

CHAPTER-ONE

1. Introduction

1.1 Background of the study:

Employees are the most valuable assets of an organisation. Without Introduction such assets all other assets are meaningless. An organisation operates in a dynamic & challenging environment. It is, therefore, clear that the success of an organisation depends upon the quality of employees. So, an organisation should be careful about the employee's need and want to achieve the organisational goal. For achievement of this goal manager should make a different type of decisions and activities.

The involvement of personnel is an important issue for managers in an organisation. An organisation is successful only when employees are involved in decision making process. One of the major techniques of motivation is employee involvement in the organisation.

The involvement of employee is an essence of an organisation. It is the one of the most important part of management. Involvement means the physical and psychological involvement of personnel in an organisational decision and activity. If employees are to be involved, employee should always feel they are being involved in organisational activities and decisions. It makes employees motivation, which is a positive signal to get organisational success. It is a requirement of good management. Because, employee involvement encourages to do work very sincerely; they should be satisfied from the behavior of top level of management. Thus, the employee involvement is a tool for success of an organisation in competitive and dynamic environment.

The involvement of employee creates a good and conducive working environment in an organisation. It is proved that without employee, no any organisation can survive. The importance of employee for an organisation is most valuable. Therefore, the primary and secondary markets also need the involvement of employee.

The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This can be done only through sound investment. This would require gearing of savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instruments. Such a scenario help to grow corporate enterprise capable of ushering into a high growth era. The development of corporate culture depends upon a sound financial system a set of complex and closely connected or inter mixed institution, agents process. markets, claims etc. in a economy.

With the worldwide move towards open and market oriented economic system in the world economy, it has led to growth and expansion of banking and financial system too. As a matter development of new financial instrument and improved and diversified financial services are taking place. One of the concrete financial services is merchant banking function. Under merchant banking function, financial institutions provide necessary information on the financial instruments to any industry or any concern involved in business, in addition to consultancy services on procedural formalities to use the instruments and all necessary management services.

Development of capital market in Nepal is linked with the establishment of commercial banks and long term financial institutions like Nepal Industrial Development Corporation (NIDC), Market Capitalization started in 1994 B.S. with the enactment of company Act in B.S 1992. However failure of a number of companies within a short time dampened the spirit and for long period market capitalization took a back seat. Efforts were reinforced in 2033 B.S. with the establishment of Nepal Security Trading Center (NSTC) to make an in road in expanding the base for capitalization and assisting new companies to float easily. The center also operated in a restricted manner and through revitalizing, the market capitalization process did not take off in a sound manner in the absense of an encouraging environment.

Recongning these short coming, along with the pursuance of liberal economic policies the government through a package of policies including, capital market development policy in B. S. 2049. This helped to establish the stock exchange market and the floor for secondary market operation. Within the short period, the market boomed and many primary issues were also made. This boom, however, did not last long and both the index and the volume of transaction nosedived after 2051 B.S. The scenario has not turned optimistic so far. In this situation it is useful to analyze to growth trends and assesses the strength and weakness of the Nepal Stock Exchange.

In term of concept. it is very new in Nepal. It was begun with the floatation of shares by Nepal Bank Limited (NBL.) and Biratnagar Jute Mills Ltd. (BJM) in B.S. 1937 under company Act. B.S. 1936. No significant attempts shall be made in 4-5 year plan to reform the capital market establish of Security Exchange Center (SEC) in B.S 2038 was the first and most important attempts

by the government to develop the stock market. The SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year B.S 2040/41. Although, the growth of the stock market is high relative to the growth of economy, the shares of corporate sectors in the national economy is still very low due to the negligible size of the corporate sector.

The Incorporation of Securities Board Nepal (SEBO/N) under the security exchange Act and conversion of the SEC into Nepal Stock Exchange (NEPSE) under the government policy on capital market reform has greatly contribute to development of primary as well as secondary market for the corporate securities rise as stock prices and the market liquidity for corporate securities were observed immediately after the incorporation of the SEBO and the NEPSE for one year only.

As democracy established in B.S.2007, the interim government were much busy in advising the measure to recognize the sick industries and gave little attention to initiate and development of stock market until B.S.2033. When a government owned and operated security exchange center was established, In B.S.2047 when democracy was resolved the interim government in its period has intimate banking reformation of NIDC, capital market Ltd. is also another measure step to improve financial Nepal.

SEBO (2005). The contribution of primary market to company financing is direct in the sense that it provides additional fund to the companies either for starting a new enterprise or expansion or diversification of the existing one. Before the establishment of security market center, the cases of the new

issues were very few. The issue management activities were under taken by issuing company themselves. Before the establishment of NEPSE, 125 listed companies collected a total amount of Rs 61365.89 million in 2061/62 which is an increment of 48% as compared to 2060/61. The issue of capital in primary market is regulated by the securities board. The securities board prepared a guideline which applies for only those companies whose securities are lists /proposed to be listed in the stock exchange.

The secondary market plays an indirect role to transfer of capital. the existence of secondary market provides intuitional base for continuous and sale of securities and to that extent lend liquidity and marketablity and play an important part in the process. The secondary market which provides an institutional mechanism was very poor in terms of adequacy, transparency, regulation and gearing to investor protection. After the establishment of NEPSE some improvements were observed. Among them are prescription of norms of intermediaries like brokers in trading/settlement, and the organisation of the Board of Stock Exchange with participation from Stock exchange membership investors.

The performance of secondary market shows gradual improvements in terms of number of listed companies, market capitalization and number of shareholders. CEDA (1997). The listed company whicsh was recorded only 31 in 2043/44 increased to 115 in 2057/58. For the period between 2048-2058, the public limited companies registered with the company registrar's office was recorded at 638 which were large in size and it is on the trend of increasing.

1.2 Statement of the Problems:

In Nepal, the stock market is at an early stage of right. It is important that government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issuers and investors. In the near term there is an urgent need to develop the money and bond market and increase institutional investors (i.e. provident fund, collective investments funds and insurance companies) participation in the primary and secondary market. Else, there is a need to develop full service securities firms with a capacity to provide financial service to issuers and investors as well as to develop new market and instrument such as commercial paper, corporate bonds mid marketable government bonds.

Due to the lack of information and poor - knowledge, individual investors are manipulated or exploited by the financial institutions or other market intermediaries to such an extent that investing in common stock is intolerably hazardous. Investor's attitude and perception plays a vital role in national decision, which is influenced by the knowledge and access to the data required for analysis. Most of Nepalese investors invest their fund in single security because of less knowledge about risk-return behaviour of the securities. So, main problem is the lack of information to analyze the risk and return on common stock investment. People feel more risk in stock investment than as its real risk. Not only general public, but also the university graduates and post-graduates can not analyze risk and return while making stock investment decision.

Investors are the main bases for any company, they are the source of revenue as a customer for the stockbrokers and financial institution and ultimately

they are the backbone of- economic development of country. But nobody has any effective programme to investor's knowledge. Similarly there are no any separate institutions, which provides information required to make rational decision that can accelerate the stock investment and market efficiency.

In the recent years variation in the public response of primary issues has been experienced. It shows past history. The response to company like Alliance Insurance under subscribed: collected 2.26 million for 20 million and Shree Ram Sugar Mills Ltd. under subscribed: collected 29.42 million for 135.50 million were poor. Whereas Taragaun Regency, Radisson Hotel, Nepal industrial and commercial Bank were ove subscribed. From the above study we noted some problems, which are pointed out below:

1. Over subscribe
2. Under subscribed
3. Adequate trading of the company
4. None trading of the company.

There are no private open investment companies (mutual funds) operating at the present time. Therefore government need to create incentives for capital mobilization remove impediments to private sectors development educate investments, and provide basic legal regulatory reforms. Until now, the Stock market development in Nepal has not reaches sits full potential for many reasons, which are pointed out below:

- i) Unfavourable macroeconomic conditions
- ii) Political instability
- iii) Low investors confidence
- iv) Weak tax system
- v) Slow privatisation process.

1.3 Objective of the study

The general objective of this study is to assess the Problems and Prospects of Primary and Secondary stock markets in Nepal. The other specific objectives of this study are as follows:

- i) To specify the state of primary and secondary Market
- ii) To identify-the problems and prospects of primary as well as secondary Market
- iii) To assess the past and present behaviours of business operation in Nepal stock Exchange.

1.4 Importance of the study:

Stock market recognizes the situation of economy when stock market is booming the economy is good and market is declining the economy is bad. It represents also the countries policy towards industries policy is formulated or regularized by rules and regulation between different rules and regulation. This study is needed to find out the problems and prospects in the near future. What policies can be formulated what regulatory acts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning.

It is needed to find out the views of potential investors and government and other financial institutions about the related organizations. Similarly, it is needed to study about AGM held by organizations and disclosures of them.

The standard is one of the another elements for the stock market development. Financial statement should maintain according which fulfill the requirements of related parties needs information.

1.5 Limitation of the study.

This study done for the fulfillment for the Master Degree of Business Studies (MBS). So it is not a comprehensive study and it focused to analyze certain aspects of primary and secondary stock market in Nepal. During the research period I faced the following limitations:

- i) Studies and references were also extremely limited in the perspective of Nepalese capital market.
- ii) The time was limited and specific.
- iii) There was a needed depth of both published and available information on various players.

1.6 Chapter plan or scheme of the study.

As discussed in the previous section, this study intends to find the problems and prospects of primary and secondary stock markets in Nepal. This study has been organized into five chapters: Each is devoted to some aspect of the study.

The present is divided into following chapters:

Chapter 1:- Introduction

It includes the introduction of the study, detail introduction to selected Nepalese organisation, statement of problems, importance of the study, objective of the study, limitation of the study and chapter plan as well.

Chapter2:- Review of literature

This chapter includes review of literature through different relevant books, journal, articles, published and unpublished dissertations.

Chapter 3:- Research methodology

It includes research design, population and sample, data collection Procedure and data processing and analysis and methods of data analysis and tools used.

Chapter 4:- Data presentation and analysis

This chapter is the main body of which includes data presentation and analysis by using accounting and statistical tools, and finally the major findings are presented.

Chapter5:- Summary, conclusion and recommendations

It includes the findings and most important themes of the study.

CHAPTER-TWO

2. Review of Literature

2.1 Conceptual Framework:

2.1.1. Capital Market.

A place where the long term lending and borrowing takes place is known as capital market. Therefore, the capital market is the market for long term borrowing and lending. The primary instruments of the capital market are stocks and bonds (equity and debt). Therefore, it includes both the new issues market and the market.

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

(Vaidya, 2001). An Ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given the rules rates of interest.

2.1.2 Primary Market:

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

Households which are in financial surplus, exchange their savings for shares, debentures and securities of the financial deficit sectors such as the companies and governments. It is the primary market. The market consists of investors or buyers, dealers and brokers and does not reflect a physical location. The participants are regulated by formal rules for originating financial securities.

Primary market in which public issue of securities are made through prospectus is a retail market and is reached through direct mailing in the primary market, new issues of equity and debt are arrange in the forms of a new flotation, either publicly or privately or in the form of a right offer, of existing shareholders. Companies raise new cash in exchange for financial claims. The financial claims may take the form of shares or debentures. Public sector companies to issue securities. The transaction in the capital market results in capital formation.

2.1.3 Regulation of Primary Market:

-Securities Exchange Act 2040 is the main law to regulate the securities market in Nepal. So far till now this act have been amended 3 times within the 13 years of its history. The 3rd amendment took place recently. Under this act, securities Exchange regulation 2050 and membership of stock exchange and transaction By - law , 2050 have been formulated and enforced. Recently both regulations as well as by- law have been amended to suit the changing environment of the security market.

-Companies Act, 2021 have been replaced by new companies act, 2053 with a view to make simple transparency in formation, operation and administration of the companies. Various formats related with articles and memorandums of Association, prospectus, application form for purchase of shares, balance sheet and profit and loss account have been prescribed.

-Securities investment Trust Act, 2053 have been formulated and enforced for the operation of trust funds such as mutual funds and until funds.

- **Major Regulation Agencies.**

Three government agencies, viz., securities Board, company Registers' office and Nepal Rastra Bank are involved in approving and registration of public issues. Through securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the duplication of works. Here, how all these three bodies work in approving and registering the public issue are elaborated.

- **Securities Board.**

Securities board is empowered by Securities Exchange Act, 2040 for the development of capital market, protection of investors' interest, approval of stock exchanges, regulation of market intermediaries, secondary and

primary markets, mutual funds and investment awareness programs for various interest groups.

When prospectus is submitted for the registration purpose, vetting is done by the Securities board and if disclosures in the prospectus are found adequate then Board registers the securities to be issued in the public and grants permission on it.

- **Nepal Rastra Bank (NRB).**

NRB, the central bank, approves when public issue is proposed by Banks and finance companies. It also gives permission to issue debentures in the Public along with the approval on interest rate on debentures and bonds. Under NRB directive bank and finance companies are required to issue shares equivalent to at least 30 and 40 percent in both situations if they have foreign joint venture stock. But while in debentures and bonds issue NRB get assured, by vetting the prospectus, about the size of the issue, interest rate, collateral and repayment of the loan.

- **Company Registrars' office (CRO).**

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

- **Nepal Stock Exchange (NSE).**

(SEBO, 2005). While issuing securities to the general public consent should be obtained from the NSE. For this issuing companies and issue managers are required to submit the prospectus. In the meantime before

concluding agreement along with the 5% of commission amount should be forward to the NSE. This is applicable for underwriting arrangements too.

) **Insurance Board.**

When a public issue is made by an insurance company insurance board also performs the vetting of prospectus as it is done by NRB.

) **Concerned Ministry of HMG.**

The companies which are incorporate by special acts are required to get approved the prospectus from concerned ministeries. For example, companies such as NIDC, Citizen Investment Trust (CIT) and Rastriya Beema Sansthan(RBS) are under the preview of Ministry of Industry and Ministry of Finance. Thus prospectus of these companies is required to be approved from Ministry of Industry and Ministry of Finance instead of comp any Registrars' office.s

) **Regulation of the Market Issuing Companies and Market Intermediaries.**

Companies are required to publish the prospectus as per the companies act for every new issue of securities. Before publishing such prospectus should be approved by CRO followed by registration at securities Board. Similarly according to the Companies cannot issue securities without making involvement of an issue manager. Therefore an agreement between issue manager and issuing companies is to be concluded at first instance. However such manager should be the member if a valid stock exchange. But there is only one stock exchange. In the mean time recent amendment in security Exchange Act provides mandate to Security Board to issue license to the institution that is provinding merchant banking and other releted services. Therefore total regulation of market including new market is strictly regulated by Securities Board.

) **Bankers to Issue :**

The concept of bankers to the issue is yet to be developed in the market. However, all the country accepts application money as deposits of issue managers. Application money is deposited off as and when asked by issue managers. Primary issue guidelines issued by securities board clearly gives the directives to the issue managers that all the money should be kept under the custody of a commercial bank. Citizen Investment Trust is the only issue managers who keep application money in a commercial bank under the separate account. For example, application money for a public issue is kept in the name of "CIT- XYZ Company Ltd.-Amount collected in this account is deposited of only after the allotment of securities. Secondly, Citizen Investment Trust introduced the system of receiving application forms from the investors along with application money through the help of Nepal Bank Ltd. Later on this system was followed by Rastriya Banijya Bank Ltd. For rest of the other commercial banks, some of them are still reluctant to receive application forms. Thirdly, commercial banks are still reluctant to provide bankers to the issue service with their own initiative by obtaining membership of Nepal Stock Exchange and or Securities Board for this no act, rules, bylaws or directives defines the roles and responsibilities of banks in public issue cases.

- **Underwrites:**

Generally all commercial banks, finance companies and other financial institutions can provide underwriting services and are providing such services accordingly. But the public issue getting underwritten has become Herculean task. Almost banks, finance companies and financial institutions reluctant to underwrite the public issue since they feel that Underwriting is most risky services. This type of reluctance has been

strengthened more by some development cases. On the other hand, there exist some anomaly in underwriting concept between New Company Act and security exchange regulation. Company act defines issue manager as underwriters as well. Secondly, no acts and regulations clearly speaks about the qualification to be an underwriter that who can underwrite the public issue and who can not or whether banks finance companies and financial institution other than members of Nepal Stock Exchange can provide the underwriting services than there will be always deficient fund / resources to meet the demand for underwriting. Thirdly, because of the insufficient resources and despite of the reluctance of commercial banks (who have enormous resources), issue managers are somehow managing the consortium of underwriting.s

) **Stock Broker:**

Actually stock brokers are retailers of the public issues, but most of the companies who have issued shares to the public views that brokers help in selling securities are not much of significant. However take part in investment and brokers forum with full of enthusiasm.

) **Registrar to the Issue:**

Similarly the concept of registrar to the issue is not been fully developed. Issue managers are providing registrar to the issue services under the total issue management deal but not as separate service. Basically registrar to the issue function is to be performed by a data processing firm specially (electronic data processing company). There are number of such type of firms but are not established as an organized institution. No acts defines that registrar to the issue function is not the responsibility of an issue manager but of a separate entity. Therefore if such firms could not provide reliable service and guarantee the accuracy of data then there could arise

big chaos in the Market. Hence issue managers are bound to provide these services. Secondly, appointment of registrar to the issue is not done before the issue is launched. When applications are received in large numbers then and then only issue managers searches for those firms which can provide such services. Hence, name of the registrar to the issue is not disclosed publicly in the prospectus or in any issue notices.

❖ **Preparation of Prospectus.**

-) All public limited companies who wish to offer securities to the general public are required to publish duly approved prospectus under new company act, 2053. And the directors are personally accountable for the matters contained in the prospectus. Preparation of the prospectus is guided by company act 2053 new issue guidelines of securities board and securities listing bylaws of the Nepal Stock Exchange.
-) Company act 2053 have prescribed the format of the prospectus. Following 26 items are to be contained in the prospect.
-) Objectives of The Company and main clauses Contained in the Memorable and Articles of Association are Available.
-) Minimum number of shares to share to be subscribed to be the director and salaries, allowance or remuneration fixed or then.
-) Particulars regarding remuneration or prize paid or to be paid in cash to promoters or directors or directors of the company.
-) Arrangement regarding bonus shares.
-) Arrangement for reservation of shares for shareholders, employees or for any others.
-) Introduction of directors.

-) Reasons and justification if shares are to be sold at premium to general public.
-) Representation arrangement in board of directors from the general public.
-) Minimum number of shares to be subscribed and advance payment amount for the shares.
-) Reasons if loan has been raised by issuing debentures and number of debentures redeemed and outstanding loan amount.
-) Brokerage charges on shares and debentures.
-) Inherent economic risk factors in company activities.
-) Financial arrangement and net worth of the company after adjusting all the liabilities.
-) Name of the auditors and audit reports if any.
-) Time when allotment of shares is to be published.
-) If directors or promoters have any amount belonging in property purchased or to be purchased by the company, and the particulars regarding if promoter or company, the details of the same.
-) Name and address of the institution where securities are transacted
-) Name of the shareholders who have subscribed more than five percent of issued capital.
-) Terms and conditions for preference shareholders.
-) Other necessary things.
- ❖ **Purpose of the Public Issue of Securities.**
 -) Description of market for goods/services if issuing company is new.
 -) Some other aspects to be considered before issuing shares to the public or while prospectus is drafted:

-) Types of securities for which guidelines are applicable status of company for public issue.
-) Underwriting of securities.
-) Minimum shares to be subscribed by the public. • Appointment of issue manager.
-) Listing of securities in stock exchange.
-) Minimum period of gap between publication of announcement and opening date.
-) Minimum period of opening of subscription.
-) Lock in period of promoter's shares. • Allotment of securities
-) Management perception on risk factors.

