

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked, mountainous country situated between India and China and is striving for industrial growth since the establishment of democracy. It has its own geographical environment. Due to this reason and other socio economic reasons its economic activities were limited only in agriculture sector. Gradually, people are becoming more aware and shifting from agriculture to other sectors like service sectors, industrial sectors (Bhattarai, 2008: 12). Industrial development began in Nepal only in the mid sixties, when the government began establishing manufacturing industries. In order to support this industrialization process, government actively promoted financial institutions, such as commercial banks and capital market.

Capital market is a catalyst in the development of the country's economy. Capital Market refers to the financial market in which long – term securities are traded. Specifically speaking, securities having life spans of more than one year are traded in the Capital Market. Long – term financial instruments such as stocks issued by corporations are basically traded in a capital market. The Capital Market is the market for securities, where companies and governments can raise long term funds. The capital market includes the stock market and the bond market. Financial regulators, such as the U.S. Securities and Exchange Commission, oversee the capital markets in their designated countries to ensure.

For mobilization of investable resources from one sector to another, Capital Market plays a very important role bridging of the deficit and the surplus. Capital Market is an institution where stocks and other securities are, bought and sold continuously. Capital Market is the medium through which scattered

saving and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of nation.

Capital Market is the market place through which the entrepreneurs collect the long – term capital by mobilizing the individual and institutional savings either directly or indirectly. Besides this, the securities once sold through the primary market are also traded in the secondary market (Bhattarai, 2008: 12).

The Capital Markets consists of the Primary market and the Secondary market. The Primary market is where new stock and bonds issues are sold (underwritten) to investors. The Secondary markets are where existing securities are sold and bought from one investor or speculator to another, usually on an exchange (eg- New York Stock Exchange). Its main function is to provide liquidity to the purchasers of securities. This market remains as a center to convert stocks, bonds and other securities into cash immediately. Brokers perform the role for trading securities in secondary market.

Looking at the historical development of Nepalese security market it began with the floatation of shares of Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937. Introduction of the company act in 1951, the first issue of government bond in 1964 and the establishment of Securities Exchange Centre (SEC) in 1976 were other significant development resulting in Nepalese Capital market.

In 1993, with the view to reform the Capital Market, government converted the Securities Exchange Center into Nepal Stock Exchange Ltd. (NEPSE) along with the formation of Security Exchange Board. It is non profit organization operating under securities exchange act 1983. The main objective of NEPSE is to impact free marketability and liquidity to the government and corporate securities by facilitating transactions. There are about 30 brokers and two market makers who are entitled to trade in the floor of the exchange. And securities like shares, debenture, government bonds and mutual funds are traded in NEPSE.

1.2 Statement of the Problem

Financial markets play a fundamental role in the economic development of a country. They are the intermediary link in facilitating the flow of funds from savers to investors. Typically in developing countries, for various economic and policy reasons, financial markets are underdeveloped. In those countries where a capital market does exist, it is in a very rudimentary state. Private wealth and investment are concentrated among several large companies and individuals.

Nepalese capital market is very small in comparison with other developed stock markets. There are few number of broker, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of the stock market. Actually, the problems of Nepalese stock market have not been diagnosed and identified. So the policy makers are unable to market the appropriate policy for the development of stock market. The development of the stock market in Nepal is both challenging and difficult. Though the viewpoint of number of share transactions, public interest towards stock market, the trend of the price movement, information system etc.

In case of Nepalese capital market the choice of market instruments is also very limited. As a result, the capital market is very narrow based. Investor confidence in Nepalese Capital Market is low due to stock price volatility, low return on investment, inadequate information for decision making and signaling effect as well.

Regulation of Nepalese capital market is guided by securities exchange act and company act. In addition, guidelines such as the primary issue guideline, have been announced by the Securities Exchange Board. All In Nepal since the stock market is new, so investor is not properly aware of risk and reward of investing in stock market.

The major research problems are as follows:

-) Is the growth of stock market is in positive trend?
-) Is the regulatory framework of Nepalese capital market appropriate and effective?
-) Is the performance of listed companies satisfactory?

1.3 Objectives of the Study

The main purpose of the study will be to analyze the growth of Capital Market and regulatory aspects. The major objectives pointed out are as follows:

1. To assess the growth trend of capital market in Nepal.
2. To examine the regulatory process of the capital market.
3. To suggest measures for improvement of capital market.

1.4 Limitations of the Study

The study will cover very limited area of investigation. Basically the study has following limitations:

1. The study will analyze the growth and regulation of Nepalese capital market.
2. The report will be base on the information collected by the researcher from possible available sources.
3. The study will be based on secondary and primary data sources. So the research depends upon reliability of data.
4. The data will be of at least five years.
5. The source of the study will be information collected from Nepal Stock Exchange (NEPSE), Securities Board of Nepal (SEBON), questionnaire asked to various respondents, Books, Thesis and Journals etc.

1.5 Importance of the Study

The study of growth and regulation of capital market in Nepal will be a crucial study because it will presents the sector wise growth trend of NEPSE and

regulatory framework related to capital market. The importance of the study can be point out as follows:

1. To the general public who are interested in capital market of Nepal.
2. Importance to further researcher.
3. It will be important to all other interested parties.
4. The study is significant to myself (researcher) because it will polish my knowledge and ability.

1.6 Organization of the Study

The whole study will be divided into five different chapters.

Chapter - I Introduction

The first chapter deals with the subject matter consisting introduction, identification of problem, objectives, limitations and importance of the study.

Chapter - II Review of Literature

This chapter includes literature review that deals with conceptual framework of capital market and it's regulation procedure. Similarly, it also includes review of major studies related to capital market.

Chapter - III Research Methodology

This chapter describes the research methodology adopted in carrying out the research. It deals with research design, sources of data, population and sample and procedure and presentation of data.

Chapter – IV Presentation and Analysis of Data

The fourth chapter is concerned with analytical framework. It includes the analysis of secondary and primary data using different tools that are described on research methodology.

Chapter – V Summary, Conclusion and Recommendation

The fifth and final chapter is concerned with the suggestive framework that deals with the overall findings, issues and gaps, conclusions and recommendations of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or the relevant propositions in the related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted. The main reason for a full review of research is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully (Joshi, 2003:107). This chapter provides the information about study related materials which are reviewed during the study period. The chapter deals with the review relating to the topic "Growth and Regulation of Capital Market in Nepal" in detail. Various books, journals and articles, some previous research work related to this topic have been reviewed.

This chapter is divided into three topics they are:

2.1 Conceptual Review

2.2 Review of Books, Journals and Articles

2.3 Review of Previous Studies (Thesis)

2.1 Conceptual Review

2.1.1 Capital Market

Capital Market is the market place through which the entrepreneurs collect the long – term capital by mobilizing the individual and institutional savings either directly or indirectly. The primary instruments of capital market are common stock, preference shares, debentures etc. Capital market plays a vital role in the developing country like Nepal. The trading of stock takes place in stock market. Nepalese stock market is small as compared to other neighboring countries. Nepalese capital market is highly concentrated on financial sector. Banking non – banking finance companies and insurance company occupy

90% of total market capitalization. The major function of stock market is to provide steady and continuous market for purchase and sale of securities at a competitive price by promoting marketability and liquidity. It is also a medium through which scattered savings and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of the country. The basic functions of stock market are to provide the allocate capital funds to organizations with profitable investment opportunities and to offer an avenue of liquidity for individuals to invest current income or borrow against future income and thereby achieve their preferred time pattern of consumption.

The capital market development is essential as it is the indicator of the corporate development in the country. Evidently, an orderly growth of capital market is essential to ensure a higher rate of investment in the private corporate sector. The capital market mobilizes the savings of individual/institutional investors as investment in shares, debentures, bonds, mutual funds and other financial instrument, which in turn are deployed for productive purpose in various sector of the economy which have potential to yield a higher return on their investments. “Capital markets are an integral part of the financial system, providing efficient delivery mechanism for saving mobilization and allocation, risk and liquidity management, and corporate government. In addition, they facilitate government debt management, the conduct of monetary policy and provide a channel for privatization. Capital markets can also be a driving force for a benefit from the development of institutional investors (pension funds, insurance companies and mutual funds), efforts in fiscal decentralization and the development of mortgage markets” (Bhattra, 2004:107).

The place where long – term lending and borrowing takes place is known as capital market. The Nepali capital market had its beginnings with the establishment of the Securities Marketing Center (SMC) in 1976. In 1984, the Securities Exchange Act was promulgated and this institution was converted

into the Securities Exchange Center (SEC) under the ownership of the Nepali Government, Nepal Rastra Bank and the Nepal Industrial Development Corporation. The main function of SEC was to assist in the development of a capital market by performing the role of a broker, underwriter and share issuer, and to sell government bonds. In 1993, with a view to reform the capital market, HMG convert the Securities Exchange Center into Nepal Stock Exchange Ltd. (NEPSE).

For mobilization of invest able resources from one sector to another, capital market plays very important role. The Capital Markets consist of the Primary market and the Secondary market. Principally, stock market refer to the secondary market for quoted, securities where as primary market is the market in which newly create securities are sold by open offer.

2.1.2 Primary Market

Primary market is the market place where instead of goods and services securities are sold to mobilize for the establishment and operation of the businesses. It is also known as original sale of securities. But this is misleading to some extent. This market is also known as IPO market. In this market, the securities can be sold at either at par, or premium or at discount. But in case of Nepal, Company Ordinance 2005 has restricted to sell the securities at discount (Bhattarai, 2008:13).

The primary market is media through which new financial assets are issued or generated. They are the media by which demanders and suppliers of today's funds and the creators and acceptors of financial claims meet in these primary markets, financial assets are created and exchanged, satisfying in the part of the financial needs of both demanders and suppliers of today's fund. At the present concept, it is the market for direct issuance of government securities. The primary market of the country is dominated by the government securities due to the existence of new issue market for individual securities (Vaidya, 2000: 70).

In the FY 2007/08 the Security Board of Nepal (SEBON) granted permission to 71 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by 132.25 percent and 320.36 percent respectively. Following chart shows the capital mobilization trends in the last five years in the primary market. The Nepalese stock market continued to expand in the FY 2007/08 too. With the restoration of peace and a subsequent boost in investors' confidence, major indicators of the share market grew tremendously. Almost all the major indicators of the secondary market like amount of shares traded, number of listed shares, the number of transactions, annual turnover, total market capitalization of listed shares, market capitalization and GDP ratio, turnover to market capitalization and the GDP ratios all increased.

2.1.3 Secondary Market

Secondary market is the market place where secondhand securities are traded. It means securities once purchased through primary market are traded in secondary market. Both the primary and secondary markets are complementary to each other. In the absence of one market another market cannot flourish. Secondary market comprises stock exchange and Over – The – Counter Market, popularly known as OTC Market.

Unlisted securities are not traded in stock exchange. Exchanges generally do have their own listing rules. So, unlisted securities are traded in OTC Market. Stock exchanges are considered as an organized market whereas OTC Market from the earlier days considered as unorganized market. But presently, this market is also as organized as the stock exchanges. Nepal does not have OTC Market. NEPSE is only the secondary market in the country.

Secondary market is also known as economic barometer of the country. This is because it reflects the economic policy of the country. All other things remain the same, the rising price of stock exchange shows the policy is favorable and the declining price indicates the opposite (Bhattarai, 2008:16).

Once the securities begin to trade among individuals, businesses, governments or financial institution, savers and investors, they become a part of secondary market. The purpose of secondary securities market (stock exchange) is to enable buyers and sellers to effect their transactions more quickly and cheaply than they could otherwise. Transactions in existing securities do not provide additional funds to finance capital formation and the volume of net new issues that provides additional fund to finance capital formation is new issue.

An analogy can readily be drawn from the automobile market. The sales of two Maruti car (new issues) by the Maruti Udyog (issuing from) provide revenue (investment funds) to the company; transactions in the used car market (secondary market) so not, but just as the existence of a resale of market for cars effects the willingness of customers to purchase new Maruties, the availability of an efficient secondary market for securities is one of the more important factors including investors to acquire new issue of securities (Valla, 155).

The basic economic function of secondary market is to provide marketability for long-term investments, thereby reducing the personal risk incurred by investors and broadening the supply of equity and long-term debt capital for the financing of business enterprise. Existence of active and efficient secondary market is very essential to avoid the liquidity of the securities that have already been sold through the primary market. The investors can not invest their hard earn savings in securities in the absence of secondary markets. Secondary market can be grouped as over the counter market and stock exchange. For the transaction the recruitment of different employee is necessary i.e. the secondary

market is helpful to generate employment opportunities. And, the performance of secondary market indicates goodwill of the entrepreneurs, which in turn assists to tie up at the time of financial needs. The secondary market play vital role in revenue collection i.e. through secondary market securities sold if it is sold at higher price then its original price that difference is capital gain which subject to tax. It means the investors have to pay capital gain tax and securities persons have to pay capital gain tax and securities persons have to pay income tax on their earnings from which government can collect revenues. The secondary market plays an important role in valuation of securities in daily basis. It helps to value the securities more accurately considering the investors perception. Efficiency of capital market can also be measured with the help of the secondary market.

Major developments in capital market are Automated Trading system, Client Management and Order system. The Automated Trading System (ATS), an internationally compatible trading system was inaugurated by the then Finance Minister Dr. Ram Sharan Mahat on 24 August 2007. In order to adopt the ATS, NEPSE made an agreement with the British Company Compaq Limited in November 2006 under the Asian Development Bank (ADB) loan assistance project--Corporate and Financial Governance (CFG)--at the cost of 300 thousand US dollars. The system has helped eliminate all possible human errors as seen in the open out cry trading procedures. Several international practices have been incorporated to make the system internationally compatible and modifications have also been made to customize the existing rules and regulations of the country. Client Management enables a broker to create a client. Without creating a client the broker will not be allowed to place any order. The broker has to insert various details of the client, including a client code, which is a unique code for that particular client. After receiving an order, the broker has to place the order for that client on the First in First out (FIFO) basis of the order registered by the client's in the broker's office. It is an expression of interest to either buy or sell a specified quantity of stock either at

a specified price or at the current market price. An order is given by a client to a licensed broker. There is an order entry form in the system through which broker places a purchase or sell order.

