

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background**

#### **1.1.1 General Background**

Economic sector plays a vital role for developing the nations. Nepal is one of the least developed countries in the world. Nepal is practicing the development program by launching various capital formation activities in different sectors. Nepal launched planned economic policy more than forty-five years ago. Now it is actively trying to achieve the rapid pace of development through liberalization. To attain the rapid pace of economic development of the country, there should be good environment for potential investors in investment activities in the different sectors of the economy.

Development and expansion of the capital market as an institutional base is essential for the mobilization of resources from small savers, and for the supply of long-term capital at a minimal cost, to the productive sector of the economy. In this context, the program initiated in the Tenth Plan will be continued. With a new vision and review of the capital market's needs, qualitative changes will be brought about in the capital market through market regulation and additional infrastructure development. With a view to strengthen the stock market regulatory system and to transform it to the international standard, a new Act has been promulgated. In addition, the drafts of the Nepal Stock Exchange Board Regulations, 2007, Share Market Operation Regulations, 2007, Share Dealers (brokers,

traders and market makers) Rules, 2007 and Share Registration and Issue Regulations, 2007, are in the process of approval. During the Plan period, the Nepal Stock Exchange Board has been established as a single regulatory agency for the stock issuance work as per the new Act. To ensure transparency and dynamism in stock transactions, the open voice bidding system is being replaced by computerized transactions. To initiate transactions in the government bonds, pertinent rules and by-laws have become effective and stock professionals have been authorized. Several public information and awareness programs designed for the benefit of investors and other parties concerned with the stock market are also in operation. (Three Years Interim Plan 2064/65 – 2066/67, 2008: 62)

The regulatory agency is not yet adequately equipped to effectively regulate the share market. The organized sector remains credit oriented and lacks good governance practices. Regulation of non-financial corporate sector agencies is not effective. As a result, their annual general meetings are not held on time, and their genuine financial performance reports are not made public. Insider trading practice in the share market goes unchecked. Expected competition among share brokers does not exist. Legal provisions concerning price sensitive information and financial statements which are required to be made public instantly, still remains ineffective. Investors are not sufficiently informed and aware about investment in shares, risks and returns, investment mechanism, portfolio investment, stock market tools and financial terminologies. (Three Years Interim Plan 2064/65 – 2066/67, 2008: 63)

In terms of number and financial deepening, financial sector is growing remarkably after the introduction of financial sector reform program in the country. A total number of 16

new bank and financial institutions were established in 2006/07. These included 2 commercial banks, 9 development banks, 4 finance companies and a micro-finance institution. With these new institutions 20 commercial banks, 38 development banks, 12 micro-finance institutions, 74 finance companies, 17 cooperatives (licensed by NRB) actively have been operating in this sector. In addition, there are 47 financial non-government agencies operating under the license of NRB. There are many more savings and credit cooperatives operating in the field under the license of Cooperative Department. Total number of such cooperatives by mid-July, 2006 was 2912.

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

Significant developments have been made in the secondary market in recent years, especially after the Nepal Government decided to reform the capital market. The computerized trading system has replaced the open-out-cry system. NEPSE has implemented the wide area network (WAN) system to enable brokers to trade from their own offices. The process of recruiting new brokers is also in progress. Since the last couple of months, NEPSE has started posting trading activities on its website in order to provide investors and the general public with real-time information. Furthermore, the Nepal Government has made commitments to improve and develop the secondary market to enable it to encompass more corporate organizations, investors and financial instruments. (Wagle, 2008)

Development and expansion of the capital market is essential for the rapid economic growth of the country. A capital market helps economic development by mobilizing long-

term capital needed for productive sector. The main objectives of people to get benefits from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital (Ojha, 2000).

In this respect, capital market plays a crucial role in mobilization a constant flow of saving and changing these financial resources for expanding productive capacity in the countries. Stock market is a major component of the securities market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Similarly, stock market provides the best opportunity to the investor.

Furthermore many profitable projects require a long-term venture capital to finance. Most investors tempt to provide risk and are reluctant to tie their saving into long term commitment. Liquid stock makes the investment less risky and more attractive. It encourages servers to invest in the long term projects because they can sell securities quickly and easily, if they want to get back their saving before the project matures. At the same time, companies receive easy access to capital through new issuance of shares (Shrestha, 1999).

There are mainly two sources of financing in the profitable venture:

- i. Internal Financing: the internal financing has the limited scope because of its limited scope and the risk associated with it. So, internal financing

becomes more important and popular for fostering the productive activities in the economy.

- ii. External Financing: the external financing is mainly segregated into three categories:
  - a. Equity financing
  - b. Preference stock financing, and
  - c. Debt financing.

Among the sources of equity financing is the most important source to the corporations.

The concept of stock market began with the flotation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills in the year 1976 A.D. under the Company Act 1936 A.D., it is still in growing stage. The institutional development of securities market in Nepal started from the year 1976 A.D. when Securities Exchange Center (SEC) was established under the Company Act with the joint capital contribution of Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC). The main objective of the establishment of the Center was to mobilize saving and public and encourage the people to participate in the ownership industries and business enterprises.

Every corporation acquires their needed long-term fund by selling the securities in the capital market. Capital market typically involves financial assets that have life spans of greater than one year.

Capital market deals with in long term funds. Banks, financial institutions and most importantly stock exchanges are involved in long term fund transfer and liquidity

maintenance activities. These institutions transfer funds from savers to users by means of open market securities and negotiated loans. Open market securities are securities that are bought and sold openly in the market and can change hand any number of times. The negotiated loans have to negotiate directly between the borrower and the lender. They only appear in account books of the lender's and borrower's promissory note, which are not saleable in the market. (Shrestha, Poudel & Bhandari, 2005: 51)

Capital market is broadly divided into two types:

- i. Primary markets: The primary market is that financial market whereby the corporations/company acquires the needed capital by Initial Public Offering (IPO) and through right issue.
- ii. Secondary markets: The secondary market is that financial market where the securities once issued by the corporations/ company in the primary market are traded. So, secondary market plays vital role in liquidating the shares.

Stock market provides the best investment opportunity to the investors. It also provides liquidity to the securities. The liquidity affects the economic activities and there by affecting the development of the country.

The stock market is one of the most important sources of capital. It allows businesses to go public or raise additional capital for expansion. On the other hand, the liquidity that an exchange provides allows investors to sell securities quickly and easily. This makes investing in stocks more attractive than investing in other less liquid financial instruments.

The historical trends have shown that the prices of shares and other assets are an important part of the dynamics of economic activities, and can influence, or be an indicator of, social mood. Rising share prices, for instance, tend to be associated with increased business investments and vice versa. (Panta, 2008: 2)

### **1.1.2 History of NEPSE**

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

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

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

### **1.1.3 Present Scenario of NEPSE**

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating

transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13<sup>th</sup> January 1994.

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

NEPSE has completed 14 years of its operations, despite many ups and downs in the securities market. The Nepal Government, under a program initiated to reform the capital market, converted the Securities Exchange Center into Nepal Stock Exchange Limited in 1993. The main objective of the conversion was to promote a specialized secondary market in Nepal. Secondary market indicators show that NEPSE has grown tremendously, especially after the People's Movement of 2006. The number of market participants and transactions has increased. The volume of trade has gone up. Market capitalization has grown considerably. And the NEPSE index has shot up. These are encouraging signs. At present 145 companies are listed in NEPSE. The number of investors is estimated to cross one million. The last year's turnover was Rs. 8.36 billion and paid-up capital was Rs. 21.74 billion. Similarly, market capitalization crossed the Rs. 300 billion mark and the NEPSE index has reached the unprecedented height of 1064.09 points. The shares of only 16 companies were traded in 1993, the year when NEPSE was started. Turnover, paid-up capital and market capitalization at that time were Rs. 441.56 million, Rs. 2182.20 million and Rs. 13872.00 million respectively.

A not-for-profit organization till now, NEPSE is operating under the Securities Exchange Act-2063. The Government of Nepal (58.66 %), the Nepal Rastra Bank (34.60%), the Nepal Industrial Development Corporation (6.12%) and Licensed Members (0.62%) are



its shareholders. The government introduced a program to privatize this institution in this year's budget, following NEPSE's suggestion that it be privatized on the basis of the corporatization and demutualization models. (NEPSE Newsletter, 2008:2)

#### **1.1.4 Members of NEPSE**

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager.

At present there are 11 sales and issue manager and 2 dealers (Secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

#### **1.1.5 Trading & Market Timings of NEPSE**

NEPSE the only Stock Exchange in Nepal introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market. Trading on equities takes place on

all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done. The market timings of the equities are -

Market Open: 12:00 Hours

Market Close: 15:00 Hours

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

Market Open: 12:00 Hours

Market Close: 13:00 Hours

The exchange may however close the market on days other than schedule holidays or may open the market on days originally declared as holidays. The exchange may also extend, advance or reduce trading hours when it deems fit necessary.

### **1.1.6 Securities Available for Trading**

NEPSE facilitates trading in the following instruments:

- A. Shares (Equity Shares and Preference Shares)
- B. Debentures
- C. Government Bonds
- D. Mutual Funds

### **1.1.7 Settlement & Blank Transfer**

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1; the buying brokers have

to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

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

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

### 1.1.8 Brokerage Commissions

i. Brokerage for equity (Table No. 1.1)

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

ii. Brokerage for Government Bond (Table No. 1.2)

S.No.	Trading Amount	Brokerage %
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.05

iii. Brokerage for all other which is not listed in i. and ii. (Table No. 1.3)

S.No.	Trading Amount	Brokerage %
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.60
C	> 50,00,000	0.40

### **1.1.9 Board of Directors of NEPSE**

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

#### **Directors in NEPSE's Board (Table No. 1.4)**

Mr. Bimal Prasad Wagle	Chairman
Mr. Gokul Ram Thapa	Member
Mr. Ramji Regmi	Member
Mr. Rabindra Ballav Pant	Member
Mr. Shanker Man Singh	General Manager (Member)

### **1.2 Statement of the problem**

The problem of the study is directed on “Brokering Services in NEPSE: An Enquiry”. Brokering services in Nepal Stock Exchange play vital role for determining the prices of shares, motivating the potential investors in investing activities and developing the Securities Market of the nations. Brokering Services are major issues for the development and improvement of the trading shares in NEPSE. It is known that investors are the major sources of capital and the backbone of the securities market. Unless, investors begin analyze the good or bad institutions before making investment decisions, the market

cannot develop smoothly. The provisional behaviors of the investors also play vital role for setting the price of the stock in the market.

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

The price of common stock in primary market is par value but in the secondary market price may be i.e. more than par value or less than par value and equal to par value. Stock price in the secondary market is the main issue of the brokering services. What could be the reasonable price paid for a stock in secondary market? What is the impact of price trend and volume of stock trade? Do the investors see the reputation or goodwill of the company and others views while making investment decision? These are the burning issues of general investors regarding investment in the securities market.

It is frequently heard that the majority of the investors are not satisfied with the services presently provided by the brokers. Investors frequently complain about the inadequacy of required information about the trading of shares from brokers. Investors are not able to identify the good or bad stock due to lack of proper information. The limited numbers of brokers are doing business only on part time basis. Some brokers do not have enough stock market education and adequate knowledge and expertise in brokering services. The

brokers are not able to provide various education services related to the trading of the stocks as compared to brokers of the stock market in other countries. The theories and principles related to the stock market and share price/ value calculation are also based on some assumption. Hence, this does not represent the practical situation in a reliable way.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their capacity successfully because of the various obstacles presented in the economic environment. So, the necessity to analyze practical situation of brokering services in Nepalese stock market in the present situation. The price of the common stock is also affected by quality of brokering services. The price of the stock is fixed by few brokers who represent the investors in the Nepal Stock Exchange. They play the vital role for brokering services. So, the market is loyal to these few investors.

Followings are some of the serious problems that play vital role for brokering services in Nepal Stock Exchange:

- i. There is a lack of professional brokers and they do not provide full time service in NEPSE. Most of the brokers are brokering as a part time. So the investors are unable to make investment in proper time due to lack of proper information of trading system.
- ii. The market is totally captured by amateur who buy very little number of shares. These investors hold the share in view of making profit also affects in brokering services.

- iii. The actual clearing and settlement process takes long period than that mentioned in the regulation.( i.e. within 15 days of application given for ownership transfer). This also affects price determination and the image of the brokers in regard to their services in the stock exchange.
- iv. There were various complaints from the investors about the services of the brokers. Such as absence from the stock market for a long period without pre-notice to the Nepal Stock Exchange, and the maintenance of verbal contracts with some investors by disobeying the rules and regulations.
- v. Besides, some complaints about the performance and maintenance of some dummy transactions made by some brokers and investors in some specific time period, the stock exchange is said to be responsible for when the price of the shares change tremendously in some situations.
- vi. The brokers in Nepal Stock Exchange were not able to provide various services related to the trading of the stocks as compared to brokers of the stock market in other countries.

Due to the fluctuating trend of the stock price, the researcher is interested to find out what actually is the situation in the stock market in respect to brokering services in Nepal Stock Exchange.

### **1.3 Research hypothesis**

The following hypotheses are set about the different aspects related to the effectiveness of brokering services in Nepalese securities market. These hypotheses have been tested



by analyzing the data primarily received from two sectors investors and brokers. These data have been collected by using the questionnaire and tested by using chi-square test.

The Null Hypotheses were set as under:

- i. There is no significant difference between the opinions of Investors and brokers so far as adequacy and reliability of information provided by the brokers are concerned.
- ii. There is no significant difference between opinions of brokers and investors so far as mutual trading as a stock market disorder.
- iii. There is no significant difference between opinions of brokers and investors so far as the role of brokers in different types of stock market disorders such as wash sale, cornering, insider trading, churning, pool and mutual trading are concerned.

The Alternative hypotheses were set as under:

- i. There is significant difference between opinions of brokers and investors so far as adequacy and reliability of information provided by brokers are concerned.
- ii. There is significant difference between opinions of brokers and investors so far as mutual trading as a stock market disorder is concerned.
- iii. There is significant difference between opinions of brokers and investors so far as the role of brokers in different types of stock market disorders

such as wash sale, cornering, insider trading, churning, pool and mutual trading are concerned.

#### **1.4 Objectives of the study**

This study has three main objectives:

- i. To analyze the performance and effectiveness of Brokering Service in NEPSE.
- ii. To analyze the opinions of general investors on Brokering Service.
- iii. To recommend measures for improvements based on findings the findings from the study.