❖ **Arrangement for Keeping Allotment Money and Refund of Excess Application Money.**

- Securities Listing Bylaws 2053 prescribes minimum sizes of the public issue for listing purposes which is must to be concerned before drafting purposes which is must to be considered before drafting prospectus. According to the bylaws minimum sizes of public issue prescribed are as follows:

Table 2.1: Minimum size of public issue according to law

S.No	Size of the issued capital	Public issue percentage
1.	Up to Rs. 10 million	25%
2.	Rs.10 million to Rs. 50 million	20%
3.	Rs.50 million to RS 100 million	15%
4.	Rs. 100 million and above	Fixed by Nepal stock exchange

- As per comprises act 2053 issuing companies are required to issue securities to the general public through the recognized institutions for sale

securities, allotment of securities, collecting money and other related activities. Similarly, as per securities Exchange Regulation 2050 issuing companies are required to enter into an agreement with issue manager for the management of public issue.

- New issue guidelines made issue manager more responsible towards bringing prospectus more than transparent, clear, reliable and correct to the fact. Hence issue managers are required to analyze the issuing company every respect and should be prime face, self assured.

- (Machi,2000) In many instances prospectus are prepare and drafted by issuing companies themselves. Now, after making issue manager more responsible, issue managers are actively involved in drafting prospectus. Directors of the issuing company have to endorse the prospectus before filling to company Registrars office for approval.

2.1.4 Secondary Market.

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

Stock market interchangeably known as secondary market is the other side of market segment under capital market. It includes all transferable securities issued previously by the corporate bodies such securities are also traded on the stock exchange. Here stock Exchange refers to the association, organization or body of individuals whether incorporate or not, established for the purpose of assisting, regulation and controlling business in buying, selling and dealing in securities. But stock Market does not include securities of private companies as they are not capable of being dealt in on stock exchange and are not marketable securities due to the restriction on transferability. In order to benefit from the securities market, the corporate bodies should have listed the securities in the stock exchange. The companies which have listed their marketable securities on the stock exchange are known as listed companies. This means only the securities of listed companies are traded on the trading floor of the stock Exchange 1983.

Stock market, hence, covers activities pertaining to the dealing in securities, whether good or bad, for the liquidity and marketability. Only the securities of existing companies are tradable on the stock exchange irrespective of issuers; corporate bodies or government. The trading process of existing securities is carried out with the help of market intermediaries or involving buyers and sellers themselves. The government has also initiated the drive of placing bonds of its own in the second market.

(Tonic & Seha, 1997) The securities market involved in both primary and secondary market of securities till 1993, later converted into Stock Exchange (NEPSE) according to securities Exchange Act 1983, is providing a wide

spectrum of secondary market services to the verities of organization so as to pave the way for the economic development in the country. Besides this, to safeguard the interest of shareholders the stock exchange board as designated by the act is performing the role. The companies or concerned individuals who do not comply with the prevailing rules and regulation are incriminated by the board. The NEPSE has recently released a report on 21 companies in this connection.

‘An exchange is defined as any body of individuals, whether incorporated or not, constituted for the purpose of assisting or controlling the business of buying, selling or dealing in securities’.

Capital market apart from the primary market also includes markets where securities, which have been issued in the past, are traded. These secondary markets are called stock market or stock exchanges. The stock market dominantly deals in stock or equity shares. They enable owners of shares to sell their holdings readily ensuring liquidity. The secondary market enables investors to continuously rearrange their assets while others can use their surplus funds to be acquiring them. Any trade of shares subsequent to its primary offering is called a secondary transaction. The initial buyer in the primary market may re-offer the securities to any interested buyers at whatever price is mutually satisfactory. The stock Exchange provides a market where such mutually satisfactory price may be determined. They offer opportunities primarily for trading risk and boost prices may be determined liquidity.

2.1.5. Stock Exchange.

In contrast to the bond market, the stock is basically a secondary market. The aggregate amount of new common stock issued by co-operations every year is small compared to the trading on the organized exchange -NSE, New-York stock Exchange, the American stock Exchange, the regional exchanges- and the over the counter market. But in Nepal OTC market is not available recently now.

The establishment of the Securities Exchange Center (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Limited (NBL) and Biratnagar jute mills Ltd. (BJM) was begun in 1937 under the Company Act, 1936. The SEC managed 5 public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84.

Only from 1984, the floor was opened for secondary trading of shares to provide the liquidity for already issue shares. It is availed the liquidity to the shares of 16 stocks with paid up capital of R.S 307.32 million, market capitalization of Rs. 318.67 million and 9852 shareholders till FY 1985/ 86. This is evident that stock market had the upward trend but the pace of development was very low to FY 1985/86.

After FY 1985/86, the stock market development gained momentum in all aspects till FY 1992/93. The stock market witnessed a remarkable growth in FY 1993/94 and FY 1992/1993 which, then turned towards downward direction. From then, stock market is succeeded venture through its attention

of the investors and the entrepreneurs towards productive venture through its dual role, management of public issue and the trading of shares of listed stocks. (Avadhani , 1993) . It required a huge amount of resources for long-term for the execution of large projects.

2.1.6. Stock Broker.

According to Bhatta (2003), A stock broker as a member of stock exchange and sub-broker as any person who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such broker.

Conditions for granting of certificate to stock broker.

The rules stipulate the registration is necessary for acting as broker or sub-broker. The condition for granting of certificate of registrations to act as stock-broker is:

- a) He holds the membership of a stock exchange act.
- b) He shall abide by the rules, regulations and by-laws of the stock exchange of which he is a member.
- c) He shall pay the fees for registration.

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

- Duty of broker to investors.

A stock broker shall execute orders at best available market price and not refuse to deal with small investors. He should promptly inform his client about the execution or non-execution of an order and make payment for sale delivery of securities purchased. A contract note should be issued promptly. He is expected to maintain confidentially about his client's investments. Stock

brokers should not encourage sales or purchases of securities or furnish quotations, information and advice to earn brokerage and commission. Brokers should also disclose to clients whether he is acting as principal or broker and avoiding conflict of interest. Investment advice should not be given unless suitable on the basis of information given by the client about his financial situation, security holdings and investment objectives. Brokers should render fair, prompt and competent services to their clients. A stock broker should co-operate with other brokers in comparing unmatched transactions, replacing documents declared bad delivery, protection of client's interest, and settlement of transactions. A stock broker should not advertise his business and induce through unfair means clients from other brokers. Finally, a stock broker shall not neglect or fail or refuse to submit required returns to stock exchange and not make false or misleading statements in any such returns.

- Responsibilities of brokers.

Every registered broker should keep and maintain the following books of accounts, records and documents with ease.

- i) Register of transactions.
- ii) Client's ledger.
- iii) General's ledger.
- iv) Journals.
- v) Cash book/and bank pass book.
- vi) Documents register of shares and securities received and delivered.
- vii) Members contracts books showing details of all contracts entered into by him with the other members of the name exchange of the counterfoils or duplicates of memos of confirmation issues to such other member

- viii) Xerox copies of contracts notice issued to client
- ix) Return consent of client in respect of contracts entered into as principals.
- x) Margin deposited books.
- xi) The broker should inform NEPSE, the place where the books of accounts, records and documents are maintained and kept.

2.1.7. Broker and dealers.

The primary function of brokers is to negotiate purchase and sell of securities in the market. The working of the market, its liquidity and efficiency depends on the influence exerted by different groups of members engage in specialized activities of type or another. Broadly speaking, the members of the exchange perform two clearly distinguishable functions.

- a) That of broker acting as agents buying and selling securities for others on a commission basis.
- b) That of traders or dealers acting as principals buying and selling securities on their own account for a profit or at a loss.

Jones (1998). Members are permitted to act both as brokers and dealers. No members can enter into a contract as a principal with any person other than a member of a recognized stock exchange unless he secures the consent or authorization of such person and discloses in the note, memorandum or agreement of sell or purchase that he is acting as a principal. In such cases, it is obligation under the stock exchange bylaws and regulation that the price at which the transaction is completed should be fair, reasonable and justified by the condition of the market.

More than 7000 thousand brokers and dealers have registered with the SEC to make markets into OTC securities. 11 each of these firms and individuals may act as a broker in any security issues, a dealer in one on more securities, and as both a broker and dealer in some of those issues. An OTC broker may also be a member of one or more exchange. OTC brokers and dealers and the brokerage houses discussed earlier are generally some group of people.

A dealer in a particular securities issues most maintain firm bid and differing prices and must stand ready to buy and sell (for his own account) a given bid or ask quote is assumed to be valid is based on the securities normal trading unit. For stocks, this is 100 shares, whereas for bonds it is equivalent to five \$1,000--Par bonds. For same very actively traded issues, one for two dozen dealers may aggressively compete with one another, whereas for securities which are inactively and erratically traded only one or two dealers may exist.

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

2.1.8. Commission broker.

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates not exceeding the official scale of brokerage.

Machi (2000). A brokerage firm, or stockbroker, accepts investors' orders to purchase and sell securities and is paid a commission for transmitting these orders to the appropriate exchange for execution for transmitting these orders to the appropriate exchange for execution. There are two broad types of brokerage firms-retail houses, which deal with individual investors and wholesale houses, which deal with institutional investors. Some firms have both retail and wholesale customers. They include most of the well-known firms like Merrill Lynch, Pierce, Fenner & Smith, Inc. O Prudential_Bache Securities Inc others, such as Salmon Brothers , however, accept only institutional investors as clients As soon as an order is placed with a brokerage house is really high-speed lines to the exchange floor. There it is received by a commission broker. The brokerage firms representative. They are the members of the exchange who actually see that customer orders get executed according to instruction .

2.1.9. Floor Broker.

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

Floor brokers may be described as brokers. They are simply members of the exchange not brokers for member firm. At peak actively periods, they will accept orders from other broker, execute them and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships that would be needed without services.

Floor brokers are independently employed commission brokers who work for brokerage firms on a free-lance basis. They have been referred to as "\$2 brokers," a name acquired years ago based upon the then-existent commission schedule. They are available for hire when the commission broker is working at capacity or may temporarily be off the exchange floor. The floor brokers are paid a fee directly by the commission broker. The floor brokers are not officially attached to other members. The floor broker executes orders for any member and receives as his compensation a share of the brokerage charge by the commission broker to his constituent.

2.1.10. Floor Traders.

Floor traders are different from floor brokers in that they are members who trade onus for themselves. They buy neither for the public nor for other brokers. They are speculators, free to search the exchange floor for profitable buying and selling opportunities. They earn their incomes by speculating for themselves. Sometimes floor traders buy and then sell a stock during a single day; an activity referred to as day trading. Floor trader's trade free of commission, since they own their own seats and trade for themselves. However, over the year's amount of floor trading has declined, probably as a result of highest costs (transfer taxes and clearing fees), unfavorable federal and state income taxes, and stricter regulations.

2.1.11. Security Dealer.

Bhalla (1983). The security dealer specializes in buying and selling securities, i.e. securities issued by government and public bodies like NIDC, Citizenship Fund and Credit Development Bank etc. They acts as mainly as a jobber and is

prepared to take risks inherent in the ready sale of Securities to meet current requirements. The market is an OTC (over the counter) market and each purchase and sale has to be separately negotiated. The market therefore tends to be restricted in India. These activities is done by central and state government and by statutory public bodies such as Municipal corporations, Investment Trust and Electricity Boards. There are about half a dozen active firms of securities dealers in Bombay and the number else where is more limited. They are in daily contact with the Reserve Bank as well as with commercial banks, the life insurance corporation and other institutional investors. They also keep in touch with each other and with other financial centers, and result of their activities enjoys the benefit of extremely fine quotations. The opening of debt market segment and trading in government securities including Treasury bills on NSE has completely altered the character of market.

2.1.12. Brokerage Information.

In order to fulfill their functions and earn commission, brokers must develop their business along the following lines:

Firstly, they must provide an office with adequate financial information sources, current quotation facilities and sales representative - advisers to enable investors to make the decisions upon which they act.

Secondly, they must know when to find, where to find the best-unlisted markets for their customers and how to obtain new securities currently being offered by underwriters and distributors.

Thirdly, they must arrange memberships in or contracts with the principal stock exchange of the country, for a very large percentage of all securities buying and selling done on the stock exchanges. They must also offer their customers incidental services in the financing of their transactions and in the storage of their securities.

2.2. Review of Different Studies.

2.2.1. Problems and Prospects of Capital Market in the context of U.S.A.

The bond Market Association is extremely concerned by a January 23rd letter sent to you by a group of law professors opposed to the asset-backed securitization provision contained in section 912 of H.R. 333. Their letter offers an extremely inaccurate and highly prejudicial view of this legislative proposal, which would increase legal certainty and predictability for legitimate, mainstream asset securitization transactions, in so doing, the letter misapprehends and mischaracterizes the motivations underlying this important amendment, its practical application in the capital markets, and the beneficial consequences that would flow from its adoption.

More disturbing, however, is the letter's attempt to cast aspersions on long-established and widely accepted securitization technique including structuring conveyances of assets as "true sale" at law, segregating and isolating those assets in bankruptcy remote, special purpose vehicles and accounting for these transactions as sales, or partial sales (to the extent that consideration other than beneficial interest in the transferred assets is received in exchange)- by obliquely linking such activities to the collapse of Enron, and suggesting that passage of the amendment will perpetuate similar financial calamities. Although this tactic may serve the author's

goal--unrelated to Enron-of amplifying the alarm they wish to sound over this legislative provision, it inappropriately and irresponsibly threatens the interests of numerous constituencies that would benefit from passage of the amendment, and form of the continuation and enhancement of efficient securitization markets - including the very "companies, creditors, stockholders and employee's" on whose behalf the letter presumes to speak.

The multi-trillion dollar securitization market has played a significant role in the growth of the American economy. Companies that use securitization have been able to significantly reduce their cost of funds, increase liquidity and obtain greater and more diversified access to the capital markets. The market efficiencies created through securitization are passed on to both consumers and business, in the form of lower card debt and other extensions of credit. Absent an efficient securitization market, the cost of obtaining this credit would likely increase, as it would be more costly for lenders to finance their activities.

When all of the facts are accurately presented and thoroughly considered, we believe companies that rely on securitization for efficient funding and effective risk management, investors in securitized instruments, financial market participants and general public will conclude that this amendment to the federal Bankruptcy Code is based on sound policy and should be adopted. It is part of broader business bankruptcy reform initiative that has been under consideration for the past five years, and which has been previously endorsed by the major federal financial regulatory bodies (represented collectively within the President's working Group on Financial Markets). The concerns

expressed in the January 23rd letter however inflammatory their presentation; simply do not withstand responsible analysis and careful scrutiny.

2.2.2. Securitization as a Mechanism for "Shielding" Assets from Creditors.

With respect to the concern expressed over the inappropriate "shielding" of securitized assets from a company and its creditors, it is certainly true that transactions structured as "true sales" are designed to segregate and isolate assets transferred to a securitization special purpose vehicle (SPV), to ensure that neither the company nor its creditors will be able to assert any legal or equitable claim on those assets in the event of the company's bankruptcy. This is done to conceal those assets, or disguise their true ownership. But to achieve a fundamental securitization goal to create and issue securities whose value depends exclusively on the value inherent in a pool of underlying assets, rather than on the financial prospects and general claims paying ability of an operating company.

It is precisely its feature of securitization that creates substantial financing efficiencies, and corresponding benefits, for the wide range of companies that rely upon it. By legally isolating a discrete and defined pool of assets as the principle source of payment on related (and a corresponding lower rate of interest) than the credit ratings assigned to its general short and long term debt obligations.

In a related manner, the letter implies that the effect of conveying securitization vehicle is to deprive the company and its creditors in

reorganization from the value inherent in those assets. This view is also flawed in several critical respects. First, it assumes that all securitization-related conveyances by the amendment are in substance secured financings rather than true sales, and therefore that such assets should continue to be regarded as part of the company's bankruptcy estate. Although the authors state that "not every asset securitization is a disguised loan" the clear import of their words suggests exactly the opposite. In a conclusory fashion, the letter describes the operation of Section 912 as permitting "a debtor and one favored creditors to engage in a secret transaction to remove valuable, liquid assets from the corporate bankruptcy estate of a troubled borrower and place them beyond the reach of the courts and other creditors"(emphasis supplied)

In this context, it defines logic that the January 23rd letter would cite the all Corporation's pre-petition financing activities as support for the assertion the asset securitization "will prevent many businesses from being reorganized at all." In fact, for companies experiencing financial distress, and even for companies that are operating under bankruptcy protection, securitization often can be the only viable means of accessing capital markets funding sources at reasonable cost. Lenders may be unwilling to extend financing to a troubled entity at any cost, but if the company may nevertheless be able, via securitization, to efficiently fund its ongoing operations. Far from impeding the financial viability of distressed companies, securitization techniques can and have been used to help restore them to health.

2.23. Securitization Disclosure and Risk Transparency.

The letter also argues that an "unregulated" safe harbor for asset securitization would "facilitate the undisclosed reallocation of risk," and further, that off balance sheet accounting treatment of securitization "can mislead other creditors, investors, auditors and the public." The proposed safe harbor would not amend existing financial disclosure obligations with respect to securitization activities, so any concerns the authors of the letter may have in this area must already be presumed to exist.

In fact, companies that engage in securitization activities are subject to extensive regulation and data to investors, creditors and the general public. If a securitization transaction is issued in the public markets by non-exempt issuer, that retransaction must be registered with the Securities and Exchange Commission (SEC), and all material information relating to the offering must be disclosed in a prospectus that is delivered to investors, filed with the SEC and thereby available to the general public. If the transaction is issued pursuant to one of several private investors (typically, large and sophisticated institutions) solicited for the material terms and conditions of the transaction, and afforded an extensive opportunity to conduct their own inquiries and analysis prior to investing. In either case, these disclosures are fully subject to the antifraud provision of the federal securities laws.

The types of risks that are disclosed may include, for example, those that arise from any leading obligations or other economic recourse a company may have to a securitization SPV (for example, a liquidity commitment or guarantee). Other financial statement disclosures promulgated by the Financial Accounting Standard Board require reporting companies to detail risk

associated with their retention of securities issued but a securitization SPV that it established.