Secondary market can be grouped into over-the-counter and organization stock Exchanges

- a. Organized stock exchange
- b. Over-the-counter

a. Over-the-counter (OTC) Market

The over- the- counter market (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchange .It is not formal exchange like organized stock exchange. Formal exchanges o securities are not necessary in OTC market .The price at which Securities are traded “OTC” are determined by competitive bids and negotiation .The OTC market competes with investment bankers and the organized exchange because dealers can operate in both the primary and secondary markets. National Organization of Securities Dealer Automated Quotation System (NASDAQ) is an example of OTC market. Nepalese capital market lacks the OTC market where no formal listing of securities is required for the trading. Since securities once de-listed from organized stock exchange can be traded in the OTC market, the investor does not have to lose liquidity when the stock exchange de listed the securities. In a significant provision, ordinance has opened the way to start OTC market. Though it is not get clear as to whom it can be operate the market and what conditions should be fulfilled. If the OTC market is opened, it will help the investors. Before OTC market there was no provision for trading on such securities (de-listed) and investors have had to suffer the losses when a company was de-listed from the stock exchange. The ordinance has also made compensate the investors for the loss caused.

b. Organized Stock Exchange

Organized stock exchange are central physical locations where trading is carried out under a set of rules and regulations. In the organized stock exchange, formal listing of securities for trading is required i.e. without listing the securities are not considered eligible for trading. A set of rules and regulation are followed to list the securities and paying renewal fee should frequently renew the listing. Nepal stock exchange is organized stock exchange. Listing means the registration of listing securities with the stock exchange to make them eligible for trading. The provision for listing clearly states that no securities can be traded with out listing. in order to enlist the securities with the stock exchange, the company must submit an application form in the prescribed format along with required documents and annual listing fee. Before the conversion of securities exchange center into stock exchange, securities exchange center was established with an objective of facilitating and promoting the growth of capital market and it is only a capital market institution underwriting the job of brokering, underwriting, managing, public issue, market making for government bonds and other financial services .In 1993 the securities exchange center (SEC) was converted into NEPSE .It opened its trading floor on 13th january1994throuh licensed members .it is not profit organization, operating under securities exchange act 1983.

2.1.4 Major Regulating Agencies of Capital Market in Nepal

There are three government agencies in approving and registration of public issue. Company Registers Office, Nepal Rastra Bank, and Securities board of Nepal. Out of which SEBO/N generally assumed to supreme regulator of the Country's stock market. Here we describe about these three agencies in brief.

2.1.4.1 Company Register's Office

Company register is only the agency where companies are registered ,monitors the operation of the companies and make s arrangement s for winding up of

there companies when required. Approval on prospectus is granted by CRO only. Before granting approval it obtains opinion of SEBO/N and for banking and finance companies advice s on prospectus is taken from Nepal Rastra Bank. Public issue, management of stakeholders and other transaction regarding the securities market are down under Act 2053. So the SEBO is linking with CRO.

2.1.4.2 Nepal Rastra Bank

Nepal Rastra Bank was established in 1956 A.D. under the Nepal Rastra Bank Act 1955. The major objective of the central bank is to work as a banker to the government and monitor and control the entire commercial banking activities and the related activities in the country (Bhattraï, 2004:42).

It can issue guidelines and directives to the commercial banks, financial institution and the related activities performing institution. As a central bank it has given its approval to commercial banks to run the banking business in the country. These banks are established under the company act and have to work according to the commercial bank Act, must follow the guidelines and directives issued by the commercial bank. The central bank has its own supervision and inspection department to supervise the performance of the commercial banks. If any bank violates the rules and regulation, the Act has empowered the central bank to penalize the banks. The finance companies are considered as non-banking institutions. These institutions are operating under the finance company Act .Besides the finance company there are development banks, village development banks and cooperatives etc. Of which development banks are established under Company Act and operated under Development bank Act. Their major objective is to provide long-term loan for the purpose of the establishment of industries. In order to achieve this objective, the These are monitored and controlled by the Department of Cooperatives and those Cooperatives want to do the banking activities, must take approval of Central Bank and to some extend by Nepal Rastra Bank.

2.1.4.3 Securities Exchange Board of Nepal

Securities Board of Nepal (SEBON) was established in May 26, 1993 under the provisions of securities exchange Act, 1983. Since its establishment, SEBON has been concerning its effort to improve the legal and statutory framework, which is the base for the development of the capital market. In our context, SEBON is an apex regulatory body of securities market.

As being an apex regulatory body, SEBON has power to hear and settle the grievances of investors. Board encourages transacting the securities in fair and proper manner. General objectives of SEBON are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and of corporate bodies carrying on securities business and to render contribution to the development of capital market by making securities transactions fair, healthy, efficient and responsible.

Securities exchange Board of Nepal is the organization established under the securities exchange Act 1983 to regulate, control and to monitor the entire capital market of the country. it is the organization, which works under the ministry of finance. The Board is striving from the very beginning as a market developer and the regulator. The basic responsibility of the organization is to protect the interest of the investors to systematize the securities transactions and to develop the entire capital market so that the transaction of securities will be conducted in an organized way. The Board has its own Board of Directors for the accomplishment of its objectives. It consist seven members of which the person appointed by HMG/N will be full time chairman and one representative each from Ministry of Finance, Ministry of flow and justice. Nepal Rastriya Bank, representative form institute chartered accountant of Nepal. Representative from Federation of Nepalese Chamber of Commerce and

Industries (FNCCI) and one member appointed by HMG/N on the recommendation of SEBON from above the market expects. SEBON in its organizational structure has two department, six division and ten sections. Under corporate finance and administration development there are three divisions' namely corporate finance and reports review division, accounts and administration division and HRD and Education Division. There are also three divisions under the securities market regulation department namely legal and enforcement division, market regulation and compliance division and market analysis and planning development division. Presently there are staffs in SEBON.

When performing its responsibilities SEBON also take expects opinions from accounting and legal professional as and when required. The main major financial sources of SEBON are government great transaction fee from the stock exchange and registration of corporate securities and renewal changes on stock exchange and registration and market intermediaries' income from mobilization of its fund.

2.1.4.4 Nepal Stock Exchange

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

Nepal Stock Exchange (NEPSE) is a non profit organization operating under Security Exchange Act 1983. NEPSE commenced its operation on 13th January 1994, with ownership among Government, Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) and its licensed members.

The stock exchange provides an organized market place for the investors to pay and sell securities freely. The market for these securities is an almost perfectly competitive one because a large number of seller and buyers take participate. In stock exchange, an active bidding and two way auction trading take place. They bargains that are struck and fairest price determined by the basic laws of supply and demand. The basic objective of NEPSE is to impart the free marketability and liquidity to the government and corporate security by facilitating transaction in its trading floor through member, market intermediaries, such as broker, market makers etc. The need of stock market in Nepal has been accepted as reality.

Nepal stock exchange is an organized secondary market for listed securities. This market has been started with licensed members such as members, brokers and markers since January 13, 1994. Since then, it has followed an open out cry system. Under this system, the licensed members are allowed to enter into the trading floor to make transactions on behalf of their clients. NEPSE is the sole organization for the operation of secondary market for listed securities. The organizational Structure of NEPSE is as given below. NEPSE in fact, is working under SEBON. It has its own board of directors to direct and to formulate the policy matter to run the securities transactions business in the country. in order to execute day-to-day activities a general manager will be appointed by HMG/N and it has several departments under which several division and sections are incorporated to run day-to-day activities. The BOD is responsible to form the policy for the development of capital market. The board consist nine members of which, Ministry of Finance, HMG/N nominates a chairman, Nepal Rastra Bank nominates two directors, Nepal Industrial Development Corporation nominates one director and two directors represent the licensed members through two directors. General Manager is the Ex-officer director.

2.1.5 An Overview of Acts and Regulations Relevant to the Capital Market

Table 2.1
Capital Market Related Acts in Nepal

1	Securities Act, 2063
2	Securities Board Regulation, 2064
3	Stock Exchange Licensing Regulation, 2064
4	Securities Businesspersons Regulation (Brokers, Dealer and Market Makers), 2064
5	Securities Businessperson (Merchant Banker) Regulation, 2064
6	Securities Registration and Issue Regulation, 2065
7	Securities Allotment Guidelines, 1994
8	Compliance Guidelines for Securities Brokers, 2058
9	Securities Issue Guidelines, 2065
10	Bonus Share Guidelines, 2058
11	Government Securities Bylaws of SEBON, 2062
12	Government Securities Transaction Bylaws of NEPSE, 2062
13	Securities Listing Bye-laws, 2053
14	SEBON Financial Administration Regulation, 2066
15	SEBON Procurement Regulation, 2066

Some Major Acts and Regulations are given below with their Short Description

1. Securities Act, 2063

Securities Act, 2063 consist 10 chapter and 119 sub chapter. It a new and modified version of all old securities acts. The Securities Exchange Regulation is made by the Government under enabling powers contained in the Securities Exchange Act. The Regulation specifies further functions, powers and duties of the Securities Board, provides for internal housekeeping matters of the Board (such as allowances and benefits, the terms and conditions of service of the Chairman and staff, funding, accounts and auditing), provides for various

matters in connection with the licensing of stock exchanges and their subsequent operation, specifies the requirements for the registration and listing of securities, and provides the detail for and in connection with the registration of securities intermediaries.

2. Securities Board Regulation, 2064

In order to specify the rules and regulations, power, duties of SEBON Government have implemented the securities board regulation 2064. It is the guideline for SEBON to manage sales and promotion of securities market. It has further specified the various directions regarding the application for registration of securities, agreement between issue manager and issuing companies, execution procedures of the sales management and code of conduct to be implied. Similarly SEBO/N has made a directive regarding the share allotment in order to make fair, transparent allotment of shares without any prejudice and conditions in case of application is received in excess over the issued numbers of the shares.

3. Securities Allotment Guidelines, 1994

SEBO has made new issue on Share Allotment Guidelines, 1994 to make the share allotment procedures fair and transparent. The directive was intended to create broader ownership according to the mass participation policy.

4. NEPSE, Securities Listing Bye-laws 2053(1996)

Made by NEPSE under section 35 of the Securities Exchange Act, and with the approval of the Securities Board, these Bye-Laws prescribe the terms and conditions for membership of NEPSE, and specify the rules for the trading of securities on the Exchange. Also made by NEPSE under section 35 of the Securities Exchange Act, and with the approval of the Securities Board, the Securities Listing Bye-Laws prescribe the documents and particulars to be submitted in an application for listing on the Exchange and detail the ongoing disclosure requirements to be observed by listed companies.

5. Bonus Share Guidelines, 2058

The provision relating to declaration of Bonus Share (Stock Dividend) and cash dividend by a listing corporate has been prescribed in "Bonus Share Guidelines, 2058". This provision has been made with the view to protect the investors and to manage the securities transactions regarding the implementation and issuing of bonus share as for capitalization of the reserve funds.

6. Government Securities Bylaws of SEBO, 2062 (2005)

With the view to implement HMG/N's program for the trading of government securities in the stock exchange as announced in the budget speech for the fiscal year 2003/04, SEBON drafted Government Securities Trading Management Bylaws, 2005. The Byelaws includes provisions for the capital requirement, qualifications and licensing of securities businesspersons for trading of government securities. Whereas it is expedient to encourage the entry of corporate bodies into the capital market by making the process of registration an issuance of securities simple, transparent and systematic and thereby creating an environment for ensuring easy access of information for the investors for the purpose of making investment decision the Securities Board has, in exercise of its power conferred by Section 35A of Securities Exchange Act, 2040(1983) made this guidelines. Any corporate body willing to register securities and obtain approval for issuance of securities shall, in accordance to Schedule-5 of Securities Exchange Regulation, 2050(1993), submit an application, in such format as laid own in Schedule- 4 of the same regulation.

All above mentioned are the major Acts and Regulations related to the capital market of Nepal. They all are introduced with an objective to enable the activities related to capital market more effectively. But somehow it does not make any clear directives. When we reviewed all the above mentioned Acts and Regulations, we can easily realize that all (Acts and Regulations) have their own objectives but the activities related with the same objectives are differing from each others.

2.2 Review of Related Studies

Jas Bahadur Gurung on his article “Growth and Performance of Capital Market in Nepal” (2004), explains that securities market is a mechanism created to facilitate the exchange of financial securities or assets by bringing together buyers and sellers of securities. Securities markets provide an effective way of procuring long-term funds by issuing shares and debentures or bonds for corporate enterprises and government and at the same time provide an investment opportunity for individuals and institutions. Thus, the market place for these financial securities is called securities market which is further subdivided into the primary and secondary market. The former market denotes the market for newly issued securities to the public whereas the latter market refers to the market for secondhand securities, traded previously in the primary market. The securities market plays an important role in mobilizing savings, and channeling them into productive investment for the development of commerce and industry of the country. It basically assists the capital formation and economic growth of the country. In many developing countries like Nepal, the undeveloped capital market is still prevailing in the economy. The Nepalese securities market still could not take its height. The further improvement of this market is very crucial. It helps in accumulating even small savings for development activities of the economy otherwise, which would have spent in unproductive areas. But it is true that there is no presence even of organized money market in rural areas, which covers almost 90 percent of the total area of the country. Thus, the securities market is only confined to the very limited urban areas of Nepal. Despite these truths, an attempt has been made to analyze the growth trends and performance of Nepalese securities market (Gurung, 2004; Vol.1 No; 1).

The article on “New policy needs to revive capital market” (February 4th, 2010): Experts has said that the continuous decline of Nepalese share market indicated that the country’s economy was heading towards a crisis. They said that the concerned bodies should take the decline in Nepal Stock Exchange

(NEPSE) index seriously so as to prevent the country from possible economic collapse. Speaking at the interaction on the fall of the NEPSE, Dr. Surbir Paudel, chairman of Securities Board of Nepal, emphasized on coordination between the concerned regulating bodies for checking downward trend in NEPSE index by injecting a new policy in the capital market (Expert: 2010).

The well-known professor V.K Bhalla (1997), has given some theoretical insights into capital market after his various research studies on it. He says capital market is the market for long-term finance. In it investor's hand over money today to exchange for promises of money for in the future. The long delay in repayment magnifies the two basic problems of lending. First it increases risk, the longer the lime to repayment: the greater the opportunity for the borrower to important it repayment itself as a source of liquidity. Much of what goes an if today's capital market can be understood in terms of these two basic problems and of the markets attempts to deal with (Bhalla, 1997: 560).

Various measures of stock market development indicate that the stock market in Nepal is under developed and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value-traded ratio to volatility, and high concentration ratio indicate that the stock market in Nepal is highly liquid and risky. Investors tend to avoid stock market because they don't have option to invest in securities according to their risk-return performance. Similarly firms shun it because financial system in Nepal has remained basically bank-dominated (K.C., 2004:37).