#### **1.5 Significant of the study**

Investors invest their money with the hope of getting good return in their invested fund. But due to many reasons they lose their hard earning, while investment is made without required information about trading of shares. Many times investors blindly invest their funds by just reading the prospectus availed by the issuing companies and many times they purchase shares without any required information about trading of shares but with the hope of getting good return only. The role of intermediaries (i.e. brokers and market markers) in stock market is essential in providing reliable and adequacy of the information to the investors about trading of shares in NEPSE. But the majority of the investors are unsatisfied with the presently available services from brokers.

While investing in shares the investors should receive the benefits from his investment more than the opportunity income that could be received investing elsewhere. But the

lack of adequate knowledge, inability in using modern technologies and insufficient use of communication technologies to spread the information about the price-earning relationship of the company enforces people to invest the amount by analyzing the trend of the market. It indicates that is extreme necessity to establish clear conception about the price-value relationship to secure the invested amount.

Hence, this study targets to explore and assist stock investments by imparting the knowledge about the different aspects related to the brokering services in Nepalese stock market. So, the study will be beneficial for the people interested in investments in share markets and prevailing investors. This study will also be helpful for other researchers in the similar field as it provides suggestions on the related field to some extent.

### **1.6 Limitations of the study**

The study has been completed as the partial fulfillment of the requirement of the degree of Master of Business Studies. This study has some limitations.

- i. The study focuses only on the brokering services of NEPSE.
- ii. The study is based on primary and secondary information/data. The primary data is collected by using the questionnaire and personal interview.
- iii. This study is limited to financial and time constraints.

### **1.7 Organization of the study**

This study is presented on the following five chapters:

- Chapter I : Introduction
- Chapter II : Review of Literature
- Chapter III : Research Methodology
- Chapter IV : Presentation and Analysis of data
- Chapter V : Summary, Conclusion and Recommendations

The first chapter mainly contains the background of development of the securities market in Nepal, the statement of the problem, research hypothesis, and objectives of the study, significance of study and the limitations of the study. And the second chapter includes: review of literature with the help of different books, articles, periodicals, previous thesis reports, and various published documents of the related organizations.

The third chapter deals with the 'Research Methodology'. It deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools are presented which are used to analyze the tabulated data collected from different primary and secondary sources. And the fourth chapter contains presentation and analysis of data collected from various sources about broking services in Nepal.

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

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Review**

##### **2.1.1 Nepalese Financial System**

Financial system is a set of institutional arrangements through which financial surplus in the economy are mobilized from surplus units and transferred to deficit units. The institutional arrangements include a conditions and mechanism governing the production, distribution, exchange and holding financial assets or instruments of all kinds and organizations as well as the manner of operation of financial markets and institutions of all descriptions. In concrete terms, there are three main constituents of any financial system, they are:

- i. financial assets
- ii. financial markets
- iii. financial institutions

##### **2.1.1.1 Financial Assets**

A financial asset (or security) simply is a piece of paper that represents the investor's rights to certain property and the conditions under which he or she may exercise those rights. (Sharpe, Alexander and Bailey, 2000: 2)

In other words, it represents the holder's claim against real sector economic units or financial institutions. Further, financial assets (securities) are also divided into two types

– primary securities and secondary securities. Claims against real sector are known as primary securities and claims against financial institutions or intermediaries are known as secondary securities. Following are the securities that represent claims against real sector are called primary securities-

- i. Equities
- ii. Bonds
- iii. Bills
- iv. Book-debts

And following are the securities that represent claims against financial institutions and are called secondary securities-

- i. Currencies
- ii. Bank deposits
- iii. Life insurance policies
- iv. Units (like NCM mutual fund and CIT units)

The volume of equities and corporate bonds is insignificant as compared to government bonds. (Shrestha, Paudel and Bhandari, 2005: 37)

The paid-up value of listed shares increased by 2.6 percent to Rs.24.59 billion in the first nine months of FY 2007/08 compared to Rs.23.96 billion in the same period of FY 2006/07. (Economic Survey, 2008: 85)

### **2.1.1.2 Financial Markets**

Financial markets are the mechanisms created to facilitate the exchange of financial assets. The major participants of the financial markets are the savers / investors and borrowers / users of funds. They are involved in the purchase and sale of securities in this financial market and are supported by mediators and facilitators. Individuals, corporate bodies, non-profit organizations and the government are the participants in these transactions of buy and sale of financial assets. This mismatch between the saving and investment of these participants is the central reason for the existence of the financial markets itself. (Shrestha, Paudel and Bhandari, 2005: 40-41)

#### **2.1.1.2.1 Money market and Capital market**

Financial markets can be categorized in mainly on two bases, they are on life span of the securities and economic function. On the basis of life span, they are of two types-

- i. Money market
- ii. Capital market

The money market deals on short term and the capital market on long term securities.

This division of financial market is based on the life span of the security. Money market refers to that financial market in which securities with a short term (one year or less) and highly liquid debt securities are traded. Thus, money market comprises the securities that have short maturity period (life span), easy marketability, liquidity and even lower risk in comparison to other securities. Money market facilitates flow of short fund. The

participants of money market are short term deficit units and surplus units (government, business entity and individuals). Instrument traded in the money market are Treasury bills, commercial paper, certificate of deposits etc.

In contrast to money market, capital market refers to the financial market in which long-term securities are traded. Specifically, 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. Capital market facilitates flow of long term fund. The participants of market are long term surplus units and deficit units (government, business entity and individuals). Instrument traded in the capital market are common stock, Treasury bonds, corporate bonds etc.

Capital Market includes

- i. Activities relating to the organization, distribution and trading of securities.
- ii. Organization, which facilities this activities.
- iii. Individuals and institutions, which buy and sell securities.
- iv. Rule and regulations, customs and practices that control; the organization and conduct of business in the market.

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



borrowing company that issued to the bond. In contrast, stockownership represents a cash investment in the future of a corporation; the investor owns a part of the corporation and shares in the profits. (Francis,1998)

Financial Market is the market for the exchange of capital and credit, including the money markets and the capital markets. While money market is the market for short-term debt securities, such as banker's acceptances, commercial paper, repos (a contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. also called repurchase agreement or buyback.), negotiable certificates of deposit, and Treasury Bills with a maturity of one year or less and often 30 days or less. Money market securities are generally very safe investments which return a relatively low interest rate that is most appropriate for temporary cash storage or short-term time horizons. Bid and ask spreads are relatively small due to the large size and high liquidity of the market where as Capital Market is the market where debt or equity securities are traded. (www.investorwords.com)

#### **2.1.1.2.2 Primary and Secondary Market**

On the basis of economic function market can be categorized into following two types-

- i. Primary market
- ii. Secondary market

The market through which the funds are transferred from savers to investors is called primary market. Hence, the transaction of securities issued for the first time takes place in

the primary market. Primary market facilitates direct transfer of funds. The participants of primary market are the issuing company, investment bankers and investors. The institutions that perform the role of an expert in issuing new securities are called investment bankers (issue managers). These bankers make available advice to the business firms regarding the nature of security, maturity, interest rate and underwrite the issue of securities.

And the market where the existing and pre-developed securities are bought and sold is called secondary market. A secondary market provides liquidity to purchases of the securities. High liquidity of the secondary market encourages the investors to invest in the primary market as well. The secondary market can be regarded as the center to convert stocks, bonds and other securities into cash immediately.

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

Since its establishment SEBON has continuously concentrated its efforts to improve the legal and statutory frameworks, which are the bases for healthy development of the stock market. SEBON has been concentrating its efforts to improve the legal statutory frameworks for the healthy development of stock market and to enhance the degree of investor's protection. After the second amendment of Securities Exchange Act on January 1993 AD, SEBON is acting as an apex regulatory body by bringing market intermediaries directly under its jurisdiction and made it mandatory for the corporate

bodies to report annually as well as semi-annually regarding their performance. It also established direct relationship with market intermediaries and listed companies SEBON's regulatory interventions were targeted to discipline the market and to consolidate its position as central securities market regulator.

The present act has made SEBO responsible for the supervision of NEPSE, its members, disclosure requirements for listed companies, and the licensing of:

- i. Issue Manager
- ii. Underwriters
- iii. Portfolio Managers
- iv. Market Makers and
- v. Stock Brokers.

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

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

In order to develop the securities Board as an effective regulatory body and forgo ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan. This had been implemented during the Ninth Plan period.

The strategic plan strives to attain the major policy development issues on:

- i. Improvement in the statutory and regulatory framework of the capital market.
- ii. Development of market standard and information system.
- iii. Development of widely participated capital market.
- iv. Improvement in the Securities Board institutional capacity.

(SEBON, Annual Report).

The initial draft of the strategic plan was circulated among the policy makers, experts, Government official market operators, securities business persons, business community investors and has been improved based on available comments. This plan was approved by National Planning Commission and is being implemented in the year 1998-2002 during the Ninth Plan period. SEBON has seven members including a chairman. NEPSE should not be member of SEBON and the other hand SEBON should not be represented on the Board of Directors of NEPSE. It is also highly desirable that the government regulatory over right function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely identified with day-to-day functioning of the stock exchange, this could erode public confidence in the market failure.

At present SEBON have 20 staff in total including executives, officers, supervisory and support staff. This may not be an adequate number of staff to perform the different tasks assigned to SEBON such as: regulatory supervision, enforcement for the regulation and enforcement program as well as for training government regulators, self regulators and market practitioner. Income from registration of corporate securities and registration as well as renewal of the market intermediaries are the main financial sources of income of SEBON. In order to be a self-dependent institution it has created revolving fund from which it generated income that helps to cover part of its expenses.

### **2.1.3 NEPSE in a Changing Scenario**

#### **2.1.3.1 Converted to Profit Seeking Entity**

The 26th annual general meeting (AGM) of NEPSE held on 23 May 2008 has decided to convert the organization into a profit seeking entity. The Company Registrar Office approved the decisions made at the AGM. The approval allowed NEPSE to turn itself into a profit seeking company, change its board of directors and increase its capital. Accordingly, NEPSE's authorized capital increased to Rs 160 million from Rs 50 million. Likewise, the paid-up capital was raised to Rs 50 million from the present Rs 34.9 million. Similarly, the structure of NEPSE's board was made more professional and representation having conflict of interest has been removed from the board. And there are no representatives from stock brokers and the Securities Board of Nepal on the board. The AGM also passed the decision to name the company as "Nepal Stock Exchange Limited" both in Nepali and English.

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

- i. Trading
- ii. Listing
- iii. Clearing and settlement
- iv. Market surveillance

### **2.1.3.2 Securities Available for Trading**

NEPSE facilitates trading in the following instruments-

- A. Shares
- B. Equity Shares
- C. Preference Shares
- D. Debentures
- E. Government Bonds
- F. Mutual Funds

### **2.1.3.3 Listing**

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. At present, 137 companies have listed their securities to make them eligible for trading. Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

Corporate bodies wishing to be member shall have to submit application in prescribed format within specified time along with certificate of incorporation, tax certificate, Memorandum of Association , Articles of Association and concerned Act, rules and regulations in the case of corporate body other than company after the incorporation and the projected B/S and PL A/C for the next three years, last three years audited financial statement, if the year of incorporation is less than three years, the B/S and A/C of investment in shares of subsidiary company or investment made in its parent company's share capital, details of share investment in any other company other than subsidiary, the name, address, number of shares subscribed and the amount invested by shareholders having more than 5% of the share capital need to be submitted.

**Table No. 2.1**

Listing and annual fee to be submitted for share, debentures and mutual funds

S.No.	Issued Capital	Listing Fee	Annual Fee
1	Up to Rs. 10 Million	0.20 % or Minimum Rs.15000	Rs. 15000
2	Rs. 10 Million to Rs. 50 Million	0.15% or Minimum Rs 45000	Rs. 25000
3	Rs. 50 Million to Rs 100 Million	0.10% or Minimum Rs. 75000	Rs. 35000
4	Above Rs. 100 Million	0.075 or Minimum Rs. 100000	Rs 50000

(Source: <http://www.nepalstock.com/listing/information.php>)

#### **2.1.3.4 Members of NEPSE**

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws.

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

#### **2.1.3.5 Trading of Promoters' shares**

NEPSE began trading of promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoters' shares of the listed companies. For the first trading, the price of the promoters' share of a company that has a positive net worth could not be less than five times of its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of a company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Earlier, one could have traded the promoters' shares on the basis of the market price of the ordinary share. It is expected that trading of promoters' shares will make the capital market more vibrant and stabilizes the prices of ordinary shares.



#### **2.1.3.6 New Trading hours**

From 19 December 2007 NEPSE has increased the trading hours by one hour due to an increasing trading pressure after the automation of trading. Initially, NEPSE opened its trading activities for only two hours. Now the trading floor opens from 12.00 noon to 15.00. NEPSE has expected that investors in general and small investors in particular will benefit from the increase in trading hours.

#### **2.1.3.7 Real time information disseminated**

NEPSE has started providing real time information (live trading activity) to investors from 28 November 2008. Due to this facility investors can check share prices online from anywhere live during the trading hours. Additionally, without any time gap investors can check trading activities— like top-gainers, top-losers, imposition of trading halt and resumption—on NEPSE's web page.

#### **2.1.3.8 Market Halt System Introduced**

NEPSE introduced a string of measure to stabilize the volatility of the stock market. Previously, NEPSE used to halt transactions of respective individual company by imposing the circuit breaker whenever share prices of the companies move up or down over 10 percent in a single day transaction. As per new measure, it can also suspend the whole market trading, which is known as index based circuit breaker or market halt. Now on NEPSE can halt the trading floor for 15 minutes if the index moves up or down by three percent during the first half an hour. After resumption of trading if the index moves up or down by four percent, NEPSE can suspend trading for another half an hour. After

the resumption if again the index changes by five percent, NEPSE can suspend trading for rest of the day. The new measure also require brokers to clearly list orders of buying and selling shares and place those orders for transaction on priority basis. This provision has been enforced to address the rising concerns of small investors.

#### **2.1.3.9 OTC Market**

NEPSE started the over-the-counter (OTC) market from 4 June 2008 to give shareholders a chance to sell or buy the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 43 companies can now be traded in the OTC market. But as per the request of Nepal Rastra Bank NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the OTC, since shares trading of Nepal Bank Limited will have a negative impact on the ongoing Financial Sector Reform Project. In the OTC Market one does not have to go to brokers to trade shares; one can come to NEPSE and trade, paying a commission of two percent for transactions of up to Rs 25,000, 1.5 per cent for transactions of above Rs 25,000 but under Rs 5,00,000, and one per cent for transactions of over Rs 5,00,000. However, no transaction has been made until the end of the fiscal year.

