

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The world's economic sector is changing rapidly. Economic sector plays 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 is 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.

Every business enterprise requires short-term, intermediate and long-term capital funds for the smooth operation and expansion of the organizational activities. Among these types of funds, the long-term funds are highly significant for future growth and prosperity. Most business organizations generate long-term funds from the financial markets. The purpose of financial

market in an economy is to allocate savings efficiently during the period of time-a day, a week, or a quarter to parties who use funds in real assets or for consumption.

Every corporation acquires 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 denotes the market mechanism for the original sale of securities by an issuer to the public. It is the market in which the securities are sold at the time of their initial issuance. In other words, 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 in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. It is the market that creates the price and allow for liquidity. If secondary market did not exist, the investors would have no place to sell their assets. 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. Almost two and half decade later government issued treasury bills for the 1st time in 1962 and following it, development bonds in 1964.

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. However, it mainly confined its activities to provide liquidity for only government bonds in the secondary market.

NEPSE had started its organized open-out-cry system in its floor on 13 Jan 1994. But now NEPSE has adopted fully automated screen based trading since 24 August 2007. The NEPSE trading system is called 'NEPSE Automated Trading System (NATS)' is a fully automated screen based trading system which adopts the principle of an order driven market. There were 135 companies' securities listed on NEPSE till FY 2006/07 (2063/064 BS). There were 15 commercial banks, 53 finance companies, 16 insurance companies, 4 hotels, 16 development banks, 21 manufacturing and processing companies, 5 trading companies and 5 on other category. Among these one company's preferred stock and one company's mutual fund are also listed in NEPSE.

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. Therefore, 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 in 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. Therefore, the necessity to analyze the practical situation of brokering services in secondary market is necessary 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 creates 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 investors make a mistake with their brokers and allow 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 does not 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. Investors are often unwilling to surrender control of their savings for long periods. But succinctly, investors will come if they can come. Moreover, the level of the price of the stock eventually affects these two different periods (i.e. buying price and selling price).

Therefore, it is 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. Therefore, 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:

-) 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?
-) Are brokers analyzed the securities?
-) Why Nepalese investors prefer ownership transfer than blank transfer?
-) Do brokers able to retain their customer?
-) Is the system followed by NEPSE technologically friendly?

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 stockbroker 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 investor satisfaction towards the brokers' services.
-) To find the services provided by brokers to their customers.
-) To examine the satisfaction of brokers and investors with the 'NEPSE Automated Trading System' followed by NEPSE.

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 NEPSE automated trading system currently in use in the NEPSE should also be examined in the present day-world context. As many developing and developed countries have already initiated the Computed Assisted Trading System (CATS), the feasibility of the system should also be studied in the Nepalese context.

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. Therefore, 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 Limitation 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 2002/03 to 2006/07 (2059/060 to 2063/064 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 - I: Introduction

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

Chapter - II: Review of Literature

The second chapter 'Review of Literature' consists 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.

Chapter - III: Research Methodology

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.

Chapter - IV: Data Presentation and Analysis

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.

Chapter - V: Summary, Conclusion and Recommendations

Finally, the fifth chapter states the summary, conclusions and recommendations of the study. This chapter offers 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 provides some glimpses and highlights with the review relating to the topic "Brokers Performance and their Services in Secondary 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 Financial Market

Financial transactions involve financial assets and financial liabilities. The creation and transfer of such assets and liabilities constitute financial market. The nature of financial markets can be explained by an analogy. The automobile market, for example, is defined by all auto dealers' showrooms, at wholesaler auctions of used cars, or at individuals' homes, because they make up the total demand and supply for autos.

Similarly, "Financial markets are comprised of all trades that result in the creation of financial assets and financial liabilities. Traders are made through organized institutions, such as the New York Stock Exchange or the regional stock exchanges, or through the thousands of brokers and dealers who buy and sell securities of the exchange, comprising the over-the-counter market. In recent year, computers have facilitated system for directly matching buyer and sellers. Individual transactions with department stores, saving banks, or other financial institutions also create financial assets and liabilities. Thus, financial markets are not specific physical structures remote to the average individual. Rather, everyone participates in the trading process to some degree. Financial

market can be divided into two parts on the basis of life span. They are money market and capital market” (Weston & Copeland,1992: 78).

2.1.1.1 Money Market

“It is the type of market, which is meant for a short term and for highly liquid debt securities. A money market typically involves financial assets that have a life span of one year or less. Money market instruments include short-term marketable, liquid and low-risk securities. Money market instruments sometimes are also called cash equivalents, or just cash. The U.S. government sometimes helps finance its deficit spending by selling money-market securities to raise cash. Short-term U.S. treasury bills are money like securities that large corporate investors sometimes buy from the U.S. Treasury (or from brokers acting for the Treasury) when they have excess cash to invest temporarily” (Francis, 1998: 31).

“It provides a mechanism for meeting the liquidity needs of the lenders and the short-term requirements of borrowers with the minimum of delay. When tight money conditions prevail the money market rates rise and similarly when easy conditions prevail, the money market rates fall, the fluctuations in the money market interest rates reflecting the demand for and supply of funds in a competitive market. This may not, however, be the case in a system of administered interest rates where interest rates are not permitted to reflect the true scarcity of funds in the money market” (Pandey, 2003: 964).

2.1.1.2 Capital Market

“Capital markets are the markets meant for long-term securities issued by the government or a corporation. Capital markets typically involve financial assets that have life spans of greater than one year. Long-term securities are traded in the capital market. The New York Stock Exchange, which handles the stocks of the largest corporations, is a prime example of capital market” (Brigham, 1995:56).

“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 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” (Chandra, 1995: 47).

Capital market may be divided into two parts – primary market and secondary market. They are as follows:

2.1.1.2.1 Primary Market

The primary market is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus.

Features of primary markets are:

-) This is the market for new long-term capital. The primary market is the market where the securities are sold for the first time. Therefore, it is also called New Issue Market (NIM).
-) In a primary issue, the securities are issued by the company directly to investors.
-) The company receives the money and issues new security certificates to the investors.

-)] Primary issues are used by companies for setting up new business or for expanding or modernizing the existing business.
-)] The primary market performs the crucial function of facilitating capital formation in the economy.
-)] The new issue market does not include certain other sources of new long-term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as 'going public'.

“Methods of issuing securities in the primary market are:

-)] Initial public offering,
-)] Rights issue (for existing companies), and
-)] Preferential issue” (Bhattacharai, 2006: 11).

2.1.1.2.2 Secondary Market

“The secondary market is the financial market for trading of securities that have already been issued in an initial private or public offering. Alternatively, secondary market can refer to the market for any kind of used goods. The market that exists in a new security just after the new issue is often referred to as the aftermarket. Once a newly issued stock is listed on a stock exchange, investors and speculators can easily trade on the exchange, as market makers provide bids and offers in the new stock. The New York Stock Exchange, Nepal Stock Exchange is the example of secondary markets. The NYSE is a secondary market, since it deals in "used" as opposed to newly issued stocks and bonds. Secondary markets also exist for mortgages, loans, and other financial assets” (Bhattacharai, 2006:16).

In the secondary market, securities are sold by and transferred from one investor to another. It is therefore important that the secondary market be highly liquid (originally, the only way to create this liquidity was for investors to meet at a fixed place regularly).

Secondary marketing is vital to an efficient and modern capital market. Fundamentally, secondary markets mesh the investor's preference for liquidity (i.e., the investor's desire not to tie up his or her money for a long period, in case the investor needs it to deal with unforeseen circumstances) with the capital user's preference to be able to use the capital for an extended period. For example, a traditional loan allows the borrower to pay back the loan, with interest, over a certain period. For the length of that period, the bulk of the lender's investment is inaccessible to the lender, even in cases of emergencies. Likewise, in an emergency, a partner in a traditional partnership is only able to access his or her original investment if he or she finds another investor willing to buy out his or her interest in the partnership. With a securitized loan or equity interest or tradable stocks, the investor can sell, relatively easily, his or her interest in the investment, particularly if the loan or ownership equity has been broken into relatively small parts. This selling and buying of small parts of a larger loan or ownership interest in a venture is called secondary market trading.

Under traditional lending and partnership arrangements, investors may be less likely to put their money into long-term investments, and more likely to charge a higher interest rate (or demand a greater share of the profits) if they do. With secondary markets, however, investors know that they can recoup some of their investment quickly, if their own circumstances change(<http://en.wikipedia.org/2008-11-20>).

2.1.2 Securities Board of Nepal (SEBON)

"The securities Board of Nepal (SEBON) was established on June 7, 1993 under the provision of Securities Exchange Act, 1983 (first amendment in 2040B.S.). It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the

regulatory role under the present Act, The SEBON is responsible for the supervision of NEPSE" (SEBON, 2006/07:5).

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 SEBON will act as an apex regulatory body and NEPSE as a frontline regulator" (SEBON; 2000/01: 37).

The initial draft of the strategic plan was circulated among the policy makers, experts, Government official, market operators, securities businesspersons, 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.

“The Governing Board of SEBON comprises seven members representing various Government and non-government sectors. The seven-member board includes a full - time Chairman appointed by the Government of Nepal for the tenure of four years. 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”. (SEBON; 2006/07:11).

“Presently, there are 28 staffs including chairperson in SEBON. 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” (SEBON, 2006/07: 13).

2.1.3 Nepal Stock Exchange (NEPSE)

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. In Nepal, Security Market Center was established in 1970 AD. It was the first and foremost step taken by the Nepalese government for the development of securities market in Nepal. Immediately after that, Securities Exchange Act was passed and Securities Market Center was changed into Securities Exchange Center (SEC).

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 market, converted Securities Exchange Center into Nepal Stock Exchange (NEPSE) in 1993.

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 February 1994 through licensed members. Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and the licensed members are the shareholders of the NEPSE.

The board of directors of NEPSE consists of nine directors in accordance with Securities Exchange Act, 1983. Six directors are nominated by Government of Nepal and different institutional investors. Two from the licensed members and the General Manager of the NEPSE is the Ex-Officio Director of the Board. 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. Therefore, 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

<http://www.nepalstock.com.np/2008-11-20>

2.1.3.1 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. However, 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.

It is mandatory for the brokers to submit their annual report along with their financial statement and trading report to SEBON with in four months after the expiry of the fiscal year. But "by the end of fiscal year 2006/07, out of 24 stock brokering companies only 22 companies submitted their financial report of fiscal year 2005/06. Besides these reporting, four stock brokers have submitted to SEBON the information relating to managements' views on securities market and securities transactions while three submitted their first half yearly cash flow statement of the fiscal year 2005/06" (SEBON, 2006/07: 24).

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 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 were not maintaining the offices to make it possible for the customers to come and contact. Now brokers have maintained and established their own offices. Now they have 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.

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 24 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 licensed to dealer for primary market and dealer for secondary market. Dealer for primary market operates as a manager to the issue and underwriter whereas dealer for secondary market operates as a portfolio manager. Presently, NEPSE has seven dealers for primary market and 2 dealers for secondary market” (SEBON, 2006/07:86).

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 advise 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 24 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. 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, 2003:57).

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, 2003:59).

“NEPSE had adopted an "open-out-cry" system for the trading purpose. But now-a-days NEPSE has adopted fully automated screen based trading since 24th August 2007. The NEPSE trading system is called 'NEPSE Automated Trading System (NATS) is a fully automated screen based trading system which adopts the principle of an order driven market. The system adopts the 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 the sell orders from the point of view of the buyers in the market. Therefore, 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” (<http://www.nepalstock.com.np/2008-11-20>).

Brokers participate directly in the trading activities on the floor of NEPSE or on brokers' office 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:

Table 2.1
Brokerage for Equity

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

Source: <http://www.nepalstock.com.np>(2008-11-20)

Table 2.2

Brokerage for Government Bond

S. No.	Trading Amount	Brokerage %
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.5

Source: <http://www.nepalstock.com.np>(2008-11-20)

2.1.3.2 Trading System of NEPSE

NEPSE had adopted an "open-out-cry" manual system. This method was once used at Sri Lanka Stock Exchange some years ago. Now NEPSE has adopted fully automated screen based trading since 24 August 2007. The NEPSE trading system is called 'NEPSE Automated Trading System (NATS) is a fully automated screen based trading system which adopts the principle of an order driven market. It means trading of securities is conducted on the online computer.

“The brokers representing the buyer of the securities code the highest buying price for a stock and his code number is written on the buying column and the broker representing the seller of the securities code the lowest selling price and his code number on the selling column. Once the bid and offer (ask) price is matched, the buying broker and selling broker perform the contract on the floor or on the broker's office. The first trading price of the share of a company should not be more or less than 10% of the previous day's closing price. Once the transaction is done, the price can be change within a limit of 2% in each consecutive transaction”(http://www.nepalstock.com.np/2008-11-20).

2.1.3.3 Trading Procedures in NEPSE

The buyer or seller cannot 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 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 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. However, 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” (www.nepalstock.com.np 2008-11-20).

“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" (www.nepalstock.com.np/2008-11-20)

"The broker, their representative and the NEPSE staffs are present at the transaction time. The buyer broker or the seller brokers both begin to quote the price of the shares of company they want to make transaction" (www.nepalstock.com.np/2008-11-20).

As soon as the buyer or the seller broker bids their order, it is placed in the buy or sell column with the code number of the broker below it. The first order should be placed within the range of 10% of the last day's closing price, and is followed by 2% range in the subsequent transactions.

The buy and sell order of the same price can be placed only by two brokers for a stock. It is a process by which the previous orders are ceded by each new buy order of the higher prices and in this way the prices of the stock is set higher and higher. The bidding price of each succeeding bid can range only in the 2% of its previous bid as mentioned before. In addition, on the selling side, initially, the price of the stock is set higher than any of the buying bid. The seller broker in turn comes to quote the price in succession to match it with the buy bid. In this way little by little, in a series of bidding they come to match a common price, which is above the initial buy bid, and below the sell bid is set as the transaction price for that stock.

Once the buy and sell price matched, the brokers themselves talk about the number of shares they want to buy and sell. When they agree on the number of shares, the quantity is informed to the NEPSE staff that will then record the price, quantity, transaction number and traded amount in the computer.

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 online computer 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 quote the little higher price if he feels unable to find seller broker at that price level.

Likewise, if the buyer broker does not buy all the shares as stated in the quotation board which the seller broker wanted to sell then he will sell the shares which the buyer broker agrees to buy and keeps with himself the remaining shares and continues to bid in seller's bid column unless he meets with another buyer broker to buy the number of shares which he wanted to sell.

“The brokers have to code their price before 3 PM, if they want to continue in the buy or sell order. The brokers who do not quote their price cannot participate in the transaction after 3 PM. The buyer broker and sell broker negotiate to match their buy/sell price themselves. When they meet into agreement, they have to inform it to the NEPSE staff to quote the new matched price in the board. Likewise, the quantity of the shares to be traded is also agreed and informed to the NEPSE staff to quote in the board, who also records the quantity, price, transaction number and the amount of transaction in the computer” (www.nepalstock.com.np/2008-11-20).