There is no alternative to securities market to securities market to allocate scan resources efficiently within economies and increases mass participation in country's development process. Though the institutional development of securities market in Nepal shared in 1976, it is still at an underdeveloped stage, characterized by legal independency low resource availability to the regulator, low liquidity, double taxation on dividend and capital gain tax poor corporate

governance practice, low involvement of institutional investors, poor disclosure practices, high cost of public issue, high transaction cost and lack of enforcement of accounting and auditing standards (Adhikari, 2005: 51).

2.3 Review of Previous Studies (Thesis)

In this section some related thesis has been reviewed in this study.

Shrestha (2000), in his thesis "*Growth and Prospect of Stock Market in Nepal*" tries to show the role of the capital market which has been increasing as to mobilize the saving of the nations and channelize them in to productive activities. But the major problems in the process of development are to increase the level of saving and the channels those saving into investment, which leads to economic growth. Capital market is playing crucial role in the process of growth. In this way, the importance of capital market arises as to proper allocation of accumulated savings to various economic activities.

In his research work Shrestha has made following recommendations:

-) The provision of Annual General Meeting (AGM) should be within four months from the completion of each financial year.
-) Financial statement and annual reports of the company's should be presented to the authority within the three months from the completion of each financial year.
-) Stock market transactions are depending on the demand and supply of security for sell of buy.
-) Market movers are the important indirect factor for the stock market transactions. GDP, interest rate, rate of inflation, foreign exchange rate and commodity price are the main movers of stock market. They affect the share price of the companies in the market.
-) Government and investors should be conscious in these factors whereas so many changes will be in these movers. Government should be more concerned in decreasing of GDP and increasing of interest rate, rate of

inflation and commodity price. Government should give attention to the foreign exchange rate, which also change frequently in Nepalese capital market.

J) Information is the one of the main elements of stock market development. Every stock market transactions are depending in the information provided by the companies. Therefore, security board and Stock Exchange Limited should be in coordination in the information provided by the companies for stock market development.

Bhatt (1997), has conducted research on the topic of “*Dynamic of stock market in Nepal*” the objectives of the researcher analysis the trend of the Nepalese stock market to diagnosis and compare sector –wise financial status of the stocks in Nepalese stock market and To find out the impact of secondary and primary market and vice-versa. The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the later. The stock markets raise and mobilize the invest able resources to finance the long-term large projects in the economy.

The stock markets 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 entrepreneur to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management to raise the return from the investment. Development of the manufacturing sector is the backbones of an economy, which in turn, assists to faster leaning, finance and banking sectors. Unfortunately the manufacturing sector does not have a good performance in Nepalese economy. The secondary aspect of the stock market is there is almost no liquidity for shares except that of banking and some finance and insurance sector. The trend to said that although it has become late to take steps to

overcome such problems of the Nepalese stock market in order to make it active and supportive. The stock market has a good prospect for the resource mobilization to finance the productive enterprise in the Nepalese economy (Bhatta, 1997)

Sharma (2002), in her research work, "*Problems and Prospects of Primary and Secondary Market in Nepal*" has explained that stock market development is the way of economic growth. The major finding of Ms. sharma was as follows:

- J There is no tax benefit in investing to secondary market.
- J Listed companies are slow to bring in their securities in the market.
- J People are showing great trust and faith in the stock market and a large number of people are investing in shares is a very positive sign though the price of share are decreasing.
- J The price and liquidity in the secondary market affect the growth of the primary market.
- J Financial performance of almost all market is poor except in banking institutions.

She has made the following recommendations:

- J Tax system should be reformed and encouraged and stimulate capital formation.
- J NEPSE should adopt appropriate policy for membership and fee structure to attract member outside Kathmandu valley. All types of securities firms, including broker dealers, issue managers and full service securities firm should be eligible for membership.
- J NEPSE should establish and arbitration committee to handle unresolved investor complaints. The NEPSE buy laws should be amended to establish procedures governing the process of arbitration.
- J One of the major problems cited in the NEPSE is the suspect of insider trading system, which is one of the worst flows in stock trading. Such a

system must be immediately discouraged and total review of broker appointing system should be made further, if any practices are noticed immediately action must be initiated (S. Sharma, 2002: 91,92).

Sharma (2006), in his research work, "*Investment Alternatives in Nepalese Capital Market*" wrote that capital market forms a significant part of the infrastructure essential for functioning of the economy and in promoting industrial and economic development of the country. The basic objectives were to analyze the investment alternatives in Nepalese capital market. The study also analyzed the past trends of financial instruments, issue approval and it focused to provide new way for financial derivative i.e. options, convertibles, warrants etc. Major conclusions made by Mr. Sharma are as follows:

There are not adequate financial instruments in Nepalese capital market for the investors. And among the available instruments investor first preference is Equity shares and securities issued by government taken as risk free assets.

While choosing the security from different sector, investor's first choice is banking sector then after they preferred securities from other sectors such as finance companies, insurance companies, hotel, manufacturing companies etc.

Also the study found out that existing rules and regulations are not sufficient to create attractive investment environment and even the corporate disclosure is not timely due to which, investors are not getting timely and reliable information about the organization.

While financial derivatives like Options, Warrants and Convertibles are considered most appropriate instruments world wide, in Nepal these types of securities are not yet in practice. The trends of issuance of Ordinary share including right share is very high as compared to other securities. Or in short

the study said that Nepalese Capital Market is heavily dominated by common stock.

He has made following recommendations:

-) Based on the fact that Nepalese stock market is Common Stock dominated, NEPSE should start the trading of Derivative Securities.
-) Adequate knowledge and information being the enemy of Nepalese Capital Market, government should provide sufficient information about Capital Market to the investors.
-) To increase the number of investors in Nepalese Capital Market government should decentralize the existing security exchange nation wide and even encourage and arrange appropriate policy to issue other securities such as Preferred stock, Debenture etc.
-) Regarding the fact that paper process is lengthy NEPSE should adopt automated trading system and concept of short selling should be established in the country (Sharma M, 2006: .

Thapa (2007), in his research work, "*Performance of Security Board in Nepalese Capital Market*" has concluded that the Acts, Regulations, Laws and Guidelines are not that much ineffective that it could never be improved. So, there is a need of a clear and defined legislation which is lacking in the present or the existing legislation. Here we can also see the implementation problems of the authorities. Only making the effective rules and guidelines are not the problem but also its implementations should be in the right and in proper way. Otherwise, it would be meaningless or worthless.

There is some burning example before us that many public limited companies like Agro Nepal, Himgiri Textiles, Ace Laboratories, Indreni Soybean, Nemroad, etc have already been non-existent and non- performing. Again many public limited companies such as Harisidhi Brick and Tile Factory, Arun Banaspati, Shree Ram Sugar Mills, Balaju Kapada Udhog, Jyoti Spinning Mill,

etc have been operating at losses by creating loss of return, loss of investment to the shareholders. Although these are matters of greater public importance, SEBO/N has not come with adequate surveillance and proper supervision and monitoring to compensate investors with return of their investment. Therefore all the existing legislation should be reviewed and after then only necessary new sub legislation should be issued to cover the areas relevant to the capital market.

And also the proper coordination in between the concerned authorities like SEBO/N, NEPSE, ORC and NRB should be brought with appropriate and clear division of assignments and responsibilities under the legislation. And being a regulatory body, SEBO/N should have thoroughly investigated the prospectus and also make surveillance mechanism enforceable to compensate the shareholders for false statement in prospectus.

Khanal (2003), in his research work "*Growth Problems and Prospects of Capital Market in Nepal*", has explained that Stock Market is backbone of investment sector of country; so by promoting the stock market, government can also develop the economic sector. His major conclusions were as follows:

Stock market has good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy. Mr. Khanal has explained that manufacturing sector do not have good performance in Nepalese stock market as well as Nepalese economy. Almost all firms in this sector have sustained loss. The investors are interested to invest their resources in the shares of corporate sector through the stock market. Further he concluded that It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. The government should launch the program, which overcome the problem face by Nepalese stock market and take it in the long term growth path. Investor's confidence in Nepalese stock market is relatively low because of stock market volatility.

Only a small portion of shares is actively traded while others are traded either in small number or infrequently which leads to poor liquidity and small turnover in the market. Khanal in his study found that transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervisory framework are the urgent needs of Nepalese stock market. The government has to play major role to encourage individual investor participation and sustaining in stock market in order to develop the stock market. Any effort for protecting investor's interest or boosting their confidence or developing the stock market is necessary, that should be enabled to operate in an environment that leads to growth and expansion of Nepalese stock market.

Khanal has made the following major recommendations in his study:

-) The staff member of security board should be well trained in all aspects.
-) The government should formulate appropriate policies for improving the environment for private sector development for efficient mobilization of saving through the stock market
-) The government should allow foreign investors to invest in Nepalese capital market.
-) SEBON jointly with Ministry of Finance and NEPSE should develop public awareness and investor education programs.
-) There is need to provide the opportunity for a large number of investors to participate directly or through mutual saving schemes, which ultimately enhance the breadth and depth of the stock market.
-) Retail investors should be encouraged to enter the stock market.
-) There should be efficient coordination and cooperation among Securities Board, Nepal Stock Exchange and Nepal Rastra Bank in order to develop stock market.

Bhattra (2004), in his thesis entitled, *"Investors preference in choice of Financial Instruments in Nepal"* explains that investment in financial

instruments helps the economic development of a country. The major conclusions made by Bhattraï are as follows:

Independent individual investors prefer the common stock in the Nepalese financial market. So the most preferable financial instrument is common stock i.e. ordinary share or equity share. The second and third preferable instrument found to the debenture and preferred stock respectively.

The preference sector of the investors is banking for the investment in financial instrument. Banking is more popular since it provides sufficient return with comparison to other sector's instruments. The main factor to decision for investment is risk and return analysis. He has concluded that the investors select the common stock of the banking sector because of high return provided by the banking institution in Nepal.

Following recommendations has been made by Bhattraï from his study:

-) The investor's awareness program may be the best technique to provide adequate knowledge about available financial instruments and their transaction in security.
-) Adequate information should be provided to the investors regarding other financial instruments than common stock.
-) Analysis of risk and return is better basis for the investment decision and the trend of this analysis is increasing these days.
-) Analysis shows the young age investors who are dissatisfied in present investment are searching new financial instruments than existing one.
-) SEBON has provided information through website. It should necessary to make trading mechanism through electronic trading system.

2.4 Research Gap

Although many researches have been conducted related to this subject but very few of them talked about both growth and regulation aspects of capital market.

However, growth of capital market has been frequently studied by the previous researchers but regulatory process of capital market has been ignored and none of the study is directly related to this topic. This study also consists of primary data that are acquired through the questionnaire method. To make the study more effective the answers of the responses are analyzed. Hence the study helps to trace out the performance and regulatory process of Nepalese capital market.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain object in view. The systematic and well organized way for solving the research problem can be referred to as research methodology. More specifically, it describes about the research design, sources of data, procedure of data presentation and analysis and population and sample. In this study, research methodology has been paid due attention to achieve the objective of the study.

3.2 Research Design

The first step in the fieldwork study is to design the framework of the research. The research design is the overall plan to be carried out in connection with research project. In other words research design is the plan, structure and strategy of investigation conceived so as to control variance. The study is based on the status of Nepalese Capital Market its growth and regulations so the research design of this study would be descriptive as well as analytical. To complete the research study primary and secondary data will be used. The study follows descriptive and exploratory designs.

3.3 Population and Sample

Five years data is taken for the study purpose. Secondary data is taken from year 2002/03 to 2007/08. For primary data purpose 30 respondents are taken to fill up the questionnaire prepared by the researcher. The group of respondents are 40% NEPSE employee, 50% are from general who comes to Nepal stock Exchange for various purpose and rest are stock broker.

3.4 Sources of Data

The data and information presented in the study will be secondary and primary in nature. The main sources of data will be as follows:

-) Annual reports of Nepal Stock Exchange (NEPSE) and Security Board Nepal (SEBO).
-) Previous research works
-) Various articles related to studies
-) Websites
-) Magazines
-) Direct visit to the companies and answer given by various respondents.

3.5 Procedure of Data Presentation and Analysis

The methods used in data analysis are:

Methods of analysis are applied as simple as possible. Results are presented in tabular form and clear interpretations on it are given simultaneously. To attain the mentioned objectives, the statistical and financial tools are used as required by the study to analyze the secondary and primary data.

Gathered data from secondary and primary sources are first coded, tabulated and presented in a meaningful manner. Categories wise response number of stems is separated and percentages are also given according to the response. Graphic presentations have also been used in the given text. Regarding the primary data, the questionnaire, given written form to respondents, consists of question that are presented in appendix – I. all these gathered data are also analyzed with the help of their percentage analysis and graphic presentation.

) Growth Analysis

The growth rate of every year is analyzed in the study. Due to the analysis of growth rate it can be known that the capital market is taking growth or not in every sector. Especially, secondary data are analyzed using growth rate.

) **Data Presentation**

Diagram and graphs are visual aids which give a bird's eye view of a set of numerical data which make comparison easy between two or more variables out of different types of diagram multiple bar diagram is used in cases where multiple characteristics of the same set of data have to be presented and compared.

) **Percentage**

Percentage is one of the most useful tools for the comparison of two quantities. It is used to analyze different type of data.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter consists of analysis and presentation of secondary and primary data related with different variables using different tools as described in Research Methodology. In order to achieve the objectives, described in first chapter the gathered data are presented and analyzed with the help of above described tools.