#### **2.1.4 Trading Procedure in NEPSE**

The trading can be done either from NEPSE's trading floor or from the broker's office. NEPSE uses sophisticated technology through brokers can trade remotely from their office located inside the Kathmandu valley. This remote trading facility was started from 1 November 2007. NEPSE operates on the 'NEPSE Automated Trading System

‘(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market.

#### **2.1.4.1 NEPSE Automated Trading System (NATS)**

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 Comdaq 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. The following features are therefore found in the existing automated trading system.

##### **2.1.4.1.1 Client Management**

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.

#### **2.1.4.1.2 Order**

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 a broker places a purchase or sell order. Generally, four types of order can be placed in the system:

- i. Regular: An order which is completed on the exchange and that confirms the order of lot size or greater than that.
- ii. Odd-Lot: An order which is completed on the exchange and that confirms the order less than lot size.
- iii. Manual: An order which is placed by brokers and is reported individually by the buying and selling brokers.
- iv. Block: An order which is placed by brokers and confirms to the minimum block trade quantity specified by the exchange and is reported individually by the buying and selling brokers.

**2.1.4.1.3 Price:** It is the price, which the buyer quotes in his/her buy or sell order. The investors as usual can quote either *fixed price*, *price in range* or *market price*. If broker find the price within range they enter the details to execute the transactions. In the present system the *order entry form* on computer has been developed to indicate a price either in *limit* or *market*. If the price is given in fixed, brokers insert the fixed price and if it is given in range they insert the best price for their clients. Brokers must always attempt to execute transactions to protect their clients' interest. If investors are sellers brokers must

attempt to execute transactions at higher prices and if investors are buyers brokers must attempt to buy at low prices. It is the negotiation process through which they execute the transactions. If the price is market then brokers will execute orders at the market price, that is, they buy or sell the shares at market price.

**2.1.4.1.4 Execute At** This represents the phases of trading when to execute the order. There are three phases during which the broker can place the order to execute the transactions. Such phases are:

- i. **At the Open (ATO):** ATO indicates the order should be executed when the market opens. In order to execute the transactions at ATO the member brokers have to place the orders to execute it at ATO. All the ATO orders will be accumulated in the system till the ATO execution time and only then the ATO orders will be executed at the best price at the opening of transactions. ATO gives the price, quantity and time priority for the execution. At present NEPSE has fixed 11:30 A.M. to 11:55 A.M. as time to place ATO orders. The engine calculates the best price and matches the order at 12:00 noon, that is, when the market opens. In this case, a price can be quoted within the range of 5 percent of the previous close price. Once the ATO phase is over a price can be quoted within the range of 2 percent of LTP. ATO determines the opening price for the stock. If there are no matchable ATO orders for a stock the open price of the stock will be equal to the previous close price.
- ii. **Continuous Trading:** This is the phase that indicates orders should be executed while the market is in progress.

- iii. At the Close: This is the last phase that indicates orders should be executed when the market closes. The system has provided facility to generate the ATC price of a stock either by taking the average of the price of last n transactions or the average of the price of the last n minutes. Currently NEPSE adopts the average of last n transactions where n equals to 1 i.e. the LTP of the stock at close is the ATC price or closing price.

#### **2.1.4.1.5 Retain Until**

Customers can give orders to retain until the specified period as below unless it is executed -

- i. End of Day (EOD): This indicates the placed orders if not executed will be retained until the end of today.
- ii. Good till cancelled (GTC): This indicates the order if not executed should be retained until it is cancelled. The system has provided facility for exchange to set the time period in days till which the pending orders can be retained in GTC. NEPSE has adopted an order-driven market system. So each and every order entered should be backed by a written order in which the client must specify the validity period of the order but if she/he does not mention the time period the order will be valid for 15 days. In this case GTC will be 15 days.

#### **2.1.4.1.6 Conditions**

This specifies the conditions under which the order could be executed. The conditions are as below-

- i. None: This indicates there are no conditions for execution of orders.
- ii. Immediate or Cancel (IOC): This condition indicates that the orders should be executed in full or part immediately if not executed immediately the unexecuted order will not be sent to Public order book but cancelled immediately by the system.
- iii. Fill or Kill (FOK): This condition indicates the order must get executed entirely or cancelled immediately. The unexecuted order is not sent to public order book but killed (cancelled) by the immediately. NEPSE has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size or greater than that.
- iv. All or none (AON) This condition indicates the order must get executed entirely and if not executed the order is sent to public order book. In this condition too, NEPSE has modified the system allowing entering the quantity of a stock to be traded either at the multiple of lot size or greater than that.

#### **2.1.4.1.7 Market Depth**

It is the provision, which the stock exchange has made to facilitate the bid and offers. Under this provision the member broker before inserting the bid and offers for certain quantities at certain price for the particular company can view the bid and offer placed by other brokers. This not only facilitates for the negotiation but also contributes for the execution of transactions at market price.

#### **2.1.4.1.8 Settlement**

After automation NEPSE has continued T+3 for settlement but there is a little bit change in process. The trading is done at "T" and at T+1, the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank.

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

#### **2.1.4.1.9 Blank Transfer**

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

- i. This is related only with buy of the securities.
- ii. The buyer may decide to have market benefit either to have capital gains or to minimize the loss.
- iii. In order to do this s/he may partly send for name transfer or may register it in blank transfer.
- iv. If s/he register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part



can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

#### **2.1.4.2 Trading through WAN**

After the introduction of the ATS and with the initiative and guidance of NEPSE, member brokers of NEPSE have started online trading through Wide Area Network (WAN) from their own office from 13 October 2007. Because of this facility, stock brokers can now sell or buy shares from their office. The brokers who have the necessary infrastructure prescribed by NEPSE will get access to WAN. To get access a broker must have a price board, separate rooms along with separate computers for clients' order entry, settlement and must provide up to date information to the clients. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited for trading through WAN. From the end of the FY 2007/08 all the 23 brokers transact from their office via WAN.

#### **2.1.4.3 Circuit Breakers**

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities.

The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%, . These circuit breakers when triggered bring about a trading halt in all equity.

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

#### **2.1.4.4 Price Range**

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range.

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

#### **2.1.4.5 Order Matching Rules**

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

#### **2.1.4.6 Major Difficulties Faced in the Trading Procedure in NEPSE.**

After issuing the share of a company, the shares are traded on the secondary market. But some companies do not trade in the secondary market and have apparently become insolvent. In that case, NEPSE de-list the stocks of that company which should be approved by SEBO/N. Nearly all listed companies are majority owned by promoters. Thus corporate governance issues and the right of minority shareholders are of continuing concern. One of the reasons for the enlistment of the companies in NEPSE is that many of the companies are listed not because they wish to be so, but because of statutory requirement of compulsory listing (the prohibition of share transaction if not listed). In NEPSE companies often list for legal or tax reasons rather than to obtain on going equity financing. There is also absence of prescribed for suspension cancellation and de-listing of shares. Typical investors are likely either to rely solely on their brokers to be entirely

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

“Has your broker even used buzzword like...”Going to be double price’, ‘Can miss’, Have to get in now’, ‘Well both be rich’, ‘A once in a lifetime opportunity?.....Most investors make a mistake with their broker and allow him to became the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn’t produce, fire him. It’s sadly ironic that we see so many aggressive business types who will not hesitate to fire an employee for one small mistake, and yet will allow their broker to make ten, twenty, thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problems. They not only cost you funds with bad advice, but even when they are right their dishonestly can penalize you.....if your broker is dishonest he can use your stock for months on end, even though you may have wished to sell” (Mrkvicka, 1991).

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

### **2. 1.4.7 Capital Market Disorders**

There are many unfair acts being performed by different parties in the stock market which eventually force the market to be inefficient. They are wash sales, cornering of the share market, churning, formation of pools and cartels, misuse of insider information and so on. (Shrestha, 2056)

- i. Wash sale: A wash sale is essentially no sale at all. If a person who owns some securities sells those securities to him, this is a wash sale. The purpose of wash sale is to create a record of a sale. This may be done to deceive someone in believing that a market price has changed. In wash sales, there is simply record of a sale but there is no sale of shares at all. If a man sells securities to his wife, this is a wash sale. The market makers have taken shares in the name of their family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting shares transaction at a price agreed by mutual consent of buyer and seller is allowed in share market. This is a kind of wash sale since no money needs to be involved only the commission is to be paid to the broker. (Francis, 1998)
- ii. Cornering the Market: Cornering in some security occurs when an investor buys all of a particular security that is for sale. This person then owns the only source of supply and can raise the price. The person who obtains a corner on the

market of some asset may then liquidate it at a high price for a capital gain. Cornering may be defined as large acquisition of shares by individuals to create a scarcity for delivery against the existing contracts.

- iii. Market makers are also found to conduct unhealthy practice of cornering the share market in some selective scripts available for sale.....being price manipulators, they obtain a corner on the share market of some selective scripts and then liquidate them at a higher price for a capital gain.
- iv. Churning: Churning can occur when a client gives the broker an authority to trade the client's account without seeking the client's approval of every trade. So, it is very safe way for securities brokers to seal funds from their client's account while escaping detection by all but the most watchful clients. When the client buys or sells the commission is generated for brokers without regard to whether or not the clients gains from the transaction. This practice is called churning because it involves 'turning over' the clients account. Another way how the market makers and share brokers device the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all.... It is the practice of turning over a client's fund for the personal benefit of brokers by frequent transaction. However, it is difficult for an investor who has been deceived by broker to prove that churning has occurred. (Shrestha, 2056)
- v. Pool: A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there from. When this objective is attained the pool is dissolved....some of the members may provide capital, some

may provide inside information, some may operate the pool's operations or all members may participate in all these functions.

- vi. **Insiders Trading:** Insider is one who is restricted from trading in a company's shares because he has access to price sensitive information. Insiders include officers, directors, auditors, and large shareholders. It is the sale or purchase of securities by persons who possess price sensitive information about the company on account of their fiduciary capacity. Insider transactions include also those who receive confidential price sensitive information from insiders who have access to it. Trading on the basis of insider information is prohibited because the information is not available to all market participants.
- vii. Insider activities are growing in both volume and speed among company promoters, directors, officers other executives and technicians to influence the prices of share in the market...There has been frequent release of price sensitive information by insiders to earn speculative profits by trading on shares of such companies. Having no access to such price sensitive information. Investors in general are put into disadvantage.

## **2.2 Review of Related Studies**

The research articles, published in various well known journals which are relevant to this study, have been reviewed here. Like books, there are limited journals available in the field of management in Nepal and hard to find any research article relevant to this study. Despite the situation, some article published both national and international journals are taken into consideration.

Shrestha (1992) highlighted on three important aspects. The study adds conceptual rationale of the capital market, achievements of the Nepalese capital market and thereby providing few possible scenarios to improve performance of capital market in Nepal. The development of capital market confirms to a basic national development policy of mobilizing saving into productive investments various growth-oriented sectors of the economy. The growth of capital market at present is one of the top most priority areas of HMG's overall domestic resource mobilization strategy. Financial liberalization policy of HMG has brought the establishment of foreign joint venture bank to form an integral part and Capital Market Development Act is another landmark to generate conducive investment environment for foreign collaboration and joint financing of industries through capital market device.

The growth of primary market is encourage since many public limited companies including joint venture banks have been successful to tap capital through inflation of securities to the general investing public. The positive response of investors is a direct manifestation of the growing public confidence on the securities market.

The secondary market is not keeping pace with the growth of the primary market. This is mainly due to lack of the needed efforts o the concerned authority to devise suitable package of measures to encourage the growth of broker's networks in the country slowly growing stock exchange. Out of the total 32 listed public limited companies, secondary market has been concentrated only on ten to twelve companies.



Nepal Stock Exchange, the only secondary market of the country, witnessed a remarkable growth in trading activities in the first eleven months of FY 2007/08. Major indicators of the secondary market, for example the amount of shares traded number of listed shares, number of transactions, turnover, total market capitalization of listed shares, and have increased in the review period. Total trading volume of the listed shares recorded an upsurge of 175.02 per cent in first eleven month of FY 2007/08 compared to the same period of the previous year. The trading volume increased to Rs. 19.05 billion from Rs. 6.92 billion in the same period last year. The commercial banking groups had a greater turnover than the rest of the groups. Their turnover was Rs. 10.37 billion, 57 per cent of the total market turnover. The turnover of the hydropower groups was Rs. 3.01 billion, which accounted for 16 per cent of the total transaction. The development bank group occupied 13 per cent, the financial group 11 per cent, and the manufacturing and processing group two percent. The hotel, trading and other groups had a joint turnover of less than one per cent. (NEPSE Newsletter, Issue II, 2008: 4)

Market capitalization of listed shares increased by 109 per cent and reached Rs. 324.50 billion in the first eleven months of the current fiscal year. It was Rs. 155.24 billion in the corresponding period last year. The total market capitalization moved up swiftly because of a significant rise in the share prices of commercial banks and other financial institutions. With this increase the market capitalization to GDP ratio reached 44.75 per cent in the review period. The commercial banks group has the most number of shares in the total market capitalization structure, worth Rs. 219.39 billion (67 percent). Similarly, the finance and hydropower groups each occupied 8 percent, the manufacturing and hotel

groups each occupied 2 percent, and the trading group occupied less than one per cent of the total market capitalization.

