

# **CHAPTER – I**

## **INTRODUCTION**

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

The world's economy is changing rapidly. Economic sector plays a vital role for developing the nation. Nepal is one of the least developed countries in the World. The paucity of the required capital resources is one of the main causes of underdevelopment. Nepal launched planned economic policy five decade ago. Now, it is actively trying to achieve the rapid pace of development through liberalization.

To attain the rapid pace of economic development of the country, there should be good environment for the establishment of corporations in the different sectors of the economy. The favorable environment to establish a corporation depends upon many factors. The ability of an organization to acquire the needed capital is one of the main factors for its success.

Economic growth of any nation highly influenced and characterized by development and expansion of capital market. The growth of economy of the USA had been largely due to strength and efficiency of its capital market. Further, East Asian economic boom and crises are largely the effect of capital market fluctuation. The capital market has more significant role in developing economies like Nepal. The stock market plays important role encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects.

Corporations acquire their needed long-term fund by selling the securities in the capital market. "The term security will be used to refer to a legal representation of the right to receive prospective future benefits under related conditions" (Jack Clark Francis, 1998: 26). Capital Markets typically involve financial assets that have life spans of greater than one year. Capital market can be decomposed into securities market and non-securities market.

There are mainly two sources of financing in the profitable venture. These are: a) Internal Financing, and b) External Financing. The internal financing has the limited

scope; because of its limited scope; the risk associated with it is also limited. External financing becomes more important and popular for fostering the productive activities in the economy. The external financing may be segregated into mainly into three categories I) Equity financing, ii) Preferred stock financing, and iii) Debt financing. Among which the equity/common stock financing is the compulsion and important financing source for the corporations.

The trading of the common stocks takes place in the stock market. Stock market is a major component of the security market. Through the medium of security market corporate sectors can mobilize funds to finance the productive projects by issuing shares.

Stock market may be further classified into primary market and secondary market. Primary market is that market whereby the corporations acquire the needed capital by Initial Public Offering (IPO) and through right issue. The secondary market is that market where the securities once issued by the corporations in the primary market are traded. So, secondary market plays vital role in liquidating the shares.

The history of secondary market in Nepal is not very long. Biratnagar Jute Mills and Nepal Bank limited floated their share in 1937 AD.

Until the establishment of securities marketing center under the Company Act 1976, there was no secondary market to provide liquidity for those bonds. So the establishment of securities marketing center can be considered as the foundation stone for the institutional development of the securities market in Nepal. But it mainly confined its activities to provide liquidity for only government bonds in the secondary market.

NEPSE started its organized Automated Trading System (ATS) an internationally compatible system on August 24, 2007. There were 159 companies' securities listed on NEPSE till the last fiscal year 2008/09 (August 30, 2009). There were 21 commercial banks, 61 finance companies, 17 insurance companies, 4 hotels, 29

development banks, 18 manufacturing & processing companies, 4 trading companies, 3 Hydro powers, and 2 other.

Stock market provides the best investment opportunities to the investor. It also provides liquidity to the securities. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in pricing the shares.

The prices of the share fully reflect the available information and rationality of the investors in the efficient stock market. The role of information is decisive in security pricing.

If a market instantaneously incorporates all the previous price data of securities and publicly or privately available price sensitive information, that market is known as perfectly efficient market. Therefore, it is impossible to make abnormal profit by using this set of information because everywhere the security price equals and its investment value same at all times.

There are two types of investors from the viewpoint of their trading characteristics. One is liquidity trader and the other is information trader.

## **1.2 Statement of the Problem**

It was frequently heard that investors were not provided with the sufficient price earning information of the stock of the listed companies in time on a regular basis. This was so because of the unavailability and inability to use the modern instruments and communication technologies in calculating and spreading the price earning related information to the investors.

The investors could not identify the good and bad stock due to lack of proper information. It was identified by several university researchers that because of the lack of sufficient information, rumors and whims could play significant role in share price movements and that investment on common stock is based more on intuition,

imagination, guesswork than the conscious judgment based on statistical probabilities in Nepalese stock market.

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

Though it is known that investors are the main source of capital and the backbone of the securities market, none of the effective organized programs had been introduced to initiate and develop the price awareness of the stocks to the investors in Nepal. Unless investors begin analyzing the intricate financial details of corporate institutions before making investment decisions, the market cannot function smoothly. The speculative behaviors of some of the investors also play influencing role in setting the price of the stock in the market. Inability in doing real stock value judgment for trading purpose is one of the serious problems for the development of the Nepalese stock market.

The price of the stock that represents the value of the companies in per stock basis can be compared to the natural principle of 'mirror and object'. As we put any object in front of the mirror it should reflect the object. But, the price of the stock does not represent the company in Nepalese stock market because of the intermittent role of other factors.

Besides, the theories and principles related to the stock market and share price/value calculation are also based on some assumptions. This may not be able to represent the practical situation in an authentic way.

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

the practical situation of brokering services in secondary market is a must in present situation.

Brokers should be honest toward their profession and act according to the instruction of the investors. Even a single unauthorized action of a single broker crates big problems in the stock market. In this connection Mr. Edward F. Mrkvicka, Jr. rightly stated "Has your broker ever used buzzword like "... 'going to double in price, can't miss', 'have to get in now', 'we'll both be rich', 'A once in a life time opportunity'? ... most investor make a mistake with their brokers and all him to become the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn't produce, fire him. It's sadly ironic that we see so many aggressive business types who will not hesitate to fire an employee for one small mistake, and yet will allow their broker to make ten, twenty , thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problems. They not only cost your funds with bad advice, but even when they are right their dishonesty can penalize you... If your broker is dishonest he can use your stock for months on end even though you may have wished to sell." (Mrkvicka, 1991: 134)

He has also suggested the precaution that "whether you like it or not, you are probably going to have to deal with a broker of some sort. That means you are vulnerable .... Stockbrokers are, contrary to what they would have you believed, unregulated potential adversaries. Since the entire securities industry is based in some part on trust, one dishonest broker is too many." (Mrkvicka, 1991: 134)

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

So, it is very obvious to conclude that the prices of the stocks of different companies affect the national economy as a whole. Although the growth of the stock market is

high relative to the growth of the economy, the shares of corporate sector in the national economy is still very low due to the negligible size of the corporate sector.

In an efficient market the price is set by the interaction of demand and supply. The higher transaction volumes of share represent the market efficiency. Liquid and efficient market requires a large number of interested and active investors. But the daily transaction made on NEPSE is very meager in comparison to the transaction volume in the securities market in other developing countries. So, it cannot be assumed to guarantee that the price set at this market is competitive.

Since the price of the stock is fixed by presented few brokers who represent the investors in the Nepal Stock Exchange, they play the vital role in price formation. So the market is loyal to these few investors only.

The market liquidity also seemed miserably low which manifests a less number of shares trading on the floor. Market liquidity is perceived as the yardstick of the successful stock market. Usually an asset is considered liquid if it can be sold at short notice at the current value without incurring high transaction cost. The level of liquidity also affects the price formation of the stocks. Further the market price of the stock is assumed to represent the image of the company, which is referred as corporate culture and is yet to be analyzed in Nepalese context. Besides these, there are other serious problems that play vital role in NEPSE.

In this connection, the researcher has strong curiosity related to the secondary market as follows:

- ) Is the secondary market efficient?
- ) Are brokers professional?
- ) What are the purposes of investors investing in security?
- ) Are investors receiving reliable and adequate information from the brokers, listed companies and NEPSE?
- ) Is matching responsible for market disorder?
- ) Is the system followed by NEPSE technology friendly?
- ) Do brokers analyze the securities?

- ) Why Nepalese investors prefer ownership transfer than the blank transfer?
- ) Do brokers able to retain their customer? And so on.

Because of all of above and always fluctuating trend of the stock price, the researcher took interest to find out what actually is the situation in the stock market in respect of Brokers Performance and their Services in Secondary Market. In another words, the researcher is interested to find out what type of services the stock broker providing in the secondary market and the role of securities broker on market efficiency in NEPSE.

### **1.3 Objectives of the Study**

This study is conducted to meet the following objectives:

- ) To examine the brokerage services in secondary market.
- ) To analyze the performance of the brokerage company in Nepal.
- ) To examine the investors satisfaction towards the brokers' services.

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

Economic development is the urge of the present day world. Successes of the business organizations ensure the prosperity of the country. Today, the developing countries are organizing to ensure the prosperity of the country and confronting a great deal of uncertainty brought by the global economic environment.

In the modern age economy, the world has seen various inventions. These inventions and technologies are very fruitful to the developing countries. But Nepal is unable to apply these inventions for the development of the economy in many fronts.

While investing in shares, the investors forgo opportunity income that s/he could receive investing elsewhere. Given the lack of adequate knowledge, inability in using modern technologies and insufficient use of communication technologies to spread the information about the price-earning relationship of the stock, people are in a position to invest the amount by analyzing the trend of the market. It indicates that there is an extreme necessity to establish a clear concept about the price earning relationship to secure the invested amount.

The services of broker related to the share trading aspects also influence the tendency of investors in share trading activities. In Nepal, the brokers are mainly providing the share trading services with some information. So the possibility of other services should also be looked for and initiated in Nepal to increase the participants in the share trading activities.

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

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

This study is subject to following limitations:

- ) This will base on the secondary source of data as well as primary data. Primary data are acquired mostly by using the questionnaires and personal interviews from securities investors and brokers and personnel of NEPSE and SEBON.
- ) This study will base on the last five years data beginning from FY 2003/04 to 2007/08 (2061/062 to 2065/066 BS).
- ) This research will confine to the components of NEPSE.
- ) This study is limited by financial and time constraints.

### **1.6 Organization of the Study**

This study consists following five main chapters and necessary subchapters as follows:

Chapter 1: Introduction

Chapter 2: Review of Literature

Chapter 3: Research Methodology

Chapter 4: Presentation and Analysis of Data

Chapter 5: Summary, Conclusions and Recommendations

The first chapter 'introduction' mainly contains the background of the development of security market in Nepal, the statement of the problem, significance, objectives and limitations of the study and organization of the thesis itself.

The second chapter 'Review of Literature' consist the analysis of related studies which include different books, articles, periodicals, and pervious thesis reports, various published and unpublished documents of the related organizations. This chapter is mainly related to theoretical analysis and brief review of related and pertinent available literatures.

The third chapter deals with the research methodology. It deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools are described regarding the analysis and presentation of data received from primary and secondary sources.

The fourth chapter contains presentation and analysis of data to indicate quantitative fact and actual state of brokerage service and the performance of the Nepalese secondary stock market.

Finally, the fifth chapter states the summary, conclusions and recommendations of the study. This chapter offer several avenues for future research in this field.

The exhibits and bibliography are incorporated at the end of the study.

## **CHAPTER –II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

This chapter deals with the review relating to the topic "Brokers Performance and their Services in Nepalese Stock Market" in more detail and descriptive manner. For this study various books, journals, articles, and previous thesis reports related with this topic have been reviewed. Since the research topic was absolutely new, the thesis paper and the articles directly related to the topic were not easily found, hence many topics related indirectly to the subject have been studied. These studies are presented below.

##### **2.1.1 Capital Markets**

The capital market is a financial relationship created by a number of institutions and an arrangement that allows the suppliers and demander of long-term funds to make transaction. Capital market may be divided into securities market and non-securities market. The different types of securities are traded in the securities market. The term securities include long term financial tools, which are used by the companies to collect the needed long-term fund.

Capital market includes:

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

Securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditor-ship or ownership depending on whether it is a bond or a stock respectively. A bond is a loan that is paid off with interest; the investor lends money to the borrowing company that issued the bond. In contrasts, stockownership

represents a cash investment in the future of a corporation; the investor owns a part of the corporation and shares in its profits (Francis, 1998: 26)

A firm either may have debt and equity in its capital structure or only equity but no any firm can operate without equity. So, equity is the compulsion of every corporation. The main characteristic of equity investment is that investor is liable only up to the amount they have invested.

Common stock has one important investment characteristic and another important speculative characteristic. Their investment value and average market price tended to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings. However, most of the time common stocks are subject to irrational and excessive price fluctuations in both the decisions; as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give way to hope, fear and greed (Chandra, 1995: 47).

### **2.1.2 Financial Market**

Financial markets provide a forum where suppliers of loans and investment can transact business directly. The two key financial markets are money market and capital market. Transactions of short-term debt instruments or marketable securities take place in money market whereas long-term securities (Bond and Stocks) are traded in the capital market.

### **2.1.3 Securities Market**

Securities market can be divided into two parts – primary market and secondary market. Primary market is the one where companies' first issue shares of common stock while the issued shares are traded in secondary market. The secondary market can be viewed as a 'used' securities market. The development of the securities market enables the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productively with lesser risk.

The stock exchange is the secondary market. It is intricately interwoven in the fabric of the nation's economic life. It is generally thought that a stock exchange serves only

to 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 procedures to raise capacity; it indirectly gives employment to millions of people and help consumers to get goods needed by them.

#### **2.1.4 Securities Board of Nepal (SEBON)**

The securities Board of Nepal (SEBON) was established in 7<sup>th</sup> June 1993 under the provision of Securities Exchange Act, 1983 (first amendment in 2040B.S.). Under the present Act, The SEBON is responsible for the supervision of NEPSE. The Board comprises of seven board members representing several governmental and private bodies for the operating management of the board.

"It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. It is also responsible for the development of securities market in the country" (SEBON Annual Report, 2000/01: 1).

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

Under the present Act, SEBON is responsible for the supervision of NEPSE, its members, disclosure requirements for listed companies, and the licensing of I) Issue managers, II) Underwriters, III) Portfolio Manager, IV) Market Makers and V) Stock

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

"The securities Board was set up for the development of the securities market and to enhance the degree of investors' protection. Securities Board (SEBON) realized that capital market reforms needed to be looked into broader perspective vis-à-vis the growth of the private sector. Under the provision of Securities Exchange Act, 1983 and Securities Exchange Regulation, 1993 SEBON has been making attempt to develop an understanding with NEPSE on moving ahead in a coordinated way under which SEBO/N will act as an apex regulatory body and NEPSE as a frontline regulator" (SEBON Annual Report, 2000/01: 37).

In order to develop the Securities Board as an effective regulatory body and forge ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan, which had been implemented during the ninth plan period.

SEBON, Annual Report (2000/01) also stress the strategic plan strives to attain the major policy development issues on:

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

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

SEBON has seven members including a chairman. NEPSE is not the member of SEBON and on the other hand, SEBON is not representing on the Board of Directors of NEPSE. It is also highly desirable that the government regulation over right

function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely identified with day -to - day functioning of the stock exchange, this could erode public confidence in the event of market failure.

Presently, there are 41 staffs in SEBON including chairman, two directors, five deputy directors, nine officers, seven assistants, seven support staffs and messengers, and there are ten staffs on contract basis.

This may not be an adequate numbers of staff to perform the different tasks assigned to SEBON such as: regulatory supervision, enforcement and market development. But the adequacy of funding for SEBON has important implications for the regulation and enforcement program as well as for training government regulators, self-regulators and market practitioner. Incomes from registration of corporate securities and registration as well as renewal of market intermediaries are the main financial sources of income of SEBON. In order to be a self-dependent institution it had created revolving fund from which it generated income that helps to cover part of its expenses.

#### **2.1.5 Nepal Stock Exchange (NEPSE)**

Nepal Stock Exchange, in short NEPSE, is established under the company act, operating under Securities Exchange Act, 1983.

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

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

The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal bank Ltd. in 1937 AD. Introduction of the Company Act 1964, the issue of government bond in 1964 and the establishment of securities Exchange

Center Ltd. in 1967 were among other significant developments resulting to capital markets.

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

His Majesty's Government (presently changed into Nepal Government) under a program initiated to reform capital market, converted Securities Exchange Center into Nepal Stock Exchange (NEPSE) in 1993. NEPSE is a non-profit making organization, operating under Securities Exchange Act, 1983. The basic objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. NEPSE first opened its trading floor on 13<sup>th</sup> February 1994 through licensed members. Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and the licensed members are the shareholders of the NEPSE as well.

The Board of Directors (BOD), which will govern NEPSE, constitutes of members representing different sectors as per Securities Act 2006. At Present, the BOD constitutes 2 Members including a chairman from Nepal Government, 2 Members from Nepal Rastra Bank, 1 from NIDC. Moreover, one member will be nominated by BOD as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD.

The development of the stock market is directly linked with the development of the corporate firms and industries in the economy. Nepal's industrial history is not very long in comparison to other countries. So, the essential thing for the rapid growth of capital market is to encourage business firms to convert into public limited companies.

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

- ) Trading
- ) Listing
- ) Clearing and settlement
- ) Market surveillance

#### **2.1.5.1 Brokering Services in NEPSE**

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

Brokers have to get license from SEBON and membership certificate from NEPSE before starting their services. Under the provision of securities legislation brokers have to renew their license before the expiry of each fiscal year.

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

There were some conditions and circumstances seen in the stock market where the brokers have done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with very little number of clients.

The number of stock brokers who have been charged with or found guilty of security exchange commissions violations is frighteningly large. I believe the reason for brokerage abuse is simple. The commission sales system, which pays brokers for what they sell rather than for what they earn for their clients, is the root of the evil. The brokerage investment industry is highly regulated, yet brokers' abuse continues to escalate, why? Although the regulations are more than adequate, they are seldom enforced. Coupled with this is the fact that brokers are constantly pressured by their house to sell, sell, sell and ... it is easy to see why many forget that they are first legally and morally charged with the financial well being of their clients. The reality of the industry is that sales come first (Mrkvicka, 1991: 131).

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

Because of the lack of confidence in their own business, brokers are not maintaining the offices to make it possible for the customers to come and contact. Brokers are undermining their business because of lack of their clear vision to perceive the relationship between brokerage business and their needed dedication and contribution of time, effort and full energy to honor their market matching profession through the rational art, science and techniques of institutionalization (Shrestha, 2057: 12).

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

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers operate on the trading floor as per securities Exchange ACT 1983, rules bylaws of the exchange. There are many intermediaries are involving in the Nepal

Stock Exchange for stock trading. Brokers are one of them. Brokers play an intermediary role on behalf of their client and receive certain commission for their service.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At presently there are 11 sales and issue manager 2 dealers (secondary market.)

The role of broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth-investing or not. They should advice their clients by analyzing the company report and other information regarding the company, which can affect the market and the companies concerned. Brokers have to submit their annual report along with financial statement and trading report to SEBON within months after the expiration of the fiscal year.

Number of brokers in the NEPSE are also few to foster the competition. "A recent study commissioned by NEPSE has concluded that only five new brokers were allowed into the market which already has 23 brokers while there have been more than a dozen aspirants to enter it. It seems that the existing brokers have prevailed over the study team to force it to put entry barriers for new brokers. The report has argued that the size of the market has not expanded and the volume is very low to justify entry of new brokers. But the arguments of the report are hardly acceptable, as the reality is a lot different from what the report has tried to project" (Ghimire, 2003). In his article he has also make some recommendation as "the solution to the problem cannot be found by blocking new brokers from coming to the market. Efforts should be focused on increasing listing of companies and the transactions in manufacturing sector shares. New brokers should be allowed to do the marketing for this purpose as the existing ones have clearly failed in this regard" (Ghimire, 2003).

He has further clarified that "the reason for non-participation by stock dealers cannot be attributed only to the market conditions. Lack of professional selection of those

companies is equally important reason. And the underlying reason for the problems can be found in the passivity of the broker organizations that were indifferent to market development. IT utilization would enhance transparency and reliability in the transactions, but it is seriously lacking among the existing brokers. Neither their association nor the individual companies have organized any interaction and/or seminar to disseminate information or to formulate strategies for market expansion. Their main objective is only to get a larger share of the cake that has grown naturally. They have not been able to generate or create business or expand it systematically" (Ghimire, 2003).

Brokers participate directly in the trading activities in the floor of NEPSE but the dealer cannot take part in trading activities of the floor. The service of broker is defined under the securities law. Brokers charge agency commission for their services according to the transaction amount. The commission rate given table below.

However, broker may also send the representative in the trading floor in case of his being unable to present at the particular day or representative staff may help him on a great trading day. But the representative must appear at an examination. The examination will be taken by NEPSE where he must attend both written, and interview examination. Then if he passed the examination, NEPSE will give him permission to act as the representative of his brokering house on the trading floor.