Finally, as noted above, the letter asserts that off-balance sheet accounting treatment of securitization transactions may be misleading. However, in circumstances in which a transferor relinquishes actual control over transferred assets and no longer bears the economic risks and reward incident to their ownership, it would in fact be misleading to continue to reflect those assets on the transferor's balance sheet. Disclosing the presence of such assets in the financial statements of the transferor would inappropriately suggest that those assets continue to be available to satisfy creditor's claims and other general obligations of the company. Of course, the proceeds of the securitization, along with any beneficial interests retained or acquired by the company in connection with the transaction, would be required to be properly reflected on its balance sheet.

2.2.4. Application of Fraudulent Conveyance Law.

Finally, the letter asserts that fraudulent conveyance law—which generally allows bankruptcy trustees to avoid transfer made with actual intent to hinder, delay or defraud any entity to which the debtor was or become indebted" affords insufficient protection against a secured loan transaction disguised as a sale for purposes of helping lenders escape the bankruptcy laws. The letter suggests that if the federal law says that asset securitization, regardless of deliberate intent, is legally permissible, then any protection offered by fraudulent conveyance law would be overridden."

These assertions reflect both fault reasoning and a direct misreading of the language of the proposed amendment. It defines specific circumstances in which assets transferred in connection with securitization transactions will not be included in a company's bankruptcy estate. By itself, the existence of this provision does not operate to override other provisions in the Bankruptcy Code regarding the power to avoid fraudulent conveyances.

Conclusion.

While the January 23rd attempts to exploit the bankruptcy to suggest that similar accounting and financial disclosure problems will surface if this amendment is adopted, the arguments attacking asset securitization activities and the operation of the proposed safe harbor are specious. From <http://www.abiworld.org/research/bondmarketletter.html> safe harbor are specious. The house and Senate have each passed the asset-backed securities provision on three previous occasions. This proposal is the product of careful deliberation, and includes a number of suggestions received from regulation that includes sufficient "anti-abuse" safeguards, while recognizing and responding to the need for greater legal certainty and predictability in the securitization markets. The prompt adoption of this provision will promote efficient capital markets and the interests of the many constituencies those markets serve.

2.3 Review of Articles, Books, Journals and Magazines.

2.3.1. Obstacle of Growth and Prospects of Capital Market is Clearly Analyzed in "Business manager". Vol. 2, no. 3 May 2000 journals (Magazine) Which is Given in Some Short Points.

- I) lack of sufficient education of most of the brokers and the unreliability of a few brokers in financial matters would lead in other countries to immediate disqualification. The importance of transparency is not yet understood at all, partly due to an erratic tax system and an even more erratic tax collection.
- II) To issue shares is an extremely time consuming and extremely expensive procedure as cases like Taragaon, NIC and now Radisson as well as Nepal Bank of Ceylon prove to be This is the case of even though there are easy ways out.
- III) To handle the bigger volumes, the trading floor will need to be also bigger and floor itself inclusive the back office will be fully computerized. Computerized networks will replace open out cry system these networks will make it possible, to extend the trading hours significantly.
The transfer of shares will under go a sea change The transfer will be mostly paperless, like in Bombay and at the National Stock Exchange in India. The need for approval of boards of directors for transfer of shares will be minimized and will be more or less a thing of the past.
- IV)The board of the stock exchange up to now dominated by government officials with little power, will be submitted by a board dominated by broker houses, banks and finance institutions added by government represented and will have full enforcement powers.
- V) The actual broker community has in its majority little educational background, little know-how and nearly no international experience. In addition the financial standing is in most of the cases rather weak. The brokers of today will have been transformed in the next 10 years to

financially much stronger brokerage houses with longstanding experience. Others, who are not changing, will be gone by then.

In depth research of companies and sectors by brokers has not yet started. In ten years leading brokers will have their own in house research; small ones will rely on outside research. Rumors, today's bread and butter for brokers, will still be influential, but much less than today.

Dr. Monahar K. Shrestha has indicated analyzed (pointed out) why the shares market is inactive and what problems are the main causes for inactiveness and what measures should be done etc are carefully defined. Similarly, how the securities funds and manipulation have occurred and to what extent they can be overcome would be highlighted here to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

2.3.2. Unfair practice

The Business manager (2000).The downfall of share market is mainly due to the unfair share market practices that went undetected for a long period in Nepal's shares market. There has been a growing tendency to sell worthless and fraudulent securities since promoters were not questioned regarding their moral standing and honest integrity of professionalism. In practice, a handful of Banniya traders (Canny people) began to dominate the shares market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings."

2.3.3. Problem of Primary market in Nepal.

i) Investors are losing confidence in the performance of share market mainly due to their experience of fraudulent and scandalous activities undertaken by a handful of market swindlers. There has been also more subtle problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors too are responsible for showing irresponsible behaviors due to greed for quick gains from share market.

The unhappy episodes have also emerged from wrong advice of brokers. Thus, market disorders, price manipulation and fraudulent share market activities-all taken together have resulted the present bearish market in the country.

How these securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted here to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share prices.

ii) Losing Faith.

The growing pessimism of the investors over the performance of share market is to be looked from broader company-industry economy framework. The frequent change in government has created political uncertainty regarding the coherent economic development strategy to the extent that entrepreneurs are not sure of what business policies to pursue.

In the absence of the appropriate relationship between business and government regarding privatization policies and economic liberalization thrust, public limited companies are in a state of confusion since every changing in government took different political ideological stand in the development of enterprises in the country, attention to foreign investment

became a great setback as government cannot give clear-cut development agenda to further national development parameters.

Again, development recovery programme through revival of privatization has brought some favorable impact on the performance of share market.

Investors are noticing about the negligence of public limited companies that have raised fund from share market by providing sufficient assurance of return their investment within a desirable time framework as promised in prospectus. But, despite so many years say 2 to 4 years company management is simply taking lame excuses of the problems, which they have, to face in real business world. Actual results have lagged behind from that of the estimated results exhibited in prospectus at the time of floating shares to the investing public. There have been no liabilities imposed on the concerned promoters and directors signing the prospectus to compensate the investors for providing misleading information in prospectus to attract sale of shares. Even the concerned authorities have not seemed to thoroughly scrutinize the contents of prospectuses to avoid false presentation of facts in prospects to save investors from purchasing shares of fake companies with doubtful management background of promoters.

But investors are of the viewpoint that such things should have been made clear earlier so that on the basis of that would have through of their investment decision. Even the most reputed and promising companies managed by a handful of professional is not managing and behaving well to regard the protection of investors by providing timely and adequate return on their investment. Take the case of Jyoti Spinning Mill, Agro Nepa, Himgiri Textiles, Harisidhi Brick, Bansbari Shoe where management is excellent and

manned by professional cadre, the return on investment has not yet been generated to investing public.

Lack of actual investment return strategy in the management on most companies have made investors to believe that investing money in shares of companies would be nothing more than inviting self exploitation by one's own act of wrong investment decision.

iii)Unfair Practices.

The downfall of share market is mainly due to the unfair share market practices that went undetected for a long period in Nepal's share market. There has been a growing tendency to sell worthless and fraudulent securities since regarding their moral standing and honest integrity of professionalism. In practice, a handful of Banniya trades (canny people) began to dominate the share market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings.

Their unfair share market practices cover wash sales, cornering of the share market, churning, formation of pools and cartels, misuse of insider information and so on. manipulators, they obtain a corner on the share market of some selective scripts and then liquidate them at a higher price for a capital gain. They have hold shares of banks, insurance companies to raise the prices artificially by taking monopoly of these stocks.

During stock market boom, they reap the maximum benefits individually through collective efforts while later on shifting burden of losses to shareholders of a company managed by them during bearish market.

Another way how the market makers and share brokers deceived investors is the growing practice of churning under which they steal funds from clients while escaping detection by all. Churning has occurred in Nepal's share market especially when market maker's feed brokers with hot tips which strongly for brokers whether or not the investors gain from such share transaction. Market maker uses the brokers by providing some commission to do such activity. ` it is a practice of turning over a clients' funds for the personal benefit of the broker by frequent transactions. The innocent investor often provides wide discretionary power to brokers to make fruitless trade by giving investor worthless opening and hot tips. Nepal Bank Patrika, (Baisakh Masanta)

There are cases to prove in Nepal that how some market makers took advantage from insider- information as they have prior access to the announcement of the dividend and bonus share by local and joint venture banks, insurance company, hotel, etc. before making such information available to general investing public. Market makers have maintained access to insider information directly through their representative in boards of various companies or through tapping, of such information by having frequent relationship and contact with insider. According to market circle, single market makers has been able to earn more than Rs. 5 million from such insider trading and other individual trader could tap profit varying from Rs. 1 million to Rs.2 million.

At the same time there is no denying the fact the investors too are responsible for not having self control and self judgment in the choice of the securities for investment. In most cases, investors have considered share market as an

important gambling place to make fortune overnight without considering how such irrational behaviors can put them in to possibility of greater losses. In the early boom period of share market, as even a small investor venture to have 10-20 shares transaction worth of Rs. 10000 to Rs. 25000 as market price per share rose very much by many times compared par value. Many investors begin to draw their money from saving account and also from matured fixed deposited certificate to channelize for trading in shares as they found higher return and lucrative gains from share transactions. Some investors are happy to inform that they could gain Rs. 5000 immediately by investing just Rs. 20000.²⁰ But later on they have to bear losses as share market depressed due to poor performance and financial losses of listed companies on one hand and many investors began to be cautious not to commit blunder further.

2.4.1. Information deficiency in Capital Market.

Finance theory defines an efficient capital market as one where the security prices reflect all the available information. A question arises what information affects the price of securities of company. Any information that affects the value of a company will also affect the prices of its securities. This includes firm specific information on future earnings, cash flows and growth prospects; macro economic information on inflation, interest rates and the economy; and industry specific information. As the managers of the company have control on the firm specific information they should provide such information to the capital market as soon as possible.

The Securities Exchange Act, 2000 provides that any corporate body which has listed its securities under this Act shall, every year, submit that balance-sheet, profit and loss accounts, financial reports as prescribed and annual

report of the year within four months of the date of closing of its annual accounts, to the Securities Board and Nepal Stock Exchange. The regulation also provides that the listed company shall, within one month after all general meeting, matters discussed and resolutions passed therein to the stock exchange, the listed companies are also required to submit a half yearly progress report including the activities carried out within two months of ending of half yearly period.

Prevailing securities law also requires the listed companies to provide various financial and non-financial information. These information include amendment in the memorandum of association and the articles of association: declaration of interim dividend: book closure: change of director, chief executive officer, company secretary and auditors: revaluation of assets made by the company: acquisition of business of another company 9 year sale of whole or part of the business of the company: significant expansion or diversification of the business: suspension of transfer of ownership, renewal, unification or division of the securities: major contracts entered into by the company having significant impact on it's profitability: and suspension of business because of strikes and lockout, natural calamities, accidental event and other reasons.

SEBO (2001) Financial statement and progress report are significant in the capital market for obtaining information on the current financial health of the company and assessing their future prospects. The investors in the capital market compare these statement and reports with their expectations, In an efficient market. We would predict an instantaneous reaction to such

statements and reports if these contain surprising information; an increase in prices of securities following positive surprise.

The annual report of Securities Board, Nepal for fiscal year (FY) 2057/58 mentions that out of 115 listed companies, only 10 companies had provided financial statements of FY 2056/S7 within the prescribed time frame, 57 companies had submitted such statement after the prescribed time frame and 48 companies had not provided any financial statements at all. All the companies category while more than 85% of the defaulting companies fall under manufacturing and trading category. This is one of the reasons as to why the shares of manufacturing and trading companies. Information deficiency in the capital market may be one of the reasons for determination of share price by excessive speculation. This may lead to dominating by the gamblers and the manipulators capital market.

According to IMF staff country report "A well functioning capital market is important for Nepal to support the efficient Channeling of private saving to investment and facilitate the transaction to direct monetary control. While headway has been made through various reforms since the late 1980's the capital market is still in early stage of development with much structural weakness."

In country economic review: Nepal, ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market (Primary plus Secondary market included) including "major tax reforms and further measures to improve efficiency in the financial sectors as well as be revitalize the capital market".

In their paper "Privatization principle and practice" Donaldson David and J.Wagle, Dillep M. writes" There is a symbiotic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on SOE Boards. A large privatization program often has a dramatic effect on capital market development, adding greatly to the stock and variety of corporate assets.

Investors in the past years do nothing for the upliftment of the market. "NEPSE Parisuchak" is going declining since the last years about more than 2 cores. If this is happening for few more years Nepalese share markets face great problem regarding the primary and secondary market.

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

NIDC; capital market is the first organization that has come forward to develop the capital market in the country. It has aimed to assist in the

development of the country's capital market by under taking various activities related to merchant bank such as:

- i. Issue management
- ii. Mutual Funds schemes
- iii. Private placement
- iv. Portfolio management
- v. Venture capital fund
- vi. Share underwriting
- vii. Market making
- viii. Financial services etc.

The NIDC capital market has made several issue management with the reputed company like Nepal Lever to Everest Bank Pvt. Some of the issue management projects are already in pipeline for more than 30 crores. It is also assisting in financial services such as credit rating of companies, shares analysis, market information which are the pre-requisites for the development of capital market can not be satisfied with the limited functions of NIDC capital market. It is necessary for him also to be more aggressive so as to take momentum of the capital market.

In spite of the recent economic reforms by the country such as liberalization exchange controls, privatization of government owned operations, opening up commercial and investment banking sector, entrance of large joint ventures, introduction of capital market and stock exchange, authoring of government securities, other liberalization and the proposal for the introduction of Nepal as the international financial center etc. the development of capital market of Nepal is still affected by number of factor which are mentioned below.

Shrestha (1999) "The role of securities marketing center SNC in the Economic development of Nepal", asserts that the industrialization is the foundation of the economy. In its absence, the economy can not live on its own foot. To the need of long term finance occurs sharply to accelerate industrialization. In this respect, the Securities market is an important constituents and core of capital market. No doubt, industrialization is core of the economy however it is not an independent function. There are other variables of economy, which sustains in the financial and money market along with the productive use of available sources. Thus, the study of securities nmarket should be delimited to primary and secondary market merely indicates the future repercussions of securities market.

Shrestha fails to highlight on the problems of his research work. It is tile general principle of the work that what problems he has observed and why he is interested to pick up the topic to be explored so as to find the remedial measures of the problem That is why the problems should be started on the part of research work not at his own cost. Shrestha states that there is the lack of necessary books, bulleting and other materials concerned to the topic. No adequate information about the stock exchange. A All this is not entirely based on the concept of research methodology Basically, two behavioral aspects of securities market i.e_ primary and secondary are studied while conducting research on this topic, and problems related to this aspect should be considered. To this effect, Shrestha conceptually deviated from the methodological authenticity of research.

As Shrestha indicates that the sole objective of the study is to know how far SNC has succeeded in educating public about the investment in securities. this

is particularly a cognitive attitude of the investors and many more qualitative elements should also be taken into account to evaluate investment and disinvestments of securities on the part of investors. But nowhere in the study, has Shrestha thus explained the investment attitude of the potential investors. Furthermore, Shrestha's statement in relation to measure the success in educating public about investment doesn't hold true partly because no tremendous transactions were performed during the preliminary day of stock exchange and partly because there was no response of the entire public to the securities market. As a result public awareness as to the securities was premature to the assessment.

Similarly, Shrestha attempts to highlight how far the securities marketing center has helped to increase the transactions of securities investment. Here, Shrestha obviously excludes what kind of securities instrument he has to deal with. In order to support his logic, he has maintained that financial intermediaries are a contribution to the development of securities market in Nepal. Consequently, the Securities Investment Corporation (SIC) limited was established in 1976 under the company Act with an objective among others, to assist public limited companies to raise capital through the issue of shares and debentures and to create a market place where purchase and sale of securities take place through intermediaries operating on the floor of stock exchange. At present the SIC (SIC) has been examining the possibility of trading in corporate securities as soon as possible. It has already started dealing in government bonds and treasury bills.

It means until then no corporate securities have been traded except government bonds and treasury bills. If he were dealing with government

bonds and T-bills, he would have early mentioned that his study is not related to corporate financing.

The condition of primary market is very miserable. It is also due to the lack of fiscal and other incentives we know that primary market is the main foundation on which the secondary market is based. So without the proper development market, the secondary market wouldn't be effective Recently the transaction of shares has been started in the secondary market.

Shrestha arrives at the conclusion that the performance of existing companies is not satisfactory, thus the potential investors are not willing to invest in the present securities. More importantly, now the securities market is functioning independently as primary and secondary market.

According to the journal of SEBO named "Meeting the challenges ahead (2054-2069)" clearly divided the policy development regarding to the growth of the market As an apex regulatory body for the Nepalese securities market, the securities board has adopted following set of strategic policies to handle the strategic issue that are inhibiting the growth and development of the market. These policies consist of:

- Improvement in the statutory and regulatory framework of the capital market
- Development of market statutory and regulatory Framework of the capital
- Development of widely participated capital market.
- Improvement in the securities Bond's institutional capacity

SEBO also made some improvements in the statutory and regulatory framework of the capital market have to be revising, to rationalize and simplify of capital market in the following ways

The improvements are:

- a) To Bring clear demarcation in the role and responsibilities born by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.
- b) To Reduces" the duplication in the role and responsibilities of Board and other regulatory agencies.
- c) To Show the ways of co-ordination between the services Board and other regulatory agencies.
- d) To Promote/public confidence in the regulatory system and market structure.
- e) To Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.
- f) To Establish securities Board as a central markets regulator and rest it with wider investigation and enforcement power.
- g) To Empower the securities Board to audit the registered corporate bodies' mutual funds, as custodians and clearing houses in relation to their financial reporting issues.
- h) To Promote the development of"full -survive" securities houses and
- i) To Give focused attentions for the establishment and up-gradation of necessary legislative infrastructure to address on going needs.

The implementation of this policy involves:

- I) Enactment of new securities act and sub-coordinated legislation there on,

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

Development of widely participated capital market securities board has a vision of Nepalese capital offers a wide range of financing services and instruments. It also has to provide the opportunity for large number of investors to participate directly or through mutual saving schemes which ultimately enhances the bread the and debt of the capital market. While implementing this policy the securities board:

- a) Advices the govt. regarding the development of secondary market for government securities and opening of foreign portfolio investment.
- b) Co-ordinates with NRB to formulate prudential standerds for the primary issue as well as secondary trading of government bonds.
- c) Studies the possibility of introducing as over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

2.4.2. Role of Secondary Market.

Stock Exchange is the market where secondhand securities are bought and sold for investment or speculative purpose. It is provides facilities of trading in listed securities. In the recent years the role of stock exchange is being increasingly recognized by authorities. Stock Exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much

popular attention. The stock Exchange as the market of securities gives every body access to a number of difference opportunities for capital investment. The function of stock Exchange is to provide equal opportunities for as Many buyers and sellers of securities as possible. From a general economic point of view, the stock Exchange constitutes the core of the capital market- It has put its' finger on the pulse of the economy and gives it diagnoses to the hublic in tile form of quotation.

