

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Many people look to the stock market to enhance their hard-earned money more and more each year. Some people are not even aware of their investments, because they can come in the form of pensions with their place of employment. The company invests this money in efforts to increase retirement funds. In order to fully understand what is happening with one's money, one should understand how the investments work.

The stock market is an avenue for investors who want to sell or buy stocks, shares or other things like government bonds. Within Nepal, the major stock market in this area is Nepal Stock Exchange (NEPSE). Every day a list is produced that includes indexes or companies and how they are performing on the market. A share is a small portion of a public limited company (PIC), owning one of these shares will give you many rights. For example, one will gain a portion of the profits and growth that the company experiences, additionally one will obtain occasional accounts and reports from the chosen company. Another exciting feature of owning a share of a company is the fact that one are given the right to vote in various aspects of what happens with the company.

Upon purchases a share of a company one will receive something called a share certificates, this will be proof of ownership. This certificate will contain the total value of the share, this will likely not be the price that is listed upon the exchange and is specifically for reasons of a legal matter. This will not affect the current value the share currently holds on the market.

Typically, as a shareholder, one will receive profit in the form of a dividend; these are paid on per year basis. The way this works is if the company makes a profit, one will as well and on the opposite end of this spectrum if they do not make a profit, neither will one. If a company does extremely well their value increases, which means the value of the share one owns will as well.

For the transfer of ownership, buy/sell procession, and information regarding the companies on which the investors want to invest, the securities brokers play a significant role. At present, there 23 brokers operating in the country. Thus, to examine the services of the broker in Nepal, this study has been conducted.

1.1.1 Security Board, Nepal

Nepal Security Board promotes and protects the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the stock exchange and the other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of

Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

1.1.2 Nepal Stock Exchange

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 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders 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 work as manager to the issue and underwriter for public issue of securities whereas securities trader (dealer) works as individual portfolio manager.

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. NEPSE

facilitates trading in Shares (Equity Shares & Preference Shares), Debentures, Government Bonds and Mutual Funds. 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

1.2 Statement of the Problem

An important but often overlooked, component of capital market is the trading, clearing and settlement process. Confidence in this process is essential for well functioning markets. Without an effective trading, clearing and settlement process, the transfer of ownership of securities to the buyer and the final payment of fund to the sellers may put at risk or result in unnecessary costs for market participants. Some emerging markets however, continue to have serious clearing and settlement problems, including settlement delays, high transaction, financing cost and liquidity risk.

Every transaction must be settled within very short period of time. The short-settlement period helps to reduce risk to participants. The longer the settlement period, the higher will be the chance that one of the counterparty faces replacement cost risk with price volatility between the date of transaction and date of settlement.

For all of the above aforementioned tasks, the brokers play a dominant role. The brokers appear as an intermediary between the buyers and sellers, and take the responsibility to take order from the seller to sell the securities and buyer to buy the securities. Further, the broker is germane to the transferring of the securities ownership. Thus, the services provided by the brokers are essential for the smooth operation of the transactions. Hence, for this study the following research questions have been raised;

- a. Are the services provided by the brokerage firms transparent?
- b. Are the brokerage firms of the country effective in providing needed information for the investors?
- c. Do the brokerage firms treat all the customers equally?
- d. What is the most important duty of the brokerage firms?
- e. To what extent are the brokerage firms responsible to the client?
- f. Are the brokerage firms efficient in securities transaction as well as in making sufficient profit?

1.3 Objectives of the Study

The main objective of this study is to analyze the brokering services in Nepal. The other specific objectives are enumerated as below;

- a. To evaluate the service provided by brokerage firms.
- b. To evaluate the efficiency of the brokerage firms.
- c. To analyze the performance of the brokerage firms.

1.4 Significance of the Study

The role of intermediaries (i.e. brokers and market makers) 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. Whatever may be, the study

will be highly germane to both the potential and professional investors to have knowledge about the brokering services in the country. Further, the study will be important to the brokerage firms as well to have feedback on the services provided by them, and thus is crucial to enhance the services. Further, the study will be equally important to the SEBON to know the impact of the securities regulations on the securities transactions and will be beneficial for making amendments, if necessary. Finally, the study will be significant for the future researchers for the reference.

1.5 Limitations of the Study

The study has mainly the following limitations;

- a) The study is confined to the brokering services in Nepal Stock Exchange.
- b) The reliability of the primary data totally depends upon the responses of the customers and the brokerage firms. Further, only six brokerage firms have been selected for primary data purpose, which may not totally represent the 23 brokerage companies.
- c) Secondary data are fully based on the annual reports of SEBON and the consolidated balance sheet & profit and loss account of the brokerage firms.
- d) Only five fiscal years, i.e. from fiscal year 2004/05 to 2008/09, have been analyzed to measure the effectiveness of brokerage firms in securities transactions.
- e) Calculation of the study is fully dependent on the accuracy of the data provided by the respected organizations and respondents.
- f) The non-availability of various references and resources also act as constraints.

1.6 Organization of the Chapter

As per the format of the Tribhuvan University, the study has been organized mainly in five chapters;

Chapter - I: Introduction

The first chapter presents the background of the study, a brief review of Securities board of Nepal and Nepal Stock Exchange, statement of the problem, objectives of the study and limitations of the study.

Chapter – II: Review of Literature

Under this section, the conceptual review related to the securities brokers and the trading procedures have been reviewed. Further the Securities Regulation relevant to the study has been reviewed. In addition, journals and articles, and previous thesis have been reviewed.

Chapter - III: Research Methodology

Under this section, the research design to be adopted, sources and nature of data, data collection technique and data analysis tool have been described,

Chapter – IV: Data Presentation and Analysis

The fourth chapter analyzes the data obtained from both the primary and secondary sources. At the end, the major findings drawn on the basis of analysis have been presented.

Chapter – V: Summary, Conclusion and Recommendations

The study ends with this chapter. In this section, the whole study has been summarized, and the conclusions have been drawn. Further, the valuable

recommendations have been presented for the enhancement of the brokering services.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Review

Under this section, the various literatures that are related to the securities brokers and the trading procedure have been reviewed.

2.1.1 Securities Broker

“A securities broker is the liaison between people who desire to invest their money in bonds, stocks, commodities and other securities and the sellers of such products. He advises his clients based on their liquidity, preferred length of investment and desired level of risk. Once they have invested in the market, he may also advise them on selling their securities. His work may be conducted from an office in a bank or securities firm or from a home office.

Each investor with whom a securities broker interacts is normally quite different. His clients may range from those with small sums to invest to those with a great deal of wealth. Attitudes of investors generally vary from the staunchly conservative to the bold risk taker. One investor may be looking for a quick return on his venture while another is content to watch his outlay ebb and flow over a period of years” (*De Long, Shleifer, Summers & Waldmann; 1990: 713*).

“If the investor has conservative leanings and is not looking to get rich quick, the broker commonly recommends putting the money into a mutual fund or a corporate or government bond purchase. Conversely, a wealthy investor looking for a risky venture may be guided to putting his investment into a company with unproven performance but tremendous potential to generate fast and substantial returns” (*Shleifer & Wolfenson; 2002: 22*).

“Successfully advising clients depends highly upon a securities broker’s communication skills and his ability to remain objective. He is normally required to advise his clients based on their long and short-term goals, so his ability to listen and keep those goals in mind without wavering is important. Even if he is excited about an investment opportunity, he is generally expected to remain objective and not influence his customer to take atypical risks. The broker should generally never present himself as a salesperson or representative for a particular company or investment category” (*La Porta, Lopez-de-Silanes, Shleifer & Vishny; 2000: 15*).

“A securities broker is typically trained to present available investment opportunities without bias or prejudice through recommending diversified portfolios. Regardless of his client’s stated desires, he is traditionally schooled to keep emphasizing the advantages of diversification. A securities broker generally reminds his customers that despite current market trends, a particular sector could dramatically rise or fall at any time. If they follow his recommendations to not put all their money into one stock, they may reduce the risk of losing everything in the event of a crash” (*Bekaert & Harvey; 1997: 62*).

Most securities brokers have a bachelor’s or master’s degree in some area of accounting, business management or finance. Experience in banking or financial

services are highly preferred this position. Licenses and certifications are required in many regions for securities brokers to trade specified stocks and bonds.

2.1.2 Eligibility for Becoming Securities Broker

“Securities brokers play a key role in the financial investment world. Brokers work to advise people on securities investments, such as stocks, bonds and mutual funds. Once the client agrees to the investment, the broker sends the order to the floor of the securities exchange and procures a commission from the investment. To become a securities broker, it is advisable to have a strong understanding of business and finance principals, a bachelor’s degree in a related field and the proper licensure” (*Aggarwal & Wu; 2003: 45*).

“Building business and finance skills is generally the first step to become a securities broker. This may be done by closely studying current investment and market trends. To be a successful broker it is ideal to have knowledge of the markets and upcoming investments.

Gaining work experience in sales is also a helpful way to build skills and attract future employers. Many firms hire securities brokers with a background in insurance or real estate sales. Working on a commission gives one looking to become a securities broker an understanding of how to deal with clients and manage a commission-based salary” (*Allen & Gale: 1992: 540*).

“Many securities brokers hold bachelor’s degrees in accounting, economics, finance or business. Obtaining an internship during undergraduate study is also considered an excellent way to secure employment after graduation. Some students find employment as summer interns to establish relationships with firms

early on. Firms often hire a large percentage of their summer interns as full-time securities brokers once they have completed their undergraduate studies.

Some securities brokers go on to earn a master's degree in. Typically an a masters' degree is obtained after several years of working in order to secure a higher level position in the industry. Some may go on to obtain directly after graduation, but it is uncommon to attend graduate school without some type of work experience” (*Bhattacharya & Daouk; 2002: 88-89*).

2.1.3 Securities Brokerage Company

“A securities brokerage company is a business whose purpose is to act as a liaison between buyers and sellers. Essentially, this company matches people or businesses with stocks or bonds to sell with people or businesses who are hoping to buy those things. In exchange for its services, a brokerage company typically receives a commission. The size of the commission usually depends on the item for sale and the final price the buyer pays. Even small transactions can add up to significant earnings if numerous sales are completed in a given period.

In some transactions, the seller is responsible for paying a brokerage company its commission. This may be the case when a brokerage helps to sell franchises, for example. In others, the buyer may pay the commission. This may happen with certain types of investment sales. Some transactions result in commissions from both the buyer and the seller, however” (*Johnson & Mitton; 2003: 362*).

“Typically, a brokerage company doesn't merely match sellers with interested buyers, though this may happen in some cases. Instead, the brokerage company usually handles the transaction, including the processing of any required paperwork and collecting money that is due. This type of company may collect its

commission before passing the money along to the seller or after the seller has taken its portion of the transaction money” (*Khanna & Sunder; 1999: 45*).

“Many people are most familiar with the type of brokerage company that facilitates the buying and selling of stocks and other types of investments. These types of companies typically collect their commissions from the people who buy or sell shares. The amount of commissions these companies collect can vary widely, depending on the amount of the sale or purchase and the brokerage itself. For example, traditional brokerage companies tend to offer more investment advice and may even make decisions for the consumer, if given authorization. Commissions tend to be higher in such situations” (*Morck, Bernard & Wayne; 2000: 240*).

Other investment brokerages are often referred to as discount brokerages. They provide less help and advice. In exchange for doing their own research and not requiring advice, consumers typically pay lower commissions. Some discount brokerages may even charge per-transaction fees instead of a percentage-based amount.

2.1.4 Types of Securities Brokers

The major types of securities brokers have been enumerated and discussed below;

A) Bond Broker

“Investing in bonds can be a complex process. This is because unlike stocks, bonds primarily trade in the over the counter (OTC) market where there is no centralized pricing entity. Instead, prices are negotiated between brokers either over the telephone or via the Internet. Bond brokers are there to streamline the process of buying and selling corporate bonds. Their job is to serve as

intermediaries between buyers and sellers of bonds, primarily in the institutional market, but also to individual investors.

Bonds trade in the fixed-income market and provide a steady stream of revenue to investors in the form of interest and principal payments. These trading instruments are widely considered to carry less risk than stocks, because in order for investors not to be paid, a company or government must default or file for bankruptcy. Stocks, which are traded by stock brokers, can be much more volatile and offer investors a chance for greater rewards but also more severe losses” (*Barber, Lehavy, McNichols & Trueman; 2006: 92*).

“Although bonds tend to be less risky than stocks, a drawback is that because these securities do not trade on a formal exchange, there is no central marketplace to determine or verify a bond's value. Instead, bond brokers are largely responsible for determining prices. They do this by purchasing bonds from one institutional investor and selling them to another.

The difference between the buy and sell price is called a spread, and this difference is kept by bond brokers as a profit. A spread is masked because it is included as part of a bond's price, and bond brokers are not required to disclose how much they are earning on each trade. In the United States, a bond broker is required by law only to earn a spread that is fair, despite the fact that oversight like that can be interpreted subjectively” (*Boni & Womack. 2002: 45*).

B) Stock Broker

“There are full-service stock brokers and discount stock brokers, representing a myriad of brokerage firms. There are execution only, advisory and discretionary dealing stock brokers. One can interact with your stock broker online or on the

phone, and one can either bring your own plan to the table or rely completely on the broker's expertise.

While the term 'broker' might make some investors a bit uncomfortable in these stark economic times, the word actually means 'one who acts as an agent for another.' In the case of a stock broker, this can be done on various levels. An 'execution only' arrangement puts most of the burden on the client, who calls the broker and simply provides instructions on what to buy or sell. Advisory dealing still leaves the decision with the client, but the stock broker may offer background information and suggestions. Finally, with a 'discretionary' relationship, the stock broker is given free rein to use his or her own judgment" (*Mikhail, Walther & Willis; 2004: 70*).

The stock market is, at its core, a gamble. What the stock broker does is to bet your money that the price of a certain share of stock will rise beyond what you pay for it - if not immediately, at least in the long term. A broker may also advise you to sell a certain stock that seems to have peaked, or is rumored to be on the verge of a fall.

"A full-service broker might deal with other financial entities, such as annuities and bonds, as well as stocks. At the other end of the spectrum is the discount broker, whose relationship is generally conducted through execution only. The pool of knowledge required to be an effective stock broker is immense. Not only must the broker be on intimate terms with the rules and quirks of the market, but he or she must also be able to process information about various companies with an eye toward whether that stock is likely to go up or down" (*O'Brien; 1988: 55*).

C) Clearing Broker

“Clearing brokers are financial professionals who function as the line of communication between an investor and a clearing corporation. Part of the responsibilities of the clearing broker involves making sure that all documents associated with the transaction are in order. Brokers who function in this capacity tend to be detail oriented and excellent at research as well as managing any funds associated with the business deal.

Many recognize the clearing broker as one of the most important components of the securities market. The broker will always work in the best interests of both the investor and the clearing house, making sure that any and all relevant information is presented before any purchase or sale takes place. Along with researching pertinent data, the clearing broker will also verify each detail and organize the information into a format that is logical and easy to understand” (*Stickel; 1992: 1835*).

“Once the investor wishes to execute an order, the clearing broker will work to make sure that all documents are prepared according to current regulations. Before the final placement of the order, the broker will also go over the details with the investor, making sure there are no misconceptions about the terms and conditions associated with the transaction. Once the broker has verified all the details with the investor, the order is placed and the deal goes through.

Once an order is executed, the clearing broker will work with the clearing corporation to make sure any funds involved with the transaction are handled properly. This will include making sure the proper transfers are made into the right accounts, and that both the corporation and the investor are credited accordingly. Only when all aspects of the transaction are complete and verified by the clearing broker can the task be considered fully complete.

For many, the clearing broker is the single most valuable component of any investment transaction, outside of the actual security that is being purchased or sold. With a commitment to excellence, brokers who function as clearing liaisons can make investing a much easier task for both newcomers as well as seasoned investors” (*Womack; 1996: 140-142*).

D) Floor Broker

“A floor broker is someone who executes deals on the trading floor on behalf of clients of a firm, in contrast with a floor trader, who makes deals on his or her own behalf. These stock market professionals can work for firms of all sizes, and they may specialize in a particular type of commodity, or work more generally in a stock exchange. One of the advantages to working as a floor broker is that one is not exposed as directly to the risks of market volatility when a deal goes badly.

Also known as pit brokers, floor brokers receive orders from their firms and execute these orders on the floor. Their goal is to get the best deal, whether they are buying or selling, for the clients of the firm. Once the order is completed, it is recorded, and the client is informed that the deal has been successfully completed, and what the outcome was.

Working in a stock exchange can be extremely stressful and very hectic. Floor brokers need to be able to deal with a wide range of personalities, and to deal with a fast paced work environment. They also need to have some more basic skills, like the ability to clearly project their voices so that they can be heard over the din of the trading floor, and the aggressiveness to make a good trade and confirm it.

In order to become a floor broker, someone usually needs to pass an exam which allows him or her to join the exchange. Floor brokers are sponsored by their firms,

and they work under the auspices of the companies which employ them, which means that when they make mistakes, the firm pays for them. These mistakes can vary from breaches of protocol which result in fines from the exchange, to a flubbed trade. Too many mistakes can get a floor broker fired, as firms are not interested in bearing expenses for their employees.

Every exchange has slightly different conventions and rules which floor brokers must become familiar with. Many exchanges have classes which are designed to familiarize people with life on the floor and the procedures that brokers and traders need to follow. These classes prepare people for the examinations they must take in order to work” (*Walther; 1997: 157-160*).

2.1.5 Difference between Securities Broker and Market Maker

“A broker is an intermediary who has a license to buy and sell securities on a client's behalf. Stockbrokers coordinate contracts between buyers and sellers, usually for a commission. A market maker, on the other hand, is an intermediary that is willing and ready to buy and sell securities for a profitable price” (*Morgan & Stocken; 2003: 185*).

“A broker makes money by bringing together securities' buyers and sellers. Brokers have the authorization and expertise to buy securities on an investor's behalf - not just anyone is allowed to walk into the New York Stock Exchange and purchase stocks; therefore, investors must hire licensed brokers to do this for them. A flat fee or percentage-based commission is given to the broker for carrying out a trade and finding the best price for a security. Because brokers are regulated and licensed, they have an obligation to act in the best interests of their clients. Many brokers can also offer advice on what stocks, mutual funds and other securities to

buy. Due to the availability of internet-based automated stock brokering systems, clients often do not have any personal contact with their brokerage firms.

