

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study:

Nepal is the Himalayan Kingdom country sandwiched between two large countries India and China. Geographically, Nepal is located in between the latitude of 26°22' to 30°27' North and longitude 80°04.6' to 88°12' East. Nepal is popular for the highest peak in the world 'the Mount Everest'. Nepal somewhat rectangular is size, has the length of 885 Km and that of breadth the area of the country is 1,47,181 Sq. Km which covers 0.3% of Asia which is 0.03% of the area of the world.

Nepal is an agricultural country and 92% of the inhabitants are engaged in it. Various business (financial) activities have been established based open agricultural. This plays a vital role in national economy.

Financial market is main body of the national economy. Every business enterprise requires short term and long term fund for the operation and expansion of industry and organization. Financial market chiefly refers to money market and capital market. Money market may be defined as short term financial assets market, which provides facilities, liquidity and market ability of security. Actually it is the market for short term marketable instruments having less than one year maturity period. The money markets are the markets for short term highly liquid debt securities. As the capital market is concerned with long term finance, it is the market for long term marketable instruments having more than one year maturity period.

Capital markets are the institutions, which are engaged in mobilization of ideal saving in productive opportunity. Development and expansion of capital market are essential for the rapid economic development by mobilizing long term capital needed for productive sector. The main objective of the capital market is to create opportunity for maximum number of people to get benefit directly from the return obtained by the economy towards the productive sector by mobilizing the long term capital.

For proper and efficient utilization of resources, we need proper plan and strategy development. For plan and strategy development, huge amount of capital investment is required. For mobilization of investible resources for one sector to another, capital market plays very important role of bridging of the deficit units and surplus units.

“Capital market means any body of individuals whether incorporated or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities.” (*Bhalla; 1997:21*)

To develop the economy of a country, the capital market should be an efficient and effective. The growth of capital market in a country depends upon the amount of savings available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. Capital market is an organized market through which buyers and sellers of long-term capital required for a corporation is not possible without the help of the capital market or the investors to invest their savings in ordinary shares, debentures and government securities, in the present time, for the fast industrial growth capital market plays an important role.

Capital market helps to increase the equity of factor input and production in addition to enhancing productivity. It increases volume of private saving on the one the other hand and mobilizes saving to the most productive sector in the economy on the other hand and mobilizes saving to the most productive sector in the economy on the other, subject to the existence of an efficient capital market. Without a capital market saving of the community would remain under- utilized. The task of mobilization and allocation of saving could be attempted in the old days by a much less specialized institution than the stock market. Entrepreneurs needed money for long term where, as investors demanded liquidity, and facility to convert their investments into cash at any given time. The answer was a ready market for investments and this was how the stock market came into being.

### **1.1.1 Securities and Securities Market:**

The term “Securities” means any notes stock, treasury stocks, bond, debenture, evidence of indebtedness certificates of interest or participation in any profit sharing agreements, collateral, trust certificate, re-organization certificate, certificate of interest in property, tangible or intangible, or in general any instruments commonly known as a securities, or any certificate of interest or participation in temporary or interim certificate for receipt for or warrants or right to subscribe to or purchase, any of the forgoing.

The term securities means share, stock, bond, debentures stock and debt bond issued by government of Nepal and this terms also includes the receipt and right and authority of securities. *[Nepalese Securities transaction Act; 1983: section 2(5)]*

Securities market is the place where buying & selling of securities for the purpose of profit for both buyers and sellers of the securities. In Nepalese context, NIDC Capital Market, Rastriya Banijya Bank (Treasury Department and Citizen Investment Trust) are primary market maker which are the issuer of the securities and Nepal Stock Exchange where the transaction and transformation of listed securities are done in secondary market.

In total securities market means any one who sells or buys financial instruments like government bonds, corporate bonds or debentures, ordinary share, preference share, etc. through recognized channels is supposed to engage in securities trading.

It is an important continuous market for purchase and sale of securities at a competitive price thereby, importing future market ability and liquidity to them. Therefore the securities market is a place where shares of listed companies are traded or transferred from one hand to another at a fair price through the organized brokerage system. Securities markets facilitate the process of transferring funds from savers to investors.

Securities market can be classified in several ways, first money market; it refers to the markets in which short term financial assets are traded. Second Capital market, it is the market for long term securities, third Primary market where companies sell securities for first time. In other words a market for newly issued securities is called primary market and it is a new issues market. In this market the principle sources of funds are the domestic savings of individual and business; other supplies include foreign investors and governments. Secondary market is a market for old securities for which securities have already been listed in the stock

exchange. Secondary markets deals with previously issued shares mainly or direct dealing. It is the markets that create the price and aloef for liquidity. The function of the secondary market is to provide liquidity for the securities purchased the primary market.

#### **1.1.1.1 Securities Market in Nepal:-**

Nepalese securities market is in an underdeveloped stage. Weak regulation, insufficient market infrastructure, poor corporate governance, inefficient trading system, low instrument diversification, low involvement of institutional investors are the major issues of Nepalese securities market. These issues should duly be addressed to develop the markets as an important venue for funds mobilization in Nepal. (*Adhikari; 2005:40*)

Development of the securities market is a necessary factor for modern day economy. There should be no doubt regarding the significance of securities market as it is clear that countries having developed securities market mechanism are developed and countries with poor securities market are underdeveloped. Securities markets must function well for the sustainable economic development. Firms need capital to grow and finance their investment needs job. It requires efficient ways of raising funds. If the investment is required for new technology for the project with on gestation periods premature liquidation of the capital is always inevitable without the existence of liquid and well functioning securities markets. Securities market forms a significant part of the infrastructure essential for dynamic functioning of the economy and in promoting industrial and economic development of a country.

Securities market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive

capacity in the countries. Thus, securities markets assume a greater role and significance in the present day economics.

### **1.1.1.2 Historical Development of Securities Market in Nepal**

The history of securities market began with the flotation of shares to the general public by Biratnagar Jute Mills Ltd., and Nepal Bank Ltd. in 1937. However, the development of securities markets could not be a national policy for a long time. Then industrial policy of Nepal led to the development of securities markets with the establishment of Securities Marketing Centre (SMC) in 1976. Before, the establishment of SMC, there was no institutional arrangements to undertake and to manage the new issues of securities. Initial public offering (IPO) had to be made as per the provision of Companies Act 1936 which were not adequate and relevant. The act had not even included preference share as corporate security. It was recognized as corporate security only by Companies Act, 1964. (*Ahikari; 2005: 42*)

In term of concept, it is new in Nepal. It begun with the floatation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills Ltd. (BJM) in 1937 B.S under company Act 1936 B.S No significance attempts had been made in 4-5 year plan to reform the capital market the establish of security exchange center (SEC) in 2038 B.S was the first and most important attempts made by the government to develop the stock market. The SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year 2040/41 B.S. Although the growth of the stock in high relative to the growth of economy, the shares of corporate sector in the national economy is still very low due to the legible size of the corporate sectors. (*Shakya; 2003: 61*)

SMC started secondary trading of securities in 1981, which was restricted to government bonds. Till 1983, the concept of well structured secondary market had not involved in Nepal. No separate Act existed to regulate the trading of securities. The Securities Exchange Act 1983 was enacted in 1983. The Act restricted the exchange of unlisted securities. The SMC was renamed Securities Exchange Centre (SEC) in 1984. The SEC was the only institution at that time managing and operating primary and secondary markets of long term government and corporate securities.

A need to develop different institutional mechanisms relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the securities Exchange Act, 1983 in 1993 paved the way for the restructuring of securities market in Nepal, which led to the establishment of Securities Board of Nepal, which led to the establishment of Securities Board of Nepal (SEBON) in 1993 with a mandate to regulate and develop the securities market. SEBON started to register securities and grant approval for issuing securities to the public in 1993. The first amendment of the Act, also led to conversion of SEC into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with the objective of operating and managing secondary transaction of securities. The initial efforts led to the opening of a full fledged stock exchange in January 13, 1994.

The second amendment in Securities Exchange Act 1983 was made in 1993. This amendment made provision for registering securities business persons in SEBON. As per the provision of the second amendment, SEBON provided licenses to the securities business persons in 1997. The amendment made mandatory provisions for the listed companies to submit annual and semi annual reports to SEBON. Presently, there are 23

stocks brokers, two securities dealer, nine issue managers, one stock exchange and 135 listed companies in the Nepalese securities market.

Development of capital market in Nepal is linked with the establishment of commercial banks and financial institutions like NIDC Capital Market. Market capitalization started in 1994 B.S with the enactment of the company Act in 1992 B.S. However, failure of a number of companies within a short time dampened the spirit consequently and for a long term period market capitalization took a back seat. Efforts were reinforced in 2033 B.S with the establishment of Nepal Security Trading Center (NSTC) to make an in road to expand the base for capitalization and assisting new companies to float easily. The center also operated in a restricted manner and thorough revitalizing the market capitalization process did not take off in sound manner in the absence of encouraging environment.

As democracy established in 2007 B.S the interior government was much busy in advising the measure to recognize the sick industries and gave little attention to initiate and develop the stock market until 2033 B.S Later then government owned and operated security exchange center in 2047 B.S, when democracy was resolved, the interim government has initiated banking reformation in its short period and had established Citizens Investment Fund (CIF). The establishment of NIDC Capital Market Ltd. is also another major step to improve financial system in Nepal.

Recognizing these short coming along with pursuance of liberal economic policies, the government made a package of policies including capital market development policies in 2049 B.S. This helped to establish



the stock exchange Market and the floor for secondary market operation. Within a short period, the market boomed and many new primary issues were also made. This boom stage however did not last long and both the index and the volume of transactions nose-dived after 2051 B.S. The scenario has not turned optimistic so far. In this situation it is useful to analyze the growth trend and assess the strength and weakness of the Nepal Stock Exchange Market. (*Adhikari; 2004: 75-79*)

The incorporation of Security Board of Nepal (SEBON) under the securities exchange Act 1983 and conversion of the SEC into Nepal Stock Exchange (NEPSE) under the government policy on capital market reform has greatly contributed to development of primary as well as secondary market. That result in the rise of corporate securities based upon stock prices and the market liquidity, which were observed immediately after the incorporation of the SEBON and the NEPSE for one year only.

The contribution of primary market to finance a company is direct in the sense that it provides additional fund to the issuing companies either for starting a new enterprise or for expansion or diversification of the existing one. Before the establishment of security market center, the case of the new issue was very few. The issue management activities were under taken by issuing company themselves. Before the establishment of NEPSE, 115 listed companies collected a total amount of Rs.634.29 million in 2056-57. In 2057-58 which is an increment of 18.10% as compared to 2056-57 has been observed. In 2058/59 it reached to 1416.63 which is 123.34% more than last year. The securities board regulates the issue of capital in primary market. The securities Board

prepared a guide lines which applies for only those companies whose securities are proposed to be listed in the stock exchange.

The secondary market plays an indirect role to transfer role in transfer of capital. The existence of secondary market provides intuitional base for continuous purchase and sale of securities and to that extent, lend liquidity and marketability and play an important part in the process. The secondary market which provides an institutional mechanism was very poor in terms of adequacy, transparency, regulation and gearing to investor protection. After the establishment of Nepal Stock exchange, some improvements were observed. Among them are prescription of norms of intermediaries like brokers in trading settlement and the organization of the Board of Stock Exchange with participation from stock exchange membership investors.

The performance of secondary market shows gradual improvements in terms of number of listed companies, market capitalization and number of shareholders. The listed companies which were recorded only 31 in 2043/44 increased to 115 in 2057/58 for the period between 2048/2058, however in the following year listed companies decreased to 96, where as 25 companies were desisted by Nepal Stock Exchange, due to the poor performance. In the year 2004/05 listed companies increased to 125 and in the fiscal year 2005/06 it increase to 135. In year 2006/07 the total no. of listed companies remained 135 as equal to fiscal year 2005/06 due to the listing of additional 12 companies and delisting of 12 listed companies.

SEC was incorporated in the year 1976 with a view of accelerating the pace of industrial growth and to develop the idea of securities exchange

activities. But at present it has legalized the Securities Exchange Act, 1983 and has made listing compulsory for all the public limited companies in the center.

SEBON was established as an apex regulator of the securities market Nepal by HMG/N on June 7, 1993 under the securities Exchange Act, 1983 with the objectives of promoting and protecting the interest of invertors by regulating the securities market. After established SEBON, SEC converted into NEPSE in 1993 with the views of reform the capital market. It is the non profit making organization operating under SEC act 1983. Brokers and market makers operates on the trading floor as per securities exchange act, rules by laws of NEPSE started its trading operation on 13<sup>th</sup> Jan, 1994 through its licensed member.

NEPSE is a trading institute, where as SEBON is the regulatory body. Besides the regulatory role, it is also responsible for the development of securities market in the country. Mainly, the functions of SEBON is to formulate policies and regulations, to register securities and grant permission for public issue, to provide license for the operation of securities market and securities business to the corporate bodies and to supervise, regulate and monitoring their activates/transaction, and to conduct study researched and awareness activities regarding securities market which is directed by existing statutes and Regulation.

## **1.2 Statement of Problem:**

Capital market investment plays major role in the economic development country. Having the sensitive nature, economic, social and political interference would directly effect on it. The stage of development of

capital market in any country and its effective growth is depended upon the aggregate economic condition, saving and investment opportunity.

In the context of Nepal, the concept of capital market is neither very old nor very complex. It is still in the beginning or introduction stages where different efforts have been made for the development of the capital market is still far behind.

The establishment of Security Market Center under the company Act was the first foundation stone for the institutional development of the securities market in Nepal with objective to assists public limited companies to raise Capital through the issue, if shares and debentures created a market place where purchase and sale of securities take place through intermediaries operating on the floor of the exchange. After passage of few years, this center was changed into Stock Exchange Center (SEC) in 1976. It was performing both the jobs or regulation and operation in the capital market. After restored democracy new constitution was formed which enshrines in the directive principles provisions conducive to the private sector. After establishment of NIDC Capital Markets Limited, it is helping to improve financing system in Nepal.

Securities Board of Nepal (SEBON), a capital market developer and regulator of the country, has successfully completed its 15 years. The main objective of SEBON is to regulate and promote the securities market and protect investor's rights.

In Nepal stock market and capital market is not much older; it is new for lots of investors, so investors do not properly understand the risk and reward of investing in the stock market. Lots of investors blindly invest

their funds by the reading the prospectus availed by the issuing companies and many times they purchase shares without and calculation of risk and return but with the hope of good return only.

From the all these things in the stock market and capital market present status on investors conditions and their view, so taking the many problem in the mind about it, this research is aimed to show how the main regulatory body SEBON is able to make the investor aware by protecting and promoting the investors by regulating the securities market.

**Following are the research questions developed for the study:**

- ) For what purpose mostly investors invest in shares and which sector mostly investors invest in share?
- ) How investors take decision to invest in share?
- ) Is SEBON able to make the contribution on the development of capital market by making securities transaction fair, healthy, efficient and responsible?
- ) What kind of Role playing by SEBON to aware to people about Nepalese capital market?
- ) What kind of role playing by SEBON to promote securities business?
- ) For development of capital market what kind of new rules and regulation developed by SEBON? Is it sufficient?
- ) Nepalese capital market is in underdeveloped stage? Which are the major factors of slow development of Nepalese capital market?
- ) Lack of the monitoring and supervision of the securities transaction may create unhealthy trading of securities. Does the existing

monitoring and supervision of SEBON sufficient enough for the securities transaction or need to improvement.

) Main influencing factor of Nepalese capital Market.

### **1.3 Objective of Study:**

The main objectives of the study are to assist performance and role of SEBON on Capital market of Nepal.

The present condition of Capital Market of Nepal and performance of SEBON and NEPSE in Capital market as well as securities market of Nepal, and to find out how capital market help in Nepalese Economy, summarily knew about international Capital market and its role on there economy.

#### **The specific objectives of the study are as follows:**

1. To study the present situation of Nepalese Capital Markets.
2. To study about Nepalese professional investors, which sector mostly motivate to invest in share them and for why they want to invest in share.
3. To study how people take decision to invest in share.
4. To study supervision and monitoring activities of SEBON.
5. To study SEBON's rules, regulation, legal provisions, act and its implementation.
6. To study how SEBON is promoting and protecting general investor interest in Securities Market?

7. To study about present situation of Nepalese capital market and its development stage.
8. To study Nepalese political situation and its effect on Capital Market.

#### **1.4 Need of Study:**

Capital plays a vital role in the economic development of a country. Being a least developed country in the world, Nepal has to make every endeavor to mobilize capital smoothly. Smooth mobility of capital is possible only when there is the facility of capital market in the country. Capital market is technical and sensitive thus it is directly influenced by the stability of socio- economic and political factors of the country. In this sense how SEBON is playing the major role in capital market. The research is aimed to see how SEBON is able to protect and promote the interest of the general investors and what type of benefits it provides for the investors decision making is mainly need of the study.

#### **1.5 Focus of the Study:**

Study is focusing to the Capital Market and securities market of Nepal and on this capital and securities market what role playing by SEBON.

How SEBON is performing for improvement of capital market and securities market to Nepal.

Investors invest their money with the hope of getting good return from their investment funds. But due to many reasons they lose their hard earning while investment made in their unawareness of the securities. So the study is focused to analysis the performance and promoting the general investors by regulating the securities market. Besides that the

study also focuses on the supervising and monitoring activities of SEBON and its legal provisions.

### **1.6 Limitation of study:**

- ) The study covers past and present state of the stock market and performance of SEBON in Capital Market of Nepal.
- ) The study is only focused in SEBON's activities and performance on capital market. It does not cover the study of listed companies.

### **1.7 Organization of Study:**

The study is dividing into five different chapters:

#### **Chapter I: Introduction:-**

Introduction provide the background of the study, statement of problem, need of the study, objective of the study, focus of the study, limitation of the study and organization of the study.

#### **Chapter II: Review of Literature:**

In this chapter whole review about capital market and securities market stocks and stock exchanges have been defined previous studies, books, journal, articles, different years SEBON's Annual Report. Review of rules and regulation of SEBON and some web sites records are including.

#### **Chapter III: Research Methodology:**

It includes introduction of research design, population and sample sources of data, data collection procedures analytical tools procedures.



#### **Chapter IV: Data Presentation & Analysis:**

It tries to analyze and evaluates data with the help of the analytical tools, statistical tools, and financial tools and tries to interpret the result to obtain.

#### **Chapter V: Summary, Conclusion & Recommendations:**

This chapter summarizes all chapters and sum up the result obtains through analyzes and it tries to recommend in suggestions on the performance of SEBON.

The appendices and bibliography will also be incorporated at the last.

