2. Whether the poor coordination among SEBON, NEPSE, NRB & Insurance Board is a problem for the development for stock market?
 - a. Yes
 - b. No
 - c. Don't Know

3. Are you satisfy regarding the supervision and monitoring practices of SEBON?
 - a. Satisfy
 - b. Dissatisfy
 - c. Don't Know

4. What may be the potential factors that affecting the efficiency of Nepalese Stock Market?
 - a. Inadequate Rules & Regulations
 - b. Political Instability
 - c. Lack of Broker Firms

5. Are you agreeing regarding to the SEBON is able to make the investor aware by promoting and protecting their rights?
 - a. Agree
 - b. Don't Agree
 - c. Don't Know

- 6.** What is the main reason for slow growth of security market in Nepal?
- Due to lack of proper law
 - Due to lack of Liquid capital Market
 - Due to lack of investor awareness
 - Due to lack of financing opportunities
- 7.** In your opinion, which type of trading is more popular in Nepal?
- Primary Market
 - Secondary Market
 - OTC market
 - Third Market
 - Fourth Market
- 8.** Which are the followings factors are more problematic for the slow growth of capital market?
- Lack of proper financing opportunities
 - Lack of proper infrastructure of the capital market
 - Inefficient financial policies
 - Due to lack of investor awareness
- 9.** How would you generally rate the efficiency of stock market in delivering services?
- Very efficient
 - Efficient
 - Less efficient
 - Inefficient
- 10.** Which kind of government securities should be traded on the secondary market through NEPSE?
- Development Bonds
 - Treasury Bills
 - Government Saving Certificates

Appendix I

Response Regarding the Co-ordination among Institutions

Respondents Responses	Staff	Brokers	Investor	RT	Degree of Freedom	Calculated Value	Tabulated Value
Yes	6	7	12	25	4	4.9	9.49
No	4	2	1	7			
Don't Know	0	1	2	3			
CT	10	10	15	N = 35			

$$\text{Percentage} = \frac{\text{No. of Respondents on Each Response}}{\text{Total No. of Respondents}} \times 100$$

Appendix II

Calculation of Chi Square (χ^2)

O	$E = \frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
6	7.14	-1.14	1.30	0.2
4	2	2	4.00	2.0
0	0.86	-0.86	0.74	0.9
7	7.14	-0.14	0.02	0.0
2	2	0	0.00	0.0
1	0.86	0.14	0.02	0.0
12	10.71	1.29	1.66	0.2
1	3	-2	4.00	1.3
2	1.29	0.71	0.50	0.4
$\sum \frac{(O-E)^2}{E}$				4.9

Appendix III
Response Regarding the Legal Provisions of SEBON to Regulate the
Capital Market

Respondents Responses	Staff	Brokers	Investor	RT	Degree of Freedom	Calculated Value	Tabulated Value
Sufficient	7	6	9	22	4	1.42	9.49
Insufficient	3	3	4	10			
Don't Know	0	1	2	3			
CT	10	10	15	N = 35			

$$\text{Percentage} = \frac{\text{No. of Respondents on Each Response}}{\text{Total No. of Respondents}} \times 100$$

Appendix IV
Calculation of Chi Square (χ^2)

O	$E = \frac{RT \times CT}{N}$	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$
7	6.29	0.71	0.50	0.08
3	2.86	0.14	0.02	0.01
0	0.86	-0.86	0.74	0.86
6	6.29	-0.29	0.08	0.01
3	2.86	0.14	0.02	0.01
1	0.86	0.14	0.02	0.02
9	9.43	-0.43	0.18	0.02
4	4.29	-0.29	0.08	0.02
2	1.29	0.71	0.50	0.39
$\sum \frac{(O-E)^2}{E}$				1.42

Appendix V

Response Regarding the supervision and monitoring practices of SEBON

Respondents Responses	Staff	Brokers	Investor	RT	Degree of Freedom	Calculated Value	Tabulated Value
Sufficient	8	3	4	15	4	8.73	9.49
Insufficient	2	6	8	16			
Don't Know	0	1	3	4			
CT	10	10	15	N = 35			

$$\text{Percentage} = \frac{\text{No.of Respondents on Each Response}}{\text{Total No.of Respondents}} \times 100$$

Appendix VI

Calculation of Chi Square (χ^2)

O	$E = \frac{RT \times CT}{N}$	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$
8	4.29	3.71	13.76	3.21
2	4.57	-2.57	6.60	1.45
0	1.14	-1.14	1.30	1.14
3	4.29	-1.29	1.66	0.39
6	4.57	1.43	2.04	0.45
1	1.14	-0.14	0.02	0.02
4	6.43	-2.43	5.90	0.92
8	6.86	1.14	1.30	0.19
3	1.71	1.29	1.66	0.97
$\sum \frac{(O-E)^2}{E}$				8.73

Appendix VII
Response regarding potential factors that affecting the efficiency of
Nepalese Stock Market

Respondents Responses	Staff	Brokers	Investor	RT	Degree of Freedom	Calculated Value	Tabulated Value
Inadequate Rules & Regulations	2	4	4	10	4	8.73	9.49
Political Instability	5	3	6	14			
Lack of Broker Firms	3	3	5	11			
CT	10	10	15	N = 35			

$$\text{Percentage} = \frac{\text{No. of Respondents on Each Response}}{\text{Total No. of Respondents}} \times 100$$

Appendix VIII
Calculation of Chi Square (χ^2)

O	$E = \frac{RT \times CT}{N}$	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$
2	2.86	-0.86	0.74	0.26
5	4	1.00	1.00	0.25
3	3.14	-0.14	0.02	0.01
4	2.86	1.14	1.30	0.45
3	4	-1.00	1.00	0.25
3	3.14	-0.14	0.02	0.01
4	4.29	-0.29	0.08	0.02
6	6	0.00	0.00	0.00
5	4.71	0.29	0.08	0.02
$\sum \frac{(O - E)^2}{E}$				1.26

Appendix IX

Response regarding SEBON is able to make the investor aware by promoting and protecting their Rights

Respondents Responses	Staff	Brokers	Investor	RT	Degree of Freedom	Calculated Value	Tabulated Value
Agree	7	4	5	16	4	8.73	9.49
Don't Agree	3	5	8	16			
Don't Know	0	1	2	3			
CT	10	10	15	N = 35			

$$\text{Percentage} = \frac{\text{No.of Respondents on Each Response}}{\text{Total No.of Respondents}} \times 100$$

Appendix X

Calculation of Chi Square (χ^2)

O	$E = \frac{RT \times CT}{N}$	O - E	(O - E) ²	$\frac{(O - E)^2}{E}$
7	4.57	2.43	5.90	1.29
3	4.57	-1.57	2.46	0.54
0	0.86	-0.86	0.74	0.86
4	4.57	-0.57	0.32	0.07
5	4.57	0.43	0.18	0.04
1	0.86	0.14	0.02	0.02
5	6.86	-1.86	3.46	0.50
8	6.86	1.14	1.30	0.19
2	1.29	0.71	0.50	0.39
$\sum \frac{(O-E)^2}{E}$				3.91