4.1 Analysis of Secondary Data

The analysis of secondary data's are presented below:

4.1.1 Analysis of Trend of Listed Companies, Number of Traded Companies and Number of Share Traded in NEPSE

Table 4.1

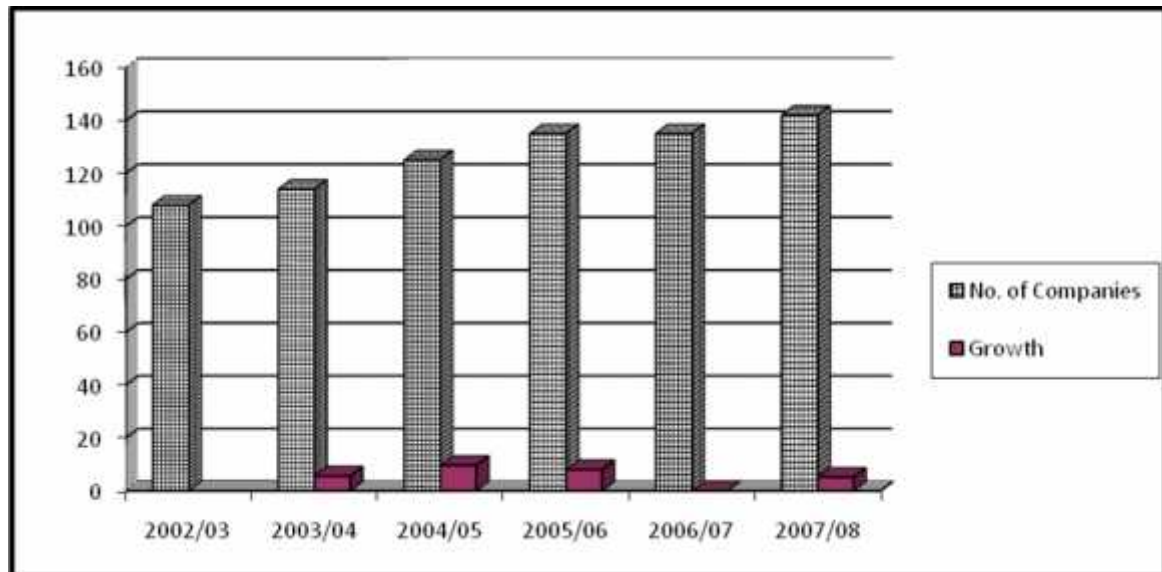
**Analysis of Trend of Listed Companies, Number of Traded Companies
and Number of Share Traded in NEPSE**

Fiscal Year	No. of Listed Companies	% of Growth	No. of Traded Company	% of Growth	No. of Share Traded (in '000)	% of Growth
2002/03	108	-	80	-	2427.89	-
2003/04	114	5.56	92	15	6468.18	166.41
2004/05	125	9.65	102	10.87	18433.55	184.99
2005/06	135	8	110	7.84	12221.93	-33.70
2006/07	135	0	116	5.45	18147.25	48.48
2007/08	142	5.19	136	17.24	28599.8	57.60

Source: Annual Report of NEPSE

Figure 4.1

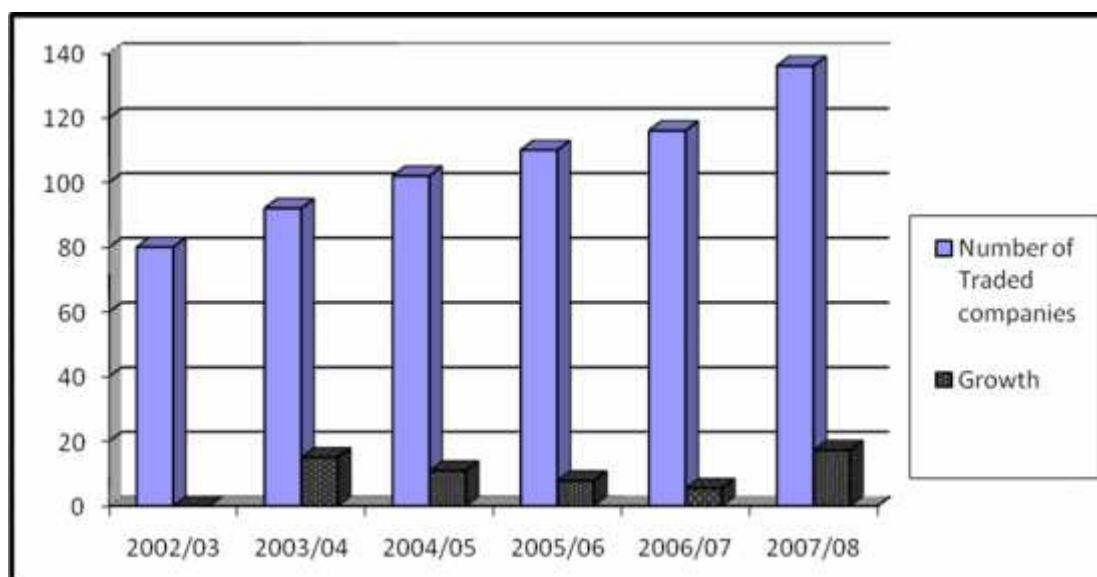
Analysis of Number of Listed Companies in NEPSE



The number of listed companies in NEPSE was 108 on the base year 2002/03, 114. In 2003/04, 125 in 2004/05, 135 in 2006/07 and 142 in 2008. Growth rates of listed Companies are positive In all these years except in year 2007. Growth rate was highest in year 2005 i.e. 9.65% and lowest in year 2007 i.e. 0%.

Figure 4.2

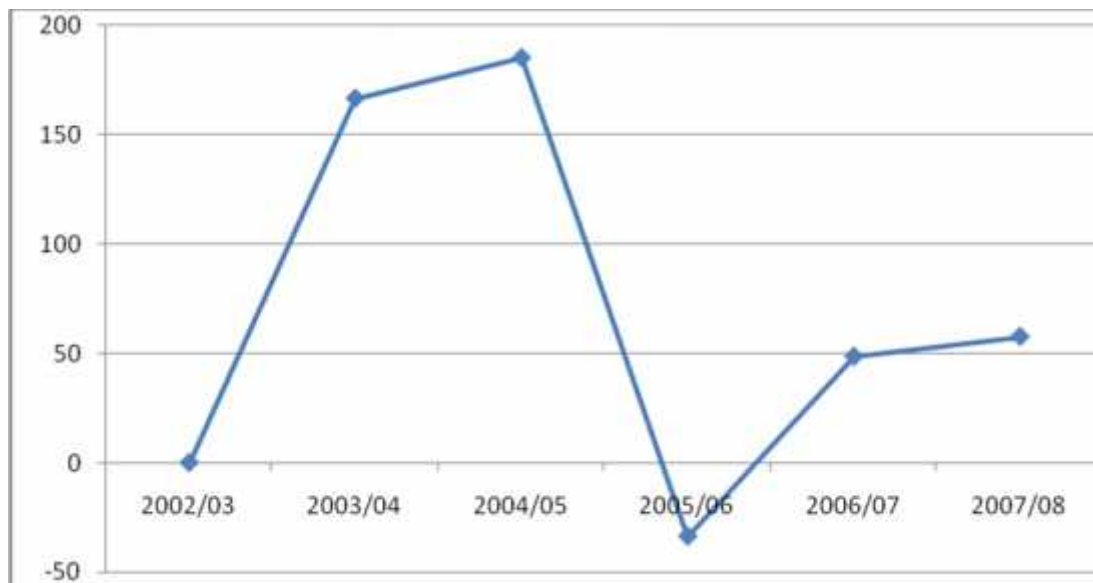
Analysis of Number of Traded Companies in NEPSE



Numbers of traded companies in 2002/03 were 80 and were 136 in 2008. Above data shows that traded companies are on increasing trend in all these years. Among them highest was on year 2008 and lowest was on year 2003.

Figure 4.3

Analysis of Growth of Number of Share Traded in NEPSE



The above analysis and trend line shows the number of share traded in NEPSE was fluctuating. The growth rate of shared traded also seems varied. 2427896 shares were traded on year 2002/03 whereas the number of traded shares increased to 6468180 in year 2003/04. But in the year 2005/06 the number of shares traded was declined and came to 12221930 only. Again in year 2006/07 the growth percentage was positive i.e. growth by 48.48%. And in the year 2007/08, 28599800 shares were traded in NEPSE floor.

4.1.2 Analysis of Number of Transaction and Listed Securities in NEPSE

Table 4.2

Analysis of Number of Transaction and Listed Securities in NEPSE

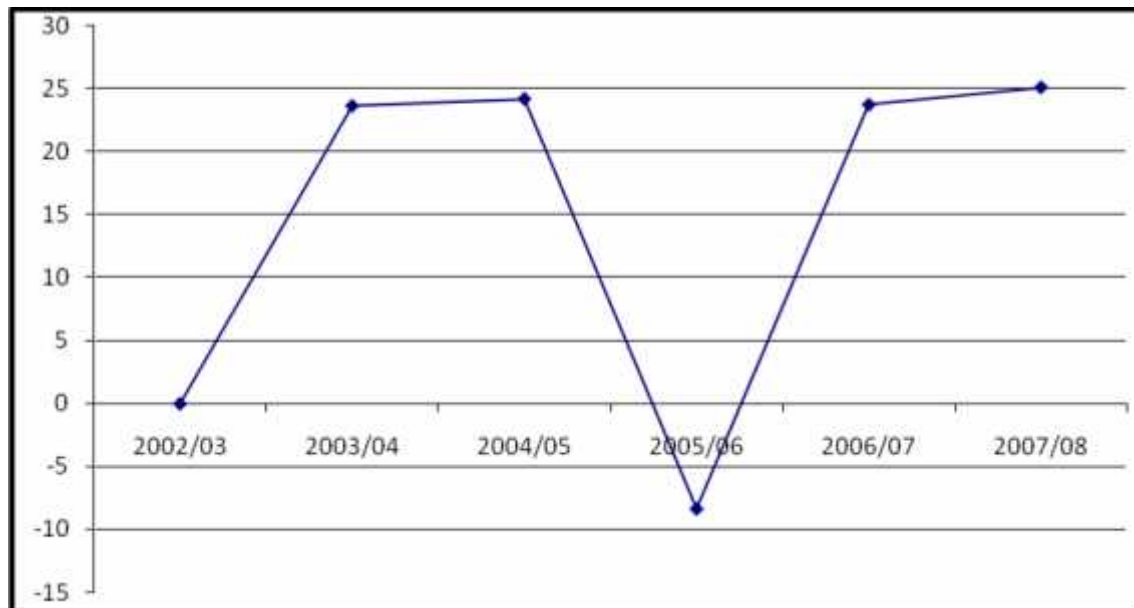
(In '000)

Fiscal Year	No of Transaction	% of Growth	No of Listed Securities	% of Growth
2002/03	69163	-	159958	-
2003/04	85533	23.67	161141	0.74
2004/05	106246	24.22	194673	20.81
2005/06	97374	-8.35	226540	16.37
2006/07	120510	23.76	243504	7.49
2007/08	150800	25.13	321131	31.88

Source: Annual Report of NEPSE

Figure 4.4

Growth in Number of Transaction in NEPSE

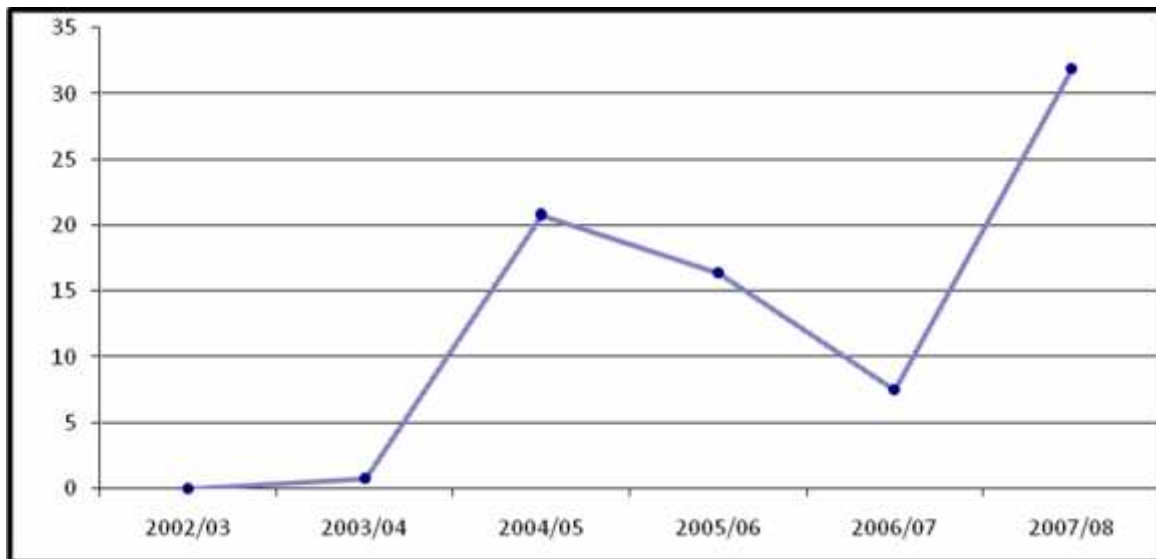


In the table and figure shown above, growths on numbers of transactions in NEPSE were bit fluctuating on yearly basis. Only 69163 transactions were made on year 2002/03 whereas 85533 transactions were made on year 2003/04 which was a growth rate of 23.67%. Similarly, on the year 2004/05 numbers of

transactions made was 106246 and on the year 2005/06 the transaction dropped to 97374 which mean the negative growth rate of 8.35%. Likewise, on the year 2006/07 the number of transaction made was 120510 and on the year 2007/08 the transaction made was highest on year 2007/08 and lowest on year 2005/06.

Figure 4.5

Growth Trend of Numbers of Listed Securities in NEPSE



Similarly, the above table shows numbers of listed securities in year 2002/03 were 159958 while it was 161141 on year 2003/04. Above figure shows growth rate of listed securities was positive in every year. Growth rate on number of securities was highest on year 2007/08 whereas lowest on year 2003/04. In the year 2007/08 number of listed securities were 321131 which grew by 31.88% in comparison with year 2006/07.