# CHAPTER – II

## REVIEW OF LITERATURE

In this chapter an attempt has been made to review basic literature pertaining to concept and role of securities and capital market. The relevant literature and national publications as well as unpublished report and thesis available from different libraries and institutions as well as personal views of SEBON staffs, related web sites etc are studied in this chapter.

### **2.1 Conceptual Framework:**

#### **2.1.1 Concept of Capital Market:**

The capital market consists of the various suppliers and users of long term finance as it is differential from the money market which embraces short term finance. The capital market serves as a link between supplier and user of finance. It is a mechanism for the mobilization of public saving and canalizing them in production investment. In this way an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities. Therefore, the capital market is the market for long term borrowing and lending. The primary instruments of the capital market are stocks and bonds (equity and debt). Therefore it includes both the new issues market and the market. (*Gupta; 1978: 325*)

"Capital market means any body of individuals, whether incorporate or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities." (*Bhalla; 1997:21*)

"The capital market is designed to finance long term investment, financial instrument traded in the capital market have original maturities of more than one year" (*Joshi; 2000: 67*)

The framework for the borrowing and lending of funds for the periods of longer than a year is called capital market" (*Joshi; 2000: 67*)

Capital market is just the market for capital funds. It is concerned with long term finance broadly it consist a series of the community through which the savings of channels through which the savings of the community is made available for industrials and commercial enterprise and authorities. It is concerned with those private savings individual as well as corporate, that are turned into investments through new capital issues and also new public load floated by government, the semi government bodies. In capital market demand for funds comes from agriculture, industry, trade and individual or corporate savings institutional investor and surplus of governments.

An ideal capital markets where funds are available at reasonable rate f return for any preposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles rates of interest.

The capital market has witnessed tremendous growth in recent times characterized particularly by the increasing participation of the public investor confident in the capital market can be sustained largely by investor protection with this end in view. The garment should vest

sufficient statutory powers required to deal effectively with all matters relating to capital market. Further, the government should not lose its effective control over the market. (*Bhalla; 1997*)

At present, the capital market has been increasing as to mobilize the savings of the nation and canalize them into useful activities. It has a vital role in promoting efficiency and growth if intermediation flows of funds from which those who want to save a part of their income from those who want to invest in productive assets. It is this market which provides the mechanism for channeling current savings into investment in productive facilities, that is for allotting the country's capital resources among alternative users. In effect, the capital market provides an economy's capital resources as a major determining factor of tomorrow's output. The crucial role played by the capital market in shaping the pattern and growth of real output imparts a social significance to individual investment and portfolio decisions. Till about two decades ago, a large part of household savings was either invested directly in physical assets or put in bank deposits and government small saving schemes. It is only since the restoration of democracy in 1990, that the equity market has started to play a role in this intermediation process.

The well-known professor V.K Bhalla has given some theoretical insight into capital market after their various research studies on it.

“Capital market is the market for long term finance. In this market investors hand over money today in exchange for promises of money far in the future. The long delay in repayment magnifies the two basic problems of lending first it increases opportunity for the borrower to

important is repayment itself as a source of liquidity. Much of what goes on in today's capital market can be understood in terms of these two basic problems and of the market's attempts to deal with them." (*Bhalla; 1997: 560*)

An organized capital market as a market, which brings together the buyer and supplier of capital and thus mobilizes the domestic and corporate savings for being invested in a productive channel. For coordinating the demand and supply of capital funds and an organized and well-developed capital market is highly essential and which is the pre-requisite for industrial growth of the country. The demand for capital grows gradually with the stage of growth of the country. The demand for capital grows gradually with the stage of growth of the economy, which creates profitable investment opportunities. These in turn provide favorable conditions for the evolution of a well-organized capital market. The government of the country also plays an active and constructive role in creating favorable conditions in this respect in many ways: as setting up a network of development banking and financial corporations both at the national as well as at the state levels, making available foreign currency loans from international financial institutions, nationalizing major commercial banks (so as to enable them to take up medium financial assistance on the basis of refinance facilities provided by specified financial institutions), making suitable enactments for the regulation and smooth financing of stock exchanges, industry in a variety of ways; such as direct subscription to issue and debentures of by giving long-term (either interest free or at lower rates), the government has played such an active role and constant efforts have been made under planned economic development to strengthen the supply side of funds in the capital market.

"Capital market is the most important part of any financial market. It is the market place for the collection of long-term funds. Entrepreneurs who have ideas but do not have funds to establish, manage and operate the business can collect the required funds by mobilizing the scattered public savings." They issue tradable securities like shares, bond, debentures and others. The market through which they make new issue or additional issue is called IPO market or primary market. (*Bhattacharai; 2005: 36*)

### **2.1.2 Concept of Securities Market:**

So far as securities market is concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institution that assist the sale and resale of corporate securities.

Securities are traded in a market called securities markets. Although securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organization wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities such as equities, short and long term debt instruments derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institution such as function is to provide line between saving and investment there by facilitating the creation of new wealth.

Nepal stock exchange has defined the securities market in the following ways. "The securities market is the place where a large volume of

financial securities (shares, bonds, debentures etc) is traded according to prescribed rules".

“Securities are the documents certificate etc. showing ownership of property an especially bonds, stocks and share.”

A security market is place where people buy and sell financial instrument. A dealer is an individual or a firm that put its own capital at a risk by investing in a security in order to carry an inventory of the security and make a market in it. (*Sharpe, Alexander, and Bailey; 2003: 9*)

The history of corporate securities in Nepal dates batch to 1936.AD. Biratnagar Jute Mill the first corporate entity in Nepal issued 8000 ordinary shares of Rs.100 each. Ordinary shares were quite popular in early forties due to very high dividend (110%) declared by Biratnagar Jute Mill. It led to cases of over subscription by 3-4 times in some companies. Unlike ordinary shares and debentures, preference share was not included as corporate securities in Nepali company Act 1936. It was embodied as corporate security only in the company at 1964. Biratnagar Jute Mills also introduced the use of debenture as early as in 1936. In Mill issued 1600 debentures of Rs.500 each. But afterwards, it use has remained infrequent.

However the development of securities markets could be a national policy of a long time. The industrial policy of Nepal led to the development of securities markets with the establishment of Securities Marketing Centre (SMC) in 1976. Before the establishment of SMC, there were no institutional arrangements to undertake and to manage the new issues of securities. Initial public offerings (IPO) had to be made as per the provision of companies Act. 1936. Which were not adequate and

relevant? The act had not even included preference share as corporate security. It was recognized corporate security only by Companies Act, 1964.

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A need to develop different institutional mechanisms relating to securities market was strongly felt to avoid potential conflict of interest between the services provided. The first amendment in the Securities Exchange Act, 1983 in 1993 paved the way for the restructuring of securities market in Nepal. Which lead to the establishment of Securities board on Nepal (SEBON) in 1993 with a mandate to regulate and develop the securities markets? SEBON started to register securities and grant approval for issuing securities to the public in 1993. The first amendment in the Act also led to conversion of SEC into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with the objective of operating and managing secondary transactions of securities. The initial efforts led to the opening of a full-fledged stock exchange in January 13, 1994.

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amendment, SEBON provided licenses to the securities businesspersons in SEBON. As per the provision of the second amendment, SEBON provided licenses to the securities businesspersons in 1997. The amendment made mandatory provisions for the listed companies to submit annual and semi-annual reports to SEBON. This amendment also required securities businesspersons to submit annual incorporating the securities transactions carried out by them to SEBON.

Presently there are 23 stock brokers, two securities dealers, nine issue managers and one stock exchange and 135 listed companies in the Nepalese securities market.

These securities traded in the market are generally negotiable and hence can be traded in the secondary markets. Non- securities market refers to the mobilization of the financial resources by the financial institutions in the form of deposits and loans.

Nepalese securities market is in on underdeveloped stage weak regulation, insufficient market infrastructures; poor corporate governance. Inefficient trading system, low instrument diversification, low involvement of institutional investors is the major issues of Nepalese securities markets. These issues should duly be addressed to develop the markets as an important venue for funds mobilization in Nepal.

Securities market can be classified in several ways, one way is by the maturity of the securities traded in the market. In money market is made up of securities that mature in one year or less. Short term debt securities traded in the money market. Securities that mature in more than one year are traded in Capital market. While the money market and capital market provide liquidity for the investor, money market securities have little or

no risk of default and do not contain significant price risk because of their short maturities. For their reason money market securities represent attractive opportunities for corporations to invest their temporary excess cash balance.

Another way of classifying security market is by whether new securities are being sold the primary market or already issued securities are being bought & sold in secondary market.

### **2.1.2.1 Primary Market:**

The primary market for securities is the New issues Market, which brings together the supply and demand or sources and uses for new capital fund. It used to denote the market for the original sale of securities buy and sale. The primary markets are media through which new financial assets are issued or generated them are the media through which the demander and suppliers of today's funds, the creators and acceptors of financial claims, meet. In these primary markets, financial assets are created and exchanged satisfying in the part of the financial needs of both present concepts. It is the market for direct issuance of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issue market for industrial securities.

The financial system consists of the money market and the capital market. The capital market discharge the important function of transfer of savings, especially of the household sector to companies, government and public sector bodies.

“Securities available for this first time are offered through the primary securities markets. The issuer may be a brand new company or one that has been in business for many years. These securities can be offered by the method of public floatation or private placement.

The securities offered might be a new type for the issuer or additional amount of a security used frequently in the past. In a highly developed capital market by far the largest proportion of individuals saving reaches the new issues market indirectly via a financial intermediary.

Any public limited company floating shares to the investing public has to follow disclosure standard norms laid in the law. SEBON monitors and supervises the adequacy of disclosure norms regarding the primary market activities during the initial public offering. In fact, SEBON monitors the primary issues related to status of disclosure provided in prospectus, the proper timing of public issue, the timing allotment of public issues, listing of securities and reporting of issue management activities.

The primary securities market includes all transactions that result in the accumulation of financial capital by or real capital investment. The participants in this process are many and varies, but an important segment includes the money broker who acts as a middleman in the process of exchanging securities for fund. These brokers provide of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of the funds by the certain of security forms that will appeal to the ultimate investors.

The institutional that dominated the primary market is the investment banking house. It is a traditional middleman in the primary market. When

company decides to acquire new funds from the outsider, it will frequently do so through the intermediation of an investment banker in the developed countries. The investment banker's principle activity is to bring sellers and buyer together in the market. They are specialists in the design of the securities. In addition placing new securities through the intermediation of investment banker, many companies engage in private placement, the issuer of the securities sells services of an investment banker. This method is cheaper and it avoids the underwriting costs.

The issue managers like NIDC Capital Market, Nepal Share Market, Nepal Merchant Banking and Finance, National Finance, NEFINSCO, Ace Finance, Citizen Investment Trust (CIT), etc have also significant role to play in the primary market in providing correct disclosure to the investors to save themselves from the false information, but in the initial development of capital market, they are found not serious professionally to go through the contents of the prospectus since they are more concerned how to get business rather than going for through investigation and study. Serving as issue manager that have put the investors in troubles as is case with flotation of shares of Oriental Hotel. Taragau Regency Hotel , Nepal Film Development, Harisidhi Brick and Tile Factory, Himalayan Distillery, Agro Nepal, Nepal Med, Jyoti Spinning Mill, Butwal Dhago, Indreyani Soyabean, Nimrod Pharmaceuticals, Ace Laboratories, Himgiri Textiles, Balaju Kapada Udhog, etc. (*Shrestha; 2005:6,7*)

### **2.1.2.2 Secondary Market:**

The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides 'liquidity for financial assets making them more attractive. So secondary market is a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities and the secondary market is operated by Securities Exchange Center. The trading of government securities in secondary market is very thin because of limited distributors of the issued shares mainly traded through the stock exchanges over the counter market, or direct dealing. The majority of all capital market transactions occur in the secondary market. The proceeds from the sale of securities in this market do not go to the original issue but to the owners of the securities. In other words securities are traded among the individual as well as institutional investors. Transactions in existing securities represent shift owners that do not provide additional fund to finance capital formations.

The secondary market ever operated in the country was on DBS. The SEC initiated the secondary market in the fiscal year 1975-76. Since then the volume trade in generally increasing year by year.

Secondary markets are markets for existing assets, which are currently traded between investors. It is this market that created the price and allow for liquidity. If second are markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all.

If investors could not resell securities really, they would be hesitant to quality of funds available to finance industry and government. Those who

own securities must be assured of a fast fair, orderly and open system of purchase and sell at know prices.

Secondary markets allow outstanding Securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and seller. Secondary market comprise the stock exchange the over the counter market.

In the Secondary market, SEBON has monitored the status of the corporate disclosure focusing on listed companies publishing annual reports, holding annual general meeting timely, dividend declaration and response to the grievances of the shareholders. But greater emphasis is given to annual report and its relationship with compliance of disclosure norms. Every company has to provide annual report to shareholders in annual general meeting to cover important information specified under section 83(3) of Companies Act, 1997 with subheadings from a, to ,h,.

Secondary Market can be divided into two parts.

- a) Organized Stock Exchange
- b) Over the Counter Market

**a) Organized Stock Exchange:-**

Organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building has limited number of member and has an elected governing body its board of governs. Members are said to have “Seats” on the exchange, although even body stand up. These seats, which are bought and sold give the holder the right to trade in the

exchange, organized stock or securities exchanged is a organized market for buying and selling financial instruments known as securities, which includes stocks, bonds, options and future.

Organized stock exchanges are the central physical done, where trading of the securities are done under a set of rules and regulations. For example, NEPSE for Nepal, Bombay Stock Exchange for India, New York Stock Exchange, (NYSE) and American Stock Exchange(AMEX) for US, London Stock Exchange for Britain, Tokyo Stock Exchange in Japan. Those all stock exchange center work for securities Market development provides rules and regulation.

**b) Over the Counter Market (OTC):**

Over the counter market is a market of a network brokers and dealers. It is not an organization but an intangible market for the purchases and seller of securities not listed by the organized exchanges. An OTC is the market for those securities not listed on the stock exchange, when company first sells its securities to the public the securities are traded in the OTC. It includes all transactions in securities other than that taking all transactions in securities other than that taking place on the stock exchanges. A sophisticated telecommunication network lists actives made in this market. An important characteristic of the over the counter market is that the securities are not listed like that in organized stock exchange. It is popularly called as over the telephone market since the bulk of securities transactions are handled through the telephone. OTC market performs mainly three important functions, these are:

- a. Providing market for outstanding securities
- b. Creating market for new issues and
- c. Asking a market for secondary distribution

### **2.1.3 Role and Significance of Securities Markets in the Economy:**

Securities market is recognized as an effective way of raising capital for commercial enterprises, and at the same time providing an investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities markets are extremely important for the efficient allocation of capital within economies. The securities market is a requisite for the sound development of an economy because it not only provides stable long-term capital for companies and an effective savings vehicle for the public, but also functions as an efficient tool for resource allocation. Mass participation in country's industrialization process is possible only through and scattered savings from the investors and provides returns to them in the form of dividend. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. In other words, well developed capital markets enable high-quality firms to increasingly finance themselves from securities rather than from bank loans. This type of behavior of developed market enhances economic growth process by productivity growth.

Securities markets play a crucial role in the economy by channeling investment where it is needed and by putting it to best use. The securities markets help to channel public savings to industrial and business enterprises. Mobilization of such resources for investment is certainly a necessary condition for economy to take off. But the quality of their allocation to various investment projects is as important as a factor for growth. Securities markets help agents manage liquidity and productivity risk by eliminating premature capital liquidation, which increases



corporate sector productivity. Securities markets also accelerate growth indirectly by reducing liquidity risk, which encourages firm investment.

There is a strong correlation between various measures of securities market development and long-run economic growth. Securities market liquidity is said to have positive impact on long-run economic growth, capital accumulation and productivity growth. More liquid markets reduce the disincentives to investing in long-duration projects because investors can easily sell their stake in the project if they need their savings before the project matures. Enhanced liquidity, therefore, facilitates investment in long-run higher return projects that boost productivity growth. (*Adhikari; 2005: 41*).

Securities markets contribute to mobilization of domestic savings by enhancing the set of financial investments available to savers to diversify their portfolios. Securities markets help investors to cope with liquidity risk by allowing those who receive a liquidity shock to sell their stake to other investors. The result is that capital is not prematurely removed from firms to satisfy short-term liquidity needs. Moreover, securities markets play a key in allocating capital to the corporate sector, which has a real effect on the economy in aggregate.

The development of the securities market is a necessary factor for modern day economy. There should be no doubt regarding the significance of securities market as it is clear that countries having developed securities market mechanism are developed and countries with poor securities market mechanism are underdeveloped. Securities markets must function well for the sustainable economic development. Firms need capital to grow and finance their investment needs. It requires efficient ways of

raising funds. If the investment is required for new technology for the projects with long-gestation period, premature liquidation of the technology for the projects with long-gestation period, premature liquidation of the capital is always inevitable without the existence of liquid and well functioning securities markets. Securities market plays a crucial role in mobilizing a constant flow of saving forms a significant part of the infrastructure essential for dynamic functioning of the economy and in promoting industrial and economic development of a country.

Securities market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries. Thus, securities markets assume a greater role and significance in the present day economies. (*Adhikari; 2005: 41, 42*).

#### **2.1.4 NEPAL STOCK EXCHANGE (NEPSE):**

Securities exchange center was establishment with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Government of Nepal, under programs initiated to reform capital market, converted securities exchange in 1993. Nepal Stock Exchange (NEPSE) is a non-profit organization operating under Securities act 2063.

The basic object of NEPSE's to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its

trading floor through market intermediaries such as broker, market makers etc.

NEPSE opened its trading floor on 13<sup>th</sup> Jan 1994 through licensed members. In 1994 SEBON granted permission to the NEPSE to operate securities market.

Government of Nepal, Nepal Rastra Bank, Nepal industrial development corporation and licensed members are the shareholders of the NEPSE.

### **Membership of Stock Exchange:**

NEPSE facilitates trading of securities with the help of its members. It has 23 licensed brokers, 9 Issue managers (Primary market dealers) and 1 secondary market dealer. The brokers act as agents of investors. Any one willing to buy and sell securities in the secondary market should go through these brokers.

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

shareholders having more than 5% of the share capital need to be submitted.

**Board of Directors:**

The board of directors of NEPSE composed of 9 directors in accordance with the securities exchange act 1983. HMG/N and different institutional investors nominate six directors. Two are represented from the licensed members of NEPSE and the general manager of the NEPSE as the ex-officio director of the board.