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'.

2.1.3.4 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:

Table 2.3
Trading Session of NEPSE

Types of Trading	Days	Trading Hours
Trading on Equity	Sunday to Thursday	12.00 AM to 3.00PM
Odd Lot Trading	Friday	12.00 AM to 1.00 PM

Source: (www.nepalstock.com.np/2008-11-20)

“There were 135 companies’ securities listed on NEPSE till the last fiscal year 2006/07. There were 15 commercial banks, 53 finance companies, 16 insurance companies, 4 hotels, 16 development banks, 21 manufacturing and processing companies, 5 trading companies and 5 on other category” (SEBON, 2006/07: 76).

2.1.3.5 Clearing and Settlement Procedures in NEPSE

When a trade has been agreed the selling brokers complete and sign a standard dealing slip (trading slip) and obtains the signature of the buying broker. The three copies of the dealing slips will be kept by the buying broker, NEPSE floor staff and the selling broker himself. Then the NEPSE staff enters the details of the trading slip in a computer. At the same time, another NEPSE staff writes down the details from the white board on a control sheet. Then the details from the dealing slips and the control sheets are compared and corrected before closing off the day's trading activities. Queries are referred back to the brokers in case of confusion.

“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” (www.nepalstock.com.np/ 2008-11-20).

2.1.3.6 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

Once the trading is performed, the buyer broker submits the bank deposit voucher and the seller broker stock submit the certificates to the NEPSE for the further processing. If the buyer investor wants to buy the shares as a blank transfer, then it is registered in the NEPSE but the further processing is stopped. It is done mostly in the view of selling the shares in the very near future for the capital profit. But the shares must be registered to the new buyer's name within the sufficient time before the annual general meeting if the buyer wants to get the dividend and the bonus declared by the company in the annual general meeting.

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 Kathmandu office to obtain the company's verification from their records. This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market.

The whole procedures for clearing and settlement are paper intensive. The highly manual based procedure often results in delay, inefficiencies and potential risks for all participants” (www.nepalstock.com.np/2008-11-20)

2.1.3.7 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. But now an open-out-cry method is eliminated and NEPSE Automated Trading System has adopted. 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.

2.1.3.8 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 also based on the NEPSE Automated Trading System. 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, i.e. 3 PM in the brokers' offices, 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. Therefore, 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 attempted 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.

2.2 Review of Journals and Articles

Dennis E. Logue and Donald L. Tuttle (1973) had 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 safekeeping 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 in 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 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.

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.

Robert Chan, 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.
-) 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 form 1st category whereas 40 percentage of sample were from second 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.

They 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".

They 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 dissatisfied. 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 Thesis

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

Objectives of the research were as follows:

-) To analyze the trend of Nepal stock market.
-) To diagnose and compute sectoral financial status of the stocks in Nepalese stock market.
-) To analyze the market share price of Nepalese stock market.
-) To find out the impact of the secondary on primary market and vice versa.
-) To recommend for the improvement of stock, market in Nepal.

Findings of the research were as follows:

The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market sires and mobilizes the investment to finance the long-term large projects in the economy. The stock market therefore can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to starts the productive venture as soon as possible. A management capability of entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capabilities of entrepreneurs, which may contribute to raise the return from investment.

Development of manufacturing sector is the backbone of an economy, which, in turn, assists to foster the banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of stock market is not also functioning well in Nepal. There is almost liquidity in the stock market for share except that of banking and some finance and insurance sectors.

Although it has become late to take steps to overcome such problems on Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy.

B. R. Dahal (2002) has conducted research on "*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.

Major findings of his study were as follows:

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.

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.

Bisho Ram Guragai (2002) has conducted research on "*Price Formation and Brokering Services in Nepal Stock Exchange*". The main objectives of this study were as follows:

-) To formulate the share price of Nepal Stock Exchange.
-) To analysis, the brokering services in Nepal Stock Exchange.
-) The role of brokers in price formation in Nepalese stock market.

The main findings of this study were as follows:

In the study, 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.

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

Padam Neupane (2004) had carried-out research study on "*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.

The major findings of this study were as follows:

In his study 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. However, Mr. Neupane missed to analyze the performance of brokers working in NEPSE.

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 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

Research means to search or study about a phenomenon. The word research is composed by 're' and 'search' where re means repeatedly or again and again, and search means to investigate or find. Thus to search again and again is research. Generally, research is an effort to search new fact, knowledge, and principle in scientific manner. Any systematic research study requires a proper methodology to achieve the set objectives. Research is a careful investigation or inquiry into any subject matter, which is an attempt to discover to find out proposed information or relationship that would be useful for further application. Research methodology is a systematic way of finding solution to a research problem i.e. systematic collection, recollection, recording, analysis, interpretation, and reporting of information. 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 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, 30 persons are to be taken as sample.

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 2002/03 to 2006/07 i.e. 2059/060 to 2063/064.

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 has been collected from annual report published by NEPSE, authorized website of NEPSE (www.nepalstock.com.np) and annual report of SEBON and its authorized website (www.sebonp.com) for data collection process.

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 Population & Sample

The population for this study comprises all the investors and brokers of NEPSE. Till now, 24 brokers are registered in NEPSE. Only 30 investors and 15 brokers are taken as samples. The number of selected sample and respondent brokers and investors under the study are as follows:

Table 3.1

Number of Sample and Respondent Brokers and Investors

S.N.	Name of Securities Businessperson	Sample	Response
1.	Brokers	15	12
2.	Investors	30	25

3.6 Analytical Tools

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

3.7 Statistical Tools

3.7.1 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.

3.7.2 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:

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

3.7.3 Pie Charts, Bar Graphs, and Line Graphs

Different pie charts, bar graphs and line graphs has been used to analyze the data. These pie charts are used to show parts of a whole and t represent these at

a set point in time. For pie charts, given data are shown as a percentage. Bar graphs are used to show how something has changed over the years. They are used to compare things by showing their differences and similarities. Line graphs are used to show how something changes over time. In other words, they used to show trends.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is the main body of the study. 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 30 questionnaires were distributed to investors and 15 questionnaires to the brokers. Among them 25 and 12 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. Twenty-four investors responded this question. They have different involving years. The highest involving year is 13 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 5.33 years. The table below shows the data from 24 investors about the number of year involvement of investors in securities investing activities:

Table 4.1

Number of Year Involvement of Investors in Securities Investing Activities

S.N.	Response	No. of Respondent	Percentage
(a)	Two years	0	0
(b)	Five years	2	8.33
(c)	Ten years	4	16.67
(d)	Others	18	75
	Total	24	100

Source: Field Survey, 2008

The above table shows that from the acquired data 75% investors choose other category whereas two years, five years and ten years category are 0, 8.33% & 16.67% respectively.

) Purpose of Securities Investment

The second questioned 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 25 responded giving the answer of this question. Table 4.2, shows the specific purpose of investor's investing in securities.

Table 4.2

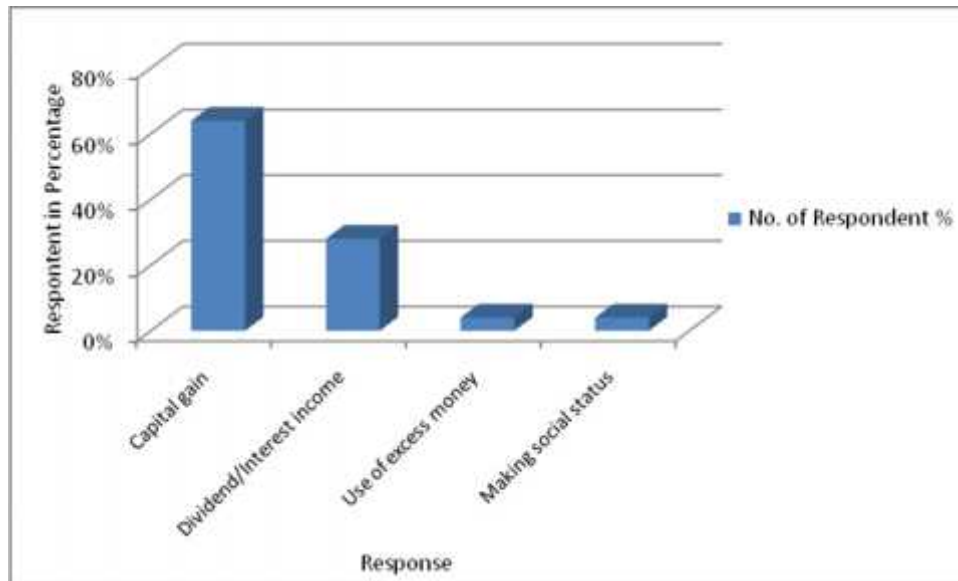
Purpose of Securities Investment

S.N.	Response	No. of Respondent	Percentage
(a)	Capital gain	16	64
(b)	Dividend/Interest income	7	28
(c)	Use of excess money	1	4
(d)	Making social status	1	4
	Total	25	100

Source: Field Survey, 2008

The table shows that among 25 respondents 16, 7, 1 & 1 respondent investors have stated capital gain, dividend / interest, use of excess money and making social status as purposes of making investment in securities. The figure explains this view more clearly.

Figure 4.1
Purpose of Securities Investment



The above figure shows that from the acquired data majority of the investors, 64% prefer to capital gain whereas the use of excess money and making social status through investing securities show low priority i.e. 4% each. However, 28% investors prefer to dividend/interest income.

) 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, 24 have given the answer of this question. From the acquired data, it was known that the highest score of 35-copnpanies' securities in their investment portfolio. However, in an average, 9 companies' securities have been owned by each investor. The following table shows the data acquired from 24 investors about the number of companies in the investment portfolio:

Table 4.3
Number of Companies in the Investment Portfolio

S.N.	Response	No. of Respondent	Percentage
(a)	Five	2	8.33
(b)	Ten	4	16.67
(c)	Fifteen	5	20.83
(d)	Others	13	54.17
	Total	24	100

Source: Field Survey, 2008

J 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. Twenty-four investors responded this question. Table 4.4, shows the source of advice to reach to buy/sell decisions of securities.

Table 4.4
Source of Advice/Information for Buy/Sell Decision

S.N.	Response	No. of Respondent	Percentage
(a)	Brokers' advice	0	0
(b)	Fundamental & technical analysis	13	54.17
(c)	Market trend	11	45.83
(d)	Others	0	0
	Total	24	100

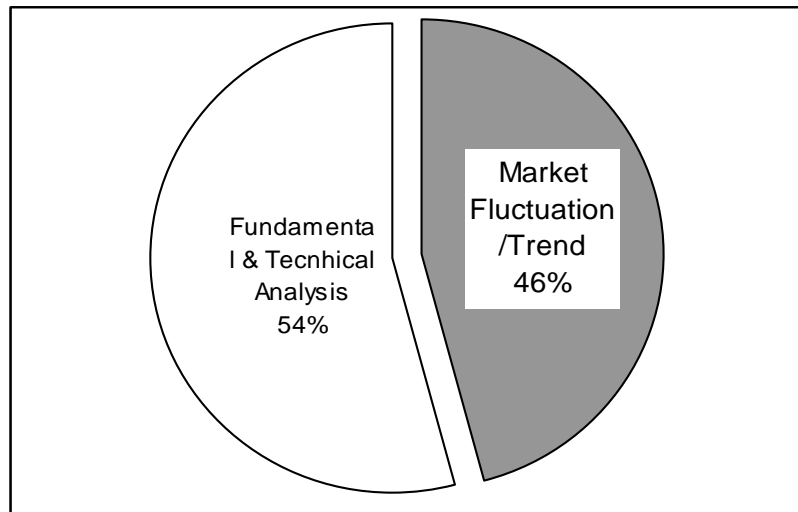
Source: Field Survey, 2008

The table 4.4 shows that among 24 investors, 13 investors followed fundamental and technical analysis of the companies and 11 investors followed market fluctuation/trend to reach the buy/sell decisions but it was found that no one followed the brokers' advice to take the buy/sell decisions of the securities.

We can express the acquired data in the following figure:

Figure 4.2

Source of Advice/Information for Buy/Sell Decision



This figure shows that from the acquired data 54.17% and 45.83% investors reached to securities buy/sell decision with the help of fundamental and technical analysis of the companies and market fluctuation/trend of the securities market respectively. But with the help of brokers' advice and others, no investor reached to buy/sell decision of securities.

) Investment Sectors

The fifth question was asked to know the preferable sector for investment of the investors. All of 25-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. The following table shows the data received from 25 investors about the preference of investment sector:

Table 4.5
Preference for Investment Sector

S.N.	Response	No. of Respondent	Percentage
(a)	Banking	25	100
(b)	Trading	0	0
(c)	Manufacturing & Processing	0	0
(d)	Others	0	0
	Total	25	100

Source: Field Survey, 2008

J 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, 25-investors have responded. Table 4.6 shows the investors receiving service from broker.

Table 4.6
Investors Receiving Services from Broker

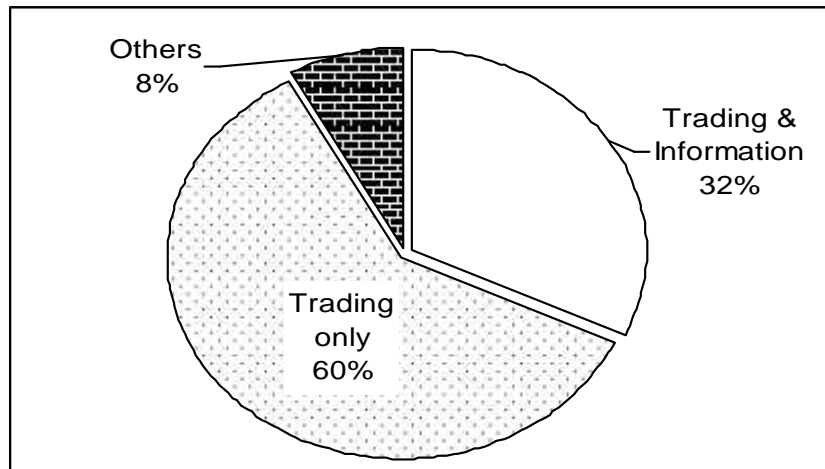
S.N.	Response	No. of Respondent	Percentage
(a)	Trading only	15	60
(b)	Trading & information	8	32
(c)	Information only	0	0
(d)	Others	2	8
	Total	25	100

Source: Field Survey, 2008

Above table shows that among 25 investors 15, 8, 0 & 2 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. The following figure explains this view more clearly:

Figure 4.3

Investors Receiving Services from Broker



The above figure explains that among 25 investors, most of the investors are receiving securities trading service only from the broker, which is 60%. 32% of investors are receiving both trading and information services with brokers whereas 8% of investors are receiving others services like discounting etc. There is no mechanism to receive only ready-made flow of information from the 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. 25 investors have given their views in this query. The following table shows the data acquired from 25 investors about the performance of the brokering services of NEPSE.