Investment is the lifeblood of economic development. It is evident that stock exchange will continue to fulfill their vital function in the National economy. So long as private enterprises exist, we know that the stock exchange is the place where stocks & shares are bought and sold. The substantial competition in innumerable buyers and sellers determines the prices with a measure of precision that can not be obtained in other unorganized market to such as the property market where activities are of a spasmodic nature.

The stock exchange is intricately interwoven in the fabric of the nation's economic life. As well known author Mr. W.T.C. says- "Without the stock exchange: the saving of the community the sinews of economic progress and productive efficiency would be used much less completely and much more wastefully than they are now. "The task of mobilizing & distribution of saving could be attempted in the old days by a much or less specialized institution than the stock exchange. But as business % industry expanded and the economy assumed a more complex nature the need for a permanent finance arouse. I investors wanted liquidity the facility to convert their investments into cash at any given time. The answer was a market for investment and thus was how the stock exchanges into being formatted.

Thus institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by the forces to supply & demand (A.K.S. 1980) The The function of a stock exchange is not only to provide a market for Securities but also assist in the raising of funds for government and industry. Thus Free and active markets in the stock and shares have become a perquisite for the mobilization and distribution of a nation's saving as to support modern business.

In this way, we can say that stock exchange have a vital role to play in helping industries to raise necessary finance. They have three supremacy important functions to perform in developing a stock capital and to enable government to raise loans. Their servicing as indispensable in the operations by the authority for the regulation of the country's credit It is generally thought that a stock exchange serves only those who have money to invest and securities to sell. This is an understatement for a stock exchange benefits the whole community in a variety of ways. By enabling producers to raise capacity it indirectly gives employment to millions of people and helps consumers to get goods needed by them.

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2.4.4. Problems of Secondary Market (NEPSE).

In Nepal, the market is at an early stage of development. It is important that the government create the right policy environment to facilities the creation of a critical mass of financial instruments, issue and investors. Therefore government needs to create incentives for capital mobilization: remove impediments to private sector development educate investors, and provide basic legal and regulatory reforms. Until now, the stock market development in Nepal has not reached its full potential for much reason, which is described below.

i) Unfavorable Macro Economic Condition.

Although Nepal has changed realty since 1950, it is still at an early stage of economic development. It is at an early stage of economic development. It is one of the poorest countries in the world. 40% of GDP, over 80% of population live in the countryside. The absolute size of state sectors all.

ii) Political Instability.

The establishment of parliamentary democracy in 1990 opened the way for sweeping economic reform and a program of great scope was carried out between 1991 and 1994. This embraced policies on finance, foreign and domestic trade and investment, industry and foreign exchange, and a star to privatization. A change of government then led to hiatus on privatization and set back macro economic stabilization. Thus, political instability, change the investors expectations about the prospects for the economy in a certain environment.

iii) Low investors Confidence.

Investors confidence in the Nepal stock market is relatively low because of stock market volatile, low return on investment, inadequate information on which to base investment decisions, lack of understanding about the operation of financial markets and investment and a general perception that the stock market is not a "fare game". However, considerable progress has been made but is not adequate to restore investor's confidence

Investors put in their money in stock equities for return. Such return in the form of both dividends rate and market gain must be reasonable enough to professional services, adequate corporate financial disclosure and improved legal, regulatory and supervisory frameworks are the dire needs of investors in Nepal Stock market, today.

iv) Weak Tax System.

Tax policy has an important on the methods and cost of capital in Nepal, tax policy appears to have contributed to the high cost of capita(for private sector and the over reliance on short term debt financing. Tax policy has hindered the development of stock market by increasing transaction cost and creating a disincentive for investment is the equity bond market.

In Nepal, capital gain on securities transaction are taxed as ordinary income to corporations and individual investors while most emerging markets capital gains on investment in stocks and bonds are not taxed. Also there is no tax inventive for taking on the burdens associated with offering of shares and disclosure of the information to public.

Also, there need to rationalize tax policies towards capital formation, to encourage private sectors and secondary market transaction. There is the high level of taxation of transaction executed on the stock exchange. Stock brokers pay about one third of commission earned in the form of transaction taxes or fee to the Nepal Stock Exchange (NEPSE). In most emerging markets, transaction costs to investors are lower and there is no tax on capital gains in order to encourage risk-taking. High transaction costs and capital gains taxes discourage investment in the stock market and tend to reduce market liquidity.

v) Slow Privatization Process.

During the past decade, one of the major economic reforms that has taken place in the global economy has been the decisive shift towards the privatization of state owned enterprises in most countries, as pact of a general change away from government control towards policies that allow market forces to operate freely with the private sector serving as the engine for

economic growth. In general, government privatization policies in both the industrial and the developing countries has resulted in the role of state owned enterprises to private investors in order to:

- i) Widen the ownership base of the national economy.
- ii) Reduce demand placed on government's fiscal resources
- iii) Ensure greater economic efficiency at enterprises level.
- iv) Encourage foreign investment in order to provide needed foreign exchange resources: to facilitate technological transfer.

In Nepal, the Nepalese government first launched a privatization program in 1992. A recent world bank report on Nepal told that the privatization program has been delayed for diverse reasons, including "frequent government changes, philosophical difference with regard to the objectives and modes of privatization are lack" of technical capacity within the government."

During the FY 1996-1997 16 state owned enterprises were privatized of which ten called for issuance of shares to the general public and there are 27 state owned enterprises that are on the list of enterprises to be privatized.

vi) Investment of Saving in Bank Deposits and Government Securities.

In Nepal, the stock market is new and the investors do not properly understand the risk and reward of investing in the stock market because of this both individuals and institutions are putting their savings into bank deposits and fixed interest government securities. Thus long-term savings (stock market) are going into (short-term) instruments.

vii) Lack of Improved Prospectus to Investors.

In order to make informed decisions; investors must have access to accurate and timely information This is often not the case in Nepal While banks, some finance companies and insurance companies are perceived to provide

meaningful information to investors on a timely basis, disclosure to investors is not adequate for many non financial listed companies. The lack of accurate and timely information is one of the important reasons why investors to a considerable extent have lost confidence in the Nepalese stock market.

In Nepal, except private commercial banks, the prospectus issued by individual companies does not contain all the information's are vague. Privatized companies have even a worse track record in case of periodic disclosure requirements. There is also no clear enforcement power to SEBO (Securities Board) regarding prospectus by public companies under the existing Securities Exchange Act.

viii) Weak Legal Affairs for Stock Market Regulation and Enforcement.

At present time there are twelve Acts, Regulation and guidelines related to the stock market activities in Nepal, which are also as follows.

1. Securities Exchange Act. 1983.
2. Securities Exchange and regulation 1993
3. Company Act. 1997
4. Commercial Banks Act, 1974
5. Finance Company Act, 1985
6. Foreign Exchange Act.
7. Foreign Investment and Technology Transfer Act, 1992
8. Membership of Stock Exchange and Transaction Bye-Law 1993
9. Securities Listing Bye-Laws 1996
10. New issue management guideline, 1997
11. Securities Allotment Guidelines, 1994
12. Securities Registration and Issue approval guidelines, 1995

Even though, the securities regulatory system is seriously deficient because it lacks in whole or in part a number of safe guards essential for investor's

protection. Accordingly, a new securities act and supporting regulation are required.

ix) Need of Credit Rating Agencies.

A credit rating agency is essential to the successful operation of money and bond market for private issues. A credit rating is an opinion about credit risk, or an assessment of the ability of an issuer of debt securities to make timely payment of principal and interest on a security over the life time of the instrument.

Government policy actions can have important influence on the prospects for the successful establishment of a credit rating agency in an emerging market environment. In order to establishing a credit rating agency in Nepal, it will be necessary to take step to further develop the infrastructure for the money and bond market and improve the availability of accurate and reliable information about public and private business enterprises that could be rated. Credit rating agencies are also able to rate the claims paying ability of insurance company and the solvency of banks and other- financial institutions. Therefore, there is an urgent need to lay groundwork for the establishment of Nepalese credit rating agency.

x) Lack of Money and Bond Market.

According to Pant (2000). The development of money and bond market in Nepal is essential in order to have a critical mass of financial instruments that is needed for an economically viable securities market. The development of a money market in commercial paper and other negotiable debt instruments

would provide an alternative source of funding for the private sector and would foster greater competition in the financial sector.

In Nepal, there are four main types of debt instrument issued by Nepal Rastra Bank (NRB) and f HMG (i) Treasury bills (ii) Development bonds (iii) National saving bonds (iv) special bond.

At present time, treasury bills and development bonds is taxabl while national saving bonds are tax exempt In the absence of a secondary market in government debt, NRB provides liquidity facilities as necessary also there is no official mechanism for determining a market price for government debt securities (before the introduction of floor trading) but trading is quite limited. Today, there is an absence of private money market debt instrument and corporate debt securities in Nepal. Because of this, there has been a tendency for banks to determine the primary market in government debt instruments with secondary market normally being inactive.

2.4.5. Future prospects of SEC in Capital Mobilization.

SEC was incorporated in the year 1976 with a view of accelerating the pace of industrial growth and to develop the idea of securities exchange activities. But at present it has legalized the Securities Exchange Act 1983 and has made listing compulsory for all the public limited companies in the center.

SEC not only aims at trading the industrial securities of well-established companies but also intends to sell the securities of newly incorporated public companies. It is also providing advisory services to the HMG as regards floatation of shares of the governmentally fun profitable organization so that the investors may get opportunity ti invest in industrial securities. As mentioned above, it has floated the shares of the following organization at the

face value in which the shares of National Insurance Corporation (non-life) have been issued at premium. The shares of the following companies are issued by SEC (1) Hetauda Leather Factory, (2) Nepal Metal Co., (3) Balaju Yantra Shala and Sanitary Engineering, (4) National Insurance Corporation, (5) Nepal Arab Bank etc.

In order to understand the shares of the newly incorporated companies the SEC has also invested its capital in capital market development fund in which NRB and NIDC have also contributed their funds.

The SEC has also monopoly right in trading government securities in Nepal-SEC has not opened its branch office at any place and others do not have rights to trade oil government securities. So it is necessary to open some branch in different zones so that people near by it can many facilities regarding SEC.

Now the question arises- What the SEC must do to expand its activities and what will be its future prospect? The transaction on stock market depends on the investment opportunity which, in turn, depends on the number and size of public limited companies because the security of existing company is to be bought and sold. There will be supply of stocks floated in the market only if the more and more companies are going to the public sectors. This is because - -- a board and active security market would depend on the extend of the supply of stocks and the demand for them. In order to make arrangement for continuous flow of securities the experts or brokers for healthy speculation must be involved in the market? If this is done, the volume of transaction is though insignificant the regular buying and selling process will be operated.

The promotion of stock market in Nepal is not only the function of SEC itself but the HMG must lay emphasis on this market and has to give different incentives to the companies which are listed in the exchange.

The supply of stocks immediately can be increased in the market by liquidity the government run organization and selling the shares to the general public and also converting private limited companies into public limited companies.

In Nepal the income is a great influencing factor for the demand of securities. The people with higher income bracket are better placed but the lower and middle class people do not have any saving and all the income earned is spending on funding and lodging. This is due to the existence of unbalanced distribution of income. So the HMG must give equal preferences. The fourth plan said, Nepal does not lack private capital, although it does lack opportunities for productive investments. After the implementation of land reforms program, capital in the hands of landlords has remained idle due to lack of investment opportunities in economic sectors.

The main reasons behind insignificant trading of shares through this market till now are given below:

- i) Brokers or dealers are the main influencing factors for the demand for and supply of securities. This is because the healthy speculation is quite essential. They know who are the: real suppliers and buyers of the securities But the SEC till now is trading bid and asked the price and the transaction is finalized. This is not so in the context of Nepal.

- ii) The share ownership is very scattered. The people holding large numbers of shares do not have felt essential to sell whereas other small holders were selling through brokers at the unfair price.
- iii) The percentage of investors is very limited in comparison to other developing countries. This is due to the lack of knowledge and illiteracy. So with the pace of time this also rises.
- iv) The income level of Nepalese people is a very poor. So they fear risks. That is why they instead of investing in securities prefer to deposit either in government securities or in fixed deposit. So the investment habits in fixed deposit and in saving account and government securities are increasing day by day.

Security Exchange Centre (2041). Only by the securities Exchange market smoothly must provide sufficient opportunity to the probable investors to invest in new securities issued by the public limited companies. In order to encourage the investors to invest in securities sufficient information about the company must be furnished. The probable investors should be convinced about the soundness of the organization. But as the time changes and pace of industrial development accelerates the SEC must engage brokers if it has to conduct the stock exchange in supplying to meet demand for securities and supply of securities to cope with the demand.

Conclusion:

Panta Rekha analyzed in her thesis "Current status of share market in Nepal" the trend of the Nepalese stock Market and present status of primary and secondary market as well as problems and prospects of Nepalese stock market. Her measures finding are as follows:

- i. The development of stock market primarily demands on programmes and their implementation.
- ii. In Nepal, the overall policy environment has not been conducive to the development of the stock market therefore it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- iii. Lack of investors' confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- iv. Restriction on foreign portfolio investment hindered market development.
- v. NEPSE does not have appropriate policies, membership and fee structure to attract members outside Ktm.
- vi. In Nepal, banks dominate primary market in government debt instruments. OTC trading is not permitted therefore secondary market is totally inactive.
- vii. Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

She did not point out the transparency and openness of transaction, quality professional services, adequate. Corporate financial disclosures and improved legal, regulatory and supervisory frame are the urgent needs of Nepalese stock market. Therefore it is important that the basic assumption in any effort for protecting investors interest or boosting their confidence or developing the stock market is that business, which should be enabled to operate in an environment that remains conducive to growth and expansion but complete replication of any tailor made model, as applied anywhere, may not work

because the specifics in Nepalese stock market is different from other developed.

She just had given the some familiar aspects as Tax, lack of investor's confidence, inadequate institutional investor's base, political instability etc.

Regarding political instability, she was absent to indicate the Maoist activity which has made the status/condition of country very poor. These activities have not only affected the political environment but also have affected the tourism, hotel management etc. or we can say that all financial as well as non-financial activities within the country is very poor.

She was also absent to indicate VAT system But I am trying to clearly analyze these activities in my thesis named "A Study on Problems and Prospects of Primary and Secondary Stock Market in Nepal".

We are trying to show the restriction on foreign portfolio investment hindered the market development. I can confidently say that there is no foreign securities firm in Nepal which is the main obstacle to the foreign investors for investing in different sectors as investment companies.

By studying her thesis, I found that she was absent to show the profitability. Growth and expansion in the analytical basis but in theoretical prospect was R.S Mahat in his Project "Future prospects of NEPSE in capital mobilization". Is able to analyze situation in Nepal where the industrial sector has very little access to private saving. Also be indicating the availability of industrial securities is nearly absent and the development of financial institutions that

link the surplus spending units with the deficit spending ones is in the rudimentary stage.

He further conclude the not with standing the underdevelopment state of financial institutions in the country, growth of ingestible funds becoming available recent years.

His study also demonstrated the relatively very limited financial contribution of other financial institutions to this sector- but he does indicate these factors, which help to uplift the financial contribution to the other- sector's like provident fund and NIC etc. It is acknowledged that a much greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He only specified the growth and potential (measures) of security market, capital market regarding primary and secondary market. It was absent to show the problems faced by the NIDC and other industrial as well as financial sectors. He just shows the preliminary and basic problems of Industrial sector but in broad way f His topic was "Future prospects of NEPSE in capital mobilization". But according to the topic the sufficient future prospects measures are not available in this Study but can find in basic context. There is not Indication in the relations of Primary arid secondary market with economic condition of country in his study. but I am able to give the theoretical version of relationship of capital market with economic growth.

The finding on the term nature of sources and uses of funds and the current ratios of various size and industry groups also do not give any ground for complacency. Some industries were found to have financed a large part of the increase in current assests .

CHAPTER-THREE

3. Research Methodology

The research methodology is the systematic way of solving research problems. Research methodology refers to the overall research processes, which a researcher conducts during his/her study. It includes all the procedures from theoretical foundation to the collection and analysis of data. As most of the data are quantitative, the research is based on the scientific models. It is composed of both parts of technical aspect and logical aspect, on the basis of historical data. Research is systematic and organizational effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording and analyzing and interpreting the data with the purpose of finding answer to the problem. Hence, the entire process by which we attempt to solve the problem is called research.

According to Kotheri (1990), research can be conducted on the basis of primary and secondary data. In this study, all the data are secondary and those data are analyzed using appropriate financial as well as statistical tools. Outcomes are presented in simple way. In this study, the research design, data collection procedure and analysis are described serially.

This chapter deals mainly-with the research methodologies which are used in the period of research. Research means to research the problems again and again to find out something more about the problems."

Wolff & Pant (1990). methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus. research methodology is a way to systematically solve the research problem.

In this regard, this chapter explains not only talk of the research methods but also consider the logic behind the methods which are used in the context of our research study. So research design, sources of data, use of statistical tools are basically explained in this chapter.

The stated objectives in mind, both the descriptive and analytical type of research are employed. A descriptive analysis is used because the secondary sources of empirical data have been employed to analyze the using variables, which is related to condition and growth and prospects of primary market. According to topic "A Study on Problems and Prospects of Primary and secondary Stock markets in Nepal, " Primary sources of data as questionnaire, interviews to relate to higher officials are used to show the present trend and market responses present situation of market.

3.1 Research design:

Selltiz (1962). "A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure."

It includes nature of data, specification of the methods of the proposed study and detail plan for carrying out the study with various empirical data for the analysis of problems etc. Thus, the design is basically based on presentation,

analysis and interpretation of result. First the data are presented in table (or diagram), second presented data are analyzed by using various financial tools and at last analyzed data are compared and interpreted for the conclusion.

3.2 Population and Sample:

In Nepalese context, because of the lack of information and poor knowledge, potential investor is manipulated or exploited by the brokers, financial institution, company and other market intermediaries. So brokers, investors, experts are taken as a population and from the population some brokers, experts and investors as well as the officials of the companies are taken as sample.

3.3 Sources of Data:

- _ primary sources of data
- secondary sources of data

primary sources of data are mainly based on interviews and queries and secondary data are mainly based on booklets, trading volume issued by Nepal Stock Exchange. Other primary data are collected from Nepal Security Exchange Board Nepal.

- i) Primary and secondary sources of data.
- ii) The major sources of secondary data are Nepal stock Exchange (trading volume 2004/05), Rastra bank, brokers and publications including daily papers. Secondary information was collected from these mentioned sources.
- iii) Information has also been collected from department of industry, banks financial institutions and SEBO/N to asses the trend and the future potential

- iv) Some interviews were conducted with the brokers and officials of NIDC and stock exchange market and the securities board and selected experts to determine the quality, value and volume of transactions, identify reasons for fluctuations in price and volume of transactions and to assess the future trend.
- v) Some interviews were also made with a number of potential investors whose shares investment available in different companies to obtain their opinion and views regarding the present and future situation of stock market.
- vi) Other related different statistical and financial tools are used.