**Table No. 2.1**

**Board of Director of NEPSE**

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

*(Source: An Introduction of NEPSE, Ktm. 1994)*

## Capital structure of NEPSE:

**Table No. 2.2**  
**Capital structure of NEPSE:**

<b>S.N</b>	<b>Shareholders</b>	<b>Rs. in Million</b>	<b>Percentage</b>
1	HMG/N	20.48	58.67
2	Nepal Rastra Bank	12.08	34.60
3	NIDC	2.14	6.13
4	Members	0.21	0.60
	<b>Total</b>	<b>34.91</b>	<b>100</b>

*(Source: An Introduction of NEPSE, Ktm. 1994)*

The authorized and issued capital of the exchange is Rs 50 million. Of this Rs. 30.41 millions is subscribed by government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members.

### Members:

Members of NEPSE are permitted to act as intermediaries in buying and selling of securities brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and by-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue of securities where as securities

trader (dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 broker dealer.

**Tenure of Membership:**

Tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

**Table No. 2.3**  
**Membership fees for Securities Businesspersons**

S.N	Type of Membership	Membership Fees	Annual Fees
1	Stock Broker	Rs.30,000.00	Rs.10,000.00
2	Market maker/Securities Dealer	Rs1,25,000.00	Rs.40,000.00
3	Issue Manager	Rs.1,25,000.00	Rs,40,000.00

*(Source: SEBO Journal 2005:Vol.IIp 57)*

**Listing of Securities:**

Listing means the registration of securities with the stock exchange to make them eligible for trading. Only listed securities are traded in the floor of exchanges. The listing of securities in NEPSE may be of two types – temporary listing and permanent listing. Temporary listing done for redeemable securities like redeemable bond debenture, redeemable

preference shares while permanent listing are done for common stocks and irredeemable preference shares and debentures. At present 135 companies have listed their securities are listed on the floor. Besides this NCM Mutual Fund enlisted its units to make them eligible to trade in the floor.

The NEPSE has set number of conditions for listing of securities. A company desirous of listing of securities must fulfill those conditions. Some examples of the conditions for listing common stocks are as follows.

- a. The minimum paid- up capital of the company must be Rs 25 million.
- b. The minimum number of shareholders should be 500.
- c. The face value of the shares should be either Rs. 10 or Rs. 100.

Listed companies meeting the set criteria are grouped as 'Group A' companies. The criteria for selection are:

- ) A company should have a record of profit for three years.
- ) The book value of share should be greater than its paid up value.
- ) A company should have submitted its financial statements in Nepal Stock Exchange within 6 month after expiry of the fiscal year.
- ) Paid up capital of a company should not be less than Rs 20 million.
- ) The number of shareholders should be at least 1000.

As per the provision of " Securities Listing Bye- Laws, 1996," those listed companies which have profit track for the last three consecutive years, book value higher than paid up value, submitted their financial statements to NEPSE within six months of the expiry of fiscal year, paid

up capital exceeds Rs. 20 million, and has at least 1000 shareholders falls on category "A".

In the fiscal year 2005/06 NEPSE classified 56 companies into "A" group. The companies consist of 11 commercial banks, one development bank, 32 finance companies, 11 insurance companies and one manufacturing and processing company. The rest were categorized into 'B' group. The companies on Category "A" are given in table

**Table No. 2.4**  
**Name of listed companies in NEPSE**

S.N	Name of the Companies	S.N.	Name of the Companies
<b>Commercial Bank</b>			
1	NABIL Bank Ltd.	2	Nepal Investment Bank Ltd.
3	Standard Chartered Bank Nepal Ltd.	4	Himalayan Bank Ltd.
5	Nepal SBI Bank Ltd.	6	Everest Bank Ltd.
7	Bank of Kathmandu Ltd	8	Nepal Industrial and Commercial Bank Ltd.
9	Machha Puchhere Bank Ltd.	10	Laxmi Bank Ltd.
11	Kumari Bank Ltd.	12	
<b>Development Bank</b>			
12	Development Credit Bank Ltd.		
<b>Finance Company</b>			
13	National Finance Co. Ltd.	14	Kathmandu Finance Ltd.
15	People Finance Ltd.	16	Union Finance Co. Ltd.
17	Citizen Investment Trust	18	Nepal Aawas Bikas Beeta Co. Ltd.
19	Narayani Finance Co. Ltd.	20	Gorkha Finance Co. Ltd.
21	Universal Finance Co. Ltd.	22	Mahalazmi Finance Co. Ltd.
23	Goodwill Finance Co. Ltd.	24	Paschimanchal Finance Co. Ltd.
25	Lumbini Finance & Leasing Co. Ltd	26	Siddhartha Finance Ltd.
27	Nepal Merchant Banking & Finance Ltd.	28	Alpic Everest Finance Ltd.
29	International Leasing and Finance Co. Ltd	30	United Finance Ltd.
31	Shree Investment and Finance Co. Ltd.	32	Central Finance Co. Ltd.
33	Premier Finance Co. Ltd.	34	Navadurga Finance Co. Ltd.
35	Butwal Finance Ltd.	36	Janaki Finance Co. Ltd.
37	Standard Finance Ltd.	38	Om Finance Co. Ltd.



39	Cosmic Merchant Banking and Finance Ltd.	40	Annapurna Finance Co. Ltd.
41	Nepal Finance & Saving Co. Ltd	42	Fewa Finance co. Ltd.
43	World Merchant Banking & Finance Ltd.	44	Lalitpur Finance Co. Ltd.
<b>Insurance Company</b>			
45	National Life & General Insurance Co. Ltd	46	Himalayn General Insurance Co. Ltd.
47	United Insurance co. (Nepal) Ltd.	48	Everest insurance Co. Ltd.
49	Premier Insurance Co. Ltd.	50	Neco Insurance Ltd.
51	Alliance Insurance Co. Ltd	52	Sagarmatha Insurance Co. Ltd
53	Nepal Life Insurance Co. Ltd	54	Life Insurance Corporation (Nepal) Ltd.
55	N.B. Insurance Co. Ltd		
<b>Manufacturing Company</b>			
56	Unilever Nepal Ltd.		

### **Listing fee of NEPSE:**

The listing fee and the annual fee to be paid by the listed company is based on the capital of the company.

**Table No. 2.5**

### **Securities listing and Annual Listing Renewal fees of NEPSE**

The rates currently applicable are as follows		
Paid up capital	Fee	
	Listing (Rs.)	Annual (Rs.)
Up to Rs. 10 millions	0.20 % or minimum Rs. 15000.00	Rs 15000.00
Above Rs. 10 million to Rs. 50 millions	0.15% or minimum Rs. 45,000.00	Rs.25,000.00
Above Rs. 50millions to Rs 100 millions	0.10% or minimum Rs 75,000.00	Rs.35,000.00
Above 100 millions	0.075% or minimum Rs 1,00,000.00	Rs.50,000.00

*(Source: - NEPSE index annual report 2005/06)*

### **Trading System:**

NEPSE has adopted an "Open outcry" system. It means transactions of securities conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price match. Contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

### **Trading days & hours:**

NEPSE operates only on fixed days and hours for transactions. Which the members are allowed to enter the floor to make the transactions.

<b>Types of Trading</b>	<b>Days</b>	<b>Trading Time</b>
Government bond trading	Sunday to Friday	10:30 AM to 11:30 AM
Regular trading	Sunday to Thursday	12 noon to 2:00 PM
Odd- lot trading	Monday & Friday	2-3 Monday, 11-12 Friday

### **Board Lot:**

NEPSE has fixed the board lot of 10 shares if the face value is Rs 100 or 100 shares if the face value is Rs 10. The transaction on regular trading should be done at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours.

### **Odd Lot:**

Odd lot refers to the number of securities below board lot. Odd lot trading takes place only on specified days and time.

### **Settlement:**

NEPSE has adopted a T + 5 system which means that settlement of transactions should be done within 5 working days following the transactions day. Settlement will be carried out on the basis of paper verses payment.

### **Brokerage:**

The rate of brokerage on equity transactions ranges from 1 Percent to 1.5 percent depending on the traded amount. The rate of brokerage commission on debenture ranges from 0.15 percent to 0.75 percent.

**Table No. 2.6**

#### **Stock Broker's Commission of Securities Trading**

<b>S.N</b>	<b>Amount of Securities Trading</b>	<b>Commission</b>
1	Up to Rs. 25,000.00	1.50%
2	Rs. 25,000.00 to Rs. 50,000.00	1.40%
3	Rs.50,000.00 to Rs. 1,00,000.00	1.30%
4	Rs.1,00,000.00 to Rs.5,00,000.00	1.20%
5	Rs.5,00,000.00 to Rs.10,00,000.00	1.10%

*(Source: SEBON Journal, 2005: vol. II pp58)*

### **Issue Management and Underwriting Commission:**

Issue managers could take commission as presented in below table for providing management services to the public issue of securities or issuing securities through circular method.

**Table No. 2.7**

#### **Issue Management Commission**

<b>S.N</b>	<b>Amount of Issue Managed</b>	<b>Commission</b>
1	Up to Rs. 25,00,000.00	2.25%
2	Rs. 2500,000.00 to Rs. 50,00,000.00	2.00%
3	Rs.50,00,000.00 to Rs. 1,00,00,000.00	1.75%
4	Above Rs. 1,00,00,000.00	1.50%

*(Source: SEBON Journal; 2005: vol. II pp59)*

Securities businesspersons providing underwriting services to public issue or circular issue of securities can charge up to 3% of the underwritten amount as underwriting commission.

### **2.1.5 OVERVIEW OF SECURITIES BOARD OF NEPAL (SEBON) AND ITS ACTIVITIES:**

Securities Board of Nepal was established on June 7, 1993 as an apex regulator of securities markets in Nepal by government of Nepal under the first amendment made in Securities Exchange Act, 1983. The main objective of SEBON is to regulate and systematize the securities

transaction for the development of securities market by protecting the interest of investors. Mainly, the functions of SEBON is to formulate policies and regulations, to register securities and grant permission for public issue, to provide license for the operation of securities and grant permission for public issue, to provide license for the operation of securities market and securities business to the corporate bodies and to supervise, regulate and monitoring their activities/transaction, and to conduct study research and awareness activities regarding securities market is directed by existing statutes and Regulations.

At the primitive stage, SEBON has given emphasis on regulated and systematize the public issuance of securities. For that purpose, Board has made compulsory provision regarding to registration of issue and Sale managers and receive their services by the issuing companies for making issuance of securities more simple, credible and transparent. For the systematic and transparent transaction of securities issuance in primary market Board has given license to the Nepal Stock exchange Ltd for transacting such securities. After the second amendment in Securities Exchange Act in 1997, it has provided the provision of compulsorily submitted the disclosure of securities transaction by the Securities businessperson to the board and they have to registered in the board.

In the mid of 1998, the SEBON involved itself in a capital market study program conducted by Asian Development bank. The objective of the program was to study the Nepalese capital market and recommend measures to strengthen the market. Later the scope of the program was broadened to cover the identification of the strategic impediments to private sector development. The study presented a detailed policy matrix to reform the Nepalese capital market. The Board acted as a national

executing agency for the capital market. The Board acted as a national executing agency for the study program.

During the period of ten years (1993-2003) Board has made efforts to develop effective regulatory system, to enhance transparency by upgrading information system, to make effective supervision and monitoring for fair operation of market, to develop code of conduct for enhancing responsibility of market intermediaries, and enhance awareness for wide participation in market. Now it has been regulating the securities market under the Securities Act 2063 after replacement of Securities Ordinance 2005, Securities Exchange Regulation, 1993 and other subordinate legislations.

In this fiscal year 2005/06, debenture issuance from the banking sector increased. In the issuance of debenture, it is mandatory to appoint debenture trustee, who has been arranged through banks and financial institutions, still, a clear regulatory provisions regarding the debenture trustee and trusteeship contract is yet to be developed. Regarding trading of government securities in the stock exchange, necessary legal provisions have been introduced and the process to provide license to the securities businesspersons for the purpose has entered the final stage. In light of limited involvement of institutional investors in the market, there is a pressing need to develop clear legal provisions for the operation and regulation of mutual funds, thereby encouraging more investment.

In this fiscal year, SEBON received drafts of some rules and strategic plan under the corporate and financial governance Project. Automation in securities trading system and governance reform in Nepal Stock

Exchange Ltd, and establishment of Management information System in Company Registrar Office are also in progress under the same project.

Currently, SEBON is focusing o improving corporate governance, improving policy and procedure to make securities markets more attractive to private and closely- held corporate houses, enhancing professionalism of securities businesspersons, and developing a clear regulation for merchant banking business. The other prioritized works of the SEBON include, increasing market access to the debenture trustee, introducing necessary provisions for the transferability of right and developing requires regulation for mutual funds.

As per the Securities act, 2063 the major objectives of SEBON are to regulate issue and trading of securities and market intermediaries, promote the market and protect investor's right. The duties and power of SEBON as per the new Acts as follows.

- ) To offer advice to Government on matters connected with the development of the capital market.
- ) To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- ) To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- ) To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- ) To supervise and monitor the functions and activities of stock exchange.

- ) To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- ) To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- ) To supervise and monitor the functions and activities of securities-dealers.
- ) To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- ) To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- ) To systematize the task of clearing accounts related to transactions in securities.
- ) To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed



under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- ) To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- ) To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- ) To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- ) To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- ) To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- ) To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members as follows.

- a. Person appointed by Government of Nepal - Chairman
- b. Joint Secretary, Ministry of Finance - Member
- c. Joint Secretary, Ministry of Law, Justice  
and Parliamentary Affairs - Member
- d. Representative, Nepal Rastra Bank - Member
- e. Representative, Institute of Nepal chartered  
Accountants - Member
- f. Representative, Federation of Nepal Chamber  
of Commerce and Industries - Member
- g. One person nominated by government of  
Nepal on recommendation of the Board  
from amongst the experts pertaining to  
Management of securities market,  
development of capital market, financial  
or economic sector - Member

*(Source: SEBON; 2003/04 and 2005/06)*

## 2.1.6 Review of SEBON's Activities:

### J Issue of Securities:

During the first quarter of fiscal year 2006/07, SEBON registered to issue the securities of eight companies consisting of four development banks and four finance companies and approved the issuance of their securities worth of Rs. 438.5 million.

**Table No.2.8**

### **Issue of Securities in year 2006/07**

<b>S.N</b>	<b>Name of the Company</b>	<b>Types of Securities</b>	<b>Amount (Rs. In million)</b>
1	Gorkha Development Bank Ltd.	Ordinary Share	96.00
2	Swabalamban Bikash Bank Ltd	Ordinary Share	6.00
3	Himchuli Bikash Bank Ltd.	Ordinary Share	12.00
4	Imperial Financial Institution Ltd	Ordinary Share	19.50
5	Chimmek Bikash Bank Ltd.	Right Share	20.00
6	Nawadurga Finance Co.Ltd.	Right Share	11.00
7	Ace Finance Co. Ltd.	Right Share	194.00
8	Annapurna Finance Co. Ltd	Right Share	80.00
	<b>Total</b>		<b>438.50</b>

(Source: sebonp.com 21/09/2007)

**J Securities Registration and Prospectus Approval:**

During the first quarter of fiscal year 2006/07, SEBON registered Rs 704.50 million worth of securities of 14 companies consisting of one commercial bank, four development banks, eight finance companies and one insurance company and approved their prospective for public issuance.

**Table No.2.9  
Securities Registration and Prospectus Approval in year 2006/07**

<b>S.N</b>	<b>Name of the Company</b>	<b>Types of Securities</b>	<b>Amount (In Million)</b>
1.	Gorkha Development Bank Ltd.	Ordinary Share	96.00
2.	Swabalamban Bikash Bank Ltd	Ordinary Share	6.00
3.	Himchuli Bikash Bank Ltd.	Ordinary Share	12.00
4.	Imperial Financial Institution Ltd	Ordinary Share	19.50
5.	ICFC Bitiya Sanstha Ltd.	Ordinary Share	24.35
6.	Civil Merchant Bittiya Santha Ltd.	Ordinary Share	20.00
7.	Annapurna Bikash Bank Ltd.	Ordinary Share	29.40
8.	Chimmek Bikash Bank Ltd.	Right Share	20.00
9.	Nawadurga Finance Co.Ltd.	Right Share	11.00
10.	Ace Finance Co. Ltd.	Right Share	194.00
+11.	Annapurna Finance Co. Ltd	Right Share	80.00
12.	Yeti Finance Ltd.	Right Share	6.25
13.	Capital Merchant Banking And Finance Ltd.	Right Share	84.00
14.	Laxmi Bank Ltd.	Right Share	122
<b>Total</b>			<b>704.50</b>

*(Source: sebonp.com 21/09/2007)*

**J Right Share Registration:**

SEBON registered the rights shares and disclosure documents of 6 companies consisting of one commercial bank, and five finance companies and directed for the issue. The amount of rights shares registered was Rs. 497.25million.

**Table No. 2.10**

**Right Share Registration**

<b>S.N.</b>	<b>Name of the Company</b>	<b>Amount (Rs. In Million)</b>
1.	Nawadurga Finance Co.Ltd.	20.00
2.	Ace Finance Co. Ltd.	11.00
3.	Annapurna Finance Co. Ltd	194.00
4.	Yeti Finance Ltd.	80.00
5.	Capital Merchant Banking And Finance Ltd.	6.25
6.	Laxmi Bank Ltd.	84.00
<b>Total</b>		<b>497.25</b>

*(Source: sebonp.com 21/09/2007)*

Thus, SEBON, in the first quarter of fiscal year registered the securities of 14 companies, which include one commercial bank, five development banks and eight finance companies, one insurance company and one hotel amounting to Rs. 714.50 million.

## **Supervision and Monitoring Activities of SEBON:**

### **) Supervision of Public Issue:**

During the year 2005/06, SEBON supervised the public issues of 29 companies. Out of these issues SEBON also conducted on-site inspection of Siddhartha Bank Ltd. and Prudential Financial Institution Ltd. During the inspection SEBON directed the issue managers and the collection centers strictly implement the newly issued provisions for submitting copy of citizenship certificate along with the application and mention account number for those applicants who are applying for more than 500 of shares SEBON also supervised whether the investors are given access to the prospectus, memorandum and articles of association of the issuing company. Certificate of issue approval granted by SEBON and other important documents during public issue of securities.

Of the total 34 companies permitted to issue securities to the public over the fiscal year 2005/06. SEBON carried out off-site supervision of 27 companies. Furthermore, it made similar SEBON mainly focused whether the securities allotment, refunding and listing has been done within the prescribed time frame.

### **) Supervision of Reporting of Stock Exchange:**

As per the prevailing securities legislation, stock exchange should provide various types of information regarding the securities trading to the investors and such information should also be submitted to SEBON.

**) Supervision of Reporting of Securities Businessperson:**

**Supervision of Issue Manager:**

Issue Managers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within four months of the expiry of the fiscal year. In the year 2005/06 eight issue managers have submitted their reports of the year 2005/06 to SEBON.