Table 4.7

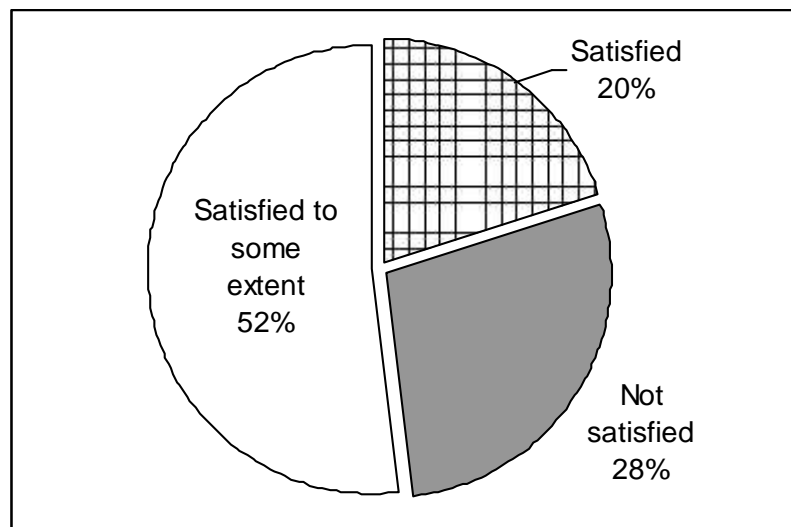
Performance of the Brokering Services of NEPSE

S.N.	Response	No. of Respondent	Percentage
(a)	Satisfied	5	20
(b)	Not satisfied	7	28
(c)	Satisfied to some extent	13	52
(d)	Others	0	0
	Total	25	100

Source: Field Survey, 2008

This table shows that from the acquired data, it was found that 5 are satisfied, 7 are not satisfied whereas 13 investors are satisfied only to some extent. Here, the majority of the responded i.e. 52% were only satisfied to some extent. We can show the acquired data in the following pie chart also:

Figure 4.4
Performance of the Brokering Services of NEPSE



From the following figure, 28% and 20% of investors are very dissatisfied and fully satisfied respectively with performance of the brokering services of NEPSE whereas 52% investors are satisfied to some extent.

) 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). 25 investors have given their answer to this question. We can show the acquired data in the following table:

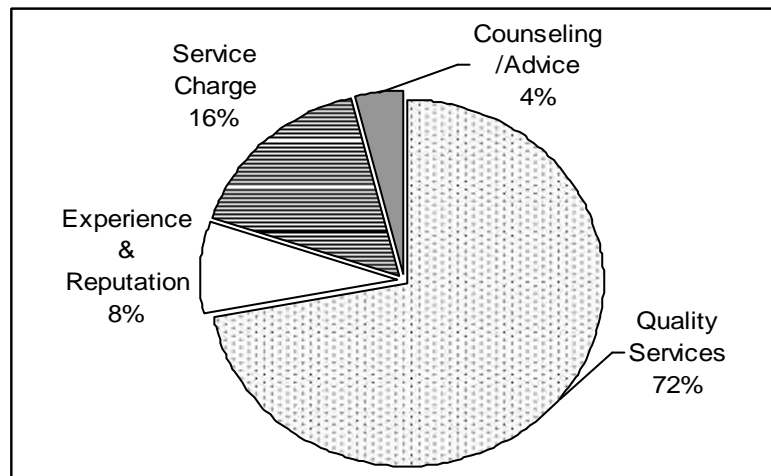
Table 4.8
Factors Considering to select the Brokering Services

S.N.	Response	No. of Respondent	Percentage
(a)	Service charge	4	16
(b)	Counseling/advice	1	4
(c)	Quality of services	18	72
(d)	Experience & reputation of broker	2	8
	Total	25	100

Source: Field Survey, 2008

The table shows that among 25 respondents, 18, 4, 2 & 1 respondents have given the priority to quality of services of the brokers, services charge, experience & reputation and counseling/advice respectively. The following figure explains this data more clearly:

Figure 4.5
Factors Considering to select the Brokering Services



The figure shows that the majority of the respondents i.e. 72% of respondent investors have given the first priority to the quality services of the brokers/ brokerage firms while appointing them. Similarly, service charge, experience & reputation, and counseling / advice have 16%, 8% and 4% votes respectively.

) 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. 25 investors responded this query. The following table shows the acquired data from 25 investors to know the flow of information from listed companies:

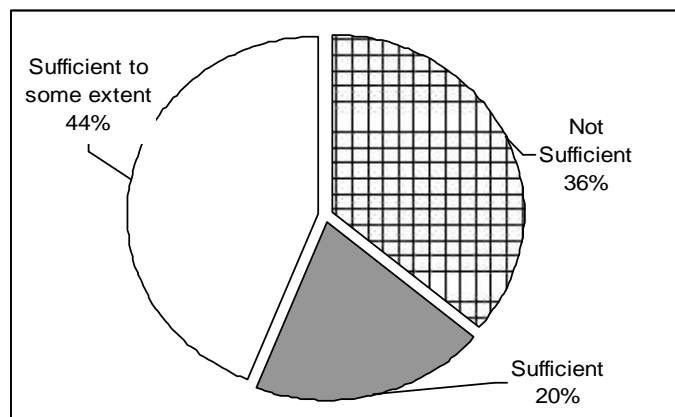
Table 4.9
Flow of Information from Listed Companies

S.N.	Response	No. of Respondent	Percentage
(a)	Sufficient	5	20
(b)	Not sufficient	9	36
(c)	Sufficient to some extent	11	44
	Total	25	100

Source: Field Survey, 2008

Among the 25 investors, 11 persons were believed that the listed companies are providing the information about them to some extent, which is 44% having highest weight among the alternative. Similarly, 9 (36%) of the respondents believe that they are not providing sufficient information. Five, 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 heir performance and future planning. The figure explains this acquired data more clearly:

Figure 4.6
Flow of Information from Listed Companies

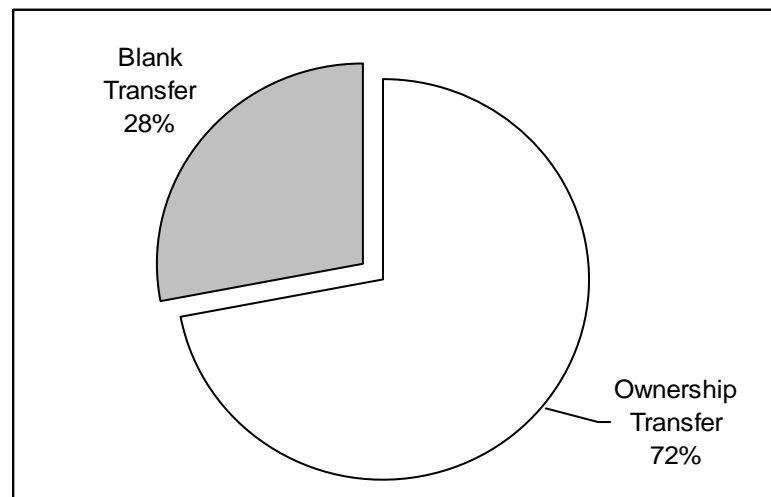


) **Preference of Share Transfer Method of Investors**

The tenth question was asked to investors to know the attitude of their share transfer methods. Blank transfer and ownership transfer were put for choice, 25 investors responded this query. Among the 25 investors, 18 were in favor of ownership transfer of securities, which is 72% of the total responses. Remaining 28% 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. The following figure shows more clearly about the preference of share transfer method of investor:

Figure 4.7

Preference of Share Transfer Method



The following figure shows that most of responded investors use ownership transfer method for securities and fewer investors use blank transfer for share transfer.

) Adequacy and Reliability of Information Provided by Brokers, Listed Companies and NEPSE 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, 24 investors gave the response. The following table shows the data acquired from investors about the adequacy and reliability of information provided by brokers, listed companies and NEPSE:

Table 4.10

Adequacy and Reliability of Information

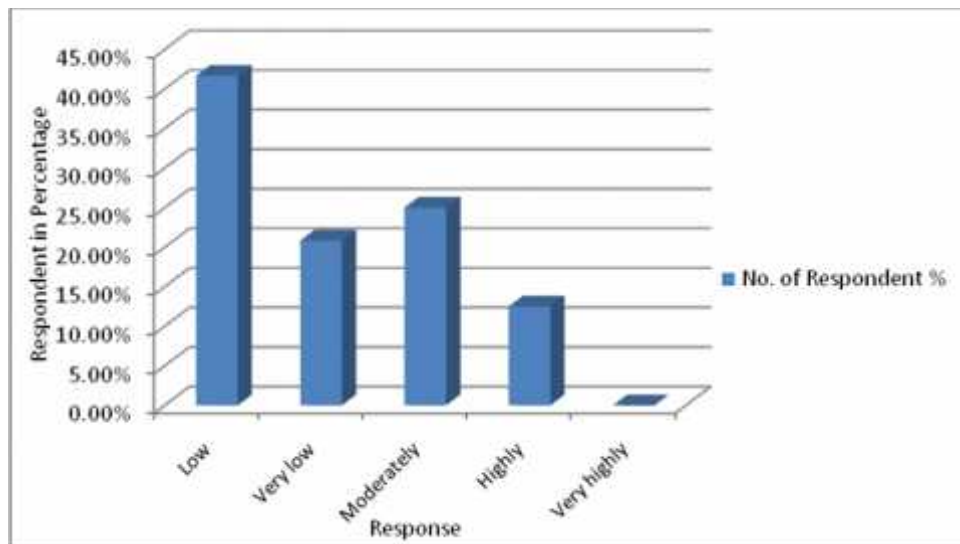
S.N.	Response	No. of Respondent	Percentage
(a)	Low	10	41.67
(b)	Very low	5	20.83
(c)	Moderately	6	25
(d)	Highly	3	12.5
(e)	Very highly	0	0
	Total	24	100

Source: Field Survey, 2008

Above table, shows that among 24 responded investors, majority of the respondents i.e. 10 (41.67%) believed that they are getting low level of adequate and reliable information. The moderately, very low, highly and very highly reliable and adequate information that the investors are receiving from brokers and official of NEPSE are 6 (25%), 5 (20.83%), 3 (12.50%), 0 (0%) respectively. We can show the acquired data in the pie chart more clearly:

Figure 4.8

Adequacy and Reliability of Information



) 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. In this question, 25 investors gave the response. The table below shows the data from 25 investors about the mutual trading as stock market disorder:

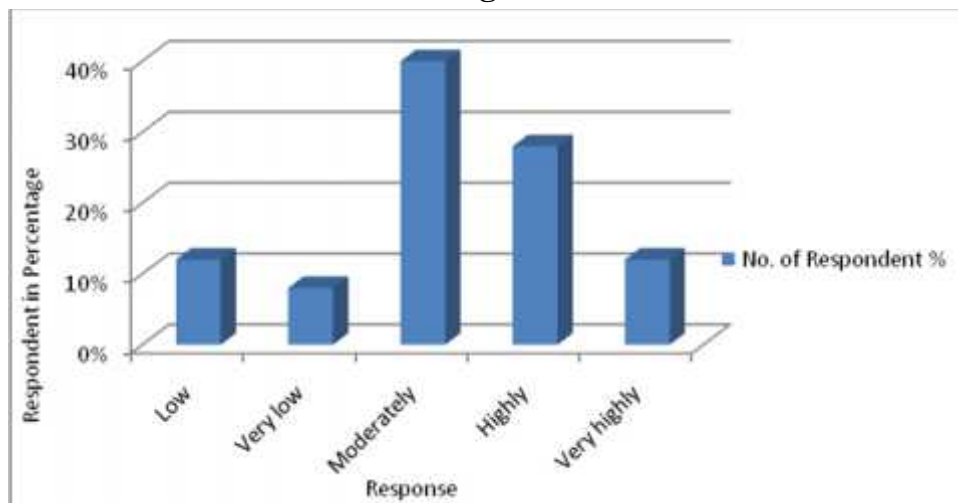
Table 4.11
Mutual Trading as Stock Market Disorder

S.N.	Response	No. of Respondent	Percentage
(a)	Low	3	12
(b)	Very low	2	8
(c)	Moderately	10	40
(d)	Highly	7	28
(e)	Very highly	3	12
	Total	25	100

Source: Field Survey, 2008

From the acquired data, above table shows that among 25 respondents, 10, 7, 3, 3 & 2 respondents have given the priority to moderately, highly, very highly, low and very low respectively. The following bar diagram explains this view more clearly:

Figure 4.9
Mutual Trading as Stock Market Disorder



This figure shows that majority of the respondents i.e. 10 (40%) respondents believed that the mutual trading distorted the securities market moderately. Whereas 7 (28%), 3(12%),3(12%) and 2(8%) investors believed highly, very

highly, low and very low level of market disorder due to the mutual trading activities.

J Satisfaction of Investors with the Profit Earned from own Investment Decision

The thirteenth question was asked to the investors to know their view about the profit earned from their own investment decision. Twenty- two investors gave their views in this question. The following table shows the data acquired from the investors about the satisfaction with the profit earned from own investment decision:

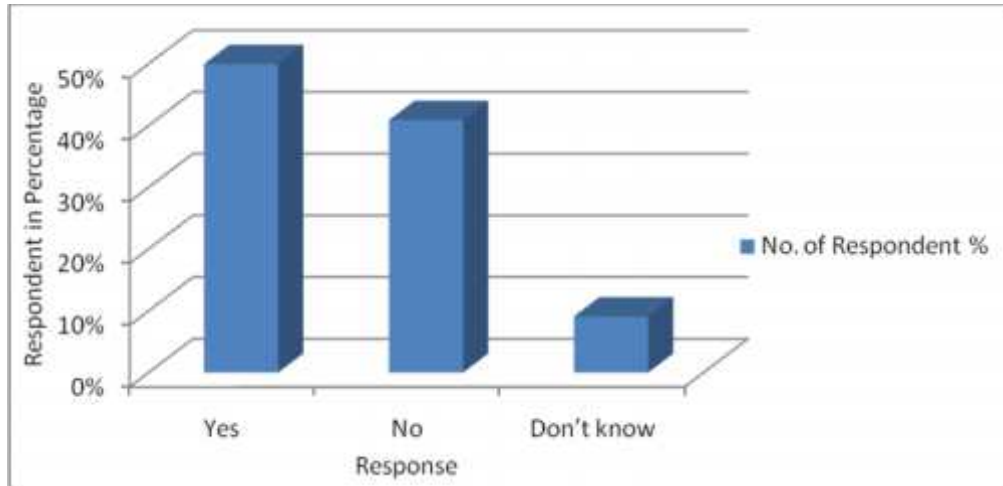
Table 4.12
Satisfaction of Investors with the Profit Earned from Own Investment Decision

S.N.	Response	No. of Respondent	Percentage
(a)	Yes	11	50
(b)	No	9	40.90
(c)	Don't know	2	9.10
	Total	22	100

Source: Field Survey, 2008

The above table shows that among 22 respondents, most of respondents are satisfied with the profit from own investment decision. From the acquired data, 11, 9, 2 investors are satisfied, not satisfied and do not know about the profit earned from own investment decision. The following figure shows more clearly:

Figure 4.10
Satisfaction of Investors with the Profit Earned from Own Investment Decision



The above figure shows that 50% of total investors are satisfied with their profit from investment decision whereas 40.90% are not satisfied and 9.10% are unknown about it.