#### **2.1.5.2 Trading System of NEPSE**

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

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

possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

### **2.1.5.3 Trading Procedures in NEPSE**

The buyer or seller can't make the transactions themselves without contracting with the brokers of the listed securities. The broker may be selected by taking into consideration a number of things. When a buyer/seller of a security makes decision to give the order to the broker, he/she, in the office of the broker fills up a standard form called 'buy/sell order form'.

The buyer of these securities must deposit certain percentage of the total value of the shares that he wants to buy. This advance deposit may be set by the negotiation between the buyer and the broker. If the broker trusts the buyer then he may also do it without taking the advance. The buyer of the security is then given a slip from the brokering office as an evidence of his deposit of the money. Likewise, the seller also has to fill up the buy/sell form mentioning all the details of the transaction.

While filling the buy/sell order form, the buyer/seller should mention the time period within which they want the transaction to be performed. If the broker fails to do the transaction within that period for the client, the contract will automatically come to an end and the buyer/seller has to do another contract to reactivate it.

In Nepalese context, if the buyer/seller does not specify the time period, the broker will treat an order as 15- day order and the order expires at the end of the 15th day from the time order made, provided that they have not been fulfilled by then.

When trading shares, the investor places an order involving a round lot or an odd lot both. Generally, round lot means that the order is for 100 shares or multiple of 100 shares. Odd lot orders are generally for 1 to 99 shares. But in Nepal, NEPSE has fixed the round lot of 10 shares if the face value is Rs. 100 or 100 shares if the face value is Rs. 10.

The transaction should be done at least one round lot on regular trading. The trading of less than 10 shares of Rs. 100 face value is permitted only during odd lot trading hours. Besides this, for large block trades over 5% of the nominal value of a company's shares, the trading may be negotiated off floor and details are to be reported to NEPSE.

After the price meets into agreement, the buyer broker or seller broker can not undo the transaction and they should keep their word by trading at least 10 shares at that price. For more shares of the same company the buyer broker again continues to bid in the same trading floor and has to repeat the same procedures all again when he is unable to get the shares in the required number. When his code price is matched with the seller's code, the other transaction is performed. The buyer broker may now code little higher price if he feels unable to find seller broker at that price level.

When the trading is done, the broker informs his buyer/seller client about the transaction details. Then the buyer of the securities should provide the amount of money for the security to the broker within five days, which is then transferred to the seller broker's account by the buyer broker. In case of declining market trend the buyer may refuse to pay the remaining amount by disobeying the written promise.

In that case the buyer broker should sell the security as soon as possible by informing NEPSE about the details. The buyer broker then calculates the total loss he will bear from the two transactions including his brokering charges by subtracting the total from the two transactions including his brokering charges by subtracting the total proceeds from the amount he had paid. This loss is then claimed to the 'Appeal Court'.

#### **2.1.5.4 Trading Session of NEPSE**

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

| <b>Types of Trading</b> | <b>Days</b>        | <b>Trading Hours</b> |
|-------------------------|--------------------|----------------------|
| Regular Trading         | Sunday to Thursday | 12.00 AM to 3.00PM   |
| Odd Trading             | Friday             | 12.00 PM- 1.00 PM    |

Source: NEPSE

There were 159 companies' securities listed on NEPSE till the last fiscal year 2007/08. There were 21 commercial banks, 61 finance companies, 17 insurance companies, 4 hotels, 29 development banks, 18 manufacturing & processing companies, 4 trading companies, 3 Hydro power, 2 others category.

#### **2.1.5.5 Clearing and Settlement Procedures in NEPSE**

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

Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

NEPSE has adopted a T+3 system which means that settlement of transactions should be done within 3 working days following the transactions day settlement will be carried out on the basis of paper verses payment.

Once the transaction is made in NEPSE, the broker of the buying investor deposits the amount of the shares bought from the seller plus the fee of the NEPSE which is 25% of the broker's services charge in the NEPSE'S bank account and submit the voucher with necessary documents in NEPSE within five working day of the transaction made.

#### **2.1.5.6 After Trade Procedures of Shares NEPSE**

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

##### **Blank Transfer:**

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different way and NEPSE has

considered all possible retention. The followings are the major key points to be considered.

1. This is related only with buy of the securities.
2. The buyer may decide to have market benefit either to have capital gains or to minimize the loss.
3. In order to do this s/he may partly send for name transfer or may register it in blank transfer.
4. If s/he register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

#### **Ownership Transfer:**

If the buyer investor wants to buy the shares as an ownership transfer, the share certificate shall be sent to the companies. But it very lengthily process here in Nepal. Despite the amendments to the company act to reduce the allowable period for making transfer of ownership in the register of shareholders, from 30 days to 15 days, it is time consuming and takes weeks or even months in actual practice. The overall registrar updates are slow and time consuming.

To by-pass this problems a large portion of settlements are done by blank transfer at present. The signature verification process is also slow. It begins from the buying/selling broker sending a messenger with the share certificate to the company's premises in Katmandu office to obtain the company's verification from their records. This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market.

The whole procedures for clearing and settlement are paper intensive. The highly manual based procedure often results in delay, inefficiencies and potential risks for all participants.

#### **2.1.5.7 Difficulties Faced in the Trading of Securities in NEPSE**

There are many trading difficulties in NEPSE. The main difficulty realized by brokers is the trading system employed in NEPSE that is open-out-cry method. The other problems are created because of the disobedience of the rules and regulations promulgated by the regulating bodies and the government. Besides, government and regulatory bodies there are also other parties involved in the trading procedure being responsible for ineffective management of the trading of the shares.

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

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

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

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

#### **2.1.5.8 Mutual Trading Procedure in NEPSE**

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

The price of the mutual trading is generally coded at the last time period, i.e.12.50PM in the floor where the market shows the trend of the particular share at that particular day. The price of the mutual trade should be placed within the range of 5%.

"The criteria of mutual trading plays vital role because the price is determined independently by only two brokers. So, it is sometimes said that the criteria or the facility to perform mutual trade should be banned. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it crates distortion in the price determined by the market forces. Such action helps in avoiding fictitious name created by several different share brokers in share transaction and also to check on the creating an illusion of rising price" (Shrestha, 2056: 17).

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

#### **2.1.5.9 The Level of Capital Market Disorders**

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

These 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.

**Wash Sale:**

Wash sale is essentially no sale at all. If a person who owns some securities sells those securities to him, this is a wash sale. The purpose of wash sale is to create a record of sales. This may be done to deceive someone in believing that a market price has changed.

"In wash sales, there is simply record of a sale but here is no sale of shares at all. If a man sells securities to his wife, this is a wash sale. The market makers have taken share in the name of their family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting share transaction at a price agreed by mutual consent of buyer and seller is allowed in share market. This is a kind of wash sale since no money needs to be involved only the commission is to paid to the broker" (Shrestha, 2056: 9).

**Cornering the Market:**

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

"Market makers are also found to conduct unhealthy practice of cornering the share market in some selective scripts available for sale... Being price manipulators, they obtain a corner on the share market of some selective scripts and then liquidate them at a higher price for a capital gain" (Shrestha, 2056: 9).

**Churning:**

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

"Another way how the market markers and share brokers deceive the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all... It is a practice of turning over a clients' fund for the personal benefit of brokers by frequent transaction. However, it is difficult for an investor who has been deceived by broker to prove that churning has occurred" (Shrestha, 2056: 10).

**Pool:**

Pool is association of the interest group for manipulation in the price of the securities. According to (Shrestah, 2056: 10), "A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there from. When this objective is attained the poll is dissolved... some of the members may provide capital, some may provide inside information, some may operate the pool's operations or all members may participate in all these functions"

**Insiders Trading:**

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

"Insider activities are growing in both volume and speed among company promoters, directors, officer another executives and technicians to influence the prices of share in the market... There has been frequent release of price sensitive information by insiders to earn speculative profits by trading on share of such companies. Having no access to such price sensitive information, investors in general are put into disadvantage" (Shrestha, 2056: 11).

### **Window Trading:**

Trading floor is, by rule, strictly closed to everyone except two representatives from each member broker. Similar is the practice in all the stock exchanges of the world. Investors have to place their buy or sell orders to the brokers before they enter the trading floor and during the trading period no direct communication is allowed between the broker inside the trading floor and anyone (broker or investor) outside the floor. The investors or other people are, however, allowed to observe the activities of the floor from behind a glassed window of a specially appointed observation room.

"The idea is to stop the outsiders creating undue psychological impact and distorting the market. If such communication is allowed, some people may quote higher or lower for scrip just to push the price as they desire. Telephonic conversation between the inside and the outside of the floor is, however, allowed as such communication would not be able to make much of an immediate impact. The effect is that small investors who cannot manage to reach this important window are adversely affected. If the broker has been instructed to buy the stocks within a given range of prices, these window traders can manipulate the price in such a way that the investor will have to pay a higher price. Similarly, the sellers get the lowest price of the band. More importantly, with such window traders frequently instructing the brokers inside the floor, the brokers cannot have the time to attend to the orders of the absent investors who placed the orders at the broker's office" (Bhattari, 2005)

### **Matching:**

Matching is similar a mutual trading. Matching is also helping market manipulators to increase the price of their selected stock by matching small quantities of shares at a

higher price and thus misleading the naïve investors who would be tempted to buy large quantity of shares at the artificially increased price from the same manipulators.

"As per the principles of stock exchange, a broker should try to execute the selling order for the maximum possible price and the buying order at the minimum price. This is possible only through the bidding process. But if they are allowed matching, there is a conflict of interest and possible moral hazard on the broker's part. The broker uses this opportunity for his own gain or to give more benefit to one of his two clients. The client with whom the broker has closer relations will benefit and the other will be cheated. For example, if the broker is closer to the client who is selling his stock, the broker will match the stock at a maximum possible price, thus benefiting the selling client at the cost of the buying client. Similarly, if he is closer to the buying client, he will match the stock at the minimum possible price, thus benefiting the buyer at the cost of the selling client" (Bhattari, 2005).

Some time before, NEPSE has banded the mutual trading publishing short notice in the NEPSE.

## **2.2 Review of Related Studies**

**Dennis E. Logue and Donald L. Tuttle (February, 1973)** conducted the study on 'Brokerage House Investment Advice'. They had taken the data from July 1970 to June, 1971 of six New York Stock Exchange member firms which were publicly owned as of January 1972.

In the study, they said that investors receive other free services, aside from the actual transactions. Mainly, these services include safe keeping of securities and copious flow of investment advice. The first free service allows an investor to avoid holding actual stock certificates; thus, if he takes advantage of it, it saves him the cost of a safe deposit box and the cost of mailing or bringing stock certificates to a brokerage house office when he decides to sell. If, however, he does not utilize this service, he does not get "full value" from his commission outlays. The second free service is supposed to help the investor make better investment decisions and, not coincidentally, may encourage him to trade securities more frequently, incurring a

fixed minimum charge each time. The value of the first free service is most likely very small, but positive. The value of the second free service is unknown both in direction and effect.

In all, there were three hundred and sixty-four different usable reports on stocks listed on the New York Stock Exchange. These were classified according to the recommended action and put into one of the following five classes – Buy, Qualified Buy, Hold, Qualified Sell and Sell. Out of the 364 stock recommendations, they found 277 were buys, 27 were qualified buys, 40 were holds, 2 were qualified sells, and 18 were sells. They had used several very robust methods to conduct the study.

Dennis and Tuttle (1973) concluded their study as follows:

An investor who routinely follows the advice of his brokerage firm would do, on balance, as well by randomly selecting securities. While the overall results are not complimentary to brokerage firms or security analysts, it should be stressed that our intent is not to imply that security analyses are generally meaningless (p. 53).

Further they added- there are many investors who would have absolutely no idea as to what to buy or sell without advice of some sort or another. To the extent that they would otherwise not invest, except for brokerage firm investment advice, and since it appears that such advice is not generally harmful, brokerage firm investment advice serves a valuable purpose. What is objectionable, however, is the fact that the cost of these services is included in the fixed minimum commission schedule and that investors therefore pay for investment advice, whether they desire it or not. A free and accurate pricing system would be more appropriate, wherein investors pay competitive rates for each separate service (p. 53-54).

**Robert Chan and Y.K. Chan and Oliver H. M. Yau (1991)** had published research article 'selecting a Broker or a Brokerage Firm: Segmentation of Investors in the Hong Kong Stock Market'. In their article, they have suggested some selection criteria for brokerage service/firms as follows:

- ) Prompt and efficient services: This means that the broker/brokerage firm is able to confirm a purchase or sale within minutes and provide quotes quickly.
- ) Integrity: This implies that the broker/brokerage firm should have an excellent reputation in society.
- ) Good Experience: The broker/brokerage firm has an established record of good services over a long period of time.
- ) Availability of information and research facilities: The broker/ brokerage firm is able to supply general economic information data about companies and industries along with economic forecasts.
- ) Appropriate qualifications: The broker/brokerage firms have individual qualifications with a philosophy that is compatible with the investor's aims and objectives.

In this study they have used survey method. They have confined the sample size of 200 based on the information obtained from a pilot study and the period of study was 12 months. They had divided the sampling procedure in three main stages. At first stage, 25 brokerage firms were drawn randomly from 124 active brokerage firms. At second stage, brokerage firms were then divided into two categories according to the nature of these serving customers. The first category of brokers/brokerage firms were those who served customers over the telephone. Customers of this category constitute mostly part-time investors and were mainly executives and professionals. The second category comprises brokers of brokerage firms who had office or trading floors on busy road to give access to the public. 60 percentage of sample were drawn from 1<sup>st</sup> category whereas 40 percentage of sample were from 2<sup>nd</sup> category. In this process, at least 30% quota sample of brokerage firm investing foreign capital was maintained. At the third stage, systematic sampling and telephone interviews are conducted from the both category.

Robert et. all (1991) made four types of segmentation of the investors as follows:

- ) The Gamblers: Do not select brokers/brokerage firms with good credibility and especial services. Relatively lower in competence, knowledge in stock and education but more risk preferred.
- ) The Experienced: Prefer to be more independent. Do not select brokers/brokerage firms with special services and higher income, least satisfied with current brokers/brokerage firms, risk-preferred, competent and knowledgeable.
- ) The Services Seekers: Looking for large firms with better and more services; middle in most characteristics.
- ) The Educated Green Horns: Seeking firms that try to understand the needs/wants of clients most. Most satisfied with current brokers, risk-average, higher in education and knowledge in stock market, but lower income and experience; younger.

They have also stressed the role of self concept and demographics in selecting broker/brokerage services. "Self concept is concerned with individual self –evaluation and the manner in which such appraisal motivates and directs behavior" (Robert et. all, 1991: 19).

Robert et. all (1991) had concluded their study as follows:

The study concluded that there are significant difference among the four segments and those investors of the segments are seeking different benefits related to their demographic and psychographic backgrounds. Because of such distinctions among benefit segments, brokers or brokerage firms should recognize the need to develop distinct marketing campaigns for each sub-market. Using just demographic provides only part of the picture. Benefit analysis by itself does add value to define the target investors that a broker or a brokerage firm would like to serve. A benefit appeal such as initiating an investment proposal and providing insider information (special offers) for example is appropriate for the services seekers and perhaps the educated green horns but not for the gamblers and the experienced. This finding is of considerable interest to brokers/brokerage firms which tend to provide broader and newer services, for example, portfolio review services and investment management services. The

services seekers and the educated green horns would welcome such new services, as evidenced by their level of risk-averseness. However, as they have a lower income, the high service fee would probably discourage them.

The experienced, on the other hand, do possess sufficient funds and experience. What would appeal particularly to them are credible and reliable services. They are particularly interested in quick and accurate transaction services. Different from investors in other segments, the experienced are difficult to please. They tend to be complainers and dissatisfiers. Much care is necessary in handling them. They are pleased to be placed under the kindly care of their brokers. However, special care should be taken not to defy their authority as experienced investors.

Employing a trading demographics approach would not result in a sufficient understanding of investors to identify subtle, yet critical distinction between segments. But using benefit segmentation alone results in a target market definition which has limited accessibility.

In summary, though somewhat limited in scope, this article has successfully adopted a componential approach which combines benefits with demographics and self-concept provides a full picture of the investors and guidelines to the brokers/brokerage firm for attracting more new customers.

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

**Mr. Bharat Prasad Bhatta (1997)** has conducted research on the topic 'Dynamic of Stock Market in Nepal'. He objectified and analyzed the trend of the Nepalese Stock Market among the different objectives.

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

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

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

**Mr. B. R. Dahal (2002)** has conducted research on the topic "Stock Market Behavior of Listed Joint Stock Companies in Nepal". He objectified to find out followings:

- ) To study and analyze stock price trend and volume of stock traded on the secondary market.
- ) To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal Stock Exchange Ltd.
- ) To study and analyze the investors views regarding the decision on stock investment.
- ) To study and examine the signaling factors' impact on stock price with the helps of NEPSE index.

Mr. Dahal's study was mainly based on the secondary data during the period of year 1997 to year 2001.

Mr. Dahal's in his study said that the major portion of the investors like to invest in banking sectors. Nepalese Stock Market is still in infancy stage and Nepalese investors are not well aware of investing process. He also claimed that on his study the NEPSE index price trend and investment facilitators are not doing their work in systematic way. The investors were found interested to be elected in company's management.

Furthermore, he added, the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of stock market like brokers, market makers,

security exchange limited were not found efficient by analyzing interviewers' expression as they were not getting required support from these parties.

Mr. Dahal has concluded that the investment decision is based on market price of shares. Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of stocks rather than the brokerage services.

**Mr. Bisho Ram Guragai (2002)** has conducted research on the topic "Price Formation and Brokering Services in Nepal Stock Exchange". The main aim of this study was price formation of the NEPSE. As a part of the study, he has studied and analyzed the brokering services and the role of brokers in price formation in Nepalese Stock Market

Mr. Guragai's study was based on 20 companies (Banking sector- 3, Financing- 8, Insurance – 3, Manufacturing – 3, Hotels – 1, Trading – 1 and other sectors -1) out of total 67 companies of the respective sectors. He used the data mainly from secondary sources on his study.

In the study, Mr. Guragain said, efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The efficiency in pricing of shares in the stock market can also be reduced by increasing the involvement of the related sectors in share trading activities. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movement in the price of the shares. In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer blank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period.

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

Mr. Guragai, in his study also said that the stock price should indicate the direction in which community's savings should be invested. He further added, the price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future. People in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. He tremendously used different ratios to calculate the financial status of the companies under study.

However, Mr. Guragai's study had basically focused on the price formation of the stocks rather than brokering services of shares in NEPSE.

**Mr. Padam Neupane (2004)** had carried-out research study on the topic "An Empirical Study on Brokering Services in NEPSE" with following objectives:

- ) To analyze the performance and effectiveness of Brokering Services in NEPSE.
- ) To analyze the general Investors' opinion on Brokering Services.

Mr. Neupane's study was based on both primary as well secondary data. To collect primary data, he had distributed 135 questionnaires- 115 to investors and 20 to brokers. He had got the response from 61 people - 47 investors and 14 brokers. His study was mainly based on the data and information obtained from this questionnaires survey. He had used different analytical tools for the processing of obtained data.

In his study Mr. Neupane said - Nepalese stock market is in infant stage. Both the investors and brokers are not satisfied with the brokering services of NEPSE. Investors are not getting adequate information and services from the brokers regarding the securities and the stock market. Due to the different types of market

disorders like - mutual trading, wash sales, cornering the market, inside trading, churning, pool had increased the level of market disorder

He further added, effective brokering service helps to increase the transaction and thereby helps to create the liquidity of stocks. It would also help to create the efficiency in the price of the shares. If there are shortages in the brokering services, it will not help to create the effective price of the share in the stock exchange and the prospective investors will find it hard to obtain securities at reasonable price, which ultimately adversely affect economy of the nation. The effective price setting of the shares is one of the major requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilities in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the price of the shares. Though, the investors have very few investment alternatives, number of stock traded on the stock market is very low. Such act reduces the dynamism of the stock market. But Mr. Neupane missed to analyze the performance of brokers working in NEPSE.

**Sarada Mainali (2006)** has conducted research on “A Study on Share Price Behaviour of Listed Companies”. The main objectives of this study were:

- ) To analyze the behavior of stock price of Listed Companies.
- ) To examine the stock price trend and volume of stock traded on the secondary market.
- ) To identify the factors affecting stock price.
- ) To analyze the investors' view regarding the decision on stock investment.