**Supervision of Stock Broker:**

Stock Brokers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within four months of the expiry of the year. During the year 2005/06, 22 stock brokers submitted their annual reports of the year 2004/05 to SEBON.

**) Supervision of Renewal of Stock Exchange and Securities Businesspersons:**

SEBON renewed the license of NEPSE for the fiscal year 2005/06 on 12/10/2005. As per the Securities Exchange Regulation, 1993 stock exchange should renew its license within six months of the end of the fiscal year.

Similarly, SEBON also renewed the license of 23 stock brokers, nine issue managers and two securities dealers for the fiscal year 2005.

As per the Securities Act, 2006 the existing securities businesspersons are required to apply to SEBON for the license within three months of the issuance of the Ordinance Accordingly, in this fiscal year, 23 stock

brokers, 9 issue managers and 2 securities dealers filed applications with SEBON for license.

**) Supervision of Licensing for the Trading Government Securities:**

To pave the way for listing and trading of the government bonds in the stock exchange, SEBON corresponding with the current securities businesspersons to apply to work as stock brokers and market makers. In response to its correspondence, SEBON received 16 applications for the stock brokers and six applications for the market makers. SEBON is in the process of providing license to the qualified applicants who meet the criteria required by the existing securities legislations.

**) Corporate and Financial Governance project:-**

The corporate and financial Governance Project (CFG project) under the loan program of Asian Development Bank (ADB) has started from the fiscal year 2003/04. The major objectives of the programs are as follows:

- ) Strengthen institutional capacity of SEBON,
- ) Modernization of NEPSE.
- ) Establishment of central depository system of securities is under implementation and
- ) Capacity building of Office of the Company Registrar (ORC).

SEBON has been coordinating in the Project Implementation Team (PIT) formed to facilitate the implementation of the project. This team



is also represented by ORC and NEPSE. SEBON has also been taking the responsibility of secretariat of the PIT. The project activities during this fiscal year 2005/06 are as follows.

- ) The technical and financial proposals for the automation of stock exchange has been reviewed by the committee formed under the convene ship with NEPSE, and the committee submitted its recommendation to the consulting firm The Aries Group Ltd for final selection.
- ) Draft of the Request for proposal for the establishment of MIS in the Securities Board of Nepal has been prepared.
- ) The technical proposals received as per the Request for proposal for the establishment of MIS and computerization of Company Registrar's Office is under review of project consultant. (*Annual Report of SEBON; 2005/06: 20, 21*)

In a narrow sense, corporate governance is set of relationships between a company's management and its board of directors, shareholders and other stakeholders. In a broader sense, he described good corporate governance as an important requirement for overall market confidence, efficiency of international capital allocation, renewal of countries' industrial bases, and ultimately nations' overall wealth and welfare.

Corporate governance has also been described very aptly by Prof. Kenneth Scott of Stanford Law School in the following words:

“Corporate governance is an essential safeguard of a stable corporate sector. As Asia emerges from the economic crisis, most institutions in the region want to introduce good corporate governance.”(SEBO Journal; 2004: 58)

In its most comprehensive sense, ‘Corporate governance’ includes every force that bears on the decision –making of the firm. That would encompass not only the control rights of stockholders, but also the contractual covenants and insolvency powers of debt holders, the commitments entered into with employees and customers and suppliers, the regulations issued by governmental agencies, and the statutes enacted by parliamentary bodies. In addition, the firm’s decisions are powerfully affected by competitive conditions in the various markets in which it operates. One could go still further, to bring in the social and cultural norms of the society. All are relevant, but the analysis would become so diffuse that it risks becoming unhelpful as well as unbounded.”

Historically, as the limited liability company grew in size, and ownership got diffused and greater power accrued to the board of directors as the representatives of the shareholders. Through most of the post war period public company shareholders rarely exercised voting power in a coordinate sense. This is now changing dramatically shareholders activities is seen as a major force in improving corporate performance. Additionally following developments and factors are also necessitating the need for good Corporate Governance.

- ) Globalization, privatization, deregulation, etc.
- ) Advancements in information technology and E-commerce.
- ) Strategic alliances, mergers and acquisitions.
- ) Intellectual Property Rights
- ) Social responsibility, Social audit, and social concerns.
- ) Business and professional ethics.

- ) Sustainable development.
- ) Energy audit, environmental up gradation.
- ) Need for excellence to cope with international competition.
- ) Need to strike a balance between compliance with rules and companies need to perform, so that company's performance is not stiffed by over regulation?

**Solving the grievances made by investors, listed companies and others:**

SEBON had opened its own separate division in order to know the coming grievances and solve them in the effective way. The division which hears the grievances in SEBON is legal and enforcement division. SEBON has activated its legal and enforcement division to hear and address investors' grievances. Investors' grievance may be addressed to SEBON directly or may be directed to the stock exchange, issue managers and listed companies. SEBON gets information as to investors' complaints or grievances it collects information from its files and from the inquiries with the concerned parties. Whenever it deems necessary it issues directives if it is in written its jurisdiction or forwarded for action to the concerned authorities and informs the complainant accordingly.

**Guidelines and regulatory activity:**

SEBON makes the guidelines and regulations in order to boost the capital market of Nepal. It makes the rules and regulations and controls the securities market. Guidelines are made in order to protect and promote the interest of general investors and to make the healthy transaction of the securities.

## **Regulation of Capital Market and Intermediaries**

The main regulator of the capital market and intermediaries providing booker and dealer service to the primary and secondary market are the securities Board Nepal (SEBON), NRB and the NEPSE, a self regulatory organization under the securities exchange Act, as amended. The NRB is responsible for the supervision of securities market intermediaries while the Securities Board is responsible for the Supervision of the NEPSE, the registration and supervision of stock broker and the granting of license to finance companies and other acting as issue manager underwriter, market maker or portfolio manager, in many countries insurance companies have established subsidiaries to provide money management services or to engage in capital market activities normally provides by a securities broker-dealer. In Nepal, there is a need to establish a regulatory body to supervise private provident funds.

Under the finance Company Act and the banking Act. The NRB surprises and regulates finance companies and Commercial banks. In Nepal, these organizations are also permitted to provide investment banking type services. In this regard, it is noteworthy that the risks associated with investment banking activities or the quasi-banking functions performed by deposit taking finance companies. In obtaining a license from the Securities Board however certain minimum capital requirements must be met by anyone proposing to act is issue manager underwriter market-maker, portfolio manager or stock broker. The Securities Board of Nepal was established in 1993.

Under the 1992 Amendments to the Securities Exchange Act of 1998. Under the Securities Investment trust Act of 1997 the Securities Board is

also responsible for the registration and supervision of investment funds, under new response for the registration and supervision of investment funds and under new securities Board. Board under the securities Board under the securities exchange act the Securities Board also has a clear mandate to promote the development of the capital markets.

Under the current regulatory scheme the supervision of finance companies and commercial banks acting as underwriting issue manager market maker or portfolio manger are supervised by the NRB, including the administration of prudential standards financial reporting off site monitoring, and on site inspections for compliance with applicable rules and regulation.

The Nepal Rastriya Bank of course is also responsible for the overall supervision of commercial banks and finance Companies including their activities in the market for treasury Bills and government securities. The present time the Securities Board does not participate in the NRB's program to inspect and commercial bank that are licensed to conduct Capital market activities. In view of the difference on risk associated with deposit taking institution and Capital market activities, it would be desirable for the Securities Board to participate in the supervisory program for the financial institutions licensed by the Securities Board to conduct Capital market activities.

The Board of Director of the NEPSE consists of seven members. The chairman of the Board is an official of the Ministry of finance. Two Board members represent NRB and one member is appointed by Nepal Industrial Development Corporation. Two licensed stockbroker member

of the Exchange also serve on the Board of Director. Finally the General Manager of the NEPSE is a member of the Board.

The Securities Board must be in a position to intervene in the event that the stock exchange is not performing its self regulatory function in accordance with the Securities Exchange Act, or otherwise engage in activities requiring enforcement action. If the main government regulator is too closer identified with the day to day operation of a stock exchange this could code public confidence in the event of the demise of a listed company member firm or other market failure.

While the NEPSE is expected to perform self regulatory functions the existing securities law and regulators do not clearly define the regulatory supervisory and enforcement function of the stock exchange and the Securities Board. Thus it is not surprising that self regulation has not developed to any significant extent. Also, the NEPSE does not have the necessary committee structure to carry out basic self regulatory function. The bye-laws of the exchange are not adequate for this purpose and there is need to develop procedural manuals that can provide staff guidance to formalize the self regulatory process. In recent years, self regulation has become an important tool in the nearby Asia region.

## **2.2 Review of Regulation of Corporate Securities Market In Nepal:**

A healthy corporate sector is vitally dependent on efficient transfer of funds from people who are not savers to firms who need capital securities market works as a medium to arrange such transfer of fund. The number of institutional arrangements, legal reforms and

operationally efficient. Securities marketing center (SEC) 1976 was an outcome of this the realization then securities marketing center confined its activities in the purchase and sale of government securities and management of a few public issue of corporate securities till 1984.

There was no separate regulation to regulate trading of securities till securities exchange act was enacted in 1983 the Act prohibited the exchanged the center with multiple role of stock exchange an operator an operator in the stock exchange and regulation of the stock market After this enactment securities Exchange Center Operator as stock exchange by listing corporate securities since Nov 1984. But these multiple roles were self contradictory for example it was difficult to the center to stand in the interest of the investors on public issue of securities managed by the center itself further the realization that the organization line securities exchange center should act as facilitator rather than market operator necessitated massive 1992 was enacted in 1992 which came into force since 1993. The amendment converted securities exchange center into Nepal Stock Exchange Limited, which now acts as an organization exchange and a separate regulator security exchange Board of Nepal (SEBO) has been constituted to regulate and to promote the securities market in Nepal. The second amendment was made in 1997 with the objective of upgrading the securities upgrading system. This amendment further empowered securities board of Nepal as an apex regulator of the capital market. His Majesty's government has affected securities exchange regulation 1993 for the implementation of the securities and exchange Act 1993. The regulation has detailed the functions, power and duties of SEBON. It has also made provisions regarding licensing of stock exchanges their operation registration and listing of securities. The

regulations has been amended twice the first in 1995 and the second in 1998. The amendments were made to incorporate the change made in the securities Act.

Securities Board is empowered to issue guideline and directive to stock exchange, corporate bodies issuing securities to general public and securities business persons. Accordingly the Board has issued guidelines for regulation and issue approved of securities 1995 to regulate the issue of securities by companies. The guidelines for and directives have prescribed the minimum conditions or qualifications of the company or management of issue manager, terms regarding the application, subscription period, statement of risk etc. Similarly, the directives to share allocation 1994 issue by the Board attempts to make the share distribution among general investors fair and transparent. The Board has also issued issuance of securities and sales management directives, 1997 for orderly management of sales of securities so that compliance of the prevailing laws is enhanced and investor's interest is protected.

Nepal Stock Exchange is empowered to make bylaws to regulate listing and trading of securities. Accordingly it has made membership and transaction bylaw 1998(by replacing the earlier bylaw of 1993) and securities listing bylaws 1996.

Further changes are taking place in improving the cuts bylaws and guidelines to regulate securities market. Disclosure format were broker in 2002. Bonus share issue guidelines 2002 were made effective for operation in 2002. SEBON has forwarded draft of new securities exchange Act to meet the changing requirements of the market.



During the period of ten years (1993-2003) Board has made efforts to develop effective regulatory system, to enhance transparency by upgrading information system, to make effective supervision and monitoring for fair operation of market, to develop code of conduct for enhancing responsibility of market intermediaries, and to enhance awareness for wide participation in market.

Now it has been regulating the securities market under the Securities Act 2063, issued on 2063, Poush, Securities Exchange Regulation, 1993 and other subordinate legislations.

As per the provision mentioned in Securities Act 2063, Board has been established with name of Nepal Securities Board in order to manage and regulate the activated of person involved in securities market and securities business by regulating issuance, subscriptions, purchase and sale or exchanges for protection of interest of investors who invest in securities by developing capital market.

Based on these three core objectives, IOSCO has adopted a comprehensive set of objectives and principles of securities Regulation that is also known as the IOSCO principles. These principles set out a broad general framework for the regulation of securities, including the regulation of securities market, market intermediaries, issuers of securities and management and operation of collective investment scheme.

Securities Board, Nepal (SEBON) was established by HMG/N in 1993 as an apex regulator of the securities market under the securities Exchange Act 1983. Its objective is in line with the regulatory bodies of other countries such as to regularize and manage the securities market

and protect investors' interest. Since a decade has passed of its establishment, it is time to assess the regulator in terms of international benchmark and best practice. Ever since its establishment, SEBON has been performing the role of a regulator as well as that of a market developer. In both the roles SEBON has not been able to perform satisfactory though it has made significant achievements along the way. His work of SEBON is being hampered by the duplication and overlapping provisions in the laws regarding regulatory duties like enforcement and supervision, entry and exit of market intermediaries etc.

The responsibilities of the regulator are still not clearly and objectively stated in the legislations and it still does not have adequate power and resources to perform its functions and to exercise its powers. It also lacks the operational independency SEBON does not have a comprehensive inspection, investigation and surveillance authority, which have hampered its effort to build a fair, efficient and a credible market.

The present regulation has provisions for the development of NEPSE as a self regulatory organization, which gives it the authority to regulate some part of the securities market like trading and market intermediaries' activities. But NEPSE has not been able to develop as a self regulatory organization. All of these indicate that Nepalese regulator distinctly lags behind on the principles developed by IOSCO. IOSCO principles should be one of the major guiding forces for our future market return initiatives. Besides SEBON which still has not taken IOSCO membership should look forward to immediately joining the organization.

## 2.3 Review of Thesis:

**Uttar Singh Lama** (2000) in his thesis entitled “*Regulation System in Nepalese Capital Market*” has the following objectives:-

- To examine the efficiency and weakness of the regulatory system.
- To review the prevailing provisions of legislation and sub legislation related to capital market.
- To recommend for improvement of regulatory system in Nepalese Capital Market.

In order to meet the purpose and objectives of his study the hypothesis has been developed and tested. His research has been based on the primary data rather than the secondary data. His study has limited scope as done with small size of samples from limited areas concerning to regulatory system of the capital market. Although the study is mainly focused on regulatory system of the Nepalese Capital market it is unable to be specific. Therefore the study on the subject is not final study.

In his findings he added that “to make the regulatory system more effective the regulatory roles of different regulators with a clear definition and demarcation of their roles and responsibilities should be set out by the law. The legislation should ensure that any division of regulatory responsibilities avoids gaps and in consistent regulatory requirements. Thus there should not be duplication and redundancy in any responsibility function of the regulatory bodies. A clearly defined and divided roles and responsibilities of securities board, office of the Registrar of the Co. Nepal Stock Exchange Ltd, and NRB, the Central Bank is essential firm an efficient regulatory system of the Nepalese Capital Market. If any

duplication in functions and conduct of these regulatory bodies in arisen efficiently of the regulatory system bodies is arisen efficiently of the regulatory system would be deteriorated mind which adversely affect the development of capital market. He concludes that the amendment in the existing legislation and subordinate legislation is essential because they should be provided with necessary and clear definition, which is lack in the present provisions. He further adds that new necessary sub legislation should be issued to cover all the area relevant to the capital market. Proper coordination in between the SEBO/NRB/NEPSE/ORC should be brought with appropriate and clear division of assignment and responsibilities under the legislation Practical Compliance by all the market participants via market intermediaries, companies and proper enforcement by regulating authorities for protection of investor's interest in the market.

**Sanjay Lal Kharel** (2000) in his thesis entitled “*A Study on Stock Efficiency and Share Price Behavior in Nepal*” has the following objectives:-

- ) To provide the conceptual glimpse of Nepalese Capital market and to analyze NEPSE index behavior
- ) To examine, test and determine serial correlation filter rules and Bernoulli process in relation to prices changes.
- ) To check whether the runs of prices changes are normally distributed or not.
- ) To provide feedback policy inputs towards institutional development of efficient market.

In his thesis the study is only limited to cover only one year time series data of common stock. His study is based on the secondary data and no efforts has been made on verify the data provided by the SEBON, NEPSE and other related corporate bodies and the study has been made on 30. NEPSE stocks although 69 stocks have been traded in NEPSE. His finding of his study implies that Nepal stock exchange is operated under the dearth of such sophisticated financial market annalistic. Activities of such analysts with the skillful mind, latency and ability including statistical knowledge and result about incoming information and their valuable suggestion in building or new regulators helps to cut down the dependence in the stock price changes. But such kinds of captivities were not found in Nepalese stock market. Thus investor is not in Nepalese stock market. Thus investors are not in attention of publicly available information and whimsically they re-act the information and except the new price. He adds that the due to except the new price. He adds that the due to the general market fluctuations, the dependence nature of price changes statistically implies that today price changes are negatively depending upon yesterday price changes. As the evidence, large numbers of price changes of negative sign and small changes tend to be followed by positive sign has been observed. Such kind of patterns of dependence can be taken as remarkable information for investment decision in the stocks market. Thus economists, tacticians researchers etc. who are seeking to understand the mechanism of price formation in the Nepalese capital market, this may be very important information.

He concludes that the results obtained from the filter rules also lead to conclude that the 30 stocks do not represents the best of estimate of intrinsic value finally this does launch beautiful hesitancy on the fitness

of weakly efficient market hypothesis as an appropriate narration for the Nepalese stock market price behavior i.e. Nepal Stock exchange is not an efficient stock market.

**Darpana Pokhrel** (2002) Thesis Title "*A Study of Securities Market in Nepal*" in her MBS thesis she conducted following objectives in her study:

Their main purpose of this study is to examine and analyze the trend as well as the risk and return of different sectors listed in securities market.

- ) To find out and analyze the risk and return of different sector of securities market.
- ) To analyze the inter-relationship between the risk and return of each sector.
- ) To examine the trend of different sectors in terms of their total paid up, value, annual turnover and capitalization and forecast their trend for future

Study pointed about the risk and return trend of the different sectors i.e Banking Finance, Insurance & Manufacturing & Service Organization. She has used the different tools and technique to analyze and interpret data to meet the concrete report about securities market but she has not centralized her study on specific subject matters.

**Pawan Ratna Shakya** (2003) in his MBS thesis entitled "*Performance of SEBO on Capital Market*" had the following objectives of study:

- ) To analyze supervision and monitoring activities of SEBO, to protecting how SEBO is investors in capital market of Nepal.

- ) To study SEBO's policies and its implementation.
- ) To test and analyze collected primary data regarding opinions of different respondents of the performance of SEBON.
- ) To study the SEBON's strategic plan.
- ) To provide suggestion and recommendation on the basis of findings.

