

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Today business activity has become more complex. Small firms with little investment can hardly survive in the competitive environment. To compete and to survive in the environment firms need to have large operating capacity with strong financial position. But getting such position is not possible without giant investment, and that is not affordable by an individual saver. Though the ultimate source of investment is the saving of individuals but it requires to be accumulated (formulate into capital) before occurring it. Now a day to securities overcomes. Such difficulties most of the business organization are establishing with corporate entity. They issues different types of securities, like bond, preferred stock, common stock etc. to raise fund from the public.

Even governments are borrowing the funds form their public to invest in large development projects. In case of governments borrowing, saving bond, development bond, treasury bills etc. are issued a security. Issuing such financial instruments is not enough for raising funds. They are to be marketed and sold to the public after convincing them. This kind of most tough and challenging work is handed by financial market, the back-bone of national economy. Since financial market provides retired funds for productive investment, better development in this sector obviously helps to boost up the national economy.

The basic function of financial market is to mobilize funds from individual savers to institution user. There are several parties who actively involve in operation of a financial market. The systematic relationship between them and the flow of fund is presented as follows.

Figure 1.1 describes how the funds flow from individual saver to institutional user. Individual savers are those who have excess income over the consumption. They seek to employ their excess income (i.e., saving) which yields them certain return. Institutional users are those who requires fund to invest on their business activity or on development projects. Corporations and governments are the example of institutional user. The middle part between the individual saver (supplier) and institutional fund user (demander) is the capital market. Shares or stock market is a major component of the securities market. Stock market is a medium though which corporate sector mobilizes funds to finance productive projects by issuing shares markets. The efficient collection of small amounts of savings and transferring funds into the competitive and efficient user requires a well functioning capital market to facilitate the process (Mahat, 1981: 30-31).

The capital market is a financial relationship created by a number of institutions and arrangements that allows suppliers and demanders of long-term funds to make transactions. Included among long-term funds are securities issues of business and government. The backbone of the capital market is formed by the various securities exchange that provides a forum for debt and equity Transactions. Mechanisms for efficiently offering and trading securities contribute to the smooth functioning of capital market, which is important to the long-run growth of business.

Financial market can be classified by whether the financial claims are newly issued or not. When issuer sells a new financial asset to the public, it is said to "issue" the financial assets. The market for newly issued financial assets is called primary market. After a certain period of time, the financial assets is brought and sold (i.e. exchanged or traded) amongst investors. The market where this activity takes places referred to as the secondary market. A company can make initial public offering either through underwriter or by itself. In some cases a company may make direct placement of security to the institutional investors. Wherever the way a company choose to issue its security for the first time, is regarded as primary market. Through the secondary market does not provide fund directly to the institutional user, its role is crucial in capital market. It is the platform for liquidation investments. Unless investors are confident that they can shift from one financial asset to another, as they may deem necessary, they would naturally be reluctant to buy financial assets.

Primary Market

It is the market place where instead of goods and services securities are sold to mobilize the saving for the establishment and operations of the business. It is also known as original sales of securities. But this is misleading to some extent. This market is also known as IPO market because initial public offerings are done through this market. In this market, the securities can be sold either at par, premium or discount. But in case of Nepal, company act 1997 has restricted to sell the securities at discount. It means the securities can be sold at premium tool. In case of Nepal, NEPSE has issued license to interested organization to perform the issue manager by operating primary market.

Securities board in Nepal, in order to regular the primary market issue management guidelines. Merchant bankers' manager issues in India and USA, it is done by investment bankers generally hold the shares and paid the entrepreneurs and can be sold either through private placement or through primary and secondary market. There is also equal opportunity for all investors. The investors who have contact with investment banker can get the shares the investment bankers generally provide there basic services, which are:

- i) Advice and counsel
- ii) underwriting
- iii) Distribution

The job of issue managers can be grouped in three different categories for the simplicity of understanding they are mentioned below:-

a) Pre - issues Activities:-

Issue Manager is considered an expert in this area. They have to provide different services like consulting for the determination of appropriate timing for the floatation of securities, drafting prospectus on the request of issuing companies, drafting announcement - getting approval from the office of the company register SEBO/N, underwriting appointing co-issue manager, appointing co-issue manager depend upon the size of the issue. The issue Manager decides collection centers by consulting with issuing company. Appointing banker to the issue for the collection of application money of, publishing announcement, printing application forms on the request of issuing company arrangement of several documents in several places for the easy access of the probable investors.

Majority of these activities are related for providing assume to the entrepreneurs about collecting the required capital also providing assurance to the investors about the success of the business. The position of an issue manager is very critical if the issue manger deviates from its responsibilities, it will loose goodwill in the market. So while doing these entire jobs they must be very cautions. It is the responsibility of an issue manager to give true picture to the investor. If it did not happen then anybody will not trust tomorrow, so SEBO has issued primary issue guidelines making him or her highly

responsible. SEBO/N has its own responsibility of monitoring the entire capital market, so it will also hold responsibility for the deviation of the issue manager, so pre-issue activities starts with negotiation with entrepreneurs.

b) Issuing Activities:-

This is the major activity of the issue manager. The success of the issue manager depends mainly upon handling this job. This activity, different collecting center including the office of the issue manager distribute the application forms to all the probable investor and collect issued forms along with the bank voucher of the required amount as application money. The responsibility of issue manager is to get the day to day information about the application received, information dissemination to the general public as well as to concerned authority. The issue can be closed on the fixed date having up to the information.

Another responsibility is to maintain the record of the application. The collected application should be inserted into computer and the amount should be collecting in the bank account from different bank branches of the banker to the issue bank reconciliation should be done.

c) Post issue Activities:-

When every thing will be over and if the issued shares are under-subscribed then the problem of allotment does not arise but in case of over subscription the available share need to be allotted SEBO/N has issue share allotment guidelines. It has prescribed the allotment will be the shareholder of the company.

After selecting shareholder the issue manager, on the request of the company concerned print certificate and writers, the name and address of the shareholder, get signature of the concerned authority and distribute the share certificate to the concerned shareholder.

Primary market is growing in importance as it provides of a good source for corporate financing an alternative to the private and bank financing. In the past 14 years, capital

issue in the tune of Rs.16.20 billion was offered to the public investors. However, there was uneven growth by sector, more than two-third of the amount issued was from bank and finance sector, a newly liberalized sector that requires mandatory public offer. Although companies from level hotel, trading, manufacturing, mining, aviation and, of large hydroelectric sector have gone public, their operational and market performance continue to be weak. There is list of companies, especially small ones, that disappeared, got delisted or do not comply with the fiduciary duties, thus impairing investor's interest in the offering market.

Another feature of the primary market is the over whelming presence of retail investors and very small role of institutional investors. This may be attributed to the limited size of the new issue market and non-availability of risk financing and merchant banking type of intermediary institutions to support the growth of the market.

Instrument wise, more than three- fourth of the issue size is made up of equity shares. Other types of instruments offered in the market are debentures funds and preference shares. The market instruments need to be more innovative in order to meet the funding needs of the company that match the investment preference of the investors.

The intermediaries involved in the issuance of shares are issue and sales managers, underwriters and brokers. However, the role of brokers (selling agents) is not uniformly practiced in the primary issue and secondary market is yet to be properly integrated with the primary market. Similarly, underwrites are loosely regulated by securities Board of Nepal (SEBON) and are normally bank and financial institutions regulated by the central bank. The main player in the new issue market are issue managers functioning as professional advisors to the issue and prospectus who take due diligence responsibility on the disclosures and work as register to the issue and take a lead role together with the issuer in the allotment of securities. Though the issue managers can manage and commit underwriting, their servicing capacity is limited as they follow prudential banking norms. In many jurisdictions financial institution are the primary buyers of securities who ultimately distribute in favors of the public subscribes. The inadequacy of regulation and

the absence of appropriate merchant banking institutions have resulted in cases where some underwriters do not stick to their commitments (SEBO, 2005: 26-27).

Secondary Market:

The secondary market is where already issued financial are traded among investors. The key distribution between a primary market and secondary market is that in the secondary market the issuers of the asset dose not receive funds form the buyer. Rather, the existing issue changes hands in the secondary market, and funds flow from the buyer of the asset to the seller.

A secondary market serves several needs of the firm or government unit that issue securities in the primary market. The secondary market provides the issuer with regular information about the value if its out standing stocks or bands, and it encourage investors to buy securities from the value of it offers them an ongoing opportunity for liquidating their investments in securities; Investors also get services from the secondary market. The market supplies them with liquidity and prices for the assets they are holding or want to buy; and the market brings interested investors together, thereby reducing the costs of searching for the other parties and of making trades secondary markets for securities exist around the world. Such market may be continuous, where trading and price determination go on throughout the day as orders to buy and sell reach the market. Some markets are call markets where prices are determined by executions of batched or grouped orders to buy and sell are specific time within trading day. Some secondary markets combine features of call and continuous trading.

Without a secondary market, investing in companies would be so difficult, time consuming and expensive that it might not be worth-while Imagine if we purchased shares of any company from primary market and wanted to sell them. Without a convenient secondary market, we should have to go out ourselves and try finding a buyer for our shares. This could take a long time, and we might have to spend a lot of money on advertising to let people known that we want to sell. With a strong secondary market, people can choose to buy from a wide range of available shares at any time, not just

when they are newly issued. They can sell and buy when they want. Investors can make quick decision about the value of a company and act on them immediately.

The secondary market begins with the organized stock exchanges. It is the physical locations where stocks are bought and sold. In Nepal, we have only one stock exchange center i.e. Nepal Stock Exchange that is owned by the government, NRB and NIDC. It has small ownership holding of its members also. Securities business persons like stockbrokers, market makers and securities dealers; they have to get membership from the stock exchange for conduction securities business. Similarly, the issue manager, who engage in the primary issue activities also, have to get membership of stock exchange to operate their securities business (SEBO Reports:2001,4).

Historical Background:

Nepal is one of the least developed countries in the world. Nepal launched economic development planned more than four decades ago. Recently she has adapted the place of economic development though liberalization. However, any strategy for development requires a steady supply of medium to long- term capital as well as short-term capital fund for productive investment.

The history of security market is not too long; the government of Nepal passed a law relating to company registration and regulation in 1936 A. D (Frederick: 1975, 37). After the enactment of this law Biratnagar Jute Mills and Nepal Bank limited floated their shares in 1937. The ownership of the shares was restricted mostly within Rana family subsequently the development of capital market remained stagnate. Almost two and half decades later, government issued treasury bills in for the first time in 1962 followed by issuance of development bonds in 1964. But there was no secondary market to provide liquidity for these bonds until the establishment of the securities Exchange center (SEC) in 1976. The establishment of the SEC under the company Act was the first foundation stone for the institutional development of the securities market in Nepal.

New York stock Exchange (NYSE) was the first stock market in history of investment literature. The U.S government issued debt certificates in 1970, then the market for securities expanded greatly and trading become more active since then America, Italy and other market in Nepalese context is remained like snail pace. Listing of shares in stock exchange and their daily trading in the secondary market through the institutional Brokerage system started only after the restoration of democracy in 1990. Because of the world wide whim of Privatization and economic liberalization, economic changes have been brought about in the country.

Modern banking practices are of recent origin in Nepal, historical evidences show the presence of some crude banking practices in the earlier period of time. 'Tejarath Adda,' considered as the father of banking institutions in Nepal has been regarded as the first remarkable step in organized banking institution in Nepal, which was established in the government sector provided it service only to the civil servants and excluded the service to the general public. The grave need of a commercial bank was left to eliminate prevailing hindrances caused by private money lenders to the general public.