) **Basis of Decision to Invest in Shares in the Secondary Market**

The fourteenth question was asked to the investors to know the basis of decision to invest in shares in the secondary market. Five basis of decision-market index, company's profit, market price, advice of friends and others were set in the questionnaire. All of the 25 respondents gave the answer of this question. The following table shows the data acquired from the investors about the basis of making decision to invest in shares in the secondary market:

Table 4.13

Basis of Decision to Invest in Share in the Secondary Market

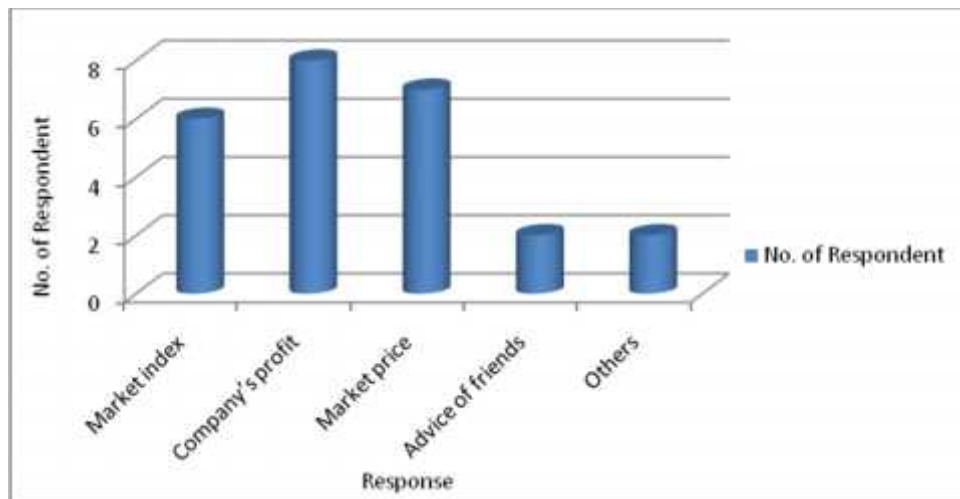
S.N.	Response	No. of Respondent	Percentage
(a)	Market index	6	24
(b)	Company's profit	8	32
(c)	Market price	7	28
(d)	Advice of friends	2	8
(e)	Others	2	8
	Total	25	100

Source: Field Survey, 2008

The table shows that among 25 respondents, 8, 7, 6, 2 & 2 respondents have given the priority to company's profit, market price of share, market index, advice of friends and others respectively. The following figure may clarify the acquired data more clearly:

Figure 4.11

Basis of Decision to Invest in Share in the Secondary Market



The above figure shows that there is little bit difference among priority given to market price, company's profit and market index. Moreover, the view about advice of friends and others are same. Here 32% investors prefer to company's profit, 28% investors prefer to market price, 24% investors prefer to market index whereas investors preferred to advice of friends and others are 8% each.

) Satisfaction of Investors with the 'NEPSE Automated Trading System(NATS)' followed by NEPSE

This is the last and the fifteenth question asked to the investors to know their views about the 'NEPSE Automated Trading System (NATS)' followed by the

NEPSE. In this question, three options were put to choose i.e. satisfied, not satisfied and satisfied to some extent. Twenty-five investors have given their views in this question. The following table shows the acquired data from the investors about the satisfaction with the NEPSE automated trading system followed by NEPSE:

Table 4.14

Satisfaction of Investors with the NATS followed by NEPSE

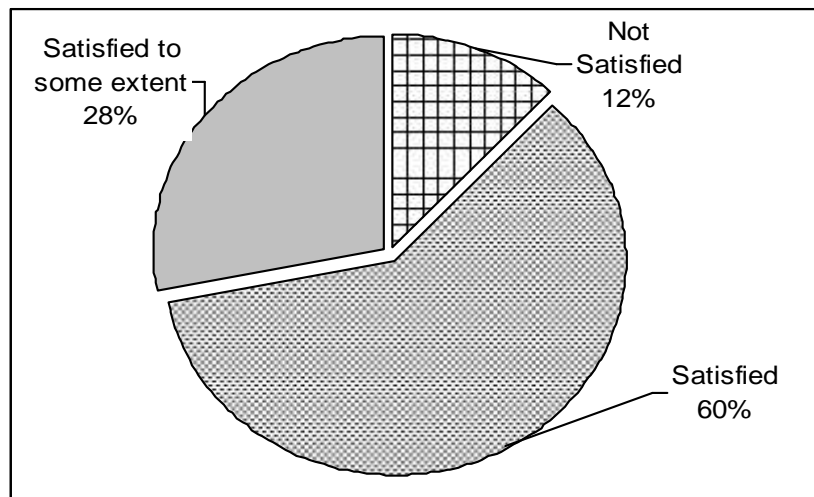
S.N.	Response	No. of Respondent	Percentage
(a)	Satisfied	15	60
(b)	Not satisfied	3	12
(c)	Satisfied to some extent	7	28
	Total	25	100

Source: Field Survey, 2008

From the acquired data, the above table shows that among 25 investors, majority of the investors i.e. 15 investors are satisfied with the NEPSE automated trading system whereas three and seven investors are not satisfied and satisfied to some extent respectively. The following figure also clarifies the acquired data:

Figure 4.12

Satisfaction of Investors with the NATS followed by NEPSE



The above figure shows that minor portion of the investors i.e. 3(12%) are not satisfied with the system. But 15(60%) of investors are satisfied with the system followed by the NEPSE. However, 7 (28%) of investors are neutral and satisfied to some extent.

4.1.2 Data Acquired from Brokers

J Year of Involvement/Experience in Securities Broking Services of Brokers/Brokerage 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 8 years and more than 8 years. Twelve brokers have given the answer of this particular question. The table below shows the data from 12 brokers about the duration they have been involved in the securities brokering services:

Table 4.15

Year of Involvement in Securities Brokering Services

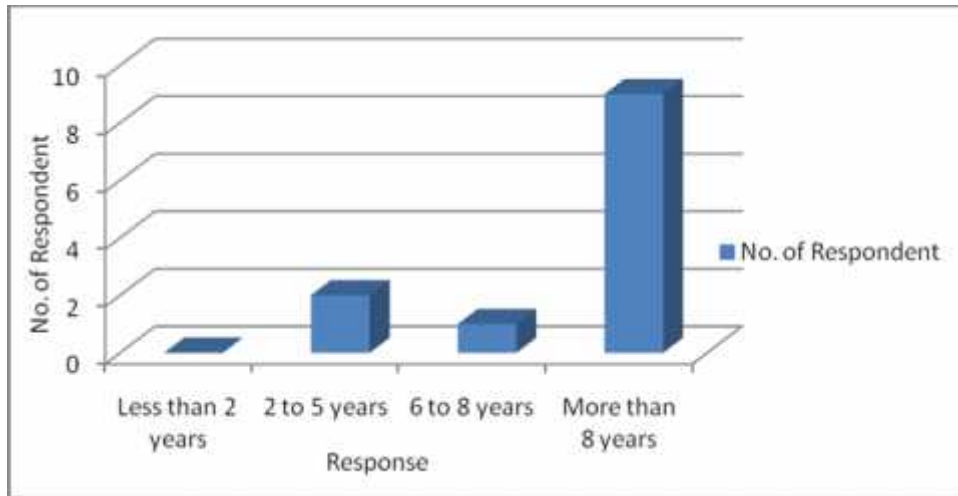
S.N.	Response	No. of Respondent	Percentage
(a)	Less than 2 years	0	0
(b)	2 to 5 years	2	17
(c)	6 to 8 years	1	8
(d)	More than 8 years	9	75
	Total	12	100

Source: Field Survey, 2008

From the acquired data, the above table shows that number of broker was found less than 2 years of experience in their profession. Most of the brokers are experience more than 8 years which is 9 brokers of the total surveyed brokers whereas only one broker is experience 6 to 8 years. The below figure shows this data more clearly:

Figure 4.13

Year of Involvement in Securities Brokering Services



The above figure shows that majority of the brokers are experienced more than 8 years which is 75% of total surveyed brokers. Similarly, 2 to 5 years and 6 to 8 years experienced brokers are 17% and 8% respectively whereas none of the brokers is less than 2 years experienced.

) Number of Regular Clients the Broker Serving

The second questions of this set of questionnaires were asked to the Brokers to find-out the number of clients they are serving currently. In this question, four options were put to choose. They were 1 to 5 times, 6 to 10 times, 11 to 20 times & more than 20 times. Among the 15 respondent brokers, only 12 brokers have given the answer of this question the table below shows the data from the brokers about the number of regular clients they serving:

Table 4.16

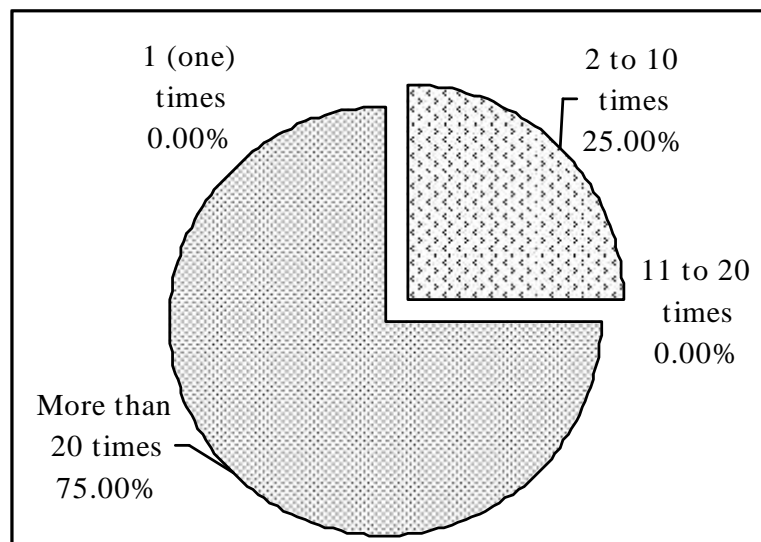
No. of Regular Clients the Broker Serving

S.N.	Response	No. of Respondent	Percentage
(a)	1 to 5	0	0
(b)	6 to 10	3	25
(c)	11 to 20	0	0
(d)	More than 20	9	75
	Total	12	100

Source: Field Survey, 2008

The table shows that among 12 respondents, most of the brokers are serving more than 20 clients. Whereas no brokers are serving 1 to 5 clients and 11 to 20 clients. In an average, each broker is serving approximate 206 nos. of regular clients. The following figure explains this data more clearly:

Figure 4.14
No. of Regular Clients the Broker Serving



Here the figure shows that the majority of the respondents are serving more than 20 clients and rest of the brokers are serving 6 to 10 clients. Here, no brokers are serving 1 to 5 clients and 11 to 20 clients. 75%, 25%, 0 and 0 brokers are serving more than 20 clients, 6 to 10 clients, 1 to 5 clients and 11 to 20 clients respectively.

) **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 12 responded claimed that they are providing both trading & information services. The following table shows the data from 12 respondent brokers about their services to their customers/clients:

Table 4.17
Brokers Providing Services

S.N.	Response	No. of Respondent	Percentage
(a)	Trading only	0	0
(b)	Trading and Information	12	100
(c)	Information only	0	0
(d)	Others	0	0
	Total	12	100

Source: Field Survey, 2008

J) **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. Five options were put to choose among the brokers. Among the responded brokers, 12 brokers gave the answer of this question. The following table shows the data acquired from the brokers about the tools and techniques they are using to analyze the securities and to advice the investors:

Table 4.18
Tools & Techniques used by Brokers to Analyze Securities

S.N.	Response	No. of Respondent	Percentage
(a)	Market trend	2	17
(b)	Fundamental analysis of the companies	6	50
(c)	Securities valuation	1	8
(d)	All of the above	1	8
(e)	None of the above	2	1
	Total	12	100

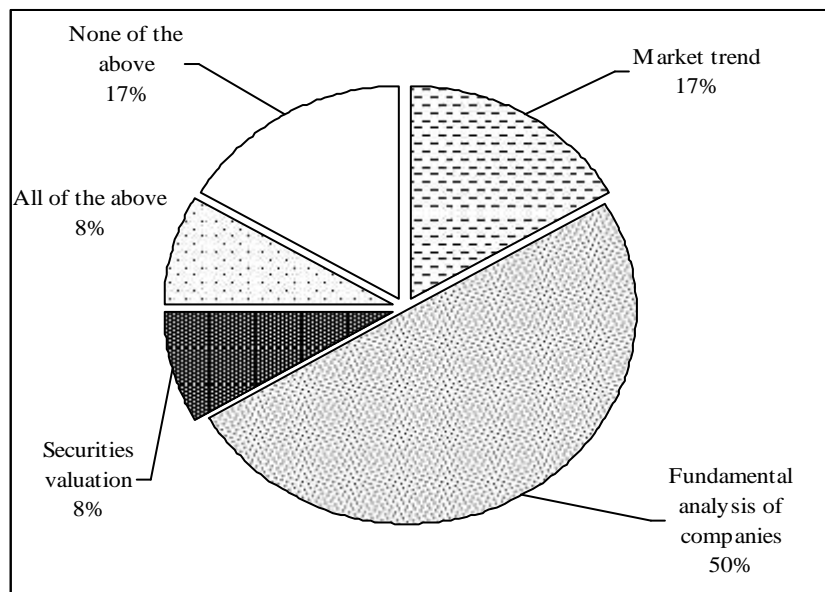
Source: Field Survey, 2008

From the acquired data, the above table shows that among 12 responded brokers, 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. But 2 of them use none of the techniques mentioned in the

questionnaires. They also do not disclose the technique they have been following. However, 6 responded i.e. 50% of brokers are using fundamental analysis of the companies as source of information and on the basis of that they suggest to their clients to buy and sell securities. We can see the acquired data in the following figure also for more clarification:

Figure 4.15

Tools & Techniques used by Brokers to Analyze Securities



The figure shows that majority of the brokers i.e. 50% of responded brokers are using fundamental analysis of companies whereas 17% and 8% of responded brokers are using market trend and securities valuation respectively. But 17% brokers are not using the above tools and techniques whereas 8% brokers are using all tools and techniques mentioned in the above for securities analysis.