In his study to meet purpose and objectives of his study the hypothesis has been developed and tested from primary data. His research has been based on secondary data (like annual reports of SEBON and other materials as well as primary data used as questionnaire and hypothesis testing. Although the study is mainly focus on SEBON's activities and its performance in Stock & Capital market.

In his finding, he added that the existing legal provisions under various provisions Acts, law, guidelines and regulations of security Board Nepal are insufficient enough in protecting general investor interest. The most of the listed companies are not fulfilling their commitments projections made in prospectus. Some of company's performance is significantly deviated from their projections prospectus are made by the companies not to give the best performance but it is going on more profit earning ways and to collect money as much as possible from the research, he found that shareholders are not getting share certificates and declared dividend in time. There have been some of the problems by the listed companies while issuing share certificates and declared dividend that is because of time factor. Companies are unable to give the accurate time to shareholders for share certificates as well as for the declared dividends,

as well as he found that most of the companies did not disclose that price sensitive information timely and accurately before insider get benefit of its. It means the disclosure practice of companies is defective, investors get only adjusted information and before they get insiders get benefit of it.

**Rishi Khanal** (2003) in his MBS thesis topic on “*Growth, Problems and Prospects of Stock Market in Nepal*” had following objectives:

- ) To study the growth trend and current position of stock market in Nepal.
- ) To find out the existing problems faced by the Nepalese stock market.
- ) To examine the sector wise financial status of stock in Nepalese stock market.
- ) To analyze the prospect of Nepalese stock market.
- ) To suggest improvement in stock market of Nepal.
  - o In his study to meet purpose and objectives of his study he analyzed the primary and secondary data. From his research study he had got following major findings:

- ) Stock market is in developing stage; however majorities of respondents are not satisfied with the growth of market.
- ) For the prospects of Nepalese stock market they pointed out that stock market provide maximum return than other investment.



- ) The investor is facing several problems and difficulties in the stock market during their transacting period.
- ) NEPSE and SEBON don't provide necessary information correctly and timely, and majorities are dissatisfied with them.
- ) The major motivating factor for investors to make investment in stock market was dividend given by their shares.
- ) The number no listed securities are increasing gradually whereas number of transaction in NEPSE are in fluctuating manner.
- ) Paid up value increase by the range of 10-35% but banking sector cover majority of paid up value.
- ) While comparing the growth rate of NEPSE and growth rate of national GDP, growth rate of GDP was in satisfactory.

**Subash Babu Puri** (2006) in his LLM thesis topic on “*Regulation of Securities Markets under Nepalese Securities Laws*” An Analytical Study has the following objectives.

To examine and analysis the existing legislative framework and institutional set up in line with the development of Nepalese securities market, to examine and analyze the existing corporate governance practices in relation to Nepalese securities market, to review Nepalese legal and institutional management of securities market in relation to WTO standard rules and commitments, to identify the strength and weakness of existing regulatory framework and practices in regards to Nepalese securities market, to provide suggestions for further improvement in the legislation and regulation of Nepalese securities

market. His research has been based on secondary data. He focused on securities market Regulation and investors' protection and he analyzed the existing legislative frameworks, institutional management and implementation situation.

After research study he get some following major findings:

Regulatory provisions of Nepalese securities markets are still in, suffer forms. Strong regulatory mechanisms are indispensable to regulate and systematic the increasing securities market. Regulatory provisions of Nepalese securities markets are still in scatter forms. level of protection of the interest of investors as well as for the sake of developments of healthy capital market. Price sensitive information is not provided immediately to investors. The level of investors' awareness in the securities markets regarding their rights and duties seems low. He concluded that from major findings,

Regulation of Nepalese Securities markets is not so effective, not well developed. This is lack in the present provisions. For development of securities market it need more powerful legal provisions and awareness program should be conducted for informing the general investors and other market partner.

**Bibek Poudel** (2063) thesis title on "*Role of Nepal Stock Exchange in Security Market*" in his MBS thesis following specific objectives are he conducted:

To evaluate stock price behavior in Nepal, to analyze the rate of newly listed companies and inter sector comparisons, examine the future trend of business and economic activity of the NEPSE.

From his research he finalized some major findings are

- ) From the field survey in the Nepalese stock market it was found that investors are not aware about investment.
- ) Stock price trend is decreasing from many years as smoothly but from one on analyzing primary data it was found that stock market in Nepal is in developing stage as investor are not well aware about this.
- ) He found that investors of Nepalese stock market take decision on the basis of their own analysis.

After studying, he concluded that Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in the matured stage as defined stock price is running unsystematically.

### **Research Gap:**

Today's world has been changing rapidly and developing new products, new technology in various sectors, as such researchers conducted a few years back, may not adequate to explain current phenomena. Thus continuous endeavor needs to be taken and new researcher and new researches conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism

Though many affiliate researchers have been done in this area but there have very few exclusive researchers on this topic. The recent research by Pawan Ratna Shakya (2003) suffers a short coming of having inadequate graphical analysis. Moreover, the tremendous development 'between' (2003 – 2005) calls for new researches to be conducted. To bring the

forth the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this intriguing topic. I have been through many literature reviews and given my best to fulfill this work. I am trying to aware people about securities and capital market and its scope in Nepal.

I will try to give information about this area like capital market & securities market, its important and working institution like SEBON, NEPSE, Stock brokers, Issue manager and another area to general people, common people ignorance and lack of participation in this field and their tendency to pursue the traditional system of investment. In my research effort had been made to understand the performance of SEBON on Capital Market in Nepal. I hope this research will be fruitful to future researcher for reference.

# CHAPTER –III

## RESEARCH METHODOLOGY

### 3.1 Introduction:

This chapter deals mainly with the research methodology, which are used in this research. Research means to research the problem again and again to find out something more about the problem.

Similarly, methodology refers the various steps that are generally adopted by a researcher in his research. Thus research methodology is a way that provides systematic procedure to analyze the problem.

Research methodology defined as a systematic process that is adopted by the researcher in studying a problem with certain objectives in view. In other words, research methodology describes the methods and process applied in the entire aspects of the study.

This chapter includes research design, sources of data, use of analysis tools are used in this study.

There are using secondary data, like book journal websites as well as primary data also using by questionnaires interview.

### 3.2 Research Design:

Research design is a plan or strategy of investigation to obtain answer of research questions. Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research

design is a plan, structure and strategy of investigation. It is blue print for the collection, measurement and analysis of data.

Research design is like a philosophy of life; no one is without one, but some people are more aware of theirs and thus able to make more informed and consistent decisions. Similarly, every type of empirical research has an implicit, is not explicit, research design. Because a design always exists, it is important to make it explicit, to get it out in the open where its strengths, limitations, and implications can be clearly understood (*Wolf and Pant; 2005: 93*).

The research design facilitates to answer the research question or test research hypothesis. The research design serves as a frame work for the study, guiding the collection and analysis of the data, the research instruments to be utilized and the sampling plan to be followed. (*Wolf and Pant; 2005:92*).

It includes nature of data, specification of the method of the purposed study and detail plan for carrying out the study with the various empirical data for the analysis of problems etc. thus the design is basically base on presentation, analysis and, interpretation of result. First the data are presented in table (or diagram), second presentation data are analyzed and at last analyzed data are compared and interpreted for the conclusion.

### **3.3 Sources of Data:**

This study is equally based on secondary sources of information as well as primary sources of information. To accomplish the above mentioned objectives this research is based upon the secondary data for the historical programs assessment and the primary data for the qualitative assessment of information. As input for the study, the secondary data that are collected through various published data and sources, interview.

- ) Other materials are also has been using data for the study: Annual Reports of SEBON and NEPSE.
- ) Related books, journals, articles, booklet, published by stock analyst and others.
- ) The research trying to used Primary data as well as secondary data, various books journals, annual reports and web sites for secondary data. Develop Questionnaire for Primary data collection.

Primary data are collected through structured and open-ended questionnaire from various respondents. The respondent categories are four different categories. Which is on given the below table no. 3.1

**Table No. 3.1**  
**Respondents' profile**

S.N.	Denominations	Total Samples		Responses Receives	
		Number	%	Number	%
A	SEBON	9	14.06	9	14.06
B	NEPSE	8	12.50	8	12.50
C	Market Intermediaries	17	26.56	17	26.56
D	Professional Shareholders	30	46.88	30	46.88
	Total	64	100	64	100

Total 64 samples are drawn for the purpose of study- Stratified random and judgment method of sampling was used. The questionnaires containing 22 different variables on SEBON performance on its acts, guidelines, legal provisions and its protection to investors are distributed by hand to all respondents.

Respondents were SEBON (Thapathali, Kathmandu), NEPSE (Sinhadarbar, Kathmandu), Market Intermediaries (Brokers, Issue managers) and Professional Shareholders.

The study is based equally on a primary data and secondary sources of data as well for analyzing the performance of SEBON in Capital Market of Nepal. The primary sources of data are used by questioning to the concerned people. Questionnaires are personally presented by hand to all the respondents. Total 64 forms are distributed to the officers and staffs, brokers, issue managers, Stock brokers and Professional Shareholders with 22 different questionnaires. 9 forms were distributed to the staffs and officers present that day in SEBON, 8 in the Nepal Stock Exchange, 17 forms were distributed to Brokers and issue managers and 30 forms distributed to professional Shareholders. Total 64 forms were used for the primary data collection. Questionnaires are presented in the appendix -1.

Secondary data consists of the descriptive analysis of the security market indicators and the corporate information disclosures by the listed companies to SEBON. Journals, article annual report published by SEBON, Ministry of Finance, NEPSE, unpublished material also collected for secondary data.

### **3.4 Data Collection Technique**

In order to collect the necessary information and data for the present analysis, a systematic process has been employed as follows.

- ) Initially, the need of the study has been identified.
- ) On the basis of need identification, nature of data has been identified.
- ) In order to collect some data and information, most pertinent organization and official authorities has been identified.



- ) Personal approach has been made to collect the required data and information.
- ) Primary data collection from questionnaire with SEBON staffs, Stock brokers/dealers, investors.
- ) On the basis of such information and data analyses have been done.
- ) Analyzed data are drawn for meaningful conclusions.

### **3.5 Data Presentation and analysis:**

Primary data and secondary sources of data are given by serially from tabulated and meaningful manner. Categories wise response number of stems are separated and percentage are also given according to the response.

Data presented in tabular and on graphical method for secondary data. Primary data presenting by table method and theoretical analysis method. Decisions are given according to the computation of questionnaire analysis. Some important questions' analysed by theoretically, according to respondents' opinion table and the decisions are interpreted in chapter IV.

### **3.6 Tools and Techniques Used:**

All most all the data has been tabulated in a frequency distribution separately for making easier to find the concrete conclusion of the study. As per the requirements the study was also heavily focused its analytical portion to find the realities regarding the new act.

Simple questionnaire analysis and theoretical analysis is done to achieve result of data. The respondents' views were used in the study. Description analytical research method is followed to come into the final conclusion.

# **CHAPTER IV**

## **DATA PRESENTATION & ANALYSIS**

### **4.1 INTRODUCTION:**

The presentation of data is the basic organization and classification of the data for the analysis. After data collection is completed, the data will be in what researcher called "the raw form". The data will still be in data collection forms, note cards and rough estimation. Therefore it is necessary to arrange the data so that it makes some sense to the researcher and so that it can latter be presented to the readers of the thesis. A different type of data requires different methods of summary and presentation. There are numbers of methods which can be used to simplify the data which are discussed in previous chapters. The easiest way to understand data is by examining it in tables, charts, graphs. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences.

The chapter is presented in two parts. Part one contains analysis of the secondary data and parts two contains a primary data.

## 4.2 Secondary Data Presentation:

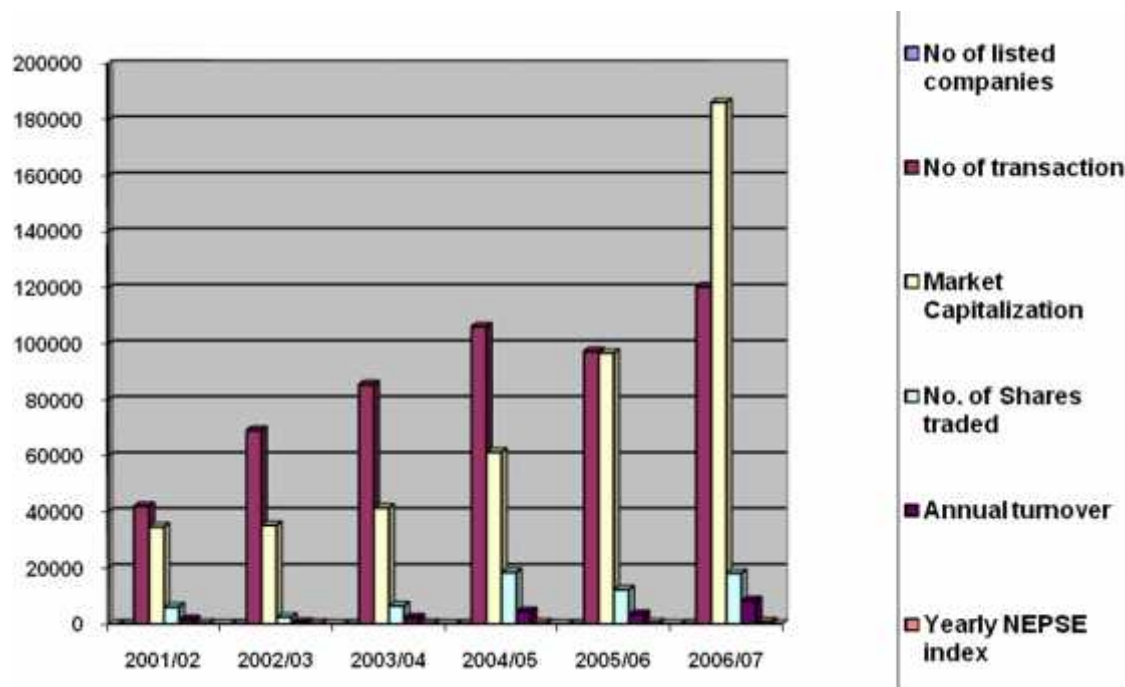
Table No.4.1

Analysis of Yearly Volume and Value of Trade stocks and NEPSE Index:

Year	No. of listed Companies	No of transaction	Market Capitalization Rs. in million	No of shares traded (000)	Annual turnover Rs.in million	Yearly NEPSE index (Points)
2001/02	114	42058	34704.00	6004.68	1540.63	227.54
2002/03	108	69163	35240.40	2427.89	575.99	204.86
2003/04	114	85533	41424.77	6468.18	2144.27	222.04
2004/05	125	106246	61365.89	18434	4507.68	286.68
2005/06	135	97374	96813.74	12221.93	3451.43	386.83
2006/07	135	120510	186301.30	18147.25	8360.10	683.95

(Annual Report of SEBON2004/05- 2006/07)

Figure 4.1



Given table and graph shows the yearly volume and values of stock traded are little fluctuating from the year 2001/02 it is in increasing till 2003/04. Value of stock traded has reached Rs.575.99 million in 2002/03 but it jumped to Rs. 2144.27 million in year 03/04. In the last fiscal year 2004/05 value of stock traded has been doubled and it reached to Rs.4507.68 million, where as NEPSE index is in decreasing trend from 2000 to 2004 but data showed some improvement in NEPSE index in year 2004/05 which had reached to 286.67 point, in the fiscal year 2005/06 index reached to 386.63 and in fiscal year 2006/07 it reached to 683.95 which has very high comparison to last fiscal year.

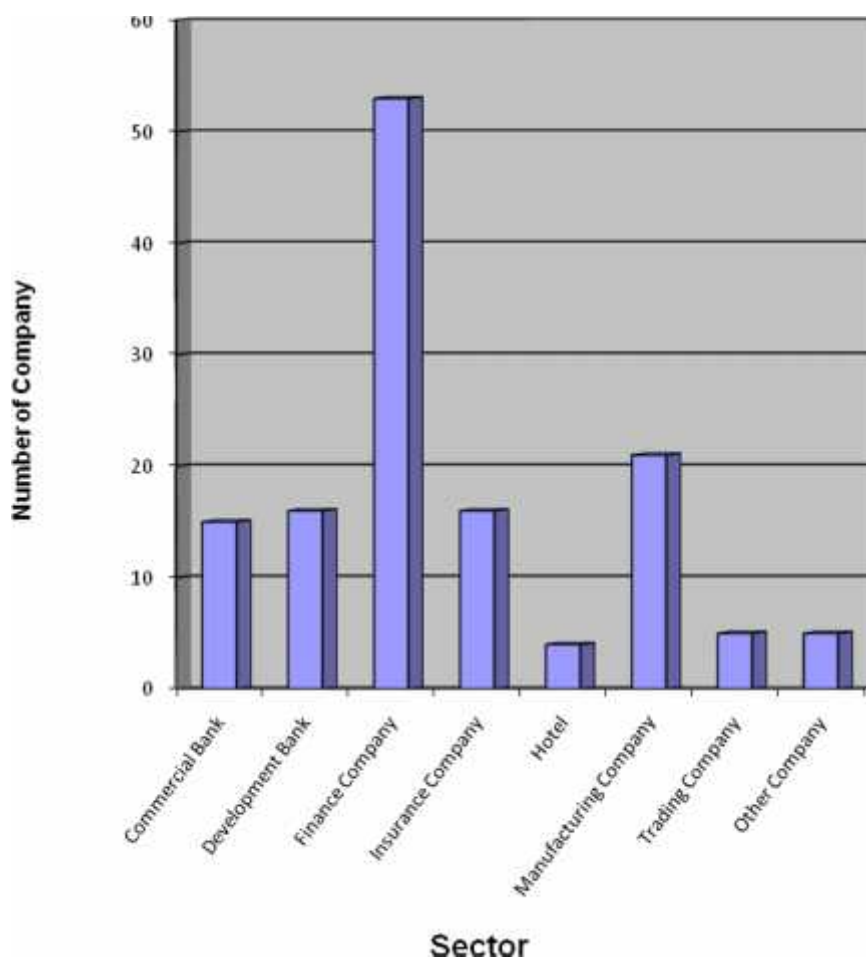
In the year 2004/05, total listed companies in Nepal Stock Exchange Ltd. were 125, which have increased to 135 at the fiscal year 2005/06 and in the year 2006/07 its remain constant due to listing of additional 12 companies and delisting of 12 listed companies. Total market capitalization of the listed companies at the end of the fiscal year 2006/07 is Rs. 186301.3 million, which is 92.5 percent higher than that of the last fiscal year. In this fiscal year, the contribution of market capitalization to the GDP has been estimated to be 27.78 percent. The price index of the listed securities in Nepal Stock Exchange Ltd (NEPSE index) closed at 683.95 points in the fiscal year 2006/07. It is 297.12 points higher than that of the last fiscal year's index.