The first bank to be initiated in Nepal is Nepal Bank Ltd(NBL)which was established in the year 1937 A.D to perform the function of central bank. Subsequently, another state owned commercial bank, RBB was established in 1965.

The Government of Nepal approved joint venture banks to operate in the country only in the year 1984. Then, the board of joint venture public limited commercial bank came. Such bank is Nepal Arab Bank Ltd. that was established in 1984. Nepal Indosuez bank Ltd. and standard chartered bank Ltd. was established in 1984 respectively. Then after, in joint venture, Habib Bank of Pakistan, Nepal SBI bank, Himalayan bank, Nepal Bangladesh Bank Ltd, Everest bank Ltd, and Bank of Kathmandu Ltd. were established. Meanwhile, there had been many public limited commercial and development banks, which were established subsequently.

Securities Board, Nepal (SEBO) was established on 26 May, 1993 under the provision of the Securities Exchange Act, 1983 (now 2006) which was the first amendment. It was established with the objective of promoting and protecting the interest of investors by regulating the securities market besides market in the country. So, SEBO had identified the policy development, legal and regulatory reform, standardizing disclosure, bringing enforcement to ensure companies and promoting broad based market as a priority area to reform.

Securities Exchange center was renamed into Nepal stock Exchange in 1993 by Nepal Government under a program initiated to reform capital market. Nepal stock Exchange, in short NEPSE, is a non-profit organization, operating under securities Exchange Act, 1983.

The basic objective of NEPSE is to give information about free marketability and Liquidity to the Government and corporate securities by facilitating transaction in its trading floor through member, market intermediaries, like stock brokers, market makers etc. The trading floor of NEPSE was opened in 1994 January 13 through its licensed members. Presently, there are 23 stock brokers, two securities dealers, nine issue managers and one stock exchange and 141 listed companies in the Nepalese securities Market.

1.2 Statement of the Problem

Nepalese stock market has no long-history. It has only more than one and half decade. The numbers of listed companies in the Nepal Stock Exchange are increasing every year. But most of the companies are confined to the bank and finance companies sectors. There is a tremendous growth in the financial institutions over the period of time. Nepal Rastra Bank (NRB) has also made compulsion to issue at least 30 percent of shares to the public.

But the other sectors like manufacturing and trading are almost zero to issue share in the public. Since long, no new companies are established. Many of these companies are de-listed from Nepal Stock Exchange. Nepse has de-listed 5 companies from its list.

Investors are losing confidence on the share market mainly due to their experience of fraudulent and scandalous activities undertaken by a handful of market swindlers. There has been also some subtle problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors too are responsible for showing irresponsible behaviors due to greed for quick gains from share market.

Investors become miserable emerged from tactless advice of brokers through market disorders, price manipulation and fraudulent activities taken together have resulted the present bearish market in the country. How these securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

- i) Losing Faith
- ii) Political instability
- iii) Insufficient knowledge of Investors about the Stock Market
- iv) Lack of investors Confidence
- v) Shortcoming on Existing Securities Law and Regulations
- vi) Lack of Corporate Culture and Corporatization
- vii) Lack of Professionalism in Issue Management and Underwriting

The number applicants in the public issue of the financial institutions are increasing day by day. The probability of receiving shares in the allotment is being very less. Is the present allotment model suggested by the Nepse is appropriate?

Similarly, the issuing companies must list its share in the Nepse within 45 days of allotment of shares but companies are not doing this. For example, Shikher insurance Company listed its share long after the specified time period.

Nepal Government is encouraging investors to initiate hydropower project. Some of the hydropower companies like Arun Valley Hydropower Company is preparing to issue shares in

the public. Similarly, trading company like Salt Trading Corporation is planning to issue debenture amounting to Rs 500 million to build shopping complex to expand its business in the real sectors. In this situation, what is the future prospect of Nepalese primary market?

Under this research the researcher trying to solve several questions which are presented below:

- What problems are facing by investors in primary market?
- Why most of the investors prefers to invest in banking sectors?
- Why they are less interesting in manufacturing and other sector?
- What status is the primary market in the security market?
- How is the future prospect of primary market?

1.3 Objective of the Study

The main objective of the study is to identify the existing problems and future prospect of Nepalese primary market. The other objectives of the study are as follows:

- To state the current situation of primary market in Nepalese capital market ,
- To explore the problems faced in the primary market,
- To study the future prospects of the of primary market,
- To provide suggestion and recommendation to the concerned authorities for the further improvements.

1.4 Scope of the Study

Stock market reflects the situation of economy. When stock market is booming the economy is good and market is declining the economy is in recession. It represents also the countries polices towards industries. Policy is formulated of regularized by rules and regulation between different Act and Guideline (rules and regulation). This study in needed to find our problems and prospects in the near future. What policies can be formulated, what regulatory acts are needed and necessity of amendments regarding the rules and regulation to develop it and make the market perfect functioning. It is also needed to find out the views of potential investors and government and other financial institutions about the related organizations. Similarly, it is needed to study about AGM held by organizations in time and disclosures of them. The

standard is one of the elements for the stock market development. Financial statement should maintain according which fulfill the requirements of related party's needs information.

1.5 Limitation of the Study

The study is made for the partial fulfillment of Master in Business studies program of Tribhuwan University. So, it is not a comprehensive study and it focused to analyze certain aspects of primary market in Nepal. The result obtained from this study can not be generalized. Similarly the time and resources constraints are other limitation.

1.6 Organization of the Study

The study will be organized in to five chapters. Which are:-

Chapter I: Chapter one deals with introduction, problem of the study, objective of study, scope of the study, limitation of study and organization of the study.

Chapter II: Chapter two consists of review of literature. This chapter is subdivided into various sections such as conceptual framework, review from different studies, review from journal, article and magazine and review from master's thesis for the concerned topic. It includes all the Nepalese context's problem and prospect of primary market.

Chapter III: Chapter three present methodologies adopted for the research. It comprises research design, sources of data method of analysis and its descriptive presentation.

Chapter IV: Chapter four deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner.

Chapter V: Chapter fifth consists of summary, conclusion and recommendation.

CHAPTER – II

LITRETURE REVIEW

Review of literature means reviewing past research studies or other relevant proposition in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research works. The main reason for the full review of research in the past is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. There are significant importance's of review of literature:

-) To identify the problem,
-) To determined the methodology for research work,
-) To draw the scope of studies,
-) To avoid unintentional replication of previous studies, and
-) To interpret the significance of researcher's results in a precise manner.

This chapter is related to examine and review of some related books, articles, published and unpublished different business journals, bulletins, magazines, articles, newspapers, websites and major findings of previous studies of the relevant fields are included in precise manner.

This chapter has been divided into the following parts:

- a. Conceptual framework.
- b. Review of related studies:
 -) Review of thesis
 -) Review of articles and journals
- c. Research gap.

2.1 Conceptual Framework

2.1.1 Financial Instruments

Securities means shares, stock, debenture etc. issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Government and it includes the securities issued under full guarantee of the Government or securities as prescribed by government by a notification publishes in the Nepal Gazette or receipts relating to deposits of securities as well as rights and interest relating to securities.

Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buy and sell orders that flow from investor's demand and supply preferences determine the price of securities in deficit and surplus units of society. The common stock, preferred stock, debentures and government securities are mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stocks are traded through NEPSE. Government securities are also important securities, which are issued by government through Nepal Rastra Bank. The major financial instruments in Nepal are:

- A. Common Stock
- B. Debt:
 -) Debenture
 -) Subordinate debenture
 -) Mortgage bonds
 -) Income bonds
- C. Floating Rate Notes
- D. Equipment Trust Certificates
- E. Equity-Linked Debt
- F. Preferred Stock
- G. Government Securities:
 -) Treasury bills

-) Development bonds
-) National Saving bonds
-) Citizen Saving Certificate
-) Special bonds

A. Common stock

Common stock represents an ownership position in firm. The holders of common stock are the owner of the firm, have the voting power that among other things elects the board of directors, and have a right to claim the earnings of the firm after all expenses and obligation have been paid; but they also run the risk of receiving nothing if earning are insufficient to cover the obligations.

Common stockholders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare dividends. Capital gain arises from advancement in the market price of the common stock, which is generally associated with a growth in per share earnings because earnings often grow smoothly over time. Common stock has no maturity date at which a fixed value will be realized.

The common stockholders of a corporation are its residual owners; their claim to income and assets comes after creditors and preferred stockholder have been paid in full. As a result, stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder is not bounded on the upside as are returns to the others (Prasanna, 1994:24).

When a company needs capital for expansion, it sells shares to the public. Most companies issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable (Fisher, 2002: 2).

Advantages of common stock can be summarized as follows:

- Common stock provides ownership of the firm.
- It provides control power

- Purchase of common stock gives the following rights to stockholders:
- Voting right
- Participation in general meeting
- Right getting information
- Electing as a board of director
- Participation in the profit and loss of the company
- Transferring shares
- Proxy representation

The disadvantages of holding common stock are as follows:

- It is more risky than other securities
- The rights may not be exercised in his/her best interest as individual investor represents very small proportion of total shares.
- As an owner of firm, investor of common stock should bear legal responsibility,
- On liquidation, holders of common stock are last in the priority of claims. Therefore, the portion of capital they contribute provides a cushion for creditors, if losses occur on dissolution

B. Debt

Debt instrument can be bought or sold between two parties and has basic terms defined, such as notional amount (amount borrowed), interest rate and maturity/renewal date. The holders of a company's long-term debt, of course, are creditors. Generally, they cannot exercise to control over the company and do not have a voice in management. If any condition mentioned in debts contract, then these holders may be able to exert some influence on the direction of the company. Holders of long-term debt do not participate in the residual earnings of the company; instead, their return is fixed. The debt instrument has a specific maturity, whereas a share of common or preferred stock does not in liquidation, the claim of debt holder is before that of preferred and common stockholders. Depending on the nature of the debt instrument, however, there may be difference in the claim among the various creditors of a company (Vane Horne, 2000:211).

Debenture

The term debenture usually applies to the unsecured bonds of a corporation. Investor looks to the earning power of the corporation because these general credit bonds are not secured by specific property. In the event of liquidation; the holder becomes a general creditor. Although the bonds are unsecured, debenture holders are protected by the restrictions imposed in the indenture, particularly the negative pledge clause, which precludes the corporation from pledging its assets to other creditors (Vane Horne, 2000:513).

Subordinate debentures

Subordinated debentures represent debt that ranks behind debt senior to these debentures with respect to the claim on assets. At the time of liquidation, subordinated debenture holders usually receive settlement only but all senior creditors are paid the full amount owed by them. These holders still would rank a head of preferred stockholders in the event of liquidation. The existence of subordinated debentures may work to the advantage of senior holders, because senior holders are able to assume the claims of the subordinate debenture holders (Vane Horne, 2000: 513)

Mortgage Bonds

A mortgage bond issue is separated by a lien on specific assets of the corporation-usually fixed assets. The specific property securing the bonds is described in detail in the mortgage, which is the legal document giving the bondholder a lien on the property. As with other secure lending arrangements, the market value of the collateral shows the market value of the bond issue by a reasonable margin of safety (Vane Horne, 2000: 513).

Income Bonds

Income bonds provide that interest must be paid only when the earnings of the firms are sufficient to meet the interest obligations. The principal, however, must be paid at the due date. Thus the interest itself is not a fixed charge. Income bonds, historically, have been issued because a firm has been in financial difficulties and its history suggests that it may be unable to meet a substantial level of fixed charges in the future. More generally, however, income bonds simply provide flexibility to the firm in the event that earnings do not cover the amount of

interest that would otherwise have to be paid. Income bonds are like preferred stock in that the firm will not be default if current payments on the obligations are not made. They have an additional advantage over preferred stock that the interest is a deductible expense for corporate income tax computations, while the dividends on preferred stock are not.