) 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 3 categories- regular, irregular and occasionally. All of 12 respondent brokers gave the answer of this question. The following table

shows the data received from the responded brokers about the frequency of transaction order received from regular clients:

Table 4.19

Frequency of Transaction Order Received from Regular Clients

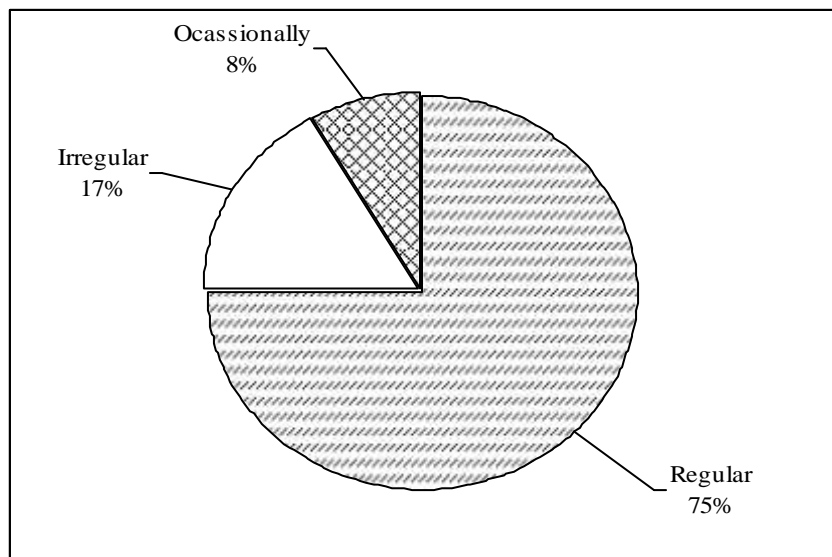
S.N.	Response	No. of Respondent	Percentage
(a)	Regular	9	75
(b)	Irregular	2	17
(c)	Occasionally	1	8
	Total	12	100

Source: Field Survey, 2008

The table shows that from the received data from 12 brokers, most of the brokers i.e. 9 brokers receive regular frequency of order from their regular clients in a year whereas two brokers receive irregular frequency of order. Only one broker receives occasionally frequency of order. We can explain this view more clearly in the following figure:

Figure 4.16

Frequency of Transaction Order Received from Regular Clients



The figure above shows that among 12 respondent brokers, 9 (75%) brokers are receiving regular frequency of transaction order where 2 (17%) and 1 (8%)

brokers are receiving irregular and occasionally frequency of transaction respectively.

) 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. Twelve brokers have given the answer of this question. From the acquired data, it was found that all 12 (100%) brokers collect the annual reports of the listed companies. The table below shows the data received from 12 respondent brokers about the habit of the brokers either they collect the annual reports of the listed companies or not:

Table 4.20
Information Collection Habit of the Brokers

S.N.	Response	No. of Respondent	Percentage
(a)	Yes	12	100
(b)	No	0	0
	Total	12	100

Source: Field Survey, 2008

) Size of Order Received from the Investors

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 low, very low, moderately, highly and very highly. Ten brokers gave the answer of this question. The table below shows the data acquired from 10 brokers about the size of order received from the investors:

Table 4.21
Size of Order Received from the Investors

S.N.	Response	No. of Respondent	Percentage
(a)	Low	2	20
(b)	Very low	1	10
(c)	Moderately	6	60

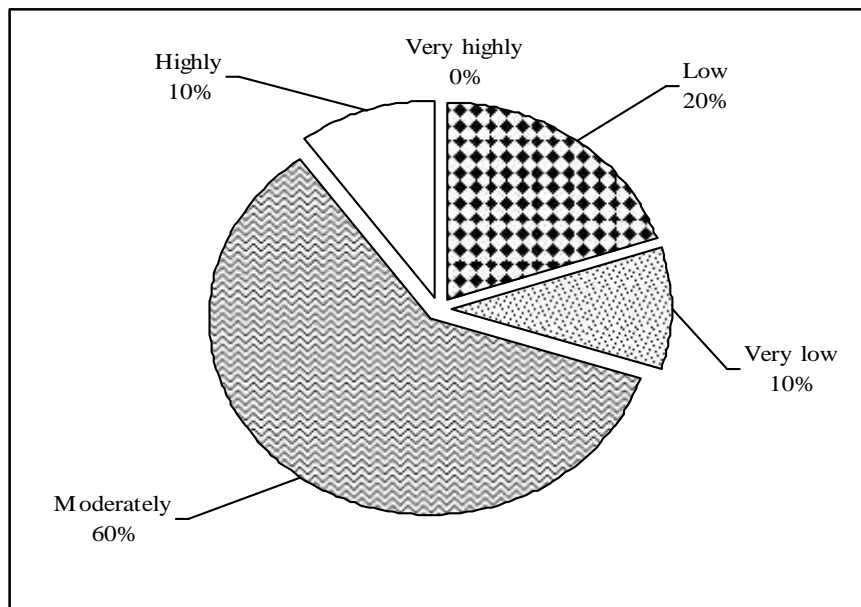
(d)	Highly	1	10
(e)	Very highly	0	0
	Total	10	100

Source: Field Survey, 2008

The above table shows that most of the brokers receive moderate order size from the investors. Whereas no broker receives very highly order size from the investors. Brokers 2, 1, 6, 1 and 0 receive low, very low, moderately, highly and very highly size of order from the investors respectively. We can plot the acquired data in the following figure also:

Figure 4.17

Size of Order Received from the Investors



The above figure shows that among 10 responded brokers, 60% brokers receive moderately order size, 20% brokers receive low order size. Similarly very low and highly order size is received by 10% of the total survey brokers each. But no broker receives very highly order size.

) **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. Twelve brokers have given the answer of this question. The below table shows, the data received from the responded

brokers about the data base system to maintain the record of information and data:

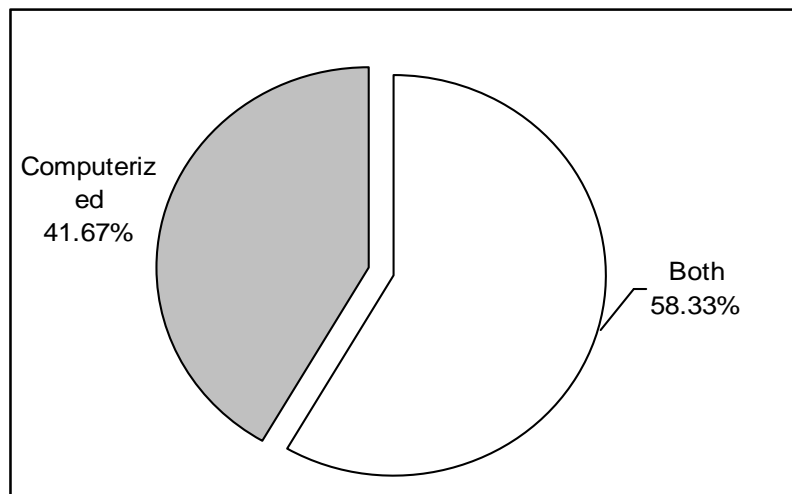
Table 4.22
Data Base System of Brokers

S.N.	Response	No. of Respondent	Percentage
(a)	Computerized system	5	41.67
(b)	Manual system	0	0
(c)	Both	7	58.33
	Total	12	100

Source: Field Survey, 2008

The table shows that among 12 respondents, most of the brokers set up both computerized and manual system whereas 5 brokers have only computerized system. From the study it was found that, no brokers follow manual system to keep the record currently. The following figure explains the data more clearly:

Figure 4.18
Data Base System of Brokers



The above figure explains that most of the brokers follow both system i.e. manual and computerized system. Minor brokers use computerized system. Here 58.33%, 41.67% and 0 brokers/brokerage firms set up both system, computerized system and manual system respectively.

J Consideration in Service Charge

Another question was asked to know whether the brokers gave the discount in their services charge. Two options yes or no were put for choice. Among the responded brokers, 12 brokers gave the answer of this question. It was found that 9 (75%) do not give the discount whereas 3 (25%) give the discount to their customers in service charge, it was found from the acquired data. The following table shows the data received from 12 respondent brokers about the discount in their service charge:

Table 4.23
Consideration in Service Charge

S.N.	Response	No. of Respondent	Percentage
(a)	Yes	3	25
(b)	No	9	75
	Total	12	100

Source: Field Survey, 2008

J Brokers' Presence in Trading Floor

The eleventh question was asked to the brokers to know whether they themselves present in the trading floor to transact securities. In this question they were asked how they execute the transaction; with the help of their representatives or by themselves. All 12 responded brokers have given the answer of this question. The following table shows the received data from twelve brokers about their presence in trading floor:

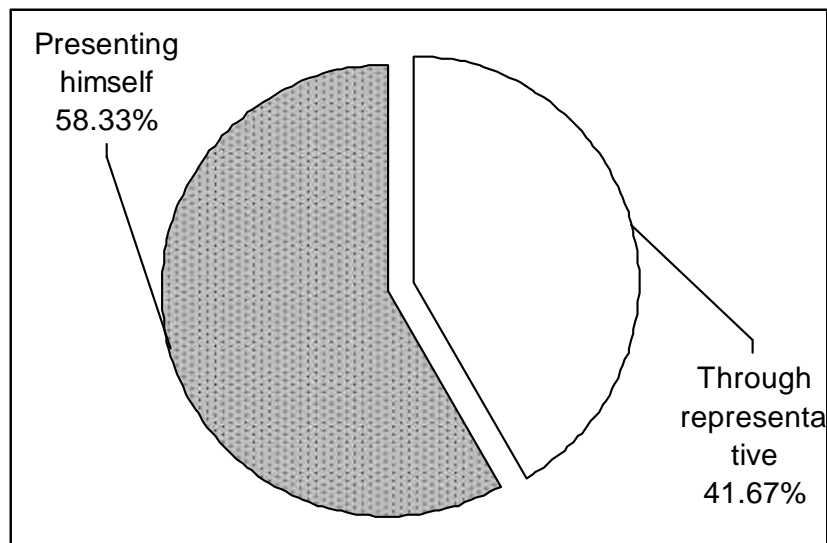
Table 4.24
Brokers Presence in Trading Floor

S.N.	Response	No. of Respondent	Percentage
(a)	Presenting yourself	7	58.33
(b)	Through representative	5	41.67
	Total	12	100

Source: Field Survey, 2008

The table states that among twelve responded brokers, more than 50% brokers i.e. 7 brokers present themselves in the trading floor to transact securities. 5 brokers send representative in trading floor. The following figure shows this view clearly:

Figure 4.19
Brokers Presence in Trading Floor



The above figure states that among 12 responded brokers, one broker was found to be present himself and send sometimes representative in trading floor. From the acquired data, it was found that 58.33% and 41.67% brokers execute the securities transaction presenting themselves and through representative respectively.

) Home Service Facilities of Brokers

The next question was asked to the brokers to know whether they have home service facilities to the customer. Yes or no two options were put for choice. Twelve brokers gave the answer of this question. Among then, it was found that 8 (66.67%) responded brokers have not such facilities. But 4 (33.33%) have been providing home services to their customer in case of needed. The table below shows the data received from 12 brokers about the home service facilities provided by the brokers:

Table 4.25

Home Services Facilities of Brokers

S.N.	Response	No. of Respondent	Percentage
(a)	Yes	4	33.33
(b)	No	8	66.67
	Total	12	100

Source: Field Survey, 2008

)] Efficiency of brokerage 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. Two options yes or no were put for choice. Twelve respondent brokers gave the answer to this question. The following table shows the data received from respondents about the efficiency of brokerage services in NEPSE:

Table 4.26

Efficiency of Brokerage Services in NEPSE

S.N.	Response	No. of Respondent	Percentage
(a)	Yes	10	83.33
(b)	No	2	16.67
	Total	12	100

Source: Field Survey, 2008

The above table shows that from the acquired data, among them, 10 (83.33%) said the brokering service is efficient in NEPSE whereas 2(16.67%) are opposed to it.

)] 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. Blank transfer and ownership transfer were put for choice; only 10 brokers gave the answer of this query. The following table shows the data received from responded brokers about the share transferring methods:

Table 4.27

Preferable Method of Transferring Share

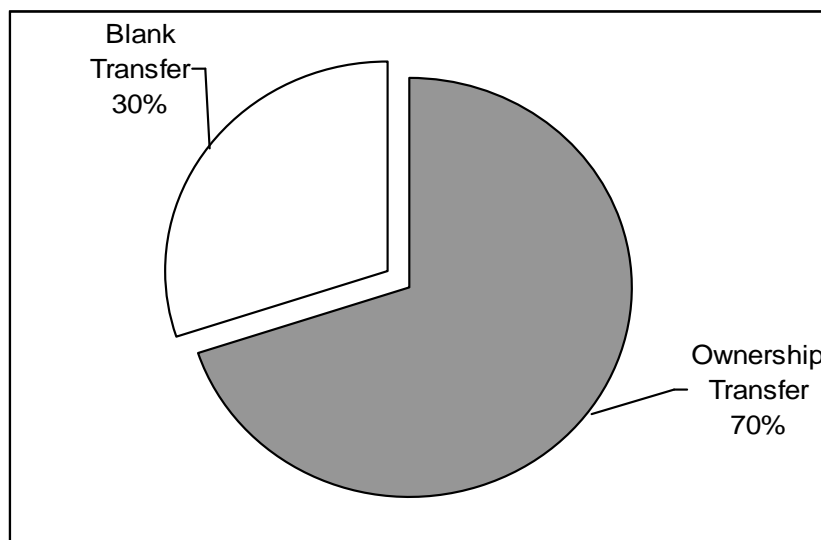
	Response	No. of Respondent	Percentage
(a)	Blank transfer	3	30
(b)	Ownership transfer	7	70
	Total	10	100

Source: Field Survey, 2008

Among them, 7 brokers are in the support of ownership transfer that the investors prefer while buying securities. But another 3 of brokers said that the investor want to blank transfer while buying the securities. The following figure explains this data more clearly:

Figure 4.20

Preferable Method of Transferring Share



The figure mentioned in the above states that majority of the brokers use ownership transfer method while buying the securities. Here 70% and 30% brokers preferred ownership transfer method and blank transfer method for buying securities.

J Satisfaction of Brokers with the Commission Earned from the Customers/Clients

The fourteenth question was asked to the brokers to know their view about the satisfaction of commission earned from their customers. Twelve respondents gave their view in this question. For this question, four options were given to the brokers. They were- satisfied, not satisfied, satisfied to some extent and do

not know. The following table shows the data acquired from the brokers about the commission earned from the customers/clients:

Table 4.28

Satisfaction of Brokers with the Commission Earned from the Customers/Clients

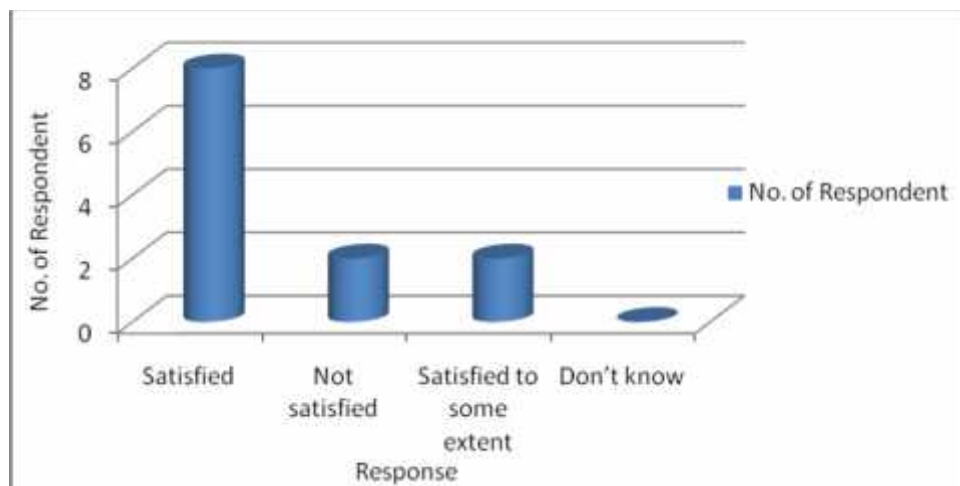
S.N.	Response	No. of Respondent	Percentage
(a)	Satisfied	8	66.67
(b)	Not satisfied	2	16.67
(c)	Satisfied to some extent	2	16.67
(d)	Don't know	0	0
	Total	12	100

Source: Field Survey, 2008

The above table shows that among 12 respondents, most of respondents are satisfied with the commission earned from their customers. From the acquired data, 8, 2, 2 and 0 brokers are satisfied, not satisfied, satisfied to some extent and don't know respectively about the commission earned from their own customers/clients. The following figures shows more clearly:

Figure 4.21

Satisfaction of Brokers with the Commission Earned from the Customers/Clients



The above figure shows that 66.67% of total brokers are satisfied with the commission from the customers/clients whereas 16.67% are not satisfied and

16.67% are satisfied to some extent about it. But no brokers do not know about the commission from their customers.