**Table No. 4.2**  
**Listed Companies by the end of the fiscal year 2006/07**

S. No.	Sector	Number of Listed Company	Percent %
1	Comercial Bank	15	11.11
2	Development Bank	16	11.85
3	Finance Company	53	39.26
4	Insurance Company	16	11.85
5	Hotel	4	2.96
6	Manufacturing Company	21	15.57
7	Trading Company	5	3.7
8	Other Company	5	3.7
	<b>Total</b>	<b>135</b>	<b>100</b>

*(Annual Report of SEBON 2006/07*

**Figure 4.2**



Given Table and graph shows that total no of listed company in the NEPSE in the year 2006/07 is 135 as equal to fiscal year 2005/06. there are 15 Commercial Bank, 16 Development Bank, 53 Finance Company, 16 Insurance Company, 4 Hotel, 21 Manufacturing Company, 5 Trading and 5 other Company. In this year NEPSE listed additional 8 Development Bank, 3 Finance Company, and 1 Insurance Company and delisted 8 Manufacturing Company, 3 Trading Company, and 1 Other Company.

**Table No. 4.3**  
**Total Securities Issue (Fiscal Year 1993/94 – 2006/07)**

S.N	Fiscal Year	No of Issue	Issue Amount (Rs. in Million)
1	1993/94	16	244.40
2	1994/95	10	173.96
3	1995/96	12	293.74
4	1996/97	5	332.20
5	1997/98	12	462.36
6	1998/99	5	258.00
7	1999/00	6	326.86
8	2000/01	9	410.49
9	2001/02	12	1441.33
10	2002/03	18	556.54
11	2003/04	14	1027.50
12	2004/05	14	1626.82
13	2005/06	29	2443.28
14	2006/07	34	2295.5

Study from above table, it is clearly seen that, in the fiscal year 1993/94, SEBON registered the securities of 16 companies and granted issue approval amounting to Rs.244.44 million. Similarly in fiscal year 1994/95 10 companies were approved with total amount of Rs.173.96. In the fiscal year 1995/96, SEBON also registered next 12 companies and granted amounting to Rs 293.74 million. In fiscal year 1996/97 it registered 5 companies were approved with the granted issue approval of 332.2 million. In fiscal year 2000/01 9 companies registered with total amount of Rs. 410.49 million. In year 2002/03 SEBON registered 18 companies with total amount of Rs.556.54. In fiscal year 2004/05 14 companies registered with total amount of Rs. 1,626.82. In fiscal year 2005/06 29 companies registered with total amount of Rs. 2,443.28 million. The SEBON registered maximum 34 companies in fiscal year 2006/07 total amount of Rs. 2,295.5 million.

As per provision of "Securities Exchange Act,1983" and the regulation and guidelines made there under, the issuing company should register the security in SEBON and get issue approval before going to the public. During the process, SEBON reviews the prospectus and other relevant document submitted by the company to see whether these documents fulfill the criteria prescribed by the existing rules and regulations. In the process, SEBON has also taken the comments of the experts as and when it deems necessary.

**Table No. 4.4**  
**Securities Markets Indicators**

Market Indicator	Fiscal Year												
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Number of Public Issue	10	12	5	12	5	9	9	16	17	14	14	29	34
Total Amount of Public Issue (Rs. in million)	173.96	226.74	302.20	462.36	258.00	420.11	493.40	1579.81	696.63	1027.50	1626.82	2443.28	2295.5
Total Number of Listed Companies	79	89	95	101	107	110	115	96	108	114	125	135	135
Paid-up Value of Listed Securities (Rs. in Million)	2961.8	3358.5	4476.5	4959.8	6487.4	7347.41	8165.2	9685.04	12560.07	13404.90	16771.84	20008.55	21798.8
Number of Listed Securities (' 000)	58247	65880	85193	90107	105632	114057	124971	122685	159958	161141	194673	227040	243504
Annual Turnover (Rs. in Million)	1054.27	215.61	416.23	202.61	1499.98	1157.03	2344.16	1540.63	575.80	2144.27	4507.68	3451.43	8360.10
Market Day	242	240	239	237	231	240	231	246	238	243	236	228	232
Number of Company Traded	53	59	67	68	69	69	67	69	81	92	102	110	116
Number of Shares Traded. (' 000)	3901	2954	9443	1195	4857	7674	4989	6005	2428	6468.18	18433.55	12221.93	18147.25
Number of Transaction	21472	17943	12428	15483	15814	29136	46095	42028	69163	85533	106246	97374	120510
Market Capitalization (Rs. in Million)	12963.0	12295.0	12698.0	14289.0	23508.0	43123.3	46349.4	34703.9	35240.4	41424.77	61365.89	96813.74	186301.3
% of Turnover on Market capitalization	8.13	1.75	3.28	1.42	6.38	2.68	5.06	4.44	1.63	5.18	7.35	3.56	4.48
% of Market Capitalization on Nominal GDP at Market Price	6.17	5.14	4.71	4.93	7.12	11.77	11.78	8.56	8.09	8.77	12.06	17.35	27.78
NEPSE Index (Points)	195.48	185.61	176.31	163.35	216.92	360.70	348.43	227.54	204.86	222.04	286.67	386.83	683.95

(Source: Economic Surveys of Government of Nepal, SEBON Annual Reports and NEPSE Trading Reports.)

Market capitalization is an important indicator of secondary market where previously issued equities are traded. The demand and supply of specific companies equities determine the price of the supply of specific companies equities determine the price of the security. In perfect competition market equity price is believed to be determined by



speculators not by competitive market forces. Higher price of shares, higher the market capitalization and visa versa. Rising share price falls. Share price and market capitalization always moves in the same direction. As it has been observed that the market capitalization of listed securities is 13872.0 in 1993/94 in where it increased by 2.5 times in 2001/02 with 34703.87 million. Listed securities increased by 9.98 times in 2005/06 with 96813.7 million. In fiscal year 2006/07 listed securities increased to Rs. 186301.3 million.

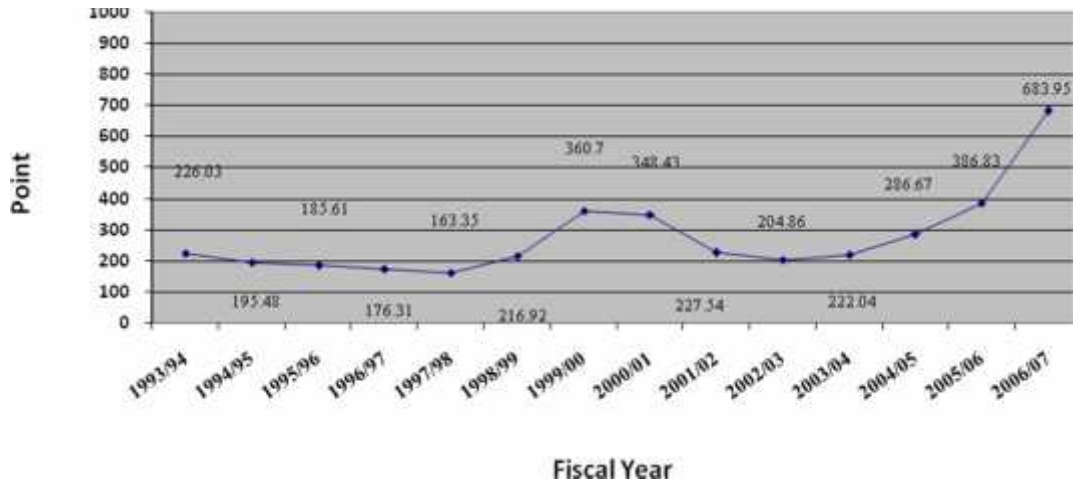
Paid up value of listed companies in 1994/95 was 2,961.8 million. It was increased with Rs. 9,685.0 in 2001/02. No of listed companies increased from 79 to 96 in same period it was 115 in 2001. In same period Nepal Stock exchange had been de-listed 25 companies stocks. Paid up value of listed companies in fiscal year 2005/06 is 20,008.6 million, which is increased by 9.17 times comparison on 1994/95. Listed companies also increased from 66 to 135 in this fiscal year. In year 2006/07 paid up value of listed companies reached to Rs. 21,798.80 million but listed company remain constant due to same number of companies listed and delisted.

NEPSE index of listed companies in 1994/995 was 195.48 point. It was increased to 683.95 in year 2006/07. The NEPSE index trend is given below in graphically. As well as from review of NEPSE index trend of 2006/07 monthly is also given on the graph. Number of transaction also increased from 21, 472 to 1, 20,510 in same period.

**Graph 1**

**Yearly NEPSE Index**

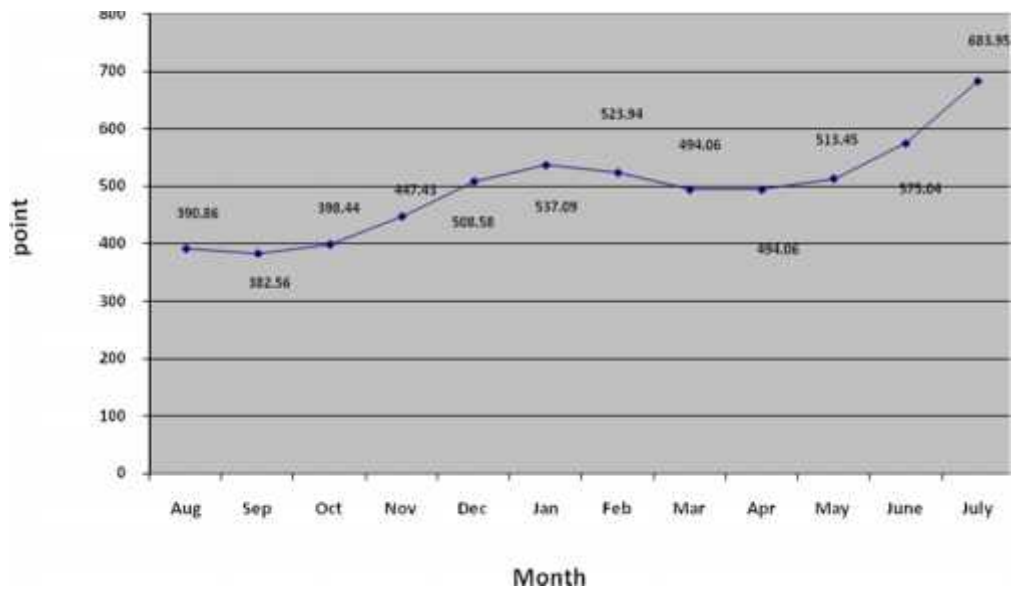
(Fiscal Year 1993/94 to 2006/07)



**Graph 2**

**Monthly NEPSE Index**

(Fiscal Year 2006/07)



### **4.3 Presentation and Analysis of Primary data:**

Primary data plays vital role to make the research task meaningful as well as concrete. The study has followed secondary data as supporting base which has been taken from previous years report, studies, journal, and library search & other related documents. In the course of availing first hand data to justify the study on the topic primarily, interviews and questionnaire method have been made applicable.

#### **(i) Questionnaire Analysis:**

Questionnaire method is one of the major methods of primary data collections. Under this method, important questions are set and provided to the related groups to take their opinion about the "Performance of SEBON on Capital Market in Nepal.

Twenty two numbers of questions were put up on set of questions. 65 copies of questionnaire were distributed to different sector. NEPSE, Market Intermediaries, Professional Shareholders as well as some special question distributed to SEBON staffs for collect detail information about SEBON and to find out its working activities.

Categorically, the questions raised through this means were of three types:-

- Yes/No Questions.
- Multiple Options Questions.
- Rank questions.

100% of the questionnaires were collected from the field survey. Questionnaire format has shown in Appendix -1. To find out the present situation of capital market and Role of SEBON in Capital market some important questionnaire analyzed as their responses as follows:

#### 4.3.1 Awareness of investors in Nepalese Stock Market:

One of the questions asked to respondents was: Do you think that the investors in Nepalese Stock Market are aware? The responses receive have been tabulated below:

**Table No 4.5**  
**Opinion on awareness of investors in Nepalese Stock Market**

Opinion	Yes		No		Can't Say		Row Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Respondents								
SEBON	4	44	5	66	0	0	9	100
NEPSE	5	63	1	12	2	25	8	100
Market Intermediaries	11	65	6	35	0	0	17	100
Professional Shareholders	16	53	6	20	8	27	30	100
<b>Total</b>	<b>36</b>	<b>56.25</b>	<b>18</b>	<b>28.12</b>	<b>10</b>	<b>15.63</b>	<b>64</b>	<b>100</b>

*Source: Opinion survey*

Here it is seen from above table that 36 respondents out of 64 are given positive response about awareness of Nepalese stock market. They think Nepalese people aware about stock market. 18 respondents given negative response, according to them Nepalese people not much more about it. Remaining 10 respondents couldn't give exact opinion.

### 4.3.2 Investors' motivated to invest in share for:

**Table No 4.6**

#### **Opinion on Investors' motivation to invest in share:**

<i>Respondents</i>	SEBON		NEPSE		Market Intermediaries		Professional Shareholders		Total Respondents	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
Dividend	4	44	2	25	6	35	9	30	21	33%
Higher Capital gain	5	66	6	75	7	41	18	60	36	56%
Directorship	0	0	0	0	4	24	3	10	7	11%
<b>Total</b>	<b>9</b>	<b>100</b>	<b>8</b>	<b>100</b>	<b>17</b>	<b>100</b>	<b>30</b>	<b>100</b>	<b>64</b>	<b>100%</b>

*Source: Opinion survey*

With reference of above tabulated data, it can be concluded that the most of investors motivated to invest in share for higher capital gain. 56% of total respondents are said that they are investing for higher capital gain. Similarly 33% respondents motivated for dividend and 11% of respondent motivated to invest in share for company's Directorship.

### 4.3.3 Opinion on how would investor makes a decision to purchase share of particular company in stock market:

**Table No 4.7**  
**Decision analysis of investors to purchase share**

Respondent	SEBON		NEPSE		Market Intermediaries		Professional Shareholders		Total Respondents	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Consult a broker	1	11	2	25	3	18	8	27	14	22
Act on whim	3	33	5	63	7	41	10	33	25	39
Analysis the company's management	3	33	0	0	2	12	3	10	8	12
Analyze the financial report of company	2	23	1	12	5	29	9	30	17	27
<b>Total</b>	9	100	8	100	17	100	30	100	64	100

*Source: Opinion Survey.*

According to above tabulated data, majority of the respondents have make decision to purchase share of particular company in stock market on whim. The percentage of the respondents in this group is 39% as a whole. Similarly 27% of the respondents have said that they analyzed the financial report of the company before purchase share, and 22% respondents consult with the brokers to purchase share and remaining 12% said that they analysis the company's management before purchase share.

#### 4.3.4 Opinion on Investors gets sufficient and timely information regarding the listed companies:

**Table No 4.8**

##### **Opinion on investors gets sufficient information about listed companies**

<i>Respondents</i>	<i>Yes</i>		<i>No</i>		<i>Can't Say</i>		<i>Row Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	0	0	5	66	4	44	9	100
NEPSE	1	12	5	63	2	25	8	100
Market Intermediaries	6	35	6	35	5	30	17	100
Professional Shareholders	12	40	11	37	7	23	30	100
Total	19	30	27	42	18	28	64	100

*Source: Opinion survey*

Hence it is seen from above table that however majority of respondents are found dissatisfied with information regarding the listed companies, but the respondents, who are satisfied with the information are also not small, they are about 30 percentage. In-group wise observation, SEBON with 66 percentages are dissatisfied with the information where as only 63 percentages of NEPSE, 35 percentage of Market Intermediaries and 37 percentage of Professional Shareholders are found dissatisfied with the information regarding the listed companies.

### 4.3.5 Information provided by SEBON & NEPSE:

**Table No 4.9**

**Opinion on Information provided by SEBON & NEPSE**

<i>Respondents</i>	<i>Yes</i>		<i>No</i>		<i>Can't Say</i>		<i>Row Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	6	67	0	0	3	33	9	100
NEPSE	5	63	0	0	3	37	8	100
Market Intermediaries	7	41	1	6	9	53	17	100
Professional Shareholders	3	47	9	30	7	23	30	100
Total	32	50	10	16	22	34	64	100

*Source: Opinion survey*

From the above tabulated data thirty two respondents, i.e. 50% out of sixty four are in favor of the information provided by SEBON and NEPSE. According to them SEBON and NEPSE provide necessary information correctly and timely. On the other hand only ten respondents said that SEBON and NEPSE do not provide necessary information on timely and correctly. Remaining 22 respondents are unknown about it.



### 4.3.6 Submission of Financial Report by Listed Companies:

**Table No 4.10**

**Opinion on submission report by listed companies**

<i>Respondents</i>	<i>Yes</i>		<i>No</i>		Don't Know		<i>Row Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	2	25	4	50	2	25	8	100
NEPSE	2	25	4	50	2	25	8	100
Market Intermediaries	9	53	7	41	16	53	17	100
Professional Shareholders	16	53	6	20	8	27	30	100
Total	22	35	31	49	10	16	63	100

*Source: Opinion survey*

From the above tabulated data twenty two respondents, i.e. 35% out of sixty four are in favor of the submission report by listed companies. 49% respondents said that the listed companies not submit their report on time. Remaining 16% respondents are unknown about it.

**4.3.7 Role of SEBON in promoting and protecting the interest of general investors:**

**Table No 4.11**  
**Opinion on role of SEBON**

<i>Respondents</i>	<i>Yes</i>		<i>No</i>		<i>Don't Know</i>		<i>Row Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	3	37	2	25	3	38	8	100
NEPSE	4	50	2	25	2	25	8	100
Market Intermediaries	11	65	5	29	1	6	17	100
Professional Shareholders	22	73	4	13	4	14	30	100
Total	40	63	13	21	10	16	63	100

*Source: Opinion survey*

According to above tabulated data, regarding the role of SEBON, different respondents gave their own opinion, among them 63% respondents favor to positive reaction for SEBON role. 21% respondents gave negative reaction and 16% have not idea about it.

#### 4.3.8 Opinion on influencing factor for stock price:

**Table No 4.12**  
**Opinion on influencing factor for stock price**

Respondent	SEBON		NEPSE		Market Intermediaries		Professional Shareholders		Total Respondents	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Historical return	2	22	1	12	0	0	1	3	4	5
Buying & Selling pressure of the share	3	33	4	50	10	59	14	47	31	49
Company's performance	3	33	1	13	7	41	14	47	25	39
Least Competition of market	1	12	2	25	0	0	1	3	4	6
Total Column	9	100	8	100	17	100	30	100	64	100

*Source: Opinion Survey.*

According to above tabulated data, majority of influencing factor for stock price is buying and selling pressure of the share. The percentage of the respondents in this point is 49% as a whole. 39% respondents said that company's performance is another influencing factor, 6% have said that least competition of market and remaining 5% have said that historical reruns' on share is main influencing factor for stock price in Nepalese share market.