All share index NEPSE registered a 217.69 points increase during the past three months. It was 712.52 points on 16 March 2008 and reached 930.65 on 15 June 2008. Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index has continuously increased despite some ups and downs in the current fiscal year. Restoration of peace, listed companies' improved financial performance and most importantly the Central Bank's directives dated 26 March 2007 to double the paid-up capital of banks and financial institutions contributed to a remarkable increase in share prices and, subsequently, the stock market indices. The sensitive index, which measures the share price movement of 71 companies classified as group A, reached the highest point on 12 June 2008. The index stood at 243.48 points on that day. The index registered the lowest of 209.19 points on 18 May 2008. The total number of listed companies reached 148 in the first eleven months of FY 2007/08; it was just 134 in the same period last year. At the end of the review period 15 companies were listed under commercial bank group. Similarly, there were 24 companies in the development bank group, 17 companies in the insurance group, 57 companies in the finance group, 21 companies in the manufacturing and processing group, four companies in the hotel group, five in the trading group, and two in others' group. The paid-up value of these companies reached Rs. 26.61 billion in the review period (it was Rs.21.45 billion last year). In the last three months 39 companies listed a total of 41.07 million shares, amounting to Rs. 4.10 billion. Among these companies, 24 listed bonus

shares, amounting to Rs.957.74 million, 10 listed rights shares amounting to 2866.78 million and five companies listed ordinary shares amounting to 279. 27million. (NEPSE Newsletter, Issue II, 2008: 4)

In the first nine months of FY 2007/08, 26 companies issued securities and mobilized capital equivalent to Rs.4.99 billion. Of the 26 companies, 8 companies issued ordinary shares, 17 issued right shares and one issued debentures. This amount is more than six fold compared to the amount mobilized through the issuance of securities in the same period last year. Of the issued securities, Rs.3.49 billion was mobilized through share capital and Rs.1.5 billion through debentures. In the first nine months of FY 2006/07, only 14 companies had mobilized Rs.702.9 million by issuing securities. And likewise

In the first nine months of FY 2007/08, Nepal Stock Exchange Limited (NEPSE) listed 12 more companies. With this, the total number of listed companies has reached 147 in mid-April 2008. The number of listed companies was 135 at the end of FY 2006/07. Market capitalization increased by 80.74 percent and reached Rs.241.11 billion in mid-April 2008 from that of Rs.133.39 billion a year ago. (Economic Survey, 2008: 83-85)

### **2.3 Review of Research Studies**

In this section, an attempt has been made to review some theses related to this study. Few dissertations have been found which are written on Stock Market in Nepal. No one dissertation has shown the significant result. In other word, the brokerage services were not effective and efficient and they were found below the satisfactory level.

Bhatta (1997) has studied the research “Dynamic of Stock Market in Nepal”. His research objectives are as follows:

- i. To analyze the trend of the Nepalese stock markets.
- ii. To diagnose and compare sectoral financial status of the stocks in Nepalese stock market.
- iii. To analyze the market share prices of the Nepalese stock- marker.
- iv. To find out the impact of the secondary on primary market and vice versa.
- v. To recommend for the improvement of stock market in Nepal.

The conclusion of his study was;

- i. The stock market economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy.
- ii. 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 entrepreneurship to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

- iii. Development of manufacturing sectors is the backbone of an economy, which in turn assists to foster banking, finance and insurance sectors.
- iv. Unfortunately, the manufacturing sector doesn't have a good perform in Nepalese economy. Almost all firms in this sector have a sustained loss.
- v. The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market except that of banking and some finance and insurance sectors.

Bhatta (1997) has analyzed the market price of the shares of 10 companies; four from manufacturing sector, one from hotel sector, two from trading sector, three from finance sector and four from banking sector for his study. He tried to analyze the trend of the market, to diagnose and compare the sectoral financial status of the stocks in Nepalese stock market. He also tries to analysis the market share price of the Nepalese stock market and to find out the impact of the secondary market on primary market and vice-versa. Bhatta has concluded that the liquidity in the Nepalese stock market is very poor and the trading of only fifty percent of the listed stocks takes place in the stock exchange when the market is boom. The trading of stocks takes in terms of number of transactions, number of shares traded and value or shares traded are very low. He has primarily used secondary data in his study. He did not use any of the primary data for collecting tools. He tremendously used different ratios to calculate the financial status of the companies under study. He missed about brokering services for stock market in Nepal.

Shrestha (1999) has conducted the study 'Stock Price Behavior in Nepal'. His research objectives are the follows:

- i. To examine the serial correlation of the successive daily price change in the individual stocks.
- ii. To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
- iii. To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
- iv. To provide feedback policy input towards institutional development of efficient market.

The main findings of his study are as follows:

- i. The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and run of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange ltd. the random walk theory is not a suitable description for the stock market price behavior in Nepal.
- ii. The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price change of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that

the speculation though technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return).

- iii. Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the adolescent investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices, which establish independence of successive price changes.

Dahal (2002) has made the research on 'Stock Market Behavior of Listed Joint Stock Companies in Nepal'. His research objectives are as follows:

- i. To study and analyze stock price trend and volume of stock traded on the secondary market.
- ii. To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal Stock Exchange Ltd.
- iii. To study and analyze the investors views regarding the decision on stock investment.
- iv. To study and examine the signaling factors' impact on stock price with the help of NEPSE index.
- v. To suggest the abstract to the interested parties related to stock market.

The major findings of Dahal's study were:

- i. Most of the investors were asked for their performance of investment sector. Major portion of them said that they were attached with banking sectors for investment.
- ii. On analyzing primary data it was found that the stock market in Nepal is in developing stage as investors are not well aware about the investment process and its other factors like NEPSE index, price trend and investments facilities are not doing their work in systematic way.
- iii. The investors were not satisfied with their investment as they were asked whether they were satisfied or not to their investment.
- iv. It was found that the investor's motivation for owning shares of company is to receive the dividends from the shares.
- v. The investors were found interested to be elected in company's management.
- vi. When investors were asked if they faced any difficulties in the stock market. Majority of them replied that they were facing difficulties there. Therefore it implies that there are many difficulties in Nepal Stock Market.
- vii. It was found that investors in the stock market take the investment decision on the basis of market price of shares.
- viii. It was found that rumor is the most predominate factor to determine the market price of share.



- ix. The efficiency of stock markets' different parties, brokers, market makers, and security exchange limited were not getting required support from these parties.
- x. On analyzing the price trend of two years NEPSE index in different months with the help of months of the year 2000 was in increasing trend, while that of year 2001 is in decreasing trends. So from this trend analysis we can say there is no relationship of price trend between two successive years.
- xi. While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to the year 2001.
- xii. Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend.
- xiii. On analyzing paired t-test for signaling factors with reference to major seven events it was found that signaling effects had played major role in fluctuate of the stock price.

Dahal in his study said that the major portion of the potential investors is like to invest in banking sectors. He started that Nepalese Stock market is still infancy stage and Nepalese investors are not well aware of investing process. He primarily based his study on secondary data. He also claimed that on his study the NEPSE index, price trend and investments facilitators are not doing their work systematically. The investors were found interested to get elected in company's management. Further more, he added, the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of brokers, market makers, security exchange limited were not found efficient by analyzing

interviewers' expression as they were not getting required support from these parties. Dahal has concluded that the investment decision is based on market price of shares, volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of the stocks but not in brokerage services.

Guragai (2002) has conducted the study 'Price formation and brokering services in Nepal Stock Exchange'. His research objectives are the follows:

- i. To study the price formation at Nepal Stock Exchange.
- ii. To analyze whether the price formation in Nepal stock exchange is effective or not.
- iii. To analyze the trend of market price of the stock of the companies under study.
- iv. To analyze the brokering services and the role of the brokers in price formation in Nepalese Stock Market.
- v. To provide recommendation on the basis of finding.

The major conclusions of Mr. Guragai's study were;

- i. The efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The efficiency in pricing of shares in the market

can also be reduced by increasing the involvement of the related sectors in share trading activities. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of the shares.

- ii. The effective price formation helps to create of liquidity of stocks, it provides a continuous market for securities where securities may be bought or sold at any time during business hour at comparatively small variations from the last quoted price, if the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at reasonable price, which discourage country's long-term investment, and ultimately savings will be affected in negative direction.
- iii. The stocks should indicate the direction in which community's savings should be invested. In the market where price formation is effective, the price differences between shares represent differences in their profitability and prospects as judged by collective opinion of numerous competent operators. Thus the price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future.
- iv. In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer bank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains

when the time comes but actually most of them holds shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

- v. This can be justified by very less number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have few investment alternatives rather than investing in the shares.
- vi. The rationality of the Nepalese investors was found to be at low level. They have very little knowledge of the trading procedure and the price formation mechanism at NEPSE.
- vii. People, in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares. So that, the rationality could be upgraded and the price formation may become more effective.

Guragai's study was based on 20 companies out of 67 companies which are as follows:

**Table 2.2**

Table Showing the Sectors and the No. of Companies Traded

S.No.	Sectors	No. of Companies Traded	No. of Sample Companies
1.	Banking	10	3
2.	Financing	27	8
3.	Insurance	10	3
4.	Manufacturing	10	3
5.	Hotels	3	1
6.	Trading	4	1
7.	Others	3	1
	Total	67	20(30%)

He has focused on the price formation of the stocks rather than brokering services of shares in NEPSE in his study. His study primarily based on secondary data. He has tried to find out the various aspects of price formation and brokering services in NEPSE. The selection of sample size has not been properly taken for the study and the analysis of data has been based on intuition. He had taken only 20 companies (from the different sectors) for the research study. For the adequate result of the study, this 30% (20 Companies) of sample was quit low. Furthermore, he added that the efficient price formation was one of the major requirements for the development of the stock market. The effective price formation helps to create of liquidity of stocks. If the price formation is inefficient in the

stock exchange, prospective investors will find it hard to obtain securities at reasonable price. The researcher found the fact that different research performed on different headings, which were directly or indirectly related to the efficiency and effectiveness of the price of the share in the security market and the price is directly related to the trading of shares and it affects the brokering services in NEPSE. The researcher tried to perform a detailed study on this topic perhaps; this might be the first Master's Thesis which deals with only brokering services in NEPSE.

Adhikari (2009) has conducted a study entitled "Investors' Awareness in Security Market of Nepal" whose specified objectives are as follows:

- i. To analyse and evaluate the risk and return of common stock of selected companies.
- ii. To suggest the investors how they can reduce risk by making the portfolio in their investment.
- iii. To study the current practice and trends of the investors' awareness in a security market of Nepalese. To prove suggestions to the concerned investors on the basis of fact and findings.

The major conclusions of his study are:

- i. Most of the investors are not satisfied with the management attitudes towards them and thus it is concluded that the current attitudes of management towards public shareholders is not appropriate.

- ii. They are not agreeing with the current performance of the stock market and thus stock market performance is not adequate as it would be.
- iii. There is less development in the field of efficient and effective information channel to provide updated data and related information. NEPSE and SEBO/N are not able to initiate different programs for investors' education through investors' meetings and seminars in different subject matters of stock market.
- iv. The pricing level is not well adjusted. Despite this fact, they put their application for higher price in future. There is prevalent belief that buying share is a sure shot way of making profit.
- v. Policies are less adapt to the exploitation of the investors by the market intermediaries and to stop manipulation practices. Effective measure should also be taken to make the market more efficient.

#### **2.4 Research Gap**

Securities market has always become significant to its investors as well as relevant to the economy of nation. Its main objective is to facilitate the flow of fund. Money market facilitates flow of short fund where as capital market facilitates flow of long term fund. NEPSE has become the one and only secondary market for securities.

Researcher has chosen this study as he has a keen interest upon it. Till this date, different research has been conducted relating with Nepal Stock Exchange but the scenario has been changed. The trading system changed from open cry out system to automated computer system, NEPSE started its automated trading system since 2064/05/07. So, this

research study has collected and interpreted the latest primary and secondary data which would be relevant to the present context.

Last but not the least, till this date; mostly the old data were analyzed. Technology has been changing very fast and scope of NEPSE is now becoming very wide due to the involvement of large number of new investors. Hence, the research with old and obsolete data can not draw the relevant information. This study is specifically based on the recent data to produce useful findings.



## **CHAPTER – III**

### **RESEARCH METHODOLOGY**

Research methodology is the way to solve systematically about the research problem. Methodology states the method with which data have been extracted and discuss the tool of that have been used in interpretation of such data to fulfill the stipulated objectives.

#### **3.1 Research Design**

The research study attempts to analyze the brokering services of NEPSE. Hence, descriptive as well as analytical research designs have been employed.

Descriptive research is essentially a fact finding approach relative largely to present and abstracting generalization by the cross-sectional study of the current situation.

Analytical approach is followed to parametric and non-parametric test of data.

#### **3.2 Population and Sample**

The universe of the brokers is taken as the sample size of the study.

#### **3.3 Data Collection Procedure**

This study mainly depends upon the primary sources of data. The secondary is used for supporting primary data. Secondary data had been collected from published materials of different organizations such as: NEPSE, SEBO/N, Central Bureau of statistics, Nepal Rastra Bank, National Planning Commission etc. Some data were taken from trading

reports of NEPSE. A questionnaire was distributed to brokers and individual investors to collect their opinion and views. The informal discussion and interviews were also performed to collect the views from different sources.

### **3.4 Data Processing Procedure**

The uses of statistical tools, such as percentage analysis, range are used to analyze the primary data.

### **3.5 Analyses and Presentation of Data**

The collected data are presented in tabular form and interpreted accordingly. Detailed calculations are presented in appendices.

### **3.6 Analytical Tools**

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

#### **3.6.1 Statistical Tools**

##### **3.6.1.1 Percentage Analysis**

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

### 3.6.1.2 Range

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

### 3.6.1.3 Arithmetic Mean

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

$$\text{Arithmetic Mean} = \frac{\sum fx}{N}$$

### 3.6.1.4 Median

Median divides the whole observations into two halves. One half comprising all the values greater and the second half comprising all the values smaller than median. Median is denoted by Md. The formula used for computing the median is as under:

$$\text{Md} = \left( \frac{n+1}{2} \right)^{\text{th}} \text{ item}$$

### 3.6.1.5 Chi-Square Test

Among many methods of testing hypothesis, chi-square popularly knows as non-parametric test is used. It is very helpful when it is not possible to make the dependable

assumptions about the parent population from which the sample is drawn. Chi-square is denoted by ( 2). This test does not require any assumption about the parameter. For testing chi-square, the total number of items must be as large as 50 and the expected frequency of any item or cell must not be less than 5. If it is less than 5, the frequencies of adjacent item or cells should be pooled together in order to make it 5 or more than 5. Chi-square test is broadly used as a test of goodness of fit and as a test of independence of attributes. In this study chi-square is used to test the independence of the responses found from different sectors.

The procedures followed to perform the chi-square test are described as under:

- i. The first stage is to set the null and alternative hypothesis. Null hypothesis, which is denoted by  $H_0$ .  $H_0$ , is set to suggest that there is no association between two attributes, i.e., respondent sectors and the response where as alternative hypothesis which is denoted by  $H_1$ , is set to suggest that there is association between the sectors and responses.
- ii. The second stage is to make the contingency table for testing the independence of the responses in regards to the sectors. The rows of the table occupy the responses, whereas the column will occupy the respondent sectors. Then the expected cell,

Frequencies under  $H_0$  are calculated by using the relation as under:

Expected frequency of a cell of  $i^{\text{th}}$  row and  $j^{\text{th}}$  column

$$= \frac{\text{Row total} \times \text{Column}}{\text{Total number of Observations}}$$

- iii. The third stage is to compute the test statistic under  $H_0$ . This is computed as:

$$t^2 = \sum \frac{(O-E)^2}{E}$$

- iv. The fourth stage is to write down the tabulated value of chi-square at a certain level of significance, which is assumed to be of 5% in the calculation for  $(r-1) \times (c-1)$  for degrees of freedom.
- v. The fifth stage is to make the decision. If the computed value of chi-square is less than the tabulated value,  $H_0$  is accepted at the level of significance 5%. If the computed value of chi-square is greater than its tabulated value,  $H_0$  is rejected.