J Satisfaction of Brokers with the 'NEPSE Automated Trading System(NATS)' followed by NEPSE

The fourteenth question was asked to the brokers to know their views about the 'NEPSE Automated Trading System (NATS)' followed by the NEPSE. In this question, two options were given to choice i.e., satisfied and not satisfied. Twelve brokers have given the answer to this question. The following table shows the received data from the brokers about the satisfaction with the NEPSE automated trading system followed by NEPSE:

Table 4.29

Satisfaction of Brokers with the NEPSE Automated Trading System

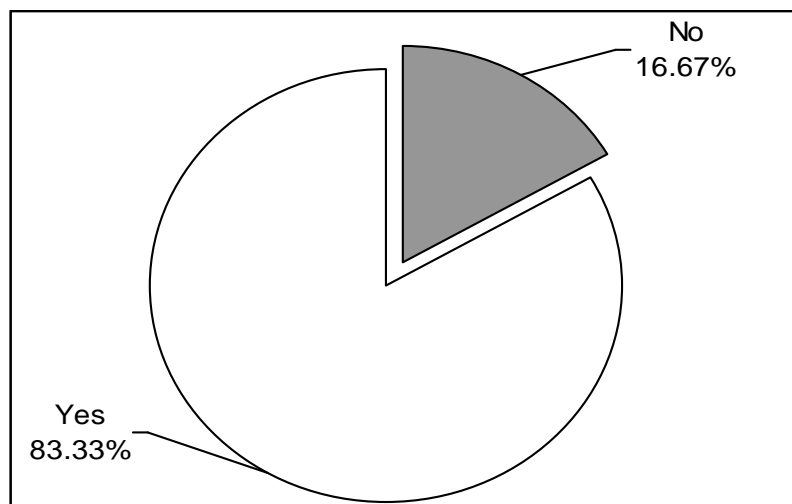
S.N.	Response	No. of Respondent	Percentage
(a)	Satisfied	10	83.33
(b)	Not satisfied	2	16.67
	Total	12	100

Source: Field Survey, 2008

From the received data, the above table shows that among 12 responded brokers, majority of the brokers i.e. 10 brokers are satisfied with the NEPSE automated trading system whereas 2 broker are not satisfied. The following figure also clarifies the received data:

Figure 4.22

Satisfaction of Brokers with the NEPSE Automated Trading System



The above figure shows that minor portion of the brokers are not satisfied with the NEPSE automated trading system followed by NEPSE. Here, 83.33% and 16.67% of the responded brokers are satisfied and not satisfied with the NEPSE automated trading system (NATS) respectively.

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 loudspeaker be installed outside the trading floor within the premises of NEPSE.
-) 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 numbers of members that the Securities Exchange Board of Nepal issued the licenses to act as securities brokers were 32. Presently, according to available data source, is 24 brokers are working in NEPSE. The list of them and the brokering transaction they have made in NEPSE during FY2002/03 to FY 2006/07 are presented in the following table:

Table 4.30**Total Brokers Turnover in NEPSE (FY 2002/03 to FY2006/07)***Transaction Amount (in Million)*

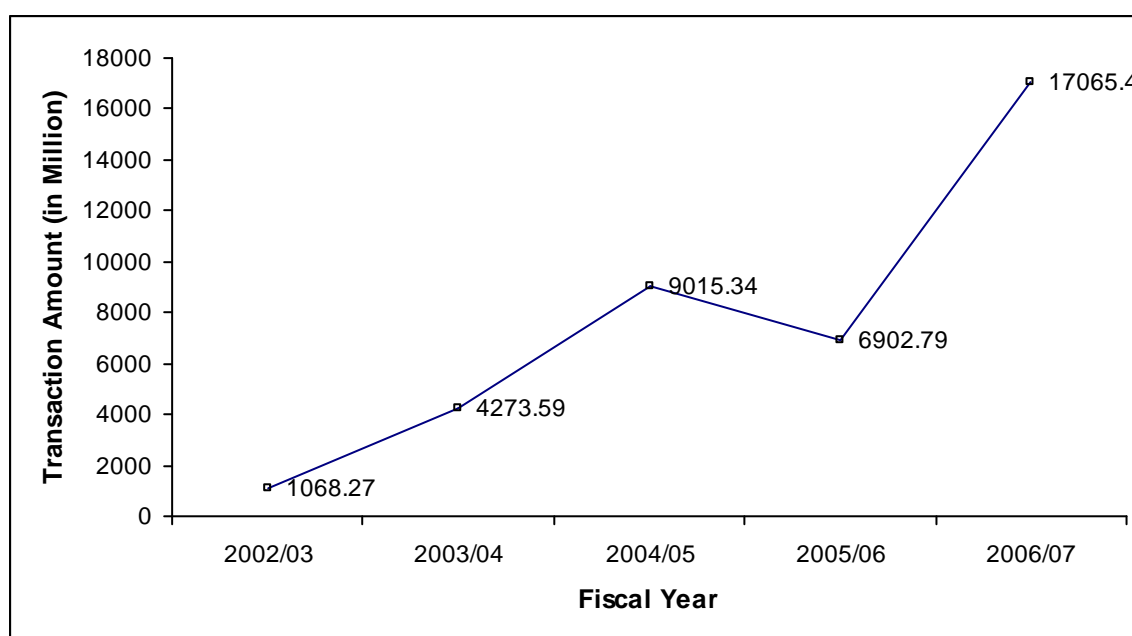
Name of the Licenses Brokers	Code No	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	Total	Rank
Agrawal Securities (Pvt) Ltd.	6	115.42	231.11	3,832.98	705.40	1104.00	5988.91	1 st
Nepal Stock House (Pvt) Ltd.	14	65.2	499.36	949.68	1125.33	1689.50	4329.07	2 nd
J.F. Securities Pvt. Ltd.	7	47.21	2,173.16	279.13	360.89	596.80	3457.19	3 rd
Kumari Securities (Pvt) Ltd.	1	91.04	101.06	336.45	554.82	1689.20	2772.57	4 th
Ashutosh Brokerage & Sec. (Pvt) Ltd.	8	45.05	153.58	687.42	567.37	1278.50	2731.92	5 th
Sweta Securities (Pvt.) Ltd.	25	93.3	125.37	451.05	577.67	1478.50	2725.89	6 th
Nepal Investment & Sec. Trading (Pvt) Ltd.	19	33.59	55.18	736.71	523.71	802.30	2151.49	7 th
Siprabi Securities (Pvt) Ltd.	22	61.91	76.86	484.45	93.08	1061.10	1777.40	8 th
Primo Securities (Pvt) Ltd.	16	120.2	9.1	29.4	272.20	1061.10	1492.00	9 th
Premier Securities Co. Ltd.	32	40.72	95.36	180.59	333.51	830.70	1480.88	10 th
Shree Krishna Securities Ltd.	28	74.05	54.4	146.25	216.66	966.10	1457.46	11 th
Sipla Securities (Pvt) Ltd.	20	41.78	72.88	151.71	158.89	674.90	1100.16	12 th
Annapurna Securities Service (Pvt) Ltd	13	20.57	47.65	61.17	101.89	730.50	961.78	13 th
Arun Securities (Pvt) Ltd	3	46.61	342.65	165.68	181.01	199.20	935.15	14 th
Sagarmatha Securities (Pvt) Ltd.	18	26.51	30.1	90.19	129.44	467.50	743.74	15 th
Opel Securities (Pvt) Ltd.	4	13.77	59.15	66.62	151.93	356.90	648.37	16 th
Asian Securities Co. Ltd.	26	33.46	50.78	106.3	159.40	294.30	644.24	17 th
Pragyan Securities (Pvt) Ltd.	10	10.37	3.32	49.35	61.18	389.70	513.92	18 th
Trisul Securities & Investment Ltd.	29	10.7	15.75	45.17	87.66	345.10	504.38	19 th
Market Securities & Exchange (Pvt) Ltd.	5	26.5	41.62	86	131.14	130.60	415.86	20 rd
Midas Stock Broking Co. (Pvt.) Ltd.	21	17.36	27.42	77.4	88.26	164.40	374.84	21 th
Om Securities & Allied Services (Pvt) Ltd.	12	10.5	0.03			345.10	355.63	22 th
Malla & Malla Stock Broking Co. (Pvt) Ltd.	11	22.38	7.7	1.63	21.34	288.50	341.55	23 th
Khandelwal Stock Broking Co.(Pvt) Ltd.	17	0.01	0	0.01		120.90	120.02	24 th
Total		1068.27	4273.59	9015.34	6902.79	17065.40	38423.62	

Source: Annual Report, FY2002/03 to FY2006/07, SEBON

As shown in above table, NEPSE through its member brokers had made the transaction of securities in FY 2002/03 of the value of Rs. 1068.27 million. The transaction of the NEPSE was increased in the following two fiscal year to Rs. 4273.59 and Rs. 9015.34 in FY 2003/04 and 2004/05 respectively. Than after turnover value of NEPSE has been decreased in FY 2005/06 to Rs. 6902.79 and in FY 2006/07, the transaction of NEPSE has increased to Rs. 17065.40. The trend of brokers' transaction turnover in yearly basis is presented in following chart.

Figure 4.23

Annual Turnover of NEPSE, FY 2002/03 to FY 2006/07



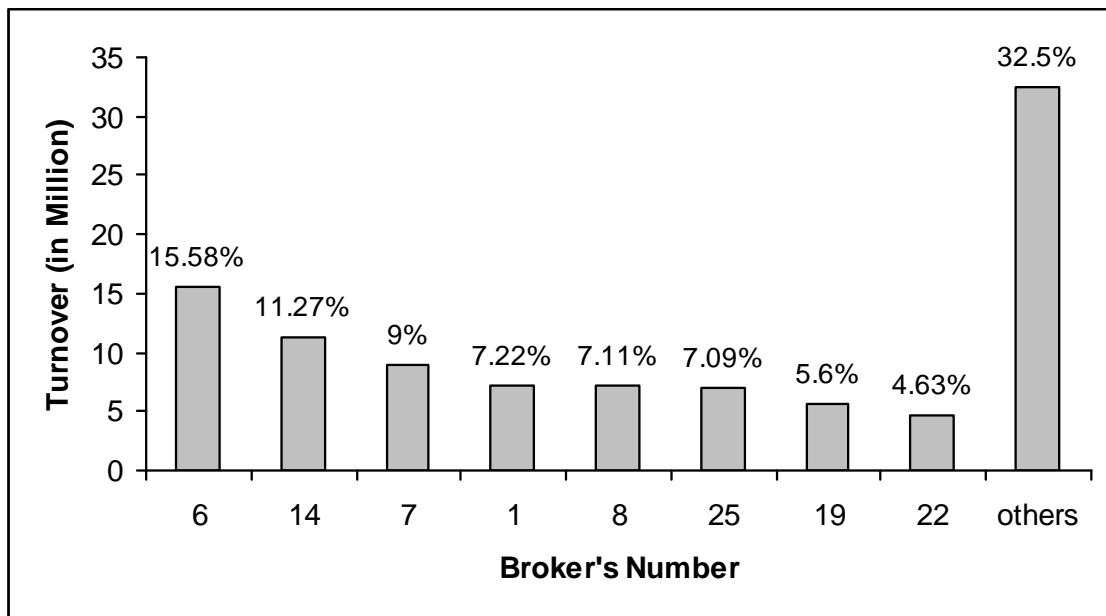
Source: Annual Reports FY 2002/03 to FY 2006/07, SEBON

From the FY 2002/03 to FY 2006/07 last five years 24 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 3.7% of transaction would go to the pie of each broker. Here in the figure eight brokers had done the transaction above the average transaction. Other 16 brokers have the below the average performance. The highest cumulative average turnover 15.60% has been made by the broker Number 6.

11.27%, 9%, 7.22%, 7.11% 7.09%, 5.60% and 4.63% of cumulative average turnover has followed by broker No. 14, 7, 1, 8, 25, 19 and 22 respectively. The remaining 16 brokers had contributed 32.50% of the total transaction in an average during the study period. Broker Number 17 has the poorest performance among the 24 active brokers.

Figure 4.24

Cumulative Average performance of Brokers, FY 2002/03 to FY 2006/07



Source: Annual Reports, FY 2002/03 to FY 2006/07, SEBON

The transaction data of broker during the study period were also analyzed year wise. In fiscal year 2002/03, top-5 best performer did 46.24% transactions of NEPSE. Among them, Broker No. 16 made 11.25% transaction. Broker No. 6, 25, 1 and 28 have followed second, third, fourth and fifth position with 10.80%, 8.73%, 8.52% and 6.93% of NEPSE transaction. Other remaining 19 Brokers have done remaining 53.76% of NEPSE transaction.

Similarly, in fiscal year 2003/04, 79.56% NEPSE turnover was occurred through top 5 performer Brokers. Broker no. 7 was the best performer in this year. It alone did the 50.85% of NEPSE transaction. The second, third, fourth

and fifth highest was followed by Broker No. 14, 3, 6 and 8 with the transaction share of 11.68%, 8.02% 5041% and 3.60% respectively. In this year, remaining 19 Brokers have done only 20.44% of NEPSE turnover.

In next fiscal year 2004/05, 74.22% of NEPSE's transaction was done by 5 best performer Brokers. Broker No. 6 with the 42.52% of turnover remained in first position. The second, third, fourth and fifth position was taken by Broker No. 14, 19, 8 and 22 with the 10.53%, 8.17%, 7.63% and 5.37% of turnover respectively. Remaining 19 brokers have contributed 25.78% in total NEPSE transaction.