The main characteristic and distinct advantage of the income bond is that interest is payable only if the company achieves earnings. Since earnings calculations are subject to differing interpretations, the indenture of the income bonds carefully define income and expenses. If it did not, litigation might result. Some income bonds are cumulative indefinitely (if interest is not paid, it accumulates, and it must be paid at some future date); others are cumulative for the first three to five years, after which they become non-cumulative.

Income bonds usually contain sinking fund provisions to provide for their retirement. Generally, sinking funds holders receive payment range between $\frac{1}{2}$ and 1 percent of the face amount of the original issue annually. Because the sinking fund payment requirements are typically contingent on earnings, a fixed cash drain on the company is avoided. Typically, income bondholders do not have voting rights when the bonds are issued. Sometimes, bondholders are given the right to elect some specified number of directors if interest is not paid for a certain number of years (Weston and Copeland, 1990:967).

C) Floating-Rate Notes

When inflation forces interest rates to high levels, borrowers are reluctant to commit themselves to long-term debt. Yield curves are typically inverted at such times, with short-term interest rates than long-term. One factor is that borrowers would rather pay a premium for short-term funds then lock themselves into high long-term rates for two or three decades.

Two risks are faced by those who defer long-term borrowing in hope that interest rates will soon fall. First, there is no assurance that rates will not rise even higher and remain unexpectedly high levels for an indefinite period. If long-term rates rise to 15 percent, for example, debt that looked expensive at 123 percent will seem like a bargain to a borrower who passed it up in the hope of waiting out the rates of crisis. Second, the short-term money may simply become unavailable.

D. Equipment Trust Certificates

Although equipment trusts financing is a form of lease financing. The certificates themselves represent an intermediate to long-term fixed income investment. This method of financing is used by railroads to finance the acquisition of rolling stock (Vane Horne, 2000: 514).

E. Equity-Linked Debt

Sometimes the investors in the debt instruments of a company are given an option on common stock. With debt warrants, the debt holder has an option to purchase the common stock of the company and he or she continues to hold the instrument more attractive. A convertible bond is one that may be exchanged, at the option of the holder, into a certain numbers of shares of common stock of the corporation. The number of shares into which bond is convertible, is specified in the bond indenture, and these shares remain un-issued until actual conversion (Vane Horne, 2000: 514).

Purchasing of debt provides the followings advantages and disadvantages to debt holders:

From the viewpoint of long-term debt holders, debt is less risky than preferred or common stock, has limited advantages in regard to income, and is weak in regard to control. To elaborate:

- In the area of risk, debt is favorable (relative to preferred or common stock) because it gives the holder priority both in earnings and in liquidation. Debt also has a definite maturity and is protected by the covenants of the indenture.
- In the area of income, the bondholder has a fixed return, except in the case of income bonds or floating rate notes. Interest payments are not contingent on the company's level of earnings or current market rates of interest. However, debt does not participate in any superior earnings of the company, and gains are limited in magnitude. Bondholders actually suffer during inflationary periods. A 20-year, 6-percent bond pay \$ 60 of interest each year. Under inflation, the purchasing power of this \$60 is eroded, causing a loss in real value to the bondholder. Frequently, long term debt callable. If bonds are called, the investor receives their invested funds.

- In the area of control, the bondholder usually does not have the right to vote. However, if the bonds go into default, then bondholders, in effect, take control of the company (Weston and Copeland, 1992: 969).

F. Preferred Stock

Preferred stocks have fixed dividend and right of acquiring principal before common stock at the time of liquidation. “Preferred Stock is said to be a “Hybrid” security because it has features of both common stock and bonds. Preferred stocks are preferred with respect to assets and dividends. In the event of liquidation, preferred stockholders have a claim on available assets before the common-stockholders. Furthermore, preferred stockholders get their stated dividend before common stockholders can receive and dividends (Vane Horne, 2000: 515).

Preferred stock provides the following advantages to the investor (Weston and Copeland, 1992:969).

It provides reasonably steady income.

Preferred stockholders have a preference over common stockholders in liquidation; numerous examples can be cited where the preference position of holders of preferred stock saved them from losses incurred by holders of common stock. Many corporations (for example, insurance companies) like to hold preferred stock as investment because 70 or 80 percent of the dividends received on these share is not taxable.

Preferred stock also has some disadvantages to investors:

- Although the holders of preferred stock bear a substantial portion of ownership risk, their returns are limited.
- Price fluctuations in preferred stock may be greater than those in bonds; yields on bonds are sometimes higher than those on preferred stock.
- The stockholders have no legally enforceable right to dividends.
- Accrued dividends are seldom settled in cash comparable to the amount of the obligation that has been incurred.

G. Government Securities

Government issues various types of securities to fulfill and undertake the development works under the deficit budget and raises scattered funds from public. These securities are assumed to be less risky as compared with external debt. Government issues securities internally and externally, the main source of internal debt is government bonds. In case of Nepal, NRB has been actively issuing various government securities. It is one of the most important issuance of the government to maintain the deficit budgetary system of Nepal. The Government Securities, which are issued by NRB, are described in brief below.

Treasury Bills

It is the short-term government bond. It is issued to fulfill deficit budgetary system in Nepal. It normally matures in 91 days while some securities mature in 365 days. It is issued to collect scattered funds and to mobilize it in productive sector and conduct fiscal and monetary policies. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

Development Bonds

NRB has been issuing development bonds in Nepal. It is a long-term government bond. It has normally five years maturity period. The security holders can use it as collateral if they need money immediately. Institutional and individual investors purchase it. It has fixed and minimum interest percentage. The securities holders normally obtains 90 percent amount of total value if they keeps them on collateral. The income from these bonds is taxable.

National Saving Bonds

It is a long –term government bond. It has normally 5 years maturity period. Individuals, organization and financial institution purchase this bond expect commercial banks. In this bond, interest is paid semi-annual basis. It can be purchased as a promissory note. Principal is refunded after its maturity period. It has fixed interest rate, which can be sold easily from one person to another in the market. It can be used as collateral as in the case of Development Bonds.

Citizen saving certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate which is paid semi-annual basis. It cannot be used as collateral. Individual and institutional purchase can buy this bond. It is a taxable bond.

Special Bonds

This type of bond is issued on special occasions when government falls short of funds. The government can issue special bonds to those parties to whom government has to make payment. The holder can use it as collateral.

2.1.2 Financial Markets

Financial markets provide a forum in which suppliers of loans and investment can transact business directly. The loans and investment of institution are made without the direct knowledge of the suppliers of fund (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the money market and the capital market. Transaction in short- term debt instruments or marketable securities take place in the money market. Long-term securities (bond and stocks) are traded in the capital market (Gitman, 1988:30).

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the issue-that is, the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution savers and investors, they become part of the secondary market. The primary market is where new securities are sold. the secondary market can be viewed as a “used” or “pre-owned” securities market. (Securities Board)

2.1.3 The Money Market vs. Capital Market

Money market is that type of market where securities with maturity period less than one year are traded and created. Capital market is that type of market where long-term securities are traded and created.

2.1.3.1 Money Market

The money market is created by a financial relationship between suppliers and demand market of short-term funds, which have maturities of one year or less. The money market is not an actual organization housed in some certain location, such as a stock market, although the majority of money market transactions are made in marketable securities, which are short-term debt instruments, such as treasury bills, commercial paper, and negotiable certificates of deposit issued by government, business, and financial institutions respectively.

The money market exists because certain individuals, businesses, government, and financial institutions have temporarily idle funds that they wish to place in some type of liquid asset or short-term, interest-earning instrument. At the same, other individuals, businesses, governments, and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demand markets of short-term liquid funds. Relative market capitalization and the number of listed companies can measure stock market size. The market capitalization ratio is determined by dividing the value of all shares listed on a national exchange by the host country's gross domestic product (World Bank, 1995).

2.1.3.2 Capital Market

Capital market refers to the links between lenders and borrowers of funds, arranging of funds-transfer process to seek each other's benefit. Lenders and borrowers come together in the capital market. Capital market play effective financial intermediary role to activate both primary and secondary market through the use of various long term capital market instruments like common stock, bonds, preferred stock, convertible issues and many more like that. The participants in the capital market are small business, large business, and government. Funds flowing into the capital market are available by lenders for terms longer than those flowing in the money market.

Capital market consists of the various suppliers and users of long term finance. As it is differentiated from the money market which embraces short-term finance. The capital market serves as a link between suppliers and users of finance. It is a mechanism for the mobilization

of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and the sellers of securities and all those agencies and institutions which assist the sale and resale of corporate securities (Gupta, 1978:88).

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long term funds-funds with maturities of more than one year-to make transactions. Included among long-term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long-run growth of business (Gitman, 1988:170).

Some organizations and individuals have more money than they currently need, and are thus, often described as lenders. Others need many more than they have and are required to borrow from others, and are thus called as borrowers. It would be reasonable to suppose that surplus units and deficit units would be aware of each other's existence and that the surplus unit would be willing to allow the deficit unit to use their surplus to their mutual advantages. To protect the interests of both, an exchange would take place with somewhat understanding. Such an exchange may be called direct external finance and internal finance. The indirect external finance involves a third unit, usually called financial intermediary that accepts money from surplus units and release to deficit units. The other type of finance is that where the financing is carried out within the same economic unit. Capital market includes:

- Activities relating to the organization, distribution and trading of securities
- Organization which facilitates this activities
- Individuals and institutions which buy and sell securities and
- Rules, regulations, customs and practices that control the organization and conduct business in the market.

2.1.4 Primary Market vs. Secondary Market

The capital market may be studied under two headings i.e. Primary Market and Secondary Market

2.1.4.1 Primary Market

The Primary market is concerned with the floatation of shares and distribution of shares to the general public. It consists of companies issuing securities to the buyer of new securities and various intermediaries that help in the disposal of new securities. Issue managers, underwriters, stock brokers, stock exchange etc. are the important constituents of the new issue market. Stock exchange provides facilities of trading in listed securities. It is the market where various securities are brought and sold for investment or speculative purpose. So that is concerns with the sale of new issued securities in the market. But it is one of the most integral parts of the new issue market and the change of one certainly affects the others.

Primary markets are absolutely vital to capitalistic economics if they are to function properly, since they serve to channel funds from savers to borrowers. Furthermore, they provide an important locative function by channeling the funds to those who can make the best use, the most productive. In fact, the primary function of a capital market is to allocate resources optimally. A security market with the lowest possible prices for transactions services.

There are three ways in which a company may raise capital in the primary market.

I. Public Issue-

This involves sale of securities to the public. It is by the most important mode of issuing securities.

II. Right Issue-

This is a method of raising further funds from existing shareholders by offering additional securities to them on a preemptive basis. It involves the offer of additional shares to existing shareholders. These are offered in proportion of existing shareholdings. Each existing shareholder receives one right for each share owned. The right states the terms of the option to

purchase new shares, specifying the number of shares required to purchase each new share, the subscription price for new share, and the expiry date of the option.

III.Private Placement

It involves selling securities privately to a single investor or to a small group of investors. In the United States private offerings are made under an exemption from SEC registration. Section 4 (2) of the Securities Act of 1933 allows the unregistered sale of securities by an issue so long as it is not a public offering. In general, the provisions set forth in Section 4 (2) require that private placements be sold to a limited number of sophisticated investors who are buying for investment purposes.