3.4 Data Collection Techniques.

This study is primarily based more on primary and less on secondary sources of data for showing problems and prospects of primary and secondary market in Nepal. The primary sources of data used are interviews and questionnaire but the secondary sources of data used for analyzing areas follows:

- 1) Trading report published by stock exchange Nepal.
- 2) Financial statements and other transaction of listed companies listed by NEPSE/N.
- 3) Out side published material directly relate to problems and prospects of primary and secondary market.
- 4) Booklets published by other related agencies like SEBO , Ministry of finance.

CHAPTER- FOUR

4. ANALYSIS AND PRESENTATION OF DATA

This chapter includes analysis of data collected and their presentation. In this chapter, the effort has been made to analyze "A Study on Problems and Prospects of Primary and Secondary Stock Market in Nepal."

4.1. Existing situation of Capital Market in Nepal:

Capital market is a vital part of the principal system, providing efficient delivery mechanisms for saving mobilization and allocation, risk and liquidity management, and corporate governance. In addition, they facilitate government debt management, the good conduct of monetary policy and provide a channel for privatization. In Nepal, the concept of capital market was developed by the establishment of security exchange center on 2033 B.S. The number of the listed companies and their trading was very negligible unit the government of Nepal have made economic reforms along with broad financial policy in the process of economic liberalization, the privatization of public entities have been started, various financial and insurance companies in the private sectors are being established with local and foreign investment. The companies have to issue some of their shares of general public. This to give a momentum a liquid market for shares a strong competitive secondary market is necessary. In order to make public issue more transparent and to facilitate buying and selling securities in the secondary market, the government has framed laws, by laws in this regard, and establish Nepal Stock Exchange Board, which can be considered as the favorable steps towards the development of the capital market in Nepal.

The capital market includes

-) Activity relating to the organizational distribution and trading in the securities
-) Organization which facilitates these activities
-) Individuals and institutions which buy and sell securities

Analysis & Presentation of Data

-) Rule, regulation, custom and practice that control the organization and conduct of business in the market
-) The capital market may be studied under two heads.
-) New issue market, primary market and secondary market.

The new issue market is concerned with the flotation of shares and distribution of shares to the general public. It consists of companies issuing to the buyer of the new securities and various intermediaries, which help in the disposal of new securities.

4.1.1. Historical Background of Capital Market.

The history of capital market in Nepal dates back to the era of Rana Prime Minister Gunjaman Singh, the first secretary at the Nepalese Embassy to England back to the Kathmandu and set up the Industrial Council. The council drafted the company Act and Nepal Bank Act for the first time in 1992 B.S. of shares in the securities market was initiated by Biratnagar Jute Mill Limited in 1993 B.S. There were very few companies in Nepal issuing shares to the public until another company act came into operation in 2007 B.S. Many

industries including Jute, Sugar Mill, Match, Textile, Chemical and Furniture were established in Nepal and disappeared because of many reasons. For many years after 2006 B.S. Adhikari (2005). Nepal passed through a upset of series of political instability. During the panchayat Regime (2017- 2046), economy wasbased on central planning and most of the industies were opend in the public sector. Various control measures were adopted providing with difficult rules and regulation required to register companies and thus private sectors was eventually discouraged. There were only two development bank such as Nepal Industrial Development Corporation and Agriculture Development Bank, in existence to finance industrial and agricultural projects along with the two domestic commercial banks. The government approach during this period was to expand banking services to remote villages of nation in order to encourage agriculture production, small scale industries and service sector in the economy. Corporate industries involving huge capital investment were opened in public sector. No industrial environment was created in the country to set up corporate undertaking in the private sector. The non - security market of Nepal came under regulatory framework when Nepal Rastra Bank established in 2012 B.S. prior to this, Nepal Bank Ltd. was only financial institution operating

under Nepal Bank Ltd. Act 1993 B.S. Another commercial bank. Rastriya Banijya Bank was established under Rastriya Banijya Bank Act 2022 B.S. in the public sector. A single commercial act was enacted in 2030 B.S. to consolidate the functioning of all the commercial banks under one legal umbrella. Also Finance Companies Act and Development Bank Act came in 2041 B.S. and 2052 B.S. respectively. SEBO (2005). At present the country has 17 commercial banks including joint venture banks. Seven Development

Banks including Agriculture Development Bank and Nepal Industrial development Corporation and 59 finance companies operating in financial market. Besides, there are 18 insurance companies including deposit and credit Guarantee Corporation and other non-depository institutions like Employees Provident Fund and Citizen Investment Trust collecting huge amounts of fund from the public in different forms and nature providing long term funds to the people for various purposes. In this way, institutional development of securities market in Nepal started from the year 2033 B.S. when securities Exchange Center was established under the Company Act with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The industrial policy of the government also encouraged the promotion of security activities in Nepal.

4.1.2. An Introduction to Nepal Industrial And Development Corporation (NIDC) Capital Market.

NIDC capital market is the first organization that has come forward to develop the capital market in the country. It has aimed to assist in the development of the country's capital market by undertaking various activities related to merchant bank such as: Issue market., Mutual funds schemes, Private placement, Portfolio management, Venture capital fund, Share capital fund, Market making, Financial services etc.

The NIDC capital market has made several issue management with the reputed company like Nepal Lever Ltd. to Everest Bank Ltd. Some of the issue management projects are already in pipeline for more than 30 crores. It is also assisting in financial services such as credit rating of companies, shares analysis, market information, which are the pre- requisites for the

development of capital market in the country. However, the countries capital market can't be more aggressive so as take to momentum of the capital market.

In spite of the recent economic reforms by the country such as liberalization exchange controls, privatization of government owned corporation opening up commercial and investment banking sector, entrance of large joint ventures introduction of capital market and stock exchange, auctioning of government securities, other liberalization and the proposal for the introduction financial center etc. the development of capital market still effected by number of factor which are mentioned below:

4.1.2.1 Factors affecting in the development of NIDC.

There are some factors that affect the development of NIDC:

Government's fiscal and industrial policy, General economic conditions of the country with reference to industrial production and profitability, Thrust in the money and capital markets With reference to prices and savings situations, Demand for the capital from public and private sector for development expenditure, Habit of investors: preference for liquidity and return in the context of prices in the secondary markets, Instability of government and Maoists are the main causes today are the destruction of such organization. The potential for raising resources from the capital market is infinite.

There was a consensus among investment circles that the outlook for the capital market was optimistic after the restoration of democracy in Nepal and after some economic reforms. This had been indicated by the growing number of investors who had earlier preferred to put their savings in the bank deposits

are investing in shares and debentures, the urban middle class investors who are attracted to shares have participated in the number of new issues which were heavily oversubscribed. There is a feeling among merchant banking circles that more liberal rules are necessary for tapping the ingestible resources of Nepalese working outside the country. During the last few years, the performance on the stock exchange was hectic and the correction in the rules and regulations and the modernisations will bring a strong capital market in the country. It is also essential that the government should continue to adopt more pragmatic economic policies with a view to rapid growth of industries and to attract foreign direct investment. All the liberal policies augur well for the future of the capital market. Good issues (particularly financial field) are getting more than adequate response and continue to be well received by investors. The prospects of capital market are very high subject to some reforms.

The financial regulations, development of new instruments of money market and the setting of new divisions by banks (like Rastriya Banijya Bank, Merchant Banking division) for undertaking financial services have all assisted the depending and widening of the capital market of Nepal.

Francis J.C. (Investment: Analysis and Management P-123). The country has already opened up its policies and in due course will liberalize further. We have talented entrepreneurs willing investors, Capital market, adequate financial and accountability on the part of promoters and a stronger financial discipline to develop a strong capital market: the commitment of the government should not be bypassed in regards to its assistance to develop capital market in the country. Despite various weaknesses and defects of

capital market, it has grown width and resilience over the last few years. The quantum of new issues rose by nearly doubled over the last decade. The new money and capital market more recently well also expand trade in the market. The market is so vast that only its potential is to be tapped.

4.1.3. Monetary Policy Implication on Capital Market Development.

After the restoration of democracy, it was realized that economic development of countries was not possible without participation of the private sector. With the adaptation of liberal economic policy, the newly elected government followed the policy of privatization of industrial and commercial undertakings retaining the public utility enterprises under its control. The government recognized the need of a dynamic capital market in order to meet the increased demand of capital for the private sector. Towards this end, suitable monetary policy moves were undertaken by NRB.

Commercial bank and financial institutions enjoyed complete freedom to determine their own

interest rate on lending and borrowing with effect from FY 1989/90. Before that, NRB used to determine the maximum interest rates on deposits for the commercial banks and financial institutions. As a move towards financial sectors reforms, NRB took various policy decisions

such as increasing banks' capital structure, classification of loans, loan loss provisioning, and recognition of income and establishment of ceiling for individual credit. The capacity of commercial banks to channel their resources to the private sector had improved due to the lowering of statutory ratio from 24 percent to 22 percent. NRB continue to hold auction sales of government treasury bill on a regular basis. According to J.C Francis (Investment :

Analysis and Management), along with in the improvement in the financial sector, additional joint venture banks, finance companies and insurance companies had also come into existence. NRB in an effort to maintain the price stability to an acceptable level had issued bonds worth Rs.4 billion. This squeeze in excessive liquidity had been helpful in easing the domestic inflation. NRB continued to issue bonds occasionally to absorb excessive liquidity.

4.1.4.FiscalPolicy announcement by thestate and the Capital Market Development.

The government of state analyzed the importance of sector to lead the role in market oriented and competitive economic activities while its own role was to provide basic services to boost up the private sector. "The budget announcement for the FY 1991/92 had realized that the government's role in the industrial and other enterprises should gradually be decreases with corresponding increased participation of the private sector. Various fiscal incentives were offered by the government to the public limited companies as well as to the investors in such companies in order to develop the capital market in Nepal.

-) Companies, which had listed their shares in the SEC, had to pay an income tax at of 40% on their profit. This rate 5% less than that to be paid by other private sector companies.
-) An additional tax rebate at a rate of 5% was given to the corporate body, which had disturbed at least 30% of its ownership to shareholders with a maximum 100 shares.

) Are bated at 50% on the land registration fees was granted to the Hotels, which had acquired land for a new establishment, or for capacity expansion. Such incentive owning a maximum number of 100 shares.

The budget speech for the FY 2000/ 2001 has emphasized for the reforms in the stock exchange regulation, simplification of settlement procedure and transparency in securities market. A

revised stock exchange Act is proposed to be passed by the parliament. An institutional arrangement is being made for the securitisation of asset like land and building mortgaged with the commercial bank against their loans.

When loans turn bad, a proposed finance company called Assets Reconstruction Company will take over the assets pledged with the commercial banks at their realizable values and issues bonds to the concerned commercial bank. However, the budget announcement has proposed a nominal income tax rate of 5 percent on income from dividend to them determinant of share market expansion.

4.1.5. Historical Background of NEPSE

The secondary market/ stock exchange of Nepal play an indirect role in the supply of capital. The existence of the secondary market provides institutional base for continuous purchase and sale of securities and to that extent, lend liquidity and marketability, and institutional mechanism was very poor in terms of adequacy, transparency, regulation and gearing to investor's protection.

4.1.5.1. Management of NEPSE.

The stock exchange is managed by a governing body, which consists of a president, a vice-president, Executive Director, elected Directors, public representatives and nominees of the state. The governing body is responsible for public formulation and for ensuring smooth functioning of the exchange. The executive functions are discharged by the Executive Director of Secretary.

4.1.6. Present Status of Stock Market in Nepal.

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earning and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. From 16 listed companies in 1986 they grew to 110 in 2000. During this period, their paid up capital surged up from Rs. 341 million to Rs. 7.5 billion. Number of listed companies increased by sevenfold, whereas the paid up capital went up 22 times. Market capitalization of listed shares has been rising continuously, except with a few cases of

volatility. It has reached Rs. 43.1 billion in 2000 from Rs. 548 million in 1986. The ratio of market capitalization to pay up value increased from 1.6 times in 1986 to 5.9 times in 2000. Though annual turnover is much volatile it has reached to the highest level of Rs. 1.5 billion in 1999 from Rs. 10.1 million in 1986.

By the end of fiscal year 1999/2000, the 110 companies listed on the Stock Exchange were capitalized at Rs. 43.1 billion and turnover for the year was 1.2 billion. According to recent statistics published by the International Finance Corporation (GMA 1998), the capitalization of the Nepalese stock market as a percentage of GDP was a little over 4 percent in 1996, compared to an average of 19.5 percent for lowincome countries. By mid-July 2000, market capitalization of the Nepalese stock market has reached 11.5 percent of GDP.

There was bearish tendency in stock since 1994. Share prices of most of the companies had gone down. The NEPSE Index fell to 163.4 in 1008 form 226 in 1994. However since 1998 onwards, stock market began to revive. As compared to the preceeding year, market capitalization went up by 65.5 percent to Rs.23.5 billion at mid- July 1999: whereas paid up market capital had gone up by 30.8 percent to Rs. 6.5 billion. The paid up and market capitalization in the previous year

were Rs. 5.0 billion and 14.3 billion respectively. The NEPSE Index moved up to 217 at mid-July 1999 from 163 at mid- July 1998. It has been moving upwards sharply till date and has reached 360. 7 on July 14, 2000.

SEBO (2001). The year 2000 reveals that commercial banks occupy the topmost position in terms of annual turnover, market capitalization and NEPSE Index. Manufacturing and processing companies occupy second position in terms of market capitalization and NEPSE Index, however they rank third in annual turnover. Insurance and finance group jointly holds second position in terms of annual turnover and third position in terms of market capitalization and NEPSE Index- Throughout the year, it has witnessed a continuous sharp rise in the price index except few cases. The NEPSE Index started with 275.8 in January jumped to 502.9 in November: however, it fell to 488.0 when the trading was closed on December.

Perfect markets required that all information concerning future risks and returns of securities are readily available to all investors. As there exist various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, Majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities.

4.1.7. Impact of Stock Exchange on Economic Growth.

Stock market impact on economic growth by the creation of liquidity. The study by Levine found that stock market development explains future economic growth. Liquid equity markets render investment less risky and more attractive by allowing savers to acquire an asset and sell it quickly and cheaply if they need access to their savings or alter their portfolios. At the same time companies can raise equity and enjoy a permanent access. Liquid

markets improve the allocation of capital and enhance the prospects for long-term growth. Liquidity provided by stock market renders investment less risky and more profitable. In the word of Levine, "investors will come if they can leave."

The three measures of market liquidity, which boost economic growth, are:

-) Total value of shares traded on a country's stock exchange as a proportion of GDP.
-) The value of traded shares
-) A percentage of total market capitalization.
-) Value traded ratio divided by stock price volatility

NEPSE (2002) trading to volatility ratio shows that markets that are liquid can handle heavy trading without large price swings. Countries with higher trading to volatility ratios are likely to grow faster. Almost all member act as commission brokers. The commission broker executes on the floor of the Exchange buying and selling order. For that, he chares a commission not exceeding the official scale brokerage.

4.1.8. Function of Primary Market

The main function of the New Issue Market is to facilitate the 'Transfer of resources' from savers to users. Conceptually, however, the New Issue Market should not be conceived as seeing the purpose of raising finance for new capital expenditure. In fact, the facilities of the market are also utilized for selling existing concerns to the public as going concerns through conversions of existing proprietary enterprises or private companies into public companies.

It, therefore, becomes imperative at this stage to classify new issues:

) One classification suggested by R.F. Henderson (c.f The New Issue Market c&. Finance for Industry, 1951) categories new issue into those by:

) New companies- also called initial and

) Old companies- also called further

Bearing no relation to the age of the company, but rather on the basis of whether the company already has stock exchange quotation. This classification is thus concerned only with their flow of "new money".

) Another classification (c.f. Merrett, Ilowe & Newbould "Quity Issue and the London capital market" 1967) concerns itself with both flow of funds into the market as well as flow of "New money" hence we have new money issue or issue of capital involving newly created share and no new money issue i.e. sale of securities already in existence and sold by their holders.

) This is more an excessive classification in that low types of issues are excluded from the category of new issues:

Bonus/ capitalization issues which represent any book keeping entries.

) Exchange issues: by which shares in one company are exchanged for securities of another.

Now the main function of the New Issue market i.e. channeling of ingestible funds, can be divided from the operational stand point into a triple- service function:

Origination, Underwriting, Distribution

-) The institutional set- up dealing with these can be said to constitute the New Issue Market organization. Let us elucidate a little on all these.
-) A preliminary investigation undertaken by the sponsors (Specialized agencies) of the issue. This involves a careful study of the technical, economic, financial and legal aspects of the issuing companies to ensure that it warrants the backing of the issue house.
-) Services of an advisory nature, which is to improve the quality of capital issues. These services include advice on such aspects of capital issues as:

Determination of the class of security to be issues and price of the issue in terms of market conditions, the timing and magnitude of issues, Methods of flotation and Technique of selling and so on.

The importance of the specialized services provided by the New Issue Market organization in this respect can hardly be over- emphasized. On the thoroughness of investigation and soundness of judgment of the sponsoring institution depends, to a large extent, the allocative efficiency of the market.

We origination, however done, will not by itself, guarantee success of an issue. A second specialized service i.e. underwriting is required. Underwriting however is only a stop- gap arrangement to guarantee the success of an issue. That depends on the ultimate analysis of their being acquired by the investing public.

The sale of securities to the ultimate investors is referred to as distribution: it is another specialized job, which can be performed by brokers and dealers in securities who maintain regular and direct contact with the ultimate investors. Thus, the ability of New Issue Market to cope with the growing requirements of the expanding corporate sector would depend on this triple service function.

4.1.9. Functions of Secondary Market.

The three important functions of secondary markets are: price discovery process which result from the interactions of buyers and sellers in the market when they trade assets: provision of liquidity by providing a mechanism for an investor to sell financial assets, and finally low cost of transactions and information.

4.1.9.1. Continues Market:

The basic function of stock market is the creation a continuous market where securities are brought sold in volume with little variation in current market price as trade succeeds one another. A continuous market provided liquidity through sale or purchase of securities, quickly and easily. At a price that varies little from the previous selling price. The indicators of a continuous market are:

- o Frequency of sales.
- o Narrow spread between bids and offers.
- o Prompt execution of orders, and
- o Minimum price changes between transactions as they occur.

4.1.9.2. Market Efficiency.

An efficient capital market is one where prices fully and instantaneously reflect all available relevant information. The two characteristics of efficient markets are external efficiency and internal efficiency. A market has external efficiency when buyers and sellers will trade securities at prices reflecting a fair or equilibrium price.

The expected return has to be commensurate with the security's risk. Internal efficiency characteristics a market if transaction costs (commission, clearing, fees and bid-ask spread) and taxes are low enough so as not to distort the impact that new information ensures that investors as well the economy benefit when capital is exchanged.

) Perfect Capital Market.