Table 4.31
Best Performer Brokers in Chronological Order
Transaction Amount (in Million)

FY2002/03		FY2003/04		FY2004/05		FY2005/06		FY2006/07	
Broker No.	Amount	Broker No.	Amount	Broker No.	Amount	Broker No.	Amount	Broker No.	Amount
16	120.20	7	2173.16	6	3832.98	14	1125.33	14	1689.50
6	115.42	14	499.36	14	949.68	6	705.40	1	1689.20
25	93.3	3	342.65	19	736.71	25	577.67	25	1478.50
1	91.04	6	231.11	8	687.42	8	567.37	8	1278.50
28	74.05	8	153.58	22	484.48	1	554.82	6	1104.00
Others	574.26	Others	873.73	Others	2324.10	Others	3372.20	Others	9825.70
Total	1068.27	Total	4273.59	Total	9015.34	Total	6902.79	Total	17065.40

Source: Annual Reports FY 2002/03 to FY 2006/07, SEBON

Likewise, 79.28% of NEPSE turnover was done through top 5 players in FY 2003/04. Broker No. 7 alone had done 50.67% turnover. Broker No. 14, 3, 6 and 8 were in second, third, fourth and fifth positions with the 11.64%, 7.99%, 5.39% and 3.58% transaction respectively.

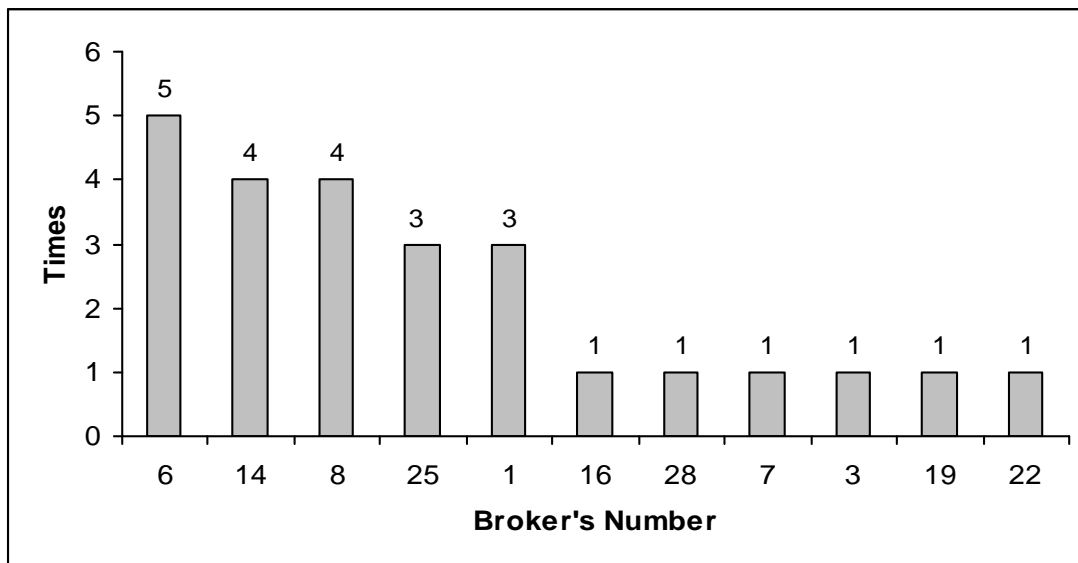
In the last fiscal year of the study period, FY 2004/05, 4 brokerage firms did not do any transaction. Among the 23 active Brokers, top 5 performers have contributed 74.22% of turnover. In this year, Broker No.6 was the best

performer with 42.52% of turnover. 1, 19, 8 and 22 number brokers with 10.53%, 8.17%, 7.63% and 5.37% of turnover share respectively followed the top performance record of this year.

It was found from the available data, 13 brokers were rated top 5 performers during the study periods FY 2000.01 to FY 2004/05. Broker No. 6 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. 14 & 16 for 3 times; 3, 7, 8, and 25 for 2 times; and broker No. 1, 5, 19, 20, 22 & 28 for only once. But remaining 14 brokers did not fare good performance.

Figure 4.25

Broker Performance: Top-5 Leaders, FY 2002/03 to FY 2006/07



Source: Annual Reports, FY 2002/03 to FY 2006/07, SEBO

4.3 Major Findings

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

- J It was found from the available data that investors' involvement year in share investing activities were found to be 5.33 years. It is regarded very short period.
- J The purpose of investment of the investors in securities market were found 64%, 28%, 4% and 4% for capital gain, dividend/interest income, social status and use of excess money respectively.
- J It was known from the acquired data that the highest score of 20 companies' securities in the broker's investment portfolio. However, in an average, 9 companies' securities have been owned by each investor. It is quite reasonable.
- J The data acquired from the survey said that 54.17%, 45.83% investors follow the fundamental & Technical analysis and market fluctuation/trend respectively.
- J 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 60%, 32% and 8% 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.
- J The acquired result of the survey data said that all investors were only interested to invest in the banking and finance sector.
- J 20% investors were satisfied with the brokerage performance of NPSE and 28% were dissatisfied. Whereas 52% 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.
- J The study said that 72% of investors gave first priority to quality of services. The other factors were - service charge, experience and reputation and counseling/advice had 16%, 8% and 4% priority respectively.
- J 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 36% investors have just opposite response. However, 44% companies are found providing information in this regard to some extent.

-) Most of the investors were found preferring ownership transfer while buying the securities. 72% investors want to ownership transfer. Whereas investors' views, in this connection is approximately similar that 70% 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 12.50% and 25% 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 40% of investors believe that the mutual trading has moderate effect in stock market disorder. Likewise, 28% investors said it had greater effect in stock market disorder.
-) Both the investors and brokers are not satisfied with the functioning of NEPSE with the 'NEPSE Automated Trading System (NATS)'. In this connection, 12% investors and 16.67% brokers are very dissatisfied with the system where as 88% investors and 83.33% brokers are satisfied with the system. The huge of part of the stakeholder has supported to this system.
-) The involvement of broker in this profession was found to be more than 8 years. 75% brokers are doing this profession since 8 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.

- J The acquired data said that 75% brokers are serving more than 20 clients. It is quite sizeable number. Whereas, 25% brokers are serving the range of 6 to 10 clients.
- J Most of the brokers receive regular frequency of order from their regular clients, a year, is 75% of total investors. But frequency of order for the 17% of brokers was found to be irregular and 8% brokers are occasionally. This data shows the customers are getting the services from the brokers almost permanently with the same brokers.
- J According to the data acquired from questionnaire survey 60% brokers received the moderately transaction order size and 20% brokers received the low transaction order. It is clear from the data that the size of order is quite sizeable. Only 10% brokers each very low and highly received the order size.
- J All brokers collect annual reports of the listed companies. 58.33 percentage brokers have the computerized data base system and they use manual record of data and information as backup as well for the computerize systems. Whereas 41.65% brokers have only computerized 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.
- J The study result shows that 41.67% of NEPSE turnover is execute through the brokers' representatives. Only 58.33% brokers present in the trading floor 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.
- J The study said that most of the investors are satisfied with the profit earned from their own investment decision. But 40.90% investors are not satisfied and 9.10% are unknown about the profit from their own investment.
- J It was found from the study that 32% investors gave the first priority to company's profit to invest in shares in the secondary market. The other

factors were- market index, market price, advice of friends and others had 24%, 28%, 8% and 8% priority respectively.

- J) 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 66.67% 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.
- J) During the study period, the NEPSE turnover increased from Rs. 1068.27 million to Rs. 9015.34 million in FY 2002/03 to FY 2004/05. After that, it went down in the following FY 2005/06 and went up with the speed of geometrical progression in the following FY 2006/07. It shows considerable growth of stock market as well as brokerage services of NEPSE.
- J) The acquired data from the survey said that most of the brokers i.e. 66.67% brokers are satisfied with the commission earned from their customers/clients. But 16.67% brokers are not satisfied and 16.67% brokers are satisfied to some extent.
- J) The available data shows that major portions of brokers are not doing satisfactory performance in the NEPSE. Out of the 24 active brokers, only 8 brokers i.e. 33.33% are doing above the average performance. The study data shows that 15.60% of the 5 year cumulative average turnover was occurred through a single broker. Whereas 32.50% of cumulative average turnover was done by 16 brokers. Likewise, during the five year period only 11 brokers fell in the top five positions whereas 13 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, CONCLUSION AND RECOMMENDATIONS

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. Nepal has been adopting very old system in trading floor to execute the transaction. 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 Secondary 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 2002/03 to FY 2006/07 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. 25 investors and 12 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 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 dissemination 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 has the greater role for stock market disorder. Most of the brokers have below average performance. Only few brokers are participating in brokering activities actively. The system followed by the NEPSE is time and technology friendly.

5.2 Conclusion

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 'NEPSE Automated Trading System (NATS)' followed by the NEPSE in this business. In reality it is very latest system in present era of information technology.

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 secondary market.

5.3 Recommendations

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 Secondary 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.
-) 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 secondary 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.

- J Number of brokers should be increased to foster the competition to make existing brokers accountable toward the profession.
- J The stock market lacks the existence of sophisticated investors. So, it is recommended that 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.
- J 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.
- J 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.
- J 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.
- J Government should provide investment opportunities in some selected government undertaking Corporations with the sprit 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.
- J 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.

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Questionnaire

Dear respondents, I will be very grateful if you kindly fill-up this questionnaire, which is the requirement of Master level thesis.

Name:

Occupation: Broker

Address:

1) How long have you been involved in the securities brokering profession?

- a) Less than 2 years
- b) 2 to 5 years
- c) 6 to 8 years
- d) More than 8 years

2) How many regular clients are you serving currently?

- a) 1 to 5
- b) 6 to 10
- c) 11 to 20
- d) More than 20

3) What types of services are you providing to your customers/clients?

- a) Trading only
- b) Trading and information
- c) Information only
- d) others (please specify if any).....

4) What types of tools and techniques are you using to analyze the securities and to advice to the needy investors?

- a) Market Trend
- b) Fundamental analysis of companies
- c) Securities Valuation
- d) All of the above
- e) None of the above

5) How many frequency of order that you have been receiving from your regular clients in a year?

- a) Regular
- b) Irregular
- c) Occasionally

- 6) Do you collect the annual reports of the listed companies?
- a) Yes
 - b) No
- 7) How much order size do you receive from the investors in terms of rupees?
- a) Low
 - b) Very low
 - c) Moderately
 - d) Highly
 - e) Very highly
- 8) What kind of system are you following to maintain the record of information and data?
- a) Computerized System
 - b) Manual System
 - c) Both
- 9) Do you give the discount in your service charge?
- a) Yes
 - b) No
- 10) Do you provide home services facilities to your customers?
- a) Yes
 - b) No
- 11) Do you present yourself or present through representative in the trading floor to transact securities?
- a) presenting yourself
 - b) Through representative
- 12) Are the brokering services in NEPSE efficient?
- a) Yes
 - b) No
- 13) What kind of share transferring method do you prefer while buying the securities?
- a) Blank Transfer
 - b) Ownership Transfer

14) Are you satisfied with the commission earned from your customers/clients?

a) Satisfied

b) Not satisfied

c) Satisfied to some extent

d) Don't know

15) Are you satisfied with the 'NEPSE Automated Trading System (NATS)' followed by NEPSE?

a) Satisfied

b) Not Satisfied

Questionnaire

Dear respondents, I will be very grateful if you kindly fill-up this questionnaire, which is the requirement of Master level thesis.

Name:

Occupation: Investor

Address:

- 1) How long have you been involved in the securities investing activities?
 - a) 2 years
 - b) 5 years
 - c) 10 years
 - d) others (please specify if any).....

- 2) What is your main purpose of investing in securities?
 - a) Capital gain
 - b) Dividend/Interest income
 - c) Use of excess money
 - d) Making social status

- 3) How many companies do you have invested among the listed companies in NEPSE?
 - a) Five
 - b) Ten
 - c) Fifteen
 - d) others (please specify if any).....

- 4) What is your source of information for buy/sell decision of securities?
 - a) Brokers' advice
 - b) Fundamental and technical analysis of companies
 - c) Market Trend
 - d) others (please specify if any).....

- 5) In which sector do you prefer for investment?
 - a) Banking
 - b) Trading
 - c) Manufacturing and processing
 - d) others (please specify if any).....

- 6) What types of services are providing by the brokers to you?
- a) Trading only b) Trading and information
c) Information only d) others (please specify if any).....
- 7) Are you satisfied with the performance of the brokering services of NEPSE?
- a) Satisfied b) Not satisfied
c) Satisfied to some extent d) others (please specify if any).....
- 8) Which factor basis the broker is selected to transact the securities?
- a) Service charge b) Counseling/advice
c) Quality of services d) Experience and reputation of broker
- 9) What do you think about the flow of information from listed companies related to their performance and future planning?
- a) Sufficient b) Not sufficient
c) Sufficient to some extent
- 10) What kind of share transfer method do you prefer?
- a) Blank transfer
b) Ownership transfer
- 11) How much reliable and adequate information do you get from the brokers, listed companies and NEPSE?
- a) Low b) Very low
c) Moderately d) Highly
e) Very highly
- 12) How much do you believe that the mutual trading is responsible in stock market disorder?
- a) Low b) Very low
c) Moderately d) Highly

- e) Very highly
- 13) Are you satisfied with the profit earned from your own investment decision?
- a) Yes
 - b) No
 - c) Don't know
- 14) On what basis do you make decision to invest in shares in the secondary market?
- a) Market index
 - b) Company's profit
 - c) Market price
 - d) Advice of friends
 - e) Others (please specify if any).....
- 15) Are you satisfied with the 'NEPSE Automated Trading System (NATS)' followed by NEPSE?
- a) Satisfied
 - b) Not Satisfied
 - c) Satisfied to some extent

APPENDIX

Appendix-1

List of Licensed Members of NEPSE

S. No	Broker's Name	Code	Tel. No.	Address
1	Kumari Securities Pvt. Limited	1	01-4418036	Dilli Bazar, Kathmandu
2	Arun Securities Pvt. Limited	3	01-6916470	Putalisadak, Kathmandu
3	Opal 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, 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	Om Securities & Allied Services Pvt. Limited	12	01-431386	New Plaza, Kathmandu
11	Annapurna Securities Service Pvt. Limited	13	01-4419051	Putalisadak, Kathmandu
12	Nepal Stock House Pvt. Limited	14	01-4255732	Anamnagar, Kathmandu
13	Primo Securities Pvt. Limited	16	01-4239214	Shankardev Marga, Putalisadak, Kathmandu
14	Khandelwal Stock Broking Company Pvt. Limited	17	01-4230787	Indrachowk, Kathmandu
15	Sagarmatha Securities Pvt. Limited	18	01-4242548	Putalisadak, Kathmandu
16	Nepal Investment & Securities Trading Pvt. Limited	19	01-4495450	Old Baneshowar, Kathmandu
17	Sipla Securities Pvt. Limited	20	01-4255782	New Road, Kathmandu
18	Midas Stock Broking Company Pvt. Limited	21	01-4416050	Dillibazar, Kathmandu
19	Siprabi Securities Pvt. Limited	22	01-5530701	Kupondol, Lalitpur
20	Sweta Securities Pvt. Limited	25	01-4444791	Putalisadak, Kathmandu
21	Asian Securities Pvt. Limited	26	01-4240609	Viharmarga, Kathmandu
22	Shree Krishna Securities Pvt. Ltd.	28	01-4224262	New Road, Kathmandu
23	Trishul Securities Pvt. Limited	29	01-4440709	Putalisadak, Kathmandu
24	Premier Securities Pvt. Limited	32	01-4231339	Putalisadak, Kathmandu