## CHAPTER - IV

### PRESENTATION AND ANALYSIS OF DATA

In this chapter the relevant data and information had been taken from the distribution of Questionnaire and Personal Interview from the related sectors under this study, investor and brokers were taken as the sources to gather the relevant information by distributing the questionnaires. Appropriate statistical tools had been used to perform the analysis, which is described in Chapter III.

#### 4.1 Analysis of Primary Data

A total of 135 questionnaires were distributed to investors and brokers. Among them 115 questionnaires were distributed to investors and 20 questionnaires to brokers. 61 questionnaires were returned (i.e. 47 from investor and 14 from brokers) and 74 questionnaires could not be collected (i.e. 68 from investor and 6 from brokers).

(See Appendix: I & II)

**Table No. 4.1**  
**Showing the No. of Questionnaire Distributed to, Returned and Not Returned from Investors and Brokers**

Description	Investors	Brokers	Total
No. of Questionnaire distributed to	115	20	135
Questionnaire returned	47	14	61
Questionnaire not returned	68	6	74

**Figure No. 4.1**  
**Showing the No. of Questionnaire Distributed to, Returned and**  
**Not Returned from Investors and Brokers**

**4.1.1 Number of years involved in investment in shares**

The first question was asked specially to the investors to know the general information of how long he/she was involved with the share investing activities in security market of Nepal. Forty-five investors responded this question. From the acquired data it was known that the investors involving year was different. Eight investors were involved for six years. One investor however was involved for fourteen years. The average year of involvement per investors was 5.6 years. (See Appendix: III)

**4.1.2 Purpose of investment in shares**

The second question was asked specially to the investors to know the general ideas of investor's purpose to buy the shares. There were four options, which were: capital gain, dividend, social status and use of excess money. Forty-five investors responded the

answer and two investors chose for the capital gain, twelve (i.e. 26.67 percent) investors for dividend gain, five (i.e. 11.11 percent) investors for social status and ten (i.e. 22.22 percent) investors chose for use of excess money. From the acquired data it was known that the highest percentage (i.e. 40.00 percent) of investor's purpose was to make capital gain and the lowest percentage (i.e. 11.11 percent) of investor's purpose was to make social status in society. (See Appendix: IV)

**Table No. 4.2**

**Investor's Options to Buy Shares**

<b>Response</b>	<b>Answered by Investors</b>	<b>Percentage</b>
For capital gain	18	40.00
For dividend gain	12	26.67
For social status	5	11.11
For use of excess money	10	22.22
Total	45	100

**Figure No. 4.2**



## **Showing the Investor's Options to Buy Shares**

### **4.1.3 Number of invested companies**

The third question was asked particularly to the investors to know the general information about number of company's shares per investor in the security market in Nepal. Forty-seven investors responded this question. From the collected data, it was known that one investor owns approximately 5 company's share on the average in the Nepalese security market. The range of the companies was 14. (See Appendix: V)

### **4.1.4 Investment sectors**

The fourth question was related to investment sectors of investors in Nepalese securities market. In this question, forty-five investors, responded and two investors did not respond the question. Among forty-five investors, twenty-five banking sector, eleven trading sector, nine manufacturing and processing sector and none of them chose other sectors. It was found that the highest percentages (i.e. 55.56 percent) of investors were

like to invest in banking sectors and lowest percentage (i.e. 20.00 percent) of investors were likes to invest in manufacturing and processing sector. (See Appendix: VI)

**Table No. 4.3**

**Response Regarding the Sectors**

<b>Response</b>	<b>No. of Investor</b>	<b>Percentage (%)</b>
Banking sector	25	55.56
Trading sector	11	24.44
Manufacturing and processing sector	9	20.00
Others	0	0
Total	45	100

**Figure No. 4.3**

**Showing the Response Regarding the Sectors**

**4.1.5 Brokerage services**

The fifth question was asked particularly to investors to know what types of services they were presently getting from the brokers. Forty- five investors responded this question and

two investors did not respond to this question. Among them 29 (64.44 percent) responded that they were getting only trading services from brokers, while 16 (35.56 percent) responded that they were getting only trading and information services.

(See Appendix: VII)

**Table No. 4.4**

**Response of Investors to Types of Services**

<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
Trading services only	29	64.44
Information service only.	-	-
Trading and information service	16	35.56
Others	-	-
Total	45	100

**Figure No. 4.4**

**Showing the Response of Investors to Types of Services**

**4.1.6 Satisfaction level on brokerage services**

The next question was asked to both investors and brokers to know the performance satisfaction level of brokering services in NEPSE. Forty- five investors and thirteen

brokers responded but two investors and one broker did not respond this question. Among the investors, 18 (i.e. 40.00 percent) of investors were satisfied and 27 (i.e. 60.00 percent) investors were not satisfied with the performance of brokering services.<sup>13</sup> brokers were satisfied with the performance of brokering services. (See Appendix: VIII)

**Table No. 4.5**

**Response Regarding to the Performance of Brokering Services of NEPSE**

<b>Response</b>	<b>No. of Investor</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Yes	18	40.00	13	100
No	27	60.00	-	-
Total	45	100	13	100

**Figure No. 4.5**

**Showing Response Regarding to the Performance of Brokering Services of NEPSE**

**4.1.7 Flow of information from listed companies**

The next question was asked to know if the listed companies were providing the information related to their performance and future planning. Forty- seven investors and

thirteen brokers responded to this question. Among the investors, 14 (i.e. 29.78 percent) responded positively while 33 (i.e. 70.22 percent) responded “NO”. Among the brokers, 4 (i.e. 30.78 percent) responded “YES”, while 9 (i.e. 69.22 percent) responded “NO”.

(See Appendix: IX)

**Table No. 4.6**

**Response to Flow of Information from Listed Companies**

<b>Response</b>	<b>No. of Investor</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Yes	14	29.78	4	30.78
No	33	70.22	9	69.22
Total	47	100	13	100

**Figure No. 4.6**

**Showing the Response to Flow of Information from Listed Companies**

#### 4.1.8 Preference of share transfer methods

The eighth question was asked to both investors and brokers to know the attitude of their share transfer methods. Forty-five investors and thirteen brokers responded but two investors and one broker did not respond to the question. Among the investors, 6 (i.e. 13.33 percent) investors preferred blank transfer while only 3 (i.e. 23.08 percent) brokers preferred ownership transfer. Likewise, 39 (i.e. 86.67 percent) investors preferred ownership transfer while 10 (i.e. 76.92 percent) brokers preferred blank transfer. (See Appendix: X)

**Table No. 4.7**

#### **Preference to Share Transfer Methods**

<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Blank Transfer	6	13.33	10	76.92
Ownership Transfer	39	86.67	3	23.08
Total	45	100	13	100

### **Figure No. 4.7**

#### **Showing the Preference to Share Transfer Methods**

#### **4.1.9 Adequacy and Reliability of Information**

The ninth question was asked to measure the extent to which investors get reliable and adequate information provided by brokers regarding the transaction of shares in NEPSE. The medians were calculated independently of these different sectors to measure the level of responses.

Forty-one investors and eleven brokers responded this question. The medians of investors were found very low and were getting very low reliable and adequate of the information from brokers in transaction of shares in NEPSE. While the broker's median found to be moderately and they claimed that they were providing moderately reliable and adequate information to investors regarding the transaction of share in NEPSE.

(See Appendix: XI & XII)

**Table No. 4.8**

**Adequacy and Reliability of Information**

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	6	5	14	7	41
Brokers	5	4	2	0	0	11
Column Total	14	10	7	14	7	52

**Figure No. 4.8**

**Showing the Adequacy and Reliability of Information**

**4.1.10 Mutual Trading as Stock Market Disorder**

The tenth question was related to measure the extent to which different sectors think that the mutual trading was responsible for stock market disorder. The median was calculated independently of these different sectors to measure the level of responses. Forty-two investors and twelve brokers responded to this question. The medians were found to be



high and low in regard to the mutual trading as stock market disorder, as responded by the two respondent sectors, i.e., investors and brokers respectively.

(See Appendix: XIII & XIV)

**Table No. 4.9**

**Response to Mutual Trading as Stock Market Disorder**

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investor	6	7	11	5	13	42
Broker	5	1	3	2	1	12
Column Total	11	8	14	7	14	54

**Figure No.4.9**

**Showing Response to Mutual Trading as Stock Market Disorder**

**4.1.11 Level of responsibilities of brokers in different stock market disorders**

The eleventh question was asked to measure the extent to which different sectors think brokers as responsible for stock market disorders. Such as: wash sale, cornering the

market, inside trading, churning, pool and mutual trading. The medians were calculated independently of these different sectors to measure the level of responses. This question was responded by forty-five investors and twelve brokers. The medians were found to be very high, and moderate in regard to the responsibility of brokers in different stock market disorders, as responded by the two responded sectors i.e. investors and brokers respectively. (See Appendix: XV & XVI)

**Table No. 4.10**

**Level of responsibilities of brokers in different stock market disorders**

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	11	5	7	13	45
Brokers	0	0	2	4	6	12
Column Total	9	11	7	11	19	57

**Figure No. 4.10**

**Showing the Level of responsibilities of brokers**

**In different stock market disorders**

## **4.2 Testing of Hypothesis**

The chi-square test was performed to test whether the attributes or characteristics (responses, in this case) manifest themselves independently or some related inner. For testing the independence of two attributes the contingency table of two rows and five columns had been formulated. The row frequency included the level of response while the column included the sectors. The responses of different sectors were put in the cell frequencies while the totals of the frequencies in each of the rows and columns were put in the marginal frequencies.

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

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, thus null hypothesis ( $H_0$ ) was accepted. So, we may conclude that there is no significant difference between the responses given by two sectors as far as the adequacy and reliability of information provided by brokers to investors regarding the transactions of shares in NEPSE was concerned. (See Appendix: XII)

### **4.2.2 Mutual trading as stock market disorder**

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so null hypothesis ( $H_0$ ) was accepted. So, we may conclude that there was no significant between the responses given by two sectors as far as mutual trading as stock market disorder was concerned. (See Appendix: XIV)

#### **4.2.3 Level of responsibilities of brokers in different stock market disorders**

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so null hypothesis (Ho) was accepted. So, we may conclude that there was no significant difference between the responses given by two sectors so far as the level of responsibilities of brokers in different stock market disorders was concerned.

(See Appendix: XVI)

#### **4.3 Suggestions and Comments from Investors**

Investors said that the flow of financial information from the listed companies was especially at a very poor level. Investors said the activities and services of brokers were not enough in NEPSE regarding the distribution of information and data. That is why mainly the lack of information was hampering the efficiency in the stock market.

The time span to complete a share trading was too long in actual situation. Transfer of shares takes too much of time and it increase the inefficiency of brokers. So the concerned sectors should take necessary action to correct these inconveniences in share transaction.

## CHAPTER- V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

This study was conducted to analyze the brokering services in NEPSE. Questionnaires were distributed to investors and broker to acquire the information relevant to the study problem. The information was then analyzed by using different statistical tools as described in the Chapter III. The major findings of the present study are briefly summarized as follows:

- i. It was found from the data acquired by questionnaire that years of investor's involvement in investing in shares were found to be 5.6 years which is regarded as a relatively short period.
- ii. The purpose of investment of the investors in securities market were found to be 40.00 percent for capital gain, 26.67 percent for dividend, 11.11 percent for social status and 22.22 percent for use of excess money.
- iii. It was found from the data acquired from the questionnaire that out of 14 companies, the number of companies per investor is 5 companies.
- iv. Investor's investment sectors were found 55.56 percent in the banking sectors, 24.44 percent in the trading and 20 percent in manufacturing and processing sector.
- v. In comparison to the wide array of services investors are getting from broker in many developing and developed countries. Nepalese investors are getting mostly

- trading services only (64.44 percent), while few (35.56 percent) are getting both trading and information services.
- vi. Forty percent of the total investors were satisfied and sixty percent of the total investors were not satisfied with the performance of brokering services of NEPSE. While the entire broker were satisfied with the performance of brokering services of NEPSE.
  - vii. 29.78 percent of the total investors responded that they are satisfied with the information they are presently receiving from the listed companies, while 70.22 percent remain not satisfied. While 30.78 percent of brokers were satisfied and 69.22 percent of brokers were not satisfied with the performance of brokering services of NEPSE.
  - viii. Investors were mostly found to prefer ownership transfer (86.67 percent of total investors) and blank transfer were found only 13.33 percent of total investors. So, it showed that investors were mostly of speculative nature and they get involved in trading of shares for capital appreciation rather than dividend appreciation in Nepalese Securities Market. But the trading of shares in NEPSE was very less and only 5 to 17 listed companies' shares were traded in the NEPSE during the observation period. It can be said that investors are investing in the shares as long-term investment rather than for short period.
  - ix. The involvement of investors in the securities trading and investment were found to be 6.49 years. It is regarded as very short period. So, the market cannot be regarded as matured.

- x. It was found from the data collected from the questionnaire that the median value of investors is very low. Investors themselves said that they are getting very low level of reliable and adequate information from brokers regarding the transaction of shares in the securities market. So, brokers should think at this point to serve their clients by providing a wide array of services related to the share trading activities. The Chi-square test showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of reliable and adequate information are getting / providing from brokers regarding the transaction of shares in NEPSE.
- xi. The mutual trading was found to be high and low. This is responsible for stock market disorders. So, it should be restricted to create highly competitive environment in the stock market. The Chi-square test also showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of mutual trading in stock market disorder.
- xii. Brokers were found to be less responsible as compared to investors in different types of stock market disorders, such as: wash sale, cornering the market, inside trading, churning, pool and mutual trading as responded by two sectors. The Chi-square test also showed that there was no significant difference between the views of two sectors in regards to the level of responsibility of different types of stock market disorders. Such as: Wash sale, cornering the market, inside trading, churning, pool and mutual trading.