In her study, Mainali concluded that Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the share market effective and competitive.

The public investors not direct invest their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions. Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that the investors should be alert to exploit the opportunities

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

**Puja Joshi (2007)** has conducted research on “Role of Nepal Stock Exchange in the secondary Market” she using the secondary data from 2001 to 2006.

The main objectives of this study were:

- ) To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.
- ) To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- ) To prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusion of her study was:

NEPSE should introduce digital technology and online marketing in its trading procedure, the rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

Tax system should be reformed which should encourage and stimulate capital formation.

**Sachina Shrestha (2008)** has conducted research on “Brokering Service in Nepali Stock Market”. This study was conducted to analyze the brokering serves in NEPSE. main objectives.

- ) To analyze the performance and effectiveness of Brokering Service in NEPSE.
- ) To analyze the general investors opinions on Brokering Service.
- ) To recommend further improvements on the basis of the study.

The information was then analyzed by using different statistical tools as described in the Research Mythology. The major findings of the present study are briefly summarized as follows:

- ) It was found from the data acquired from the questionnaire that years of investor's involvement shares investing activities were found 5.6 years which is regarded as a short period.
- ) The purpose of investment of the investors in securities market were found to be 40.00 percent for capital gain, 26.67 percent for dividend, 11.11 percent for social status and 22.22 percent for use of excess money.
- ) It was found from the data acquired from the questionnaire that out of 14 companies, the number of companies per investor is 5 companies.
- ) In comparison to the wide array of services investors are getting from broker in many developing and developed countries. Nepalese investors are getting mostly trading services only (64.44 percent), while few (35.56 percent) are getting both trading and information services.
- ) Forty percent of the total investors were satisfied and sixty percent of the total investors were not satisfied with the performance of brokering services of NEPSE. While the entire broker were satisfied with the performance of brokering services of NEPSE.
- ) Investors were mostly found to prefer ownership transfer (86.67 percent of total investors) and blank transfer were found only 13.33 percent of total investors. So, it showed that investors were mostly of speculative nature and they get involved in trading of shares for capital appreciation rather than dividend appreciation in Nepalese Securities Market. But the trading of shares in NEPSE was very less and only 5 to 17 listed companies' shares were traded in the NEPSE during the observation period. It can be said that investors are investing in the shares as long-term investment rather than for short period.
- ) It was found from the data collected from the questionnaire that the median value of investors is very low. Investors themselves said that they are getting

very low level of reliable and adequate information from brokers regarding the transaction of shares in the securities market. So, brokers should think at this point to serve their clients by providing a wide array of services related to the share trading activities.

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

## **2.4 Research Gap**

There is no exactly same previous research in the subject. However research in this subject has great importance and useful for various related persons including academicians, government, investors, brokers themselves and general public. Due to the lack of research in Brokers Performance and their Services in Secondary Market, the strength and weakness of brokerage services and their individual performance remain unexplained.

Therefore, this research tried to examine brokers' performance and service quality of them in secondary market. With the help of available data and information, this research tried to examine brokers' performance and brokerage services in different aspects. This research has made some recommendation for the enhancement of the brokerage services through improving performance of the individual brokers. This research, of course, is most fruitful to the concerned parties to take into considerations.

## **CHAPTER –III**

### **RESEARCH METHODOLOGY**

This chapter refers to the overall research methodologies from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in greater extent and also used the descriptive part based on both technical aspect and logical aspect. This research tries to perform a well designed quantitative research in a very clear and direct way using both financial and statistical tools as required by the study. Detail research methods are described in the following headings.

#### **3.1 Research Design**

Research design is the overall plan for the activities going to be undertaken during the course of research. This research completely based on analysis and description. "Descriptive research is a fact-finding operation searching for adequate information" (Wolff & Pant, 2005: 100).

This research assesses the opinions, behaviors/characteristics of the responded investors and brokers. It is based on both primary and secondary data. To collect primary data, total populations of the licensed brokers are to be taken as sample. From the side of the investors, 100 persons are to be taken as sample. The sample investors are chosen from the person who visited the NEPSE floor at the time of securities trading. Necessary data and information are to be collected from interested investors and responded brokers. Brokers' financial performance related data are collected from secondary source. The acquired data are organized in tabular form. The facts and figure are analyzed and presented in graphical views and describe the findings. The research clearly identifies the problems, justify current situation and practices, and compare the results from the study. The research covers the five years period data from 2003/04 to 2007/08.

#### **3.2 Data Collection Procedure**

This study equally takes the data from both the primary and secondary source of data. The entire primary data had been collected from selected investors and brokers. Necessary consultation had been made and interviews were taken with the authorities of NEPSE, SEBON and brokers. Likewise, secondary data had been collected from

different institution. The major organizations that they supplied data are SEBON, NEPSE, etc.

### **3.3 Data Processing Procedure**

Secondary data are not further processed. These data are used in the study directly. Data collected from questionnaire fill-up, interviews and discussions were analyzed by using different statistical tools.

### **3.4 Presentation and Analysis of Data**

The results came from the analysis were presented in tabular form and clear interpretations on it are given simultaneously. Detail calculations, which cannot be shown in the body part of the report, are presented in appendices at the end of this study report.

### **3.5 Analytical Tools**

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

### **3.6 Statistical Tools**

#### **3.6.1 Percentage Analysis**

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

#### **3.6.2 Arithmetic Mean**

Arithmetic mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by  $\bar{X}$ . It is computed as:

$$\text{Arithmetic Mean}(\bar{X}) = \frac{\sum fx}{n}$$

#### **3.6.3 Range**

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

## **Chapter –IV**

### **PRESENTATION AND ANALYSIS OF DATA**

In this chapter, relevant available data of the primary and secondary source are collected and analyzed. Investors and brokers were taken as the sources to gather the relevant raw information and data by distributing the questionnaires. The help of relevant data published in different publication were also utilized to make the study meaningful. Appropriate statistical tools have been used to perform the analysis. Different types of graphs are also used to show the facts and figure.

#### **4.1 Primary Data**

To collect primary data 100 questionnaires were distributed to investors and 23 questionnaires to the brokers. Among them 40 and 16 questionnaires were returned from the investors and the brokers respectively with necessary filled-up.

##### **4.1.1 Data Acquired from Investors**

###### **) Number of Year Involvement of Investors in Securities Investing Activities:**

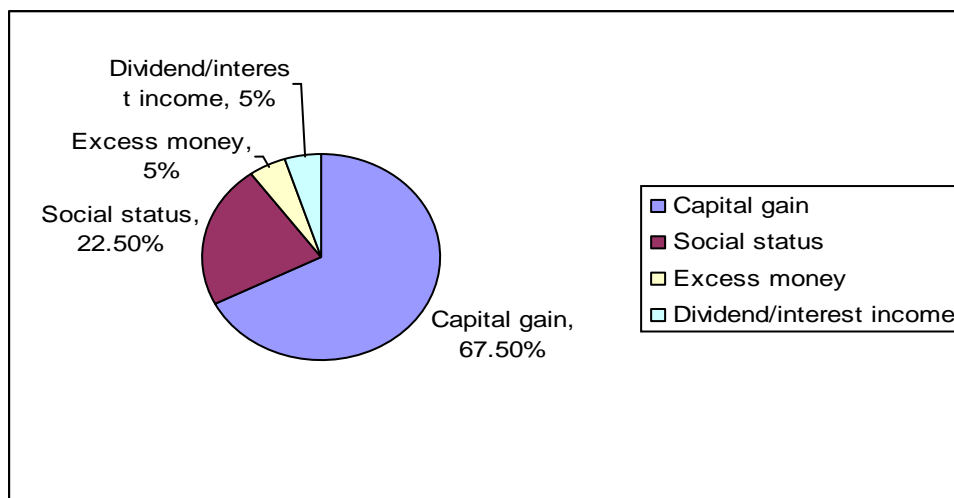
The first question was asked to the investors to know the particular information of their involvement with the securities investing activities in security market of Nepal. Forty investors responded this question. They have different involving years. The highest involving year is 16 and 1 is the lowest involving year in securities market. The average involving year in the securities market of the Nepalese investors is found to be 7.5 years.

###### **) Purpose of Securities Investment**

The second question was asked to the investors to know their specific purpose in investing securities. Four purposes - capital gain, dividend/interest income, use of excess money and making social status were set in the questionnaire. All of the 40 responded giving the answer of this question. Among them 27, 9, 2 & 2 respondents have stated capital gain, dividend / interest, use of excess money and making social status as purposes of making investment in securities. From the acquired data majority of the investors, 67.5% prefer to capital gain and 22.5% social status whereas the use of excess money and dividend/interest income through investing securities show low priority i.e. 5% each.

**Chart No 4.1**

**Purpose of Securities Investment**



**Number of Companies in the Investment portfolio**

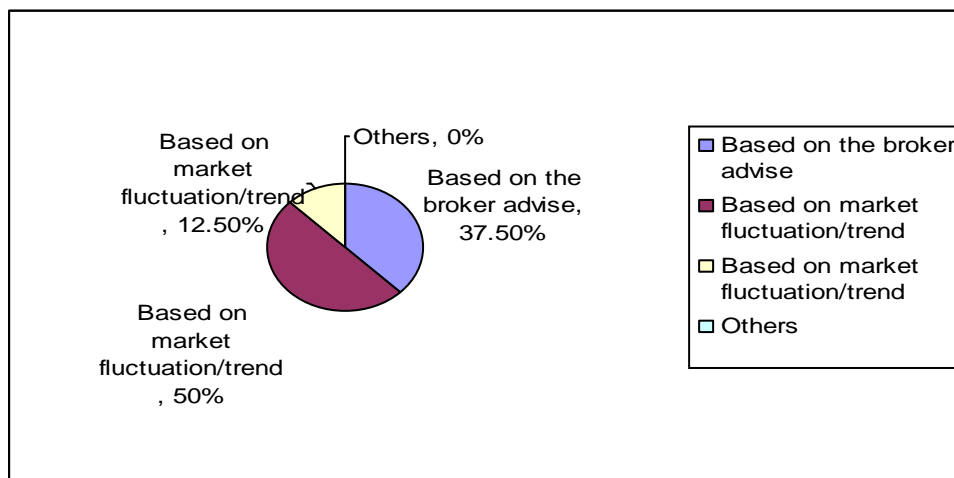
The investors were asked this third question to know the number of companies they have invested among the listed companies in NEPSE. Among the respondent investors, 35 have given the answer of this question. From the acquired data, it was known that the highest score of 52-companies' securities in their investment portfolio. However, in an average, 14 companies' securities have been owned by each investor.

**Source of Advice/Information for Buy/Sell Decisions**

The fourth question was asked to the investor to know the basis to reach to the buy/sell decisions of securities. In this question, four alternate source of information were put to choose i.e. brokers' advice, fundamental & technical analysis of the companies, market fluctuation/trend and others. Fourty investors responded this question. Among them 15 investors followed fundamental and technical analysis of the companies, 20 investors followed market fluctuation/trend to reach the buy/sell decisions and 5 investors it was found that no followed the brokers' advice to take the buy/sell decisions of the securities. From the acquired data 37.5%, 50%, and 12.5%, investors reached to securities buy/sell decision with the help of fundamental and technical analysis of the companies, market fluctuation/trend of the securities market and broker advice respectively.

**Chart No 4.2**

**Advice/Information for Buy/Sell Decisions**



**Investment Sectors**

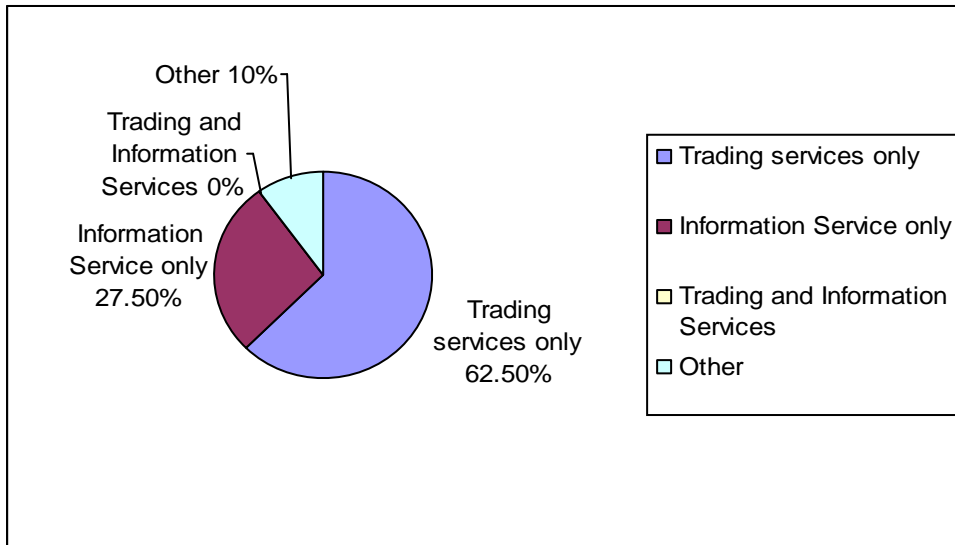
The fifth question was asked to know the preferable sector for investment of the investors. All of forty respondent investors have given the preference to the Banking sector than the other alternate sectors - trading, manufacturing and processing, and others sectors. From the acquired data, 100% investors have the first preference to invest in the banking sectors securities in the Nepalese securities market.

**Investors Receiving Service from Broker**

The sixth question was asked to the investors to know the types of services providing by the broker to their customer/clients. To this question, 40 investors have responded. 25,11, 0 & 4 investors were receiving corresponding services from the brokers among the four alternate services – trading only, trading and information, information only and other (like discounting etc) services respectively. Among them, most of the investors are receiving securities trading service only from the brokers which is 62.5%. 27.5% of investors are receiving both trading and information services with brokers whereas 10% of investors are receiving others services like discounting etc. There is no mechanism to receive only ready-made flow of information from the broker.

**Chart No 4.3**

**Investors Receiving Service from Broker**

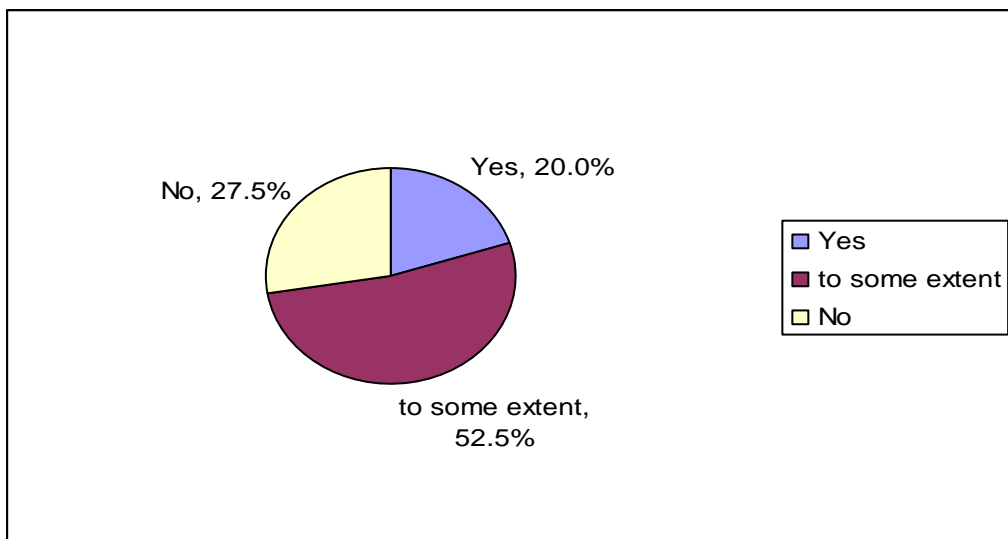


**Performance of the Brokering Services of NEPSE**

The seventh question was asked to the investors to check the level of satisfaction of the investors with the performance of the NEPSE. Forty investors have given their views in this query. From the acquired data, it was found that 8 are satisfied, 11 are not satisfied where as 21 investors are satisfied only to some extent. Here, the majority of the responded i.e. 52.5% were only satisfied to some extent whereas 27.5% of investors are totally dissatisfied and 20% of investors are fully satisfied with performance of the brokering services of NEPSE.

**Chart No 4.4**

**Performance of the Brokering Services of NEPSE**

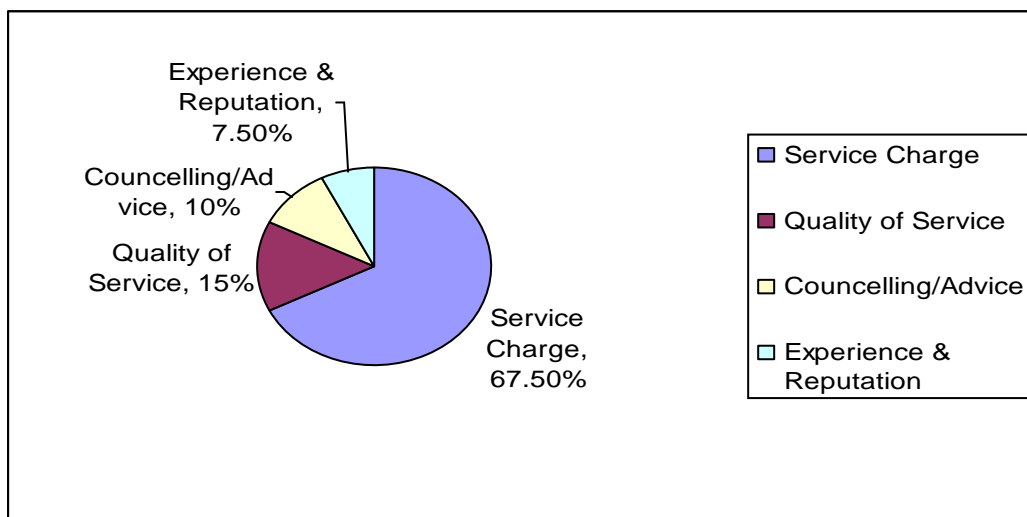


**Factors Considering to Select the Brokering Services / Brokerage Firms**

The eighth question was asked to the investor to know the factors on which basis the broker is selected to transact the securities by the particular investors. Four major factors were considered in this study. They were services charge, counseling/advice, quality of services, and experience and reputation of the broker (brokerage firm). Forty investors have given their answer to this question. 27(67.5%) of respondent investors have given the 1<sup>st</sup> priority to the quality services of the brokers (brokerage firms) while appointing them. Similarly, 6(15%) service charge, 4(10%) experience & reputation, and 3(7.5%) counseling / advice have given their answer to this question.

**Chart No 4.5**

**Factors Considering to Selecting the Brokering Services / Brokerage Firms**

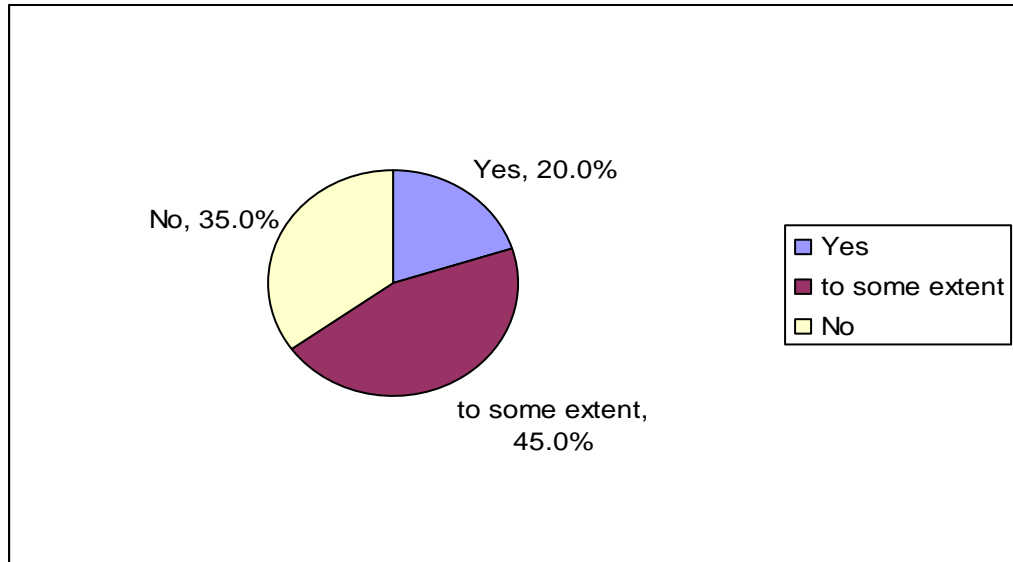


**Flow of Information from Listed Companies**

The ninth question was asked to know if the listed companies were providing the information related to their performance and future planning. Sufficient, to some extent and not sufficient, 3-options were put for choice. Forty investors responded this query. Among them, 18 persons were believed that the listed companies are providing the information about them to some extent, which is 45% having highest weight among the alternative. Similarly, 14(35%) of the respondents believe that they are not providing sufficient information. Eight, among them i.e. 20% of the respondents are found in the support of the companies that the listed

companies are providing adequate information related to their performance and future planning.