A market maker makes a profit by attempting to sell high and buy low. Market makers establish quotes whereby the bid price is set slightly lower than listed prices and the ask price is set slightly higher in order to earn a small margin. Market makers are useful because they are always ready to buy and sell as long as the investor is willing to pay a specific price. This helps to create liquidity and efficiency in the market. Market makers essentially act as wholesalers by buying and selling securities to satisfy the market; the prices they set reflect market supply and demand. When the demand for a security is low and supply is high, the price of the security will be low. If the demand is high and supply is low, the price of the security will be high. Market makers are obligated to sell and buy at the price and size they have quoted.

It is often the case that a market maker is also a broker. This can sometimes create the incentive for the broker to recommend securities for which he or she also makes a market. Therefore, investors should make sure that there is a clear separation between a broker and a market maker” (*Morgan & Stocken; 2003: 186-188*).

2.1.6 Buying Stock without Stock Broker

“Most people who think of investing automatically think of finding a broker. This is sometimes a necessity, since it is impossible to execute stock trades unless one is a broker or an employee or member of an exchange floor. If one wants to invest in traditional stocks, one will need a broker. However, there are some instances in which one can buy stocks without a [stock broker](#).

To buy stocks without a stock broker, one can open one's own [brokerage](#) account. This can be done through a broker but then handled on one's own, or one can become one's own broker. If this sounds too complicated or time consuming, one may be consider investing directly through a company's purchase plan. This is a popular stock sale option offered by many big companies. Under this, one can buy stocks without a stock broker by contacting the company directly and offering an initial deposit or the option of a monthly bank debit. This is the easiest way to buy stocks without a stock broker, as one only needs to decide which company one wants and how much one's monthly investment will be. After that, one can simply let the company do the work for one.

Many companies also offer something called [Dividend Reinvestment Plan](#) or DRIP, in which all dividends are reinvested in additional shares rather than being deposited into one's bank account. If one wants to buy stocks without a stock broker, enrolling on a DRIP program may be the easiest and quickest, as it can often be done online in a couple of minutes, even by inexperienced investors” (*Metrick; 1999: 1745-1746*).

2.1.7 Brokerage Account

“A [brokerage](#) account is an account opened by an investor with a specific [brokerage firm](#). Funds are deposited into the account and used as the resources to place orders for various securities through the brokerage. As the orders are executed, the necessary funds are deducted from the account. Depending on the structure of the brokerage account, fees and charges for other services offered by the brokerage may also be deducted from the outstanding balance from time to time” (*Metrick; 1999: 1780*).

“There are several different ways to structure a brokerage account. Some are designed to simply be a repository of resources that are used to purchase securities. When the investor wishes to buy a stock or some other type of security, he or she directs the brokerage to make the transaction, and withdraw the necessary funds from the account. Some funds also allow the brokerage to deposit returns such as dividends into the fund, a process that helps to ensure there are always funds on hand to aid in the purchase of additional securities. In the event that the investor seeks comprehensive investment advice from the brokerage, any fees for those services may be deducted from the balance in the account, or paid out of pocket by the investor.

A brokerage account may also be structured to function using both the cash deposited in the account and any type of line of credit extended by the brokerage to the investor. The line of credit can be used to secure various investments by doing what is called [buying on margin](#). Essentially, the brokerage deems the investor to be worthy of a specific amount of credit that can be used in investing transactions. Depending on the regulations that govern the structure of the account, the investor may have to leave a portion of the cash resources of the account in place at all times, effectively acting as security for the margin aspect of the account” (*Metrick; 1999: 1781-1782*).

“Accounts of this type tend to be very basic, usually allowing the investor to deposit funds into an account, and use those funds to place orders with the brokerage. Any fees that are assessed by the brokerage are also deducted from the balance in the account. Online brokerage accounts tend to be straightforward, and provide only a limited range of services. This is in contrast to the traditional full-service brokerage account, which offers everything from [financial planning](#) to

access to a number of analysis tools and periodic overview of the portfolio” (*Metrick; 1999: 1784*).

2.1.8 Broken Lot

“Sometimes referred to as an odd lot or an uneven lot, a broken lot is a bank of shares of stock that are less than one hundred shares for most types of stock, or less than ten shares of a stock that is thinly traded. Since this form of trading is considered to be a little out of the ordinary, brokerage houses usually employ a few different rules to dealing with a broken lot.

Generally, shares are traded in what is known as a round lot. A round lot is defined as a bank of one hundred shares of stock. When the deal involves a transaction that is less than 100 shares of stock, most brokerages will calculate both the charges associated with the actual transaction at a different rate. Along with the transaction charges, the broker is likely to apply a higher commission rate to the transaction as well.

While there is undoubtedly a higher expense associated with trading or purchasing a broken lot, there can be some advantages as well. For investors that are attempting to secure as many shares of a given stock as possible, seeking out and buying a broken lot can sometimes be easier to manage than securing round lots. This is because brokers tend to promote round lots, and are sometimes much less proactive in promoting a broken lot. This can create some opportunities for an investor with a specific investment strategy in mind” (*Jagadeesh; 1990: 885*).

A broken lot can also be a great way for a new investor to begin building a portfolio. This is especially true for investors who have limited funds to invest in

the acquisition of shares. Because the smaller lots of both thinly traded stock and other forms of stock contain less shares than a round lot, they may be more affordable, even with the higher broker charges and commissions. As the value of the portfolio grows, the investor may be able to move away from acquiring broken lot shares, and focus more on acquiring round lots of shares.

2.1.9 Trading Procedure

“Securities market trading has traditionally been conducted by traders gathering at a central point to quote buy and sell prices and to strike a deal when prices matched. Early forums for such gatherings were coffee-houses and curb-sides but these gradually gave way to the trading posts of stock exchange floors around which traders gathered to trade the stocks listed on each post. Stock exchanges began as associations of such traders who wished to gather together to trade because of shared interests and mutual trust” (*Kolb and Rodriguez: 1996; 157*).

“There are two basic types of trading systems - order driven and quote driven. The quotes, which drive the trading process may be the bid and offer prices specified in investors’ orders or they may be the spread, quoted by market makers. The first is called an order driven market, the second, and a quote driven market.

The traditional quote display mechanism is a chalk board at a trading post on a stock exchange floor but, these days, is more often computer screens, either centralized on the exchange floor or distributed in broker’s offices. Three functions are commonly thought of as constituting the securities trading process: display and comparison of buy and sell quotes; order matching; and order execution; however the process starts from the order collection and maintenance of client records” (*Kolb and Rodriguez: 1996; 160*).

A) Order Collection and Maintenance of Clients Records

It is often referred to as ‘back office operations’ those two functions are usually performed by brokers. “Order collection can be thought of as the starting point of a transaction in which a broker receives instructions from a client and notes those instructions either in writing or direct to a computer record. The main client records kept are a record of client instructions regarding transactions, ledger entries of money and security transfers and balances, the name in which securities are registered and the location and from in which they are held, any lines or charges over the securities and details of any authority or power vested in the broker by the client relating to the client’s assets. Traditionally all these records have been kept manually but are now computerized in all but the smallest broker’s office” (*Sur; 1998: 29*).

B) Order Routing

“This is the first step of the transaction process outside the Broker’s office. It is the process of transmitting a client’s order to the correct place for execution. This might be to the broker’s trading representative on the floor of a local or distant stock exchange, to an automatic small order execution system, or to an off-exchange market such as a computerized over the counter (OTC) market or privately negotiated upstairs market. It can be done via physical delivery of an instruction slip, via telephone or computer link to the broker’s booth on the trading floor and then by physical delivery or by hand signal to the trading brokers on the floor itself, by direct entry to a computer bases market where the order is instantly displayed, or to an automated switching mechanism which to transact the order. Such order routing facilities are commonly provided by stock exchanges but sometimes by independent IT providers” (*Daniel & Titman; 1997: 20*).

C) Quotation Display and Comparison

“On reaching the trading place, a client’s buy or sell orders are brought together with other orders to begin the price setting process which is the corner stone of a securities market. They are displayed according to price priority and compared with each other to identify where a trade may be possible. In an order driven market the bid and ask prices of investors are displayed, while in a quote driven market the buy and sell quotes of market makers are displayed. At least the highest bid and offer price plus the last sell price are given, and on some computer systems, the highest five or ten bid and asks are quoted, sometimes together with their associated buy or sell quantities. Order display and comparison systems are provided by stock exchanges or similar market operators. They may be centralized like a stock exchange or computer trading room, or they may be distributed on a computer network” (*Jacob & Petit; 1984: 221*).

D) Order Matching and Selection

A deal is struck when, as a first step, a selling order is matched with a buying order and, second, the two are selected as the two sides of a trade. Matching is price bases – the buy price must equal the sell price. Selection criteria are more varied and depend on the nature of the market: order or quote driven, automated or manual, continuous or call auction. One method is automatic selection by time priority, in which quotes at the same price are executed in order from the first one entered into the system to the last one entered. This is common in continuous auction automatic execution system. A second method is where brokers exercise some discretion, so that from within a group quoting the same price rather than having to deal strictly in time priority, they are able to trade with selected counterparties because of the convenience of the quantities involved or because of considerations such as greater or lesser degree in floor based, or computer assisted manual markets. A third computer bases or manual calls auctions which do not account for time priority. Instead, they execute the largest possible volume of

trades by calculating a single strike price derived from the bids and offers in the system at the time of the call. And finally, a quote driven market displays the bid and ask spreads of the market makers rather than bid and offers prices of investors. In this case, client orders are matched with the market maker's quote.

E) Order Execution

“A deal is struck when matched buy and sell orders are executed one against the other. This may be done automatically or manually. Manual execution requires a decision and an action by both the buy and sell broker. The decision is acceptance of the terms of the trade and of each other as counterparties, the action is commitment of those decisions to a permanent record of their own and of the exchange, and display of the new sale price of it is different to the last one displayed. In floor based systems, the brokers may each write a sale slip which they deposit immediately for collection by the exchange, keeping a copy for themselves, or they might each write the details in their own trade book and signal to an exchange official that the trade has been executed so that the official can also record the details of the trade. In a floor based system these actions can be supported to a greater or lesser degree by computerization. In a non-floor based system, brokers may strike a deal by communicating directly via the linked computer terminals which also display the bids and offers, or they may use ancillary telephone or fax communication, they may record their decision separately in their own records and those of the market provider or the records may be generated automatically by the computer network. Fully automatic execution on computer based systems removes the decision to consummate the trade from the control of the brokers and instead executes the trade automatically once order is matched” (*Hirt and Block; 1983: 111*).

2.1.10 Trade Execution, Clearing and Settlement

The completion of a financial transaction typically involves a variety of complementary activities.

A) Trading

The first function is the execution of a transaction; that is, the consummation of an agreement between a buyer and a seller. This can be done in a variety of ways. “In over-the-counter markets, buyer and seller typically complete deals over the phone. In exchange markets, orders to buy and sell are directed to a central marketplace—the exchange. In a traditional floor-based, open outcry exchange, orders to buy or sell are represented by agents (floor brokers) on the exchange floor, or by exchange member’s physically present on the exchange dealing on their own account. Buyers and sellers (or their agents) on the exchange floor agree to the terms of a transaction through a negotiation or auction process. In newer, computerized exchanges, orders are routed electronically to a central computer which matches buy and sell orders based on matching algorithms” (*Hayes and Meerschuan; 1991: 112*).

B) Clearing

“Once the buyer and seller agree to terms, a transaction must be cleared. The clearer first establishes that the buyer and seller indeed transacted by verifying that all terms submitted by the buyer and seller match. In most centralized markets, the clearing entity is then substituted as a principal to the transaction, becoming the buyer to the seller, and the seller to the buyer. That is, the clearer becomes the central counterparty (CCP) that bears the risk of default by those with whom it transacts. That is, CCPs bear performance risk” (*Daniel & Titman; 1997: 22*).

In their role as CCP, clearers—typically referred to as “clearinghouses”—engage in a variety of activities, including: calculation and collection of collateral (margin);

determination of settlement obligations (that is, the determination of what each party owes or is owed in money and delivery obligations); determination of default; collection from defaulting parties; and remuneration of participants in the event of a default. “The CCP usually nets the obligations of those for whom it clears. That is, it determines the net amount each part owes or is owed; since a party may owe money on some transactions, and be owed money on others, netting typically reduces the flows of cash (and securities) between transacting parties. As will be seen, this netting function is economically very important” (*Daniel & Titman; 1997: 24*).

“Clearers service the financial intermediaries who broker customer orders, and who sometimes trade on their own account. That is, clearinghouses serve as a central counterparty only to so-called “clearing brokers,” and collect margins, collect and disburse variation payments, and charge fees from/to these brokers. They typically do not deal directly with the ultimate buyers or sellers for whom the brokerage firms serve as agents” (*Daniel & Titman; 1997: 25*).

C) Settlement

“Settlement is the process whereby parties discharge their contractual obligations to pay cash or deliver securities. At one time, settlement agents facilitated the physical delivery of stock certificates, bonds, or other delivery instruments. Presently, delivery is performed by debiting or crediting the securities and cash accounts of the counterparties to transactions. This typically involves the maintenance of a central register that records ultimate ownership of securities” (*Hayes and Meerschuan; 1991: 115*).

“A securities or derivatives transaction involves all three functions. Thus, these functions are complementary, and the demand for each service is a derived

demand. This has important implications for the organization of financial markets, as is discussed in the next section” (*Hayes and Meerschuan; 1991: 116*).

2.2 Review of Securities Regulation

As per the securities Regulation 2058, the following should be the duties of the Securities Brokers Businessperson;

A) Duties/Responsibilities to Customers

The securities brokers businessperson has following duties toward the customers/clients;

a) Honesty and Clarity

While transacting the securities, the securities broker should adopt necessary alertness with essential capability, honesty and clarity. Special attention should be given to customer’s interest in making such transactions. Securities broker should not promote the customers to transact with the hope of getting merely commission. Further, in transacting as a securities broker businessperson, the transacting person should clarify the customer whether he/she is director, agent or staff.

b) Information on Organized Institutions and Market

The securities broker businessperson should provide whatever he/she knows about the organization, such as financial information and business activity, to the customer who has approached to the securities broker with the interest of investing on securities of such organization.

c) Implementing Demand Promptly and Efficiently

The task to be done under the direction or demand of customers should be done by securities broker businessperson as promptly as possible. The demand received

from customers for buying or selling securities has to be given high priority as possible. When the securities broker remains unable to implement the buy/sell demand of securities, he/she should not keep such securities for own or for others' benefit. Also, he/she should not return the securities, when he/she is able to sell such securities.

d) Recognize True Customer

Securities broker businessperson should attempt to recognize true and complete information about his/her customer. Moreover information on customer's economic condition, experience on investment and investment objective should also be collected.

e) Equal Behavior to Customer

Securities broker businessperson should not discriminate customers on the basis of transaction quantity or any other basis. Even small quantity transaction should not be denied/ rejected.

f) Secrecy on Customer's Investment

The securities broker businessperson should not inform or discuss about the personal investment capability or other naturally secret information, known in the process of securities transaction, with other person.

B) Security of Customer

The security broker businessperson has following duties to protect the clients'/customers' interest;

a) Customer's Asset Security

In order to make correct and secured account of the customer's investment, the securities broker businessperson should provide details of the cash amount received from customers and about the securities certificate.

b) Different Account for Customer

The provision of making details in separate account for each customer buying/selling securities should be done by the securities broker businessperson. In such account, the true details of transaction made from customer's side should be made.

c) Recording and Implementing demand

The securities broker should record chronically the demand for buying/selling securities according to the date and time and should implement the demand on such chronicle order.

d) Informing about Business

The securities broker businessperson should provide full information about own business, the services to be provided to the customers, and concerned staff or representative. On the demand of customers, the securities broker should provide the audited financial statement (balance sheet and profit & loss account) that can enlighten the financial situation of the securities broker's business. Also, the recent financial changes, if any, should be provided.

e) Notice and Information Flow

Securities broker businessperson should provide related information on the customer's account to each customer regularly.

f) Provision for Hearing Grievance

The grievance from customer on securities transaction should be investigated and solved promptly, and then should be informed to the customers. If such grievance could not be solved, then the securities broker should suggest about the idea that can be proceed under the existing law.

g) Information about Transaction

On the basis of received information from customer to buy/sell securities, the securities broker should provide information to the customer about procession. If the selling transaction has been made, the prompt payment should be made, and if the buying transaction has been done, the prompt procession to get the securities certificate should be done.

h) Issue of Transaction Information Form

After performing the securities transaction, the securities broker should inform the customer disclosing about the transacted organization name, transacted share price and number, broker commission, the payable or net receivable amount of customer, and clearing date etc., in the specified model form of securities exchange market.

i) Not Transacting with Bad natured customer

The securities broker should not transact with the customer who had not fulfilled his/her commitment with other securities broker businessperson.

C) Duties toward Regulatory Bodies

The securities broker businessperson should perform following duties toward the regulatory bodies;

a) Recording Account and Details

The account and details related to the transaction and economical status of won should be kept recorded in specified format of regulatory body and should be provided the demanded details at any monitoring time.

b) Submit Details

According to the provision made on rules and regulations, the securities broker businessperson should submit balance sheet, profit and loss account, cash flow statement along with annual report to the securities board within the specified time.

c) Implementing the direction

The full implementation of the directions provided by the securities board at regular time should be the responsibility of securities broker.

d) Barrier on Advertisement and Promotion

Unless the securities board permits, the securities brokers are not allowed to advertise or promote about their business. No deceiving or false notice and information should bin included on securities transaction related advertisement.

e) Informing Securities Board

The securities broker should inform promptly as far as possible to the securities board under following conditions;

- If the act and provision of the rules, by-law and directions made under the act has not been obeyed or suspected not to be obeyed or complied by anybody, the securities broker should promptly inform to the securities board about the descriptive details of such event.
- If there has been change on the organized structure of securities brokerage companies or change on the board of directors due to any reason, or

ineligible of any director for securities business, such information should be provided to securities board.