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

Appendix-2
Structure of NEPSE

S.N.	Name of Organization	No of Director	Designation
1.	Ministry of Finance	1	Chairman
2.	Securities Board	2	Director
3.	Nepal Rastra Bank	2	Director
4.	Nepal Industrial Dev. Corporation	1	Director
5.	Licensed Members	2	Director
6.	General Manager of NEPSE	1	Director

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

Appendix-3

List of Listed Companies in NEPSE

S.N.	Companies Name	Stock Symbol	Listed Shares	Paid up Value	Total Paid up Value
Commercial Banks					
1	Nabil Bank Ltd.	NABIL	6,873,930	100	687,393,000
2	Nepal Investment Bank Ltd.	NIB	16,060,651	100	1,606,065,100
3	Standard Chartered Bank Ltd.	SCB	6,807,840	100	680,784,000
4	Himalayan Bank Ltd.	HBL	12,162,150	100	1,216,215,000
5	Nepal SBI Bank Limited	SBI	8,734,791	100	873,479,100
6	Nepal Bangladesh Bank Ltd.	NBB	7,442,000	100	744,200,000
7	Everest Bank Ltd	EBL	4,914,000	100	491,400,000
8	Bank of Kathmandu	BOK	6,031,413	100	603,141,300
9	Nepal Industrial & Co.Bank	NICB	9,504,000	100	950,400,000
10	Machhachapuchhre Bank Ltd	MBL	13,146,420	100	1,314,642,000
11	Laxmi Bank Limited	LBL	9,150,000	100	915,000,000
12	Kumari Bank Ltd	KBL	10,782,720	100	1,078,272,000
13	Lumbini Bank Ltd.	LUBL	9,995,000	100	999,500,000
14	Nepal Credit & Com. Bank	NCCB	11,368,047	100	1,136,804,700
15	Siddhartha Bank Limited	SBL	8,280,000	100	828,000,000
16	NMB Bank Ltd.	NMBF	10,000,000	100	1,000,000,000
17	Development Credit Bank Ltd.	DCBL	11,074,560	100	1,107,456,000
Total			162,327,522	1,700	16,232,752,200
Finance					
18	Nepal Finance and Saving Co.Ltd.	NFS	300,000	100	30,000,000
19	NIDC Capital Markets Ltd.	NCM	1,012,500	100	101,250,000

20	National Finance Co. Ltd.	NFC	1,568,818	100	156,881,800
21	Nepal Share Markets Ltd.	NSM	4,320,000	100	432,000,000
22	Annapurna Finance Company Limited	AFC	2,016,000	100	201,600,000
23	Kathmandu Finance Limited.	KFL	379,500	100	37,950,000
24	Peoples Finance Limited.	PFCL	840,000	100	84,000,000
25	Union Finance Co. Ltd.	UFCL	750,000	100	75,000,000
26	Citizen Investment Trust	CIT	600,000	100	60,000,000
27	Nepal Aawas Bikas Beeta Co. Ltd.	NABB	706,180	100	70,618,000
28	Narayani Finance Limited	NFL	666,990	100	66,699,000
29	Yeti Finance Company Ltd.	YFL	312,500	100	31,250,000
30	Gorkha Finance Ltd.	GFLK	300,000	100	30,000,000
31	Samjhana Finance Co. Ltd.	SFC	225,000	100	22,500,000
32	Universal Finance Ltd.	UFLK	602,184	100	60,218,400
33	Nepal Housing & Merchant Fin.	NHMF	804,402	100	80,440,200
34	General Finance Ltd.	GFL	242,434	100	24,243,400
35	Maha Laxmi Finance Ltd.	MFL	800,000	100	80,000,000
36	Lalitpur Finance Ltd.	LFC	759,375	100	75,937,500
37	Goodwill Finance Co. Ltd.	GFCL	1,050,000	100	105,000,000
38	Paschimanchal Finance Co. Ltd	PFC	556,600	100	55,660,000
39	Pokhara Finance Ltd.	PFL	800,000	100	80,000,000
40	Lumbini Finance Ltd.	LFLC	900,000	100	90,000,000
41	Siddhartha Finance Limited	SFL	520,000	100	52,000,000
42	Alpic Everest Finance Company Limited	AEFL	780,000	100	78,000,000
43	Nepal Bangladesh fin. & Leasing	NBFL	500,480	100	50,048,000
44	United Finance Ltd	UFL	750,000	100	75,000,000
45	International Leasing & Fin. Co.	ILFC	1,440,000	100	144,000,000
46	Shree Investment Finance Co. Ltd	SIFC	840,000	100	84,000,000

47	Central Finance Co. Ltd.	CFCL	780,000	100	78,000,000
48	Nepal Shree Lanka Merchant Bank	NSLMB	1,000,000	100	100,000,000
49	Premier Finance Co. Ltd	PFCLL	475,200	100	47,520,000
50	Nava Durga Finance Co.Ltd.	NDFL	455,948	100	45,594,800
51	Butwal Finance Ltd	BFL	696,721	100	69,672,100
52	Janaki Finance Ltd.	JFL	400,000	100	40,000,000
53	Standard Finance Ltd.	STFL	1,452,000	100	145,200,000
54	Om Finance Ltd.	OFL	700,000	100	70,000,000
55	Cosmic Mer.Bank & Fin.	CMBF	750,510	100	75,051,000
56	Fewa Finance Co. Ltd.	FFCL	700,000	100	70,000,000
57	KIST Merchant Banking & Finance Limited	KMBF	2,000,000	100	200,000,000
58	World Merchant Bank Ltd	WMBF	720,000	100	72,000,000
59	Birgunj Finance Ltd	BJFL	726,000	100	72,600,000
60	Capital Mer. Bank & Fin	CMB	3,461,500	100	346,150,000
61	Everest Finance Ltd,	EFL	200,000	100	20,000,000
62	Prudential Bittiya Sans	PFIL	1,000,000	100	100,000,000
63	Shrijana Finance(Bittiya Sa	SFFIL	140,000	100	14,000,000
64	Royal Mer. Bank.& Fin	RMBFI	604,121	100	60,412,100
65	Guheyshwori Mer. Bank. Fin	GMFIL	616,813	100	61,681,300
66	IME Financial Institution	IMEFI	1,000,000	100	100,000,000
67	Bhajuratna Fin.& Sav. Co. Ltd.	BFIL	385,000	100	38,500,000
68	Patan Finance Ltd.	PFLBS	500,000	100	50,000,000
69	Imperial Financial Inst. Ltd.	IFIL	500,000	100	50,000,000
70	Civil Merchant bittya sanstha	CMBSL	500,000	100	50,000,000
71	ICFC Bittya Sanstha Ltd.	ICFC	2,997,416	100	299,741,600
72	Lord Buddha Financial Institutional Limited	LBFIL	750,000	100	75,000,000
73	Sagarmatha Merchant Banking & Finance Limited	SMBF	500,000	100	50,000,000

74	Kaski Finance Limited	KAFIL	500,000	100	50,000,000
75	Nepal Express Finance Limited	NEFL	800,000	100	80,000,000
76	Kuber Merchant Bittiya Sanstha Limited	KMBSL	500,000	100	50,000,000
77	Prabhu Finance Company Limited	PRFL	1,600,000	100	160,000,000
Total			52,754,192	6,000	5,275,419,200
Hotels					
78	Yak and Yeti Hotel Ltd.(Ord.)	YHL	2,209,208	100	220,920,800
79	Soaltee Hotel Ltd.	SHL	8,697,187	10	86,971,870
80	Taragaon Regency Hotel	TRH	7,449,875	100	744,987,500
81	Oriental Hotel Ltd.	OHL	5,000,000	100	500,000,000
Total			23,356,270	310	1,552,880,170
Manufacturing & Processing					
82	Bottlers Nepal Ltd.(Balaju)	BNL	1,948,887	100	194,888,700
83	Nepal Lube Oil Ltd.	NLO	203,936	100	20,393,600
84	Nepal Vanaspati Ghee Udhyog Ltd	NVG	101,250	100	10,125,000
85	Raghupati Jute Mills Ltd.	RJM	1,806,966	100	180,696,600
86	Butwal Spinning Mills Ltd.	BSM	1,306,693	100	130,669,300
87	Gorakhakali Rubber Udhyog Ltd.	GRU	3,833,400	75	287,505,000
88	Jyoti Spinning Mills Ltd (ord.)	JSM	1,270,288	100	127,028,800
89	Arun Vanaspati Udhyog Limited	AVU	550,343	100	55,034,300
90	Bottlers Nepal (Terai)Ltd.	BNT	1,210,000	100	121,000,000
91	Harisiddhi Brick and Tile Fac.Ltd.	HBT	18,650,000	10	186,500,000
92	Birat Shoe Ltd.(Ord.)	BSL	165,000	100	16,500,000
93	Uniliver Nepal Ltd.	UNL	920,700	100	92,070,000
94	Nepal Khadya Udhyog Ltd.	NKU	90,000	100	9,000,000

95	Shree Bhrikuti Pulp& Paper Ltd	SBPP	3,500,000	100	350,000,000
96	Fluer Himalayan Limited	FHL	262,102	75	19,657,650
97	Shree Ram Sugar Mills Ltd	SRS	3,045,990	100	304,599,000
98	Nepal Bitumin and Barrel Udyog	NBBU	210,680	100	21,068,000
99	Himalayan Distillery Ltd.	HDL	4,130,000	100	413,000,000
Total			43,206,235	1,660	2,539,735,950
Others					
100	Nepal Film Dev.Co. Ltd.	NFD	491,285	100	49,128,500
101	Nepal Doorsanchar Company Limited	NTC	150,000,000	100	15,000,000,000
Total			150,491,285	200	15,049,128,500
Hydro Power					
102	National Hydro Power Co.	NHPC	7,000,000	100	700,000,000
103	Butwal Power Co. Ltd.	BPCL	8,390,577	100	839,057,700
104	Chilime Hydro power Co.	CHCL	7,296,000	100	729,600,000
Total			22,686,577	300	2,268,657,700
Trading					
105	Salt Trading Corporation	STC	247,777	100	24,777,700
106	Bishal Bazar Co. Ltd.	BBC	491,400	100	49,140,000
107	Nepal Trading Ltd.	NTL	50,000	50	2,500,000
108	Nepal Welfare Company Ltd.	NWC	41,000	50	2,050,000
Total			830,177	300	78,467,700
Insurance					
109	Nepal Insurance Co.Ltd.	NICL	1,026,984	100	102,698,400

110	Rastriya Beema Sansthan	RBS	995,138	100	99,513,800
111	National LifeInsu. Co.Ltd.	NLICL	300,000	100	30,000,000
112	Himalayan Gen.Insu. Co.Ltd.	HGI	630,000	100	63,000,000
113	United Insurance Co.(Nepal)Ltd.	UIC	600,000	100	60,000,000
114	Everest Insurance Co. Ltd.	EIC	900,000	100	90,000,000
115	Premier Insurance co. Ltd.	PIC	300,000	100	30,000,000
116	Neco Insurance Co.	NIL	550,000	100	55,000,000
117	Alliance Insurance Company Limited	AIC	599,862	100	59,986,200
118	Sagarmatha Insurance Co.Ltd	SIC	785,400	100	78,540,000
119	NB Insurance Co. Ltd.	NBIL	1,000,000	100	100,000,000
120	Nepal Life Insurance Co. Ltd.	NLIC	3,000,000	100	300,000,000
121	Life Insurance Co. Nepal	LICN	2,500,000	100	250,000,000
122	Prudential Insurance Co.	PICL	1,000,000	100	100,000,000
123	Lumbini General Insurance	LGIL	1,250,000	100	125,000,000
124	Shikhar Insurance Co. Ltd.	SICL	1,250,000	100	125,000,000
125	Siddhartha Insurance Limited	SIL	1,000,000	100	100,000,000
Total			17,687,384	1,700	1,768,738,400
Development Banks					
126	Nepal Industrial Dev. Corp.	NIDC	2,978,784	100	297,878,400
127	Nepal Development Bank	NDB	3,200,000	100	320,000,000
128	Nirdhan Utthan Bank Ltd.	NUBL	790,721	100	79,072,100
129	Chhimek Vikash Bank Ltd.	CBBL	510,000	100	51,000,000
130	Paschimanchal Bikash Bank	PDBL	1,000,000	100	100,000,000
131	Infrastructure Development Bank Limited	IDBL	800,000	100	80,000,000
132	Diprox Development Bank	DDBL	174,000	100	17,400,000
133	Gandaki Dev. Fin. Inst.	GDBL	500,000	100	50,000,000

134	Business Development Bank Ltd.	BDBL	2,100,000	100	210,000,000
135	Bhrikuti Vikash Bank Limited	BBBL	587,559	100	58,755,900
136	Sanima Vikash Bank Ltd.	SBBL	3,840,000	100	384,000,000
137	Narayani Development Bank Ltd.	NABBC	200,000	100	20,000,000
138	Bageshowori Dev.Bank	BBBLN	330,000	100	33,000,000
139	Sahayogi Vikas Bank	SBBLJ	200,000	100	20,000,000
140	Gurkha Development Bank	GDBNL	4,800,000	100	480,000,000
141	Annapurna Bikash Bank Limited	ABBL	600,000	100	60,000,000
142	Swabalamwan Bikash Bank	SWBBL	250,000	100	25,000,000
143	Ace Development Bank Limited	ACEDBL	4,160,000	100	416,000,000
144	Himchuli Bikash Bank Ltd.	HBBL	900,000	100	90,000,000
145	Malika Bikash Bank Limited	MDBL	500,000	100	50,000,000
146	Siddhartha Development Bank Limited	SDBL	1,075,725	100	107,572,500
147	Biratlxmi Bikash Bank Limited	BLDBL	500,000	100	50,000,000
148	Excel Development Bank Ltd.	EDBL	200,000	100	20,000,000
149	Nepal Development & Employment Promotion Bank Ltd	NDEP	3,200,000	100	320,000,000
150	Subhechha Bikas Bank Limited	SUBBL	400,000	100	40,000,000
Total			33,796,789	2,500	3,379,678,900
Corporate Debenture					
151	Nepal Investment Bank Ltd.	NIBB2072	250,000	1,000	250,000,000
152	Kumari Bank Limited	KBLB2070	400,000	1,000	400,000,000
Total			650,000	2,000	650,000,000
Preferred Stock					
153	Everest Bank Limited Convertible Preference	EBLCP	2,000,000	100	200,000,000
Total			2,000,000	100	200,000,000