4.1.3 Analysis of Market Day and Turnover in NEPSE

Table 4.3

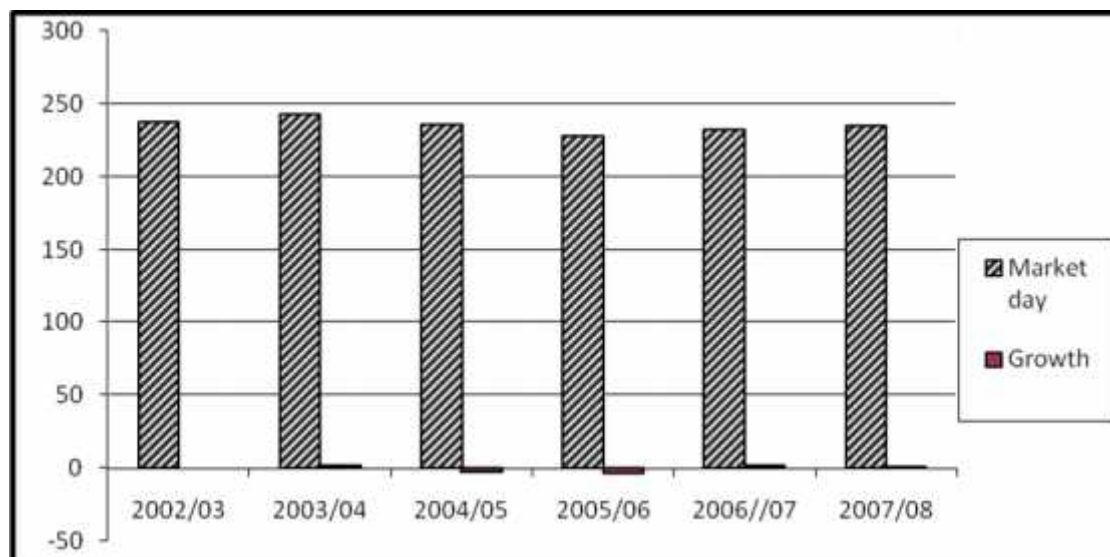
Analysis of Market Day and Turnover in NEPSE

Fiscal year	Market day per year	% of growth	Average daily turnover (in million)	% of growth
2002/03	238	-	2.42	-
2003/04	243	2.10	8.82	264.46
2004/05	236	-2.88	19.10	116.55
2005/06	228	-3.39	15.14	-20.73
2006/07	232	1.75	36.03	137.98
2007/08	235	1.29	97.1	169.50

Source: Annual Report of NEPSE

Figure 4.6

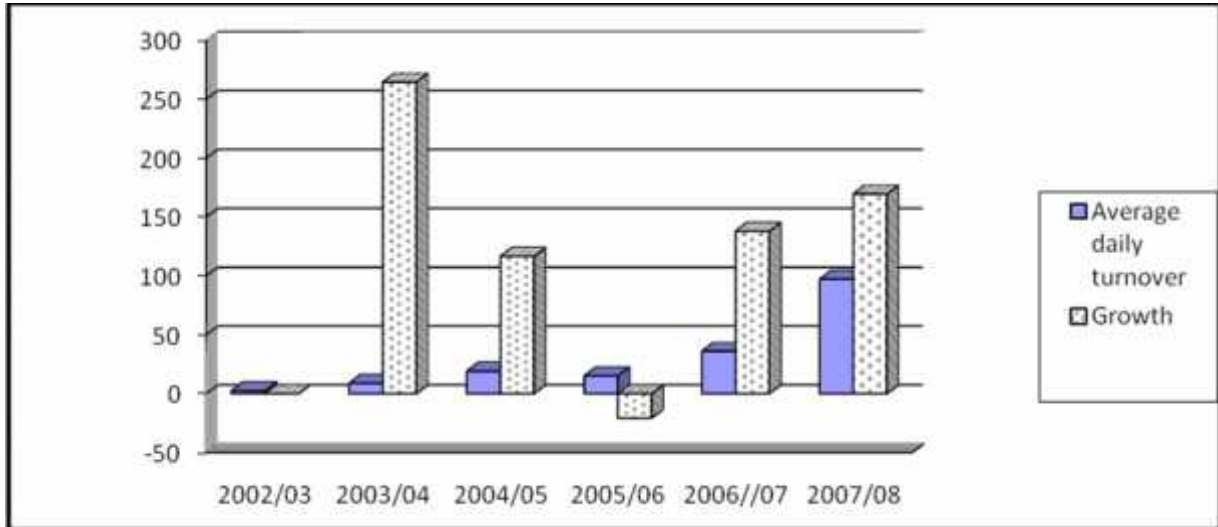
Market Day in NEPSE



It's the market day that affects the average daily turnover of stock market. As shown in the table above market days seems quite consistent. Highest numbers of market days were in year 2003/04 whereas lowest numbers of market days were in year 2005/06. Highest the market day per year, it has higher chances of growth of stock market. So, it can also be considered as important stock market development indicator.

Figure 4.7

Average Daily Turnover in NEPSE



Average daily turnover can be considered as important stock market indicator as it provides liquidity to stock market and commission to the stockbrokers. Looking at the trend of above figure, it is clearly seen that average turnover in NEPSE was inconsistent. In the year 2002/03 average daily turnover was Rs. 2.42 million and Rs. 8.82 million in the year 2003/04. But the growth rate on year 2005/06 was negative having only Rs. 15.14 million daily turnover. The growth rate on year 2003/04 was highest of 264.46% whereas lowest on year 2005/06 of -20.73%.

4.1.4 Analysis of Total Amount of Issue Approved

Table 4.4

Analysis of Total Amount of Issue Approved

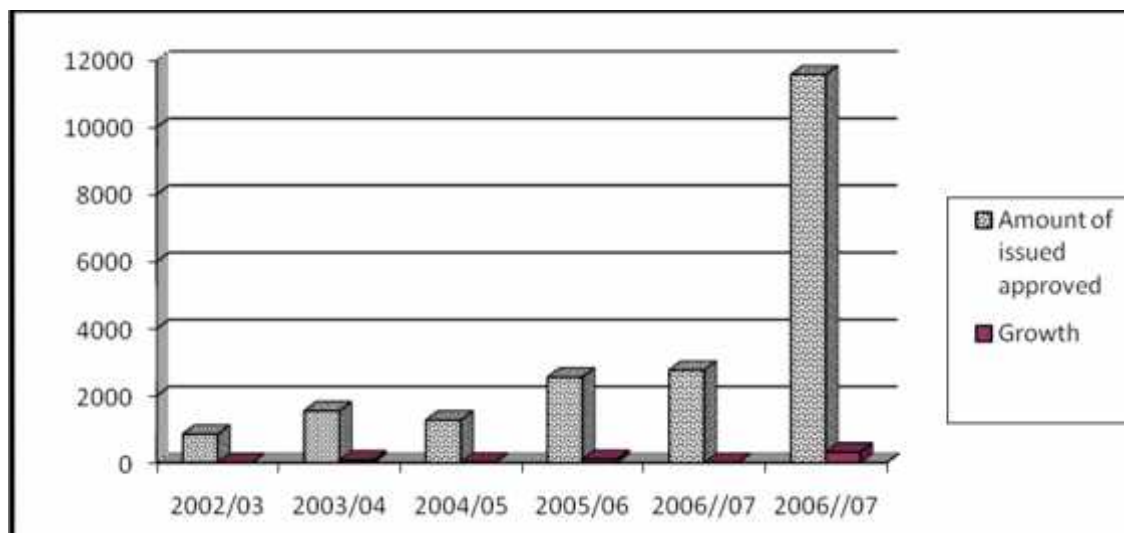
Fiscal Year	Amount of issue approved (Rs in million)	% increase in issue approved
2002/03	853.83	-
2003/04	1547.79	81.28
2004/05	1270.31	17.93
2005/06	2547.87	100.57
2006/07	2757.50	8.23

2007/08	11567.86	319.50
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Source: Annual Report of NEPSE

Figure 4.8

Total Amount of Issue Approved



In the fiscal year 2002/03 SEBO granted issue approval amounting to Rs. 853.83 million. Highest number of issue was approved in the year 2007/08 i.e. of Rs. 11567.86 million and the lowest issue was approved in the year 2006/07 i.e. of Rs. 2757.50 million in comparison than that of last fiscal year 2005/06. Looking at the trend of issue approved seems bit fluctuating but nowadays it is quite satisfactory in Nepalese stock market.

4.1.5 Analysis of Market Capitalization

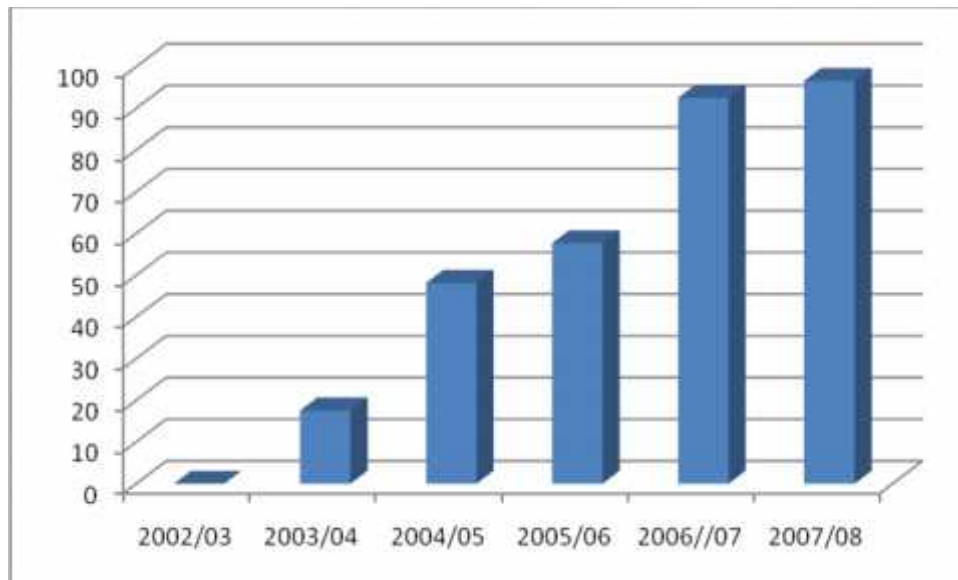
Table 4.5

Analysis of Market Capitalization

Fiscal Year	Market Capitalization (Rs in million)	% Increase in Market Capitalization
2002/03	35240.40	-
2003/04	41424.77	17.55
2004/05	61365.89	48.14
2005/06	96763.74	57.68
2006/07	186301.28	92.53
2007/08	366247.60	96.60

Source: Annual Report of NEPSE

Figure 4.9
Market Capitalization



The market capitalization of listed securities at the end of fiscal year 2007/08 was Rs. 366247.6 million, which was increased by 96.60% from the last fiscal year's Rs. 186301.28 million. Similarly, market capitalization in year 2002/03 was Rs. 35240.40 million which was increased by 17.55% on the year 2003/04 making market capitalization of Rs. 41424.77 million.

Total market capitalization was highest in the year 2007/08 i.e. Rs. 366247.60 million and lowest in the year 2002/03 i.e. Rs. 35240.40 million. Similarly, growth rate was highest on 2007/08 i.e. 96.6% and lowest on the year 2003/04 i.e. 17.55%. The above data shows that the market capitalization of listed securities is on increasing trend. These increasing trend is a good indicator of capital market growth.

4.1.6 Analysis of NEPSE Index (Base year 2002/03)

Index is an indicator used to represent the changes in a set of values between base time period and another time period. NEPSE index is the market worth

value of all its listed companies, which is the economic indicator and reveals the performance of market to the investors about what the market is doing. It is also known as the indicator of the movement of the overall securities prices in secondary market.

NEPSE index is calculated by using the following formula;

$$\text{NEPSE Index} = \frac{\text{Today's Market Value}}{\text{Yesterday's Market Value}}$$

$$\text{Adj. base value} = \frac{\text{Old MV} + \text{Amount of New Listing} \times \text{Base Value Before New Listing}}{\text{Old Market Value}}$$

(Index for the base period has been assumed as 100)

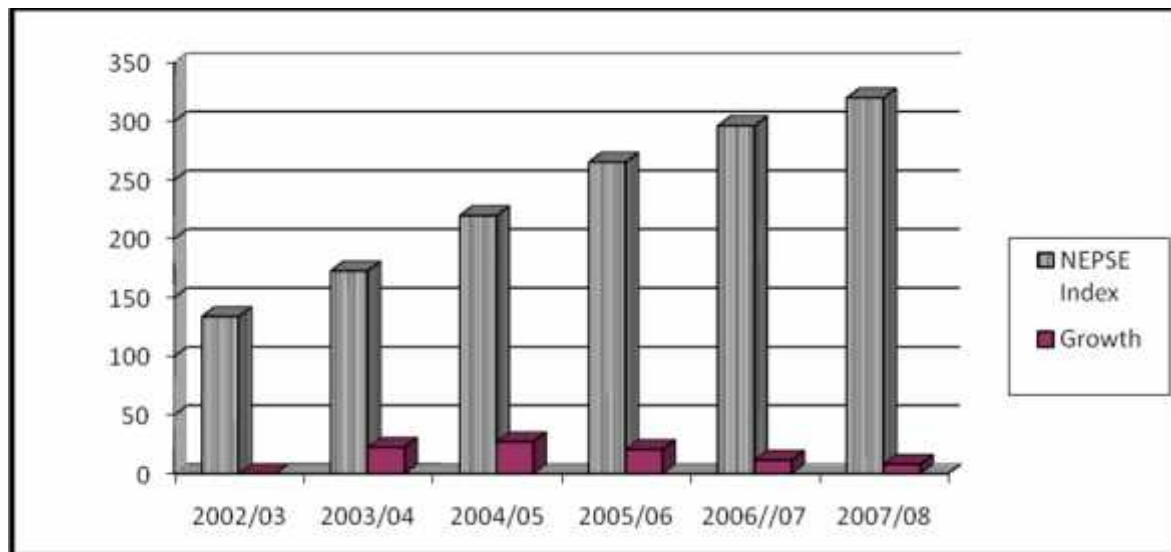
Table 4.6
Analysis of NEPSE Index

(In million)

Fiscal Year	NEPSE Index (Rs in million)	% Change in Index
2002/03	133.76	-
2003/04	172.56	22.48
2004/05	219.72	27.33
2005/06	265.04	20.63
2006/07	295.98	11.67
2007/08	319.79	8.04

Source: Annual Report of NEPSE

Figure 4.10
NEPSE Index



The above figure shows that NEPSE index in 2002/03, 2003/04, 2004/05, 2005/06, 2006/07 to year 2007/08 every year NEPSE index is in increasing trend respectively 133.76, 172.56, 219.72, 265.04, 295.98 and 319.79. The growth rate was highest on year 2004/05 i.e. 27.33 percent and lowest on year 2007/08 i.e. 8.04 percent.

4.2 Analysis of the Primary Data

Here the data are analyzed as per the questionnaires filled up by the respondents. We analyze the data according to the question and their responses are described in the findings of each question.

1. In your view, what are the constraints in the growth of Nepalese capital market? Rank the following points. (No.1 mark means it is most important)

The question was asked with different respondent to know their viewpoint regarding the constraints in the growth of Nepalese capital market. The choices given to them were:

- a. Government rules and regulation
- b. Performance of NEPSE and SEBON
- c. Illiteracy of investors
- d. Lack of information about capital market

And they were asked to rate the most important ones as 1 and so on...