- On the creation of any barrier to the accounting system, clearing system or any procession of the securities broker, the securities board should be notified promptly.
- Any action or permission paper withdrawal or fired or any other related action taken by regulatory entity such as Company Registrar Office, Securities Exchange Market, to the securities broker businessperson should be promptly informed to the securities board.
- Any proposal passed for the restructuring, amalgamation, or liquidation of the securities broker company should be informed to the securities board.

D) Duties with Other Securities Broker

As per the regulation, the securities broker businessperson should be responsible with other securities broker businessperson on following matters;

a) Cooperation

If the transaction between one securities broker businessperson and another securities broker businessperson could not be reconciled, then a mutual cooperation should be attempted. Also, non transparent and only partial document should not be provided in transaction patron. If such happen, required documents should be provided.

b) Clearing Securities Transaction Account

The securities broker should fulfill all the liabilities that should be bared, while transacting the securities.

c) Not Making bad Impression

To attract the customer of other securities brokerage company, the securities broker should not accept any unhealthy activity.

E) Other Duties

The other duties of security broker businessperson enlisted in the regulation are as follows;

a) Security of Customer Interest

The securities broker should give clear information to the customers about the dividend, right share, bonus share and other rights receivable to customers. Further, to provide such gaining, the securities broker should do full cooperation.

b) Provision of Able Staff and Representative

The staff that will be appointed by the securities broker businessperson should be able, well trained and experienced in order to give clear, promptly and competitive service to the customers. Further, it should be ensured that there is a sufficient resource to supervise the performance of the staff.

c) Provision for internal control and Financial Resources

To conduct the securities business activity and to secure the investment of investors as well as other securities business person, the securities broker should adopt well managed internal control and financial efficiency.

d) Comply with the Act and Rules

The securities broker comply with the act, regulation, securities market membership and transaction by-law, 2055 and this directive and other related provision to enhance the customer's interest and market creditability.

e) Non Involvement in Malpractice

Either lonely or with other group, the securities broker should not create false or artificial market, or attempt to manipulate the clear and successful operation of the securities market. Further the securities broker should remain far away from cheating, fraud, showing false transaction, bargaining and other malpractices. In addition, transaction of big amount that could not be met should not be done.

f) Responsible for the Representative's & Staff's Activity

The securities broker businessperson should be full responsible for the activity of the representative and staff related to securities transactions.

2.3 Review of Journals and Articles

Khwaja and Mian (2007), in their article, "*Unchecked Intermediaries: Price Manipulation in an Emerging Stock Market*", have uncovered unusual trading patterns and systematic profitability differences arising from trades between brokers and outside investors in emerging markets. While market-timing and liquidity-based explanations could account for some of the results, the evidence is indicative of manipulation of stock prices by collusive brokers.

How significant are these manipulation-based rents, particularly in relation to what brokers earn by trading honestly (by intermediating for outside investors)? While it is hard to come up with precise numbers, the author provided estimates by making assumptions about trading behavior and brokerage commissions. Specifically, assuming that a fraction PRIN of a broker's trades in a given stock are manipulative and a fraction PRIN are intermediary trades. The broker earns from manipulation in a given stock and the latter his earnings (total brokerage

commission) from honest trading in the stock. Manipulation rents are a significant part of the overall market: 44% of total broker earnings in the market. Moreover, these rents are likely to be an underestimate. Examining the earnings from honest and manipulative activity for each broker reveals that most brokers are earning significant manipulation rents.

Mangkorntong and Mong (2009), in their article, “*Next Generation Broker System*”, have introduced a new architecture for creating a generic broker system. The study demonstrates the ease with which external services can be integrated. This is part of a research effort for widespread use of such service oriented architectures in this domain, moving away from the large single package systems that are currently available. This in turn would lead to other benefits such as providing a more easily manageable system, where components can be distributed and maintained separately. This is an important feature in the current globalized environment.

The study has focused on the implementation of a market analysis service for brokers. More specifically, the service provides a means of executing and evaluating a trading strategy. The paper also described a realistic application based on the VWAP trading strategy. By following the same procedure, other trading strategies can be easily incorporated into the system. This is of great benefit to brokers as it gives them the ability to try their strategies and enhance them before using them in real situations.

Domowitz and Yegerman (2010), in their article, “*Measuring and Interpreting the Performance of Broker Algorithms*”, have stated that in order to develop a feedback loop that allows algorithm users to make informed choices and evaluate tradeoffs between different broker algorithms, a body of historical performance

data is required. Such data may include order information, market information, additional pre-trade analytics, and order characteristics, such as the trade strategy, the broker and the actual algorithm that was employed.

The information flow begins with input from the execution management system (EMS). This includes the trading characteristics of individual names in the list, as well as submission times, performance benchmarks, and any specific trade instructions, such as urgency levels. Historical broker performance is matched with transaction cost distributions across alternative algorithms. User-defined parameters and historical cost information are complemented by inputs from pre-trade analytics, including, as in our previous examples, relative order size and volatility information.

The result is information that may be used to judge tradeoffs. A “best fit” strategy recommendation is a place on the trade structure continuum. At this level, the recommendation might be as simple as, for example, “unstructured liquidity search, based on a combination of pegging and discretion.” More specific recommendations depend on the granularity of strategy information available by broker. The projected cost and risk of the general strategy are provided. Broker performance is matched against strategy recommendations, producing indicators of favorable and unfavorable broker choice for each strategy option.

2.4 Review of Thesis

Guragai (2002), in his thesis, *“Price Formation and Brokering Services in Nepal Stock Exchange”*, has the following objectives;

- a. To study the price formation at Nepal Stock Exchange.
- b. To analyze whether the price formation in Nepal stock exchange is effective or not.

- c. To analyze the trend of market price of the stock of the companies under study.
- d. To analyze the brokering services and the role of the brokers in price formation in Nepalese Stock Market.
- e. To provide recommendation on the basis of finding.

The major findings of the study are;

- a. 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.
- b. 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.
- c. The investors prefer blank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.
- d. 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.

Kharel (2005), in his thesis, “*Current Problems and Prospects of Securities Market in Nepal*”, has the following objectives;

- a. To detect out the existing problems in Securities market in Nepal
- b. To evaluate the prospects of Securities Market in future.

- c. To analyse the widespread of malpractices to manipulate the stock price.

The main findings of her study were:

- a. The development of stock market primarily depends on program and their implementation.
- b. In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- c. Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- d. Restriction on foreign portfolio investment hindered market development.
- e. NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- f. In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
- g. Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository system (CDS).

Khadka (2009), in his thesis, "*Broker Performance and their Services in Nepalese Stock Market*", has the following objectives;

- a. To examine the brokerage services in secondary market.
- b. To analyze the performance of the brokerage company in Nepal.
- c. To examine the investors satisfaction towards the broker's services.

The major findings of the study are;

- a. The purpose of investment of the investors in securities market were found 67.50%, 22.50%, 5%, and 5% for capital gain, social status, use of excess money and dividend/interest income respectively.
- b. The data acquired from the survey said that 50%, 66.67% and 16.67% investors follow the fundamental and Technical analysis and market fluctuation/trend and broker advice respectively to securities buy/sell the decision.
- c. 20% of the investors were satisfied with the brokerage performance and 27.5% were dissatisfied. Whereas 52.5% of investors were satisfied only to some extent In this regard, 75% brokers believed that the brokerage services in the NEPSE are efficient while remaining brokers did not believe on it. The result from the investors and the brokers are quite contradictory.
- d. It was found that 20% of the companies were providing sufficient information regarding the performance and future planning of the companies but 35% investors have just opposite response. However, 45% companies are found providing information in this regard to some extent.

Joshi (2009), in his thesis, "*Brokers Performance and their Services in Secondary Market*", has the following objectives;

- a. To examine the brokerage services in secondary market.
- b. To analyze the performance of the brokerage company in Nepal,
- c. To examine the investor satisfaction toward the brokers' services.
- d. To find the services provided by brokers to their customers.
- e. To examine the satisfaction of brokers and investors with the 'NEPSE Automated Trading System'.

The major findings of the study are;

- a. The brokers are more profit oriented than the services they provide. They failed to provide timely and reliable information and advice to the investors. To improve the performance of brokers, professionalism should be developed.
- b. For the smooth growth of secondary market, brokers and market makers ought to be honest toward the owner.
- c. The investors are not allowed to enter trading floor during the transaction period. They are interested to see the trading activities during the transaction period. They want big screen and loudspeaker be installed outside the trading floor within the promises of NEPSE.
- d. The study said that 72% of the investors gave first priority to quality of services. The other factors were-service charge, experience and reputation and counseling/advice had 16%, 8% and 4% respectively.
- e. Most of the investors were found preferring ownership transfer while buying the securities. 72% investors want to ownership transfer.
- f. Both the investors and brokers are satisfied with the functioning of NEPSE with the 'NEPSE Automated Trading System (NATS). In this connection, 12% investors and 16.67% brokers are very dissatisfied with the system whereas 88% investors and 83.33% are satisfied with the system.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Research Design

“A research design is a specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of frame work for the project that stipulates what information is to be collected, from which sources and by what procedures” (*Paul & Donald; 1999: 134*).

The research design of this study is descriptive as well as analytical. This study is an examination and evaluation of brokering services in Nepal Stock Exchange. The study is closely related with analysis of the responses of clients and securities brokerage representative revolving within the securities regulations and others, and the analysis of the secondary data.

3.2 Population and Sample

There are 23 Brokerage Companies transacting in Nepal. For the primary data analysis, only 6 brokerage companies, representing 26% of the total population, have been selected as sample. However, for the secondary data analysis all of the brokerage companies have been selected to measure the efficiency in different terms. Namely, Kumari Securities P. Ltd., Pragyan Securities P. Ltd., Annapurna Securities Services P. Ltd., Primo Securities P. Ltd., Sagarmatha Securities P. Ltd. and Midas Stock Broking Co. P. Ltd. have been selected for the primary data collection.

3.3 Sources and Nature of Data

For the effective and efficient findings, both Primary and Secondary data have been collected as source of data. The primary data have been collected through

field visit and the secondary data have been collected from the published sources of various companies.

3.4 Data Collection Techniques

For the purpose of Primary Data, two set of questionnaire have been prepared. The first set of questionnaire included 11 questions, which have been presented to 40 investors; 20 professional investors and 20 amateur investors. Similarly, the second set of questionnaire included 14 questions, which have been presented to 6 aforementioned brokerage companies representative.

Likewise, the secondary data have been collected from the annual reports of SEBON and the consolidated annual reports of the brokerage companies attached in the official website of SEBON, www.sebonp.com. Further, the regulations related to the securities transaction have been reviewed. Also, the library of Shanker Dev Campus, Central Library, T.U. have been frequently visited.

3.5 Data Processing

Data gathered in this way have been verified and simplified for the purpose of analysis first. Then it has been arranged and presented in a systematic way. Moreover, it has been checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. Wherever the data suits, different types of charts and diagrams have been made to clarify the tabulated data in systematic way. An attempt has been made to find out the conclusion from the available data, with the help of various statistical tools.

3.6 Data Analysis Tools

Several tools and techniques are used to analyse the collected data from various sources for obtaining the logical conclusion. Mainly the financial tools and statistical tools have been extensively used.

A) Financial Tools

For the secondary data analysis, mainly the following financial tools have been used;

i) Transaction Per Day

This ratio measures the average amount of securities transacted per day. This ratio clarifies both the securities amount traded and the number of days the market have been operated. The ratio has been calculated by using the following formula;

$$\text{Transaction Per Day} = \frac{\text{Total Securities Transaction Amount}}{\text{Number of Market Days}}$$

ii) Securities Transaction

This financial tool measures the efficiency of each brokerage company in transacting the greater amount of securities in millions in each fiscal year and in total. And thus is significant for ranking the brokerage companies on the basis of the performance.

iii) Net Profit

For the success of business, the accumulation of higher net profit is essential. Thus, the major financial tools, net profit, measures the efficiency of the firm in generating net profit and to sustain in the competitive market.

iv) Earning Per Share

This ratio indicates how efficiently the brokerage companies have been performing to generate greater amount of profit in terms of number of share. This ratio has been calculated using the following formula;

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax}}{\text{No. of Common Shares}}$$

B) Statistical Tools

For the secondary data analysis, mainly the following statistical tools have been mobilized.

i) Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of all of the list divided by the number of items in the list. If the list is a statistical population, then the mean of that population is called a population mean. If the list is a statistical sample, we call the resulting statistic a sample mean. The mean is the most commonly-used type of average and is often referred to simply as the average. It is calculated by using the following formula;

$$\bar{X} (\text{Mean}) = \frac{\sum X}{N}$$

ii) Standard Deviation

The standard deviation (σ) of a statistical population, a data set, or a probability distribution is the square root of its variance. Standard deviation is a widely used measure of the variability or dispersion, being algebraically more tractable though practically less robust than the expected deviation or average absolute deviation.

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

iii) Coefficient of Variation

The coefficient of variation (CV) is a normalized measure of dispersion of a probability distribution. It is defined as the ratio of the standard deviation to the mean. The coefficient of variation should only be computed for data measured on a ratio scale. However, the coefficient of variation does not have any meaning for data on an interval scale. It is calculated as;

$$\text{C.V. \%} = \frac{\text{S.D. } (\sigma)}{\text{Mean } (\bar{X})} \times 100$$

iv) Spearman's Rank Correlation

Spearman's Rank Correlation is a measure of correlation that exists between the two sets of rank. In other words, it is a measure of association that is based on the ranks of the observations and not on the numerical values of the data. This is calculated to find the degree of relationship between the responding groups. In this study, rank correlation has been used to find the degree of relationship between the responding groups for Question No. 9 of Set A.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Primary Data Analysis

The primary data have been collected by distributing the questionnaire to the investors/client of the securities market and the representation of the brokerage company.

4.1.1 Primary Data from Investors

To examine the efficiency of the brokerage company in providing services, the questionnaire has been conducted by distributing set of questions to 20 professional investors and 20 amateur investors. The data collected has been presented and analyzed under this section.

4.1.1.1 Transparency and Honesty

To examine whether the services provided by the securities brokers are transparent and the transactions are done with full honesty, the investors were questioned on this matter. The responses obtained from them are presented in the Table 4.1.

Table 4.1
Transparency and Honesty

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Yes	7	35	8	40	15	37
No	12	60	10	50	22	55
Don't Know	1	5	2	10	3	8
Total	20	100	20	100	40	100

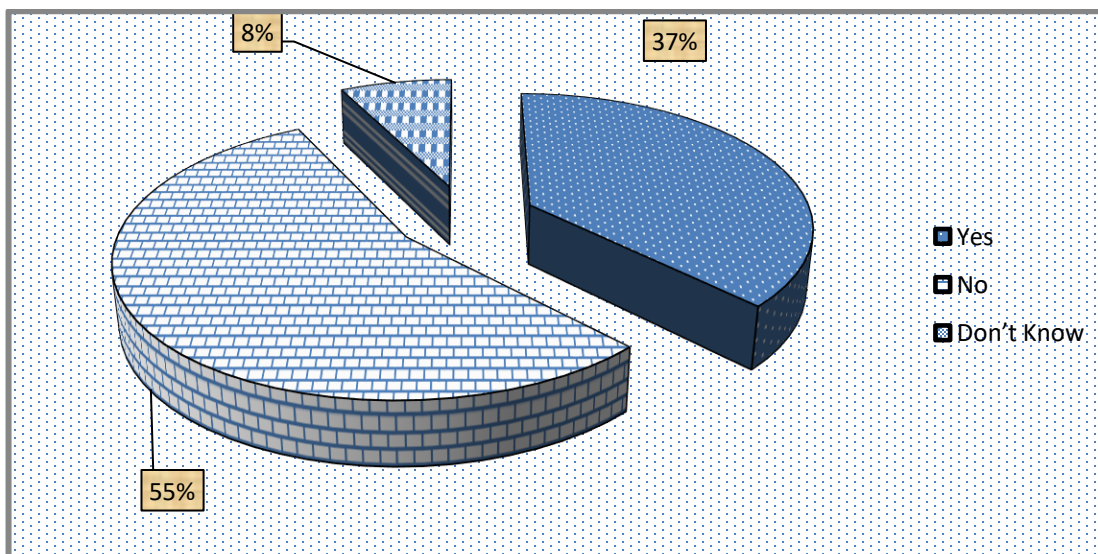
(Source: Field Survey, 2010)

The Table 4.1 showed that 35% of the professional investors, 7 out of 20, stated that the services provided by the brokerage company is transparent and honest, while 60% of the same investor, 12 out of 20, said that the services is not transparent and honest, and 5% of the professional investors, 1 out of 20, stated that they have no idea on this matter. Similarly, 40% of the amateur investors, 8 out of 20, said that the brokerage services is clear and honest, 50% of the amateur investors, 10 out of 20, said that the services is not clear and honest, and 10% of the amateur investor, 2 out of 20, stated that they have no knowledge.

In overall, 22 out of 40, the majority of the investors, 55%, affirmed that the brokerage services of the country is not clear and transparent, 37% of the investors, 15 out of 40, said that the service is clear and honest, and 8% of the investors, 3 out of 40, stated that they have no idea. Hence, considering the overall majority and the majority of each investor group as well, it can be concluded that the brokerage services provided are not transparent and thus lack honesty. Thus, it would be better if SEBON strictly demands maintenance of transparency account and narrows the chances of brokers to fraud to the customers.

Figure 4.1

Transparency and Honesty



4.1.1.2 Most Essential Factor to be Kept Secret

Keeping secrecy about the investors is the major duty of Brokerage Company. To determine to what factor the investor does wants main secrecy, the investors were asked on this matter. The responses obtained from the investors are presented in the Table 4.2.

Table 4.2
Most Essential Factor to be Kept Secret

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Investment Amount	6	30	4	20	10	25
Investment Company	6	30	7	35	13	33
Securities Type & Number	5	25	5	25	10	25
Personal Information	3	15	4	20	7	17
Total	20	100	20	100	40	100

(Source: Field Survey, 2010)

The Table 4.2 depicts that 30% of the professional investors, 6 out of 20, each wants major secrecy on the investment amount and the name of the company at which the investment has been made. In addition, 25% of the professional investor, 5 out of 20, wants most secrecy on the securities types, which may be stock, bond and other, and the number of securities to which the investment has been made. Similarly, 15% of the respondents, 3 out of 20, said that they need most secrecy on their personal information.