These right issue and private placement are primary issue but these are not public issue.

2.1.4.2 Secondary Market

The secondary capital market deals with those securities that are already issued in an initial public offering in the primary market. Typically, the secondary markets are those where previously issued securities are purchased and sold.

In the secondary capital market, the securities are generally sold by and transferred from one investor to another. Hence, the secondary capital market needs to be highly liquid in nature. A high transparency for the secondary market trading is also required. With the advancement of the technology, the trading concept in secondary market has changed substantially. In the earlier days, the investors needed to meet at fixed place in order to carry out the transactions. But now trading in secondary capital market has become much easier for the investors.

2.1.4.3 Relationship between Primary & Secondary market

The primary market and the secondary market have a symbiotic relationship. While the primary market creates long term securities, the secondary market provides liquidity through marketability of those institutions.

Fresh capital issues are influenced by the level and trend in stock prices at the time of issue. Actually, new activity in the primary market adds depth to the secondary market by enlarging

the supply of instruments for trading and investment in the secondary market. Stock prices in turners are influenced by the large size and bunching of new issues. Besides, primary and secondary market is indispensable ingredients of the capital market and is the basis to meet the financial requirements of corporate bodies.

2.1.5 Historical Background of Nepalese Primary Market

There is no longer historical development period of capital market in Nepal. The vanshavalies and chronicles have very little to say regarding how government of that time look on the relationship between economic development and capital market. The political negligence and fundamental economic domination could be responsible for having no historical base for the growth of capital market.

During the Rana regime, this is said to be most dark ages in the history of Nepal, the irresponsible habit of promoting self-interest in disregard to larger interest of the society as a whole created total bankruptcy in nation's financial resources. The ideas of promoting investment, technological innovation and industrial development were not given priorities. As a result of the exploitative mentality, the capital markets were not developed.

During the Rana regime no effort was made for change or development. They had a closed economy. Thus, through there was some development it was not due to the will of the rulers but only because of the time. But during the period of Juddha Samsher, an idea to develop capital market in the interest of Rana family was managed through a part of potential Indian investors. Company act was promulgated and numbers of public limited companies were formed under the sole monopoly of Rana family. Anyhow capital market got signals of development under the permit of Ranas share concentration investment policy. At the same time, Tejarath was found to facilitate loans to government employees. After a war, number of industries collapsed one after another in such a way that there was a serious set back on the growth of capital markets. Some new hopes came under the new era of elected government but it was soon put into dustbin through political changes of inefficiency.

Afterwards, the Panchayat government came to further economic development by various slogans of people's participation, regionalism, basic needs, industrial development, trade promotion, resource mobilization etc. There were so many proposals to develop capital market. But Securities Marketing Center was found only during 1970 AD to start the capital market development. Immediately after that, Securities Exchange Act was passed by Rastriya Panchayat to facilitate securities transactions. The name of the center has been changed to Securities Exchange Center.

For the first time in 1937 AD Nepal Bank Ltd as a commercial bank was established by the initiative of Udyog Parishad. The main objective of this institution was to raise habit of savings and turns these into investment. It has been helping a lot in promoting of industries and commercial development of the country. Later on another commercial bank named Rastriya Banijya Bank was established in 1964 AD. After the adoption of liberalized economy in the country these financial institutions are responsible for mobilizing the public deposits to business enterprises by offering attractive interest rates and by providing better and reliable services to the depositors.

In the context of the development of capital market, Nepal Industrial Development Corporation (NIDC) has also played a vital role. This corporation was established in 1961 AD. The main objective was to develop industries in modern way to provide necessary financial and technical help, to provide loan, and facilities to the industrialization in the private sector. Since its establishment, the fixed capital needs of the companies have been met by NIDC and provides up to 85 percent of the fixed capital needs of industrial organization. Besides granting direct long-term loans it also participates in the issue equity shares of industrial enterprises, and gives guarantees on industrial loan provided by commercial banks.

The immense activities done by NIDC can be great to help foster the capital market in Nepal. One thing essential for the rapid growth of capital market is to persuade business firms to convert themselves into public limited companies. Companies requiring large amount of funds should be asked to raise at least a part of their financial needs by issuing shares in the market.

The commercial fact faced by the economy is the lack of public confidence in enterprises. The confidence of investors in business can be enhanced if NIDC and commercial banks & other financial institutions underwrite the shares issued by public companies.

Employee's Provident Fund, which was established in 1962 AD, also cannot be neglected since it has contributed a lot in the growth of capital market. It has been mobilizing the employee's savings to commercial banks, from where the funds find their way to business enterprises investment in the government's development bond and at the same time providing loan to various corporations are some other activities undertaken.

Securities Exchange Center (SEC) was established in 1976 AD, to promote the public savings and to mobilize capital funds for industrial investments. In a real sense, the establishment of this center has made possible the development of capital market in Nepal because prior to this there was no special institution in Nepal dealing with securities. This center managed to issue public shares and debentures of 23 corporate bodies for rising about Rs. 500 million from Public.

Securities Exchange Center has issued the Shares of the following companies (NEPSE, pp.16-17).

Table 2.1
List of Companies of Public Issue Offered by SEC

S. No.	Name of Company	Issue Subscription
1.	Rastriya Beema Sansthan	Under Subscribed
2.	Nepal Battery Co. Ltd	Over Subscribed
3.	Nepal Arab Bank Ltd	Over Subscribed
4.	Nepal Byapar Co. (Narayani) Ltd.	Under Subscribed
5.	Nepal Lube Oil Ltd	Over Subscribed
6.	Nepal Industrial Development Corporation	Under Subscribed
7.	Himal Cement Company	Under Subscribed
8.	Nepal Indosuez Bank Ltd.	Over Subscribed
9.	Nepal Grindlays Bank Ltd	Over Subscribed
10.	Bottlers Nepal Ltd.	Over Subscribed
11.	Nepal United Company Ltd.	Under Subscribed
12.	Indreni Soyabean Udyog Ltd	Under Subscribed
13.	Nepal Life & General Insurance Company	Over Subscribed
14.	Bottlers Nepal (Tarai) Ltd.	Over Subscribed
15.	Butwal Spinning Mills Pvt. Ltd.	Under Subscribed
16.	Nepal Metal Company Ltd.	Under Subscribed
17.	Seti Cigarette Factory Ltd.	Over Subscribed
18.	Gorakhkali Rubber Udyog Ltd.	Over Subscribed
19.	Jyoti Spinning Mill Ltd. a. Ordinary Shares b. Preference Shares	Under Subscribed
20.	Arun Vanaspati Udyog	Over Subscribed
21.	Nepal Trading Ltd.	Over Subscribed
22.	Nepal Finance & Saving Company Ltd	Over Subscribed
23.	Himalayan Bank Ltd	Over Subscribed

New issue managed by the Securities Exchange Centre of Rastriya Beema Sansthan, Nepal Bayapur Comapany (Narayani) Ltd; Nepal Industrial Development Corporation. Himal Cement Company Ltd. Seti Cigarette Factory Ltd. is under subscribed and others are over subscribed.

In 1993 AD, remarkable development took place in the capital market. Under a program initiated to reform the capital market the Securities Exchange Center was converted into the Nepal Stock Exchange in order to increase marketability to government bonds and corporate securities. Nepal stock Exchange opened its trading floor in 13th January, 1994 providing membership to 5 market makers and 25 brokers. The brokers are permitted to act as intermediaries in buying and selling of shares of listed companies. At present, there are 23 brokers. The number of listed companies increased from 63 in 1992/93 to 99 in 1994/95 and the market value from 4,000 millions to 12,963 millions respectively.

The earliest records of securities dealing in Nepal are meager and obscure. In those days, there was no remarkable movement or industrial development. Still it is on the rudimentary stage. No attempts were made to mobilize private savings and use them to productive sector. There were no media or market mechanism that facilitated the transfer of funds from surplus spending. Except for a brief period starting from 1963 AD until the end of the Second World War, no attempt was made to collect funds for the industries through the floatation of securities. It is specially the stocks in the market. In the absence of the development of corporate security market, the securities floated in the market are the government securities. Through them the government assembles the funds directly from the surplus spending units via the financial intermediaries. So far the government has the virtual monopoly over the security market. The resort to security market by the government has been in the form of borrowing. It is through the insurance of mainly the development bonds to meet the budgetary expenses. The first series of development bond was floated on Feb 12, 1964. It carried 6% rate of interest and had the maturity period of 5 years. Since then the government has been floating the development bonds each year. Till now it has floated 26 issues of such bonds. The interest rate was ranging from 5% to 15.5% and with the maturity period varying the fiscal year 1965/66 amounted to Rs. 7.5 million. In 1970-71 it was equivalent to Rs. 3 million and it reached Rs. 300 million in 1976-77. From the very beginning of SMC, over the counter market for government bond was

started. Despite resistance due to the level of awareness about financial assets from investors, it was able to carry transactions of government bond with turnover of Rs. 787 million in 1992-93 as against Rs. 372 million in 1980-81.

Securities Board Nepal acronym SEBO/N was established on May 26, 1993 after the first amendment in the Securities Exchange Act became effective. The same Act mandated SEBO/N to act as a securities market regulator and developer. Accordingly, Securities Exchange Centre (SEC), a government enterprise previously acting as a socio market operator and regulator, was restructured into present form of Nepal Stock Exchange. Another major event of restructuring was the creation of the SEBO/N as a separate government regulator.

The securities market witnessed interesting ups and downs from its establishment to date. SEBO/N's regulatory interventions were targeted to discipline the market and consolidate its position as central securities market regulator.

2.1.6 Components of Primary Markets:

Components of primary markets are those institutions which are directly and indirectly involved in public issue process. There are many organizations involved during this process. They can be presented as below:

A. Issuing Company

Issuing company is the company which raises funds from the general public through the process of public offering. The purpose of public offerings is for the collection of funds from general public by the company as per its requirement. The company seeking for public offerings could be a completely new company (initial public offerings), a new company set by the existing company (initial public offerings) or by existing listed company (successive public offerings).

As per Company Act, only public companies are liable to go for public offerings. The Act specifically states that private companies are not allowed to sell their share and debentures in the free market.

ONRB has made mandatory that financial institutions must go for common stock public offerings within two years of operation commencement. NRB has also set minimum percentage of equity holding to be offered to the public shareholders. For bank and financial institutions minimum shares to be hold by promoter is 51 percent. In case of insurance and hydro power companies, there is a controversy rule regarding public and promoter share for such companies, going into public signifies the need of funds for the company rather than the obligation.

The Provisions and Conditions for Securities Registration and Issue, 2063 has set the guidelines that before going into public offerings, issuing company should take into consideration that,

a. If the issuing company is industrial institutions:

- The institution has bought the land or made other provisions in which necessary infrastructure like factory; office buildings, go-down etc. are already build in or made necessary arrangements for it.
- Necessary technology has been selected for which spare parts of machineries needed have been bought. If not, LC has been opened to buy the necessary technologies.
- Estimated budget has been proposed for the project to be implemented and for which if loans are required, such agreements are already made.
- In the absence of long-term loan agreement, issue securities are underwritten.
- Necessary approvals according to the existing Act have been taken.

b. If the issuing company is financial institutions:

- According to the nature of the business, required infrastructures are installed.
- Approval has been taken under the Company Ordinance 2063.
- For commencing other activities, authority, and approval from governing bodies based on existing Act has been taken.