On the other hand, a perfect capital market which is only a concept constitutes a benchmark for evaluating the operation of capital market which has no taxes, transaction costs, regulation, assets are perfectly divisible, existence of a number of buyers and sellers and free access to information. A perfect capital market is externally efficient because the prices of assets are equal to risk adjusted rates of return for all participants. It is internally efficient because transaction costs are zero and there is no tax. The real universe however, is characterized by imperfections. But markets can be efficient if costs of imperfections are small. Assets prices can still convey information about company. The cost should be enough to provide a fair rate of return to ensure internal efficiency of the market. Flow of low cost information to a sufficient number of market participants leads to

determination of prices reflecting the economic value of the asset. Trading on the basis of insider information is prohibited because the information is not available to all market participants. External efficiency is facilitated by liquid markets. The characteristics of a liquid market as we have noted above are depth, breadth and resiliency.

The characteristics of a liquid market are depth, breadth and resiliency. A market has depth if buy and sell orders are forthcoming around the price at which the shares is transacting. A market that lacks depth is shallow. Further, the orders forthcoming should be in adequate volume, which gives breadth to the market. If adequate volume needed to provide liquidity is not there, the markets are called thin markets. The response of orders to price changes renders the market resilient.

) Empirical Measurement of Liquidity.

Empirically, liquidity is measured by the number of days a company's share is traded out of the number of days in the year during which market is open normally a share is considered activity traded and liquid if it is traded on 50% of the days when the market is open. Liquidity of the market is also measured by the variation of price from one traded to another. If the difference between lowest asked (or offered) price and the highest bid price in wide the market is said to lack depth and is considered shallow. Actually, the bid-asked spread is an inverse measure of liquidity.

4.1.9.3 Fair Price Determination.

The prices in the stock market are determined by the interplays of forces of supply and demand. In the stock exchange there is active bidding and a two

way auction trading takes place. The result is as near the market for free competition as can be found anywhere. The bargains that are struck are the fairest price determined by the basic laws of supply and demand.

4.1.9.4. Aid to Financing Industries.

Listed companies find it easy to sell further issues of their shares in the primary market. An active market in the shares of company and good market price of the share reflecting the past performance and further prospects render the task of raising funds through further issues easier. Rights themselves have an immediate and wide market in the stock exchange, unless the price including premium does not reflect fair value. By creating a continuous market for the rights, stock exchanges enable a company to market further issues successfully. Liquidity plays a major role in improving allocation of capital and enhances prospects for long term economic growth. Companies enjoy permanent access to capital raised through equity issues. Stock market liquidity results in an increase in investment by making it less risky and more profitable. Liquid markets improve the allocation of capital and long- term growth by facilitating longer term and more profitable investment.

4.1.9.5 Efficient Transformation into Real Capital:

The ability of the financial intermediaries to ensure the most efficient transformation of mobilized funds into real capital has not however, received the attention it with the objective of promoting and protecting the interest of investors by regulating the securities market. Besides the regulatory role, it is also responsible for the development of securities market in the country.

A Board Composed of seven members including a chairman governs SEBO. The Board is represented by institutions from Government as well as private

sector. Chairman is appointed by HMG/N for the tenure of four years. It is the Government's prerogative to re-appoint the chairman. Other members of the Board include representatives one each from Ministry of Finance, Commerce and Supplies, NRB (the central bank), Federation of Nepalese Chamber of Commerce and Industries and Nepal Chartered Accountant's Association. The following functions are performed by SEBO/N.

-) The advice of HMG on the issue related to development of capital market and the protection of the investors' interest.
-) To approve stock exchanges for the operation and oversee them for healthy trading of securities.
-) To register and regulate market intermediaries involved in the primary issues as well as in the secondary trading securities.
-) To regulate public issues of securities including the mutual and trust funds.
-) To monitor and supervise the securities transactions.
-) To conduct research and study in the area of capital market.
-) To conduct conferences, workshops, and seminars and participate in such programs conducted at regional or international level and join the forum and exchange with outside regulators.

4.1.10. Relationship between Primary and Secondary Market.

According to J.C. Francis, the new issue market and stock exchange are interlinked and work in conjunction with each other. They can not be described as two separate two markets because of the kind of functions they perform. Although they differ from each other in the sense that the new issue market with new securities issued for the first time to the public and the stock exchange deals with those securities which have already been issued once to the public. They are complementary in nature because of this particular function. The "new issue" first placed with the new issued market have a regular and continuous purchases have to be made by the investors.

The role of NIM (new issue market) and the stock exchange complementary to each other is the infrastructure facilities provided for sale & purchase of securities. The NIM does not have a physical existence but the service as is provided in Nepal is taken up entirely by the financial intermediaries.

The NIM and stock exchange is the relative strength and public confidence in joint participation in the sale, purchase and transfer of securities. In Nepal, the NIM & stock exchange are linked to each other even at the new issue. The usual practice by firms issuing securities is to register themselves on a stock exchange by applying for listing of securities. Further, the securities market are closely connected to each other because of the sensitive nature of the movements if stock prices are to a great extent affected by environmental condition such as:

- o Political stability.
- o Economic & social condition.

- o Industrial pattern.
- o Monetary and fiscal policies of the government.

The long and short -term changes in these factors have an effect on the day to day changes in prices of stock. The NIM depends on the stock to find out these prices movements and general economic outlook to forecast the climate for investing and the success of new issues floated in the NIM. Thus, the prices of shares in the NIM are sensitive to changes in the stock market and act and react accordingly and in the same direction and general outlook in the market will show a "downswing" in trading activities of securities.

According to H.R. Machi, the primary and secondary market has a symbolic relationship, which is confirmed by Granger's causality test. While the primary market creates long term securities, the secondary market provides liquidity through marketability of those instruments. Fresh capita! issues are influenced by the level and trend in stock prices at the time of issue. On the other hand, abeyant stock market includes the investing public to invest larger amount of funds in forthcoming new issues. Actually, new issue activities in the primary market add depth to the secondary market by enlarging the supply of instruments for trading and investment in the secondary market. Stock prices in turn are influenced by the large size and bunching of new issues.

4.1.11 Overall Conclusion.

Brief Description of Problems, Threats/Obstacles and Possibilities.

For the purpose of establishment of industries and its operation, the entrepreneur collects long-term debts through share market. For this purpose, emphasis was given on changing the Stock Exchange Act. 2040 in to security board, the security buying and selling center and to Nepal stock Exchange. It

had also given more emphasis on work specification. On the basis, license had provided to different institutions who were interested to work as sales manager to issue and sell the stock in the primary markets. The secondary market had established to provide liquidity for the securities sold in the primary market and also the transaction had started by open tender process. The price fluctuation has seen appeared in the market at various times due to the open outcry system. In the share market if one party suffers from loss in the mean time another party is getting but next party has been getting profit by same proportion.

4.1.11.1. Diversification is Relation with Investment Opportunity.

The related sector has its liability for providing different investment opportunities to investors. For this purpose, invest able financial instrument should be developed. But in our country common stock and preferred stock have been considered in the form of invest able financial instrument. His Majesty's government has issued debenture for collecting the saving spread with general people, in debenture fixed interest rate must be paid to the debenture holder. Such type of treasury bills has been traded in the secondary market on the basis of yield to maturity. But in the opposition with yield to maturity of debenture, the transaction has been held outside the stock exchange at face value. This process have been adversely affecting in the welfare of investor.

Similarly, various kinds of financial instruments like warrants, convertibles and renouncable securities have not entered in secondary market. If such type of securities is introduced in the market that will develop portfolio concept. By applying portfolio concept, investors invest in the

securities by reducing risk. Investor prefers less risk with more return in portfolio. So, this will increase the economic transaction in secondary market.

4.1.11.2. Institutional Investors.

The controlling mechanism has developed to control the share transaction in secondary market. There should be managed for the demand and supply of the securities. This is not possible only from individual investors. Therefore, institutional investors should be forwarded. In our small market individual investors have playing important role. Mutual fund has not development in accordance with requirement.

Similarly, we can say that investment of personnel saving fund, insurance company is not happening in secondary market.

4.1.11.3. Problem in Relation with Cash Flow.

"This stock exchange has granted licensed or share transaction by dividing the members in market sponsor and broker. Market sponsor sell in their own account and brokers will buy and purchase for customers. Market sponsors intact the net market If the securities are overflowed in the market at that condition market sponsor will the shares to save it from the decline in price. If the price of stock unnecessarily increased, at that situation, market sponsors will sell the shares from own account. For these purpose, market sponsor must have adequate amount and share in their account. But, Security transaction act 2053 has demarked low capital for market sponsor. For this purpose, bank and financial institutions should mange for providing short term

loan on the basis of numbers of shares contain of the sponsor's portfolio. On the other hand, the number of share loan be taken by one investor has delineated by different institutions. An individual investor should not buy more than delineated number of share. The declared limitation for individual investor should be removed if the price of share is highly increased and investors will interested to sell the stock for price controlling. But, the voting right should be cancelled because of more shares represented by shareholders.

4.1.11.4. Management Relation with Foreign Investment.

After the restoration of democracy, Government has provided different investment opportunities to foreign investors through secondary market. The cash flow in secondary market creates demand by implementing this policy. The foreign technology, skills and knowledge introduced in nation which also affects on industrial position. But the related act like foreign exchange regulation act technology transfer act, company act, securities/exchange act etc must be reframed because foreign capital may enter without any restriction. There should be the management for getting required return on invested capital- foreign investor should get these opportunities.

4.1.11.5. In relation with Manpower Development.

Skilled manpower is required for the successful operation of stock exchange. This market is more dynamic market. So, personnel should be equipped by training and study time to time for adaptation with dynamic environment. This helps to get international knowledge for personnel of stock exchange. But in real environment, Nepal Stock Exchange has depended on the Government of Nepal for providing international level training to its personnel short period training has been providing to the personnel inside the country because of

limited " training beats" given by the foreign nations to the Government and on those seats personnel of there institutions will already fill personnels have been participating for short period training inside the nation due to the impossibilities for the operation of own source. In fact, it has been a problem

4.1.11.6. Delisting of Securities.

According to company act 2053, securities transaction act 2040, every public limited company compulsory listing, its share in stock exchange for trading. If the trading is done without listing, that will be illegal.

So the share of every type of company must be listed due to presence of provision for listing. The transaction of such company that have not informed information as well as have not paid additional annul fee from many years had been stopped. Those companies have listed under listing company.

It seems suitable for delisting securities because of known of present condition of the company. The transferable of delisting securities will be difficult for re-operation by next promoter. Delisting must be done after sufficient management.

4.1.11.7. Lack of Co-ordination during the Reformation of Act and Law.

The law and act should be reformed by the Government for the innovation of industrial circumstances in the country. These suggestions have given by different union, co-operations and international institutions. Due to the lack of co-ordination among the institutions who reforms act and law that creates disputes and oppositions. So it is necessary for reform the act and law by coordination manner.

4.1.11.8. Lack of International Level's Auditing System.

Our country's listing companies keep their audit by double entry system. But the investors have been facing difficulties due to the varied auditing process. Nepal Rasta Bank directs and controls the audit kept by banking and financial companies. One type of expenses is behaved by two different ways due to the lack of accounting standard for the right of company. So it is necessary to fix accounting standard for the companies of non-banking sectors.

4.2. Data Analysis Tools.

Data analysis tools are keys for research. In this section data are analyze through different kinds of tools such as descriptive analysis and research analysis.

4.2.1 Financial Tools Used for Analysis

- 1. Earning Per Share (EPS):** EPS is calculated by dividing the net profit after taxes by no. of common stock share outstanding. It is calculated to know the earning per capacity and to make comparison between concerned companies.

$$\text{i.e. EPS} = \frac{\text{Total Dividend}}{\text{No. of Common Share Outstanding}}$$

Analysis & Presentation of Data

- 2. Dividend Per Share (DPS):** The part of earning distributed to the share- holders, as per share basis is known as DPS. It is the amount calculated by dividing the total dividend with total number of shares outstanding.

$$\text{i.e. EPS} = \frac{\text{Total Dividend}}{\text{No. of Common Shares Outstanding}}$$

3. **Dividend in percent (%):** Dividend percent indicates the ratio of dividend per share to the paid up price per outstanding share it is obtained by dividing dividend per share by paid up price per share.

$$\text{Dividend in percent (\%)} = \frac{\text{Dividend Per Share}}{\text{Paid Up Price Per Share}}$$

4. **Dividend Payout Ratio (DPR):** The percentage of the profit on share that is distributed as dividend is called dividend payout ratio (DPR). It is the result received by dividend DPS by EPS.

$$\text{DPR} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

5. **Price Earning Ratio (P/E Ratio):** P/E ratio express the amount currently paid to each rupee of currently reported by the balance sheet of company's earning per share by the market. It is calculated using following formula.

$$\text{P/E ratio: } \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

6. **Dividend Yield (DY):** Dividend yield may define as the ratio of dividend per share to the market value per share. It is also expressed in terms of the market value per share. It is the result obtained by dividing DPS by the MVPS.

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share}}{\text{Market Value Per Share}}$$

7. **Earning Yield (EY):** Earning per share as the percentage of market price per share in the stock market is called the earning yield. In other words, it is financial ratio relating to earning per share to the market share price at a particular time. It gives some idea of how much an investor might get for his money. The share with higher earnings yield is worth buying. Earning yield is informative to compare the market share prices of stocks in the secondary market. It is calculated as:

$$\text{Earning Yield (EY)} : \frac{\text{Earning Per Share}}{\text{Market Value Per Share}}$$

- 8. Market Value Per Share To Book Value Per Share Ratio:** This ratio reflects the prices of the market are paying for each rupee of currently or reported by the company. It is calculated by dividing the market value per share.

Market Value Per Share to Book Value Per Share Ratio

$$= \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

- 9. Return on Net Worth (Shareholder's Equity):** It is calculated by dividing the net profit after taxes by net worth. It is a ratio of net profit after to net worth. It is a ratio of net profit after tax to net worth. This ratio reflects what percent of owner's capital is on net profit. It indicates how will the bank used the resources of the owners.

$$\text{Return on Net Worth} = \frac{\text{Net Profit after Taxes}}{\text{Net Worth}}$$

- 10. Liquidity Ratio:** This ratio is calculated through dividing total assets by total liability.

$$\text{i.e. Liquidity Ratio} = \frac{\text{Total Assets}}{\text{Total Liquidity}}$$

- 11. Profitability Ratio (PR):** It is calculated by using following formula.

$$\text{Profitability Ratio} = \frac{\text{Net Assets}}{\text{EBIT}}$$

Where, EBIT = Earning before interest and taxes.

4.2.2 Statistical Tools Used

The research holds various statistical tools, which are defined follows:

1. Arithmetic Mean (\bar{X}): The arithmetic mean or average is the sum of total values to the number of observation in the sample. It represents the entire most of homogenous data, which lies almost between the two extremes i.e. the largest and the smallest items. For this reason an average is frequently referred to as a measure of central tendency. It is calculated as follows:

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

$$\bar{X} = \frac{X}{N}$$

X= Sum of the given items

2. Standard Deviation (S.D): Karl Pearson introduced standard deviation is the most usual measure of dispersion and it represents the square root of the variance of a group number i.e. the square root of the sum of the squared difference between a group of numbers and their arithmetic mean. In other words, standard deviation is the positive square root of the arithmetic average of the squares of all the deviation measured from the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter (σ) and is obtained as follows:

$$\text{Standard Deviation (S.D. or } \sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

N=No. items in the series

\bar{X} =Mean

X=Variable

The standard deviation measures the absolute dispersion or variability of distribution, the greater the amount of dispersion or variability the greater

the standard deviation, for the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series.

3. Coefficient of Variation (C.V): It is used in such problems where we want to compare the variability of two or more series. The series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogenous. The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the coefficient of variation (C.V).

$$\text{Coefficient of Variation} = \frac{\text{Standard Deviation}}{\text{Mean}} \times 100$$

4. Coefficient of Correlation(r): Correlation analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its value lies somewhere ranging between -1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient

will be +1 indicate perfect positive correlation and when the coefficient will be -1 take place in opposite direction. The correlation is said to be perfect negative. In this study simple coefficient of correlation is used to examine the relationship of different factors with dividend and their relationship with each other are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very remote.

It is defined by Karl Pearson as, $r = \frac{\text{Cov}(X,Y)}{\sigma_x \sigma_y}$

$$\text{Or, } r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{N \sigma_x \sigma_y}$$

$$\text{Or, } r = \frac{N \sum XY - \sum X \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Where, σ_x σ_y are standard deviation of the distribution of X and Y values respectively.

Cov (X, Y) = Covariance of X, Y value

N= No. of observations

\bar{X} = Mean of X observation

\bar{Y} = Mean of Y observation

Under the correlation analysis the following financial variables have been calculated.

Simple Correlation Coefficient

- (a) Between Dividend Per Share and Earning Per Share
- (b) Between DPS and Net Profit
- (c) Between DPS and MPPS (Market Price Per Share)
- (d) Between DPS and Net Worth
- (e) Between DPS and Current Ratio
- (f) Between EY and Dividend Yield (EY = Earning Yield)
- (g) Between EPS and MPPS
- (h) Between dividends percentage on paid up capital and market price per share
- (i) Between dividend payout ratio and percentage of cash and bank balance to current assets

Multiple Correlation Coefficient

- I. Between dividend per share and earning per share current ratio and dividend per share of (t=1) year.
- II. Between dividend payout ratio and percentage of cash and bank balance to current assets, earning per share and investment.

III. Between market price per share and earning per share, dividend per share and dividend payout ratio.

5. Coefficient of Determination (r^2): The coefficient of determination is primary way we can measure the extent, or strength of the association that exist between two variables X and Y. r^2 measures only the strength of a lined relationship between two variables. It refers to a measure of the total variance in a dependent variable that is explained by its linear relationship to an independent variable. The coefficient of determination equals r^2 and the value of r^2 lies between zero and unity, the closer to unity, the greater the explanatory power. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall whether the relationship between the two variables is positive or negative. The ' r^2 ' is defined as the ratio of explained variance to the total variance.

Thus,

$$(r^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

$$\text{Or, } (r^2) = 1 - \frac{\text{Unexplained Variance}}{\text{Total Variance}}$$

6. Regression Analysis: Simply, using the relationship between a known variable and unknown variables to estimate the unknown is termed as regression analysis. But in real life, so many independent variables affect the dependent variables and any study of correlation must take all variables into considerations. Such relationship between a single independent variable and a number of independent variable in combination is known as multiple regressions.

Regression Constant (a)

The regression constant (a), which is the intercept of the model, represents the average level of dependent variable when independent variable has a value of zero. In other words, it can be termed as an indicator, which specifies average effect on dependent variable is omitted from the model. This term has practical meaning only if a zero value for the independent variable is possible.

Regression Coefficient (b)

Regression Coefficient (b) is a parameter, which indicates the marginal relationship between independent variable and value of dependent variable holding constant the effect of all other independent variables in the regression model. The coefficient of specifies a part of change in the dependent variable regarding part of change in the independent variables.