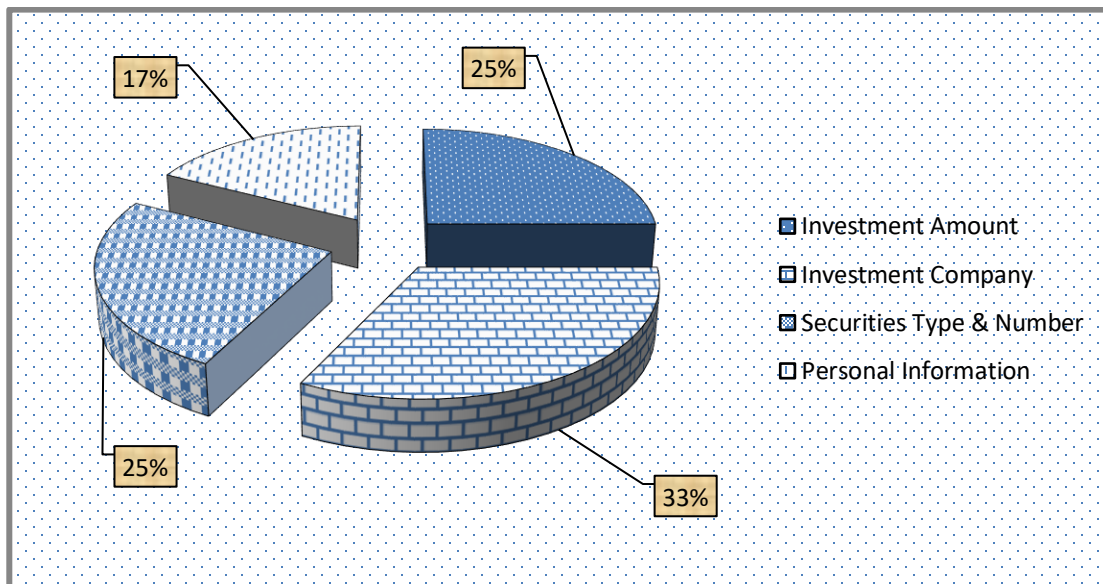
Likewise, among amateur investors, 20% of them, 4 out of 20, said that they need most secrecy on investment amount made, while 35% of the amateur investors, 7

out of 20, stated that they need most secrecy on the company name for which the investment has been made, 25% of the same respondents said that they need secrecy on securities type and the securities number, and 20% said that they need most secrecy about their personal information.

In overall, 33%, 25%, 25% & 17% of the total investors need most secrecy on the investment company, investment amount, securities type and number and personal information respectively. Hence, considering the overall majority and the majority of each categorized investors, it can be concluded that the company's name to which the investment is going to be made should be given as the first priority while keeping secrecy about the client's investment.

Figure 4.2

Most Essential Factor to be Kept Secret



4.1.1.3 Effectiveness in Information Dissemination

Just to take the order from the investor to buy/sell the securities is not the only duty of brokerage company. Further, to disseminate information about the company's financial details, business and other of the transacting company is the

crucial duty. Thus, to investigate whether the brokerage companies are efficient in disseminating information, the investors were asked on this matter.

Table 4.3
Effectiveness in Information Dissemination

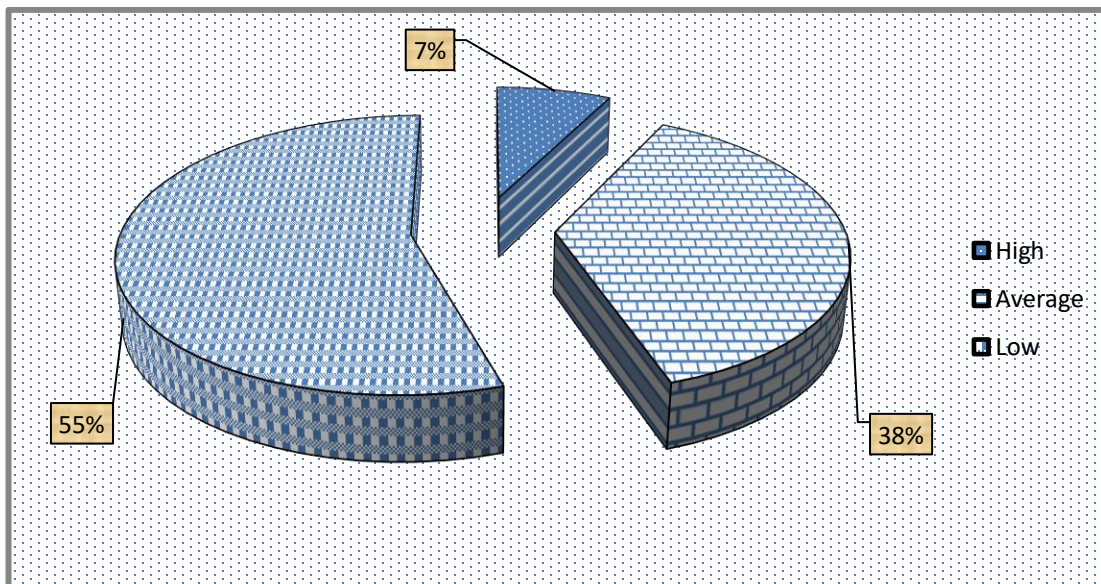
Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
High	2	10	1	5	3	7
Average	6	30	9	45	15	38
Low	12	60	10	50	22	55
Total	20	100	20	100	40	100

(Source: Field Survey, 2010)

The Table 4.3 shows that 10% of the professional investors, 2 out of 20, and 3% of the amateur investors, 5 out of 20, said that the brokerage company is highly efficient in providing information that are crux for the investment. However, 30% of the professional investors, 6 out of 20, and 45% of the amateur investors, 9 out of 20, said that the brokerage companies are averagely efficient to circulate information. And, 60% of the professional investors, 12 out of 20, and 50% of the amateur investors, 10 out of 20, said that the brokerage companies' efficiency in providing information is quite low.

In overall, 3 out of 40, 7% investors said that brokerage companies are highly efficient in circulating information to the client. Similarly, 38% investors, 15 out of 40, said that brokerage companies provide average level of information, and, 55% of the investors, 22 out of 40, said that the brokerage companies are poor in providing information that may be crucial to investors before making investment in securities. Thus, it would be worthwhile if Brokerage Company provides full range of information to the customers to secure the client's interest.

Figure 4.3
Effectiveness in Information Dissemination



4.1.1.4 Expected Information from Broker

Questioning related information before making investment in securities is considered wise. So to determine what information the investor wants to know, the investors

were asked to express their views. The respondents obtained from them have been presented in the tabular form below.

Table 4.4
Expected Information from Broker

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Financial Details of Investment Company	11	55	13	65	24	60
Business Activity of Investment Company	2	10	0	0	2	5
Services of Broker Company	4	20	2	10	6	15
Broker Charges	3	15	5	25	8	20
Total	20	100	20	100	40	100

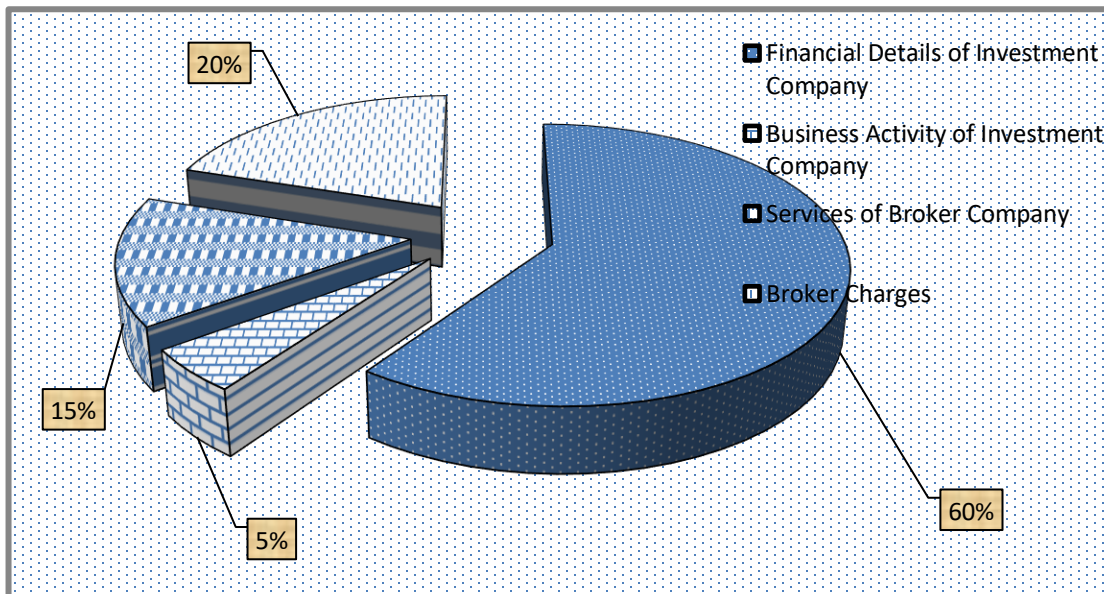
(Source: Field Survey, 2010)

The Table 4.4 shows that 55% of the professional investors, 11 out of 20, and 65% of the amateur investors, 13 out of 20, said that they seek financial details of the company on which they are interested to invest. Further, 10% of the professional investors, 2 out of 20, and 0% of the amateur investors, said that they quest information on the business activity of the company on which they want to invest. Similarly, 20% of the professional investors, 4 out of 20, and 10% of the amateur investors, 2 out of 20, stated that they need information on the services provided by the brokerage company. Finally, 15% of the professional investors, 3 out of 20, and 25% of the amateur investors, 5 out of 20, said that they expect information about the brokerage charges before making investment.

In overall, the majority of the investors, 60% (24 out of 40), said that they expect financial details of the company, they want to make investment on securities, from brokerage company. Likewise, 5% (2 out of 40), 15% (6 out of 40) and 20% (8 out of 40) said that they expect information on business activity of the company,

services of the brokers, and broker's charges respectively. Hence, considering the overall majority and the majority of each categorized investors, it can be concluded that the investors are more interested to know the financial details of the company on which securities they are going to make investment.

Figure 4.4
Expected Information from Broker



4.1.1.5 Equality in Behavior

As per the Securities Regulation, the brokers are supposed to treat equally to all range of the clients. So, to examine whether such provisions have been fully practiced by the brokers, the investors were asked on this matter. The responses obtained from them are presented in the Table 4.5.

Table 4.5
Equality in Behavior

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Yes	2	10	1	5	3	7
No	14	70	18	90	32	80
Don't Know	4	20	1	5	5	13
Total	20	100	20	100	40	100

(Source: Field Survey, 2010)

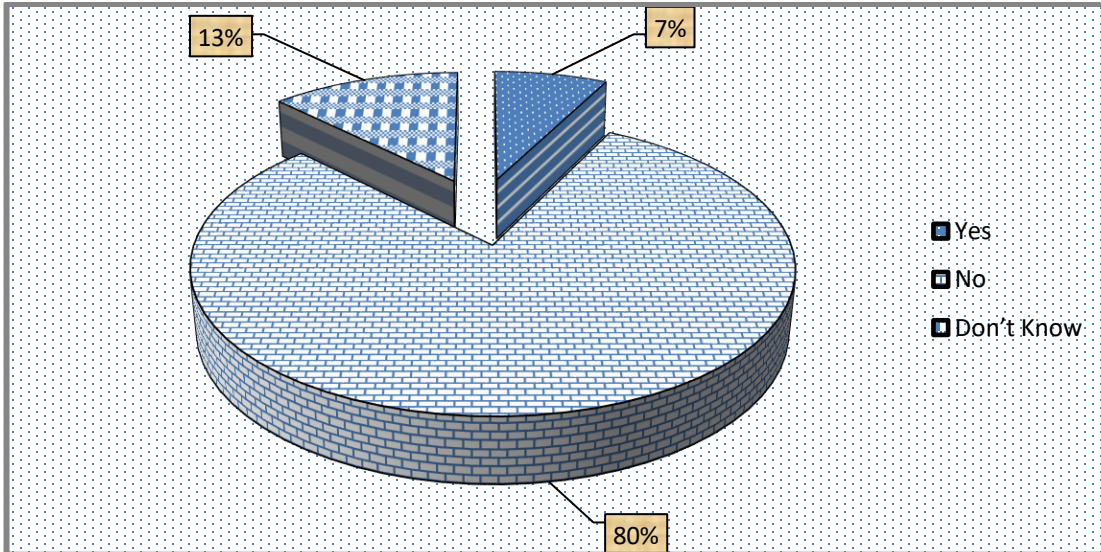
The Table 4.5 shows that only 10% of the professional investors, 2 out of 20, and 5% of the amateur investors, 1 out of 20, said that the brokerage company treats equally to all the clients who approaches them for buying/selling securities. Likewise, 70% of the professional investors, 14 out of 20, and 90% of the amateur investors, 18 out of 20, said that the broker company disparate to the customers. While 20% of the professional investors, 4 out of 20, and 5% of the amateur investors, 1 out of 20, said that they have no knowledge on this issue.

In overall, the majority of the investors, 80% (32 out of 40), said that they have experienced non equality on the behavior of the brokerage company to the clients. However, 7% of the respondents, 3 out of 40, said that the brokerage company does equal behavior to all the customers. And 13% of the respondents, 5 out of 40, remained neutral on this issue. Gazing the overall majority and the majority of each categorized investors, it can be considered that certainly there exists

inequality in the behavior of brokers to all the clients in practice. And obviously big investors are enjoying of such inequality. Thus, it would be worthwhile if SEBON monitors the activity of the brokerage company and punishes if found guilty of partiality.

Figure 4.5

Equality in Behavior



4.1.1.6 Brokers' Commission Rate

The broker charges certain commission rate for their services. Depending upon the amount, there are ranges of commission rate, and high rate for lower amount transaction. Thus, to know the opinion of the investors on such commission rate, the investors were asked on this matter.

Table 4.6

Brokers' Commission Rate

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%

Suitable for Big Investor	10	50	8	40	18	44
Costly for Small Investor	4	20	7	35	11	28
Adoption of Uniform Rate	6	30	5	25	11	28
Total	20	100	20	100	40	100

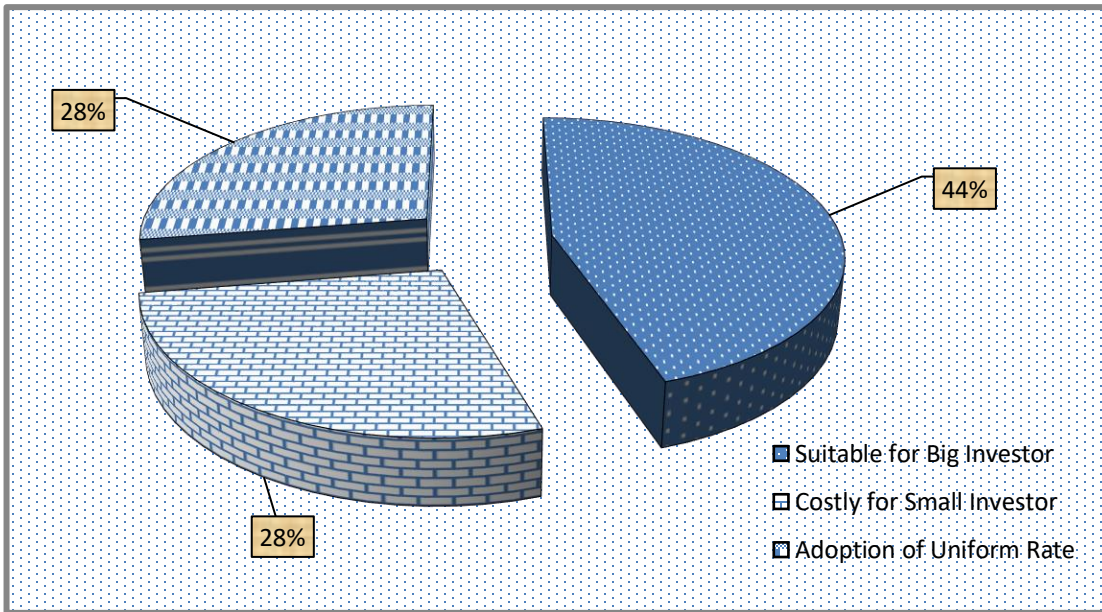
(Source: Field Survey, 2010)

The Table 4.6 depicts that the different variable rate, especially the high commission rate for low transaction amount, is suitable for the big investors as the majority of the total investors, 18 out of 40, have supported this opinion. Similarly, 28% of the total investors, 11 out of 40, said that the such commission rate percentage is costly for the small investors who transacts small amount securities and also same percentage, 11 out of 40, said that the adoption of flat rate would be appropriate for the securities transaction.

Considering each category, 50% of the professional investors, 10 out of 20, and 40% of the amateur investors, 8 out of 20, affirmed that the current existing rate is appropriate for the big investors, who transacts big amount and thus has to pay lower commission rate. Likewise, 20% of the professional investors, 4 out of 20, and 35% of the amateur investors, 7 out of 20, stated that the existing commission rate is costly for the investors, who transacts within the range up to Rs. 50,000, for which the commission rate is highest (1%). Finally, 30% of the professional investors, 6 out of 20, and 25% of the amateur investors, 5 out of 20, egged on for the adoption of uniform rate to all level of transaction amount.

Thus considering the overall majority and the majority of each category of investors, it can be concluded that the current commission rate of broker is beneficial to big investors. It would be worthwhile if SEBON directs uniform commission rate and thus safeguards the interest of small investors as well.

Figure 4.6
Brokers' Commission Rate



4.1.1.7 Charges of Indirect Cost

As per the Securities Regulation, the clients are liable to pay only the commission rate specified for the securities transaction. So to investigate whether the brokerage company is collecting any other additional charges from the clients, the investors were asked to express their experience.