## **5.2 Conclusions**

The effective price setting of the shares is one of the major requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilities in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of the shares.

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

In Nepal, the dynamism of stock market has been reduced by the domination of shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.



This can be justified by number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investor has very few investment alternatives rather than investing in the shares. The rationality of the Nepalese Investors was found to be at low level. They have very knowledge of the trading procedure and the price setting mechanism at NEPSE.

People, in Nepal, simply invest in shares because they have very little alternatives for investment. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel more responsible to provide sufficient and reliable information about investment in shares, though they are doing right now. So, that the rationality could be upgraded and the price setting may become effective.

### **5.3 Recommendations**

The following recommendations are made to the different sectors to brokering services in NEPSE-

- i. The pace of economic development should be accelerated in order to have its positive impact on the stock market development.
- ii. Beside, the investors who live out of valley could not complain their grievances to the concerned authorities because of the span of time and distance. It is believed that one third of the share investors live out of Kathmandu valley. So, NEPSE should increase its information dissemination activities to meet the expectations of investors of different parts of the country so that the involvement of the investors out of the Kathmandu valley could be increased.

- iii. The listed companies should fulfill their liabilities of providing the financial status of the companies timely and comprehensively and they should hold the Annual General Meeting regularly.
- iv. Brokers should help regularly bodies to perform their activities by providing the financial statements and other required information on time regularly. They should strictly obey the rules and regulations made for them to help the regulatory bodies in creating the price formation in security market.
- v. Brokers should open their offices in the place easily accessible to the present and potential investors as it was seen during the observation period that almost all of the brokerage offices are not opened in accessible place. They should also focus in other activities apart from trading the shares in NEPSE. Such services includes, information dissemination about the listed companies to the investors, providing margin-trading facilities to the small investors etc.
- vi. The stock market lacks the existence of rational investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors, both individual and institutional.
- vii. The size of the market is pitifully small in Nepal because of small size of the corporate sector in the economy. The shares of the corporate sectors is also negligible compared to total investment in the country as a whole because of the negligible size of corporate sector, so government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy.

- viii. The level of knowledge of the Nepalese investor was found very low. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- ix. The brokers should also provide reliable and adequate information regarding the transaction and other aspects so that maximum number of investor could participate in investing into stocks.
- x. The brokers should perform their activities within the limitation of the rules and regulations. They should provide right and authentic information about all the companies to help investors chose the share of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefit.
- xi. The brokers should act as an important and responsible sector for the development of the securities market and should strictly avoid involving themselves into stock market disorders.
- xii. The concerned authorities should take very strict action to those responsible for creation of stock market disorders.

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### **Website**

<http://www.investorwords.com/>

<http://www.mof.gov.np/publication/budget/2008/survey.php>

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

<http://www.npc.gov.np/en/plans-programs/plans-programs.php/>

<http://www.nrb.org.np/>

<http://www.sebonp.com/>

<http://www.ndex.com/>

<http://www.mexnepal.com/>

## **APPENDIX I**

### **QUESTIONNAIRE**

I am Shreedhar Kandel, student of Masters of Business Studies at Shanker Dev Campus, Faculty of Management, Tribhuvan University. I have been conducting a research study entitled "*Brokering Services in NEPSE: A Study*" in partial fulfillment of the requirement of the degree of Masters of Business Studies. So, I request you to respond the following questions related to my study topic and help me finding the research objectives. I assure the responses will be kept strictly confidential.

1. How long have you been involved with the share investing activities? Please specify the number of years.

- Since the    last years.

2. For which purpose do you buy the share? Please tick in the box.

For capital gain

For dividend gain

For social status

For use of excess money

3. How much company's share do you presently own?

Companies

4. In which of the following sectors do you want to invest in share?

Banking sector

Trading sector

Manufacturing and processing sector

Others please specify the sector.....

5. What types of service are you presently getting from the brokers?

Trading services only.

Information service only.

Trading and information service.

Others, please specify.....

6. Are you satisfied with the performance of brokering services of NEPSE?

Yes

No

7. Do you think that the listed companies are sufficiently providing the information related to their performance and future planning?

Yes

No

8. Which transfer do you prefer while buying the share and why?

Blank transfer

Ownership transfer

9. To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares of NEPSE?



5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1	2	3	4	5

10. To what extent do you think that mutual trading is responsible in stock market disorder?

5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1	2	3	4	5

11. To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

5 Very highly	4 Highly	3 Moderately	2 Low	1 Very low
1	2	3	4	5

12. Do you have any Comments/suggestions about Brokering services of Nepal Stock Market?

-----  
-----  
-----  
-----  
-----

**For Investor**

Name:.....  
Occupation.....  
Signature:.....  
Date:.....

**For Broker**

Name:.....  
Code No.....  
Signature:.....  
Date:.....

Thank You!

## APPENDIX II

### LIST OF THE QUESTIONNAIRE DISTTRIBUTED AND COLLECTED

Description	Investors	Brokers	Total
No. of Questionnaire distributed to	115	20	135
Questionnaire returned	47	14	61
Questionnaire not returned	68	6	74

Q. No.	No. of Questions Answer by Investors	No. of Questions Answered by Brokers	Total
1	45	5	50
2	45	7	52
3	47	3	50
4	45	4	49
5	45	3	48
6	45	13	58
7	47	13	60
8	45	13	58
9	41	11	52
10	42	12	54
11	45	12	57
12	5	3	8

### APPENDIX III

Question No: 1

How long have you been involved with the share investing activities?

No. of years Involved (X)	No. of Investors (F)	FX
1	2	2
2	3	6
3	5	15
4	6	24
5	7	35
6	8	48
7	6	42
8	2	16
9	2	18
10	1	10
11	2	22
14	1	14
Total	45	252
Average involvement in years = $FX/N = 5.6$ years		

The average involvement in year is 5.6 per Investor.

## APPENDIX IV

Question No: 2

For which purpose do you buy the share?

For capital gain

For dividend gain

For social status

For excess money

<b>Response</b>	<b>Answered by Investors</b>	<b>Percentage</b>
For capital gain	18	40.00
For dividend gain	12	26.67
For social status	5	11.11
For use of excess money	10	22.22
Total	45	100

## APPENDIX V

Question No: 3

How much Company's share do you have presently own?

No. of company's owned by Investor (X)	No of Investors (F)	FX
1	6	6
2	9	18
3	7	35
4	5	20
5	8	40
6	2	12
7	4	28
8	1	8
10	2	20
12	1	12
14	1	14
15	1	15
Total	47	228
Average no. of shares per Investor = $FX/N = 4.85$		

Average number of companies shares per investors = 4.85 companies.

Range of shares = Highest no of companies shares- lowest no of companies.

$$= 15-1$$

$$= 14 \text{ companies.}$$

## APPENDIX VI

Question No: 4

In which of the following sectors do you want to invest in share?

Banking sector

Trading sector

Manufacturing and processing sector

Others please specify the sector.....

<b>Response</b>	<b>No. Of Investor</b>	<b>Percentage (%)</b>
Banking sector	25	55.56
Trading sector	11	24.44
Manufacturing and processing sector	9	20.00
Others	0	0
Total	45	100

## APPENDIX VII

Question No: 5

What types of services are you presently getting from the brokers?

Trading services only.

Information service only.

Trading and information service.

Others, please specify.....

<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>
Trading services only	29	64.44
Information service only.	-	-
Trading and information service	16	35.56
Others	-	-
Total	45	100



## APPENDIX VIII

Question No: 6

Are you satisfied with the performance of brokering services of NEPSE?

Yes

No

<b>Response</b>	<b>No. of Investor</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Yes	18	40.00	13	100
No	27	60.00	-	-
Total	45	100	13	100

## APPENDIX IX

Question No: 7

Do you think that the listed companies are sufficiently providing the information related to their performance and future planning?

Yes

No

<b>Response</b>	<b>No. of Investor</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Yes	14	29.78	4	30.78
No	33	70.22	9	69.22
Total	47	100	13	100

## APPENDIX X

Question No: 8

Which transfer do you prefer while buying the share and why?

Blank transfer

Ownership transfer

<b>Response</b>	<b>No. of Investors</b>	<b>Percentage (%)</b>	<b>No. of Brokers</b>	<b>Percentage (%)</b>
Blank transfer	6	13.33	10	76.92
Ownership transfer	39	86.67	3	23.08
Total	45	100	13	100

## APPENDIX XI

Question No: 9

To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares in NEPSE?

5 Very highly      4 Highly      3 Moderately      2 Low      1 Very low

Investor				Broker			
Original Table		Amended Table		Original Table		Amended Table	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Low	14	Very High	5	Very High	5
High	6	Very High	9	High	4	High	4
Moderate	5	Very Low	7	Moderate	2	Moderate	2
Low	14	High	6	Low	0	Very Low	0
Very Low	7	Moderate	5	Very Low	0	Low	0
Total	41		41		11		11

n= no of observation, 5

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left( \frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left( \frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

INVESTOR: Since median value of investor is very low, Investors consider that they are getting very low information from broker regarding the transaction of share in NEPSE.

BROKER: Since median value of broker is moderate, it is known that the brokers consider that investors are moderately getting adequate and reliable information from brokers regarding the transaction of shares in NEPSE.

## APPENDIX XII

Question No: 9

To what extent do you think that investors are getting / providing reliable and adequate information from brokers / to the investors regarding the transaction of shares in NEPSE?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	6	5	14	7	41
Brokers	5	4	2	0	0	11
Column Total	14	10	7	14	7	52

$H_0$ : There is no significant difference between option of investors and brokers so far as adequacy and reliability of the information provided by brokers.

$H_1$ : There is significant difference between option of investors and brokers so far as adequacy and reliability of the information provided by brokers.

### Computation of expected frequencies under $H_0$ and Chi-square

R,C	(O)	E(RT x CT)/n	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
1,1	9	11.038462	-2.038462	4.155324	0.376441
1,2	6	7.884615	-1.884615	3.551775	0.450469
1,3	5	5.519231	-0.519231	0.269600	0.048847
1,4	14	11.038462	2.961538	8.770707	0.794559
1,5	7	5.519230	1.480769	2.192678	0.397279
2,1	5	2.961538	2.038462	4.155325	1.403097
2,2	4	2.115385	1.884615	3.551775	1.679021
2,3	2	1.480769	0.519231	0.269601	0.182068
2,4	0	2.961538	-2.961538	8.770710	2.961539
2,5	0	1.480769	-1.480769	2.192678	1.480770
Total	52				8.77409

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 8.77409$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488.

Since the computed value of Chi-square is less than its tabulated value at 5% level of significant for 4 d.f.  $H_0$  is accepted, i.e. we may conclude that the response given by two sectors are almost same.

## APPENDIX XIII

Question no: 10

To what extent do you think that mutual trading is responsible in stock market disorder?

5 Very highly      4 Highly      3 Moderately      2 Low      1 Very low

Investor				Broker			
Original Table		Amended Table		Original Table		Amended	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Very Low	13	Very High	0	Very Low	6
High	11	High	11	High	0	Low	4
Moderate	5	Very High	9	Moderate	2	Moderate	2
Low	7	Low	7	Low	4	High	0
Very Low	13	Moderate	5	Very low	6	Very high	0
Total	45		45		12		12

n= no of observation, 5

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left( \frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left( \frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

**INVESTOR:** Since median value of investor is high, it is known that investors consider mutual trading as highly responsible in stock market disorder.

**BROKER:** Since median value of broker is low, it is known that the brokers consider mutual trading as lower responsible in stock market disorder.

## APPENDIX XIV

Question no: 10

To what extent do you think that mutual trading is responsible in stock market disorder?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investor	6	7	11	5	13	42
Broker	5	1	3	2	1	12
Column Total	11	8	14	7	14	54

$H_0$ : There is no significant difference between option of investor and brokers so far as mutual trading as a stock market disorder.

$H_1$ : There is significant difference between option of investor and brokers so far as mutual trading as a stock market disorder.

### Computation of expected frequencies under $H_0$ and Chi-square

R,C	(O)	E(RT x CT)/n	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
1,1	6	8.555556	-2.555556	6.530864	0.763348
1,2	7	6.222222	0.777778	0.604938	0.097222
1,3	11	10.888889	0.111111	0.012346	0.001134
1,4	5	5.444444	-0.444444	0.197531	0.036281
1,5	13	10.888889	2.111111	4.456790	0.409297
2,1	5	2.444444	2.555556	6.530864	2.671717
2,2	1	1.777778	-0.777778	0.604938	0.340278
2,3	3	3.111111	-0.111111	0.012346	0.003968
2,4	2	1.555556	0.444444	0.197531	0.1269841
2,5	1	3.111111	-2.111111	4.456790	1.4325398
Total	54				5.8827688

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 5.8827688$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488

Since the computed value of Chi-square is less than its tabulated value at 5% level of significant for 4 d.f.  $H_0$  is accepted i.e. we may conclude that the response given by two sector are almost same.

## APPENDIX XV

Question No: 11

To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

5 Very highly      4 Highly      3 Moderately      2 Low      1 Very low

Investor				Broker			
Original Table		Amended Table		Original Table		Amended	
Response	No. Given	Response	No. Given	Response	No. Given	Response	No. Given
Very High	9	Very Low	13	Very High	0	Very Low	6
High	11	High	11	High	0	Low	4
Moderate	5	Very High	9	Moderate	2	Moderate	2
Low	7	Low	7	Low	4	High	0
Very Low	13	Moderate	5	Very Low	6	Very High	0
Total	45		45		12		12

n = no of observation, 5

$$\begin{aligned}
 \text{Median} &= \text{the value of } = \left( \frac{n+1}{2} \right)^{\text{th}} \text{ item} \\
 &= \left( \frac{5+1}{2} \right)^{\text{th}} \text{ item} \\
 &= 3^{\text{rd}} \text{ item}
 \end{aligned}$$

**INVESTOR:** Since median value of investor is very high, it is known that the investors consider broker to be very highly responsible for different stock market disorders.

**BROKER:** Since median value of broker is moderate, it is known that the brokers consider themselves to be moderately responsible for different stock market disorders.



## APPENDIX XVI

Question No: 11

To what extent do you think that brokers are responsible for stock market disorder, such as: Wash Sale, Cornering the market, Insider's trading, Churning, Pool and mutual trading?

Sector	Very High	High	Moderate	Low	Very Low	Row Total
Investors	9	11	5	7	13	45
Brokers	0	0	2	4	6	12
Column Total	9	11	7	11	19	57

$H_0$ : There is no significant different between option of investor and brokers so far as the role of brokers in different types of stock market disorder such as : Ware sale, Cornering, Insider trading, Churning, Pool and mutual trading.