7. t-test: In case of all small sample where 'n' is less than 30, we make use of the 't' distribution. It used for finding more appropriately the two limits where is the estimate

would probably lie. For applying t-test first of 't' value should be calculated and compared with the table value of 't' at a certain of significance for given degree of freedom, if the calculated value of 't' exceeds the table value (Say 0.05) we know that the different is significant at 5% level of, but is 't' is less than the concerning table value of the 't' the different is not trended as significant.

8. F-Test: A technique, which is generally known as the variance ratio and is mostly used in context of analysis of variance. F-test is used to identify significance of different between more than two sample means from some normal population with equal variance. In case of F-test there is no assumption of equality of variance as it was in the case of t-test. So one way "ANOVA" method is used to examine the equality between sample variance.

9. Standard Error of Estimate (SEE): Practically, the perfect production is not with the help of regression equation. To measure the reliability of the estimating equation. Statisticians have developed the standard error of estimate. It measures the reliability of the estimating equation indicating the variability of the observed values differs from their predicted values on the regression line. If the SEE of estimate happens to be zero, then there are 100% correct estimators. In other words, the estimating equation of the dependent variable is a "perfect" estimator. It is possible focus to ascertain how well and representative the regression line is as a description of the average relationship between two series. It is worked out as under. The square root of the "SEE" is also known as the variance of the error term, which is the basic measure of reliability.

$$SEE = \frac{e^2}{n-2}$$

Where, e = the error term

N = No. of observation

SE = Standard Error

4.3. Descriptive Analysis.

The purpose of descriptive analysis is to describe the phenomenon under investigation. The description adds more to our existing knowledge.

4.3.1 Analysis of the Response of the Brokers.

The major response cited for joining the stock exchange operations to our personal interest, educational background etc. However no vision was expressed by a single broker who indicates Analysis & Presentation of Data that there is a definite lack of visionary and enthusiastic brokers who could really develop the nascent capital market in Nepal. Lack of institutionalization or absence institutional partners are obvious as the stock exchange operators in market. Similarly, response to expectations from the business of stock exchange business and capability to act as brokers are not very well spell out. It clearly proves that initial brokers were engaged as another business rather than with some definite knowledge and expectations.

There is a definite need for defining proper criteria to become brokers and market makers. It is reported that they were getting clients with their proper service. Clients were being gathering through personal contacts and referrals, and no promotion was done about their business.

All brokers reported that initially they get their clients through personal relations. Afterwards clients and institutional recommendations and personal contacts are the major sources of getting good intension toward investors. Keeping contacts with several persons by providing proper information by telephone also helps to promoting clients. Not as single broker seemed to be satisfied with the stock exchange business as there high overhead expenses due to lack of desirable transaction volume and heavy paper work required in the Stock Exchange Market. It is comment that the government has not given any due consideration towards the development of the capital market although it is a new concept in Nepal. There is, however, no mention of possibilities and potentialities of stock exchange transaction in Nepal. However, most of the brokers reported that they will continue their business in future too, because of their field of interest and potential hope of revival.

All brokers do not know about the forthcoming volume of shares of listed companies in advance in stock exchange through interaction with other persons like brokers, institutions and concerned persons. Sometimes market pressure (Demand and Supply) also helps to know in advance and helps to carry out transaction are expected. But majority responded that there is no way to know in advance about the volume of business.

4.3.2 Responses Regarding Stock Exchange Market Development.

In Nepalese context, stock market is in developing stage.

4.3.2.1. About Establishment of NEPSE, Performance and their Development Trend.

Majority of brokers accepted the beginning of stock exchange market in Nepal at a right time because it started its operation when the government is pursuing liberal and open market policies. Every broker complained about poor performance of the stock exchange market although infrastructure set up like having their own building and computerized system could be considered as its achievement but the absence of efficient manpower has hampered the development of an effective administrative mechanism.

) Brokers are of the opinion that the present bearish trend in the share market is natural because in the beginning fluctuation in prices and transaction took place on the basis of rumor. It was not realistic due to lack of proper information and research. Heavy transaction and price increase without foundation resulted in the market to fall and the bearish trend persisted. But they are optimist if the government pays attention and handles it into right track. Its future is not dark as some might perceive. At present, the volume of business transaction in Stock Exchange is not less than Rs 1 million per day over the last two months, however it is comparatively lower than the transaction volume of 2-3 years ago. It may be due to the fact that people started to lose faith in the share market. Brokers opined that there is no proper and authentic information available and the tax system is not clear which creates low liquidity in the market. All brokers complained that government and the Stock Exchange are staying ideal watching the poor performance of the Capital market not taking any treasures to correct the situation. According to brokers there is no coordination among companies. So information is missing in time. Yet

here is not penalty and punishment from the government. Legal framework in inadequate which is weakening concerned departments.

) The overall business trend of stock exchange shows relatively larger transaction of the shares of banking sector due to its remarkable performance and information is absent in other sectors. Only this sector has been providing profits and dividends to the investors. The investors them to have faith in the manufacturing and other sectors.

4.5. Research Analysis.

4.5.1. Analysis of yearly volume and value of traded stocks and NEPSE index.

This section deals the analysis that related with the topic such as yearly traded, number of companies, market capitalization etc.

Table 4.1: No. of Companies, their Shares, Market Capitalization and Stock Trading.

Year	No. Of Companies	No.of shares	Market Capitalization	Traded Total Turnover In over'000'	Value in Rs.	Yearly Nepse Index'000'
053	60	9,357	13,872	993.1	441.56	226.03
054	79	21,472	12,963	3,900.7	1,054.6	195.48
055	89	17,943	12,295	2,953.5	215.61	185.61
056	95	12,429	12,698	9,443.28	416.23	176.31
057	101	15,483	14,289	1,194.91	202.70	163.35
058	107	15,814	23,508	4,857	1,499.9	216.92
059	110	29,136	43,23033	7,673.74	1,157.0	360.70
060	115	46,095	40,349	2,989.15	2,355.9	348.43

061	96	42,028	34,702	6,004.68	1,540.6	227.54
062	108	69,163	35,240	2,427.89	575.89	204.86
063	114	85,533	41,424.3	6,468.18	2,144.3	222.04
064	125	1,06,246	61,365.9	18,433.55	4,507.7	286.67
065	135	97,374	96,763.7	12,221.93	3,451.4	386.83

Source : Trading Report of NEPSE 2006/2007

The above table 4.1 clearly depicts the position of the yearly volume and value of traded stocks are fluctuating (table 4.1). However, there is a sharp rise in the volume of traded stocks in 2055 and in 2059 and the value of traded stocks is top high in 2059 only.

The major reason for the sharp rise in the trading volume in 2058 may be attributed to heavy transaction index in 2058 by because of some major reasons as Maoist activities and other political instability.

4.5.2. Analysis of Turnover:

Table 4.2: Sector wise Turnover to Total Turnover.

Sectors	2053/5	2054/5	2055/5	2056/57	2057/58	2058/5	2059/6
Turnover in `0000 units							
Banking	20.66	6.39	3.69	23.64	90.124	15.893	32.533
Manufacturing	4.89	84.47	2.97	41.888	1.73	68.834	35.803
Fin. & Ins.	67.90	5.86	91.95	24.488	2.69	9.118	2.450
Hotel	4.43	2.06	0.86	6.568	0.502	2.362	2.848
Trading	0.99	0.79	0.28	1.732	1.512	0.145	0.143
Others	1.10	0.40	0.25	1.684	3.387	3.648	6.221
Total (%)	100%	100%	100%	100%	100%	100%	100%
Total Units	38907	2953.53	9102.66	1194.91	1499.98	7673.74	4989.15
Turnover Rs. in Million							
Banking	74.587	48.668	55.275	55.172	90.779	75.854	82.293
Manufacturing	13.117	16.093	7.138	15.1299	1.721	6.381	2.876
Fin. & Ins.	7.604	20.980	29.556	15.7416	2.696	12.387	12.554

Hotel	2.403	3.315	1.332	2.6195	0.504	2.309	0.956
Trading	1.632	10.271	6.047	10.982	1.523	1.055	0.191
Others	0.941	0.629	0.400	1.238	3.514	2.006	1.129
Total"/,	100%	100%	100%	100%	100%	100%	100%

Sectors	206/61	2061/62	2062/63	2063/64	2064/6
Turnover in `0000 units					
Banking	34.55	42.12	45.61	35.54	48.80
Manufacturing	30.53	1.98	30.58	41.24	0.48
Fin. & Ins.	12.31	49.26	22.55	9.61	20.42
Hotel	21.93	4.99	0.94	0.53	3.20
Trading	0.07	0.92	0.13	0.056	0.10
Others	0.60	0.72	0.18	13.01	27.0
Total (%)	100%	100%	100%	100%	100%
Total units	6004.68	2427.89	6468.18	18433.5	12221.
Turnover Rs. in Million					
Banking	76.26	62.23	40.27	89.22	80.52
Manufacturing	1.39	0.69	48.11	2.55	0.50
Fin. & Ins.	12.92	33.73	9.42	6.30	12.62
Hotel	8.99	1.18	0.13	0.10	0.57
Trading	0.28	2.06	0.55	0.18	0.46
Other	0.17	0.11	0.01	1.16	5.33
Total%	100%	100%	100%	100%	100%

Source: Trading Report' of NFPSE 2006/2007

Turnover in terms of value of shares that banking sector tops the list followed by finance and insurance companies.

The reason for such heavy transaction of bank and finance company is due to higher market value of these shares and greater faith shown by the people

towards these shares. But manufacturing company it is not so good and bad i.e. we can say that it is average condition up to the year 2058/59.

4.5.3. Analysis of Transaction:

The banking sector emerged as the leading sector for the first three as the proportion of transaction, this sector was the highest for the period. This trend could no lower continue for later three years. In later three years, banking followed by insurance and finance sectors appeared as the first and the second sectors on terms of transaction.

Table 4.3: Sector wise Shareholders Since the FY 2054 to 2065.

Sectors	No. of co.	No.of Shareholders.	Percentage
Banking	10	88782	52.931
Manufacturing and	37	43508	22.941
Hotel	3	20987	12.51
Trading	22	5649	3.37
Fin.& Ins.	39	1426	8.52
Other	4	7376	4.39
Total	115	167728	100%

Since people's response to banking companies is very high (see table No. 4.4), the number of shareholders is also high in the area. The proportion of share is the banking sector is 52.93% of total shareholders and third place in terms of proportion of total shareholders.

4.5.4. Yearly Volume and Value of Traded Stocks.

Table 4.4: Traded Value and NEPSE Index.

Year	No. of Company	No of Share	Mkt. Capitalization	Total Turnover		NEPSE Index	% of Mkt. Cal). On GDP and Mkt. Price
				In`000'	Value in million		
2053	66	43424	13872	993.1	441.6	226.03	7.24
2054	79	58247	12963	3900.7	1054.3	195.48	6.17

2055	89	65880	12295	2953.5	215.61	185.61	5.14
2056	95	85193	12698	9443.28	416.23	176.31	4.71
2057	101	90107	14289	1195.1	202.61	163.35	4.93
2058	107	10563	23508	4857	1500	216.92	7.12
2059	110	11405	43123.3	7673.7	1157.03	360.70	11.80
2060	115	12497	46349.4	4989.15	2344.163	348.43	12.0
2061	96	12268	34703.9	6005	1540.63	227.54	8.56
2062	108	15995	35240.4	2428	575.80	204.86	8.09
2063	114	16114	41424.77	6468	2144.27	222.04	8.77
2064	125	19467	61365.89	18433.5	4507.681	286.67	12.17
2065	135	22654	96763.74	12221.9	3451.43	386.83	5.04

Source : NEPSE Trading Volume 2064/65.

The monthly volume and the value of traded stocks are fluctuating (table 4). However, there is a sharp rise in the volume of traded in 2059 and the value of traded stock in 2063 too.

The major reason for sharp rise in the trading volume in 2058 may be attributed to block share transfer while in the other case; the change in the volume may be mainly attributed to heavy transaction in the different sectors. There had been excessive fluctuation NEPSE index and it closed at a level lower than the previous fiscal year. By the end of the period, the percentage of market capitalization on GDP was about 12% which is neither good nor satisfactory. Similarly in the secondary market the paid up value and market capitalization increased along with appreciable increment in traded amount (i.e. 103%).

4.5.5. Analysis of Price Behavior:

The comparative monthly index (table 4.5) shoes that there is a fluctuation high, low and closing price indexes. The closing price of individual company in total different period shows increase closing price trend over the period of time from Dec/Jan. 1995/96 to Dec/Jan. 2002.It can be said that the trend is increasing which is better way to go ahead for the stock exchange.

Table 4.5. Closing Price and its Deviation.

Year	Closing Price (X)	Deviation from Mean (X - \bar{X})	(X - \bar{X}) ²
2054	207.03	-66.31	4397.016
2055	179.07	-94.27	8886.833
2056	179.07	-94.27	8886.833
2057	170.07	-103.27	10664.693
2058	157.16	-116.18	13497.792
2059	254.30	-19.04	362.522
2060	464.76	191.42	36641.616
2061	284.48	11.14	124.10
2062	201.94	-71.4	5097.96
2063	286.67	13.33	177.689
2064	386.83	113.49	12879.98
	$\sum x = 2333.25$ $\bar{X} = \frac{\sum x}{N}$ $= \frac{3006.75}{11}$ $= 273.34$		$\sum (X - \bar{X})^2 = 101617.034$

Hence Required Standard Deviation () = $\frac{1}{N} \sqrt{\sum (x - \bar{x})^2}$

$$= \frac{1}{11} \sqrt{101617.034}$$

$$= \frac{1}{11} \times 318.77$$

$$= 28.98$$

Standard Deviation Abbreviated S.D. or S.D. () always taken as the positive.

S.D. of 28.98 indicates the fluctuation in year basis or we can say that the price is changed

by 28.98 each year from fiscal year 2055 to 2065. The fluctuation is going on not more proportionately but equally by 28.98 each year.

4.5.6. Par Value, Turnover and Market Capitalization.

Market capitalization identity the fluctuations in no. of companies listed also resulted the change in market capitalization. Although it indicates the relationship between price and the number of share listed. If keeping other things remaining constant and listed share is increased then the market capitalization and price increases and if the shares are split then also. Market capitalization increased in above table No.2. Market capitalization as a percentage of turn over is also increasing and get up to 5.06 in 2059/60. Similarly, percentage of turnover to paid up values are sharply decreases is 054/55, 055/56, 056/57 and average and increase in the share transaction and its amount available. It is high in 2059/60 and very low in 056/57 which is around 4% only. SEBO (2002/2003). This is not good conditions for the company which may be happened because of different reasons such as public awareness towards the share purchasing country's political and economical conditions and so on.

4.5.7. Analysis of Secondary Market Development.

Table 4.6. Trend of Secondary Market

Fiscal year	Listed compan	Mkt. capitalization	Annual Turnover	Mkt. as % capitalization
053/54	79	12963	970.4	7.24
054/55	89	12295	3890.7	6.17
055/56	95	126998	9102.66	5.14
056/57	101	14289	1194.66	4.71
057/58	107	23508	4857	4.93
058/59	110	43123.30	7673.74	7.18
059/60	115	46349.42	4989.15	11.88
060/61	96	34704	6005	8.56
061/62	108	35240	2428	8.09
062/63	114	4142.3	6468	8.77
063/64	125	61365.9	18433.5	12.17
064/65	135	96763.74	12221.9	5.04

Source: *Economic surveys of HMG /Nepal and NFPSE is Trading Report*

The above table 4.7 reveals that there is an enormous growth of the secondary market in terms of number of listed companies, market capitalization and the ratio of market capitalization to gross domestic product. The no. of listed companies has increased from 79 to 115 in 2058. Similarly, market capitalization which was recorded Rs. 12963 in 2053/54 has increased to Rs. 46349.49 million. This is nearly Rs. 46349.42 million. This is nearly 2.5755 times higher. The market capitalization as percentage to nominal GDP is also increasing top to 2060/61. There is a serious set up in the capital market after 054/ 55.

The increase in no. of companies as well as annual turnover and market capitalization because of the Maoist activities and other political instability, investment opportunities in other sectors.

4.5.8 Analysis of Paid up Value and Market Capitalization.

Market capitalization of listed securities increased by 7.48% and reached to Rs. 46,349.41 million by the end of the year 2059/60. The market capitalization on GDP (table 4.7) was approximately 11.88 by the end of 059/60.

Similarly, the paid up value of listed securities increased by 11.13% and reached to Rs. 8165.25 million by the end of 059/60. Which show the increasing trend (both value and capitalization) of secondary market as a perfect conditions.

4.6. Major Findings of the study / Market Response.

Along with secondary data, primary data were taken to justify the study on the topic. Both interviews and questionnaires methods were implemented for this purpose.

Interviews were taken from the officials of Nepal Stock Exchange, Citizen Investment Trust, Securities Board, NIDC Capital Market, and some brokers and regular investors to determine the quality volume and volume of transaction, identify the reasons for fluctuations in price and volume of transactions. They had mixed feelings on the development growth of stock market in Nepal. They expressed happiness over the growth of primary market but were not satisfied with the growth of secondary market. Due to lack of access to the information supposed to be made available to the

potential investors the secondary market is still lagging behind. With the provision of stock brokers in the secondary market and Market makers in primary market, Nepalese securities market has gained incentive for its future growth. On the one hand the primary market enjoys overpowering over scribed status, the secondary market. On the other hand, it has to bear the brunt of low participation of stock traders.

The Nepalese stock market is making progress through steady, as compared to the performance of previous years. They think that the main reasons for the public response to be high are due to lack of opportunities for the investment in other sectors. The liquidity position of our country is also high this could have also led to high public response to share application. We do not have proper analysis to make and people invest in shares looking at the market situation, and by making some while guesses public are attracted towards share market than other companies gain or bonus shares. For this study 5 Brokers, 15 Investors and 5 experts includes officials are taken as sample.

Table 4.8. Growth of Stock Market in Nepal.

	Brokers					Investors					Experts				
OPT.	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E
NO.	3	3			2	8	8			2	4	4			1

When asked about growth of primary issue market in Nepal, 78% of the respondents said it was growing slowly, 18% of them said that it was under developed and 4% said others.

Table 4.9. Satisfaction with the Growth Trend.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO.	3	2	9	1	2	3

70% of the respondents were satisfied with the growth trend. According to them, it is increasing gradually, and by analyzing the growth trend of past years. 30% said no comparing the similar market else where, it is still growing very slowly.

Table 4.10. Problems Faced in Stock Market.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO	4	1	7	3	1	4

60% of the respondents were faced the problems in stock market and 40 % did not face any kind of problems because in this category they do not analyzed the market trends. Experts and most of the investors faced there is no proper and authentic information available. Actually, they need complete information about the both primary and secondary markets.

Table 4.11. Market and Problem Faced.

	Brokers		Investors		Experts	
OPT.	Primary	Secondar	Primary	Secondary	Primary	Secondary
NO.	1	4	4	6	1	4

According to response 70 % of them thought that most of the time they faced problems in secondary markets and 20% of them does not insist and other do have mixed answer that means they were facing problems in both markets.