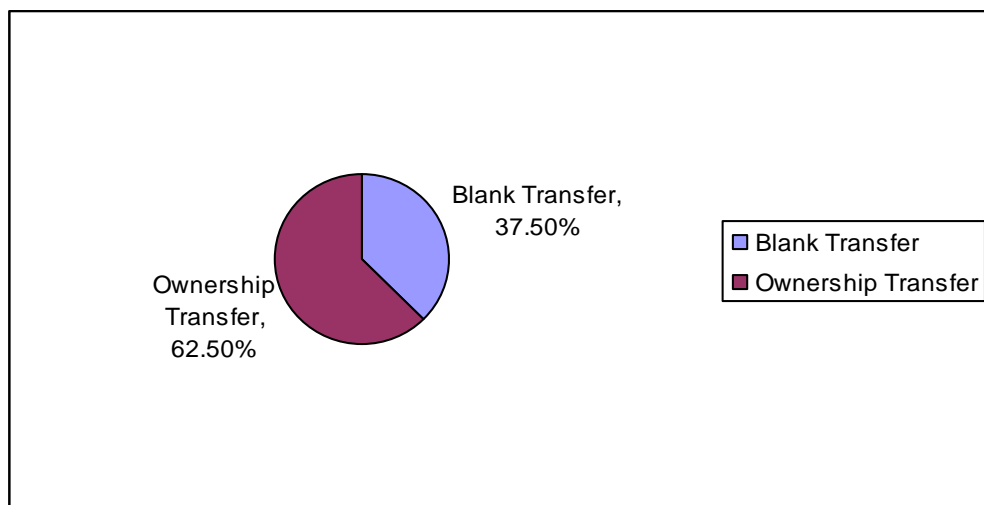
**Chart No 4.6**  
**Flow of Information from Listed Companies**



**Preference of Share Transfer Method of Investors**

The tenth question was asked to investors to know the attitude of their share transfer methods. Among the forty investors, 25 were in favor of ownership transfer of securities which is 62.5% of the total responses. Remaining 15(37.5%) were in support of Blank Transfer. It was found from the acquired data that higher portion of the investors preferred ownership transfer of securities in NEPSE.

**Chart No 4.7**  
**Share Transfer Method of Investors**

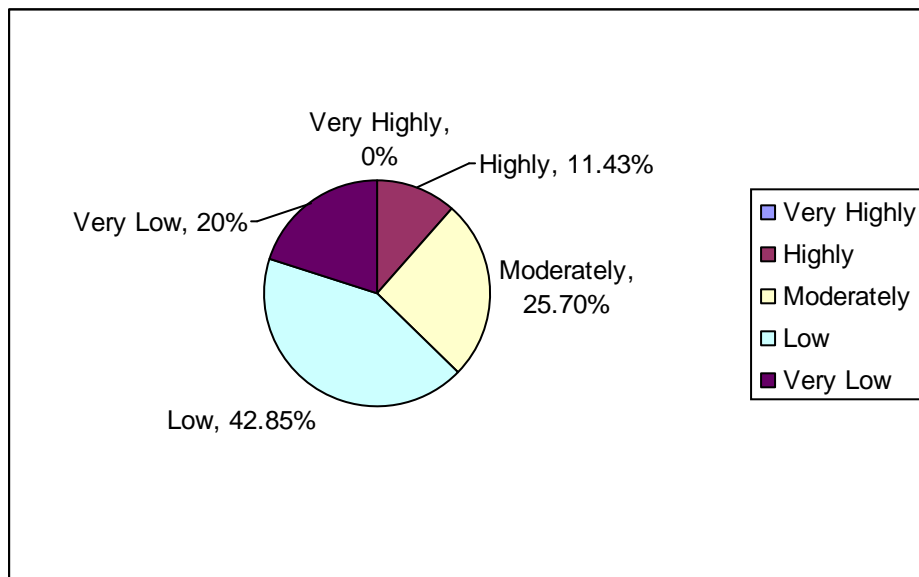


**Adequacy and reliability of information provided by brokers to the investors**

The eleventh question was asked to get reliable and adequate information from brokers and officials of NEPSE regarding the transaction of securities. In this particular question 35 investors gave the response, majority of the respondents i.e. 15(42.85%) believed that they are getting low level of adequate and reliable information. similarly, 9 (25.7%) very low, 7 (20%), highly, 4 (11.43%), very highly reliable and 0 (0%) adequate information that the investors are receiving from brokers and official of NEPSE.

**Chart No 4.8**

**Information provided by brokers to the investors**



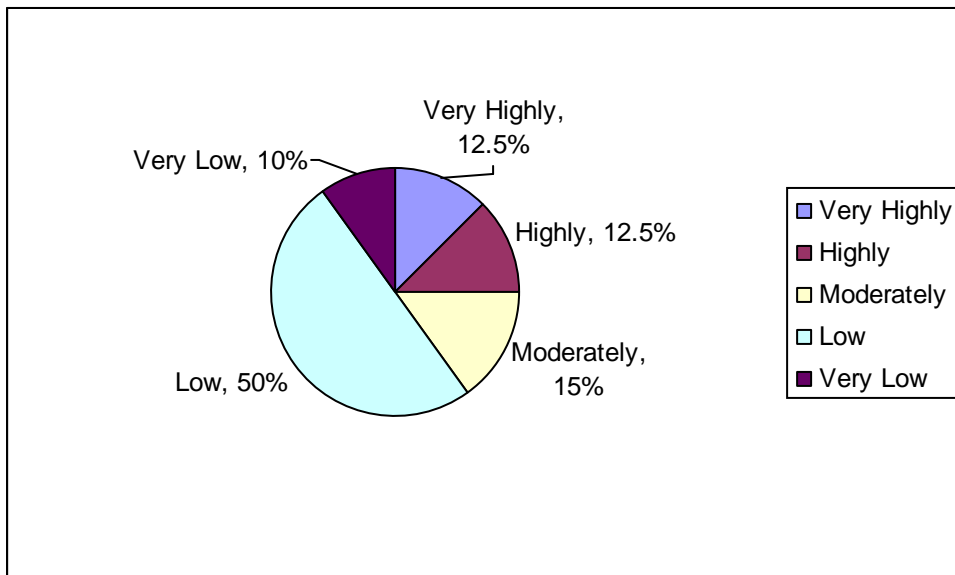
**Broker Activities responsible to Market Disorder**

The thirteenth question was asked to measure the extent of responsibilities of the brokers in securities transaction activities viz. wash sale, cornering the market, insider trading, churning, pool and mutual trading are responsible for market disorder. Thirty investors have given the answer of this particular question. Among them 15 (50%) investors moderately believed that market disorder is caused from the brokers activities. Similarly 8(26.67%) investors believed highly, 5(16.67%) investors believed low, 1(3.33%) investors believed very high and 1(3.33%) investors believed very low level of market disorder due to the broker's different types of activities.

### ) **Mutual Trading as Stock Market Disorder**

The twelfth question was asked to measure the belief of investor that the mutual trading was responsible in stock market disorder. Among the forty investors, the highest, 20(50%) investors believed that the mutual trading distorted the securities market low. Whereas 6(15%) investors believed moderately, 5(12.5%) investors believed highly, 5(12.5%) investors believed very highly and 4(10%) investors believed very low level of market disorder due to the mutual trading activities.

**Chart No 4.9**  
**Mutual Trading as Stock Market Disorder**



### ) **Satisfaction of Investors with the 'Automated Trading System' (ATS) system followed by NEPSE**

This is the last and the fourteenth question asked to the investors to know their views about the system 'Automated Trading System' (ATS) followed by the NEPSE. Forty investors have given their views in this question. The respondent investors 40(100%) are satisfied with the system.

#### **4.1.2 Data Acquired from Brokers**

##### **) Year of Involvement/Experience in Securities Broking Services of Brokers/Broker Firms**

This first question was asked to the Brokers to know how long they have been involved in the securities broking profession. The total period of time span was divided into 4 period of time interval – less than 2 years, 2 year to 5 year, 6 year to 10 years and more than 10 years. Sixteen brokers have given the answer of this particular question. No broker was found less than 2 years of experience in their profession. Most of the brokers are experience more than 10 years which is 90% of the total surveyed brokers.

##### **) Number of Regular Clients the Broker Serving**

The second question of this set of questionnaires was asked to the Brokers to find-out the number of clients they are serving currently. Among the 16 respondent brokers, only 11 brokers have given the answer of this question. From the acquired data the numbers of clients serving each broker are ranged from 10 to 500. In an average, approximate 150 nos. of regular clients are being served by each broker.

##### **) Brokers Providing Services**

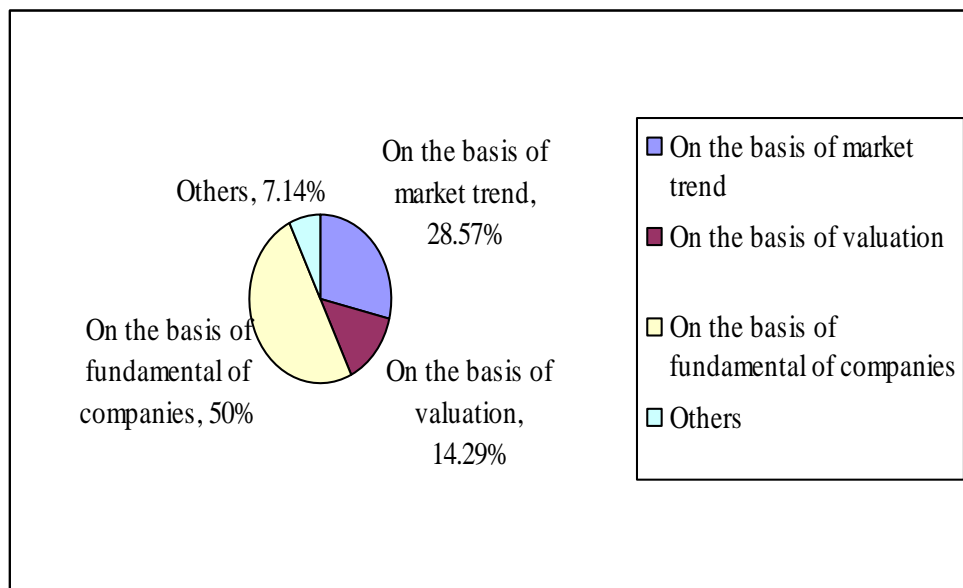
Another question was asked to the brokers to know the types of services that they are providing to their customer/clients. Among the four alternative services – trading only, trading and information, information only and other services all 16 responded claimed that they are providing both trading & information services.

##### **) Tools & Technique used by Brokers to Analyze Securities**

The next question was asked to the brokers to know tool and techniques they are using to analyze the securities and to advise to the needy investors. Among the responded brokers, 14 brokers gave the answer of this question. Out of them, one broker used all of three techniques – market trend, fundamental analysis of companies & securities valuation. Similarly another broker reached to the decision

on the basis market trend and the fundamental analysis of the companies. Out of 100 percent, 28.57% of brokers are using Market Trend analysis. But 7.14% of them use none of the techniques mentioned in the questionnaires. They also do not disclose the technique they have been following. However, 7 responded i.e. 50% of brokers are using fundamental analysis of the companies and 14.27% preferred on the valuation as source of information and on the basis of that they suggest to their clients to buy and sell securities.

**Chart No 4.10**  
**Tools & Technique used by Brokers to Analyze Securities**

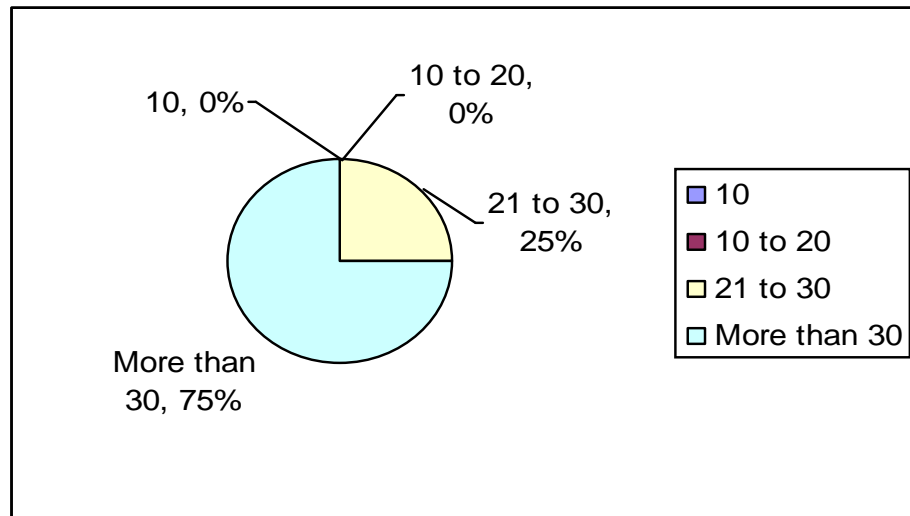


**Frequency of transaction order received from regular clients**

The fifth question was asked to the brokers to know the frequency of order that they have been receiving from their regular clients in a year. The frequencies of order are divided into 4 categories- 10 (Ten) times, 10 to 20 times, 21 to 30 times and more than 30 times. All of 14 respondent brokers gave the answer of this question. Among them, 12(75%) are receiving more than 30 times order from each regular customer whereas 25% of the brokers receiving 21 to 30 times order from their regular customer.

**Chart No 4.10**

**Frequency of transaction order received from regular clients**



**Information Collection Habit of the Brokers**

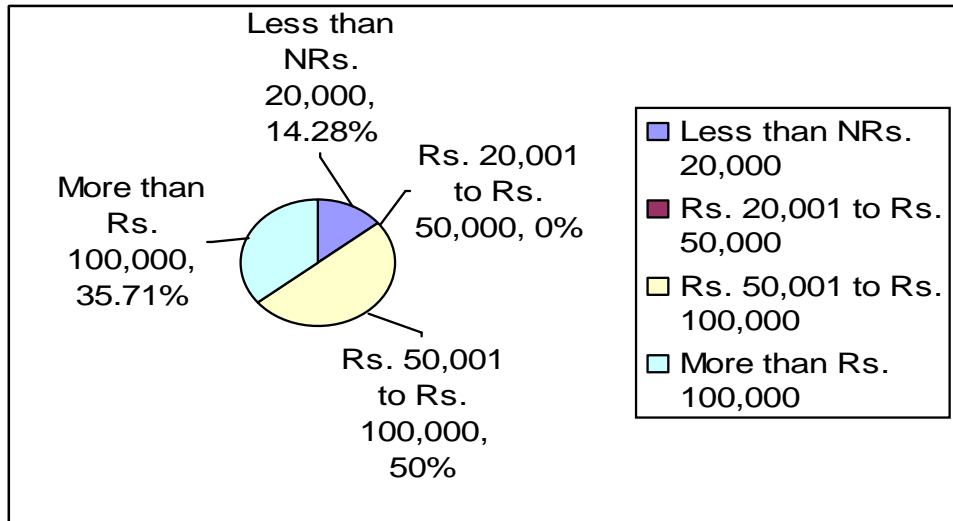
The sixth question was asked to the broker to know whether they collect the annual reports of the listed companies. Sixteen brokers have given the answer of this question. From the acquired data, it was found that all 16(100%) brokers collect the annual reports of the listed companies.

**Size of Order in Terms of Rupees**

The seventh question was asked to the brokers to know the volume of order they receive from the investors. The order size is divided in the range of less than Rs. 20,000, Rs. 20,001 to Rs. 50,000, Rs. 50,001 to Rs. 100,000 and more than Rs. 100,000. Fourteen brokers gave the answer of this question. Among them, 7 (50%) brokers receive the order within the range Rs. 50,001 to Rs. 100,000. Similarly other 5(35.71%) of brokers also received the order more than Rs. 100,000 range. Remaining two brokers received the order within the range of less than Rs. 20,000 which is 14.28% of the total survey number.

**Chart No 4.11**

**Size of Order in Terms of Rupees**

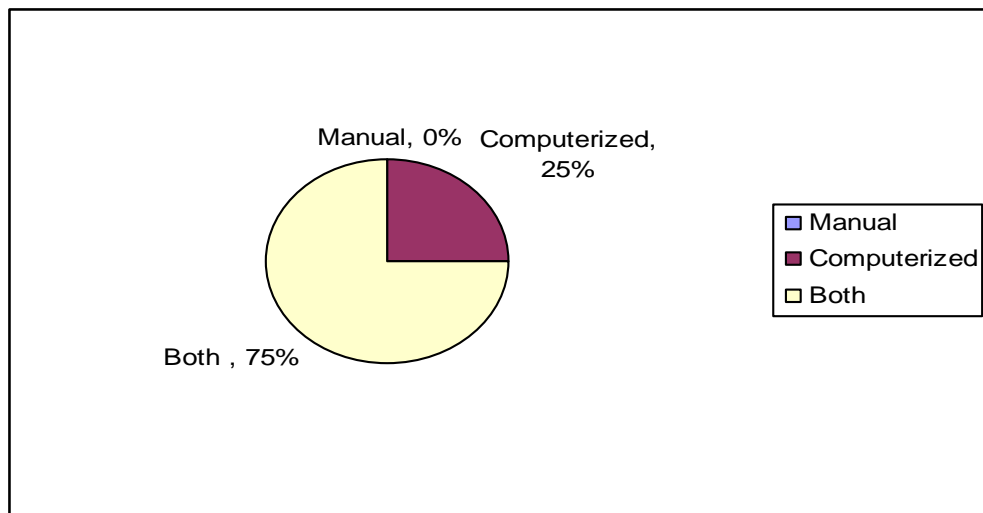


**Data Base System of Brokers**

The eighth question was asked to the brokers to know the system they are following to maintain the record of information and data. Three types of system are asked in the questionnaire system. Fourteen -brokers have given the answer of this question. Among them, 12 (75%), broker/brokerage firms setup both computerized and manual system, whereas 4, (25%) have only computerized system. no one use manual system. From the study, it was found the no broker follow manual system to keep the record currently.

**Chart No 4.12**

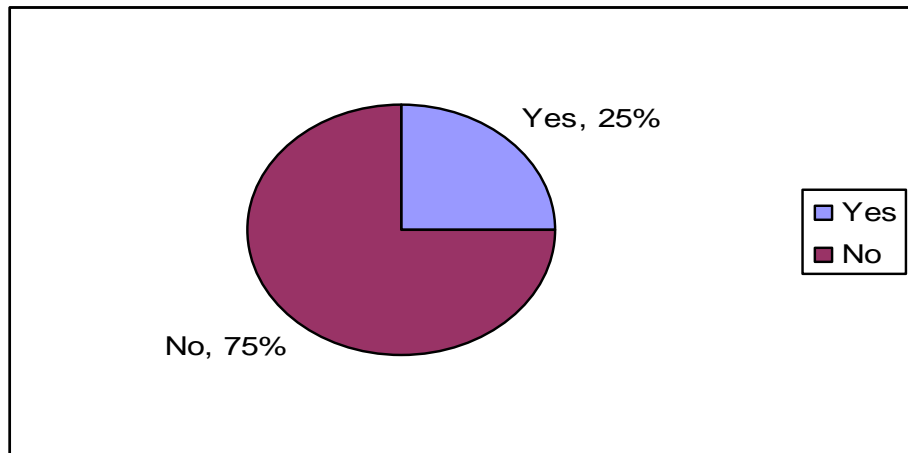
**Data Base System of Brokers**



### Consideration in Service Charge

Another question was asked to know whether the brokers gave the discount in their services charge. It was found that 12 (75%) do not give the discount whereas 4 (25%) give the discount to their customers in service charge, it was found from the acquired data.