In this research question, view regarding respondents is shown in table below:

Table 4.7
Constraints in the Growth of Nepalese Capital Market

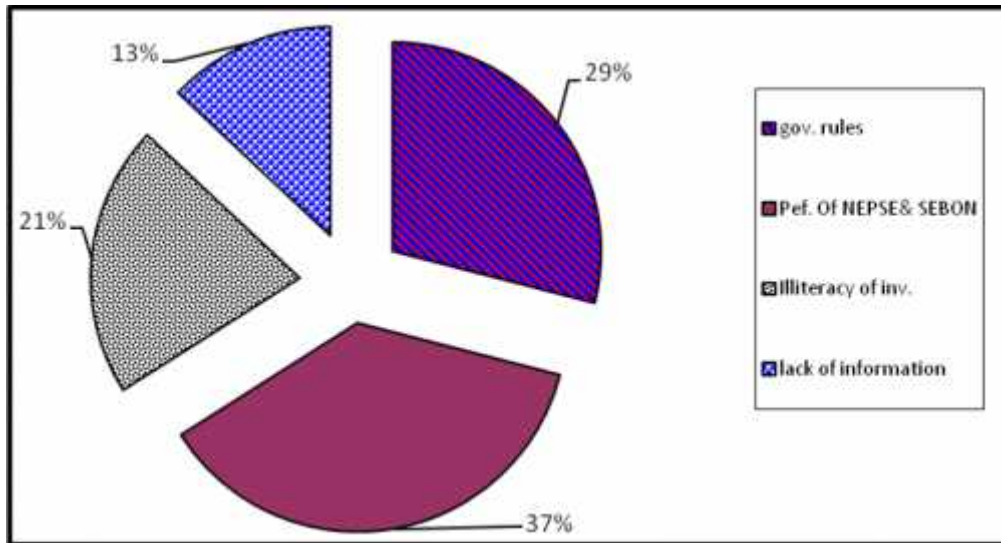
Alternatives	Weight	Gov. Rules & Regulation	Performance of NEPSE & SEBON	Illiteracy of Investors	Lack of Information
1 st most preferred	4	8	18	2	2
2nd most preferred	3	10	10	8	2
3 rd most preferred	2	10	2	10	8
4 th most preferred	1	2	0	10	8
Scored		84	107	62	38
Percentage		29%	37%	21%	13%

Source: Field Survey

The above table shows the primary data analysis of constraints in the growth of Nepalese capital market as 29% weight was given to government rules and regulation, likewise, 37% weight was given to performance of NEPSE and SEBON, 21% weight was scored by illiteracy of investors and only 13% weight was given for lack of information. The above analyzed data are represented in a figure below:

Figure 4.11

Constraints in the Growth of Nepalese Capital Market



After analyzing the above data and figure, it can be seen that the response was very clear. The question about the constraints on growth of Nepalese capital market was asked to 30 respondents. As above data shows that the obtained marks in constraints on growth of Nepalese capital market is 37%, 29%, 21% and 13% respectively to performance of NEPSE & SEBON, government rules and regulations, illiteracy of investors and lack of information. It means that the major constraint is performance of NEPSE and SEBON and the least restricted factor is lack of information. So, the performance of NEPSE and SEBON should be more effective, operational and transparent to develop the capital market further.

2. What do you think are the policy measures to be adopted to improve stock market? Rank the following points. (No. 1 means it is most important)

The given options regarding this question are"

- a. Make trading activities transparent
- b. Provide information to investors
- c. Increase the number of brokers

And they were asked to rate the most important ones as 1 and so on...

In this research question view regarding respondents is shown in table below:

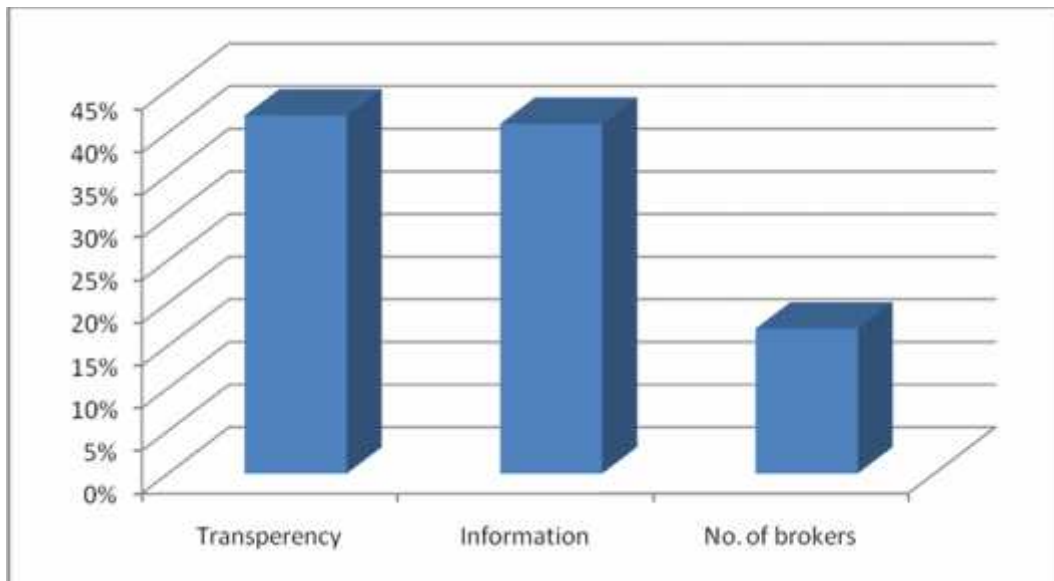
Table 4.8
Policy Measures to be Adopted to Improve Stock Market

Alternatives	weight	Making Trading Activities Transparent	Information to Investors	Increase No of Brokers
1 st most preferred	3	16	14	0
2nd most preferred	2	14	16	0
3 rd most preferred	1	0	0	30
Scored		76	74	30
Percentage		42%	41%	17%

Source: Field Survey

The above table shows the primary data analysis of policy measures to be adopted to improve the performance of stock market. As shown on the above figure, 42% weight was given to making trading activities transparent, 41% weight was given to must provide information to investors and 17% weight was given to must increase number of brokers. The above presented data can be shown on figure as below:

Figure 4.12
Policy Measures to be adopted to Improve Stock Market



After analyzing the data and figure presented above, the score given by 30 respondents on the question related about the policy measures that should be adopted to improve stock market to their options making trading activities transparent, information to investors and increase number of brokers are 42%, 41% and 17% respectively. So after the analysis, it is known that the major factor that should be adopted to improve the performance of stock market is to making trading activities transparent, secondly provide adequate, timely and reliable information to the investors and the last one is to increase number of brokers.

3. In Nepal stock market is in early stage of development. What do you think are the reasons? Rank the following points. (No. 1 means it is most important)

The given options to this question are"

- a. Lack of fully automated technology in capital market
- b. Lack of knowledge about the securities market among the mass
- c. The regulations, Acts and guidelines are insufficient

And they were asked to rate most important ones as 1 and so on.

And in this question, views given by the respondents are as follows:

Table 4.9

Reasons for Stock Market in an Early Stage of Development

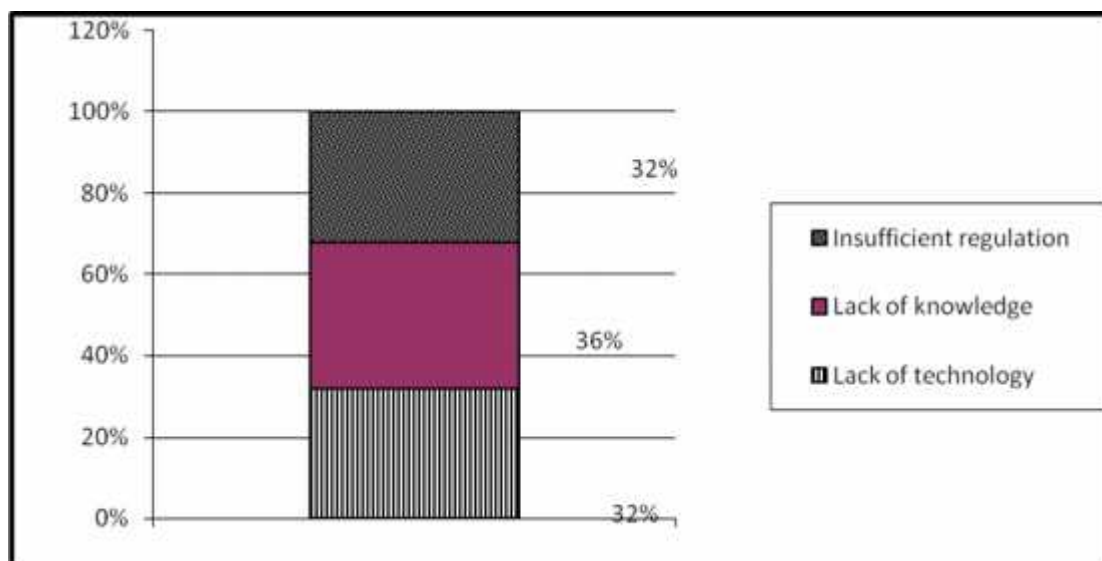
Alternatives	weight	Lack of fully Automated Technology in Capital Market	Lack of Knowledge about the Securities	Insufficient Regulations, Acts and Guidelines
1 st most preferred	3	10	12	8
2nd most preferred	2	8	10	12
3 rd most preferred	1	12	8	10
Scored		58	64	58
Percentage		32%	36%	32%

Source: Field Survey

The question regarding reasons for Nepalese stock market in early stage of development was asked to the respondents. Overall views of the respondents are summarized in above table. Out of 30 respondents, 10 respondents first rank lack of fully automated technology is the cause that the Nepalese capital market is in early stage of development. Twelve rank first in lack of knowledge about the securities and rest eight rank first in insufficient regulations, acts and guidelines is the reasons for early stage of development.

Figure 4.13

Reason for Nepalese Capital Market in Early Stage of Development



As shown in above figure, 36% of highest weight is obtain to lack of knowledge is the reason of Nepalese capital market early stage of development and the two other options i.e. Insufficient regulations, acts and guidelines and lack of fully automated technology obtain similar 32% marks. So, it means that to develop Nepalese capital market more focused should be given to provide publicity, knowledge about securities and share market to the general public.

4. In your view, which is the most impactable factor on growth of Nepalese capital market among following points? Rank the following points. (No. 1 means it is most important)
- a. Increase supply of tradable securities
 - b. Create healthy legal environment
 - c. Increase public awareness
 - d. Establishment of another stock exchange outside the valley

And they were asked to rate most important ones as 1 and so on...

And in this question, views given by the respondents are as follows:

Table 4.10

Most Impactable Factor on Growth of Nepalese Capital Market

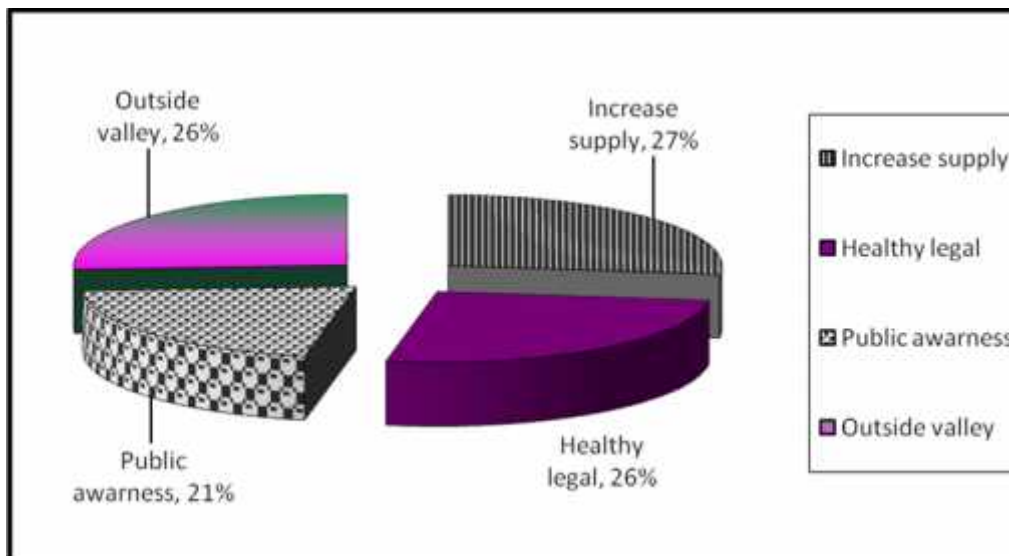
Alternatives	Weight	Increase Supply of Tradable Securities	Create healthy Legal Environment	Increase Public Awareness	Establishment of Another Stock Exchange Outside the Valley
1 st most preferred	4	12	8	6	8
2nd most preferred	3	5	9	6	10
3 rd most preferred	2	8	8	7	7
4 th most preferred	1	5	5	11	5
Scored		84	80	67	81
Percentage		27%	26%	21%	26%

Source: Field Survey

As shown in above table most of the general people believes that the most impact able factor on growth of Nepalese capital market preferred the first options increase in supply of tradable securities, least preferable options is increase in public awareness and secondly preferred options is both creating healthy legal environment and establishment of another stock exchange outside the valley.

Figure 4.14

Most Impactable Factor on Growth of Nepalese Capital Market



As shown in above figure the most impactable factor in growth of Nepalese capital market according to the respondents is increase in supply of tradable securities which weights 27%. Similarly, creating healthy legal environment and establishing another stock exchange outside the valley is secondly preferred factor in growth of Nepalese capital market which carries weight of 26% and the least preferred option according to the above figure is increase in public awareness which weights 21%.