$H_1$ : The option given by two sectors are significantly different.

### Computation of expected frequencies under $H_0$ and Chi-square

R,C	(O)	E (RT x CT)/n	(O-E)	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
1,1	9	7.105263	1.894737	3.590028	0.505263
1,2	11	8.674212	2.315789	5.362881	0.618256
1,3	5	5.526316	-0.526316	0.270083	0.050125
1,4	7	8.684212	-1.684212	2.836565	0.326635
1,5	13	15	-2	4	0.266667
2,1	0	1.894737	-1.894737	3.579002	1.894737
2,2	0	2.315789	-2.315789	5.362881	2.317899
2,3	2	1.473684	0.526316	0.277008	0.187970
2,4	4	2.315789	1.684212	2.836565	1.224880
2,5	6	4	2	4	1
Total	57				8.392432

$$\text{Therefore} = \sum \frac{[O-E]^2}{E} = 8.392432$$

The degree of freedom (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of Chi-square for 4 d.f. at 5% level of significant is 9.488.

Since, the computed value of Chi-square is less than its tabulated value at 5 % level of significant for 4 d.f.  $H_0$  is accepted i.e. we may conclude that the response given by two sectors are almost same.

## APPENDIX XVII

### List of Brokers

S. No	Firm Name	Code	Tel. No.	Address
1	Kumari Securities Pvt. Limited	1	01-4418036	Dilli Bazar, Kathmandu
2	Arun Securities Pvt. Limited	3	01-6916470	Putalisadak, Kathmandu
3	Opal Securities Investment Pvt. Limited	4	01-4421648	Ramshah Path, Kathmandu
4	Market Securities Exchange Company Pvt. Limited	5	01-4248973	Kichha Pokhari, Kathmandu
5	Agrawal Securities Pvt. Limited	6	01-4229739	Shankardev Marga, Putalisadak, Kathmandu
6	J.F. Securities Company Pvt. Limited	7	01-4223089	Putalisadak, Kathmandu
7	Ashutosh Brokerage & Securities Pvt. Limited	8	01-4220276	Kichha Pokhari, Kathmandu
8	Pragyan Securities Pvt. Limited	10	01-4498234	Putalisadak, Kathmandu
9	Malla & Malla Stock Broking Company Pvt. Limited	11	01-4414263	Dillibazar, Kathmandu
10	Annapurna Securities Service Pvt. Limited	13	01-4419051	Putalisadak, Kathmandu
11	Nepal Stock House Pvt. Limited	14	01-4255732	Anamnagar, Kathmandu
12	Primo Securities Pvt. Limited	16	01-4239214	Shankardev Marga, Putalisadak, Kathmandu
13	Khandelwal Stock Broking Company Pvt. Limited	17	01-4230787	Indrachowk, Kathmandu
14	Sagarmatha Securities	18	4242548	Putalisadak, Kathmandu

15	Nepal Investment & Securities Trading Pvt. Limited	19	01-4495450	Old Baneshowar, 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

(Source- <http://www.nepalstock.com/members/brokers.php>)

## APPENDIX XVIII

### List of Listed Companies

S.No.	Companies Name	Stock Symbol	Listed Shares	Paid up Value	Total Paid up Value
<b>Commercial Banks</b>					
1	<a href="#">Nabil Bank Ltd.</a>	<b>NABIL</b>	9,657,470	100	965,747,000
2	<a href="#">Nepal Investment Bank Ltd.</a>	<b>NIB</b>	16,060,651	100	1,606,065,100
3	<a href="#">Standard Chartered Bank Ltd.</a>	<b>SCB</b>	9,319,664	100	931,966,400
4	<a href="#">Himalayan Bank Ltd.</a>	<b>HBL</b>	12,162,150	100	1,216,215,000
5	<a href="#">Nepal SBI Bank Limited</a>	<b>SBI</b>	8,734,791	100	873,479,100
6	<a href="#">Nepal Bangladesh Bank Ltd.</a>	<b>NBB</b>	7,442,000	100	744,200,000
7	<a href="#">Everest Bank Ltd</a>	<b>EBL</b>	6,388,200	100	638,820,000
8	<a href="#">Bank of Kathmandu</a>	<b>BOK</b>	8,443,979	100	844,397,900
9	<a href="#">Nepal Industrial &amp; Co.Bank</a>	<b>NICB</b>	11,404,800	100	1,140,480,000
10	<a href="#">Machhachapuchhre Bank Ltd</a>	<b>MBL</b>	13,146,420	100	1,314,642,000
11	<a href="#">Laxmi Bank Limited</a>	<b>LBL</b>	10,980,861	100	1,098,086,100
12	<a href="#">Kumari Bank Ltd</a>	<b>KBL</b>	10,782,720	100	1,078,272,000
13	<a href="#">Lumbini Bank Ltd.</a>	<b>LUBL</b>	9,995,000	100	999,500,000
14	<a href="#">Nepal Credit &amp; Com. Bank</a>	<b>NCCB</b>	13,908,900	100	1,390,890,000
15	<a href="#">Siddhartha Bank Limited</a>	<b>SBL</b>	8,280,000	100	828,000,000
16	<a href="#">NMB Bank Ltd.</a>	<b>NMBF</b>	11,000,000	100	1,100,000,000
17	<a href="#">DCBL Bank Ltd.</a>	<b>DCBL</b>	11,074,560	100	1,107,456,000
18	<a href="#">Global Bank Limited</a>	<b>GBL</b>	10,000,000	100	1,000,000,000
<b>Total</b>			<b>188,782,166</b>	<b>1,800</b>	<b>18,878,216,600</b>
<b>Finance</b>					
19	<a href="#">Nepal Finance and Saving Co.Ltd.</a>	<b>NFS</b>	300,000	100	30,000,000
20	<a href="#">NIDC Capital Markets Ltd.</a>	<b>NCM</b>	1,012,500	100	101,250,000
21	<a href="#">National Finance Co. Ltd.</a>	<b>NFC</b>	1,568,818	100	156,881,800
22	<a href="#">Nepal Share Markets Ltd.</a>	<b>NSM</b>	4,320,000	100	432,000,000
23	<a href="#">Annapurna Finance Company Limited</a>	<b>AFC</b>	2,016,000	100	201,600,000

24	<a href="#">Kathmandu Finance Limited.</a>	<b>KFL</b>	759,000	100	75,900,000
25	<a href="#">Peoples Finance Limited.</a>	<b>PFCL</b>	840,000	100	84,000,000
26	<a href="#">Union Finance Co. Ltd.</a>	<b>UFCL</b>	750,000	100	75,000,000
27	<a href="#">Citizen Investment Trust</a>	<b>CIT</b>	600,000	100	60,000,000
28	<a href="#">Nepal Aawas Bikas Beeta Co. Ltd.</a>	<b>NABB</b>	1,382,195	100	138,219,500
29	<a href="#">Narayani Finance Limited</a>	<b>NFL</b>	2,136,517	100	213,651,700
30	<a href="#">Yeti Finance Company Ltd.</a>	<b>YFL</b>	625,000	100	62,500,000
31	<a href="#">Gorkha Finance Ltd.</a>	<b>GFLK</b>	595,000	100	59,500,000
32	<a href="#">Samjhana Finance Co. Ltd.</a>	<b>SFC</b>	225,000	100	22,500,000
33	<a href="#">Universal Finance Ltd.</a>	<b>UFLK</b>	602,184	100	60,218,400
34	<a href="#">Nepal Housing &amp; Merchant Fin.</a>	<b>NHMF</b>	1,607,387	100	160,738,700
35	<a href="#">General Finance Ltd.</a>	<b>GFL</b>	242,434	100	24,243,400
36	<a href="#">Maha Laxmi Finance Ltd.</a>	<b>MFL</b>	800,000	100	80,000,000
37	<a href="#">Lalitpur Finance Ltd.</a>	<b>LFC</b>	1,138,604	100	113,860,400
38	<a href="#">Goodwill Finance Co. Ltd.</a>	<b>GFCL</b>	1,154,741	100	115,474,100
39	<a href="#">Paschimanchal Finance Co. Ltd</a>	<b>PFC</b>	556,600	100	55,660,000
40	<a href="#">Pokhara Finance Ltd.</a>	<b>PFL</b>	800,000	100	80,000,000
41	<a href="#">Lumbini Finance Ltd.</a>	<b>LFLC</b>	900,000	100	90,000,000
42	<a href="#">Siddhartha Finance Limited</a>	<b>SFL</b>	520,000	100	52,000,000
43	<a href="#">Alpic Everest Finance Company Limited</a>	<b>AEFL</b>	780,000	100	78,000,000
44	<a href="#">United Finance Ltd</a>	<b>UFL</b>	1,500,000	100	150,000,000
45	<a href="#">International Leasing &amp; Fin. Co.</a>	<b>ILFC</b>	6,480,000	100	648,000,000
46	<a href="#">Shree Investment Finance Co. Ltd</a>	<b>SIFC</b>	1,008,000	100	100,800,000
47	<a href="#">Central Finance Co. Ltd.</a>	<b>CFCL</b>	780,000	100	78,000,000
48	<a href="#">Nepal Shree Lanka Merchant Bank</a>	<b>NSLMB</b>	1,000,000	100	100,000,000
49	<a href="#">Premier Finance Co. Ltd</a>	<b>PFCLL</b>	475,200	100	47,520,000
50	<a href="#">Nava Durga Finance Co.Ltd.</a>	<b>NDFL</b>	455,948	100	45,594,800
51	<a href="#">Butwal Finance Ltd</a>	<b>BFL</b>	826,330	100	82,633,000
52	<a href="#">Janaki Finance Ltd.</a>	<b>JFL</b>	400,000	100	40,000,000

53	<a href="#">Standard Finance Ltd.</a>	<b>STFL</b>	1,452,000	100	145,200,000
54	<a href="#">Om Finance Ltd.</a>	<b>OFL</b>	700,000	100	70,000,000
55	<a href="#">Cosmic Mer.Bank &amp; Fin.</a>	<b>CMBF</b>	750,510	100	75,051,000
56	<a href="#">Fewa Finance Co. Ltd.</a>	<b>FFCL</b>	910,000	100	91,000,000
57	<a href="#">KIST Merchant Banking &amp; Finance Limited</a>	<b>KMBF</b>	20,000,000	100	2,000,000,000
58	<a href="#">World Merchant Bank Ltd</a>	<b>WMBF</b>	720,000	100	72,000,000
59	<a href="#">Birgunj Finance Ltd</a>	<b>BJFL</b>	726,000	100	72,600,000
60	<a href="#">Capital Mer. Bank &amp; Fin</a>	<b>CMB</b>	3,461,500	100	346,150,000
61	<a href="#">Everest Finance Ltd.</a>	<b>EFL</b>	200,000	100	20,000,000
62	<a href="#">Prudential Bittiya Sans</a>	<b>PFIL</b>	1,000,000	100	100,000,000
63	<a href="#">Shrijana Finance(Bittiya Sa</a>	<b>SFFIL</b>	140,000	100	14,000,000
64	<a href="#">Royal Mer. Bank.&amp; Fin</a>	<b>RMBFI</b>	1,342,544	100	134,254,400
65	<a href="#">Guheyshwori Mer. Bank. Fin</a>	<b>GMFIL</b>	986,901	100	98,690,100
66	<a href="#">IME Financial Institution</a>	<b>IMEFI</b>	2,494,602	100	249,460,200
67	<a href="#">Bhajuratna Fin.&amp; Sav. Co. Ltd.</a>	<b>BFIL</b>	385,000	100	38,500,000
68	<a href="#">Patan Finance Ltd.</a>	<b>PFLBS</b>	500,000	100	50,000,000
69	<a href="#">Imperial Financial Inst. Ltd.</a>	<b>IFIL</b>	500,000	100	50,000,000
70	<a href="#">Civil Merchant bittyasansha</a>	<b>CMBSL</b>	500,000	100	50,000,000
71	<a href="#">ICFC Bittyasansha Ltd.</a>	<b>ICFC</b>	2,997,416	100	299,741,600
72	<a href="#">Lord Buddha Financial Institutional Limited</a>	<b>LBFIL</b>	750,000	100	75,000,000
73	<a href="#">Sagarmatha Merchant Banking &amp; Finance Limited</a>	<b>SMBF</b>	500,000	100	50,000,000
74	<a href="#">Kaski Finance Limited</a>	<b>KAFIL</b>	500,000	100	50,000,000
75	<a href="#">Merchant Finance Company Limited</a>	<b>MFCL</b>	300,000	100	30,000,000
76	<a href="#">Reliable Investment Bittiya Sanstha Limited</a>	<b>RIBSL</b>	825,000	100	82,500,000
77	<a href="#">Shikhar Bittiya Sanstha Limited</a>	<b>SBSL</b>	500,000	100	50,000,000
78	<a href="#">Nepal Express Finance Limited</a>	<b>NEFL</b>	800,000	100	80,000,000
79	<a href="#">Kuber Merchant Bittiya Sanstha Limited</a>	<b>KMBSL</b>	500,000	100	50,000,000

80	<a href="#">Prabhu Finance Company Limited</a>	<b>PRFL</b>	1,600,000	100	160,000,000
Total			85,198,931	6,200	8,519,893,100

#### Hotels

81	<a href="#">Yak and Yeti Hotel Ltd.(Ord.)</a>	<b>YHL</b>	2,209,208	100	220,920,800
82	<a href="#">Soaltee Hotel Ltd.</a>	<b>SHL</b>	9,566,815	10	95,668,150
83	<a href="#">Taragaon Regency Hotel</a>	<b>TRH</b>	7,449,875	100	744,987,500
84	<a href="#">Oriental Hotel Ltd.</a>	<b>OHL</b>	5,000,000	100	500,000,000
Total			24,225,898	310	1,561,576,450