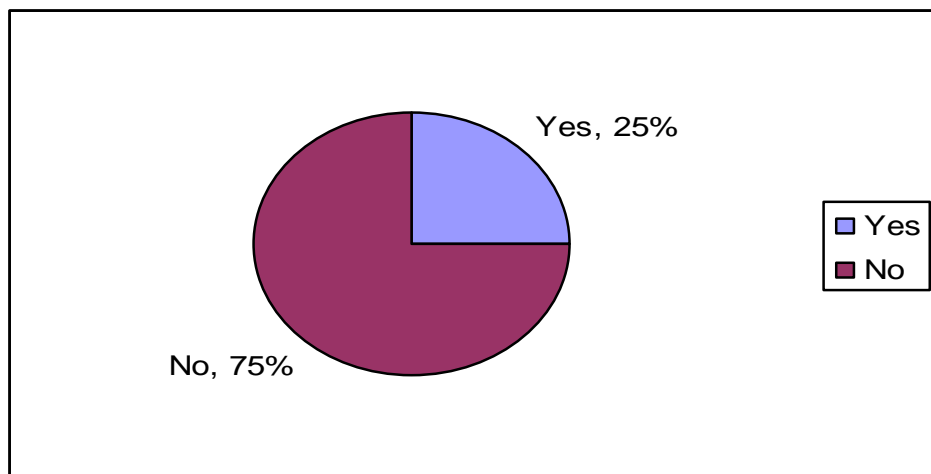
**Chart No 4.13**  
**Consideration in Service Charge**



### Home Service Facilities of Brokers

The next question was asked to the brokers to know whether they have home service facilities to the customer. It was found that 12 (75%) responded brokers have not such facilities. But 4 (25%) have been providing home services to their customer in case of needed.

**Chart No 4.14**  
**Home Service Facilities of Brokers**

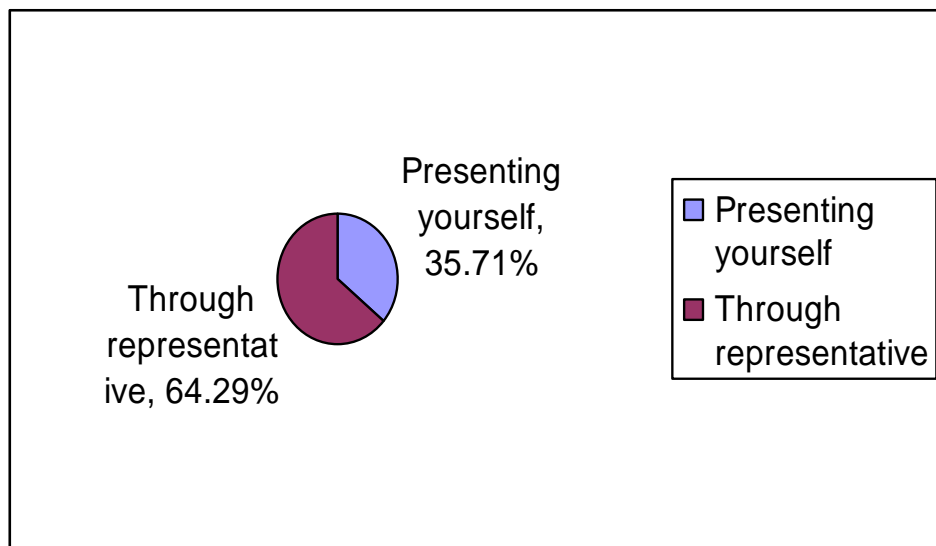


### Brokers' Presence in Trading Section

The eleventh question was asked to the brokers to know whether they themselves present in the trading section to transact securities. In this question they were asked how they execute the transaction; with the help of their representatives or by themselves. All 14 responded brokers have given the answer of this question. Among them, five (35.71%) brokers were found to be present themselves and also send sometimes representative in trading section and 9(64.29%) major portion of brokers execute the through representative.

Chart No 15

Brokers' Presence in Trading Section

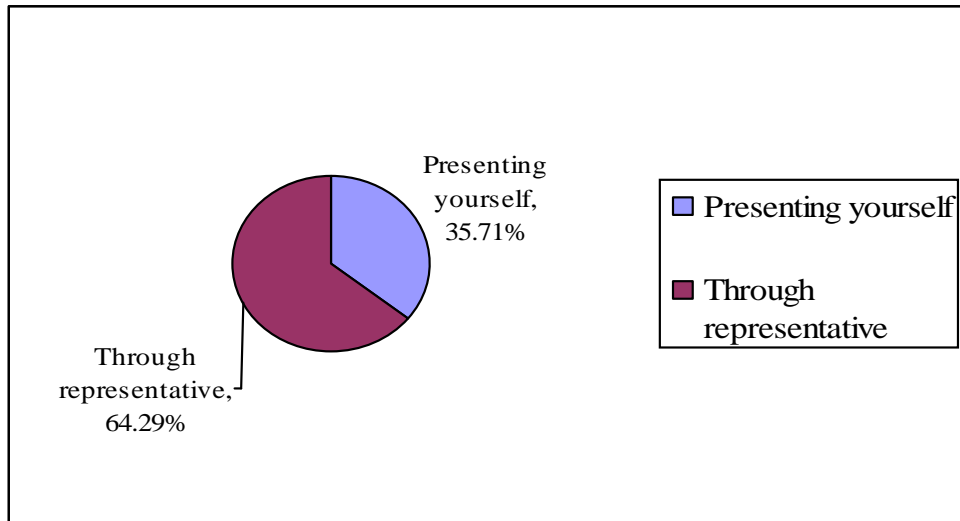


### Efficiency of broker Services in NEPSE

The twelfth question was asked to the brokers to collect their views and experience about the efficiency of brokerage services of NEPSE. The sixteen respondent brokers gave the answer to this question. From the acquired data, among them, 12 (75%) said the brokering service is efficient in NEPSE whereas, 4(25%) are opposed to it.

**Chart No 16**

**Efficiency of broker Services in NEPSE**

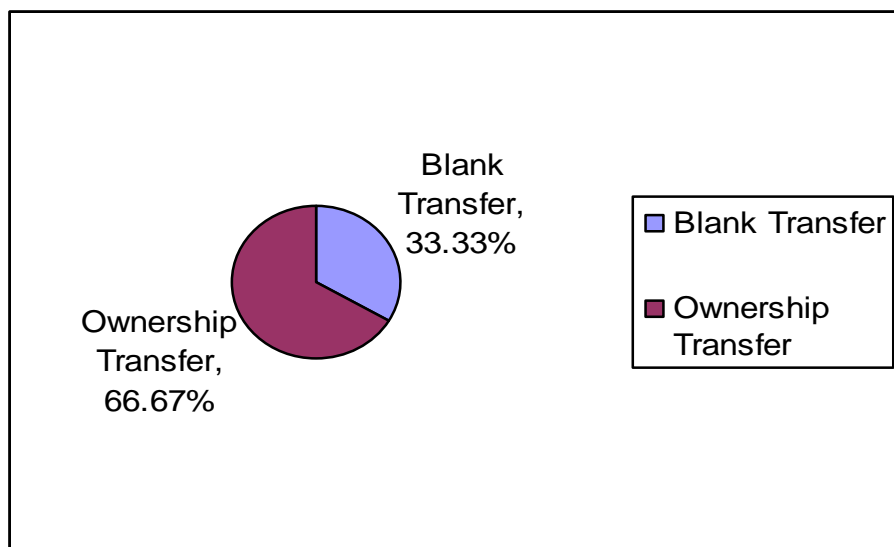


**Preferable Method of Transferring Share**

The thirteenth question was asked to the brokers to know their experience about the share transferring method while buying the securities. Only 12 brokers gave the answer of this question. Among them, 8 (66.7%) of brokers are in the support of ownership transfer that the investors prefer while buying securities. But another 4 (33.33%) of brokers said that the investor want to blank transfer while buying the securities.

**Chart No 4.17**

**Preferable Method of Transferring Share**



### **) Satisfaction of Brokers with the ‘Automated Trading System’(ATS) system followed by NEPSE**

This is the last and the fourteenth question asked to the brokers to know their views about the system ‘Automated Trading System’ followed by the NEPSE. Sixteen brokers have given the answer to this question. All most all respondent brokers 16(100%), are satisfied with the system.

#### **4.1.3 Comments and Suggestion**

During the study, comments and suggestion from the investors, professionals and officials were welcomed. They have given different types of suggestion and comments to improve the brokerage services and the performance of the brokers. Major of the comments are presented below:

- ) According to investors, brokers are more profit oriented than the services they provide. They failed to provide timely and reliable information and advice to the investors. To improve the performance of brokers, professionalism should be developed in brokers. To make business competitive, number of brokers should be increased.
- ) For the smooth growth of secondary market, brokers and market makers ought to be honest toward the owner.
- ) The NEPSE should provide easy access of information for the interested parties regarding the transaction data.
- ) The investors are not allowed to enter trading floor during the transaction period. They are interested to see the trading activities during the transaction period. They want big screen and loud speaker be installed out side the trading floor with in the premises of NEPSE.
- ) Online trading. Clearing House under the same roof, Central Depository System (CDS) should be established.

- ) Some investors are seeking capital gain tax free or very nominal in securities business.
- ) In the spirit of WTO, to make the business competitive and for the smooth growth of capital market, the securities exchange business should be allowed to private sectors too, since Nepal is already the member of WTO.
- ) Transparency and the trading activities and quality of service have to be increased from all side.

#### **4.2 Secondary Data**

Total number of members that the Securities Exchange Board of Nepal issued the licenses to act as securities brokers was thirty- two. Presently, according to available data source, is 23 brokers are working in NEPSE. The list of them and the brokering transaction they have made in NEPSE during FY2003/04to FY 2007/08 are presented in the following table.

**Table No 4.1**  
**Total Brokers Turnover in NEPSE**

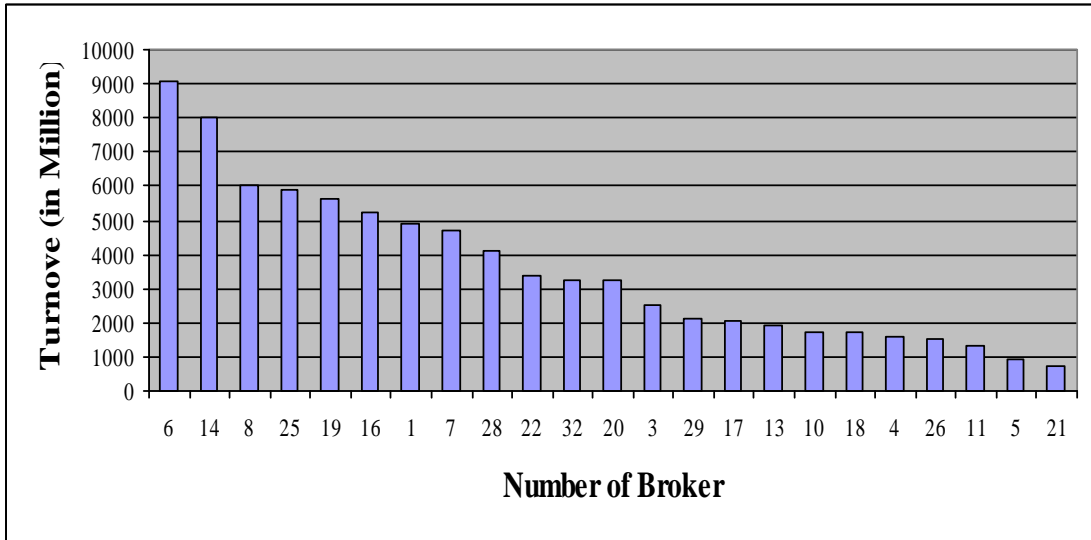
*Transaction Amount (in Million)*

| Name of the Licenses Members(Brokers)         | Code No | FY2003/04 | FY2004/05 | FY2005/06 | FY2006/07 | FY2007/08 | Total   | Rank             |
|---|---------|-----------|-----------|-----------|-----------|-----------|---------|------------------|
| Agrawal Securities Pvt. Ltd.                  | 6       | 231.11    | 3832.98   | 705.40    | 1104.00   | 3179.70   | 9053.19 | 1 <sup>st</sup>  |
| Nepal Stock House Pvt. Ltd.                   | 14      | 499.36    | 949.68    | 1125.33   | 1689.50   | 3738.20   | 8002.07 | 2 <sup>nd</sup>  |
| Ashutosh Brokerage & Sec. Pvt. Ltd.           | 8       | 153.58    | 687.42    | 567.37    | 1278.50   | 3360.90   | 6047.77 | 3 <sup>rd</sup>  |
| Sweta Securities P. Ltd.                      | 25      | 125.37    | 451.05    | 577.67    | 1478.50   | 3234.20   | 5866.79 | 4 <sup>th</sup>  |
| Nepal Investment & Securities Trading P. Ltd. | 19      | 55.18     | 736.71    | 523.71    | 802.30    | 3540.0    | 5657.9  | 5 <sup>th</sup>  |
| Primo Securities P.Ltd.                       | 16      | 9.10      | 29.40     | 272.20    | 1061.10   | 3863.50   | 5235.30 | 6 <sup>th</sup>  |
| Kumari Securities Pvt. Ltd.                   | 1       | 101.06    | 336.45    | 554.82    | 1689.20   | 2223.7    | 4905.23 | 7 <sup>th</sup>  |
| J.F. Securities Pvt. Ltd                      | 7       | 2173.16   | 279.13    | 360.89    | 596.80    | 1267.30   | 4677.28 | 8 <sup>th</sup>  |
| Sri Krishna Securities P. Ltd.                | 28      | 54.40     | 146.25    | 216.66    | 966.10    | 2697.10   | 4080.51 | 9 <sup>th</sup>  |
| Siprabi Securities P. Ltd.                    | 22      | 76.86     | 35.01     | 93.08     | 1061.10   | 2082.90   | 3348.95 | 10 <sup>th</sup> |
| Premier Securities P. Ltd.                    | 32      | 95.36     | 180.59    | 333.51    | 830.70    | 1825.20   | 3265.36 | 11 <sup>th</sup> |
| Sipla Securities Pvt. Ltd.                    | 20      | 72.88     | 151.71    | 158.89    | 674.90    | 2166.60   | 3224.98 | 12 <sup>th</sup> |
| Arun Securities Pvt Ltd                       | 3       | 342.65    | 165.68    | 181.01    | 198.20    | 1603.1    | 2490.64 | 13 <sup>th</sup> |
| Trisul Securities & Investment Pvt. Ltd.      | 29      | 15.75     | 45.17     | 87.66     | 345.10    | 1610.6    | 2104.28 | 14 <sup>th</sup> |
| Khandelwal Stock Broking Co. Pvt. Ltd.        | 17      | 0.00      | 0.01      | 0.00      | 120.90    | 1935.30   | 2056.21 | 15 <sup>th</sup> |
| Annapurna Securities Service Pvt. Ltd.        | 13      | 47.65     | 61.17     | 101.89    | 730.50    | 977.3     | 1918.51 | 16 <sup>th</sup> |
| Pragyan Securities Pvt. Ltd.                  | 10      | 3.32      | 49.35     | 61.18     | 389.70    | 1247.50   | 1751.05 | 17 <sup>th</sup> |
| Sagarmatha Securities Pvt. Ltd.               | 18      | 30.10     | 90.19     | 129.44    | 467.50    | 981.40    | 1698.63 | 18 <sup>th</sup> |
| Opel Securities Pvt. Ltd.                     | 4       | 59.15     | 66.62     | 151.93    | 356.90    | 943.9     | 1578.50 | 19 <sup>th</sup> |
| Asian Securities P. Ltd.                      | 26      | 50.78     | 106.30    | 159.40    | 294.30    | 884.50    | 1495.28 | 20 <sup>th</sup> |
| Malla & Malla Stock Broking Co Pvt. Ltd       | 11      | 7.70      | 1.63      | 21.34     | 288.50    | 1027.40   | 1346.57 | 21 <sup>st</sup> |
| Market Securities & Exchange Pvt. Ltd.        | 5       | 41.62     | 86.00     | 131.14    | 130.60    | 521.20    | 910.56  | 22 <sup>nd</sup> |
| Midas Stock Broking Co. Pvt. Ltd.             | 21      | 27.42     | 77.40     | 88.26     | 164.40    | 388.50    | 745.98  | 23 <sup>rd</sup> |

Source: Annual Report, FY2003/04 to FY2007/08, SEBON

**Chart No 4.18**

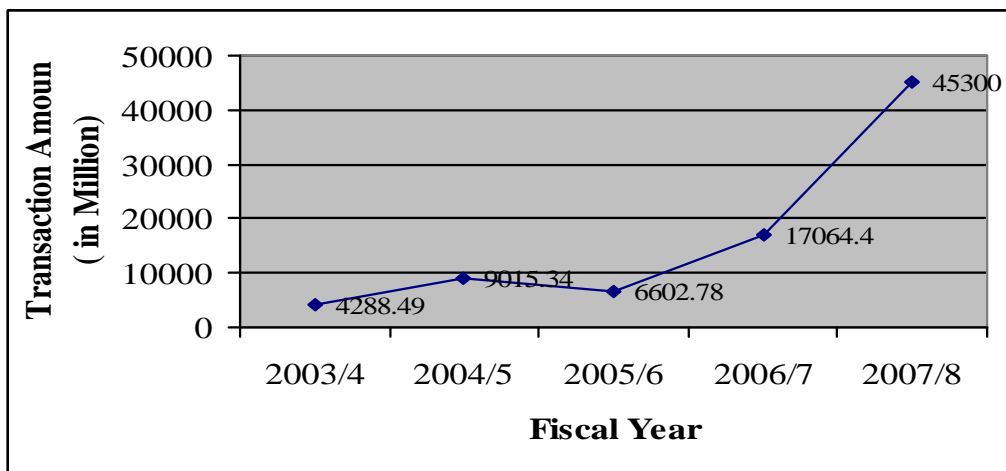
**Total Brokers Turnover in NEPSE**



As shown in above table, NEPSE through its member brokers had made the transaction of securities in FY 2003/04 of the value of Rs.4288.49 million. The transaction of the NEPSE was increased in the following to Rs.9015.34 million in FY 2004/05 after than turnover value of NEPSE was decreased to Rs.6602.78 million in FY2005/06. Than after turnover value of NEPSE has been increased in FY 2006/07 and FY 2007/08 to Rs. 17064.40 and Rs. 45300 respectively. The trend of brokers' transaction turnover in yearly basis is presented in following chart.

**Chart No 4.19**

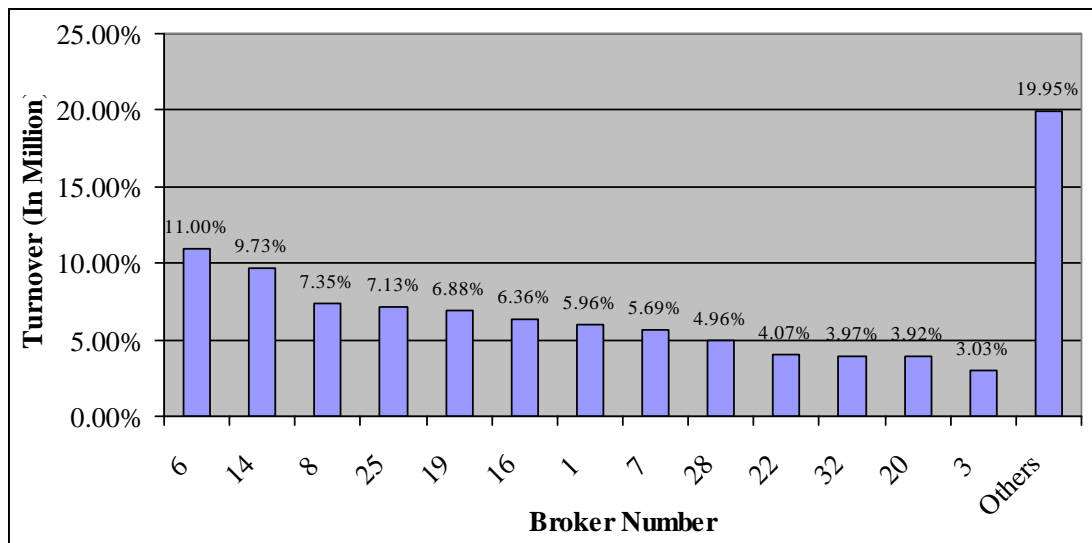
**Annual Turnover of NEPSE**



Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

From the FY 2003/04 to FY 2007/08 last five years 23 brokers have been doing transaction in the NEPSE. Following figure shows the cumulative average transaction of each broker. If the broking business is perfectly competitive around 4.35% of transaction would go to the pie of each broker. Here in the figure nine brokers had done the transaction above the average transaction. Other fourteen brokers have the below the average performance. The highest cumulative average turnover 11% has been made by the broker Number 6. 9.73%, 7.35%, 7.13%, 6.88% 6.36%, 5.96 %5.69% and 4.96% of cumulative average turnover has followed by broker No. 14, 8, 25, 19, 16, 1, 7 and 28 respectively. The remaining fourteen brokers had contributed 34.94% of the total transaction in an average during the study period. Broker Number 6 has the richest and broker number 21 poorest performances among the 23 active brokers.