B. Merchant Bankers:

Merchant bankers are intermediaries which work as mediators in the fund mobilization for the general public to the business groups. The funds are raised from the hypothetical market that comprises widely spread fund surplus groups, mainly the general public, concentrated fund

deficient groups, and the business groups. Funds are raised under different tool names that have long-term and short-term maturity period. According to such maturity period of the tools traded, market is identified as capital market for long-term and money market for short-term tools to be traded.

The role of merchant bankers in this market is to help, create, and expand securities underwriting. They also provide additional services like advising corporations and managing investment portfolio for the needing groups.

The concept of merchant banking differs from the commercial and development banks in respect that they do not require large funds to be invested as a principle. Their sources of income are basically the service charge; they charge to their clients for playing intermediary role in the fund mobilization and their advisory role. Typically, the activities of domestically oriented investment banks can be summarized as under,

- Securities Underwriting
- The secondary market for securities
- The money market
- Corporate advisory services
- Investment portfolio management services, and also
- Venture capital
- Leasing/Hire purchase
- Other services (insurance, real estate etc.)

The role of merchant banking in managing the public offerings comes under the heading of securities underwriting. The working process of which would be described comprehensively later.

For the working of merchant banking function in Nepal, Nepal Rastra Bank (NRB) has set forth the working guidelines. Guidelines have identified working of merchant banking into two sets of functions. The first set is the non fund-based functions and the second set is fund-based functions.

Fund-based activities identified for the merchant banking are:

- Bridging Finance
- Underwriting
- Project Finance
- Venture Capital
- Acquisition and Merger

Non fund-based activities identified for the merchant banking are:

- Share issue management
- Mutual Fund
- Portfolio Management
- Corporate Counseling
- Project Counseling
- Debenture Trusteeship
- Arranging International Finance
- Investment Advisor
- Advising Corporate Mergers

NRB has set the directives as for non fund-based activities of merchant banking, for underwriting and for bridging finance it is not necessary to take separate approval from NRB. But, for other fund-based activities of merchant banking, it is necessary to take separate approval from NRB for different activities to be undertaken.

Under the NRB directives of per client loan advancement and facility limit provision, such loan and facility can be provided to a client up to:

- In maximum of 25% of primary capital in fund-based activities.
- In maximum of 50 percent of primary capital in non fund-based activities.

There are 17 merchant banks available in Nepal. They are providing issue manager, lead underwriter, register, transfer of share etc. services to other institutions.

C. Securities Board:

Securities board has been formed under the Securities Exchange Act, 2040 Clause 3. This legislation has required for the creation of an independent statutory board to be apex authority for the securities market, thus resulting into the formation of Securities Board.

The need of legislative body is for maintaining healthy and orderly development of the securities markets and to ensure adequate investor protection. Establishment of SEB is necessary to promote markets that ensure:

Fairness: The market must promote integrity in dealings, high standards of conduct and good business practice.

Efficiency: The market should with professionals and be well informed, offering high standards of service at reasonable cost.

Confidence: The market must inspire confidence in both investors and issuers to actively participate in and rely more on the securities markets.

Flexibility: The markets should be resilient, innovative and be continuously responsive to the needs of all market participants.

With the objective of providing this to the market, in accordance with the Act, the Security Exchange Bylaws 2063 has defined the work, responsibility and the authority of the Board as:

- To work in safeguarding the interest of investors and help develop capital market.
- To advise Nepal Government in formulating policies for the development of the capital market.
- To implement the policies set forth by Nepal Government regarding securities exchange.
- To supervise the work process management and working procedure of those involved in securities exchange to make issue management of securities regular and well managed.
- To approve registration of securities and issue of securities.
- To register the name of securities issue dealers and give them approval letter.
- To interrogate and supervise the workings of securities exchange dealers.
- To formulate clauses to be followed by the securities exchange market and the dealers in security exchange market.

- To supervise, interrogate the working securities market, securities dealers and the listed companies and when necessary make needed directions or undertake necessary actions.
- To develop and implement directives for proper management of securities market and for regular and well managed securities exchange.
- To approve Securities Market Sub-directives.
- To collect notices, data and prospectus from the listed companies and companies with securities registered; make above available information to the interested investors.
- To work for the healthy, competitive, regular and managed operation of the capital market with the objective of safeguarding the interest of the investors for continuous growth of the market.

This Bylaw is the amendment of Securities Exchange Bylaws 2063.

Role of Securities Board in Issue of Securities

In its approach to manage public issues of securities, the Board will bear in mind

- a. Protection of rights and interests of the investor, especially,
 - The right to adequate, true and fair information
 - The need for liquidity
 - Prompt, fair and equitable allotment
 - Easy and efficient service in allotment and transfers
- b. The need to encourage corporate entities to tap the securities markets for their diverse resources needs.

The Board would endeavor to evolve market and institutional structure, a set of instruments and Methods of public offerings to cater the above objectives.

The legislative provisions relating to public issues of securities may be classified under:

- a. Capital control, governing issue of securities and the terms of their issues;
 -) To regulate terms of issues of securities from the viewpoint of investor protection, issuers needs and overall development of the securities market; and
 -) To promote sound capital structure of companies.

- b. Prospectus provisions, governing the disclosure of information at the time of issue of any security;
- c. Obligations of regular disclosure of financial and other information on entities making public issues;
- d. Listing requirements governing traded securities;
- e. Provisions governing allotment and transfer of securities.
 -) Ensuring fair and equitable allotment; and
 -) Promoting speedier and more efficient service in matters of allotment and transfer.

D. Office of the Registrar of Companies (ROC):

Registrar of Companies (ROC) is the governing body for any institution registered under Company Act. In its governing role, it observes and regulates any company going into public examining whether the process of “going public” is in accordance with the rules and regulation set forth by the existing Company Act or not.

As per the Company Act 2063, public companies need to publish their prospectus before issuing securities to the public. Before publishing prospectus, one copy of the prospectus needs to be submitted to ROC. In this process, ROC approves the prospectus to be published. While approving the prospectus, ROC makes sure that important information is not missed out and unnecessary information is not mentioned. In the presence of such changes, ROC sends it back to the company for necessary changes. Upon satisfactory changes ROC grants approval to issuing company to issue the prospectus. Apart from approving the prospectus to be published by issuing company before going into public, ROC does not play other major role.

E. Stock Exchange Market:

Stock exchange has been defined as anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling of or dealing in securities. The stock exchange, therefore, is the most important institution in the secondary market. In the primary market, it comes into play during primary share allotment, during issuing share in premium and when Securities Board can ask Securities Exchange Market for its opinion.

Securities Exchange Act 2063 has stated that for the operation of the stock exchange market, approval needs to be taken from the Securities Exchange Board. Any registered institution except private companies willing to do or allow others to do security transaction should get approval for securities exchange market from the securities board.

After the issue of securities to the public, the Act requires that companies be listed in the Securities Exchange Market before the floated shares can be traded in the market. Nepal Stock Exchange Limited (NEPSE) is the only stock exchange in the country.

F. Financial Institutions:

They are financial intermediaries like commercial bank, finance companies (merchant bankers), and development banks and co-operatives institutions. These institutions are established under the Company Act and Nepal Rastra Bank Directives. These financial institutions perform the role of intermediaries in the securities issue as per the authority received from the Securities Exchange Board. Financial Institutions are involved in securities issue process as:

- Issue manager
- Underwriters
- Collection centers
- Bankers to the issue

The role of financial institutions is to manage the issue process and be intermediaries in the process of transfer of funds from the investors to the issuing company. The financial institutions may also play a role of creditors to the issuing company by providing bridge finance.

Securities Issue By laws has specified required capital for intermediaries in the securities issue and transaction as,

Table 2.2
Required Capital for Intermediaries

Transaction Type	Authorized Capital ('000)	Paid-up Capital ('000)
Issue registration & issue management, Issue Underwriters	NPR, 20,000.00	NPR 10,000.00
Dealer in securities market	NPR 10,000.00	NPR 5,000.00
Market makers in securities market	NPR 10,000.00	NPR 5,000.00
Brokers in securities market	NPR 400.00	NPR 200.00
Intermediaries in securities transfer, registration etc	NPR 400.00	NPR 200.00

Sources: SEBON Annual Report

G. Nepal Rastra Bank (NRB)

Nepal Rastra Bank is the central banking authority in Nepal. It is the governing authority in setting guidelines to all the financial institution regarding its area of operation. But, in the case of public offerings, its involvement is very minimal. Its role in the issue process is only to grant financial institutions approval to be involved with different role in the issue process. Also for different fund based activities of merchant banking, approval needs to be taken from Nepal Rastra Bank.

H. Securities Dealers

Any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise. The definition of 'dealer' does not include a 'trader', that is, a person who buys and sells securities for his or her own account either individually or in a fiduciary capacity but not as part of a regular business. Individuals who buy and sell securities for themselves generally are considered traders and not dealers.

Sometimes you can easily tell if someone is a dealer. For example, a firm that advertises publicly that it makes a market in securities is obviously a dealer. Other situations can be less clear. For instance, each of the following individuals and businesses may need to register as a dealer, depending on a number of factors:

- A person who holds himself out as being willing to buy and sell a particular security on a continuous basis;
- A person who runs a matched book of repurchase agreements; or
- A person who issues or originates securities that he also buys and sells.

Here are some of the questions you should ask to determine whether you are acting as a dealer:

- Do you advertise or otherwise let others know that you are in the business of buying and selling securities?
- Do you do business with the public (either retail or institutional)?
- Do you make a market in, or quote prices for both purchase and sales of, one or more securities?
- Do you participate in a “selling group” or otherwise underwrite securities?
- Do you provide services to investors, such as handling money and securities, extending credit, or giving investment advice?
- Do you write derivatives contracts that are securities?

A “yes” answer to any of these questions indicates that you may need to register as a dealer.

Dealers can be viewed as any investors who have desired portfolio based on the opportunities he sees and on his preferences. Dealer and stock exchange specialist exists as provider of liquidity and controllers of the size of the spread. Dealer exists because they provide immediacy more cheaply than investors could provide it for themselves. Dealer faces price uncertainty of the securities, and he also faces an order arrival uncertainty, as he does not know when he will transact with the public. The importance of liquidity in the securities markets motivates strong interest in the trading behavior of dealers. Dealers seek to provide liquidity in an ongoing manner and they can influence the short run dynamics of securities prices through the trading behavior.

Securities dealers retail the primary issue of securities. They purchase from the primary markets all or some of securities issued in primary market and manage the portfolio of investors with agreement of portfolio management with the investors. Securities dealers have to make buy and sales transactions of securities in the name of either customers or themselves

through brokers. The section 31 (3) of Securities Exchange Regulation 1993 defines securities dealer as who carries out in his\her name the transaction of securities presented to the stock Exchange for the transaction or by concluding an investment management contract in accordance with the prevailing laws, with the objective of managing the investment carries out the transaction of securities through a broker from the name of the investors or his\her name. Membership of securities dealers shall be provided to the corporate company only and the capital, qualification and professional experience of securities dealers are as same as those of issue and sales managers. According to the annual report of 2008/09 of Securities Board of Nepal, there are two securities Dealer in NEPSE.

Table: 2.3
Securities Dealer Permitted for the Year, 2008/09

S.N.	Name of Company
1	Nepal Sri Lanka Merchant Bank Ltd (NSLMB), Kamaladi
2	United Finance Ltd., Darbar Marg

(Source: Annual report of SEBO/N)

It is noteworthy that no securities dealers have done any securities dealings till now though membership has been taken from NEPSE and SEBO. SEBO and NEPSE should notice the case of no securities dealings and explore the reasons for not happening so. Otherwise, what is worth providing securities dealership is the question of the fact. SEBON should study and make clear rule for that security dealer why they are not doing their job.