Table 4.12. Position of Existing Problem Resolved.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO.	3	2	5	5	2	3

The existing problems could be resolved only when general people understand how market workers, analysis the function of price and taken decisions accordingly. They need to understand that keeping the shares may not be potential investors, and what factors they need to consider before investing their money in the share market.

Table 4.13. Awareness of the Investor for the Primary Market.

	Brokers				Investors				Experts			
OPT.	A	B	C	D	A	B	C	D	A	B	C	D
NO.	1		4		1		9		2		2	1

According to the response, 80% thought that very few people are aware about the primary issue before they apply for the shares of particularly company. 14% think that they are an aware and 6% of them think that a majority of them are well aware of the primary market before they apply for the shares.

Table 4.14. Direction of the Market.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO.	3	2	7	3	3	2

According to the response, 65% thought that the stock market is heading towards the right direction, because stock market is getting better and better in all aspects and do improving from the previous mistakes. But 35% of them think that no stock market is not heading towards the right direction, there is no improvement from the mistakes.

Table 4.15. Market Improve Situation.

	Brokers				Investors				Experts			
OPT.	A	B	C	D	A	B	C	D	A	B	C	D
NO.	2	1		2	4	4	1	1	3	1	1	

When asked about to change policy, method trading pattern and time duration, 45% of them suggest that by changing the policy it would be improved. 30% of them suggest that by changing issuing method it should be improved, 10 % of them suggest that it should improved by changing pattern, and 15% of them suggest that by changing trading time and duration it should change.

) **Review of disclosure practices and misleading information.**

When asked about misleading information disclosed by issuing companies, surprise, majority of them answered yes (60%). They think that such companies do this to collect the money, but can not provide fair return to the

investors as indicated in the issue prospects. They have problem of wrong information, which could not have led to true figures and healthy situations. They still try misguiding the public by not giving authentic facts and figures. To rectify such problems the regulatory infrastructure should be developed. The Company's financial media to inform them that these companies were not providing authentic financial positions. They also expressed that strong actions must be taken to avoid such frauds in future. Addition to those proper rules & regulations should be enforced to make sure that the issuing companies gave true picture.

Table 4.16. Existing Laws and Market Growth.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO.	3	2	7	3	3	2

70% though that the existing laws relating to primary issue are not sufficient for healthy growth of primary market and 25% though that the existing laws were enough for healthy growth and 5% said I don't know.

) Market Trend (over subscribed, under subscribed).

According to the securities board of Nepal, most of the companies issuing shares in 2055, 2056 were overscribed [24 out of 27 companies]. But in 2056/57, 57/58 and 58/59 most of them were underscribed over whelming [12 out of 13 companies]. Major cases for poor response at that time were, interest rules were. Higher as compared to divided yield, the public companies were not performing well and people did not know about the importance of investing in services. Now the response in highly positive because people are

aware, money flow in the market is higher, people now realize the importance of share investments.

) Problems in primary issue of shares.

52% of the respondents thought that there are no problems in the primary issue of shares 48% of them thought that there are some problems. They thought that issue guidelines should be updated regularly to keep up with the present situation, and changing environment such as political instability. They added that SEBO guide lines are still not favorable for some of the new companies to issue their shares, if it is for small amount. There are problems like the listing to companies which are not done in time, and people do not get the information and certificates on time.

Table 4.17. Investment Alternatives.

	Brokers						Investors						Experts					
OPT.	A	B	C	D	E	F	A	B	C	D	E	F	A	B	C	D	E	F
NO.	3	1			1		9					1	4					1

As there is lack of investment opportunities for the general public, 75% of them thought that the saving could be utilized by investing in shares. But there should be better alternative for investors to invest.

Table 4.18. Relationship Between Bank Interest Rate and Response to Share.

	Brokers		Investors		Experts	
OPT.	YES	NO	YES	NO	YES	NO
NO.	4	1	8	2	3	2

75% of them said that yes there is relationship between bank interest rate and response to share. They think that if there is low bank interest rate there is more response to share investment. 25% of them said that no there is no relationship between bank interest rate and response to shares. They think that because of lack of information, study level and they think that the stock market is in growing stage.

Table No. 4.19. Bank Interest Rate and Investment in Shares.

	Brokers			Investors			Experts		
OPT.	A	B	C	A	B	C	A	B	C
NO.	4	2	1	8	1	1	4	2	1

Maximum 85% of them thought that public does not have better opportunities for investment apart from the share market. But other think that they could invest in fixed fund deposits in bank and finance companies. 60% of them thought that the decrease in interest rates in banks and financial institutions had a great impact on public response 40% of them replied as unsure and 10% of them thought that it had some impact but not much.

) Reason for investment in shares.

Experiences, these people wanted us the share with them were, first to have a good knowledge of the stock, stock market and stock trading so that public would not be cheated and mislead. People need to analysis the financial position of the firm before subscribing and not go with the rumors and wrong

information prevailing in the market. They need to look for the best alternative they can get within the given time frame

) Instruments that are used on traded on or off the floor of NEPSE.

Responses about instruments that are traded on or off floor, 48% of respondent have traded government behalf of clients. This percentage is likely to increase significantly if government securities are traded through NEPSE. Allowing wider group of market on the exchange floor.

) Kind of government's securities traded on the securities Market through NEPSE.

Similarly, when asked the kind of govt- securities traded on secondary market through, NEPSE, a rounded 60% of respondents agreed that government savings certificates and development bonds should be traded through NEPSE.

) Government securities should be permitted through NEPSE.

In this way, 80% of respondent believed that government securities should be traded through NEPSE either exclusively or in parallel with existing methods. Only 20% believe that the current methods are adequate.

) Current methods and rules for market making on the floor of NEPSE.

When asked the satisfaction about current methods and rules for market making on the floor, 10% participants increase satisfaction with NEPSE'S current method and rules but 38% were agreed to be varied and 32% of participants have given the priority broker to broker trade at the same price and 20% participants showed the mixed response.

CHAPTER- FIVE

5. Summary, Conclusion and Recommendation.

5.1 Summary:

The securities market consists of new issue market and Stock Exchange. New securities are offered to the investing public for the first time through initial public offering. Primary market allows issuance of new securities helping the issuer companies to raise funds for starting new enterprise or for expansion and diversification of the existing ones. Normally, securities once issued get listed in the Stock Exchange enabling securities holders to dispose them at their convenience.

Performance of many listed companies especially in the manufacturing sector is poor. Even companies promoted by highly successful business houses are not doing well. There are no tax benefits in investing to secondary market. Listed company is also slow to bring in their securities in the market. People are showing great trust and faith in the stock market and a large number of people investing in share is a very positive sign though the prices of share are decreasing.

The stock index at present of around 386.83 would have been satisfactory as compared to 2061/62 ends but the ready to rise. Decrease in index is the main cause of Maoist activities and political insatiability.

The price and liquidity in the secondary market affect the growth of primary market. Financial performance of almost all market makers is poor expect

banking institution. The immediate future outlook does not look sound but with a large number of industrial and service enterprises intending to come, the stock of industrial and service enterprises intending to come, the stock market is expected to improve within a few years.

Brokers have charge that companies even indulge in preparing dubious financial statement indicating poor accounting standard and even breaching rules and regulations. They also not do the transferable transaction in time.

Companies are neither disclosing facts properly nor submitting financial statements in time incase of financial institutions and manufacturing companies.

New tools and instruments have not been well developed and introduced which should be but some company is adopting new technologies. The Banking sectors are top in using new technologies.

5.2. Conclusion:

Most of the people considered stock market investment as a black art that they have unrealistically optimistic or pessimistic expectations about stock market investment or perhaps a fear of the unknown. We know that Nepalese stock market is in emerging stage. Its development is accelerating since the political change in 1990 in effect of openness and liberalization in national economy. But, Nepalese individual investors cannot analyze the securities as well as market properly because of the lack of information and poor knowledge about the analysis of securities for investment.

There is no alternative to securities market to allocate scarce resources efficiently. within economies and increase mass participation in country's development process Though the institutional development of Securities market in Nepal started in 1976, it is still at an underdeveloped stage, characterized by legal inadequacy low resource availability to the regulator, low liquidity, double taxation on dividend and capital of institutional transaction cost gain tax, poor corporate governance practices low involvement investors, poor disclosure practices. high cost of public issue. high and lack of enforcement of accounting and auditing standards.

Public response is high due to lack of opportunities for investment in other fields No proper investment analysis is been made. Deposit this public are attracted towards shares this than other sectors. basically to increase their value of investment. The dynamic of the stock market has been greatly reduced by the domination of the long-term shareholders. who prefer holding shares with the hope .increasing their wealth.

who prefer holding the shares with the hope of invreasing their wealth. This can be justified by mall number of shams Hut are Wed on the stock market. Even though this reduces the dynamism of the stock market the investors have very few rather no alternative to holding shares

Since 2051/52 the major companies have been registered in transport finance and manufacturing sectors. Similarly, there is a significant increment in the number of listed companies in stock exchange. At present, it has reached to

125 in 2061/62. As compared to the growth of public company the growth of listed company still constitutes only a small proportion

The structure of with segments of the market primary and secondary stock exchanges has witnessed significant change. Some of the important developments in the primary market which deserve specific mention owe the establishment of merchant banks, provision of speedy up allotment refunds, proportionate allotment of shares allotment of financial institution increases. In minimum application amount for investment. In primary issues such changes have brought significant public response in tic" issue.

The secondary market which presented an institutional mechanism that was in equate no transparent. Hardly regulated and rarely geared to investor's protection has also witnessed no table development Among them are prescription of norms for intermediaries like brokers it trading settlement and the bound of stock exchange with participation form sock exchange members and investors The Exchange has made tremendous effect in the volume of transaction share turn number of shareholders public response and market capitalization. However a set back from the fiscal year 2052/53 B.S. in observed the performance of secondary market ,In the price of share companies making loss has and political instability which has buoyed down the country in recent times poor information dissemination to the public regarding share market. There are still quite a number of public companies which have not made their financial statements to public or disseminated requisite information.

5.3 Recommendation :

The following recommendation and suggestions are prescribed on the basis of data analysis and major findings of this research.

-) Tax system should be reformed and encourage and stimulate capital formation.
-) Improvement should be done in the systems of the company Registrant's office.
-) The NEPSE should adopt appropriate policies. membership and fee structure to attract members outside Kathmandu, including brokers that need not be present on the floor or carry customers account All type of securities firms, including broker- dealers, issue managers full service securities firm should be eligible for membership.
-) Restrictions on foreign direct and portfolio investment should be reviewed with a view towards the elimination of unnecessary impediment.
-) Strengthen accounting and audit standards for public companies through implementation of provisions of Chartered Accounts Act of 2054 B.S. requiring newly license Chatered Accounts to pass an and provide assistance to ICAN
-) NEPSE should establish an Arbitration committee to handle unresolved investors complaints The NEPSE bye- laws should be amended to establish procedures governing the process of arbitration.
-) Give the Securities Board the power to require the stock exchange to discharge its responsibilities for ensuring compliance by public issuers either their continuing disclosure obligation.

-) When questionnaire are asked to fill up, all the officials related to the organization, brokers, market markers, policy markers, Investors hesitate to meet the researcher Similarly, when humbly requested for interviews they directly deny such request Therefore, considering these entire facts fair situation is necessarily to be created to avoid such an unfair hesitancy on the part of concerned authorities
-) The Central Depository System (CDS) may be interfaced to the current trade trade capture system or future potential automated trading systems This means that very high trading can be cleared and settled in a timely and cost-effective way there by supporting the overall development in NEPSE.
-) Presently institutional players have not been able to play any noticeable role in limited market allotments procedures and emphasis for the stock exchange small not helped to enhance the role of the increased will help to check the manipulative trends if any of individual brokers Additionally, it would add the professional dimension in the market too. To increase their roles, following strategies should be adopted Institutions should be encouraged to operate brokers in the secondary market.
-) One of the major problems cited in the Nepalese Stock Exchange is the suspect of insider trading system which is one of the worst flows in stock trading. Such a system must be immediately discouraged and total review of broker appointing system should be made further, if any practices are noticed, immediate action must be initiated.
-) Manipulative practices like wash sales and churning should be strictly controlled.

-) Shareholders should also learn and believe to facilities improvement in the performance of the companies.
-) Opening up the foreign market and Nepalese market would further open up the opportunities.
-) While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal. Other considerations may be market prospect, professionalization of management and overall environment.

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APPENDIX 1
No. of Companies, their Shares, Market Capitalization and Stock Trading

Year	No. Of Companies	No.of shares	Market Capitalization	Traded Total Turnover In over'000'	Value in Rs.	Yearly Npse Index'000'
053	60	9,357	13,872	993.1	441.56	226.03
054	79	21,472	12,963	3,900.7	1,054.6	195.48
055	89	17,943	12,295	2,953.5	215.61	185.61
056	95	12,429	12,698	9,443.28	416.23	176.31
057	101	15,483	14,289	1,194.91	202.70	163.35
058	107	15,814	23,508	4,857	1,499.9	216.92
059	110	29,136	43,23033	7,673.74	1,157.0	360.70
060	115	46,095	40,349	2,989.15	2,355.9	348.43
061	96	42,028	34,702	6,004.68	1,540.6	227.54
062	108	69,163	35,240	2,427.89	575.89	204.86
063	114	85,533	41,424.3	6,468.18	2,144.3	222.04
064	125	1,06,246	61,365.9	18,433.55	4,507.7	286.67
065	135	97,374	96,763.7	12,221.93	3,451.4	386.83

APPENDIX 2

Sector wise Turnover to Total Turnover.

Sectors	2053/5 4	2054/5 5	2055/5 6	2056/57	2057/58	2058/5 0	2059/6 0
Turnover in `0000 units							
Banking	20.66	6.39	3.69	23.64	90.124	15.893	32.533
Manufacturing	4.89	84.47	2.97	41.888	1.73	68.834	35.803
Fin. & Ins.	67.90	5.86	91.95	24.488	2.69	9.118	2.450
Hotel	4.43	2.06	0.86	6.568	0.502	2.362	2.848
Trading	0.99	0.79	0.28	1.732	1.512	0.145	0.143
Others	1.10	0.40	0.25	1.684	3.387	3.648	6.221
Total (%)	100%	100%	100%	100%	100%	100%	100%
Total Units	38907	2953.5 3	9102.6 6	1194.91	1499.98	7673.74	4989.1 5
Turnover Rs. in Million							
Banking	74.587	48.668	55.275	55.172	90.779	75.854	82.293
Manufacturing	13.117	16.093	7.138	15.1299	1.721	6.381	2.876
Fin. & Ins.	7.604	20.980	29.556	15.7416	2.696	12.387	12.554
Hotel	2.403	3.315	1.332	2.6195	0.504	2.309	0.956
Trading	1.632	10.271	6.047	10.982	1.523	1.055	0.191
Others	0.941	0.629	0.400	1.238	3.514	2.006	1.129
Total"/,	100%	100%	100%	100%	100%	100%	100%

Sectors	206/61	2061/62	2062/63	2063/64	2064/6 5
Turnover in `0000 units					
Banking	34.55	42.12	45.61	35.54	48.80
Manufacturing	30.53	1.98	30.58	41.24	0.48
Fin. & Ins.	12.31	49.26	22.55	9.61	20.42
Hotel	21.93	4.99	0.94	0.53	3.20
Trading	0.07	0.92	0.13	0.056	0.10
Others	0.60	0.72	0.18	13.01	27.0

Total (%)	100%	100%	100%	100%	100%
Total units	6004.68	2427.89	6468.18	18433.5	12221.
Turnover Rs. in Million					
Banking	76.26	62.23	40.27	89.22	80.52
Manufacturing	1.39	0.69	48.11	2.55	0.50
Fin. & Ins.	12.92	33.73	9.42	6.30	12.62
Hotel	8.99	1.18	0.13	0.10	0.57
Trading	0.28	2.06	0.55	0.18	0.46
Other	0.17	0.11	0.01	1.16	5.33
Total%	100%	100%	100%	100%	100%

APPENDIX 3

Sector wise Shareholders Since the FY 2054 to 2065.

Sectors	No. of co.	No. of Shareholders	Percentage
Banking	10	88782	52.931
Manufacturing and	37	43508	22.941
Hotel	3	20987	12.51
Trading	22	5649	3.37
Fin. & Ins.	39	1426	8.52
Other	4	7376	4.39
Total	115	167728	100%

APPENDIX 4

Traded Value and NEPSE Index.

Year	No. of Company	No of Share	Mkt. Capitalization	Total Turnover		NEPSE Index	% of Mkt. Cal). On GDP and M.P.
				In `000'	Value in million		
2053	66	43424	13872	993.1	441.6	226.03	7.24
2054	79	58247	12963	3900.7	1054.3	195.48	6.17
2055	89	65880	12295	2953.5	215.61	185.61	5.14
2056	95	85193	12698	9443.28	416.23	176.31	4.71
2057	101	90107	14289	1195.1	202.61	163.35	4.93
2058	107	10563	23508	4857	1500	216.92	7.12
2059	110	11405	43123.3	7673.7	1157.03	360.70	11.80
2060	115	12497	46349.4	4989.15	2344.163	348.43	12.0
2061	96	12268	34703.9	6005	1540.63	227.54	8.56
2062	108	15995	35240.4	2428	575.80	204.86	8.09
2063	114	16114	41424.77	6468	2144.27	222.04	8.77
2064	125	19467	61365.89	18433.5	4507.681	286.67	12.17
2065	135	22654	96763.74	12221.9	3451.43	386.83	5.04

APPENDIX 5

Closing Price and its Deviation.

Year	Closing Price (X)	Deviation from Mean (X - \bar{X})	(X - \bar{X}) ²
2054	207.03	-66.31	4397.016
2055	179.07	-94.27	8886.833
2056	179.07	-94.27	8886.833
2057	170.07	-103.27	10664.693
2058	157.16	-116.18	13497.792
2059	254.30	-19.04	362.522
2060	464.76	191.42	36641.616
2061	284.48	11.14	124.10
2062	201.94	-71.4	5097.96
2063	286.67	13.33	177.689
2064	386.83	113.49	12879.98
	$\bar{x} = 2333.25$ $\bar{X} = \frac{\sum X}{N}$ $= \frac{3006.75}{11}$ $= 273.34$		$\sum (X - \bar{X})^2 = 101617.034$

APPENDIX 6

Trend of Secondary Market

Fiscal year	Listed compan	Mkt. capitalization	Annual Turnove	Mkt. as % capitalization
053/54	79	12963	970.4	7.24
054/55	89	12295	3890.7	6.17
055/56	95	126998	9102.66	5.14
056/57	101	14289	1194.66	4.71
057/58	107	23508	4857	4.93
058/59	110	43123.30	7673.74	7.18
059/60	115	46349.42	4989.15	11.88
060/61	96	34704	6005	8.56
061/62	108	35240	2428	8.09
062/63	114	4142.3	6468	8.77
063/64	125	61365.9	18433.5	12.17
064/65	135	96763.74	12221.9	5.04