Table 4.7
Charges of Indirect Cost

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%

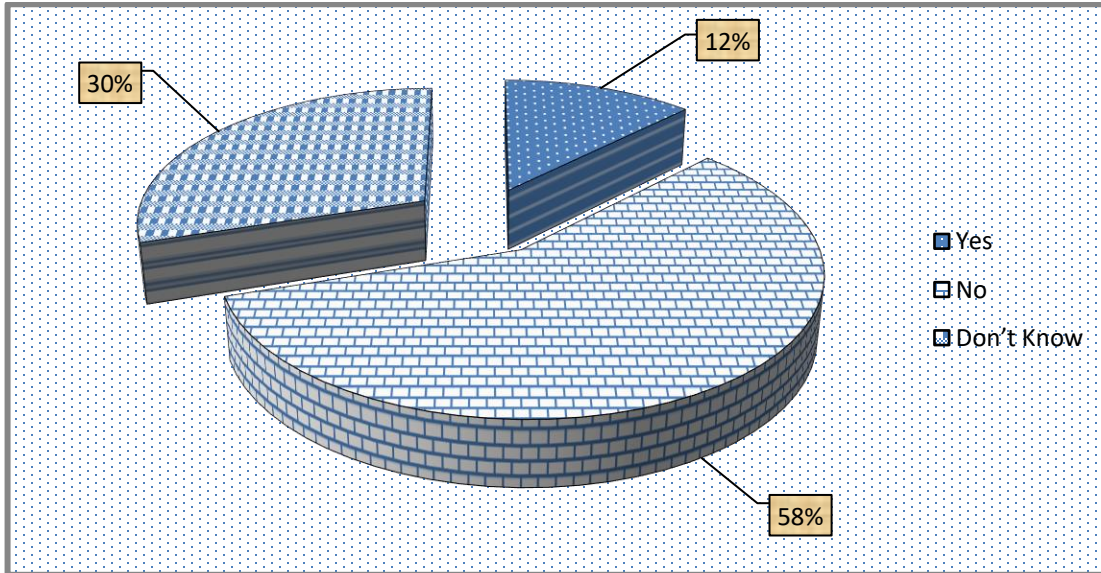
Yes	1	5	4	20	5	12
No	13	65	10	50	23	58
Don't Know	6	30	6	30	12	30
Total	20	100	20	100	40	100

(Source: Field Survey, 2010)

The Table 4.7 elaborates that 5%, 1 out of 20, 65%, 13 out of 20, and 30%, 6 out of 20, of professional investors said that they have paid additional charges, have not paid additional charges and no idea on this issue respectively. Similarly, the majority of the amateur investors, 10 out of 20 (50%), affirmed that the broker company does not collect additional charges besides the specified rate in securities regulations. However, 20% of the such investors, 4 out of 20, said that the brokers company certainly charges additional amount in transacting the securities, and 30% of such investors remained neutral on this matter.

In overall, 58% of the total investors, 23 out of 40, said that the brokers do not charge any additional commission besides the mentioned rate, while 12% of the total investors, 5 out of 40, stated that the brokers charges hidden cost along with the mentioned commission rate and 30% of the investors, 12 out of 40, said that they have no idea on this issue. Thus, it can be derived that brokerage company do not charge any additional indirect cost, since only paltry number 5 out of 40 accused such blame. Hence, to strengthen the credibility of the brokerage company, the brokerage company should remain far away from such cheating, additional cost, in future as well.

Figure 4.7
Charges of Indirect Cost



4.1.1.8 Time to Return the Securities

As per the provision of Securities Regulation, the brokers should attempt hard to sell the securities and if it is not able to sell, the broker should return such securities within the same day. To examine whether the brokers are fully implementing this regulation, the investors were asked on this matter.

Table 4.8

Time to Return the Securities

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Same Day	16	80	18	90	34	85
Next Day	4	20	2	10	6	15
Other Day	0	0	0	0	0	0
Total	20	100	20	100	40	100

(Source: Field Survey, 2010)

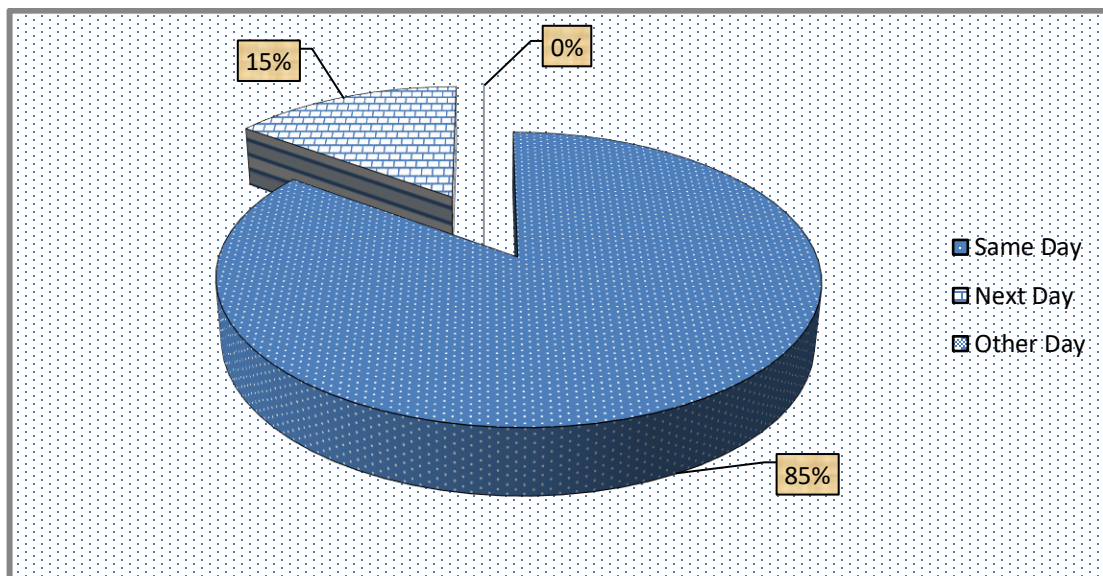
The Table 4.8 shows that 80% of the professional investors and 90% of the amateur investors said that the brokers have returned their securities within the

same day. While 20% of the professional investors and 10% of the amateur investors said that the securities are being returned in the next day of the demanded sales. And nobody said that the securities are being returned on the other day.

In overall, 85% of the total investors, 34 out of 40, said that the securities are being returned within the same day in case of inability of the brokers to sell, and 15% of the total investors, 6 out of 40, said that the securities are being returned on the next day. Thus, embracing the overall majority and the majority of each categorized group, it can be considered that the brokers returns the securities mostly in the same day of the demanded sales, and thus have remained obliged to this particular provision of securities regulation.

Figure 4.8

Time to Return the Securities



4.1.1.9 Most Important Duty of Broker

To examine what should be the most important duty of the broker toward the customer, the customers were given a list of duties enlisted in the Regulations and

were asked to rank them from most important to the least. The ranking obtained from them are presented in the Table 4.9.

Table 4.9
Most Important Duty of Broker

Duties	Basis	Rank						Total	Wt.	Mean Wt.	Overall Rank
		1	2	3	4	5	6				
Security of Amount	Professional	20	0	0	0	0	0	20	20	1.00	1
	Amateur	20	0	0	0	0	0	20	20	1.00	1
	Total	40	0	0	0	0	0	40	40	1.00	1
Adjustment of Separate A/c	Professional	0	1	5	0	9	5	20	92	4.60	5
	Amateur	0	3	5	4	5	3	20	80	4.00	3
	Total	0	4	10	4	14	8	40	172	4.30	5
Transact chronologically	Professional	0	5	3	3	4	5	20	81	4.05	4
	Amateur	0	5	0	4	4	7	20	88	4.40	6
	Total	0	10	3	7	8	12	40	169	4.23	4
Informing about the services	Professional	0	8	5	6	1	0	20	60	3.00	2
	Amateur	0	6	7	4	2	1	20	65	3.25	2
	Total	0	14	12	10	3	1	40	125	3.13	2
Informing about Transaction	Professional	0	6	7	7	0	0	20	61	3.05	3
	Amateur	0	2	6	5	4	3	20	80	4.00	3
	Total	0	8	13	12	4	3	40	141	3.53	3
Listening Grievance	Professional	0	0	0	4	6	10	20	106	5.30	6
	Amateur	0	4	2	3	5	6	20	87	4.35	5
	Total	0	4	2	7	11	16	40	193	4.83	6

(Source: Field Survey, 2010)

The Table 4.9 depicts the ranking of the duties of the brokers to the customer from most to the least. The table shows that the cent percentage of both the professional investors and amateur investors ranked 1 for the security of the investment amount or the receivable amount from the security selling. Similarly, the total investors ranked 2 for informing about the services about the services of the brokerage company in detail, ranked 3 for informing to the customer about the transaction of the customer securities, ranked 4 to transact the demand of the securities buying/selling in chronologically, ranked 5 to adjust separate account of each

customer, and ranked 6 to listen the grievance of the customer. Hence, on the basis of the ranking, it can be concluded the securities of the customer's assets is the most important duty of the brokerage company.

4.1.1.10 Expectation on Brokerage Staff

As per the provision, the staff that will be appointed by the brokerage company should be able, competent and educated. To examine what the investors desires the staff should be, the investors were asked to express their opinions.

Table 4.10
Expectation on Brokerage Staff

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Promptness	9	45	15	75	24	60
Good Behavior	0	0	1	5	1	3
Well Informer	11	55	4	20	15	37
Total	20	100	20	100	40	100

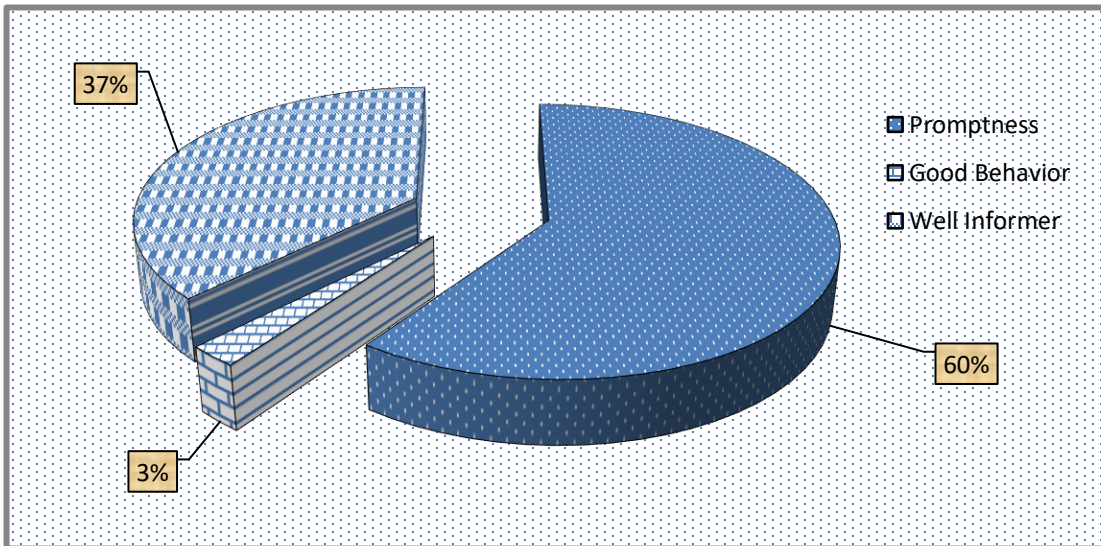
(Source: Field Survey, 2010)

The Table 4.10 shows that 45% of the professional investors (9 out of 20), and 75% of the amateur investors, 15 out of 20, opined that the staff of the brokerage company should be prompt enough to transact their shares. Similarly, nil of the professional investors and 5% of the amateur investors, 1 out 5, desired good behavior from such staff of the brokerage company. And 55% of the professional investors, 11 out of 20, and 20% of the amateur investors, 4 out of 20, wanted well information from such staff of the brokerage company.

In overall, the majority of the investors, 60% (24 out of 40), stated that the staff appointed by the brokerage company should have promptness while transacting their securities. Similarly, 37% of the investors said that they should have sound disseminating ability about the related information. And 3% of the investors said that they should behave in good manner. Incorporating the majority of the overall responses and the majority of the professional investors, it can be concluded that promptness in the staff is most crux in the brokerage services. However, the well informing character should not also be ignored.

Figure 4.9

Expectation on Brokerage Staff



4.1.1.11 Practices of Unhealthy Competition

To attract the customers of other brokerage company, the broker company is not allowed to practice any unhealthy competition like advertising or coaxing the customer. Thus, to examine whether there is unhealthy competition in the brokerage industry, the investors were asked to express their experience.

Table 4.11

Practices of Unhealthy Competition

Responses	Professional		Amateur		Total	
	No.	%	No.	%	No.	%
Yes	12	60	10	50	22	55
No	5	25	8	40	13	33
Don't Know	3	15	2	10	5	12
Total	20	100	20	100	40	100

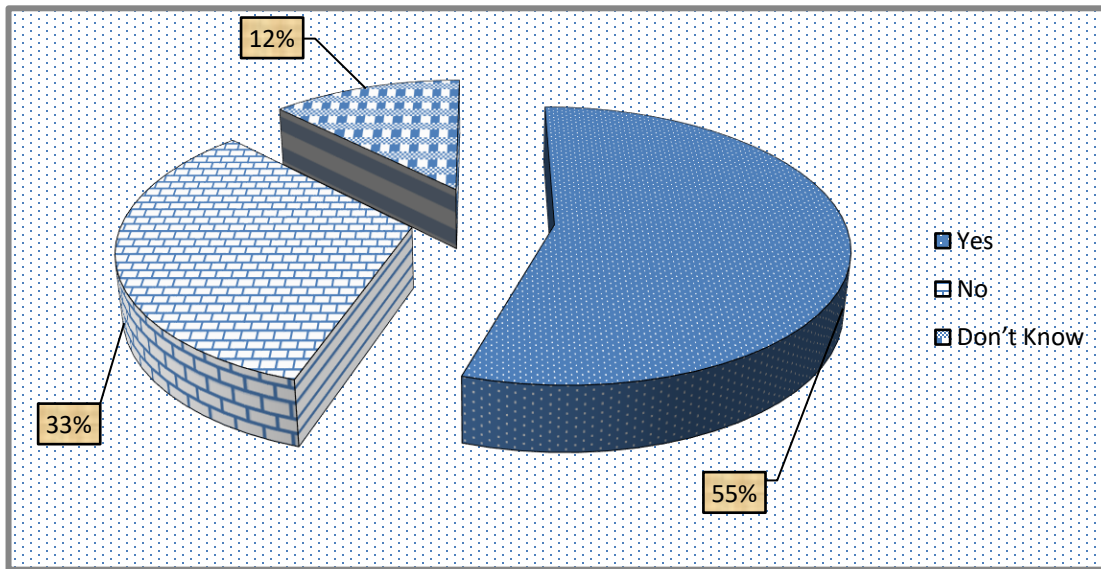
(Source: Field Survey, 2010)

The Table 4.11 shows that the majority of the professional investors, 60% (12 out of 20), said that they have experienced unhealthy competition among the brokerage companies to attract the customer of other broker company. Similarly, 25% of the professional investors, 5 out of 20, opined that there is no such unhealthy competition in broker's market. Further, 15% of the same investors, 3 out of 20, said that they have no idea on this matter. Likewise, 50% of the amateur investors, 10 out of 20, said that there exists unhealthy competition in the market, 40% of the amateur investors, 8 out of 20, denied to accept such claim and 10% of the such investors, 2 out of 20, opined that they have no idea.

In overall, the majority of the total investors, 55% (22 out of 40), stated that they experienced unhealthy competition in the broker's market to attract the customer of other brokerage company. Similarly, 33% of the total investors, 13 out of 40, said that there is no such unhealthy competition, and 12% of the investors said that they have no idea. Thus, considering the overall majority and the majority of each kind of investors, it can be concluded that certainly there exist unhealthy competition among the brokerage companies to allure the client of other company. Thus, SEBON should be strict enough to halt such unhealthy competition and punish to such brokerage company, if found guilty of manipulating the market.

Figure 4.10

Practices of Unhealthy Competition



4.1.2 Primary Data from Brokers

To analyze the brokerage services in Nepal, and the cost associated for the brokers and client as well, the responses through the questionnaire from the brokers have been collected and analyzed in this section.

4.1.2.1 Responsible for Client's Interest

Instead of earning commission, the main goal of the brokerage company should be to secure the client's interest. To examine to what extent the brokerage company is securing its customer's interest, the respondents were asked on this matter.

Table 4.12
Responsible for Client's Interest

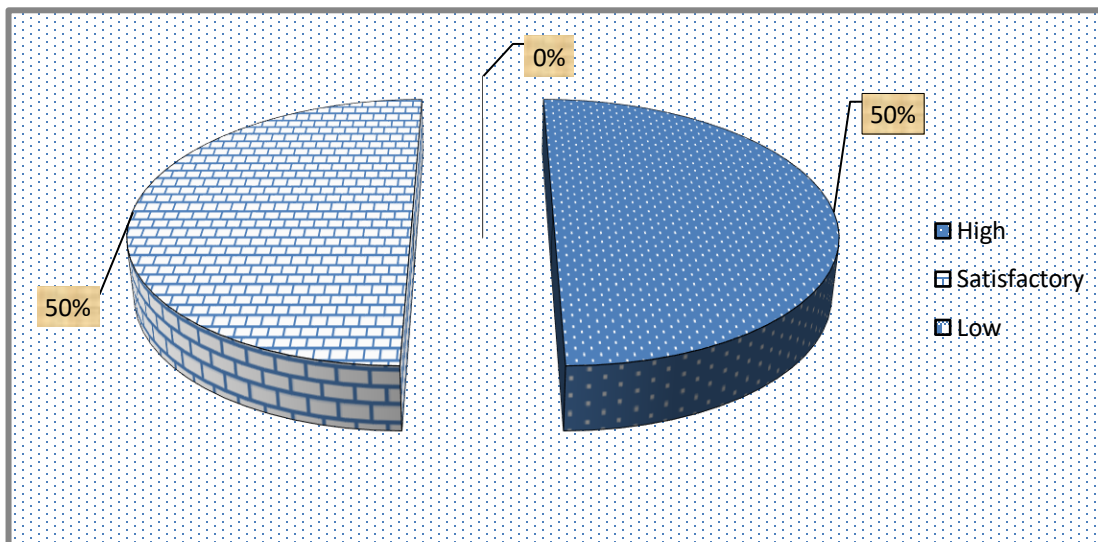
Responses	No.	%
High	3	50
Satisfactory	3	50
Low	0	0

Total	6	100
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(Source: Field Survey, 2010)

The Table 4.12 showed that the 50% of the total representative of brokers' company stated that they have highly secured the client's interest along with the making commission. Similarly, the remaining 50% of the representative of brokerage company said that the security of the interest of the clients' is in satisfactory level, and none of them said that the degree of security is low. Hence, it can be assumed that the security of the client's interest along with the investment assets is at least at satisfactory level on the basis of responses of brokerage company.