### 4.3.9 Ability of SEBON to solve the grievance:

**Table No 4.13**

**Opinion on ability of SEBON to solve grievance**

<i>Respondent Group</i>	<i>Yes</i>		<i>No</i>		<i>Don't know</i>		<i>Total respondents</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
SEBON	4	44	4	44	1	12	9	100
NEPSE	2	25	3	38	3	37	8	100
Market Intermediaries	1	6	6	35	10	59	17	100
Professional investors	10	33	14	47	6	20	30	100
<b>Total</b>	<b>17</b>	<b>26</b>	<b>27</b>	<b>42</b>	<b>20</b>	<b>32</b>	<b>64</b>	<b>100</b>

*Source: Opinion Survey*

From the above tabulated data, regarding to ability of SEBON to solve grievance made by investors, respondents gave their own views, 26% said that SEBON able to solve the grievances, 42% respondents said that SEBON not able to solve it and 32% respondents said that they have not any idea about it.

**4.3.10 Level of relation between the Nepalese stock market and nepalese economy:**

**Table No 4.14**

**Opinion on Information provided by SEBON & NEPSE**

<i>Respondents</i>	<i>High related</i>		<i>Moderate</i>		<i>Low</i>		<i>Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	3	22	3	45	3	33	9	100
NEPSE	3	37	3	38	2	25	8	100
Market Intermediaries	4	24	7	41	6	35	17	100
Professional investors	10	30	13	33	7	23	30	100

*Source: Opinion Survey.*

According to above tabulated data, 33% of respondents have said that the Nepalese economy and stock market is moderately related as a whole. Similarly 30% of respondents said that highly related and only 23% respondents said least relation between Nepalese economy and stock market.

### 4.3.11 Responsible factor for slow development of Capital Market:

**Table No 4.15**

#### **Opinion on Responsible factor for slow development of Capital Market**

<b>Respondents</b>	<b>SEBON</b>	<b>NEPSE</b>	<b>Market intermediaries</b>	<b>Professional Shareholders</b>	<b>Total Respondents</b>
<b>Opinion</b>					
Lack of information regarding the company	0	0	3	3	6
Existing rules and regulation of securities market	5	4	8	16	33
Trading procedure of securities	1	1	3	4	9
Centralized Market	3	3	3	6	15
<b>Total</b>	<b>9</b>	<b>8</b>	<b>17</b>	<b>29</b>	<b>64</b>

*Source: Opinion Survey.*

According to above tabulated data most responsible factor for slow development of Capital Market is Existing rules and regulation of securities market. According to respondent opinion 33 numbers of respondents have said that existing rules and regulation is most responsible factor, 6 respondents said that lack of information regarding the companies is responsible for slow development of capital market, 15 respondents said that centralized market is most responsible factor.

### 4.3.12 Effective point to promote Securities business:

**Table No 4.16**

#### **Opinion on Effective point to promote securities business**

Respondent	SEBON		NEPSE		Market Intermediaries		Professional Shareholders		Total Respondents	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Aware to people about securities market	5	56	4	57	7	50	14	48	30	51
Automation of stock exchange	1	11	1	14	4	29	7	24	13	22
Security of investment	0	0	0	0	2	14	2	7	4	7
Stability of Political environment	3	33	2	29	1	7	6	21	12	20
<b>Total</b>	9	100	7	100	14	100	29	100	59	100

*Source: Opinion Survey.*

According to above tabulated data, to promote securities business people must aware about securities market. According to respondent opinion following things can be done. 51 percentage of total respondents said that the people need to aware about securities market to promote securities business, 22 % said that NEPSE need to Automation of stock exchange which is operated now, 20% viewers said that political stability is important to promote securities business and 7% said that security of investing amount in share is effective point to promote securities business.

### 4.3.13 Effect of Political environment on Capital Market:

**Table No 4.17**

#### **Opinion on Effective level of political environment on Capital Market**

<i>Respondents</i>	<i>High effect</i>		<i>Moderate effect</i>		<i>Less effect</i>		<i>Total</i>	
	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>	<i>Nos.</i>	<i>%</i>
SEBON	6	67	3	33	0	0	9	100
NEPSE	6	75	2	25	0	0	8	100
Market Intermediaries	13	76	4	24	0	0	17	100
Professional investors	22	73	8	27	0	0	30	100
<b>Total</b>	<b>47</b>	<b>73</b>	<b>17</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>64</b>	<b>100</b>

*Source: Opinion Survey.*

According to above tabulated data, the highest percentage of respondents group have said that the political environment highly effect on capital market. Percentage of the respondents in this group is 73% as a whole. Similarly only 27 percentages of the respondents have said that the political environment moderately effect on capital market.

Analysis of the responses regarding officers, staffs and other members of the Nepal Stock Exchange, Market intermediaries and Professional shareholders, listed companies done to know on performance of Security board on Capital Market in Nepal.



From all of their views and opinion said that performance regarding the supervision and Monitoring activities are not much more satisfied, SEBON need to enhance monitoring activities. SEBON's staff's officers also gave same view. They are also not satisfied from there own activities. They want to improve there activities, existing rules and regulation are not sufficient for develop to Capital market.

#### **4.4 Major Findings:**

- ) Present condition in Nepalese capital market must of the people are aware.
- ) From the survey must of the respondents want to invest in share of Banking and finance sector for historical return of their investment. Very few people want to invest in another sector.
- ) People invest in share act on whim in present time.
- ) In the fiscal year 2006/07, securities market witnessed Growth trends amidst satisfactory growth trends in the economy.
- ) From the year 2006/07 banking and Finance sectors continued their dominance in the capital issue through public issue and rights offerings.
- ) In the years, 2006/07 SEBON issue some new regulation in share market drafted some extra new regulations pertaining to prescribing the standards for the establishment and operation of a transparent and efficient stock exchange some are on the going to operating process on the stock market.

- ) After approved clear provision for debenture trustee debenture issuance from banking sector & government is increasing. It is very advantage to investor for investing option. They get more option for invest their money.
- ) Regarding trading of government securities in the stock exchange necessary legal provisions have been introduced and the process to provide license to the securities business persons for the purpose has entered the find, stage in light of limited involvement of institutional investors in the market there is a pressing need to develop clear legal provisions, for the operation and regulation of mutual funds, there by encouraging more investment.
- ) SEBON noted some improvements indications have been noted from the supervision of stock exchange are issuer and the securities businesspersons.
- ) Though these market is in the automated still one of the main challenges to make it fully competitive, trustfully, transparent and modernized. Establishing central depository system for online transaction of securities and organizational restructuring to tackle name transfer problem are yet to be considered as vital challenges.
- ) During the process of modernization. Increasing the business of the broker significantly.
- ) Starting 'Over The Counter Market" and Derivative market in the process of market improvement and expansion.

- ) Supervision and monitoring activities of the SEBON is not satisfactory. in the year 2005/6 but its activities going improving on 2006/07 but not much more satisfactorily. They need to enhance other activities as well as many listed company did not submit their financial report, prospectus on timely. According to SEBON's Staffs, only 10% company submit on timely. Other 50 to 60% company submits but lately. Except another are not submit.
- ) Before providing the approval to the companies, SEBON must reviews the prospectus and other relevant documents submitted by the company to see whether these documents fulfill the criteria prescribed by the existing rules and regulations. After going through all the necessary documents only, SEBON must give the approval to the company, but, in reality SEBON is not concentrating this entire document. From which some of the listed companies are not functioning well and they are closing their business at the time when they have to give the share certificate to the shareholders.
- ) SEBON is supervising and monitoring, the corporate bodies better than previous years but is can be much successful if it makes more effective guidelines and rules. Now SEBON working under corporate and financial government project. Objective of the project are strengthening institutional capacity of SEBON and Company Registrar's Office (CRO), automation of NEPSE and establishing Central Depository System of Securities is under implementation. To support effective implementation of the project, project implementation Team has been formed with the representation of SEBON, NEPSE and CRO, SEBON has been working as the PIT secretariat. It is very good job for SEBON.

# CHAPTER - V

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### 5.1 Summary:

This research is aimed to studying about situation of capital market in Nepal and role of SEBON on capital market in Nepal. Studying SEBON activities guidelines, legal provisions.

SEBON is an apex regulatory body of securities market. As it is regulatory body, it has the power and responsibility to handle and make effective guidelines, laws, rules and regulations for the development of capital market in Nepal. SEBON trying to develop capital market of Nepal from various activities, rules, regulation. Its focus is directed towards increasing the market credibility through strengthening of the regulatory system. Besides that the NEPSE is also reviewed. As NEPSE is the frontline regulator, its activities also can affect the primary market as well as secondary market.

For the study support 64 sets of questionnaires distributed to four different groups. They all are response positively for this study, they give own views. Every people gave own different kind of views. The questionnaires containing 22 different variables on SEBON performance, present situation of stock market, SEBON performance on its acts, guidelines, laws and its protection to investors are distributed by hand to all respondents. Respondents were Stock brokers, Issue Managers, Institutional Investors, Professional Investors, SEBON Staffs, and NEPSE. Total 22 different variables to 64 people were forwarded to fill up the form. Some experts from SEBON, stock brokers, issue managers

gave own views and suggestion, effective solutions for the problems they were facing. For that the personal interviews are also conducted. The data obtained from questionnaires are analyzed through chi- square test method along with ration and percent analysis.

In the year 2005/06 securities market witnessed mixed trends amidst unsatisfactory growth trends in the economy. The amount of capital mobilized by the corporate sector through the issuance of securities increased by 50.2% compared to the last fiscal year. Likewise the market capitalization of the listed stocks has increased by 57.8% over the year. Notwithstanding these growths, the total turnover was just 3.6% of the market capitalization indicating low liquidity of stocks.

In the year 2006, banking and finance sectors continued their dominance in the capital issue through public issue and rights offerings.

In the year 2006 SEBON drafts some regulations pertaining to prescribing the standards for the establishment and operation of a transparent and efficient stock exchange, and setting appropriate standards for running securities businesses were prepared. SEBON also drafted the securities issue and disclosure regulation that prescribes the standards for issuing securities and disclosure including financial and material information of the issuer and the format of the prospectus, including financial and material information of the issuer and the format of the prospectus, which is required to be published at the time of issue enabling investors to make informed investment decision. In this year act of securities is approved by parliament. Now it is under process for implement.

From year 2006 debenture issuance from the banking sector increased. In the issuance of debenture, it is mandatory to appoint debenture trustee, which has been arranged through banks and financial institutions.

The study found that the performance on SEBON in promoting and protecting the interest of general investors is satisfactory. Respondent opinion data analysis supported these facts and findings. From new securities act also trying to support investors. Under these new acts it can give more good performance in every sector if there is SEBON can make more effective regulation, accuracy laws, and guidelines. SEBON need to make for regulation to control and transparency listed companies, stock brokers, issue managers. In Nepalese context investor could not found which company is better for invest. Just they can invest from day to day market basis and according to whim. It is not good investment style.

Thus regulatory institutions like SEBON is playing the key role in promoting and protecting the interest of general investors. SEBON trying for enhance its ability but much more effective. For it SEBON need to make effective guidelines and regulations effectively. And need to enhance monitoring capacity. For proper work SEBON need qualified extra staffs. They need to increase skillful manpower.

## **5.2 Conclusions:**

The basic objectives of this study about present situation of capital market in Nepal, to analyze the performance of SEBON on capital market. How it is working for protection for general investors' interest, how it is monitoring and supervising the securities business, to see

improvement the secondary market as well as the primary market, existing rules, regulatory effectiveness in protecting general investors.

The objectives of this study were to analyze the performance of SEBON to see the protection of general investors, to see present improvement in the secondary market as well as primary market.

Existing regulatory effective in protect general investor's interest. After Analysis and testing of hypothesis the study concludes that the regulatory institutions (SEBON, NEPSE, ROC and company Board) are not much more sufficient to make and implement regulation and investor's protection is scattered forms.

SEBON has taken several initiatives creating investor awareness in security market through research and studies and publication of relevant materials. SEBON has also developed several directives and enforced them in order to protect the interest of general investors.

After analysis of opinion of respondents of primary data through questionnaire analysis study and secondary data analysis, concludes that the regulatory institutions (SEBON, NEPSE, ROC and company Board) are inefficient and investor's protection is scattered inadequate.

### **5.3 Recommendation:**

Based on findings of the study following recommendation are proposed in order to solve the various problem of regulatory institution in capital market of Nepal.

- ) As an apex regulator of securities market of Nepal, SEBON have empowered to approve various rules & regulation, guidelines about capital market.

- ) Lacking provision in the prevailing securities legislation couldn't make the function of SEBON effective and result oriented. Therefore perfect legislation must be made with the full study and research.
- ) SEBON had made effective rules regulation & guidelines but are not fully implemented due to which investors are unaware about then investors don't get proper information regarding the legal provision. Especially out of valley's investors' awareness, SEBON should manage some awareness program for them through print media, FM, TV.
- ) In the year 2005/06 to 2006/7 share market is going up very rapidly. It growing up as a bullish trend.
- ) Lots of listed companies don't show proper information about their company's to investor. So they don't know about that company. So they can't take right decision about investing in shares. Lots of investors blindly invest their funds just after reading prospectus of the co. in these days they invest in share act on whim of market and according to day to day market watch they invest in share. In these days every body interested to invest in share. It is better to invest than invest in gold and bank saving. So lots of people slowly going to invest in shares.
- ) Stock market is in now automated trading system except out of crying trading system. it is good for all of investors, securities business people. After automation of stock exchange share price going also high and transaction amount also going high.



- ) SEBON should make provision to start Over The Counter Market. Still it is going to process soon according to NEPSE report.
- ) Lacking provision in the prevailing securities legislation couldn't make the function of SEBON effective and result oriented. Therefore perfect legislation must be made with the full study and research. Separate and perfect legislation 'Acts' are necessary for different problems.
- ) SEBON should be empowered to formulation the rules for the investors' confidence and investors' compensations fund also should be incorporated under the SEBON.
- ) SEBON should be empowered to formulation the rule making power in regard to adjudication summing, evidence producing and collection, investigating authority, court procedures hearing technique, limitation and locus stand – such types of substances as well as procedural aspects of the proceedings in connection to investors grievances.
- ) Although SEBON had been trying to enhance the understanding of the existing stock investors as well by disseminating the information related to the shares and tracing activities by using various Medias and its own publications. It could not be regarded as satisfactory. Most of the investors are out of the Kathmandu valley is facing various difficulties in taking information regarding to securities market. So, it should make the necessary arrangement to increase the participation of the investors who live out of valley.

- ) The development of stock market is also depending on political stability of the nation. So government should try to maintain the political stability to help develop the securities market.
- ) The SEBON is located in Kathmandu valley. Board is not able to take know the problems of villagers. The investors who live out of the valley could not complain their grievances that one third of the share investors live out of the valley. So, SEBON, Nepal should increase its information dissemination activities to meet the expectations of investors of different parts of the country so that the involvement of the investors out of the Kathmandu valley could be increased.
- ) Much more listed companies did not submit their financial report on time. From the research report 49 % respondent disagreed regarding financial report on timely and correctly in SEBON.
  - o SEBON needs more effective correspondence, public notices and make the penalty arrangements for those who did not submit their financial statement in time.
- ) SEBON is an apex regulator as well as important role player in stock market. As an important roll player SEBON should make powerful and effective guidelines, rules, regulation for stock market competitive, trustworthy, transparent of securities and organizational restructuring to tackle name transfer problem are yet to be considered as vital challenges.
- ) Through budget of government of Nepal for 2064/65, NEPSE preparing necessary infrastructure so as to provide opportunities for Non Resident Nepali and foreign institutional investor to invest in

secondary market. It's a very good concept for Nepalese as well securities business people.

) SEBON should work closely with securities market, broker's Association and other front line regulators to strengthen market surveillance activities.

) SEBON should continuously review the market standard to establish and develop competency and integrity of registered issuers and securities businesspersons.

) SEBON should build institutional capacity as follows.

- It should frame advisory committee by mobilizing greater level of expertise to focus on the important critical areas such as financial reporting, compliance and enforcement issues.

- SEBON should organize training programs on different regulatory activities of SEBON for example monitoring, enforcement, surveillance, etc, to train staff of SEBON.

) SEBON need to introduce special provision for institutional investors to invest in financial instrument. There are very few no of institutional investor. Institutional investor in Nepal is very small because commercial bank had dominated the other sector. No new institutional investors have encouraged entering in this field.

) SEBON and NEPSE will plan to increase no of stock broker. If no of broker increase stock market will be more competitive, trustworthy and transparent. For it, they should choose educationally qualified broker for more effective stock market.

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### **Web Sites**

[www.nepalstock.com](http://www.nepalstock.com) 27/03/2009

[www.sebonp.com](http://www.sebonp.com) 27/03/2009

## APPENDIX-1

### Specimen of Questionnaire

#### A Survey of "Performance of SEBON on Capital Market in Nepal"

Dear Respondent,

I am doing my research in "Performance of SEBON on Capital Market in Nepal" for the partial fulfillment of the requirement for the degree of Master of Business study. In this regard I have prepared a questionnaire to seek the views of all the market participants and concerned bodies in Nepal. I have set a quires. I shall definitely be obliged for your prompt and responsible response.

**Respondent:**

Name:

Education:

Organization

Date:

**Researcher:**

Rajani Shrestha

Shanker Dev College

Roll No 1175/058,MBS

#### **Questionnaire**

1. Do you think that the investors in Nepalese stock Market are aware?

(Please ( ) tick)

Yes

No

Can't Say

2. Investors are mostly motivated to invest in shares in anticipation of (**please ( ) Tick**).

Dividend

Higher capital gain

Interest in stock market

- Directorship
3. In your opinion which sector attract to people for invest? (Please ( ) tick).
- Banking
- Finance & Insurance
- Trading and Manufacturing Company
- Hotel
- Other
4. In your opinion how would investor make a decision to purchase share of particular company in stock market. **(Please ( ) Tick).**
- Consult a broker
- Act on whim
- Analyze the company's management
- Analyze the financial report of company.
5. Do you think Nepalese investors get sufficient and timely information regarding the listed companies regularly? (Please ( ) tick).
- Yes
- No
- Can't Say
6. Do you think NEPSE & SEBON provide necessary information correctly & timely (Please ( ) tick).
- Yes
- No
- Can't Say
7. Do you think the listed companies submit their financial report on timely and correctly? (Please ( ) tick).
- Yes



- No
  - Don't Know
8. Who can play the important role in stock market? (Please ( ) tick).
- SEBON
  - NEPSE
  - Investors
  - Stock Brokers
  - Government
9. Is SEBON playing good role in promoting and protecting the interest of general investors? (Please ( ) Tick).
- Yes
  - No
  - Don't know
10. Do you think new securities Act 2063 increasing SEBON's duties and responsibilities (Please ( ) tick).
- Yes
  - No
  - Don't know
11. In your opinion, which of the following is the main influencing factor or determinant for stock price? (**Please ( ) tick**).
- Historical returns
  - Buying & Selling Pressure of the share
  - Company's Performance
  - Least Competition of Market
12. Do you think stock brokers in the secondary market are professionally qualified and their advices to investors are based on some fundamental analysis? (Please ( ) Tick).