#### Manufacturing & Processing

85	<a href="#">Bottlers Nepal Ltd.(Balaju)</a>	<b>BNL</b>	1,948,887	100	194,888,700
86	<a href="#">Nepal Lube Oil Ltd.</a>	<b>NLO</b>	203,936	100	20,393,600
87	<a href="#">Nepal Vanaspati Ghee Udhog Ltd</a>	<b>NVG</b>	101,250	100	10,125,000
88	<a href="#">Raghupati Jute Mills Ltd.</a>	<b>RJM</b>	1,806,966	100	180,696,600
89	<a href="#">Butwal Spinning Mills Ltd.</a>	<b>BSM</b>	1,306,693	100	130,669,300
90	<a href="#">Gorakhkali Rubber Udhog Ltd.</a>	<b>GRU</b>	3,833,400	75	287,505,000
91	<a href="#">Jyoti Spinning Mills Ltd (ord.)</a>	<b>JSM</b>	1,270,288	100	127,028,800
92	<a href="#">Arun Vanaspati Udhog Limited</a>	<b>AVU</b>	550,343	100	55,034,300
93	<a href="#">Bottlers Nepal (Terai)Ltd.</a>	<b>BNT</b>	1,210,000	100	121,000,000
94	<a href="#">Harisiddhi Brick and Tile Fac.Ltd.</a>	<b>HBT</b>	18,650,000	10	186,500,000
95	<a href="#">Birat Shoe Ltd.(Ord.)</a>	<b>BSL</b>	165,000	100	16,500,000
96	<a href="#">Uniliver Nepal Ltd.</a>	<b>UNL</b>	920,700	100	92,070,000
97	<a href="#">Nepal Khadya Udhog Ltd.</a>	<b>NKU</b>	90,000	100	9,000,000
98	<a href="#">Shree Bhrikuti Pulp&amp; Paper Ltd</a>	<b>SBPP</b>	3,500,000	100	350,000,000
99	<a href="#">Fluer Himalayan Limited</a>	<b>FHL</b>	262,102	75	19,657,650
100	<a href="#">Shree Ram Sugar Mills Ltd</a>	<b>SRS</b>	3,045,990	100	304,599,000
101	<a href="#">Nepal Bitumin and Barrel Udyog</a>	<b>NBBU</b>	210,680	100	21,068,000

102	<a href="#">Himalayan Distillery Ltd.</a>	<b>HDL</b>	4,130,000	100	413,000,000
Total			43,206,235	1,660	2,539,735,950
Others					
103	<a href="#">Nepal Film Dev.Co. Ltd.</a>	<b>NFD</b>	491,285	100	49,128,500
104	<a href="#">Nepal Doorsanchar Company Limited</a>	<b>NTC</b>	150,000,000	100	15,000,000,000
Total			150,491,285	200	15,049,128,500
HydroPower					
105	<a href="#">National Hydro Power Co.</a>	<b>NHPC</b>	7,000,000	100	700,000,000
106	<a href="#">Butwal Power Co. Ltd.</a>	<b>BPCL</b>	8,390,577	100	839,057,700
107	<a href="#">Chilime Hydro power Co.</a>	<b>CHCL</b>	7,296,000	100	729,600,000
Total			22,686,577	300	2,268,657,700
Tradings					
108	<a href="#">Salt Trading Corporation</a>	<b>STC</b>	247,777	100	24,777,700
109	<a href="#">Bishal Bazar Co. Ltd.</a>	<b>BBC</b>	491,400	100	49,140,000
110	<a href="#">Nepal Trading Ltd.</a>	<b>NTL</b>	50,000	50	2,500,000
111	<a href="#">Nepal Welfare Company Ltd.</a>	<b>NWC</b>	41,000	50	2,050,000
Total			830,177	300	78,467,700
Insurance					
112	<a href="#">Nepal Insurance Co.Ltd.</a>	<b>NICL</b>	1,026,984	100	102,698,400
113	<a href="#">Rastriya Beema Sansthan</a>	<b>RBS</b>	995,138	100	99,513,800
114	<a href="#">National LifeInsu. Co.Ltd.</a>	<b>NLICL</b>	1,320,000	100	132,000,000
115	<a href="#">Himalayan Gen.Insu. Co.Ltd.</a>	<b>HGI</b>	1,008,000	100	100,800,000
116	<a href="#">United Insurance Co.(Nepal)Ltd.</a>	<b>UIC</b>	600,000	100	60,000,000
117	<a href="#">Everest Insurance Co. Ltd.</a>	<b>EIC</b>	1,012,500	100	101,250,000
118	<a href="#">Premier Insurance co. Ltd.</a>	<b>PIC</b>	1,020,000	100	102,000,000
119	<a href="#">Neco Insurance Co.</a>	<b>NIL</b>	1,100,000	100	110,000,000
120	<a href="#">Alliance Insurance Company Limited</a>	<b>AIC</b>	599,862	100	59,986,200



121	<a href="#">Sagarmatha Insurance Co.Ltd</a>	<b>SIC</b>	785,400	100	78,540,000
122	<a href="#">NB Insurance Co. Ltd.</a>	<b>NBIL</b>	1,000,000	100	100,000,000
123	<a href="#">Nepal Life Insurance Co. Ltd.</a>	<b>NLIC</b>	3,000,000	100	300,000,000
124	<a href="#">Life Insurance Co. Nepal</a>	<b>LICN</b>	2,500,000	100	250,000,000
125	<a href="#">Prudential Insurance Co.</a>	<b>PICL</b>	1,000,000	100	100,000,000
126	<a href="#">Lumbini General Insurance</a>	<b>LGIL</b>	1,250,000	100	125,000,000
127	<a href="#">Shikhar Insurance Co. Ltd.</a>	<b>SICL</b>	1,250,000	100	125,000,000
128	<a href="#">Siddhartha Insurance Limited</a>	<b>SIL</b>	1,000,000	100	100,000,000
Total			20,467,884	1,700	2,046,788,400

#### Development Banks

129	<a href="#">Nepal Industrial Dev. Corp.</a>	<b>NIDC</b>	2,978,784	100	297,878,400
130	<a href="#">Nepal Development Bank</a>	<b>NDB</b>	3,200,000	100	320,000,000
131	<a href="#">Nirdhan Utthan Bank Ltd.</a>	<b>NUBL</b>	790,721	100	79,072,100
132	<a href="#">Chhimek Vikash Bank Ltd.</a>	<b>CBBL</b>	510,000	100	51,000,000
133	<a href="#">Paschimanchal Bikash Bank</a>	<b>PDBL</b>	1,000,000	100	100,000,000
134	<a href="#">Infrastructure Development Bank Limited</a>	<b>IDBL</b>	800,000	100	80,000,000
135	<a href="#">Diprox Development Bank</a>	<b>DDBL</b>	226,200	100	22,620,000
136	<a href="#">Gandaki Bikas Bank Limited</a>	<b>GDBL</b>	1,000,000	100	100,000,000
137	<a href="#">Business Development Bank Ltd.</a>	<b>BDBL</b>	2,100,000	100	210,000,000
138	<a href="#">Bhrikuti Vikash Bank Limited</a>	<b>BBBL</b>	704,947	100	70,494,700
139	<a href="#">Sanima Vikash Bank Ltd.</a>	<b>SBBL</b>	3,840,000	100	384,000,000
140	<a href="#">Narayani Development Bank Ltd.</a>	<b>NABBC</b>	250,000	100	25,000,000
141	<a href="#">Clean Energy Development Bank Limited</a>	<b>CEDBL</b>	3,200,000	100	320,000,000
142	<a href="#">Triveni Bikas Bank Limited</a>	<b>TBBL</b>	500,000	100	50,000,000
143	<a href="#">Purwanchal Grameen Bikash Bank Limited</a>	<b>PGBL</b>	600,000	100	60,000,000
144	<a href="#">Pashupati Development Bank Limited</a>	<b>PSDBL</b>	2,000,000	100	200,000,000

145	<a href="#">Bageshewari Dev.Bank</a>	<b>BBBLN</b>	330,000	100	33,000,000
146	<a href="#">Sahayogi Vikas Bank</a>	<b>SBBLJ</b>	360,000	100	36,000,000
147	<a href="#">Gurkha Development Bank</a>	<b>GDBNL</b>	4,800,000	100	480,000,000
148	<a href="#">Annapurna Bikash Bank Limited</a>	<b>ABBL</b>	2,100,000	100	210,000,000
149	<a href="#">Swabalamwan Bikash Bank</a>	<b>SWBBL</b>	630,607	100	63,060,700
150	<a href="#">Ace Development Bank Limited</a>	<b>ACEDBL</b>	4,575,432	100	457,543,200
151	<a href="#">Himchuli Bikash Bank Ltd.</a>	<b>HBBL</b>	900,000	100	90,000,000
152	<a href="#">Malika Bikash Bank Limited</a>	<b>MDBL</b>	500,000	100	50,000,000
153	<a href="#">Siddhartha Development Bank Limited</a>	<b>SDBL</b>	1,075,725	100	107,572,500
154	<a href="#">Biratlaxmi Bikash Bank Limited</a>	<b>BLDBL</b>	500,000	100	50,000,000
155	<a href="#">Excel Development Bank Ltd.</a>	<b>EDBL</b>	200,000	100	20,000,000
156	<a href="#">Nepal Development &amp; Employment Promotion Bank Limited</a>	<b>NDEP</b>	3,200,000	100	320,000,000
157	<a href="#">Subhechha Bikas Bank Limited</a>	<b>SUBBL</b>	400,000	100	40,000,000
Total			43,272,416	2,900	4,327,241,600
Government Bond					
Total			0	0	0
Corporate Debenture					
158	<a href="#">Nepal Investment Bank Ltd.</a>	<b>NIBB2072</b>	250,000	1,000	250,000,000
159	<a href="#">Kumari Bank Limited</a>	<b>KBLB2070</b>	400,000	1,000	400,000,000
Total			650,000	2,000	650,000,000
Preferred Stock					
160	<a href="#">Everest Bank Limited Convertible Preference</a>	<b>EBLCP</b>	2,000,000	100	200,000,000
Total			2,000,000	100	200,000,000
Mutual Fund					

161	<a href="#">NCM Mutual Fund</a>	<b>NCMMF</b>	10,000,000	10	100,000,000
Total			10,000,000	10	100,000,000

Promotor Share

162	<a href="#">KIST Merchant Banking &amp; Finance Promoter Share</a>	<b>KMBFPO</b>	1,200,000	100	120,000,000
163	<a href="#">Capital Merchant Banking &amp; Finance Limited Promoter Share</a>	<b>CMBFLP</b>	500,000	100	50,000,000
164	<a href="#">Cosmic Merchant Bank &amp; Fin. Co. Ltd. Promoter Share</a>	<b>CMBFPO</b>	450,306	100	45,030,600
165	<a href="#">Laxmi Bank Limited Promoter Share</a>	<b>LBLPO</b>	300,000	100	30,000,000
166	<a href="#">Royal Merchant Bank &amp; Finance Co. Ltd. Promoter Share</a>	<b>RMBFPO</b>	357,500	100	35,750,000
167	<a href="#">Nepal Share Markets Limited Promoter Share</a>	<b>NSMPO</b>	100,000	100	10,000,000
168	<a href="#">Swabalamban Bikas Bank Limited Promoter Share</a>	<b>SWBBLP</b>	175,000	100	17,500,000
169	<a href="#">Kathmandu Finance Limited Promoter Share</a>	<b>KFLPO</b>	198,000	100	19,800,000
170	<a href="#">Nepal Housing &amp; Merchant Co. Ltd. Promoter Share</a>	<b>NHMFPO</b>	482,642	100	48,264,200
171	<a href="#">Fewa Finance Co. Ltd. Promoter Share</a>	<b>FFCLPO</b>	420,000	100	42,000,000
172	<a href="#">Nepal Credit &amp; Commercial Bank Ltd. Promoter Share</a>	<b>NCCBPO</b>	6,880,104	100	688,010,400
173	<a href="#">Lalitpur Finance Co. Ltd. Promoter Share</a>	<b>LFCPO</b>	417,656	100	41,765,600
174	<a href="#">Malika Development Bank Limited promoter Share</a>	<b>MDBLPO</b>	350,000	100	35,000,000
175	<a href="#">Janaki Finance Limited Promoter Share</a>	<b>JFLPO</b>	240,000	100	24,000,000
176	<a href="#">ACE Development Bank Limited Promoter Share</a>	<b>ACEDPO</b>	1,920,000	100	192,000,000
177	<a href="#">Patan Finance Limited Promoter Share</a>	<b>PFLBSP</b>	300,000	100	30,000,000
178	<a href="#">Annapurna Finance Co. Ltd. Promoter Share</a>	<b>AFCPO</b>	1,008,000	100	100,800,000

179	<a href="#">Everest Finance Limited Promoter Share</a>	<b>EFLPO</b>	120,000	100	12,000,000
180	<a href="#">General Finance Co. Ltd. Promoter Share</a>	<b>GFLPO</b>	145,460	100	14,546,000
181	<a href="#">Bank of Kathmandu Promoter Share</a>	<b>BOKPO</b>	5,000,000	100	500,000,000
182	<a href="#">Nepal Development Bank Limited Promoter Share</a>	<b>NDBPO</b>	1,120,000	100	112,000,000
183	<a href="#">NABIL Bank Limited Promoter Share</a>	<b>NABILP</b>	4,811,751	100	481,175,100
184	<a href="#">Machhachapuchhre Bank Limited Promoter Share</a>	<b>MBLPO</b>	5,751,559	100	575,155,900
185	<a href="#">Kumari Bank Limited Promoter Share</a>	<b>KBLPO</b>	5,250,000	0	0
186	<a href="#">Alpic Everest Finance Company Limited Promoter Share</a>	<b>AEFLPO</b>	585,000	0	0
187	<a href="#">Lumbini Bank Limited Promoter Share</a>	<b>LUBLPO</b>	5,250,000	100	525,000,000
188	<a href="#">World Merchant Bank &amp; Finance Limited Promoter Share</a>	<b>WMBFPO</b>	360,000	100	36,000,000
189	<a href="#">Samjhana Finance Co. Ltd. Promoter Share</a>	<b>SFCPO</b>	123,750	100	12,375,000
190	<a href="#">Siddhartha Development Bank Limited Promoter Share</a>	<b>SDBLPO</b>	300,000	100	30,000,000
191	<a href="#">Yeti Finance Co. Ltd. Promoter Share</a>	<b>YFLPO</b>	8,812	100	881,200
192	<a href="#">Peoples Finance Co. Ltd Promoter Share</a>	<b>PFCLPO</b>	338,610	100	33,861,000
193	<a href="#">Nepal Industrial &amp; Co. Bank Promoter Share</a>	<b>NICBPO</b>	6,211,141	100	621,114,100
194	<a href="#">Development Credit Bank Ltd. Promoter Share</a>	<b>DCBLPO</b>	1,680,000	100	168,000,000
Total			52,355,291	3,100	4,652,029,100
Grand Total			644,166,860	20,580	60,871,735,100

(Source- <http://www.nepalstock.com/listedcompany.php>)