5. In your view, did the expansion of NEPSE in Biratnagar, Pokhara and Narayangadh will make positive effect on performance of Nepalese capital market?
- a. Yes
 - b. No
 - c. No Idea

And in this question views given by the respondents are as follows:

Table 4.11

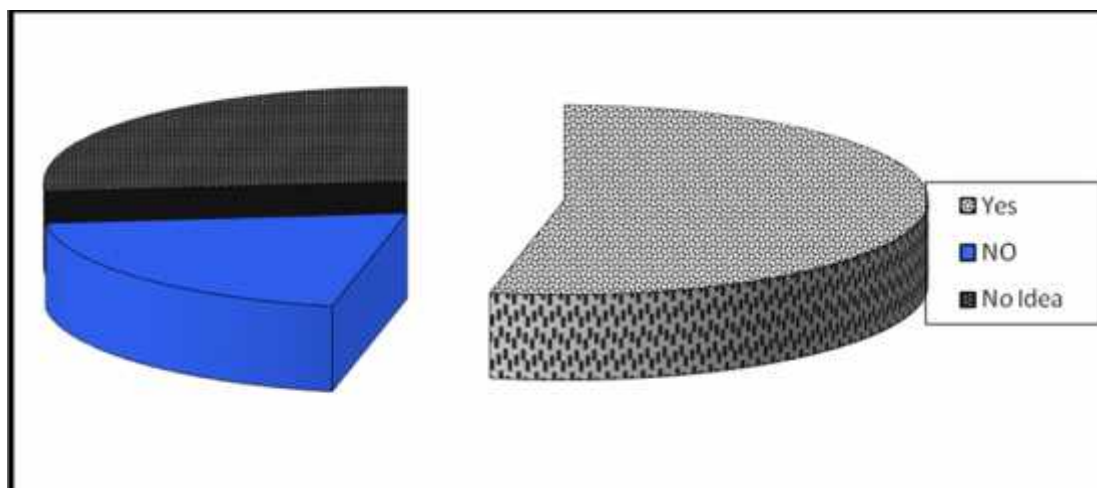
Responses Given on Expansion of NEPSE if makes any Positive Effect on Performance of Nepalese Capital Market

S.N.	Variables	No of Respondents	% of Respondents
1	Yes	16	53.3
2	No	6	20
3	No Idea	8	26.7
	Total	30	100

Source: Field Survey

Figure 4.15

Responses Given on Expansion of NEPSE if makes any Positive Effect on Performance of Nepalese Capital Market



Regarding the question, when researcher asked if the expansion of NEPSE outside the valley makes any positive effect on performance of Nepalese capital market, 53.3% respondents said yes, 20% respondents said no and 26.7% said they have no idea whether the expansion of NEPSE results in positive performance of Nepalese capital market or not.

6. Are you satisfied with the growth trend of Nepalese capital Market?

- a. Yes
- b. No

c. Do not know

Regarding the above question, views given by the respondents are as follows:

Table 4.12

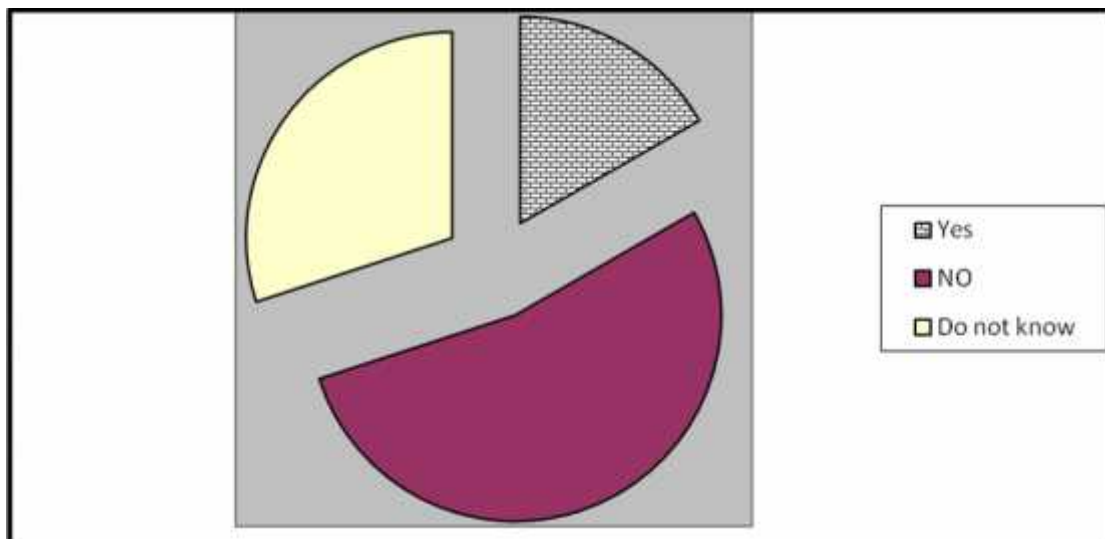
Responses given on whether they are satisfied with the Growth Trend of Nepalese Capital Market

S.N.	Variables	No of Respondents	% of Respondents
1	Yes	5	16.7
2	No	16	53.3
3	Do not know	9	30
	Total	30	100

Source: Field Survey

Figure 4.16

Responses given on whether they are satisfied with the growth trend of Nepalese Capital Market



When I asked the above question to the respondents most of them holds the view that they are not satisfied with the growth trend of capital market covering the percentage of 53.3. Likewise, 30% have no idea whether the capital market is in growing trend or not and 16.7% are satisfied with the growth trend of Nepalese capital market.

7. Do you think Nepalese capital market is informational and operationally efficient?

- a. Yes
- b. No
- c. No Idea

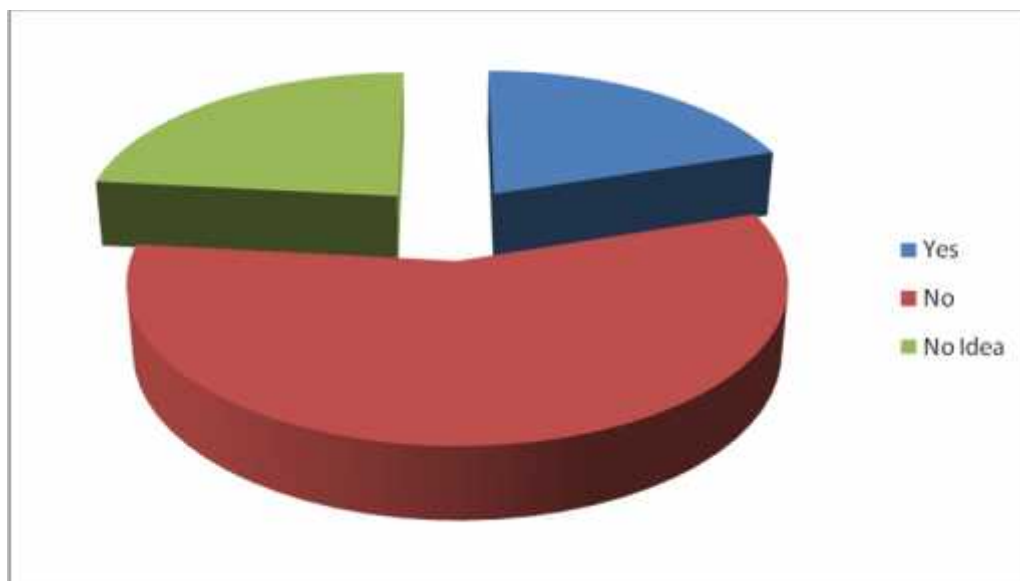
Views given by the respondents on this question are summarized below on the table:

Table 4.13
Responses to Nepalese Capital Market is Informational and Operationally Efficient or Not

S.N.	Variables	No of Respondents	% of Respondents
1	Yes	6	20
2	No	17	56.7
3	No idea	7	23.3
	Total	30	100

Source: Field Survey

Figure 4.17
Responses to Nepalese Capital Market is Informational and Operationally Efficient or Not



When the above question was asked majority of respondents said no the market is not informational and operationally efficient and weights a higher percentage of 56.7. Similarly, 23.3% said they have no idea whether the market is informational and operationally efficient or not as all of the investors are not aware of this things and some of them are illiterate too and 20% said it is efficient both informational and operationally.

8. In your view, if new securities such as derivatives, options, debentures are introduced to Nepalese capital market, in what level can it contribute on the growth of Nepalese capital market?
- a. Very high contribution
 - b. High contribution
 - c. Moderate contribution
 - d. Low contribution
 - e. Very low contribution

And the response we get from the survey is given as follows:

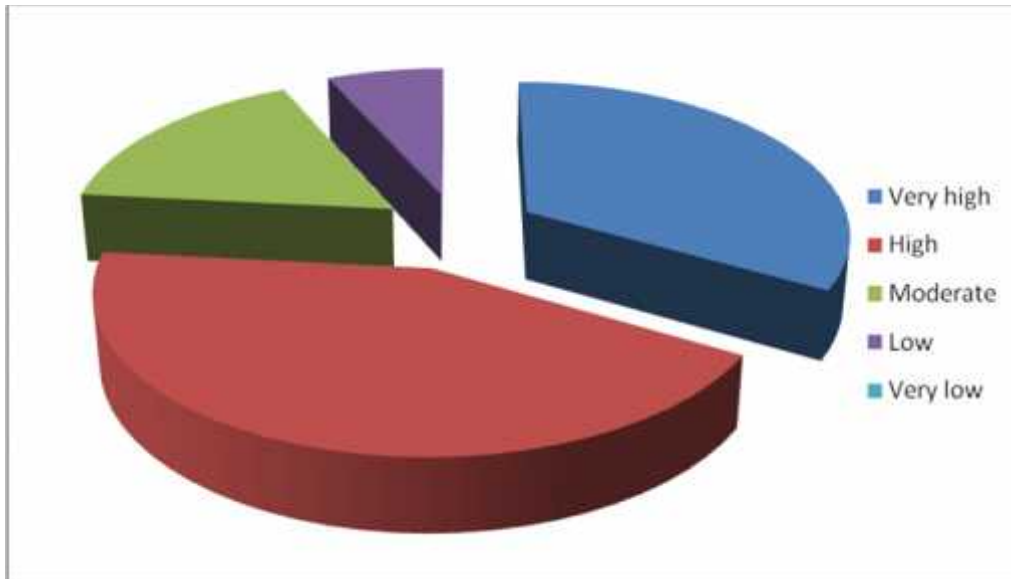
Table 4.14
Level of Contribution if Other Financial Instruments are Introduced to Nepalese Capital Market

S.N.	Level	No of Respondents	% of Respondents
1	Very high	10	33.3
2	High	13	43.3
3	Moderate	5	16.7
4	Low	2	6.7
5	Very low	0	0
	Total	30	100

Source: Field Survey

Figure 4.18

Responses given on whether the introduction of Other Financial Instruments Contribute in Growth of Nepalese Capital Market



When the above question was asked, majority of respondents believed that if above mentioned securities will be introduced to Nepalese capital market it will highly contribute on the growth of Nepalese capital market and also weights a higher percentage on this survey of 43.3. Similarly, 33.3% believes it will contribute very highly, 16.7% believes it will contribute moderately and 6.7% believes it will have low contribution on growth of Nepalese capital market and no body believes that it can't contribute on the growth of capital market.

9. Is the regulation process of capital market in Nepal is satisfactory?

- a. Yes
- b. No
- c. Do not know

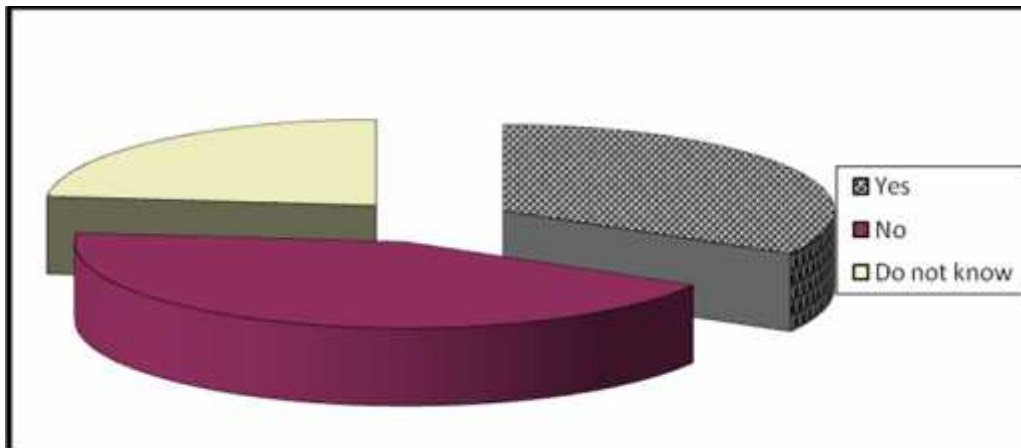
Responses given by the respondents on above question:

Table 4.15
Responses on whether the Regulation Process of
Capital Market is Satisfactory

S.N.	Variables	No of Respondents	% of Respondents
1	Yes	10	33.3
2	No	13	43.3
3	Do not know	7	23.3
	Total	30	100

Source: Field Survey

Figure 4.19
Responses on whether the Regulation Process of
Capital Market is Satisfactory



Regarding the above question, 43.3% respondents think the regulatory process of capital market is not satisfactory as there is only SEBO that regulates NEPSE. Likewise, 33.3% are satisfied with the regulation process and 23.3% have no idea whether the regulatory process is satisfactory or not.

10) Do you think NEPSE and SEBON provide security information timely and correctly?

- a. Yes
- b. No
- c. Do not know

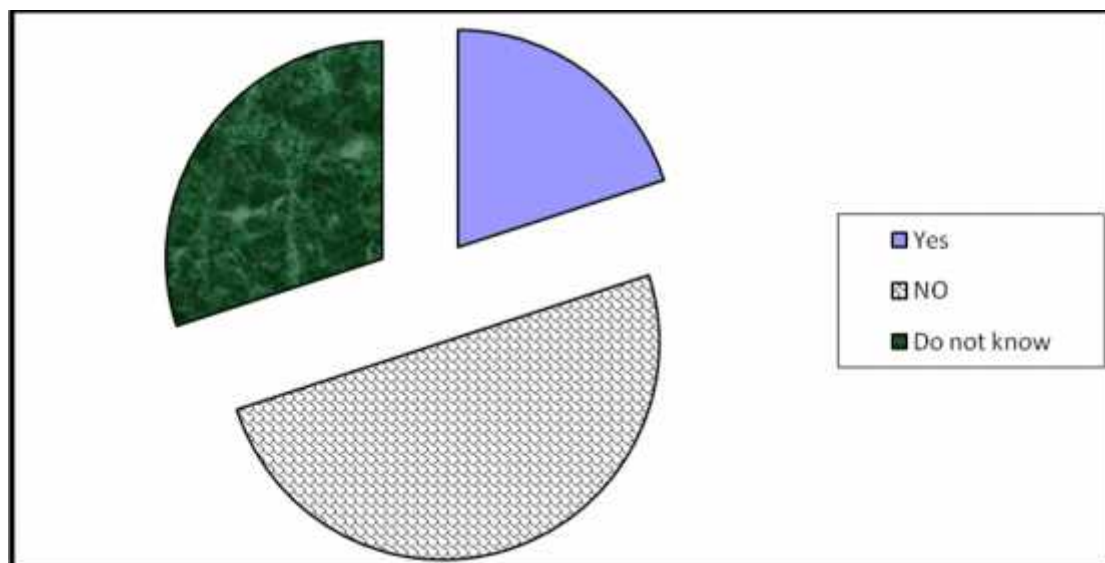
Views given by respondents on above question are as follows:

Table 4.16
Responses on whether NEPSE and SEBON Provide Security Information Timely and Correctly

S.N.	Variables	No of Respondents	% of Respondents
1	Yes	6	20
2	No	15	50
3	Do not know	9	30
	Total	30	100

Source: Field Survey

Figure 4.20
Responses on Whether NEPSE and SEBON Provide Security Information Timely and Correctly



50% respondent believes that NEPSE and SEBON do not provide security information timely and correctly. 30% respondents have no idea whether the information is provided timely and correctly or not and 20% respondents are well satisfied about providing security information timely and correctly by NEPSE and SEBON.