Figure 4.11
Responsible for Client's Interest



4.1.2.2 Appropriate Commission Rate

As per the Securities Regulation, the broker should charge different commission rate for different level transaction, and thus the commission rate ranges from 1% to 0.7%. Thus, to understand the opinion of the brokerage company on this variable rate, the respondents were asked on this matter.

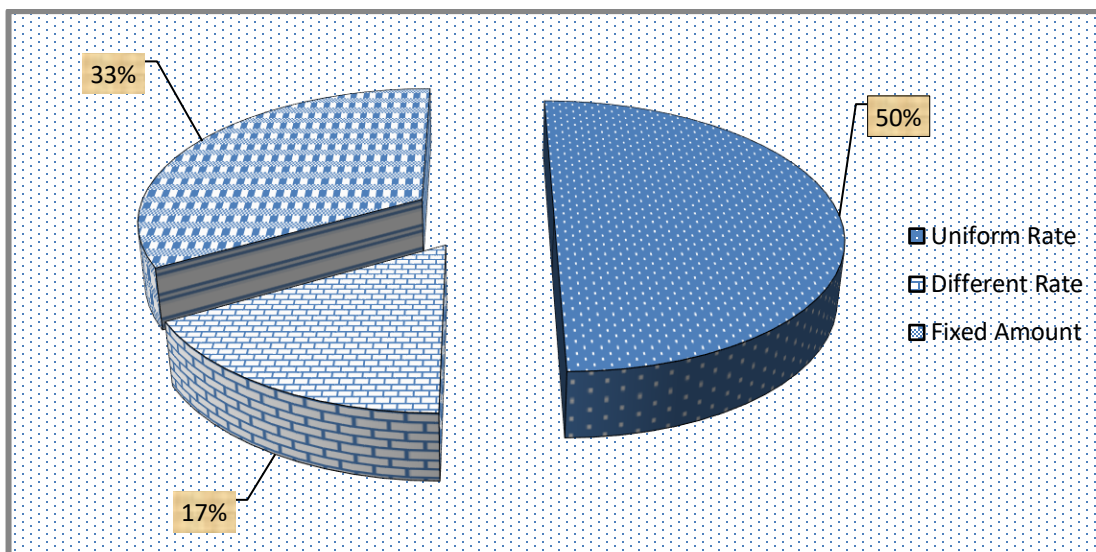
Table 4.13
Appropriate Commission Rate

Responses	No.	%
Uniform Rate	3	50
Different Rate	1	17
Fixed Amount	2	33
Total	6	100

(Source: Field Survey, 2010)

The Table 4.13 shows that 50% of the respondents, 3 out of 6, stated that it will be appropriate if regulation keeps the provision of charging an uniform rate for all range of transaction amount. Similarly, 17% of the respondents, 1 out of 6, stated that the current provision of charging different rates to different level of transaction is appropriate. Whereas, 33% of the respondents, 2 out of 6, suggested that there should be fixed amount rather than different rate for all level of transaction. Thus, it can be considered that the majority of the brokerage companies of the country are not satisfied with the existing rate structure and thus wants changes.

Figure 4.12
Appropriate Commission Rate



4.1.2.3 More Interesting Securities

To examine on which securities the brokerage company of the country is more interested to transact, the respondents were asked on this matter. The responses obtained from them are presented in tabular form as below.

Table 4.14
More Interesting Securities

Responses	No.	%
Stock	5	83
Government Bond	1	17
Other	0	0
Total	6	100

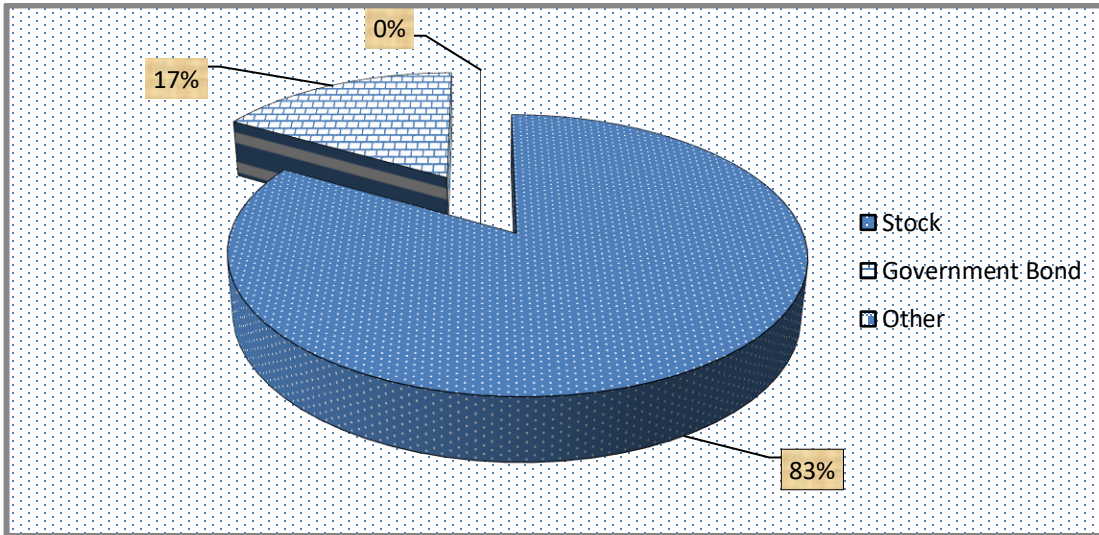
(Source: Field Survey, 2010)

The Table 4.14 shows that the brokerage companies are more interested in transacting the stock rather than other securities, since the majority of the respondents, 83% (5 out of 6), have selected this option. Similarly, a paltry number of brokerage companies, 17% (1 out of 6), are interested in transacting government bond, while no one is interested in transacting other securities. Hence,

it can be concluded that the brokerage companies are mainly dependent on the stock transactions.

Figure 4.13

More Interesting Securities



4.1.2.4 Appropriate Deposit Rate on Transaction

The brokerage company should deposit different rate for different securities of the transaction amount to the securities market. So to understand the opinions of the brokerage company on whether how such rate will be appropriate, the respondents were asked on this issue.

Table 4.15

Appropriate Deposit Rate on Transaction

Securities	Rate	High		Exact		Low		Total
		No.	%	No.	%	No.	%	
Stock	0.015	0	0	1	17	5	83	6
Government Bond	0.005	0	0	4	67	2	33	6
Other	0.010	2	33	3	50	2	17	6

(Source: Field Survey, 2010)

The Table 4.15 depicts that 83% of the respondents said that the current rate of 0.015% on the transaction amount of stock should be minimized, and 17% of the respondents said that the existing ratio should be continued. Similarly, 67% of the respondents stated that the existing rate of 0.005% on the transaction amount of government securities should be continued, while 33% of the respondents said that the rate should be lowered. Likewise, 50% of the respondents affirmed that the existing rate of 0.010% on the transaction amount of other securities should be continued, while 33% opined that such rate should be raised and other 17% said that such rate should be lowered. Hence, on the basis of the majority, it can be concluded that the brokerage companies are satisfied with the existing rate of deposit to be made only on government bond and other securities transactions and, thus are in the view that the deposit rate for stock transactions should be minimized.

4.1.2.5 Appropriate Minimum Paid-Up Capital Requirement

To register for the brokerage company, the minimum paid up capital requirement should be minimum Rs. 2 Millions as per the Securities Regulations. Thus to examine the view of the brokerage company on this minimum capital requirement, the question has been presented to them.

Table 4.16

Appropriate Minimum Paid-Up Capital Requirement

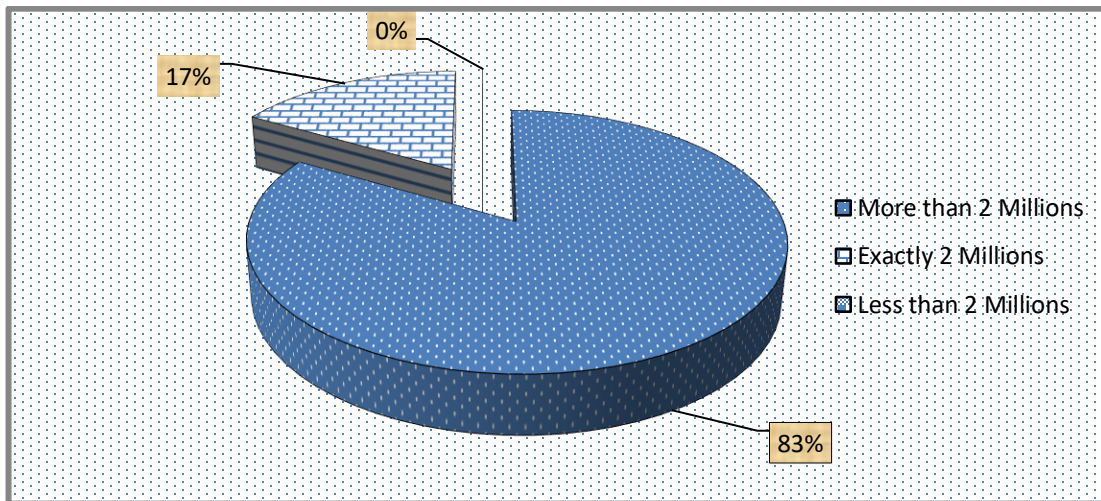
Responses	No.	%
More than 2 Millions	5	83
Exactly 2 Millions	1	17
Less than 2 Millions	0	0
Total	6	100

(Source: Field Survey, 2010)

The Table 4.16 shows that the majority of the respondents, 5 out of 6 (83%), opined that the minimum paid up capital to register for the brokerage company should be raised from Rs. 2 millions. Similarly, 17% of the respondents (1 out of 6), stated that the provision for minimum capital requirement should be exactly Rs. 2 millions, while no one said that the minimum requirement amount should be minimized. Thus, on the basis of the responses of the brokerage company, it can be concluded that the appropriate minimum capital requirement should be raised. Further, it can be assumed that the brokerage company wants less number of entrants in the brokerage field by expressing the increment in the minimum capital requirement.

Figure 4.14

Appropriate Minimum Paid-Up Capital Requirement



4.1.2.6 Advertisement and Promotion Campaign

The securities regulation has put barrier to brokerage company for advertising and promoting the business. Thus to understand the view of the brokerage company on this barrier, the respondents were asked to express their view.

Table 4.17

Advertisement and Promotion Campaign

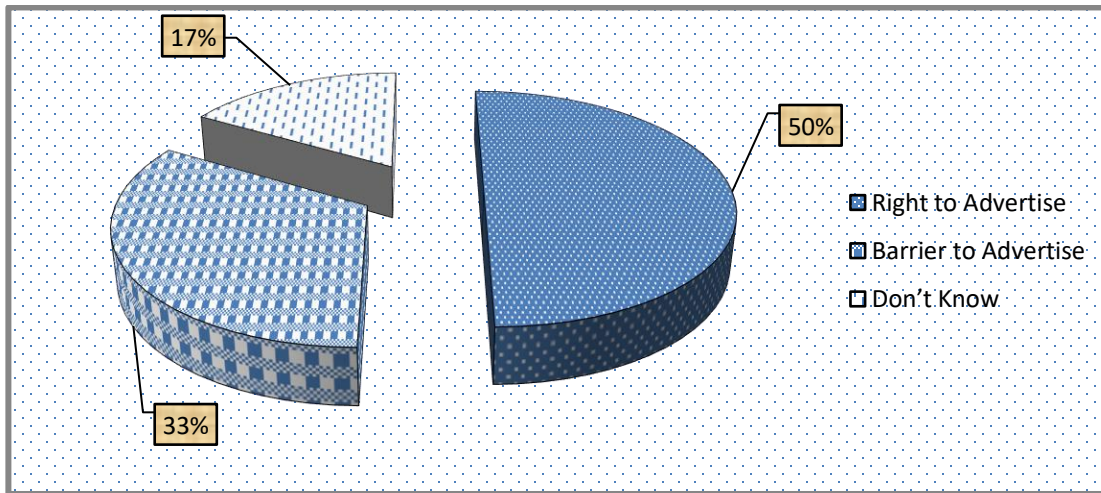
Responses	No.	%
Right to Advertise	3	50
Barrier to Advertise	2	33
Don't Know	1	17
Total	6	100

(Source: Field Survey, 2010)

The Table 4.17 delineates that half of the respondents, 50%, are in the view that they should have right to advertise about the services they are providing to the clients, whereas 33% of the respondents, 2 out of 6, are satisfied with the barrier put down for such advertisement and promotional campaign, and 17% of the respondents said nothing on this issue. Since, the advertisement campaign raise to unhealthy competition among the brokerage services, it might be right to put the barrier.

Figure 4.15

Advertisement and Promotion Campaign



4.1.2.7 Mutual Cooperation for Reconciling

While reconciling the transaction between the two brokerage companies, mutual cooperation is required. To investigate to what extent does such cooperating exists, the questionnaire has been prepared.

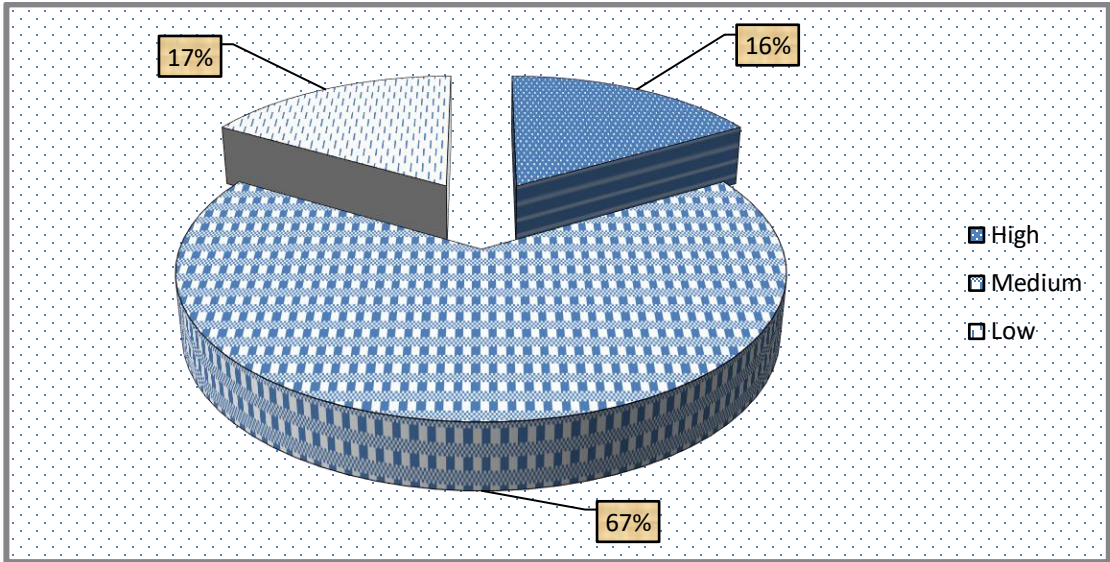
Table 4.18
Mutual Cooperation for Reconciling

Responses	No.	%
High	1	17
Medium	4	66
Low	1	17
Total	6	100

(Source: Field Survey, 2010)

The Table 4.18 delineates that the majority of the respondents, 66% (4 out of 6), affirmed that the there exists only medium cooperation among the brokerage companies while reconciling the transactions. Similarly, 17% of the respondents each said that there exist high and low levels of cooperation between the brokerage companies. It would be worthwhile, if the brokerage companies cooperate highly by providing the full documents for reconciling the transactions.

Figure 4.16
Mutual Cooperation for Reconciling



4.1.2.8 Most Responsible to Enhance Securities Transactions

To enhance the securities business should be the main motto of all the individuals/organizations who directly or indirectly participate in securities transactions. To understand who should be most responsible for ameliorating the securities transactions under the existing rules and regulations, the questionnaire has been presented.

Table 4.19

Most Responsible to Enhance Securities Transactions

Responses	No.	%
Brokers	0	0
Securities Businessman	1	17
Market Maker	2	33

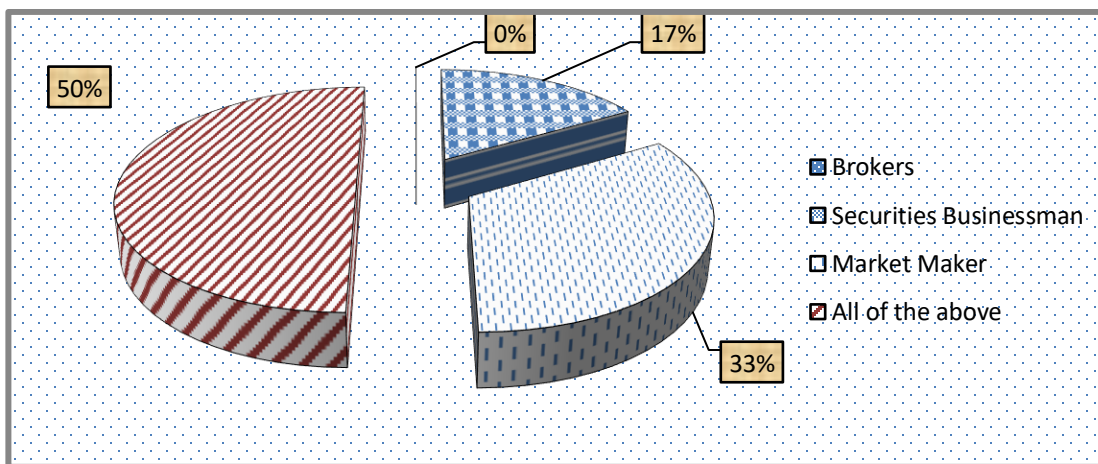
All of the above	3	50
Total	6	100

(Source: Field Survey, 2010)

The Table 4.19 presents that none of the respondents are willing to undertake the most responsibility to enhance the securities market. 17% of the respondents, 1 out of 6, blamed that the securities businessman should be most responsible for ameliorating the securities transaction under the existing rules and regulations. Similarly, 33% of the respondents said that market maker should be most responsible for the enhancement of securities transactions and 50% of the respondents, 3 out of 6, stated that all, brokers, securities businessman and market maker, should be equally responsible for the enhancement of securities market. Hence, from this analysis it can be concluded that the amelioration of the securities transaction under the existing rules and regulations by single group is almost arduous task and thus should be done by all the parties that are related to securities business.