I. Issue and Sales Managers

Issue and sales managers manage the issue and sale of primary issue of securities efficiently and grant services to the issuing companies who are first, new and unspecialized in the primary issues. Investment banks or merchant banks (as one of their functions) assume the management of primary issues of securities, underwrite the primary issue at risk and collect and distribute the application for primary securities transactions etc. That is why issue and sales managers are in that sense called merchant\investment bankers.

The issue and sales managers are those who provide the pre-issue, issue and post issue services for sales management of securities to be newly issued either through public issue method or circulation method by a corporate body, make the underwriting to purchase the unsold shares on their issuance or acts relating to that [section 31(2) of Securities Exchange Regulation, 1998] capital, qualification and professional experience of issue and sales managers as enshrined in the law [**section (33) of Securities Exchange Regulation 1998**] are given below:

- (a) Corporate company with limited liability.
- (b) Securities business as main articles of association and the paid-up capital at least ten million rupees.
- (c) For bank and financial institutions, securities business as subsidiary objective and the paid-up capital at least fifteen million rupees.
- (d) At least two employees qualified as brokers.

The membership of issue managers shall be provided to the companies and they must comply with above criteria.

Issue and sales managers generally provides advices and counseling services, underwriting services and distributions services. The issue and sales managers provided their services from pre-issue to listing of securities at NEPSE. Services provided by Nepalese issue and sales managers are as under.

1. Pre-issue Services

The issue and sales managers negotiate issue agreements with the issuing company and provide the following pre-issue services.

- Consultancy for determination of appropriate timing for floatation of securities.
- Drafting prospectus on the request of issuing company.
- Getting the approval of prospectus from company register.
- Getting securities registered with SEBO\N and issue permission.
- Underwriting.
- Appointing co-issue managers and co-underwriters, depending on the size of issue.
- Appointing bankers to issues.
- Deciding the collection centers.

- Drafting IPOs announcements and publishing through media.
- Printing application forms etc.

2. Issue Services

Issue activities are the main activities of the issue and sales manager. They provide the following issue services.

- Distributing the application and application money from the collection center and branches of the bankers to issue.
- Collecting the application and application money from the collection center and branches of the bankers to issue.
- Advertising IPOs on media to induce the sub-scriptions.
- Maintaining the record of collected applications and money.
- Determining the close date of application.

3. Post-issue Services

After primary issue at market, the issue and sales managers provide the following post-issue services.

- In case of over subscription, allotment of securities as per the allotment of securities as per the allotment directives.
- In case of under subscription, underwriting of securities.
- Demanding call money and refunding.
- Printing share certificate, writing the name and address of shareholders, authorizing share certificate and distributing to the concerned shareholders.
- Providing the raised fund to the issuers after deducting the commission.
- Arranging listing of securities at NEPSE.
- Hearing and resolving grievance of investors until listing.
- Based on the SEBO\N annual report 2008\09, there are 9 issue managers available in Nepal. Among them; two financial institutions are permitting for both issue manager and securities. Dealers and rest of are working as issue managers.

Table: 2.4
List of Issue Manager

S.N.	Name of Issue Manager
1	National finance Co. Ltd. (NPC), New road
2	Ace Finance Co. Ltd, Kantipath
3	NIDC capital Markets Ltd., Kamalpokhari
4	Citizen Investment Trust, Putalisadak
5	Nepal Merchant Banking and Finance Ltd, Durbarmarg
6	Nepal Finance and Saving Co. Ltd, Kamaladi
7	Nepal Share Market and Finance Ltd., Putalisadak
	Issue Managers and Securities Dealers
8	Nepal Sri Lanka Merchant Bank Ltd., Kamaladi
9	United Finance Ltd., Durbarmarga

(Source: SEBO/N annual report,)

Issue managers are required to submit their annual reports including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBO\N within three months of the expiry of the fiscal year. In this fiscal year, 2008\09, out of nine issue managers, five were involved in the issue management activities; they are Nepal Merchant Banking and Finance Ltd., Citizen Investment Trust, NIDC Capital Markets Ltd., Ace Finance Co. Ltd., and Nepal Finance and Saving Co.

J. Advertising Agents:

Advertising plays a key role in promoting the public issue. Advertising agents are those organizations which provide information to the general investors. After comparing the effectiveness and cost of each programmer with the other, a suitable advertising agency is selected in consultation with the lead manager to the issue. The advertising agencies take the responsibility of giving publicity to the issue on the suitable media. The media may be newspapers/magazines/hoardings/press release or a combination of all.

In case of Nepal, Public Issue Offer must be published at least seven working days before the new public issue in national daily newspaper, and the same rules for right offering.

2.2 Review of Journals and Articles

Habibullah (1999), "Financial Markets in Least Development Countries," evidences that in some Asian countries including Nepal economic development reflected in economic growth leads the financial development measured in the ratio of broad money to gross national product (M2/GNP). This implies that economic development has preceded the financial market development in the case of Nepal. But several other studies conducted in other LDCs reveal that the financial development has preceded the economic development. The stock market development measured by market liquidity, market capitalization and total turnover is correlated with current and future economic growth, capital accumulation, and productivity growth, as evidenced by Levine and Zervos (1996). The efficient money, foreign exchange and capital markets increase investment to the most productive sector of the economy and thereby increase output through saving mobilization. Such markets also price the risk associated with any investment accurately.

Shrestha (2002) has analyzed why the share market is inactive and what problems are the main causes for inactiveness and what measures should be done etc are carefully defined. Similarly, how the securities frauds and manipulation have occurred and to what extent they can be overcome would be highlighted her to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price.

Pradhan and Blampaki (2005) conclude in their article investment in the capital market now has become very uncertain, sending the investors in search of avenues of more certain retains. The equity investments is considered riskier than investment in bond, preferred stock etc. The secondary market is not performing well. Various measures of stock market deployments indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Low turnover ratio and value traded ratio to volatility, and high concentration ratio

indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they do not have options to it because stock market is less reliable source of raising funds for them. Investors need to be aware of the relationship of financial variables, which helps them to predict future price and earning and come with effective investment decision. In this regard a study reveals that earnings yield and cash flow yield have significant impact on dividend yield. Earning yield and cash flow yield have significant impact on book to market value whereas; size has negative impact in dividend yield. In the case of earning yield and cash flow yield, cash flow yield has been found to be more informative than earning yield.

Capital gain yield is positively influenced by earning yield and size, whereas, the same is negatively influence by book to market value and cash flow yield. Book to market value has been found to be statistically strong in predicting capital gain yield. Similarly, total yield is positively determined by earning yield and size, whereas the same is negatively determined by book to market value and cash flow yield. Book to market value has been found to be more informative than other variable.

On the other hand investors must be careful while examining company's financial disclosures, as it is possible that while offering their securities to the public the IPO companies overstate their accounting figures to unjustly influence the investment decisions of investors.

2.3 Review of Thesis

In Nepalese context there are not sufficient studies in the field of development of financial instruments and primary market components.

Upadhyaya (2003) has conducted a study similar to the present one entitled "Investors Preference and Financial Instruments". The main objectives of this study are:

Objectives

- To study the preferences of investors in the financial instruments.
- To assess investors' awareness regarding the investment decisions in selecting securities.
- To analyze the investment trend in the security market of Nepal.

Findings

-)] To gives the following important remarks in regard of investors. preferences from the analysis; it seems that the Nepalese investors
-)] The study of common stock has the largest chunk of trading in the market. Main attraction of common stock is due to return: dividend of the company.
-)] To The study stocks of banking sectors have the largest amount of trading in the market

The investors give the second priority to the government securities because the government securities are taken as risk less investment. The Nepalese investors least prefer the preferred stocks and debenture. It was found that from the primary data, no attraction of investors is the main reasons of the Nepalese companies for not preferring to issue debenture and preferred stock frequently. The market capitalization of the securities shows that the Nepalese security market is in development stage since the capitalization is in increasing trend.

The Nepalese investors do not seem aware in regarding investment in the security market. They don't analyze the risk and return before making any investment in any securities. They invest their money just by observing the market trend, which is very unscientific in Nepalese context because Nepalese security market is not in equilibrium. The investors are feeling the existing rules and regulations regarding sufficient and timely information from the companies where they have invested their money.

Kafle (2004) carried out a study entitled "Primary Market Development in Nepal: Issue and Challenges". The main objectives of this study are The Objectives and findings are as follows:

Objectives

-)] To the study was based on bank and financial act and security. Nepalese financial system is at a critical stage of transformation.
-)] The study banking sector is being consolidated under the umbrella of bank and financial institution
-)] To The study responsibility of financing long term project including infrastructure.

Findings

-) The security market which was an urgency of consolidated development. Securities market would not only accommodate the present need. To the growth process through the development of equity and debt market.
-) The SEBON regulate the integrity of disclosures in the securities issue. of stock exchange and efficient clearing and settlement system.
-) The stock exchange would make primary market bounded to increase manifold, providing a reliable and sustainable alternatives for raising capital.

Timilsina, (2005) has conducted a study on the topic "A Study of the Problems and Prospects of Stock Market Growth in Nepal". The Objectives and findings are as follows:

Objectives

- Stock market is in developing stage. The major portions of Nepal investors do not have sufficient knowledge about investment. NEPSE and SEBO/N DO not provide information accurate and timely. So the information provided by them is not sufficient.
- Most of the peoples share purchasing decision without analyzing the financial performance of the company and without consulting the experts. Among the listed companies during the year 2003/04, majority are from the finance companies.

Findings

- The number of listed securities are increasing gradually where as the numbers of transactions in NEPSE are in fluctuating manner. Growth of market day per year, average turnover in volume and value are in satisfactory level.
- Number of issues and amount of issue approved are satisfactory.

For the efficient operations of the stock market price formation activity is one of the major concerns. To raise importance of stock market the role of broker is very important. They facilitate in the share trading activities we can't imagine that transaction of securities without the presence of brokers.

Panta (2006) Conducted research on the topic of “Current Status of Share market in Nepal” the trend of the Nepalese stock market and present status of primary and secondary market as well as problems and prospects of Nepalese stock market. The Objectives and findings are as follows:

Objectives

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conducive to the development of the stock market therefore it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- Restriction on foreign portfolio investment hindered market development.
- NEPSE does not have appropriate policies and memberships are fee structure to attract members outside KTM.

Findings

- In Nepal, banks dominate primary market in government debt instruments. OTC trading is not permitted therefore secondary market is totally inactive.
 - Lack of necessary provisions in the laws and regulation of the privatization and automatics of stock exchange as well as for the establishment of Central Depository of Securities (CDS).
-) The transparency and openness of transaction, quality professional’s services, adequate. Corporate financial disclosures and improved legal, regulatory and supervisory frame – are the urgent needs of Nepalese stock market.

Therefore it is important that the basic assumption in any effort for protection investors interest or boosting their confidence or developing the stock market is that business, which should be enabled to operate in an environment that remains conducive to growth and expansion but complete replication of any tailor made, as applied anywhere, may not work because the specifics in Nepalese stock market is different from other developed market.