**Chart No 4.20**  
**Cumulative Average performance of Brokers**



Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

The transaction data of broker during the study period were also analyzed year wise. In fiscal year 2003/04, top-5 best performer did 79.28% transactions of NEPSE. Among them, Broker No. 7 have done alone 50.67% turnover. Broker No. 14, 3, 6 and 8 have followed second, third, fourth and fifth position with 11.64%, 7.99%, 5.39% and 3.58% of NEPSE transaction. Remaining 20.72% of NEPSE transaction has been done by other remaining 18 Brokers.

Similarly, in fiscal year 2004/05, Among the 23 active Brokers, top 5 performers have contributed 74.22% of turnover. In this year, Broker No.6 was the best performer with 42.52% of turnover. The top performance record of this year was followed by 1, 19, 8 and 22 number brokers with 10.53%, 8.17%, 7.63% and 5.37% of turnover share respectively.

Similarly, in fiscal year 2005/06, 53.47% NEPSE turnover was occurred through top 5 performer Brokers. Broker number 14 was the best performer in this year. It alone did the 17.04% of NEPSE transaction. The second, third, fourth and fifth highest was followed by Broker No. 6, 25, 8 and 1 with the transaction share of 10.68%, 8.75% 8.59% and 8.40% respectively. In this year remaining 18 Brokers have done only 46.53% of NEPSE turnover.

In next fiscal year 2006/07, 42.43% of NEPSE'S transaction was done by 5 best performer Brokers. Broker number 14 with the 9.90% of turnover remained in first position. The second, third, fourth and fifth position was taken by Broker number 1, 25, 8 and 6 with the 9.89%, 8.66%, 7.49% and 6.47% of turnover respectively. Remaining 18 Brokers have contributed 57.57% in total NEPSE transaction.

Likewise, 39.15% of NEPSE turnover was done through top 5 players in FY 2007/08. Broker number 16 with the 8.53% of turnover remains first position. Broker number 14, 19, 8 and 25 were in second, third, fourth and fifth positions with the 8.25%, 7.81%, 7.42% and 7.14% transaction respectively.

**Table No 4.2**  
**Best Performer Brokers in Chronological Order**

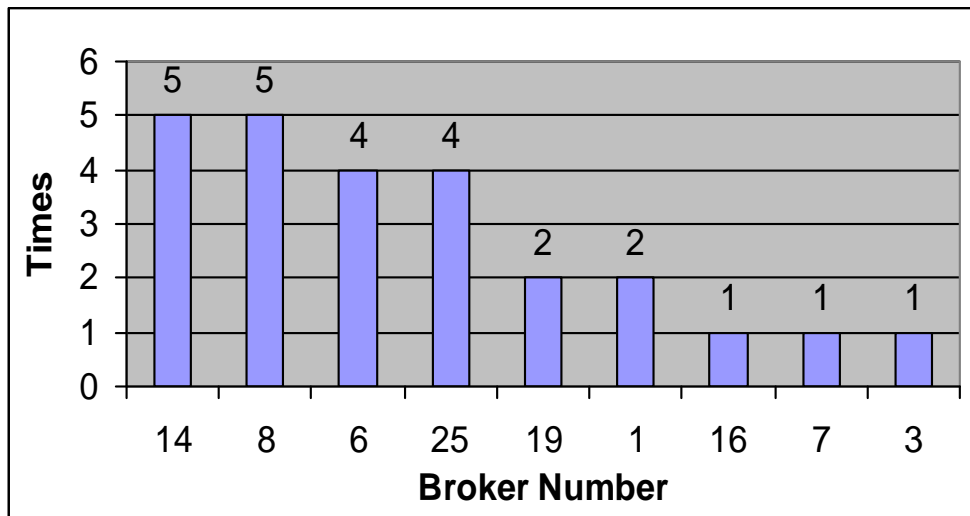
*Transaction Amount (in Million)*

| FY2003/04    |                | FY2004/05    |                | FY2005/06    |                | FY2006/07    |                 | FY2007/08    |                 |
|--------------|----------------|--------------|----------------|--------------|----------------|--------------|-----------------|--------------|-----------------|
| Broker No.   | Amount         | Broker No.   | Amount         | Broker No.   | Amount         | Broker No.   | Amount          | Broker No.   | Amount          |
| 7            | 2173.16        | 6            | 3832.98        | 14           | 1125.33        | 14           | 1689.50         | 16           | 3863.50         |
| 14           | 499.36         | 14           | 949.68         | 6            | 705.40         | 1            | 1689.20         | 14           | 3738.20         |
| 3            | 342.65         | 19           | 736.71         | 25           | 577.67         | 25           | 1478.50         | 19           | 3540.00         |
| 6            | 231.11         | 8            | 687.42         | 8            | 567.37         | 8            | 1278.50         | 8            | 3360.90         |
| 8            | 153.58         | 25           | 451.05         | 1            | 554.82         | 6            | 1104.00         | 25           | 3234.20         |
| Others       | 888.63         | Others       | 2357.50        | Others       | 3072.19        | Others       | 9824.70         | Others       | 27563.20        |
| <b>Total</b> | <b>4288.49</b> | <b>Total</b> | <b>9015.34</b> | <b>Total</b> | <b>6602.78</b> | <b>Total</b> | <b>17064.40</b> | <b>Total</b> | <b>45300.00</b> |

Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

It was found from the available data, 9 brokers were rated top 5 performers during the study periods FY 2003/04 to FY 2007/08. Broker No. 14 and 8 has shown outstanding performance among the active Brokers. It has secured its place in top-5 position in all the five years of the study period. During the study period, the top 5 record were followed by Broker No. 6 & 25 for 4 times; 19, 1, for 2 times; and broker No. 7, 3, & 16 for only once. But remaining fourteen brokers did not fare good performance. In the view point of transaction broker number 6 was first position in study period FY2003/04 to 2007/08 with turnover of Rs.9053.19 million.

**Chart No 4.21**  
**Broker Performance: Top-5 Leaders**



Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

### 4.3 Major Findings

Based on available data, major findings of the study are summarized in following points:

- ) It was found from the available data that investors' involvement year in share investing activities were found to be 7.5 years. It is regarded very short period.
- ) The purpose of investment of the investors in securities market were found 67.50%,22.50%,5% and 5% for capitol gain, social status, use of excess money and dividend/interest income respectively.
- ) It was found from the data acquired from the questionnaire that average number of companies per investors is 14 and the upper range is 52. It is quite reasonable.
- ) The data acquired from the survey said that 50%, 66.67%, and 16.67% investors follow the fundamental & Technical analysis and market fluctuation/trend and broker advice respectively to securities buy/sell the decision.

- ) It was found from the available data that all brokers are supposed to provide both trading and information services to the investors. But response of investors is quite different. It was found from the data collected from investors are 62.5% 27.5% and 10% of trading, Trading and information and other services that the investors are receiving from the brokers. The response between brokers and the investors are quite contradictory.
- ) The acquired result of the survey data said that all investors were only interested to invest in the banking and finance sector.
- ) 20% investors were satisfied with the brokerage performance of NPSE and 27.5% were dissatisfied. Whereas 52.5% of investors were satisfied only to some extent. In this regard, 75% brokers believed that the brokerage services in the NEPSE are efficient while remaining brokers did not believe on it. The result from the investors and the brokers are quite contradictory.
- ) The study said that 67.5% of investors gave 1<sup>st</sup> priority to quality of services. The other factors were - service charge, experience and reputation and counseling/advice had 12.5%, 7.5% and 5% priority respectively.
- ) It was found from the collected data that 20% of companies were providing sufficient information regarding the performance and future planning of the companies but 35% investors have just opposite response. However, 45% companies are found providing information in this regard to some extent.
- ) Most of the investors were found preferring ownership transfer while buying the securities. 62.5% investors want to ownership transfer. Whereas investors' views, in this connection is approximately similar that 66.67% brokers have an experience of ownership transfer that the securities holder prefer while buying it.
- ) The study said that information provided by the brokers to investors is not reliable and adequate to take the decisions. Only 11.43% and 25.70% information provided by the brokers are highly and moderately adequate and reliable to take

the decisions. So brokers should think at this point to serve their clients by providing a wide array of services related to the share trading activities.

- ) It is known from the study, mutual trading has substantial effect in stock market disorder. The acquired data said 15% of investors believe that the mutual trading has moderate effect in stock market disorder. Likewise, 12.5% investors said it had greater effect in stock market disorder.
- ) Different types of broker activities like wash sale, cornering the market, insider trading, churning, pool etc. were studied. These types of activities have also greater role for stock market disorder, the study said. 50%, 26.67% and 16.67% investors said the moderate, high and low effect respectively in stock market disorder due to these activities.
- ) Both the investors and brokers are satisfied with the functioning of NEPSE with the 'Automated Trading System' (ATS) system. In this connection, 100% investors and 100% brokers are totally satisfied with the system.
- ) The involvement of broker in this profession was found to be more than 10 years. 90% brokers are doing this profession since 10 years. The acquired data showed that the brokers' involvement in this profession is quite satisfactory since major portion of brokers are continuing this profession with the establishment of the NEPSE.
- ) The acquired data said that the average number of clients to each brokers is 150. It is quite sizeable number. However, the range of clients to each broker is 25 to 500 meaning high level of performance gap among the brokers.
- ) Most of the brokers receive order from their regular customer more than 30 times a year, is 75% of total investors. But order volume for the 25% of brokers was found to be within the range of 20 to 30 times. This data shows the customers are getting the services from the brokers almost permanently with the same brokers.

- ) Out of 100 percent, 28.57% of brokers are using Market Trend analysis. But 7.14% of them use none of the techniques mentioned in the questionnaires. They also do not disclose the technique they have been following. However, 7 responded i.e. 50% of brokers are using fundamental analysis of the companies and 14.27% preferred on the valuation as source of information and on the basis of that they suggest to their clients to buy and sell securities.
- ) According to the data acquired from questionnaire survey 45.45% brokers received the transaction order within range Rs. 50,001 to Rs. 100,000 and 45.45% brokers received the order with in the range of more than Rs. 100,000. It is clear from the data that the size of order in terms of rupees is quite sizeable. The order size less than Rs. 20,000.00 were received by only 9.09% brokers.
- ) All brokers collect annual reports of the listed companies.25% brokers have the computerized data base system whereas 75% brokers have used combine computerized and manual data base system. The findings from the study showed that securities brokers of NEPSE are using the information technology. And of course, it will increase the efficiency of the broker in their services.
- ) The study result shows that 56.25% of NEPSE turnover is execute through the brokers' representatives. Only 31.5% brokers present in the trading section with the transaction order. The portion of transaction execute through the representative is quite sizeable. Therefore, staffs and representative of the brokers are also being trained in this field.
- ) Different types of facilities extended with the minimum cost are considered as the symbol of competition. Competition brings efficiency in the market and all the parties involved are benefited with it. 75% of rigid in the service charge as stipulated by the NEPSE. They do not allow any discount in their fees. Similarly 75% brokers do not provide home services to the investors. These data shows that the majority of brokers are doing the business in their traditional style. For the smooth growth of securities market brokerage service most available widely and service providers are to be flexible.

- ) During the study period, the NEPSE turnover increased from Rs. 4288.49 million to Rs. 9015.34 million in FY 2003/04 to FY 2004/05. The study period's the NEPSE decrease in FY 2005/06 Rs. 6602.78. After that, it went up with the speed of geometrical progression in the following FY 2006/07 and FY 2007/08 with the turnover Rs. 17064.40 million and Rs. 45300 million. It shows considerable growth of stock market as well as brokerage services of NEPSE.
- ) The available data shows that major portions of brokers are not doing satisfactory performance in the NEPSE. Out of the 23 active brokers, only 9 brokers i.e. 46.88% are doing above the average performance. The study data shows that 11% of the 5 year cumulative average turnover was occurred through a single broker. Whereas 53.12% of cumulative average turnover was done by 14 brokers. Likewise, during the five year period only 9 brokers fell in the top five positions whereas 14 brokers have not been able to get chance in any of the year of the survey period. It shows that there is huge efficiency and performance gap among the brokers. To bridge the gap and for the balance growth of secondary market, different types of skill development and performance enhancement training should be given to the brokers.

## **Chapter –V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATION**

#### **5.1 Summary**

Economic sector plays vital role for developing the nation and urge of present day world. To attain the rapid pace of economic development of the country, there should be good environment for the establishment of corporations in the different sectors of the economy. Economic growth of any nation is highly influenced and characterized by development and expansion of capital market. The capital market has more significant role in developing economies like Nepal. The securities market play pivotal role for encouraging and canalizing the savings to provide fund to the entrepreneurs for investment in profitable projects.

Nepalese stock market is in infant stage and facing different types of problems. Stakeholders, regulating agency and the member brokers are responsible to creating such a situation. Lack of sufficient information, rumors and whims play significant role in investment in NEPSE rather than statistics and fundamental analysis. Stock brokers are supposed to act on behalf of investor and maintain fair and orderly securities market. But, they are not doing so in their full capacity rather their own and bi-lateral benefit of few investors. Due to which market efficiency could not be achieved. Numbers of listed companies in Nepal are few which limit the investment opportunities of the investors. Limited numbers of NEPSE'S brokers are not interested to provide their services in an efficient way. In such a situation, price set in NEPSE is not competitive.

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

This study Brokers Performance and their Services in Nepalese Stock Market examine the brokerage services, performance of brokerage firms and satisfaction of the investors. Securities market is main component of the national economy. Investor has to forgo opportunity income from alternate source while investing it in stock. Service, advice and response of brokers will influence the investment decision of the investor. Brokers are also considered the main player of the stock market in a developing economy like our country Nepal.

The study period is confined from FY 2003/04 to FY 2007/08 based on both primary and secondary information. Questionnaires were distributed to investors and brokers to acquire the information relevant to the study. Necessary discussion and interviews are also taken with dignitaries. Forty investors and 16 brokers are the main source of primary information where brokers turnover during the study period are taken as secondary source of information. The related data from other source were also utilized. The information was then analyzed by using different statistical tools like percentage analysis, range, mean, median, Pie-chart and diagram etc.

The major findings of the studies are summarized in the following words. Nepalese investors' habit in investing in stock market is very short. Investors prefer ownership transfer of securities to hold for long time and capital gain will reduce the dynamism of securities market. Investors follow the fundamental and technical analysis of the security while investing to some extent. Brokers are providing trading services with little informational services. Information propagation and awareness campaign activities should be increased. Major of the investor are not satisfied with the brokerage performance of NEPSE. Services charge is the main factor selecting brokerage services. Except few, listed companies will not provide realistic information to the general public. Mutual trading, insider trading, pool, churning, cornering, matching have the greater role for stock market disorder. Most of the brokers have below average performance. Only few brokers are participating in brokering activities actively.

## **5.2 Conclusions**

Stock brokerage profession in the Nepalese context has not been considered as a respectable profession. It has happened due to the brokers' own activities, weakness of the market regulators and the gaps in the rules and regulation.

Presently, Nepali stock market has been in an increasing trend. More companies are issuing shares to general public, and more investors are entering into the securities market as investors. Though the market has recorded growth, but the investors are not satisfied with the brokerage services they are receiving.

Stock market provides the best investment opportunities to the investor. It also provides liquidity for the investors. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in all aspect.

In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the share having higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period.

The rationality of the Nepalese investors was found to be at low level. They are mainly interested in securities of the financial sectors. It may be due to the deteriorating performance of the other sectors of the business. They have only very little knowledge of the trading procedures and the price setting mechanism at NEPSE.

The prices of the share fully reflect the available information and rationality of the investors in the efficient stock market. The role of information is decisive in security pricing. Because of the lack of sufficient information, rumor and whim have played significant role in share price movements and investment on common stocks. The investment decision is based more on intuition, imagination, guesswork than on

conscious judgment based on understood statistical probabilities in Nepalese stock market. But the Nepalese investors are seeking qualitative services from the brokers in respect of trading of securities and higher accuracy in information they are getting. The quality of the information works as a main source of their goodwill and uplift the moral responsibility towards the investors. It also leads to the superior performance. Brokers are also quite rigid to provide additional services to their clients. Different types of awareness programs, discount in service charge, home services will encourage the perspective investors for the investment.

Since the price of the stock is fixed by few actively participating brokers who represent the investors in the Nepal Stock Exchange. They play the vital role and the market is also loyal to these few investors and brokers. There were some conditions and circumstances seen in the stock market when brokers had done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with very little number of investors and brokers themselves.

Most of the brokers and investor are satisfied with the system 'Automated Trading System' followed by the NEPSE.

Major portion of the broker have below the average performance. Higher part of the NEPSE turnover goes to the hand of few selected brokers. Such a situation is being created from the side of broker themselves as well as regulatory authorities. To bring down the performance gap closure, major portion of brokers should improve themselves and regulatory body ought to change some rules and regulation to foster the performance of the stock market.

### **5.3 Recommendation**

The pace of economic development should be accelerated in order to have its positive impact on the stock market development. The following recommendations are made to the different sectors related to Brokers Performance and their Services in stock Market on the basis of the findings and the conclusions of the study.

- ) Investors are found lack of information. Therefore, NEPSE should increase its information dissemination activities to meet the expectations of investors. Such activities make perspective investors aware and encourage them in securities investment activities.
- ) Investors are not getting adequate and reliable information from the listed companies. Hence, listed companies should fulfill their liabilities of providing the financial status of the companies timely and comprehensively and they should conduct the Annual General Meeting (AGM) regularly.
- ) Brokerage firms are found to be not obeying their obligation timely. They should help regulatory bodies performing their activities by providing the financial statement and other required information timely and regularly. They should strictly obey the rules and regulations made for them to help the regulatory bodies for the better performance of stock market.
- ) Brokerage firms should keep their offices in easily accessible places since most of the brokerage firms are not located in easily seen place. They should also focus in other activities apart from trading the shares in NEPSE. Such services include information dissemination about the listed companies to the investors, providing margin-trading facilities to the small investors etc.
- ) All brokerage firms are located in Kathmandu Valley only. Concerned authority should encourage the existing brokers to open the Branch Office or appoint their representative in the major cities outside the Kathmandu Valley. So that interested and potential investor could give the order staying at their home town.
- ) Number of brokers should be increased to foster the competition to make existing brokers accountable toward the profession.
- ) The stock market lacks the existence of sophisticated investors. So, it is recommended the regulatory bodies to carry out programs using various media

and spot program to inform and attract the potential investors, both individual and institutional, in investing into shares.

- ) Brokers are mainly focusing their services in trading activities. The brokers should provide additional facilities and information with the minimum cost to the investor. So that motivation of investors will increase and they could be able to reach the buy/sell decision confidently.
- ) The development of stock market is also dependent on political stability of the nation. So, government should try to maintain the political stability to help development the security market.
- ) The size of stock market is pitifully small in Nepal because of small size of the corporate sector in the economy. The share of the corporate sectors is also negligible compared to total investment in the economy as a whole. Because of the small size of the corporate sector, government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy.
- ) Government should provide investment opportunities in some selected government undertaking Corporations with the spirit of privatization. Government should also encourage and create the environment for big privately joint and multinational undertaking corporations to go into the general public so that investors will get the more investment opportunities.
- ) The level of knowledge of the Nepalese investors was found very low. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of share of a company before making investment decision.
- ) Investors are found to be receiving low level of transaction related information from the NEPSE. Brokers should provide reliable and adequate information

related to the transaction and other aspects so that maximum number of investors could participate in securities investment.