Figure 4.17

Most Responsible to Enhance Securities Transactions



4.1.2.9 Reasons for Securities Investment by Investors

To examine the reasons behind which the mass of investors are diverting toward the securities business, the brokerage companies are asked to express their view.

Table 4.20

Reasons for Securities Investment by Investors

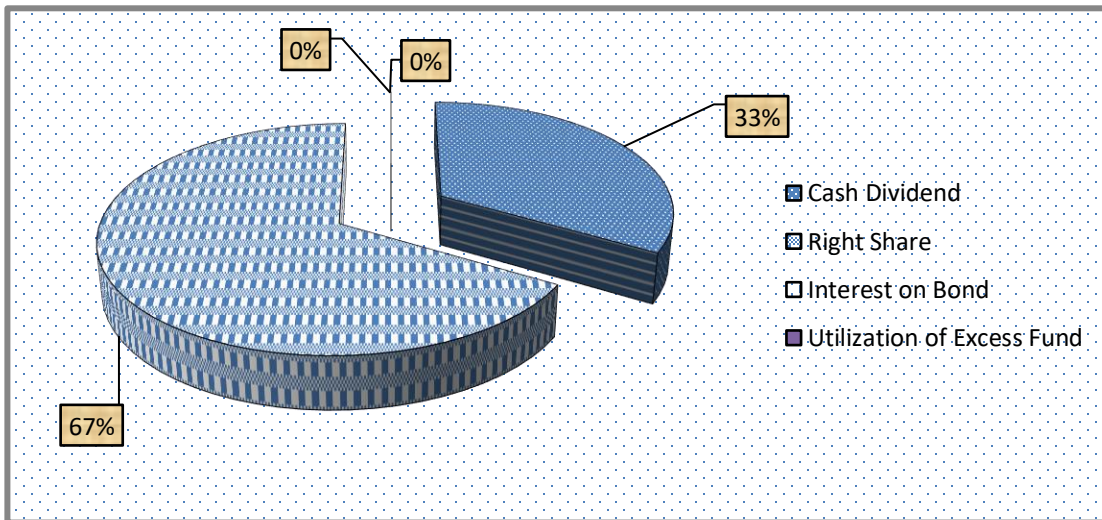
Responses	No.	%
Cash Dividend	2	33
Right Share	4	67
Interest on Bond	0	0
Utilization of Excess Fund	0	0
Total	6	100

(Source: Field Survey, 2010)

The Table 4.20 delineates that 67% of the respondents affirmed that investors are showing interest in securities business mostly to get the right share of the company. Further 33% of the respondents said that with the hope of getting high cash dividend, the investors are investing their savings. And none of the respondents pointed out the interest on bond and utilization of excess fund as the main reason behind the investment. Thus, it can be concluded that right share has been the main factor behind the investment in securities business.

Figure 4.18

Reasons for Securities Investment by Investors



4.1.2.10 Settlement Period

A settlement cycle/interval is the amount of time that elapses between the trade date (T) and the settlement date (S). It is typically measured relative to the trade date, e.g. T+3 means that the settlement of the trade transaction will take place on the third business day following the day on which the trade is executed.

The longer the settlement period, the longer will be the risk. So to determine about the appropriateness of the settlement period i.e. T+3 adopted in Nepal's Securities Market, the respondents were asked whether the settlement period of Nepal should be reduced like that of Taiwan Stock Exchange (T+1) and that of Iceland Stock Exchange (T+1), should be continued (T+3) or should be increased.

Table 4.21
Settlement Period

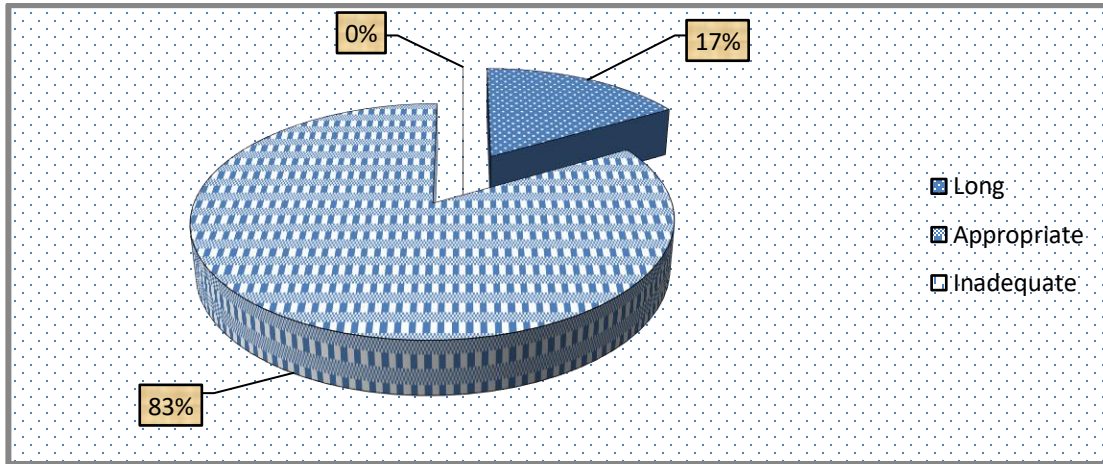
Responses	No.	%
Long	1	17
Appropriate	5	83
Inadequate	0	0
Total	6	100

(Source: Field Survey, 2010)

The Table 4.21 shows that 83% of the respondents (5 out of 6) responded that the current settlement period i.e. T+3 adopted is appropriate in the context of Nepal. Similarly, 17% of the respondents (1 out of 6) said that the T+3 should be decreased and should follow the shorter settlement period like that of Taiwan Stock Exchange (T+1) and Brussel Stock Exchange (T+2). However, none of the respondents opined that the current settlement period T+3 is inadequate to settle the transaction and should follow the older settlement period T+5 adopted by Nepal Stock Exchange in earlier period. Since, the majority of the people supported T+3 settlement period and also the major countries of the world is

adopting the international standard T+3 settlement period, NEPSE should continue this T+3 settlement period.

Figure 4.19
Settlement Period



4.1.2.11 Time Period for Transferring the Title by the Companies

Company Act (1996) has mentioned that, if it is not possible to transfer the title, company should inform the buyer and seller of the securities within 15 days after the date of application received. With respect to the duration of time for transferring the title by the companies as mentioned in the Company Act (1996), the following responses were achieved as presented in the table.

Table 4.22

Time Period for Transferring the Title by the Companies

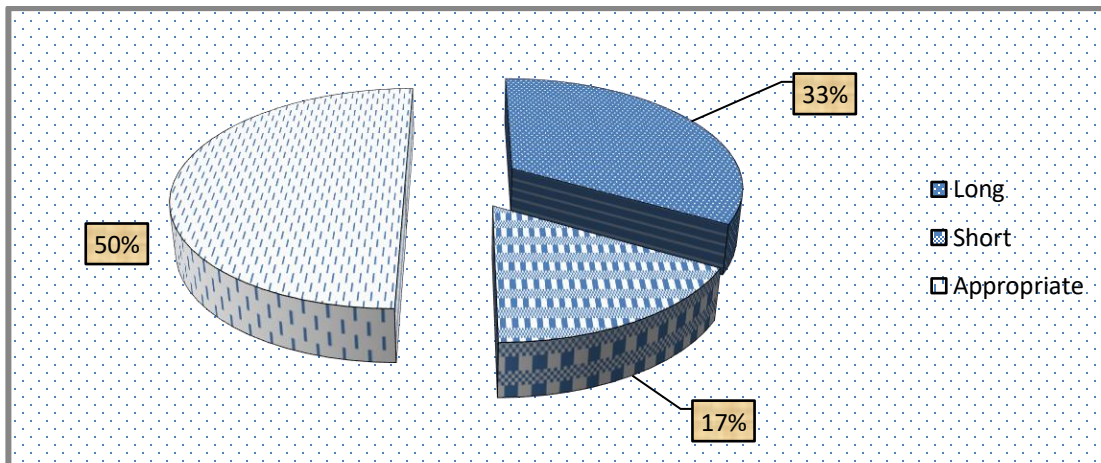
Responses	No.	%
Long	2	33
Short	1	17
Appropriate	3	50
Total	6	100

(Source: Field Survey, 2010)

The Table 4.22 shows that 33% of the respondents (i.e. 2 out of 6) opined that it takes a long period, so it does not protect the interest of investors, 17% of the respondents (i.e. 1 out of 6) are in the opinion that it takes a short period as a result company cannot transfer the title within this period. Similarly, 50% (i.e. 3 out of 6) of the respondents hold the view that it is an appropriate period, which protects the interest of investors and companies can transfer the title within this period. Rather mixed opinion has been founded in this question.

Figure 4.20

Time Period for Transferring the Title by the Companies



4.1.2.12 Investor's Achievement on Long Processing Cycle

The essence of the settlement issue can be summed up as nothing good can happen between trade date and settlement, only bad things can happen. And the longer the settlement cycle, the greater the risk. So what the investors achieves in long processing cycle of trading, clearing and settlement can be the question of enthusiasm, and such question has given the following result.

Table 4.23

Investor's Achievement on Long Processing Cycle

Responses	No.	%
Investors lose money	2	33

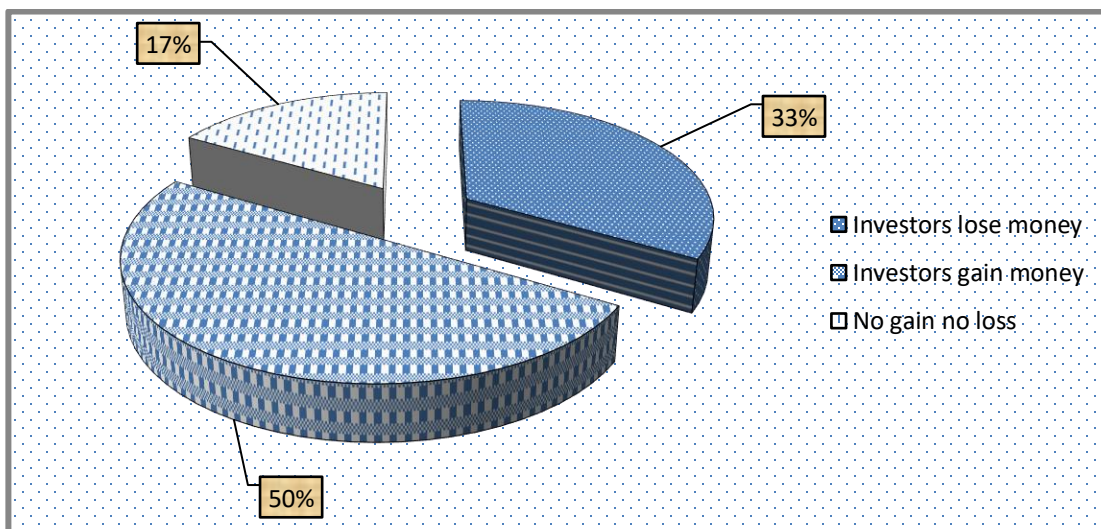
Investors gain money	3	50
No gain no loss	1	17
Total	6	100

(Source: Field Survey, 2010)

The Table 4.23 showed that 33% of the respondent (2 out of 6) said the investors bear loss, 50% of the respondents (3 out of 6) said that investor gains and 17% (1 out of 6) said that investor neither gains nor losses. Since, various settlement risks such as replacement risk, principal risk and liquidity risk can arise by lengthening the securities settlement period, there is uncertainty whether investor gains, loses or remains indifferent.

Figure 4.21

Investor’s Achievement on Long Processing Cycle



4.1.2.13 Cost of Investor

The prime objective of all stakeholders is to reduce the cost and complexity of clearing and settlement. Investors have to bear higher cost in longer processing cycle. To know approximately how much cost does an investor have to bear annually of their investment, respondents were given different ranges and

requested to express their opinions. The following responses were achieved on this matter.

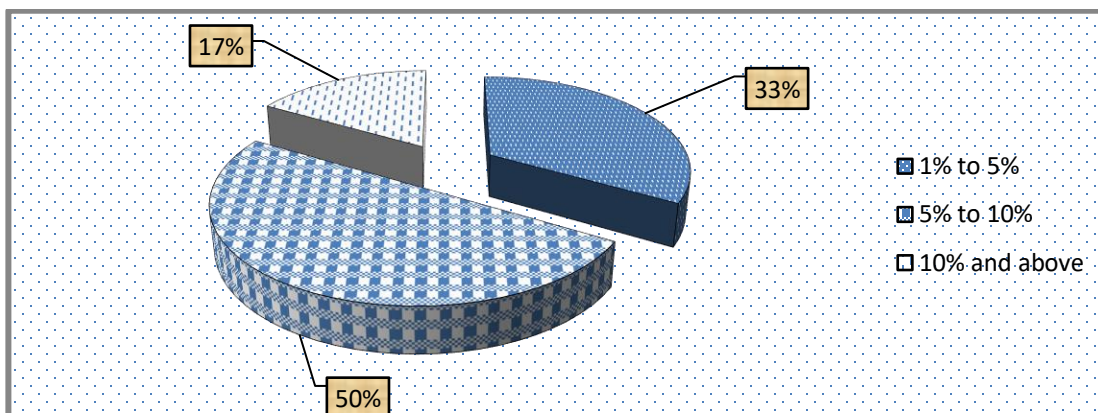
Table 4.24
Cost of Investor

Responses	No.	%
1% to 5%	2	33
5% to 10%	3	50
10% and above	1	17
Total	6	100

(Source: Field Survey, 2010)

The Table 4.24 shows that 33% of respondents (2 out of 6) , 50% of the respondents (3 out of 6) and 17% of respondents (1 out of 6) said that investors have to face up a cost ranging from 1% to 5%, 5% to 10% and 10% and above respectively of their investment. Since, the majority of the people (50%) said that investors have to bear a cost of 5% to 10% annually, it will be better if securities clearing and settlement period are reduced to decrease cost considering the risk that may arise in shorter period.

Figure 4.22
Cost of Investor



4.1.2.14 Existence of Matching

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order. However, this kind of activity has been prohibited from Ashad 2062 B.S. To examine to what extent the matching exists in the brokerage industry, the respondents were asked on this concern.

Table 4.25
Existence of Matching

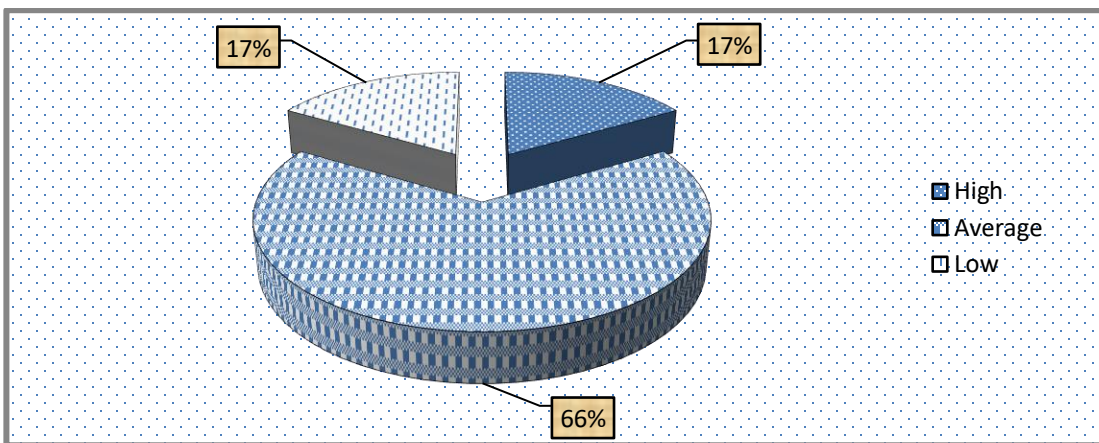
Responses	No.	%
High	1	17
Average	4	66
Low	1	17
Total	6	100

(Source: Field Survey, 2010)

The Table 4.25 delineates the existence of matching, an unhealthy method of manipulating the market, in the securities business. The table enumerates that 66% of the respondents, 4 out of 6, stated that the matching, to raise the price of the securities unnaturally, is in average level. Similarly, 17% of the respondents that the involvement of brokerage company on matching the securities price is in

average, and also 17% of the respondents said that there is low degree of practice of matching among the brokerage company. Thus it can be concluded that the practice of matching to manipulate the securities price in brokerage company is in average level. However, SEBON should try to eliminate such practice and should punish such brokerage company who makes direct or indirect involvement in such unhealthy practice.

Figure 4.23
Existence of Matching



4.2 Secondary Data Analysis

To measure the performance of the brokerage company, and to measure the efficiency of such companies in securities transaction and making profit, the secondary data have been analyzed.

4.2.1 Transaction Per Day

The market of the securities transaction does not operate in all the 365 days. Thus this ratio measures the average securities transactions per day and delineates the improvement/aggravation of the transaction of securities in each fiscal year.