- Yes
- No
- Don't know

13. Are you satisfied with growth trend of Nepalese Stock Market (Please ( ) tick).

- Yes
- No
- Don't know

14. In your opinion, does SEBON able to solve the grievance made by listed companies, investors, Securities brokers/dealers?

- Yes
- No
- Don't know

15. To what extent Nepalese stock market and Nepalese Economy are related to each other? (Please ( ) tick).

- Highly related
- Moderately related
- Less related

16. In your opinion, which factor is most responsible for slow development of capital market in Nepal? (Please ( ) tick).

- Lack of information regarding the company.
- Existing, rules and regulation of securities market.
- Trading procedure of securities.
- Centralized market.
- If any (Specify).....

17. Rank the following problems of Nepalese stock Market. (No 1 is the most important)

- Insufficient knowledge of investors about the stock market.
- Lack of investors' confidence.

- Shortcoming on existing securities rules & regulation
  - Lack of co-ordination between SEBON and other regulators.(Government, Nepal Rastra Bank and company of Registrar)
  - Restriction to foreign investors.
18. Which of the following factors effect to growth trend of Capital Market in Nepal? (Please rank 1,2,3; 1for "highly effective", 2 for moderately effective 3 for ineffective")
- Low level of industrializations
  - Lack of information
  - small volume of securities transaction
  - Lack of government policy
  - Lack of Investor's confidence
19. What else can be done to promote Securities business if needed? (please ( )tick).
- Aware to people about securities market.
  - Automation of Stock Exchange
  - Security of investment.
  - Stability of Political environment.
  - If any (Please Specify).....
20. In your opinion, what should be done to ensure bright future of investment in securities in Nepal?
- Exact and reliable information regarding companies should be disclosed.
  - There should be automation of the trading mechanism in security market.
  - Code of conduct should be formulated for stock brokers.
  - Supervision & monitoring capacity of SEBON should be enhanced.
  - Awareness among investor about investment in securities should be promoted.
21. Does any change you think to be made in SEBON's guidelines, Act and Regulation? **(Please ( ) tick).**
- Yes
  - No
  - Don't know
22. In your opinion, how does political environment effect on Capital Market? **(Please ( ) tick).**
- Highly effect

Moderately effect

Less effect

**APPENDIX – 2**

**RESPONSE NUMBER AND PERCENTAGE**

<b>Q. No.</b>	<b>Option</b>	<b>SEBON</b>	<b>NEPSE</b>	<b>Market Intermediaries</b>	<b>Professional Shareholders</b>	<b>Total Respondents</b>
1	Yes	4(44%)	5(63%)	11(65%)	16(53%)	36(56%)
	No	5(66%)	1(12%)	6(35%)	6(20%)	18(28%)
	Can't say	0	2(25%)	0	8(27%)	10(16%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
2	Dividend	4(44%)	2(25%)	6(35%)	9(30%)	21(33%)
	Higher Capital gain	5(66%)	6(75%)	7(41%)	18(60%)	36(56%)
	Directorship	0	0	4(24%)	3(10%)	7(11%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
4	Consult a broker	1(11%)	2(25%)	3(18%)	8(27%)	14(22%)
	Act on whim	3(33%)	5(63%)	7(41%)	10(33%)	25(39%)
	Analysis the company's management	3(33%)	0	2(12%)	3(10%)	8(12%)
	Analyze the financial report of company	2(23%)	1(12%)	5(29%)	9(30%)	17(27%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
5	Yes	0	1(12%)	6(35%)	12(40%)	19(30%)
	No	5(66%)	5(63%)	6(35%)	11(37%)	27(42%)
	Can't say	4(44%)	2(25%)	5(30%)	7(23%)	18(28%)

	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
6	Yes	6(67%)	5(63%)	7(41%)	14(47%)	32(50%)
	No	0	0	1(6%)	9(30%)	10(16%)
	Can't say	3(33%)	3(37%)	9(53%)	7(23%)	22(34%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
7	Yes	2(25%)	2(25%)	9(53%)	9(30%)	22(35%)
	No	4(50%)	4(50%)	7(41%)	16(53%)	31(49%)
	Don't know	2(25%)	2(25%)	1(6%)	5(17%)	10(16%)
	<b>Total</b>	<b>8(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>63(100%)</b>
9	Yes	3(37%)	4(50%)	11(65%)	22(73%)	40(63%)
	No	2(25%)	2(25%)	5(29%)	4(13%)	13(21%)
	Don't Know	3(38%)	2(25%)	1(6%)	4(14%)	10(16%)
	<b>Total</b>	<b>8(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>63(100%)</b>
10	Yes	8(100%)	8(100%)	13(81%)	20(67%)	49(79%)
	No	0	0	1(6%)	4(13%)	5(8%)
	Don't know	0	0	2(13%)	6(20%)	8(13%)
	<b>Total</b>	<b>8(100%)</b>	<b>8(100%)</b>	<b>16(100%)</b>	<b>30(100%)</b>	<b>62(100%)</b>
11	Historical Return	2(22%)	1(12%)	0	1(3%)	4(6%)
	Buying & Selling Pressure of the share	3(33%)	4(50%)	10(59%)	14(47%)	31(49%)
	Company's Management	3(33%)	1(13%)	7(41%)	14(47%)	25(39%)
	Least competition of	1(12%)	2(25%)	0	1(3%)	4(6%)

	market					
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
12	Yes	3(33%)	3(37%)	5(29%)	5(17%)	16(25%)
	No	4(44%)	5(63%)	11(65%)	18(60%)	38(59%)
	Don't know	2(23%)	0	1(6%)	7(23%)	10(16%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
13	Yes	3(33%)	4(50%)	10(59%)	13(43%)	30(47%)
	No	4(44%)	2(25%)	7(41%)	16(53%)	29(45%)
	Don't Know	2(22%)	2(25%)	0	1(4%)	5(8%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
14	Yes	4(44%)	2(25%)	1(6%)	10(33%)	17(26%)
	No	4(44%)	3(38%)	6(35%)	14(47%)	27(42%)
	Don't Know	1(12%)	3(37%)	10(59%)	6(20%)	20(32%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
15	Highly related	2(22%)	3(37%)	4(24%)	9(30%)	18(28%)
	Moderately related	4(45%)	3(38%)	7(41%)	10(33%)	24(38%)
	Less related	3(33%)	2(25%)	6(35%)	7(23%)	18(28%)
	Not related	0	0	0	4(14%)	4(6%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
	Lack of information regarding the company.	0	0	3(18%)	3(10%)	6(10%)
	Existing rules & regulation of securities market.	5(56%)	4(50%)	8(46%)	16(55%)	33(52%)
	Trading procedure of	1(11%)	1(12%)	3(18%)	4(14%)	9(14%)

16	securities.					
	Centralized Market	3(33%)	3(38%)	3(18%)	6(21%)	15(24%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>29(100%)</b>	<b>63(100%)</b>
19	Aware to people about securities market	5(56%)	4(57%)	7(50%)	14(48%)	30(51%)
	Automation of stock Exchange	1(11%)	1(14%)	4(29%)	7(24%)	13(22%)
	Security to Investment	0	0	2(14%)	2(7%)	4(7%)
	Stability of Political environment	3(33%)	2(29%)	1(7%)	6(21%)	12(20%)
	<b>Total</b>	<b>9(100%)</b>	<b>7(100%)</b>	<b>14(100%)</b>	<b>29(100%)</b>	<b>59(100%)</b>
21	Yes	7(78%)	7(88%)	8(47%)	20(67%)	42(66%)
	No	2(22%)	0	2(12%)	6(20%)	10(15%)
	Don't Know	0	1(12%)	7(41%)	4(13%)	12(19%)
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>
22	Highly effect	6(67%)	6(75%)	13(76%)	22(73%)	47(73%)
	Moderately effect	3(33%)	2(25%)	4(24%)	8(27%)	17(27%)
	Less effect	0	0	0	0	0
	Not effect	0	0	0	0	0
	<b>Total</b>	<b>9(100%)</b>	<b>8(100%)</b>	<b>17(100%)</b>	<b>30(100%)</b>	<b>64(100%)</b>



## **APPENDIX -3**

### **Personnel of SEBON**

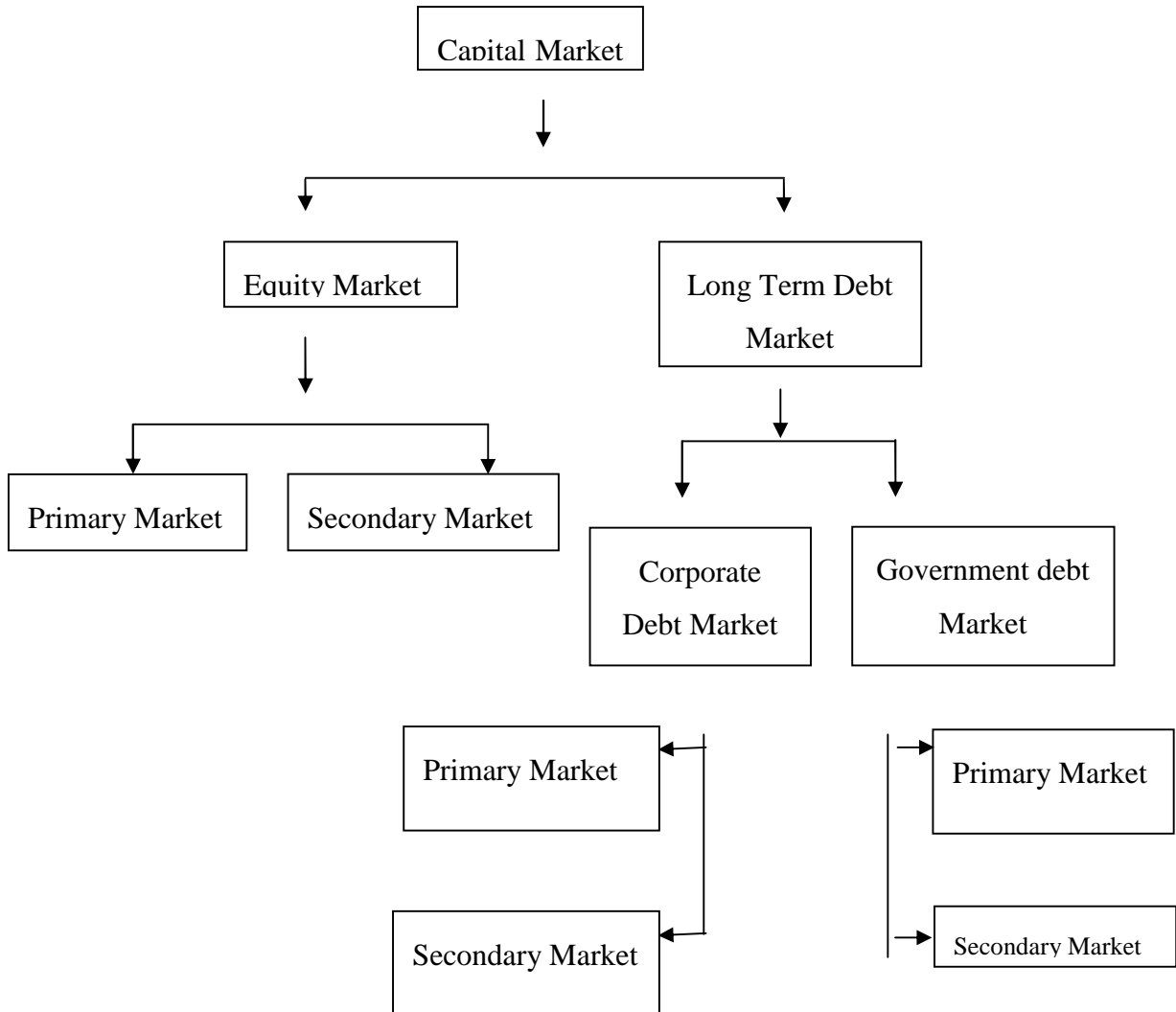
<b><u>Name</u></b>	<b><u>Designation</u></b>
Dr. Surbir Poudel	Chairman
Mr. Niraj Giri	Director,
Mr Parishtha nath Poudel	Director
Mr. Binaya Dev Acharya	Deputy Director, Corporate Finance Department
Mr. Nabaraj Adhikari	Deputy Director Planning & Development Department
Mr. Mukti Nath Shrestha	Deputy Director Market Regulation Department
Mr. Dhruva Timilsina	Deputy Director Surveillance Department
Mr. Megh Bahadur Thapa	Deputy Director Financial Analysis Department
Mrs. Manju Shrestha	Officers, Human Resource and Finance Section
Mr. Krishna Prasad Ghimire	Officer, Legal Section
Mr. Anuj Rimal	Officer, Corporate Surveillance Section
Mr. Ambika Prasad Giri	Officer, Corporate Finance Section
Mr. Gopal Krishna Acharya	Officer, Education and Training Section
Mr.Niranjaya Ghimire	Officer, Legal Section
Mr. Nabin Vaidya	IT Officer
Mr. Prem Kaje Shrestha	Supervisor Library and Documentation Section
Mr. Suraj Pradhananga	Senior Assistant Report Review Section
Mr. Deepak Sharma	Senior Assistant Education and Training Section
Mrs. Samikshaya Manandhar	PA, Chairmans' Office
Mr. Raju G.C	Assistant, Marketinig Monitoring Section
Mrs. Shashi Aryal	Assistant, Administration Seciton
Mrs. Pabitra Acharya	Assistant, Administration Seciton
Mr. Nabaraj Pandit	Complaints Section
Mr. Rajan Thapa	Assistant Corporate Finance Section
Mr. Nahakul Bhattarai	Suport Staff
Mr. Binod Maharjan	Suport Staff
Mr.Rajesh Lage	Messenger
Mr. Rajan Khatiwada	Messenger
Mr. Arjun Prasad Dhakal	Messenger
Mr. Deepak Chhetri	Messenger

Mr. Nabaraj Poudel

Messenger

## APPENDIX -4

### Structure of Capital Market



## APPENDIX -5

### List of Securities Businesspersons

S.N	Name of Securities Businessperson	Address	Tel .No	Fax No.
1	Kumari Securities (P) Ltd.	POB 20189,Dillibazar, Kathmandu	4418036	4418369
2	Arun Securities (P) Ltd.	POB 8136, Putalisadak, Kathmandu	4419051	4420572
3	Opel Securities (P) Ltd	Baluwatar, Kathmandu	4423509	4421648
4	Market Securities and Exchange co. (P) Ltd	Dharmapath, Kathmandu	4248973	
5	Agarawal Securities (P) Ltd	POB: 4760 shankerdev Marg, Ktm	4430780, 4229739	
6	Ashutosh Brokerage & Securities (P) Ltd	Khichapokhari, Kathmandu	4227510, 4220276	4240162
7	Pragyan Securities (P) Ltd	POB: 10087, Gaushala, Kathmandu	4491683, 4498234	
8	Malla & Malla Stock Brokering co. (P) Ltd	Dillibazar, Kathmandu	4414263, 4416050	
9	Om Securities & Allied Secrvce (P) Ltd	POB 2654, New Plaza, Kathmandu	4431386, 4442122	
10	Annapurna Securities Service (P) Ltd	Putalisadak, Kahtmandu	4419051	4420572
11	Nepal Stock House (P) Ltd	POB:8978 Anamnagar, Kathmandu	4245012	4255732
12	Primo Securities (P) Ltd	POB: 748,Putalisadak, Kathmandu	4230787	4226507
13	Khandewal Stock Brokering Co. (P) Ltd	Tahachal, Kathmandu	4284943	
14	Sagarmatha Securities (P) Ltd	Kha 2/450, Putalisadak, Kathmandu	4242548	
15	Nepal Investment & Securities Trading (P)Ltd	Maitidevi, Kathmandu	44213201, 4495450	
16	Sipla Securities (P) Ltd	6/50 New Road, Kathmandu	4255782	425580
17	Midas Stock Brokering Co. (P) Ltd	W.No.13,Kalimati, Kathmandu	4414263, 4416050	

18	Siprabi Securities (P) Ltd	POB 5705, Kupondol, Kathmandu	5530701	
19	Sweta Securities Ltd.	Radhakuti Arcade, Putalisadak, Kathmandu	5530701	
20	Asian Securities Ltd.	Kha 2 -691, Adwait Marg, Kathmandu	4240609, 4258160	4241817
21	Sri Krishna Securities Ltd.	Dhakhwa Building, New Road Kathmandu	4224262, 4222209	4224262
21	Trishul Securities & Investment Ltd.	POB 1874, Putalisadak, Kathmandu	4440708	4438197
22	J.F. Securities (P) Ltd	POB 20946, Putalisadak, Kathmandu	4231339	
23	Premier Securities co. Ltd	POB: 11185, Ramshahpath Kathmandu	4231339	4266422
<b>Issue Manager</b>				
1	National Finance Co.Ltd (NFC)	Pako, New Road Kathmandu	4228380, 4242302	4222920
2	Ace Finance co.Ltd (AFCL)	Kantipath, Kathmandu	4249396/88, 4266101	4249477
3	NIDC Capital Market Ltd. (NCML)	Kamal Pokhari Kathmandu	4423219, 4423398	4456401
4	Citizen Investment Trust (CIT)	Putalisadak, Kathmandu	4228759, 4240598	4240645
5	Nepal Merchant Banking & Finance Ltd (NMB)	Darbar Marg, Kathmandu	4246160	4246156
6	Nepal Finance & Saving co.Ltd	Kamaladi, Kathmandu	4220031, 4247020	4241237
7	Nepal Share Markets & Finance Ltd.	Putalidak, Kathmandu	4252332, 4267597	4430109
<b>Issue Manager and Securities Dealer</b>				
8	Nepal Sri Lanka Merchant bank Ltd. (NSLMB)	Kamaladi, Kathmandu	4440824/300	
9	United Finance Ltd. (UFL)	Darbar Marga, Kathmandu	4241648/49	4242645