Mahat (2007) Conducted research on the topic of “Future prospect of NEPSE in capital mobilization” is able to analyzed situation in Nepal where the industrial sector has very little access to private saving. Also be indicates the availability of industrial securities is nearly absent and the development of financial institutions that link the surplus spending units with the deficit spending ones is in the rudimentary stage. The Objectives and findings are as follows:

Objectives

-)] The underdevelopment state of financial institution in the country, growth of invest able funds becoming available recent years.
-)] This study also demonstrated the relatively very limited financial contribution of other financial institution
-)] To this sector but he does no indicate these factors, which help to uplift the financial contribution to the other sectors like provident fund and NIC etc.
-)] The resources available in the financial system of the industrial development of the country may not be very smooth and easy.
-)] The security market, capital market regarding primary and secondary market. show the problems face by the NIDC and other industrial as well as financial sectors. just shows the preliminary and basic problems of industrial sector but not in broad way.
-)] His topic was “future prospects of NEPSE in capital mobilization” but according to the topic the sufficient future prospects/measures are not available in this study but can find thin basic context.
-)] There is not indication in the relations of primary and secondary market with economic condition of country in his study.

Findings

-)] The findings on the term nature of sources and uses of funds and the current ratios of various size and industry groups also do not give any ground for complacency.
-)] Some industries were found to have financed a large part of the increase in current assets with the long-term sources of funds, while for others the increase in long-term source was hardly sufficient even to finance the long-term assets formations.

) He was given high attention to the working capital management in Nepalese industries

Pandey, (2008). Conducted research on the topic of "Public response to Primary Issue of Shares in Nepal," The Objectives and findings are as follows:

Objectives

-) The problems of primary share issue market, assess the growth of primary issue market, analyze the pattern of public response to shares & find the reasons of variation.
-) Public response in primary market is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made.
-) Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend capital gain or bonus shares.
-) It can be seen that public response to primary issues on Banking and Financial sectors is normally higher than that of the manufacturing and services sector.

Findings

-) The interest rates were higher as compared to dividend yield, the public companies were not performing well and people did not know about the importance of investing securities.
-) the response is highly positive because people are aware, money flow
-) the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment.

Now the response is highly positive because people are aware, money flow in the market is higher, people have seen that most companies are distributing dividends, share prices are increasing for most companies and a lack of better alternatives for investment. Now that the average interest rates have gone down, more can be obtained from investment in stock.

Bhandari (2009) studied “Structure and Efficiency of Securities Market Intermediation Service in Nepal”. In Nepalese context very few studies have been done by the individual researcher in

this topic. He tried to find out the efficiency of securities market intermediation service in Nepalese Securities Market. The Objectives and findings are as follows:

Objectives

-) The total number of intermediaries is in decreasing trend over his study period and the mixture of market intermediaries are often changing. There are a lot of changes in structure of intermediaries. He considered ten years data for the study.
-) Market capital and NEPSE index are increasing during his study periods, Number of listed companies, traded companies, paid-up capital, besides some exception. These indicators show the increasing efficiency in comparison with the earlier year.
-) Number of permitted brokers during the study periods was decreasing. Some of the brokers hold license only but not submitted financial and transaction reports to NEPSE on time.
-) Other sector of Nepalese economy have not moving except capital market in the later days, there is abnormal development in capital market only.

Findings

-) The high proportion of the investor was not satisfied with issue manager/under writing service available.
-) The market makers are not existed from 2002/03 to onwards. The main reason for the failure of the markets was the inability of the market makers to acquire a sufficient buffer stock of shares initially required by them for market making and introduced very initial stage of the security market.
-) Overall his study's conclusion is that the structure of the securities market is not well defined as lack of adequate mixture of all typical market. Securities markets intermediation service is inefficient. But, interesting things is that amount and volume of share transaction, paid-up capital, market capitalization, and NEPSE index all are in increasing trends. Nepalese Security market is small in quantity and poor in quality as compared to other develop stock market.

2.4 Research Gap

Since the above mentioned studies offer limited findings and they are not exactly similar to the present study. In other words, there are not any past study available which analysis the trend and pattern of financial instruments, primary market components and their development but Nepalese capital market is in infancy stage and there are varies factors remaining to improve as compared to the developed capital market. Majority of the investors of the Nepalese capital market are making investment decision without analyzing the securities and securities related variables properly. Hence, in Nepalese securities market, to examine the exact trend and status of the primary market growth only secondary sources of date are not sufficient and complete but most of the past studies similar to this study were based on only secondary sources of data. Moreover, more extensive testing, and adjustment of necessary variables are needed in ordered to be more conclusive about the development of financial instruments and primary market components in Nepalese capital market.

Presently, this study aims to attempt to study about problem and prospectus of primary market in Nepalese capital market. The previous relevant literature related to primary market and it has just reviewed to support the study. The above studies failed to study the perfect problem and prospects of primary market in Nepalese capital market. This study tries to fulfill this weakness. And there is also less research made in this topic especially in problem and prospectus of primary market in Nepalese capital market.

Primary market has very big role to sustain securities market in Nepal. It is equally important to identify the relation of problem and prospectus of primary market in Nepal. So, it tries to assess the problem and prospectus of primary in Nepalese capital market and by providing the proper atmosphere for the securities market in our country. The present study is based on primary as well as secondary data, which tries to achieve its objectives by analyzing data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese capital market. The current study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspect of the study. In other words, research methodology is a systematized way to solve the research problem. Research methodology refers to the various sequential steps (along with a rationale, of each step) to be adopted by a researcher in studying a problem with certain object in view (Cothari, 1994). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study.

3.1 Research design

A research design is a plan, structure, and strategy to obtain the objectives of the study. The research is based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

3.2 Population and Sample

In Nepalese context, due to the lack of information and poor knowledge, potential investor is manipulated or exploited by the brokers, financial institution, company and other market intermediaries. So brokers, investors, experts are taken as a population and from the population brokers, experts and investors as well as the official of the companies are taken as sample.

3.3 Source and collection of data

- Primary source of data
- Secondary source of data

Primary sources of data are mainly based on interview and queries and secondary data are mainly based on Booklets, trading Volume issued by Nepal Stock Exchange. Other primary data are collected from Nepal Security Exchange Board Nepal.

Primary and secondary source of data:

- The major sources of secondary data are Rastra Bank, brokers and publication including daily papers. Secondary information was collected from these mentioned sources.
- Interviews are making with a number of potential investors whose shares investment available in different companies to obtain their opinion and views regarding the present and future situation of stock market.
- Information has also been collected SEBO/N to asses the trend and the future potential.
- Other related different statistical and financial tools are used.

This study is based on primary source of data and less on secondary sources of data for showing problems and prospects of primary and secondary market in Nepal. The primary sources of data used are interviews and questionnaire but the secondary sources of data used for analyzing areas follows:

- Outside published material directly related to problems and prospects of primary and secondary market.
- Booklets published by other related agencies like SEBO, NRB, and T.U. Library as the relevant materials.

3.4 Analysis of data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic (Cottle et al: 1988). This study is mostly based on the analysis of secondary data with the help of different statistical tools. The empirical results have been extracted in this study by using annual data of listed companies from 2058/059 to 2065/066.

3.5 Statistical tools

Statistical tools are used to implicit the comparative results are as follows:

3.5.1 Multiple Bar- diagrams and graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram

one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.5.2 Pie- diagram

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data.

3.5.3 Percentage

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

3.5.4 Time series Analysis

Time series analysis is most useful tools to know current trend and help to make estimates for the future as well. When we observe numerical data at different points of time the set of observation is known as time series. Here we are using it to estimates future prospects of primary securities. Although, various methods are using for determining trend, we are using here only Least Square Method.

Least Square method: This method is most widely used in practice. The method of least squares may be used either to fit a straight line trend or a parabolic trend.

The straight line trend is represented by the equation:

$$Y_c = a + bX$$

Where Y_c is used to designate the trend values to distinguish them from the actual Y values, a is the Y intercept or the computed trend figure of the Y variable when $X = 0$. b represents the slope of the trend line or the amount of change in Y variable that is associated with a change of

one unit in X variable in time series analysis represents time . The value of a and b can be determined by:

$$a = \frac{\sum Y}{N} \quad \text{and} \quad b = \frac{\sum XY}{\sum X^2}$$

Where X should always be equals to zero (i.e. $X = 0$)

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. Analysis is based on both primary and secondary data. Various types of data available in the market are used to analyze the primary market its problem and prospects in Nepalese capital market.

The chapter basically focused upon the analysis of collected data from different secondary sources. In this chapter the relevant and the available data/information regarding the primary market have been presented and analyzed.

4.2 Primary Issue approved from SEBO

As per the provision of the Securities Exchange Act, 1983 (now 2008) and regulation and guidelines made there under, the issuing company should register the securities in SEBO/N and get issue approval before going to public. After getting approval from SEBO/N 112 companies issued securities from fiscal year 2058/059 to 2065/066. Most of the Commercial bank and finance sector are issued different types of securities to the public. Other remaining sectors are issued securities to the public lowest percentage in comparison to the commercial bank and finance sector. Although it has been decrease at the fiscal year 2065/066, up to the year 2064/065 number of primary issue is increasing day by day. It seems that companies are interested to issue different types of securities for the public. The detail situation of number of issued in different year is presented in Table 4.1

Table 4.1
Year wise Primary issue approved from SEBO

Fiscal year	Number of issue	Increasing or Decreasing %
2058/059	11	
2059/060	13	18.18
2060/061	12	-0.077
2061/062	6	-50.00
2062/063	20	233.33
2063/064	16	-0.2
2064/065	23	43.75
2065/066	11	-52.17
Total	112	

Table 4. 1 shows varied number of issue approved by SEBO during the period. Highest number of issues were approved in the fiscal year 2064/065, second highest was in fiscal year 2062/063 than third was in 2063/064, Fourth was 2059/060, followed by fiscal year 2060/061, 2065/066 and 2058/059. Lowest issue approved in the fiscal year 2061/062. Over the 7 year of issue approval the number of issue is fluctuating every year. The total number of issue varies at various time periods.

The number of Primary issue was 11 in initial fiscal year 2058/059 but at the end of fiscal year 2064/065 number of issue was 23. Whereas again it has remained 11 at the end of the year 2065/066. At the end of the year total number of primary issue approved was reached to the 112 issues. The highest number of primary issued was 23, increasing by (43.75 %) from Previous year in fiscal year 2064/065. The second highest number of primary issue was 20, increasing by (233.33%) from Previous year, in the fiscal year 2062/63. In fiscal year 2063/064, number of primary issue was 16 and it was the third highest issue. In fiscal year 2059/060, number of Primary issue was 13. In fiscal year 2060/061 numbered of primary issue was 12. Similarly, the least three issued during the period were 11 issues, in the fiscal year 2065/066 and 2058/059 and 6 issues in the fiscal year 2061/062.