Table 4.26
Transaction Per Day

Fiscal Year	Transaction	Market Day	Transaction per
-------------	-------------	------------	-----------------

	(Rs. in Millions)		Day
2004/05	9015.33	236	38.20
2005/06	6902.79	228	30.28
2006/07	17065.40	232	73.56
2007/08	47235.30	235	201.00
2008/09	43039.58	234	183.93
Mean			105.39
S.D.			72.77
C.V.%			69.05

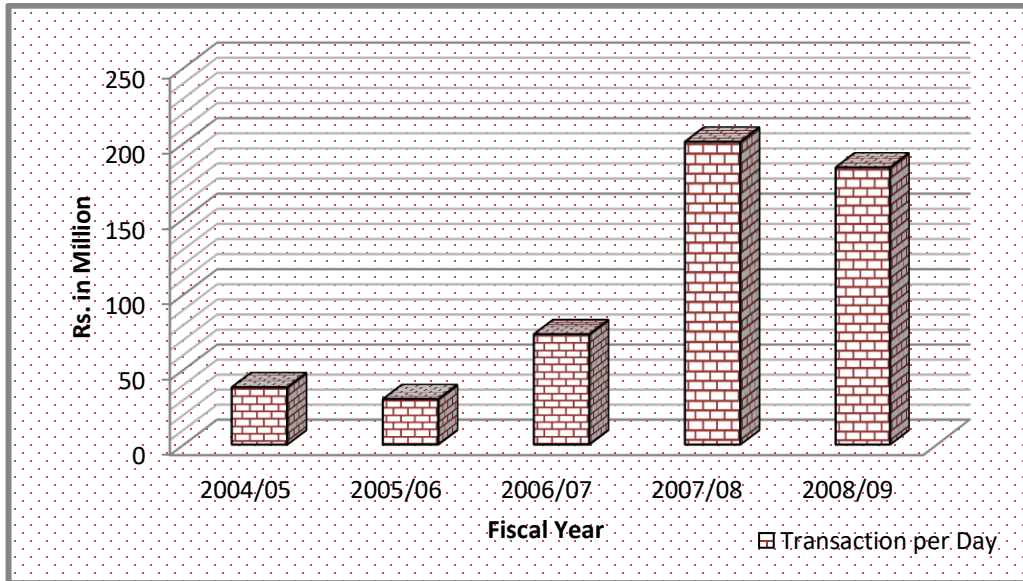
(Source: Annual Reports of SEBON)

The above Table 4.26 delineates the transaction amount in each fiscal year and the marketing days of the securities in the corresponding years. The table shows that the securities transactions amount of the brokerage company is in fluctuating trend along with the marketed days. The securities transacted amount is Rs. 9015.33 millions in the fiscal year 2004/05, which has increased to Rs. 6902.79 millions in the fiscal year 2005/06, then to Rs. 17065.40 millions in the fiscal year 2006/07, to Rs. 47235.30 millions in the fiscal year 2007/08, and finally has decreased to Rs. 43039.58 millions in the fiscal year 2008/09. Similarly, the marketed days of the securities are 236, 228, 232, 235 and 234 millions in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively.

The table depicts that the average transaction amount per day in the fiscal year 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 is Rs. 38.20 millions, Rs. 30.28 millions, Rs. 73.56 millions, Rs. 201.00 millions and Rs. 183.93 millions respectively. In average, the mean transaction amount within the last five fiscal years is Rs. 105.39 millions and the coefficient of variation in such average

transaction is 69.05%, which indicates higher inconsistency in the transaction per day.

Figure 4.24
Transaction Per Day



4.2.2 Efficiency in Securities Transaction

Under this, the efficiency of the brokerage company in transacting securities has been measured. Higher the amount of securities transaction have been considered as the most efficient and vice-versa.

Table 4.27
Efficiency in Securities Transaction

Broker	2004/05	2005/06	2006/07	2007/08	2008/09	Total	Rank
Nepal Inv. & Securities Trading	736.71	523.71	802.30	3540.00	3307.63	8910.35	4
Agrawal Securities	3832.98	705.40	1104.00	3179.70	3517.74	12339.82	1
Pragyan Securities	49.35	61.18	389.70	1247.50	1407.31	3155.04	17
Sri Krishna Securities	146.25	216.66	966.10	2697.10	2643.32	6669.43	8
Nepal Stock House	949.68	1125.33	1689.50	3738.20	2384.56	9887.27	2

Arun Securities	165.68	181.01	199.20	1603.10	1019.44	3168.43	15
Annapurna Securities Service	61.17	101.89	730.50	977.30	1295.11	3165.97	16
Opel Securities	66.62	151.93	356.90	943.90	488.08	2007.43	21
Kumari Securities	336.45	554.82	1689.20	2223.7	1966.44	6770.61	7
Sipla Securities	151.71	158.89	674.90	2166.60	1351.31	4503.41	12
Siprabi Securities	484.45	93.08	1061.10	2082.90	1898.00	5619.53	10
Sweta Securities	451.05	577.67	1478.50	3234.20	3800.64	9542.06	3
Aashutosh Brokerage Securities	687.42	567.37	1278.50	3360.90	2814.79	8708.98	5
Trishul Securities & Investment	45.17	87.66	345.10	1610.60	3701.06	5789.59	9
Malla & Malla Stock Broking Co.	1.63	21.34	288.50	1027.40	1140.29	2479.16	19
Midas Stock Broking Co.	77.40	88.26	164.40	388.50	548.62	1267.18	23
Premier Securities Co.	180.59	333.51	830.70	1825.20	1915.66	5085.66	11
J.F. Securities	279.13	360.89	596.80	1267.30	853.51	3357.63	14
Asian Securities	106.30	159.40	294.30	884.50	762.98	2207.48	20
Primo Securities	29.40	272.20	1061.10	3863.50	2309.59	7535.79	6
Sagarmatha Securities	90.19	129.44	467.50	981.40	1041.08	2709.61	18
ABC Securities Limited	-	-	-	1935.30	1819.02	3754.32	13
Market Securities and Exchange	86.00	131.14	130.60	521.20	1053.38	1922.32	22

(Source: Annual Reports of SEBON)

The Table 4.27 depicts the transactions of securities broker in each fiscal year and the ranking made on the basis of highest transactions. Although, Om Securities and Allied Services P. Ltd. and Khandelwal Stock Broking Co. Ltd were also existed in the fiscal year 2006/07, they were ignored for the study, since their licensed were not renewed from then and thus no transactions have been made. The table shows that Agrawal Securities P. Ltd has transacted the highest amount, Rs. 12339.82 millions, of securities within the five fiscal years and thus it has been ranked 1 on the basis of highest transacted amount. Next to Agrawal Securities P. Ltd, there is Nepal Stock House P. Limited, who has transacted, Rs. 9887.27 millions, and then is Sweta Securities P. Ltd. Rs. 9542.06 millions, and so on. Thus, on the basis of highest amount transacted, Agrawal Securities P. Ltd. is

considered as the most efficient and Midas Stock Broking Co. P. Ltd. is considered as the least efficient in the broker industry.

4.2.3 Efficiency in Making Profit

Besides providing services to the client, the brokerage company needs to make profit to sustain in the market. Thus under this, the efficiency of the brokerage company in making profit has been measured taking fiscal year 2007/08, due to the unavailability of the report of the fiscal year 2008/09.

Table 4.28
Efficiency in Making Profit

Broker	NPAT	Rank	Broker	NPAT	Rank
Nepal Inv. & Securities Trading	12260	2	Aashutosh Brokerage Securities	7283	8
Agrawal Securities	10035	5	Trishul Securities & Investment	761	23
Pragyan Securities	5746	11	Malla & Malla Stock Broking Co.	3110	17
Sri Krishna Securities	10352	4	Midas Stock Broking Co.	888	22
Nepal Stock House	13254	1	Premier Securities Co.	5223	14
Arun Securities	6159	9	J.F. Securities	3496	15
Annapurna Securities Service	3207	16	Asian Securities	2781	19
Opel Securities	2702	20	Primo Securities	11973	3
Kumari Securities	8339	7	Sagarmatha Securities	3052	18
Sipla Securities	5285	13	ABC Securities Limited	5501	12
Siprabi Securities	6035	10	Market Securities and Exchange	1590	21
Sweta Securities	8925	6			

(Source: Annual Report of SEBON)

The Table 4.28 measures the efficiency of the brokerage company in making profit on the basis of the profit and loss statement for the fiscal year 2007/08. The table shows that Nepal Stock House P. Ltd. is the highest profit, Rs. 13254 thousands, making brokerage company. Next to it is Nepal Investment and Securities Trading P. Ltd, which made Rs. 12260 thousands net profit. Similarly, Primo Securites P. Ltd. made Rs. 11973 thousands net profit, and then Sri Krishna

Securities P. Ltd. made Rs. 10352 millions and so on. On the basis of the highest profit, Nepal Stock House is considered as the most efficient brokerage company and thus it is ranked 1, and Trishul Securities and Investment P. Ltd. is considered as the least efficient brokerage company and thus it is ranked 23.

4.2.4 Efficiency in Generating High EPS

To evaluate the efficiency of making profit in terms of share, the EPS of the brokerage company for the fiscal year 2007/08 has been considered. The higher the EPS delineates the higher efficiency of brokerage company to generate profit per share.

Table 4.29
Efficiency in Generating High EPS

Broker	EPS	Rank	Broker	EPS	Rank
Nepal Inv. & Securities Trading	490.38	4	Aashutosh Brokerage Securities	242.77	13
Agrawal Securities	501.77	3	Trishul Securities & Investment	7.61	23
Pragyan Securities	287.30	10	Malla & Malla Stock Broking Co.	155.50	18
Sri Krishna Securities	172.53	16	Midas Stock Broking Co.	44.40	22
Nepal Stock House	530.16	2	Premier Securities Co.	261.15	12
Arun Securities	307.95	8	J.F. Securities	174.80	15
Annapurna Securities Service	160.35	17	Asian Securities	139.05	20
Opel Securities	135.10	21	Primo Securities	598.65	1
Kumari Securities	333.57	6	Sagarmatha Securities	152.60	19
Sipla Securities	264.25	11	ABC Securities Limited	220.04	14
Siprabi Securities	301.75	9	Market Securities and Exchange	318.00	7
Sweta Securities	446.25	5			

(Source: Annual Report of SEBON)

The Table 4.29 measures the efficiency of the brokerage company in making profit in terms of per share. The table shows that the earning per share of Primo Securities P. Ltd. is highest, i.e. Rs. 598.65. Next to it, Nepal Stock House P. Ltd. has generated Rs. 530.16 per share as earnings. Similarly, Agrawal Securities P.

Ltd. is in third position to efficiently generate higher profit, which is Rs. 501.77 per share. On the basis of highest earning per share, it can be considered that Primo Securities P. Ltd. is most efficient and thus is ranked 1, and Trishul Securities P. Ltd. is least efficient and thus is ranked 23.

4.3 Major Findings of the Study

From the data analysis, the following major findings have been drawn;

4.3.1 Findings from Primary Data Analysis

A) From Investors

- 55% of the investors including both professional and amateur investors stated that the services provided by the brokerage companies are not transparent and honest.
- 33% of the investors said that the company on which the investment has been made by the investors should be given most priority while maintaining secrecy by the brokerage companies.
- 55% of the investors stated that the brokerage companies are not much efficient in providing information about the companies details on which the investors desire to invest savings. And 60% of the investors expect financial information of such company most.
- 80% of the investors have experienced inequality in the behavior by the brokerage companies. Further 60% of the investors said that the variable commission rate on transaction amount is suitable for big investors.
- Further, 58% of the investors have experienced charges of indirect cost by brokerage companies while transacting securities.
- 85% of the investors elucidated that the brokerage companies return the securities within the same day, if broker remains unable to sell the securities.

- The investors ranked 1 for the security of amount as the most crucial duty of the brokerage company and ranked 6 for the grievance listening.
- Majority of the investors, 60%, expected promptness from the brokerage companies' staff and 55% of the investors experienced practice of unhealthy competition among the brokerage companies to attract others' clients.

B) From Brokers

- Equal percentage of the brokerage companies, 50%, stated that they are in high and satisfactory level to secure the client's interest.
- 50% of the brokerage companies suggested a uniform commission rate would be more appropriate.
- 83% of the sampled brokerage companies are more interest in transacting stock rather than in government bond and others.
- 83% of the brokerage companies said that the rate to be deposited in security market for transacting stock should be lowered, while 67% of the brokerage companies suggested the adoption of current deposit rate for transacting government bond, and 50% stated the continuity of the existing deposit rate for transacting other securities.
- 83% of the respondents said that the provision of Rs. 2 millions as minimum paid-up capital for registering brokerage companies should be maximized.
- 50% of the respondents stated that there should be the provision for advertising and promotional campaign about the brokerage services.
- 66% of the brokerage companies said that there exists medium level of cooperating for settling the transaction between any two brokerage companies.

- 50% of the brokerage companies egged on that all the broker companies, securities businessman and market maker should be equally responsible to enhance the securities transaction within the existing regulation.
- 67% of the respondents affirmed that the investors makes investment in securities mostly to get right share of the companies.
- Majority of the sampled brokerage companies, 83%, stated that the existing T+3 settlement period is appropriate in Nepal's context for the security of investor's investment. Similarly 50% stated that the time period, i.e. 15 days, taken by the companies to transfer the ownership is appropriate.
- 50% of the respondents said that investors gain money in the long settlement cycle, and same percentage affirmed that the investors have to bear 5% to 10% cost of the investment amount. And, 66% of the respondents said that the existence of matching is in average level.

4.3.2 Findings from Secondary Data Analysis

- The securities transaction amount in each year is in fluctuating trend. Within the five year period, the securities transaction per day is Rs. 105.39 millions in average.
- Agrawal Securities P. Ltd. is most efficient in transacting the greater amount of securities and Midas Stock Broking Co. P. Ltd. is least efficient in securities transaction amount.
- However, Nepal Stock House P. Ltd. is most efficient and Trishul Securities and Investment P. Ltd. is least efficient in making profit.
- Similarly, Primo Securities P. Ltd. is most efficient and Trishul Securities and Investment P. Ltd. is least efficient in generating highest amount of profit per share, i.e. EPS.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Capital market is a vital part of the financial development and economic development of a country. They provide an alternative vehicle for financial resource mobilization. In the past decade, many developing countries have also established securities markets. In Nepal, the Stock Exchange was established in 1994, providing a marketplace for securities trading by private brokers. The objective of this paper is to evaluate the brokering services in Nepal Stock Exchange.

While capital markets had its beginnings much earlier through the establishment of the Securities Exchange Center, a market based system of securities trading was adopted only in 1994. The amendment in the Securities Exchange Act which enabled this change allowed the entry of private intermediaries and set up an oversight agency - the Securities Exchange Board. Following this change, the capital market in Nepal has witnessed high growth. The primary market, in particular, grew almost five times and has sustained this growth over the past three years. The secondary market too, has grown, with market capitalization almost triple the levels three years ago and price index climbing to almost double the level when the Stock Exchange opened.

With the realization of the fact that NEPSE activities cannot be effective without the transparency on how securities are Traded, Cleared and Settled. The study is conducted and the basic objective of the research is to study, evaluate and highlight the brokering services that have been practicing in Nepal's Capital Market. The study could be significant to the investors, Brokers, Companies and

SEBON & NEPSE and even to general public also. For the fulfillment of the objectives of research, various laws, Acts and both primary and secondary data have been utilized and analyzed with the abet of various statistical tools. Major portion of data has been collected from primary sources by conducting questionnaire and partially from secondary sources such as prospectus and website of SEBON and the annual reports of the brokerage companies.

The study has been organized in five main chapters consisting of (i) Introduction, (ii) Review of Literature, (iii) Research Methodology, (iv) Data Presentation and Analysis and, (v) Summary, Conclusion and Recommendations.

5.2 Conclusion

On the basis of the primary data analysis it can be concluded that the securities transaction of the brokerage companies is not transparent and honest. Further, the investors expect most security on the information of where the investors have invested the money. It can also be considered that the brokerage companies are not much generous in providing information about the financial details and others of the companies, where the investors desires to invest. Further, the investors are more concerned to have information of financial details of the targeted companies for investment from the brokerage companies. From the responses of the investors, it can be concluded that there exists inequality in the behavior, shown by the brokerage companies to the customers. Also, it can be considered that the existing variable commission rate is suitable for the big investors, and the brokerage company associates indirect cost along with the commission as well. In case of inability of the broker to sell the securities, it has been found that such securities are returned within the same day in most of the cases. In addition, the customer opined that the most important duty of the broker is the security of the investment amount of the investors, and the investors want promptness in the staff of the

brokerage companies while transacting the securities. Eventually, it can be concluded that the brokerage companies are not far away from practicing the unhealthy competition to allure the customers of others.

From the analysis of the responses of the brokerage firm, it can be concluded that the firm is at least at satisfactory level for being responsible to protect the interest of the clients. In addition, the variable commission rate should be made uniform. Also, it can be considered that most of brokerage firms are interested in stock transactions rather than in government bond and others, and the firms are in the view that the existing deposit rate for stock transaction is high, and the existing deposit rate for government bond and other should be continued. However, it can be considered that the brokerage companies want least entry of rivals, since they opined that the current provision of maintaining Rs. two millions as minimum paid up capital should be maximized. Further, they are in the view that the provisions that barriers for advertising and promoting the services should be abolished. In addition, it can be assumed that there is medium level of mutual cooperation while reconciling the transaction between two brokerage firms. Besides these, it can be inferred that all the parties, i.e. brokers, securities businessman, and market makers, should be equally responsible for upgrading the securities transactions under the existing regulations. From the responses of the brokerage firms, it can be concluded that the main reason behind the investment in securities is to get the right share of the companies. Also, it can be assumed that the existing T+3 settlement period is appropriate in Nepalese context and the time taken by the companies to transfer the title also benefits in Nepal. It can be concluded that investors gain in the long processing settlement cycle and the cost of investor ranges from five percent to ten percent of the investment amount annually. Eventually, it can be concluded that the level of matching, malpractice to manipulate the securities price, is in average level in brokerage firms.

On the basis of secondary data analysis, it can be concluded that the transaction per day of the securities is in fluctuating trend in each fiscal year, showing much irregularity. Also, among the brokerage firms, Agrawal Securities P. Ltd. is found to be most efficient in transacting greater amount of securities. However, Nepal Stock House P. Ltd. has shows most efficiency in making net profit, while Primo Securities is most efficient in making highest amount of profit per share, i.e. EPS.

5.3 Recommendations

On the basis of the major findings drawn on the fourth chapter and the conclusion derived in this chapter, the following recommendations have been made for the enhancement of the brokering services in Nepal;

- The brokerage firms should be more generous in disseminating the information that the client's expects from them and the brokerage firms should be more concentrate on making the transactions more transparent.
- To win the credibility of the clients, the brokerage firms should give special attention to protect the clients' interest and should appoint only the competent staff for the promptness in transactions.
- SEBON should monitor the activities of brokerage firm from much nearer and should punish to those who show unequal behavior to the clients.
- The securities regulation should be amended for making the commission rate uniform rather than the existing variable rate.
- A strict restriction should be initiated to those members who do not settle the transaction in time. Also, fine and penalties should be imposed on those members.
- To protect the investors from high cost, the concerned body should try to reduce the processing period at minimum, which will automatically reduce the cost.

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