- ) The study shows that brokers are responsible for market disorder. They should perform their activities within the limitation of the rules and regulations. They should provide right and authentic information about all the companies to help investors chose the share of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefit.
- ) The brokers should act as an important and responsible sector for the development of securities market and should strictly avoid involving themselves into stock market disorders.
- ) The concerned authorities should take very strict action to those responsible for creation of stock market disorders.
- ) Government should open the securities business to public sectors as well in order to foster the competition that leads to the better performance of secondary market. It is also essential in view of Nepal already being the member of WTO.
- ) For the transparency of secondary market services and its dynamism there is a need of a Central Depository System (CDS). Necessary steps towards establishing such a system is worth priority.

## **BIBLIOGRAPHY**

- Annual Report*. (FY 2000/01 to FY 2004/05). Kathmandu: SEBON
- Annual Trading Report*. (FY 2000/01 to FY 2004/05). Kathmandu: Nepal Stock Exchange
- Asquith, Paul and Others. (1986). Signaling with Dividend, Stock Repurchases, and Equity Issue. *Financial Management* (Autumn).
- Bhatta, B. P. (1997). Dynamic of Stock Market in Nepal. Unpublished Master' Degree Thesis, Shanker Dev Campus, Tribhuvan University.
- Bhattari, R. (2005, April). Matching & Cheating. *New Business Age*. Vol. 4, No. 12: 58-59
- Bhattari, R. (2005, September). Window Trading. *New Business Age*. Vol. 5, No. 5: 53
- Bodie, Zvi and Others. (1999). *Investments*. (4<sup>th</sup> ed.). New York: McGraw Hill International Edition: Financial Series.
- Chan, Robert and Chan, Y.K. and Yau, Oliver H. M. (1991). Selecting a Broker or a Brokerage Firm: Segmentation of Investors in the Hong Kong Stock Market. *European Journal of Marketing*. Vol. 25, Issue 10: 17-28
- Chandra, P. (1995). *The Investment Game* (6<sup>th</sup> ed.). West Publishing Company.
- Dhahal, B. R. (2002). Stock Market Behavior of Listed Joint Stock Companies in Nepal. Unpublished Master' Degree Thesis, Shanker Dev Campus, Tribhuvan University
- Francis, J. C. (1998). *Management of Investment*. (2<sup>nd</sup> ed.). Singapore: McGraw Hill Book Company.
- Ghimire, A. R. (2003, March). Stalling New Brokers. *New Business Age*. Vol. 2, No. 7: 57
- Gitman J. L. (1985). *Principles of Managerial Finance*. (4<sup>th</sup> ed.). New York: Wright State University.

- Guragai B. R. (2002). Price Formation and Brokering Services in Nepal Stock Exchange. Unpublished Master' Degree Thesis, Shanker Dev Campus, Tribhuvan University
- Hampton, J. (1996). *Financial Decision Making Concepts, Problems and Cases*. New Delhi: Prentice Hall of India Private Limited.
- <http://www.nepalstock.com>
- Logue, Dennis E. and Tuttle, Donald L. (1973). Brokerage House Investment Advice. *The Financial Review*. Vol. 8, Issue 1: 38-54
- Mrkvicka E. F., Jr. (1991). *The Rational Investors*. Chicago: Illinois, Probus. Publishing Company.
- Neupane, P. (2004). An Empirical Study on Brokering Services in NEPSE. Unpublished Master' Degree Thesis, Shanker Dev Campus, Tribhuvan University.
- Ojha K. (2000). Financial Performance and Common Stock Pricing. Unpublished Mini Research submitted to Central Department of Management, Tribhuvan University
- Rugh, P. D. (1996). *Financial Development and Economic Growth, Economic Development and Cultural Change*. Bombay: Vikash Publishing Home.
- Sharma, B. (2001, June). Nepal's Only Secondary Market in Shambles. *Business Age*. Vol. 3, Issue. 6
- Sharp William and Other. (1999). *Investments*. (5<sup>th</sup> ed.). New Delhi: Prentice Hall of India.
- Shrestha M. K. (2056, Baishakh Masanta). Why Share Market is Inactive? Problems and Measures. *Nepal Bnak Patrika*
- Shrestha M. K. (2057, Falgoon – Baishakh). Institutional Development of Brokering Business. *Nepal Bank Patrika*
- Shrestha, M. B. (1983). *The Role of Securities Market Center in the Economy Development of Nepal*. Unpublished Master' Degree Thesis, Central Department of Management, Tribhuvan University.

**ANNEXES: 1****List of Licenses Members of NEPSE**

| <b>Brokers</b> |  |             |                 |  |
|----------------|--|-------------|-----------------|--|
| <b>S. No</b>   | <b>Firm Name</b>                                 | <b>Code</b> | <b>Tel. No.</b> | <b>Address</b>                             |
| 1              | Kumari Securities Pvt. Limited                   | 1           | 01-4418036      | Dilli Bazar,Kathmandu                      |
| 2              | Arun Securities Pvt. Limited                     | 3           | 01-6916470      | Putalisadak,Kathmandu                      |
| 3              | Dopal Securities Investment Pvt. Limited         | 4           | 01-4421648      | Ramshah Path,Kathmandu                     |
| 4              | Market Securities Exchange Company Pvt. Limited  | 5           | 01-4248973      | Kichha Pokhari,Kathmandu                   |
| 5              | Agrawal Securities Pvt. Limited                  | 6           | 01-4229739      | Shankardev Marga,<br>Putalisadak,Kathmandu |
| 6              | J.F. Securities Company Pvt. Limited             | 7           | 01-4223089      | Putalisadak,Kathmandu                      |
| 7              | Ashutosh Brokerage & Securities Pvt. Limited     | 8           | 01-4220276      | Kichha Pokhari,Kathmandu                   |
| 8              | Pragyan Securities Pvt. Limited                  | 10          | 01-4498234      | Putalisadak,Kathmandu                      |
| 9              | Malla & Malla Stock Broking Company Pvt. Limited | 11          | 01-4414263      | Dillibazar,Kathmandu                       |
| 10             | Annapurna Securities Service Pvt. Limited        | 13          | 01-4419051      | Putalisadak,Kathmandu                      |
| 11             | Nepal Stock House Pvt. Limited                   | 14          | 01-4255732      | Anamnagar,Kathmandu                        |
| 12             | Primo Securities Pvt. Limited                    | 16          | 01-4239214      | Shankardev Marga,<br>Putalisadak,Kathmandu |
| 13             | ABC Securities Pvt. Limited                      | 17          | 01-4230787      | Indrachowk,Kathmandu                       |

|    |  |    |            |                           |
|----|--|----|------------|---------------------------|
| 14 | Sagarmatha Securities Pvt. Limited                 | 18 | 01-4242548 | Putalisadak, Kathmandu    |
| 15 | Nepal Investment & Securities Trading Pvt. Limited | 19 | 01-4495450 | Old Baneshowar, Kathmandu |
| 16 | Sipla Securities Pvt. Limited                      | 20 | 01-4255782 | New Road, Kathmandu       |
| 17 | Midas Stock Broking Company Pvt. Limited           | 21 | 01-4416050 | Dillibazar, Kathmandu     |
| 18 | Siprabi Securities Pvt. Limited                    | 22 | 01-5530701 | Kupondol, Lalitpur        |
| 19 | Sweta Securities Pvt. Limited                      | 25 | 01-4444791 | Putalisadak, Kathmandu    |
| 20 | Asian Securities Pvt. Limited                      | 26 | 01-4240609 | Viharmarga, Kathmandu     |
| 21 | Shree Krishna Securities Pvt. Limited              | 28 | 01-4224262 | New Road, Kathmandu       |
| 22 | Trishul Securities Pvt. Limited                    | 29 | 01-4440709 | Putalisadak, Kathmandu    |
| 23 | Premier Securites Pvt. Limited                     | 32 | 01-4231339 | Putalisadak, Kathmandu    |

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

**ANNEX - 2**

**LISTED COMPANIES NEPSE ON September 1, 2009**

| <b>S.No.</b>            | <b>Companies Name</b>                      | <b>Stock Symbol</b> | <b>Listed Shares</b> | <b>Paid up Value</b> | <b>Total Paid up Value</b> |
|-------------------------|--|---------------------|----------------------|----------------------|----------------------------|
| <b>Commercial Banks</b> |  |                     |                      |                      |                            |
| 1                       | <u>Nabil Bank Ltd.</u>                     | <b>NABIL</b>        | 9,657,470            | 100                  | 965,747,000                |
| 2                       | <u>Nepal Investment Bank Ltd.</u>          | <b>NIB</b>          | 24,070,689           | 100                  | 2,407,068,900              |
| 3                       | <u>Standard Chartered Bank Ltd.</u>        | <b>SCB</b>          | 9,319,664            | 100                  | 931,966,400                |
| 4                       | <u>Himalayan Bank Ltd.</u>                 | <b>HBL</b>          | 12,162,150           | 100                  | 1,216,215,000              |
| 5                       | <u>Nepal SBI Bank Limited</u>              | <b>SBI</b>          | 8,734,791            | 100                  | 873,479,100                |
| 6                       | <u>Nepal Bangladesh Bank Ltd.</u>          | <b>NBB</b>          | 18,603,890           | 100                  | 1,860,389,000              |
| 7                       | <u>Everest Bank Ltd</u>                    | <b>EBL</b>          | 6,388,200            | 100                  | 638,820,000                |
| 8                       | <u>Bank of Kathmandu</u>                   | <b>BOK</b>          | 8,443,979            | 100                  | 844,397,900                |
| 9                       | <u>Nepal Industrial And Co.Bank</u>        | <b>NICB</b>         | 11,404,800           | 100                  | 1,140,480,000              |
| 10                      | <u>Machhachapuchhre Bank Ltd</u>           | <b>MBL</b>          | 13,146,420           | 100                  | 1,314,642,000              |
| 11                      | <u>Laxmi Bank Limited</u>                  | <b>LBL</b>          | 10,980,861           | 100                  | 1,098,086,100              |
| 12                      | <u>Kumari Bank Ltd</u>                     | <b>KBL</b>          | 10,782,720           | 100                  | 1,078,272,000              |
| 13                      | <u>Lumbini Bank Ltd.</u>                   | <b>LUBL</b>         | 9,995,000            | 100                  | 999,500,000                |
| 14                      | <u>Nepal Credit And Com. Bank</u>          | <b>NCCB</b>         | 13,908,900           | 100                  | 1,390,890,000              |
| 15                      | <u>Siddhartha Bank Limited</u>             | <b>SBL</b>          | 8,280,000            | 100                  | 828,000,000                |
| 16                      | <u>NMB Bank Ltd.</u>                       | <b>NMBF</b>         | 11,000,000           | 100                  | 1,100,000,000              |
| 17                      | <u>Bank of Asia Nepal Limited</u>          | <b>BOAN</b>         | 10,000,000           | 100                  | 1,000,000,000              |
| 18                      | <u>Citizens Bank International Limited</u> | <b>CZBIL</b>        | 10,000,000           | 100                  | 1,000,000,000              |
| 19                      | <u>KIST Bank Limited</u>                   | <b>KMBF</b>         | 20,000,000           | 100                  | 2,000,000,000              |
| 20                      | <u>DCBL Bank Ltd.</u>                      | <b>DCBL</b>         | 11,074,560           | 100                  | 1,107,456,000              |
| 21                      | <u>Global Bank Limited</u>                 | <b>GBL</b>          | 10,000,000           | 100                  | 1,000,000,000              |
| <b>Total</b>            |  |                     | <b>247,954,094</b>   | <b>2,100</b>         | <b>24,795,409,400</b>      |

| <b>Finance</b> |  |             |           |     |             |
|----------------|--|-------------|-----------|-----|-------------|
| 22             | <u>Nepal Finance and Saving Co.Ltd.</u>  | <b>NFS</b>  | 300,000   | 100 | 30,000,000  |
| 23             | <u>NIDC Capital Markets Ltd.</u>         | <b>NCM</b>  | 1,012,500 | 100 | 101,250,000 |
| 24             | <u>National Finance Co. Ltd.</u>         | <b>NFC</b>  | 1,568,818 | 100 | 156,881,800 |
| 25             | <u>Nepal Share Markets Ltd.</u>          | <b>NSM</b>  | 4,320,000 | 100 | 432,000,000 |
| 26             | <u>Annapurna Finance Company Limited</u> | <b>AFC</b>  | 2,620,800 | 100 | 262,080,000 |
| 27             | <u>Kathmandu Finance Limited.</u>        | <b>KFL</b>  | 759,000   | 100 | 75,900,000  |
| 28             | <u>Peoples Finance Limited.</u>          | <b>PFCL</b> | 2,021,038 | 100 | 202,103,800 |
| 29             | <u>Union Finance Ltd.</u>                | <b>UFCL</b> | 1,590,025 | 100 | 159,002,500 |
| 30             | <u>Citizen Investment Trust</u>          | <b>CIT</b>  | 800,000   | 100 | 80,000,000  |
| 31             | <u>Nepal Aawas Bikas Beeta Co. Ltd.</u>  | <b>NABB</b> | 1,523,681 | 100 | 152,368,100 |
| 32             | <u>Narayani Finance Limited</u>          | <b>NFL</b>  | 2,136,517 | 100 | 213,651,700 |
| 33             | <u>Yeti Finance Company Ltd.</u>         | <b>YFL</b>  | 625,000   | 100 | 62,500,000  |
| 34             | <u>Gorkha Finance Ltd.</u>               | <b>GFLK</b> | 595,000   | 100 | 59,500,000  |
| 35             | <u>Samjhana Finance Co. Ltd.</u>         | <b>SFC</b>  | 225,000   | 100 | 22,500,000  |
| 36             | <u>Universal Finance Ltd.</u>            | <b>UFLK</b> | 602,184   | 100 | 60,218,400  |
| 37             | <u>Nepal Housing And Merchant Fin.</u>   | <b>NHMF</b> | 1,607,387 | 100 | 160,738,700 |
| 38             | <u>General Finance Ltd.</u>              | <b>GFL</b>  | 242,434   | 100 | 24,243,400  |
| 39             | <u>Maha Laxmi Finance Ltd.</u>           | <b>MFL</b>  | 960,000   | 100 | 96,000,000  |
| 40             | <u>Lalitpur Finance Ltd.</u>             | <b>LFC</b>  | 1,138,604 | 100 | 113,860,400 |
| 41             | <u>Goodwill Finance Co. Ltd.</u>         | <b>GFCL</b> | 1,154,741 | 100 | 115,474,100 |
| 42             | <u>Paschimanchal Finance Co. Ltd</u>     | <b>PFC</b>  | 556,600   | 100 | 55,660,000  |
| 43             | <u>Pokhara Finance Ltd.</u>              | <b>PFL</b>  | 2,387,280 | 100 | 238,728,000 |
| 44             | <u>Lumbini Finance Ltd.</u>              | <b>LFLC</b> | 900,000   | 100 | 90,000,000  |
| 45             | <u>Siddhartha Finance</u>                | <b>SFL</b>  | 869,322   | 100 | 86,932,200  |

|    |  |              |            |     |               |
|----|--|--------------|------------|-----|---------------|
|    | <u>Limited</u>                               |              |            |     |               |
| 46 | <u>Alpic Everest Finance Company Limited</u> | <b>AEFL</b>  | 780,000    | 100 | 78,000,000    |
| 47 | <u>United Finance Ltd</u>                    | <b>UFL</b>   | 1,500,000  | 100 | 150,000,000   |
| 48 | <u>International Leasing And Fin. Co.</u>    | <b>ILFC</b>  | 6,480,000  | 100 | 648,000,000   |
| 49 | <u>Shree Investment Finance Co. Ltd</u>      | <b>SIFC</b>  | 1,008,000  | 100 | 100,800,000   |
| 50 | <u>Central Finance Co. Ltd.</u>              | <b>CFCL</b>  | 1,015,493  | 100 | 101,549,300   |
| 51 | <u>Nepal Shree Lanka Merchant Bank</u>       | <b>NSLMB</b> | 1,000,000  | 100 | 100,000,000   |
| 52 | <u>Premier Finance Co. Ltd</u>               | <b>PFCLL</b> | 475,200    | 100 | 47,520,000    |
| 53 | <u>Nava Durga Finance Co.Ltd.</u>            | <b>NDFL</b>  | 455,948    | 100 | 45,594,800    |
| 54 | <u>Butwal Finance Ltd</u>                    | <b>BFL</b>   | 826,330    | 100 | 82,633,000    |
| 55 | <u>Janaki Finance Ltd.</u>                   | <b>JFL</b>   | 400,000    | 100 | 40,000,000    |
| 56 | <u>Standard Finance Ltd.</u>                 | <b>STFL</b>  | 10,018,041 | 100 | 1,001,804,100 |
| 57 | <u>Om Finance Ltd.</u>                       | <b>OFL</b>   | 700,000    | 100 | 70,000,000    |
| 58 | <u>Cosmic Mer.Bank And Fin.</u>              | <b>CMBF</b>  | 750,510    | 100 | 75,051,000    |
| 59 | <u>Fewa Finance Co. Ltd.</u>                 | <b>FFCL</b>  | 910,000    | 100 | 91,000,000    |
| 60 | <u>World Merchant Bank Ltd</u>               | <b>WMBF</b>  | 720,000    | 100 | 72,000,000    |
| 61 | <u>Birgunj Finance Ltd</u>                   | <b>BJFL</b>  | 852,983    | 100 | 85,298,300    |
| 62 | <u>Capital Mer. Bank And Fin</u>             | <b>CMB</b>   | 3,740,278  | 100 | 374,027,800   |
| 63 | <u>Everest Finance Ltd.</u>                  | <b>EFL</b>   | 200,000    | 100 | 20,000,000    |
| 64 | <u>Prudential Bittiya Sans</u>               | <b>PFIL</b>  | 1,000,000  | 100 | 100,000,000   |
| 65 | <u>Shrijana Finance(Bittiya Sa</u>           | <b>SFFIL</b> | 140,000    | 100 | 14,000,000    |
| 66 | <u>Royal Mer. Bank. And Fin</u>              | <b>RMBFI</b> | 1,342,544  | 100 | 134,254,400   |
| 67 | <u>Guheyshwori Mer. Bank. Fin</u>            | <b>GMFIL</b> | 986,901    | 100 | 98,690,100    |
| 68 | <u>IME Financial Institution</u>             | <b>IMEFI</b> | 2,494,602  | 100 | 249,460,200   |
| 69 | <u>Bhajuratna Fin.And Sav. Co. Ltd.</u>      | <b>BFIL</b>  | 385,000    | 100 | 38,500,000    |
| 70 | <u>Patan Finance Ltd.</u>                    | <b>PFLBS</b> | 500,000    | 100 | 50,000,000    |