11. In your opinion, what can be done to develop the Nepalese capital market? When this question was asked respondents replied that there are various issues this should be taken into consideration to develop Nepalese capital market. Some of the major issues are summarized below:

Many of them think there are no adequate investments opportunities in Nepalese capital market so they should be widened. Securities information should be given timely and correctly as well. Similarly, some of them feel regulatory process should be effective and transparent as well. Besides this all of them agree that in order to develop Nepalese capital market political stability, economic environment should be fair and stable.

4.3 Major Findings of the Study

After analyzing above data's following findings were made. First we talk about Secondary data and the findings made are described as below:

Numbers of listed companies in NEPSE are found positive in all years except in year 2007. Growth rate was highest in year 2005 i.e. 9.65% and lowest in the year 2007 i.e. 0%. Similarly, numbers of traded companies are on increasing trend which is a good indication on growth of stock market. And the traded companies are highest on year 2007/08 and lowest on year 2002/03 having 136 and 80 companies respectively. Likewise, numbers of shares traded in NEPSE seems bit fluctuating. Highest growth on shares traded was on year 2004/05 with 184.99% and lowest was on year 2005/06 with negative growth rate of 33.70%.

Numbers of transactions on NEPSE seems bit fluctuating. Highest transaction was made on year 2007/08 with 150800000 and growth rate of 25.13% in comparison of last year. And similarly, lowest transaction was made on year 2005/06 with only 97374000 transactions and with a negative growth rate of 8.35%. Regarding numbers of listed securities they are found positive every

years. Highest numbers of listed securities were on year 2007/08 and lowest were on year 2003/04 with a growth rate of 31.88% and 0.74% respectively.

Market days in NEPSE seem quite consistent in all above years. Highest market days were on year 2003/04 with 243 days and lowest days were on year 2005/06 with 228 days. But at the same time average daily turnover looks inconsistent in above mentioned years. The growth rate was highest on year 2003/04 with 264.46% and was lowest on year 2005/06 with -20.73%.

In today's scenario issue approval in NEPSE seems satisfactory but in above mentioned years it was quite fluctuating. Total amount of issue approved was highest on year 2007/08 with Rs. 11567.86 million and lowest on year 2006/07 i.e. Rs. 2757.50 million.

Market Capitalization on above mentioned years is on increasing trend. It was highest on year 2007/08 with Rs. 366247.60 million and lowest was on year 2002/03 with Rs. 35240.40 million with a growth rate of 96.6% and 17.55% respectively.

Talking about the NEPSE index on above mentioned period it is on increasing trend and it reveals that market is performing well. NEPSE index was highest on year 2004/05 with growth rate of 27.33% with comparison of last year and index was lowest on year 2007/08 with only a growth rate of 8.04% than that of last year.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This research study was conducted to analyze the growth and regulation of capital Market in Nepal. The study period of five years begins from the fiscal year 2002/03 to 2007/08. During the study secondary and primary data were used to analysis the growth status of NEPSE. Various law and regulation were also reviewed during the study period. All these rules and regulations are essential for the development of capital market of Nepal. But the regulatory system in Nepalese capital market is still redundant and fragmented. There are a lot of impediments and obstacles to be solved in order to enhance an effective statutory and regulatory framework. This is why the Nepalese capital market is in early stage of development.

For mobilization of invest able resources from one sector to another, Capital Market plays very important role bridging of the deficit units and surplus units. Capital Market is an institution where stocks and other securities are, bought and sold continuously. Capital Market is the medium through which scattered saving and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of nation.

Capital Market is the market place through which the entrepreneurs collect the long – term capital by mobilizing the individual and institutional savings either directly or indirectly. Besides this, the securities once sold through the primary market are also traded in the secondary market.

During the study period secondary data and primary data were analyzed in with the help of different tabular and graphic presentations along with their weighted average and percentage analysis. The different respondents filled as for as possible what they know about that for given questionnaires.

For the purpose of primary data 30 respondents were taken as a sample. Various questions related to growth and regulation of Nepalese capital market was asked during the study. 33.3% of respondents are satisfied with the regulation process of Nepalese capital market. 20% said Nepalese capital market is operational and informational, 20% respondents are well satisfied about providing security information timely and correctly by NEPSE and SEBON, 53.3% respondents said expansion of NEPSE in different districts results in positive performance of Nepalese capital market.

5.2 Conclusion

During this study on growth and regulation of Nepalese capital market, general conclusion can be made that the growth trend of NEPSE is in fluctuating trend and there are different types of acts, regulations, laws and guidelines are introduced but not been implemented effectively and efficiently. Here we can also see the implementation problems of the authorities. Only making the effective rules and guidelines are not the problem but also its implementations should be in the right and in proper way. Otherwise, it would be meaningless or worthless.

There is some burning example before us that many public limited companies like Agro Nepal, Himgiri Textiles, Ace Laboratories, Indreni Soybean, Nemroad, etc have already been non-existent and non-performing. Again many public limited companies such as Harisidhi Brick and Tile Factory, Arun Banaspati, Shree Ram Sugar Mills, Balaju Kapada Udhog, Jyoti Spinning Mill, etc have been operating at losses by creating loss of return, loss of investment to the shareholders. Although these are matters of greater public importance, SEBON has not come with adequate surveillance and proper supervision and monitoring to compensate investors with return of their investment. Therefore all the existing legislation should be reviewed and after then only necessary new sub legislation should be issued to cover the areas relevant to the capital market.

And also the proper coordination in between the concerned authorities like SEBO/N, NEPSE, ORC and NRB should be brought with appropriate and clear division of assignment and responsibilities under the legislation. And being a regulatory body, SEBO/N should have thoroughly investigated the prospectus and also make surveillance mechanism enforceable to compensate the shareholders for false statement in prospectus.

The major conclusions from this study (growth and regulation of Nepalese capital market) are presented as follows:

- J Number of listed companies, number of share traded companies and number of share trading companies are growing every year from 2002/03 to 2007/08. This is a very good indicator in the growth and development of Nepalese capital market.
- J No of transaction and no of listed securities are also increasing every year. So, it can be said that the Nepalese share market is in developing trend.
- J Average daily turnover is increasing from 2002/03 to 2007/08. This is a positive indicator to the share market.
- J Amount of issue approved has increased from 2005/06 to 2007/08, market capitalization and NEPSE Index is increasing every year during the study period. These all incremental factor shows the Nepalese capital market is growing day by day.
- J During the analysis of primary data 29% of respondents believed that government rules and regulations are the main constraints for the growth of Nepalese capital market.
- J 42 percent of respondents believes that making trading activities transparent can be a best policy to improve Nepalese capital market.
- J According to the respondent view, in this study 36% believes that reason for stock market in early stage of development is lack of knowledge about securities in general people.
- J 33.3% of respondents are satisfied with the regulation process of Nepalese capital market.

- J 20% respondents only think that Nepalese capital market is operational and informational.
- J 20% respondents are well satisfied about providing security information timely and correctly by NEPSE and SEBON.
- J 53.3% respondents said expansion of NEPSE in different districts results in positive performance of Nepalese capital market.
- J 37% of respondents believe that most impactable factor in the growth of capital market may be supply of tradable securities.
- J 53% of respondents are not satisfied with the development and growth of Nepalese capital market.

Overall study in growth and regulation of Nepalese capital market was found positive. Nepalese capital market is growing day by day.

5.3 Recommendations

- J Some of the major recommendations from the study growth and regulation of capital market in Nepal, which the researcher is putting forward are:
 - J The investment opportunities to the investors are not enough. Therefore the investment opportunities should be widened introducing different types of securities in the market.
 - J Information disclosures need to be enhanced.
 - J Improved technology should be adopted.
 - J Foreign investors need to be allowed to invest in this sector.
 - J Automation of trading, settlement and clearing procedures should be followed.
 - J Internationally accepted accounting principles need to be adopted.
 - J The trading of fixed rate yielding securities should be promoted.

- J The regulatory institutions must be active and alert while giving the approval to the companies. It must be able to give the decision to approve or reject the approvals. The authorities must not see only the companies' position in past and present but also need to analyze that how the company will be performing in the future. So it is recommended to the authority to do the detail analysis before giving the approval.
- J To develop the capital market investors' confidence is essential, thus it is recommended to provide an efficient regulatory environment which enables access of timely information, liquidity a fair market, strong supervision and monitoring, professional market intermediaries etc. And to enhance such regulatory environment, various legislations should be amended and armed with sufficient powers to protect the investor's interest.
- J As an apex regulatory body, Securities Board, Nepal should be launched the new technique of investors' awareness program on the level of potential investors through communication media as well as the seminar, press conference

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www.nrb.org.np

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APPENDICES

Appendix - 1

A Survey Questionnaire on

“Growth and Regulation of Nepalese Capital Market”

Dear Respondent,

I have been conducting a research on “*Growth and Regulation of Nepalese Capital Market*”. This questionnaire has been developed and presented before you as part of this study. I humbly request you to fill it up at the best of your knowledge. Your cooperation in this regard will be of immense value for me.

I shall be highly obliged for your prompt response as for as possible.

Thanking you,

Enusha Subedi (Researcher)

Shanker Dev Campus

Kathmandu

NAME OF RESPONDENT: : _____

OFFICE: _____

POST: - _____

(In questions 1-5, please rank in order of importance by assigning 1 to the most important and so on...)

1. In your view, what are the constraints in the growth of Nepalese capital market? Rank the following points. (No.1 mark means it is most important)

Government rules and regulation []

Performance of NEPSE and SEBON []

Illiteracy of investors []

Lack of information about capital market []

2. What do you think are the policy measures to be adopted to improve stock market? Rank the following points. (No. 1 means it is most important)

Make trading activities transparent []

Provide information to investors []

Increase the number of brokers []

3. In Nepal stock market is in early stage of development. What do you think are the reasons? Rank the following points. (No. 1 means it is most important)

Lack of fully automated technology in capital market []

Lack of knowledge about the securities market among the mass []

The regulations, Acts and guidelines are insufficient []

4. In your view, which is the most impactable factor on growth of Nepalese capital market among following points? Rank the following points. (No. 1 means it is most important)

a. Increase supply or tradable securities []

b. Create healthy legal environment []

c. Increase public awareness []

d. Establishment of another stock exchange outside the valley []

5. In your view, did the expansion of NEPSE in Biratnagar, Pokhara and Narayangadh will make positive effect on performance of Nepalese capital market?

Yes []

No []

No Idea []

6. Are you satisfied with the growth trend of Nepalese capital Market?

Yes []

No []

Do not know []

7. Do you think Nepalese capital market is informational and operationally efficient?

Yes []

No []

No idea []

8) In your view, if new securities such as derivatives, options, debentures are introduced to Nepalese capital market, in what level can it contribute on the growth of Nepalese capital market?

a. Very high contribution []

b. High contribution []

c. Moderate contribution []

d. Low contribution []

e. Very low contribution []

9) Is the regulation process of capital market in Nepal is satisfactory?

Yes []

No []

Do not know []

10) Do you think NEPSE and SEBON provide security information timely and correctly?

Yes []

No []

Do not know []

11) In your opinion, what can be done to develop the Nepalese capital market?

Thank You!

Appendix - 2
Securities Market Indicators

(Fiscal Year)

Market Indicators	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
No. of listed companies	108	114	125	135	135	142
No. of traded company	80	92	102	110	116	136
No. of share traded (in '000)	2427.89	6468.18	18433.55	12221.93	18147.25	28599.8
No of transaction	69163	85533	106246	97374	120510	150800
No of listed securities	159958	161141	194673	226540	243504	321131
Market day per year	238	243	236	228	232	235
Average daily turnover(in million)	2.42	8.82	19.10	15.14	36.03	97.1
Amount of issue approved (Rs in million)	853.83	1547.79	1270.31	2547.87	2757.50	11567.86
Market capitalization (Rs in million)	35240.40	41424.77	61365.89	96763.74	186301.28	366247.60
NEPSE Index (Rs in million)	133.76	172.56	219.72	265.04	295.98	319.79

Appendix - 3

Brokers list of NEPSE

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. Ltd.	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. Ltd	11	01-4414263	Dillibazar, Kathmandu
10	Annapurna Securities Service Pvt. Limited	13	01-4419051	Putalisadak, Kathmandu
11	Nepal Stock House Pvt. Limited	14	01-4255732	Anamnagar, Kathmandu
12	Primo Securities Pvt. Limited	16	01-4168164, 01-4168175	Shankardev Marga, Putalisadak, Kathmandu
13	ABC Securities Pvt. Limited	17	01-4230787	Indrachowk, Kathmandu
14	Sagarmatha Securities Pvt. Limited	18	01-4242548	Putalisadak, Kathmandu
15	Nepal Investment & Securities Trading Pvt. Ltd	19	01-4495450	Old Baneshwar, Kathmandu
16	Sipla Securities Pvt. Limited	20	01-4255782	NewRoad, Kathmandu
17	Midas Stock Broking Company Pvt. Limited	21	01-4416050	Dillibazar, Kathmandu
18	Siprabi Securities Pvt. Limited	22	01-5530701	Kupondol, Lalitpur
19	Sweta Securities Pvt. Limited	25	01-4444791	Putalisadak, Kathmandu
20	Asian Securities Pvt. Limited	26	01-4240609	Viharmarga, Kathmandu
21	Shree Krishna Securities Pvt. Limited	28	01-4224262	NewRoad, Kathmandu
22	Trishul Securities Pvt. Limited	29	01-4440709	Putalisadak, Kathmandu
23	Premier Securites Pvt. Limited	32	01-4231339	Putalisadak, Kathmandu

Appendix - 4
NEPSE's Board of Directors

Mr. Tanka Prasad Paneru
(Chairman)

Mr. Trilochan	Mr. Ramji	Mr. Aavinath
Pangeni	Regmi	Rai
(Member)	(Member)	(Member)

Mr. Shanker Man Singh
(General Manager/Member)