|                                       |  |              |            |       |               |
|---------------------------------------|--|--------------|------------|-------|---------------|
| 71                                    | <u>Imperial Financial Inst. Ltd.</u>                   | <b>IFIL</b>  | 500,000    | 100   | 50,000,000    |
| 72                                    | <u>Civil Merchant bittyasanstha</u>                    | <b>CMBSL</b> | 500,000    | 100   | 50,000,000    |
| 73                                    | <u>ICFC Bittyasanstha Ltd.</u>                         | <b>ICFC</b>  | 3,293,837  | 100   | 329,383,700   |
| 74                                    | <u>Lord Buddha Financial Institutional Limited</u>     | <b>LBFIL</b> | 750,000    | 100   | 75,000,000    |
| 75                                    | <u>Sagarmatha Merchant Banking And Finance Limited</u> | <b>SMBF</b>  | 500,000    | 100   | 50,000,000    |
| 76                                    | <u>Kaski Finance Limited</u>                           | <b>KAFIL</b> | 500,000    | 100   | 50,000,000    |
| 77                                    | <u>Merchant Finance Company Limited</u>                | <b>MFCL</b>  | 300,000    | 100   | 30,000,000    |
| 78                                    | <u>Reliable Finance Limited</u>                        | <b>RIBSL</b> | 825,000    | 100   | 82,500,000    |
| 79                                    | <u>Shikhar Bittiyasanstha Limited</u>                  | <b>SBSL</b>  | 500,000    | 100   | 50,000,000    |
| 80                                    | <u>Nepal Express Finance Limited</u>                   | <b>NEFL</b>  | 800,000    | 100   | 80,000,000    |
| 81                                    | <u>Kuber Merchant Bittiyasanstha Limited</u>           | <b>KMBSL</b> | 500,000    | 100   | 50,000,000    |
| 82                                    | <u>Prabhu Finance Company Limited</u>                  | <b>PRFL</b>  | 1,600,000  | 100   | 160,000,000   |
| Total                                 |  |              | 79,766,598 | 6,100 | 7,976,659,800 |
| <b>Hotels</b>                         |  |              |            |       |               |
| 83                                    | <u>Yak and Yeti Hotel Ltd.(Ord.)</u>                   | <b>YHL</b>   | 2,209,208  | 100   | 220,920,800   |
| 84                                    | <u>Soaltee Hotel Ltd.</u>                              | <b>SHL</b>   | 9,566,815  | 10    | 95,668,150    |
| 85                                    | <u>Taragaon Regency Hotel</u>                          | <b>TRH</b>   | 7,449,875  | 100   | 744,987,500   |
| 86                                    | <u>Oriental Hotel Ltd.</u>                             | <b>OHL</b>   | 5,000,000  | 100   | 500,000,000   |
| Total                                 |  |              | 24,225,898 | 310   | 1,561,576,450 |
| <b>Manufacturing &amp; Processing</b> |  |              |            |       |               |
| 87                                    | <u>Bottlers Nepal Ltd.(Balaju)</u>                     | <b>BNL</b>   | 1,948,887  | 100   | 194,888,700   |
| 88                                    | <u>Nepal Lube Oil Ltd.</u>                             | <b>NLO</b>   | 203,936    | 100   | 20,393,600    |
| 89                                    | <u>Nepal Vanaspati Ghee Udhog Ltd</u>                  | <b>NVG</b>   | 101,250    | 100   | 10,125,000    |

|                   |   |             |             |       |                |
|-------------------|---|-------------|-------------|-------|----------------|
| 90                | <u>Raghupati Jute Mills Ltd.</u>          | <b>RJM</b>  | 1,806,966   | 100   | 180,696,600    |
| 91                | <u>Butwal Spinning Mills Ltd.</u>         | <b>BSM</b>  | 1,306,693   | 100   | 130,669,300    |
| 92                | <u>Gorakhkali Rubber Udhog Ltd.</u>       | <b>GRU</b>  | 3,833,400   | 75    | 287,505,000    |
| 93                | <u>Jyoti Spinning Mills Ltd (ord.)</u>    | <b>JSM</b>  | 1,270,288   | 100   | 127,028,800    |
| 94                | <u>Arun Vanaspati Udhog Limited</u>       | <b>AVU</b>  | 550,343     | 100   | 55,034,300     |
| 95                | <u>Bottlers Nepal (Terai)Ltd.</u>         | <b>BNT</b>  | 1,210,000   | 100   | 121,000,000    |
| 96                | <u>Harisiddhi Brick and Tile Fac.Ltd.</u> | <b>HBT</b>  | 18,650,000  | 10    | 186,500,000    |
| 97                | <u>Birat Shoe Ltd.(Ord.)</u>              | <b>BSL</b>  | 165,000     | 100   | 16,500,000     |
| 98                | <u>Uniliver Nepal Ltd.</u>                | <b>UNL</b>  | 920,700     | 100   | 92,070,000     |
| 99                | <u>Nepal Khadya Udhog Ltd.</u>            | <b>NKU</b>  | 90,000      | 100   | 9,000,000      |
| 100               | <u>Shree Bhrikuti Pulp And Paper Ltd</u>  | <b>SBPP</b> | 3,500,000   | 100   | 350,000,000    |
| 101               | <u>Fluer Himalayan Limited</u>            | <b>FHL</b>  | 262,102     | 75    | 19,657,650     |
| 102               | <u>Shree Ram Sugar Mills Ltd</u>          | <b>SRS</b>  | 3,045,990   | 100   | 304,599,000    |
| 103               | <u>Nepal Bitumin and Barrel Udyog</u>     | <b>NBBU</b> | 210,680     | 100   | 21,068,000     |
| 104               | <u>Himalayan Distillery Ltd.</u>          | <b>HDL</b>  | 4,130,000   | 100   | 413,000,000    |
| Total             |   |             | 43,206,235  | 1,660 | 2,539,735,950  |
| <b>Others</b>     |   |             |             |       |                |
| 105               | <u>Nepal Film Dev.Co. Ltd.</u>            | <b>NFD</b>  | 491,285     | 100   | 49,128,500     |
| 106               | <u>Nepal Doorsanchar Company Limited</u>  | <b>NTC</b>  | 150,000,000 | 100   | 15,000,000,000 |
| Total             |   |             | 150,491,285 | 200   | 15,049,128,500 |
| <b>HydroPower</b> |   |             |             |       |                |
| 107               | <u>National Hydro Power Co.</u>           | <b>NHPC</b> | 13,851,862  | 100   | 1,385,186,200  |
| 108               | <u>Butwal Power Co. Ltd.</u>              | <b>BPCL</b> | 8,390,577   | 100   | 839,057,700    |

|                  |   |              |            |     |               |
|------------------|---|--------------|------------|-----|---------------|
| 109              | <u>Chilime Hydro power Co.</u>            | <b>CHCL</b>  | 7,296,000  | 100 | 729,600,000   |
| Total            |   |              | 29,538,439 | 300 | 2,953,843,900 |
| <b>Trading</b>   |   |              |            |     |               |
| 110              | <u>Salt Trading Corporation</u>           | <b>STC</b>   | 247,777    | 100 | 24,777,700    |
| 111              | <u>Bishal Bazar Co. Ltd.</u>              | <b>BBC</b>   | 491,400    | 100 | 49,140,000    |
| 112              | <u>Nepal Trading Ltd.</u>                 | <b>NTL</b>   | 50,000     | 50  | 2,500,000     |
| 113              | <u>Nepal Welfare Company Ltd.</u>         | <b>NWC</b>   | 41,000     | 50  | 2,050,000     |
| Total            |   |              | 830,177    | 300 | 78,467,700    |
| <b>Insurance</b> |   |              |            |     |               |
| 114              | <u>Nepal Insurance Co.Ltd.</u>            | <b>NICL</b>  | 1,026,984  | 100 | 102,698,400   |
| 115              | <u>Rastriya Beema Sansthan</u>            | <b>RBS</b>   | 995,138    | 100 | 99,513,800    |
| 116              | <u>National LifeInsu. Co.Ltd.</u>         | <b>NLICL</b> | 1,320,000  | 100 | 132,000,000   |
| 117              | <u>Himalayan Gen.Insu. Co.Ltd.</u>        | <b>HGI</b>   | 1,008,000  | 100 | 100,800,000   |
| 118              | <u>United Insurance Co.(Nepal)Ltd.</u>    | <b>UIC</b>   | 600,000    | 100 | 60,000,000    |
| 119              | <u>Everest Insurance Co. Ltd.</u>         | <b>EIC</b>   | 1,012,500  | 100 | 101,250,000   |
| 120              | <u>Premier Insurance co. Ltd.</u>         | <b>PIC</b>   | 1,020,000  | 100 | 102,000,000   |
| 121              | <u>Neco Insurance Co.</u>                 | <b>NIL</b>   | 1,100,000  | 100 | 110,000,000   |
| 122              | <u>Alliance Insurance Company Limited</u> | <b>AIC</b>   | 599,862    | 100 | 59,986,200    |
| 123              | <u>Sagarmatha Insurance Co.Ltd</u>        | <b>SIC</b>   | 785,400    | 100 | 78,540,000    |
| 124              | <u>NB Insurance Co. Ltd.</u>              | <b>NBIL</b>  | 1,000,000  | 100 | 100,000,000   |
| 125              | <u>Nepal Life Insurance Co. Ltd.</u>      | <b>NLIC</b>  | 3,000,000  | 100 | 300,000,000   |
| 126              | <u>Life Insurance Co. Nepal</u>           | <b>LICN</b>  | 2,500,000  | 100 | 250,000,000   |
| 127              | <u>Prudential Insurance Co.</u>           | <b>PICL</b>  | 1,000,000  | 100 | 100,000,000   |
| 128              | <u>Lumbini General Insurance</u>          | <b>LGIL</b>  | 1,250,000  | 100 | 125,000,000   |
| 129              | <u>Shikhar Insurance Co.</u>              | <b>SICL</b>  | 1,250,000  | 100 | 125,000,000   |

|                          |  |              |            |       |               |
|--------------------------|--|--------------|------------|-------|---------------|
|                          | <u>Ltd.</u>                                    |              |            |       |               |
| 130                      | <u>Siddhartha Insurance Limited</u>            | <b>SIL</b>   | 1,000,000  | 100   | 100,000,000   |
| Total                    |  |              | 20,467,884 | 1,700 | 2,046,788,400 |
| <b>Development Banks</b> |  |              |            |       |               |
| 131                      | <u>Nepal Industrial Dev. Corp.</u>             | <b>NIDC</b>  | 2,978,784  | 100   | 297,878,400   |
| 132                      | <u>Nepal Development Bank</u>                  | <b>NDB</b>   | 3,200,000  | 100   | 320,000,000   |
| 133                      | <u>Nirdhan Utthan Bank Ltd.</u>                | <b>NUBL</b>  | 790,721    | 100   | 79,072,100    |
| 134                      | <u>Chhimek Vikash Bank Ltd.</u>                | <b>CBBL</b>  | 510,000    | 100   | 51,000,000    |
| 135                      | <u>Paschimanchal Bikash Bank</u>               | <b>PDBL</b>  | 1,000,000  | 100   | 100,000,000   |
| 136                      | <u>Infrastructure Development Bank Limited</u> | <b>IDBL</b>  | 3,200,000  | 100   | 320,000,000   |
| 137                      | <u>Diprox Development Bank</u>                 | <b>DDBL</b>  | 226,200    | 100   | 22,620,000    |
| 138                      | <u>Gandaki Bikas Bank Limited</u>              | <b>GDBL</b>  | 1,000,000  | 100   | 100,000,000   |
| 139                      | <u>Business Development Bank Ltd.</u>          | <b>BDBL</b>  | 2,100,000  | 100   | 210,000,000   |
| 140                      | <u>Bhrikuti Vikash Bank Limited</u>            | <b>BBBL</b>  | 704,947    | 100   | 70,494,700    |
| 141                      | <u>Sanima Vikash Bank Ltd.</u>                 | <b>SBBL</b>  | 7,680,000  | 100   | 768,000,000   |
| 142                      | <u>Narayani Development Bank Ltd.</u>          | <b>NABBC</b> | 250,000    | 100   | 25,000,000    |
| 143                      | <u>Clean Energy Development Bank Limited</u>   | <b>CEDBL</b> | 3,200,000  | 100   | 320,000,000   |
| 144                      | <u>Triveni Bikas Bank Limited</u>              | <b>TBBL</b>  | 500,000    | 100   | 50,000,000    |
| 145                      | <u>Purwanchal Grameen Bikash Bank Limited</u>  | <b>PGBL</b>  | 600,000    | 100   | 60,000,000    |
| 146                      | <u>Pashupati Development Bank Limited</u>      | <b>PSDBL</b> | 2,000,000  | 100   | 200,000,000   |
| 147                      | <u>Bageshowori Dev. Bank</u>                   | <b>BBBLN</b> | 495,000    | 100   | 49,500,000    |

|                        |  |               |            |       |               |
|------------------------|--|---------------|------------|-------|---------------|
| 148                    | <u>Sahayogi Vikas Bank</u>   | <b>SBBLJ</b>  | 360,000    | 100   | 36,000,000    |
| 149                    | <u>Gurkha Development Bank</u>                                     | <b>GDBNL</b>  | 4,800,000  | 100   | 480,000,000   |
| 150                    | <u>Annapurna Bikash Bank Limited</u>                               | <b>ABBL</b>   | 2,100,000  | 100   | 210,000,000   |
| 151                    | <u>Swabalamwan Bikash Bank</u>                                     | <b>SWBBL</b>  | 630,607    | 100   | 63,060,700    |
| 152                    | <u>Ace Development Bank Limited</u>                                | <b>ACEDBL</b> | 7,504,619  | 100   | 750,461,900   |
| 153                    | <u>Himchuli Bikash Bank Ltd.</u>                                   | <b>HBBL</b>   | 900,000    | 100   | 90,000,000    |
| 154                    | <u>Malika Bikash Bank Limited</u>                                  | <b>MDBL</b>   | 500,000    | 100   | 50,000,000    |
| 155                    | <u>Siddhartha Development Bank Limited</u>                         | <b>SDBL</b>   | 6,450,000  | 100   | 645,000,000   |
| 156                    | <u>Biratlaxmi Bikash Bank Limited</u>                              | <b>BLDBL</b>  | 500,000    | 100   | 50,000,000    |
| 157                    | <u>Excel Development Bank Ltd.</u>                                 | <b>EDBL</b>   | 200,000    | 100   | 20,000,000    |
| 158                    | <u>Nepal Development And Employment Promotion Bank Limited</u>     | <b>NDEP</b>   | 3,200,000  | 100   | 320,000,000   |
| 159                    | <u>Subhechha Bikas Bank Limited</u>                                | <b>SUBBL</b>  | 400,000    | 100   | 40,000,000    |
| Total                  |  |               | 57,980,878 | 2,900 | 5,798,087,800 |
| <b>Preferred Stock</b> |  |               |            |       |               |
| 01                     | <u>Everest Bank Limited Convertible Preference</u>                 | <b>EBLCP</b>  | 2,000,000  | 100   | 200,000,000   |
| Total                  |  |               | 2,000,000  | 100   | 200,000,000   |
| <b>Promoter Share</b>  |  |               |            |       |               |
| 01                     | <u>KIST Bank Limited Promoter Share</u>                            | <b>KMBFPO</b> | 1,200,000  | 100   | 120,000,000   |
| 02                     | <u>Capital Merchant Banking And Finance Limited Promotor Share</u> | <b>CMBFLP</b> | 500,000    | 100   | 50,000,000    |
| 03                     | <u>Nepal SBI Bank Ltd. Promoter Share</u>                          | <b>SBIPO</b>  | 6,114,353  | 100   | 611,435,300   |
| 04                     | <u>United Finance Limited Promoter Share</u>                       | <b>UFLPO</b>  | 900,000    | 100   | 90,000,000    |
| 05                     | <u>Gorkha Finance Ltd.</u>   | <b>GFLKPO</b> | 357,300    | 0     | 0             |

|    |  |               |           |     |             |
|----|--|---------------|-----------|-----|-------------|
|    | <u>Promoter Share</u>  |               |           |     |             |
| 06 | <u>Cosmic Merchant Bank<br/>And Fin. Co. Ltd.<br/>Promoter Share</u>   | <b>CMBFPO</b> | 450,306   | 100 | 45,030,600  |
| 07 | <u>Laxmi Bank Limited<br/>Promotor Share</u>                           | <b>LBLPO</b>  | 300,000   | 100 | 30,000,000  |
| 08 | <u>Royal Merchant Bank<br/>And Finance Co. Ltd.<br/>Promoter Share</u> | <b>RMBFPO</b> | 357,500   | 100 | 35,750,000  |
| 09 | <u>Nepal Share Markets<br/>Limited Promoter Share</u>                  | <b>NSMPO</b>  | 100,000   | 100 | 10,000,000  |
| 10 | <u>Swabalamban Bikas<br/>Bank Limited Promoter<br/>Share</u>           | <b>SWBBLP</b> | 175,000   | 100 | 17,500,000  |
| 11 | <u>Kathmandu Finance<br/>Limited Promoter Share</u>                    | <b>KFLPO</b>  | 198,000   | 100 | 19,800,000  |
| 12 | <u>Nepal Housing And<br/>Merchant Co. Ltd.<br/>Promoter Share</u>      | <b>NHMFPO</b> | 482,642   | 100 | 48,264,200  |
| 13 | <u>Fewa Finance Co. Ltd.<br/>Promoter Share</u>                        | <b>FFCLPO</b> | 420,000   | 100 | 42,000,000  |
| 14 | <u>Nepal Credit And<br/>Commercial Bank Ltd.<br/>Promoter Share</u>    | <b>NCCBPO</b> | 6,880,104 | 100 | 688,010,400 |
| 15 | <u>Lalitpur Finance Co.<br/>Ltd. Promoter Share</u>                    | <b>LCFPO</b>  | 417,656   | 100 | 41,765,600  |
| 16 | <u>Malika Development<br/>Bank Limited promoter<br/>Share</u>          | <b>MDBLPO</b> | 350,000   | 100 | 35,000,000  |
| 17 | <u>Janaki Finance Limited<br/>Promoter Share</u>                       | <b>JFLPO</b>  | 240,000   | 100 | 24,000,000  |
| 18 | <u>ACE Development Bank<br/>Limited Promoter Share</u>                 | <b>ACEDPO</b> | 1,920,000 | 100 | 192,000,000 |
| 19 | <u>Patan Finance Limited<br/>Promoter Share</u>                        | <b>PFLBSP</b> | 300,000   | 100 | 30,000,000  |
| 20 | <u>Annapurna Finance Co.<br/>Ltd. Promoter Share</u>                   | <b>AFCPO</b>  | 1,008,000 | 100 | 100,800,000 |
| 21 | <u>Everest Finance Limited<br/>Promoter Share</u>                      | <b>EFLPO</b>  | 120,000   | 100 | 12,000,000  |
| 22 | <u>General Finance Co.<br/>Ltd. Promoter Share</u>                     | <b>GFLPO</b>  | 145,460   | 100 | 14,546,000  |
| 23 | <u>Paschimanchal Bikash</u>  | <b>PDBLPO</b> | 600,000   | 100 | 60,000,000  |

|             |   |               |             |        |                 |
|-------------|---|---------------|-------------|--------|-----------------|
|             | <u>Bank Ltd. Promoter Share</u>                               |               |             |        |                 |
| 24          | <u>Bank of Kathmandu Promotor Share</u>                       | <b>BOKPO</b>  | 5,000,000   | 100    | 500,000,000     |
| 25          | <u>Nepal Development Bank Limited Promoter Share</u>          | <b>NDBPO</b>  | 1,120,000   | 100    | 112,000,000     |
| 26          | <u>NABIL Bank Limited Promotor Share</u>                      | <b>NABILP</b> | 4,811,751   | 100    | 481,175,100     |
| 27          | <u>Machhachapuchhre Bank Limited Promotor Share</u>           | <b>MBLPO</b>  | 5,751,559   | 100    | 575,155,900     |
| 28          | <u>Kumari Bank Limited Promotor Share</u>                     | <b>KBLPO</b>  | 5,250,000   | 100    | 525,000,000     |
| 29          | <u>Alpic Everest Finance Company Limited Promotor Share</u>   | <b>AEFLPO</b> | 585,000     | 100    | 58,500,000      |
| 30          | <u>Lumbini Bank Limited Promotor Share</u>                    | <b>LUBLPO</b> | 5,250,000   | 100    | 525,000,000     |
| 31          | <u>World Merchant Bank And Finance Limited Promoter Share</u> | <b>WMBFPO</b> | 360,000     | 100    | 36,000,000      |
| 32          | <u>Samjhana Finance Co. Ltd. Promoter Share</u>               | <b>SFCPO</b>  | 123,750     | 100    | 12,375,000      |
| 33          | <u>Siddhartha Development Bank Limited Promoter Share</u>     | <b>SDBLPO</b> | 300,000     | 100    | 30,000,000      |
| 34          | <u>Yeti Finance Co. Ltd. Promoter Share</u>                   | <b>YFLPO</b>  | 375,000     | 100    | 37,500,000      |
| 35          | <u>Peoples Finance Co. Ltd Promoter Share</u>                 | <b>PFCLPO</b> | 338,610     | 100    | 33,861,000      |
| 36          | <u>Nepal Industrial And Co. Bank Promoter Share</u>           | <b>NICBPO</b> | 6,211,141   | 100    | 621,114,100     |
| 37          | <u>Development Credit Bank Ltd. Promoter Share</u>            | <b>DCBLPO</b> | 1,680,000   | 100    | 168,000,000     |
| Total       |   |               | 60,693,132  | 3,600  | 6,033,583,200   |
| Grand Total |   |               |             |        |                 |
|             |   |               | 883,629,620 | 45,280 | 225,608,281,100 |