Table 4.2
Trend of primary Issue approved from SEBO

Fiscal Year	Number of Issue (Y)	Deviation from 2062 (X)	XY	X ²	Y _c =a+bX
2058/59	11	-7	-77	49	10.85
2059/60	13	-5	-65	25	11.75
2060/61	12	-3	-36	9	12.65
2061/62	6	-1	-6	1	13.55
2062/63	20	+1	20	1	14.45
2063/64	16	+3	48	9	15.35
2064/65	23	+5	115	25	16.25
2065/66	11	+7	77	49	17.15
N=8	X=112	X=0	XY=76	X ² =168	

Here, Y_c =a+bX

Since, X=0,

$$a = \frac{\sum X \sum Y}{N} = \frac{112}{8} = 14, \quad b = \frac{\sum XY}{\sum X^2} = \frac{76}{168} = 0.45$$

Hence, Y_c =14+0.45X

$$Y_{2058/59} = 14 + 0.45(-7) = 14 - 3.15 = 10.85$$

$$Y_{2059/60} = 14 + 0.45(-5) = 14 - 2.25 = 11.75$$

$$Y_{2060/61} = 14 + 0.45(-3) = 14 - 1.35 = 12.65$$

$$Y_{2061/62} = 14 + 0.45(-1) = 14 - 0.45 = 13.55$$

$$Y_{2062/63} = 14 + 0.45(+1) = 14 + 0.45 = 14.45$$

$$Y_{2063/64} = 14 + 0.45(+3) = 14 + 1.35 = 15.35$$

$$Y_{2064/65} = 14 + 0.45(+5) = 14 + 2.25 = 16.25$$

$$Y_{2065/66} = 14 + 0.45(+7) = 14 + 3.15 = 17.15$$

For predicted year 2066/67 and 2067/68, $X=9$ and 11 respectively. so,

$$Y_{2066/67} = 14 + 0.45(+9) = 14 + 4.05 = 18.05$$

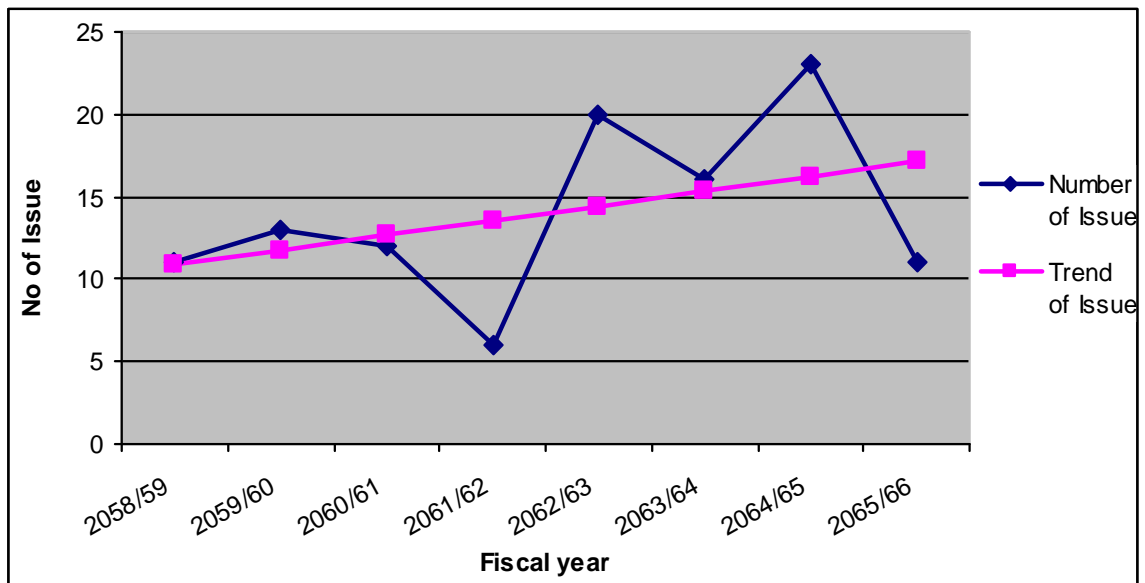
$$Y_{2067/68} = 14 + 0.45(+11) = 14 + 4.95 = 18.95$$

Thus for 2066/67, Predicted Number of Issue for =18 shares

For 2067/68, Predicted Number of Issue for =19 shares

Table 4.2 shows that trend of number of primary issue is increasing way. By use of trend analysis we have predicted that 18 companies will issue primary security in 2066/67 and 19 companies will issue primary security in 2066/67. Trend of number of primary issue presented in Table 4.2 and Trend line presented in Figure 4.1

Figure 4.1
Trend of primary Issue approved from SEBO



4.3 Year wise Primary issued amount

During the fiscal year 2058/059 to 2065/066 total amount of primary issued is Rs.11849.434 millions. Amount issued in different year are presented in table 4.3

Table 4.3
Yearly primary issued amount (Rs. in millions)

Fiscal Year	Yearly total amount	Inc. or Dec. %
2058/059	878.76	
2059/060	651.50	-25.58
2060/061	1055	61.93
2061/062	600.89	-43.04
2062/063	1306.42	117.41
2063/064	940.254	-24.78
2064/065	3962.65	321.44
2065/066	2453.96	-38.07
Total	11849.434	

Table 4.3 shows that the highest amount Primary issue was Rs.3962.65 million in fiscal year 2064/065. It is the 321.44 % more amount than the previous year. The second highest amount of Primary issue was Rs.2453.96 which was the 38.07% less than the previous issue amount. The third highest amount of primary issue was Rs.1306.42 million in fiscal year 2062/063. It is the 117.41 % more than the previous year. The fourth highest amount of issue was Rs. 1055 million in the fiscal year 2060/061. It is 61.93% more than the previous year. The fifth highest total amount issued is Rs. 940.254 million in fiscal year 2063/064. It is 24.78% less than the previous year. Sixth and Seventh highest amount of public issue was Rs.878.76 million and Rs. 651.50 million in fiscal year 2058/059 and 2059/060 and 2061/062 respectively . The Least amount issue is Rs.600.89 million in the fiscal year 2061/62. It is 43.04% less than the previous year.

Table 4.4
Trend of yearly issue amount of primary security

Fiscal Year	Primary issue amount (Y) Nrs in million	Deviation from 2062 (X)	XY	X ²	Trend of Issue Y _c = a + bX
2058/59	878.76	-7	-6151.32	49	316.87
2059/60	651.50	-5	-3257.5	25	649.53
2060/61	1055	-3	-3165	9	982.19
2061/62	600.39	-1	-600.89	1	1314.85
2062/63	1206.42	+1	1206.42	1	1647.51
2063/64	940.245	+3	2820.762	9	1980.17
2064/65	3962.65	+5	19813.25	25	2312.83
2065/66	2453.96	+7	17177.72	49	2645.49
N=8	Y=11849.434	X=0	XY=27943.442	X ² =168	

Here, Y_c = a + bX

Since, X=0,

$$a = \frac{Y}{N} = \frac{11849.434}{8} = 1481.18 \quad \& \quad b = \frac{XY}{X^2} = \frac{27943.442}{168} = 166.33$$

For predicted year 2066/67 and 2067/68, X=9 and X=11 respectively.

$$\text{So, } Y_{2066/67} = 1481.18 + 166.33 \times 9 = 2978.15 \text{ mil.}$$

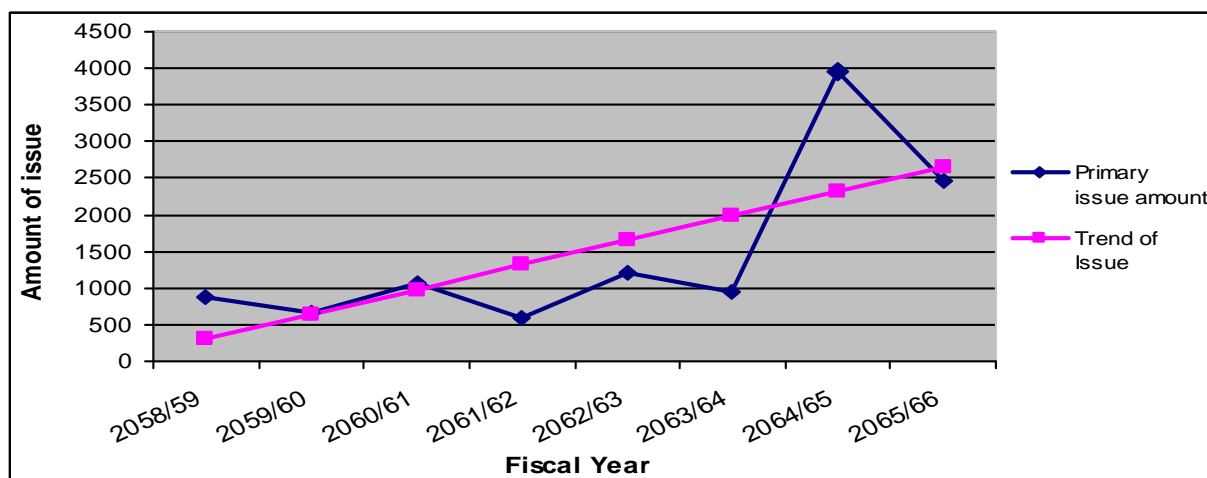
$$Y_{2067/68} = 1418.18 + 166.33 \times 11 = 3310.81 \text{ mil.}$$

Thus, for the year 2066/67, predicted amount of primary issue = Rs.2978.15 millions and for the year 2067/68, predicted amount of primary issue = Rs.3310.81 millions

Table 4.4 shows that trend of yearly issue amount of primary security also in growing since 2058/059 to near past 2065/066. After trend analysis, it can be predicted that the amount of issue in 2066/067 will be 2978.15 million and it will be 3310.81 millions in 2067/068 .We can see it's trend line in figure 4.2 which shows it's trend line considerably increases since 2058/059.

Figure 4.2

Trend of yearly issue amount of primary security



4.4 Types of securities issued

Primary market is the place where company issues different types of securities to collect the needed fund. During the fiscal year 2058/059 to 2065/066 only four types of securities has been issued. Total amount of primary issued on the basis of different type of securities are presented in table 4.5

Table 4.5

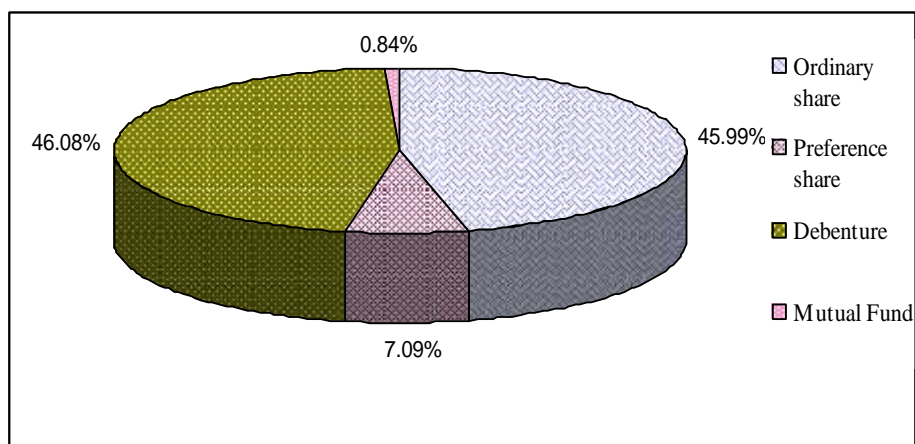
Security wise covered area in primary issued amount (Rs in Millions)

Types of securities	Total Issued amount	% of Total
Ordinary share	5449.434	45.99
Preference share	840	7.09
Debenture	5460	46.08
Mutual Fund	100	0.84
Total	11849.434	100

Above table 4.5 shows security wise issue approved by SEBO. During the fiscal year 2058/059 to 2065/066 total issued amount is Rs. 11849.434 million. Under the total amount of primary issue, Ordinary share, Preference share, Debenture and Mutual Fund are issued Rs.5449.434, Rs.840, Rs.5460 and Rs.100 millions respectively. Out of it highest amount issue was Debenture which was 46.08% of the total issued amount. Whereas ordinary share is 45.99% of

total and it is the second highest amount. Preference share and mutual fund are issued 7.09% and 0.84% of the total primary security issued amount (See in Figure. 4.3). It shows that huge amount of security issued in Nepalese primary market is Debenture and Ordinary share.

Figure 4.3
Security wise percentage of approved issue amount



4.5 Year wise types of security issue

Year wise analysis number of securities issued during the period of 2058/059 to 2065/066 varies differently which is presented in below at table 4.6.

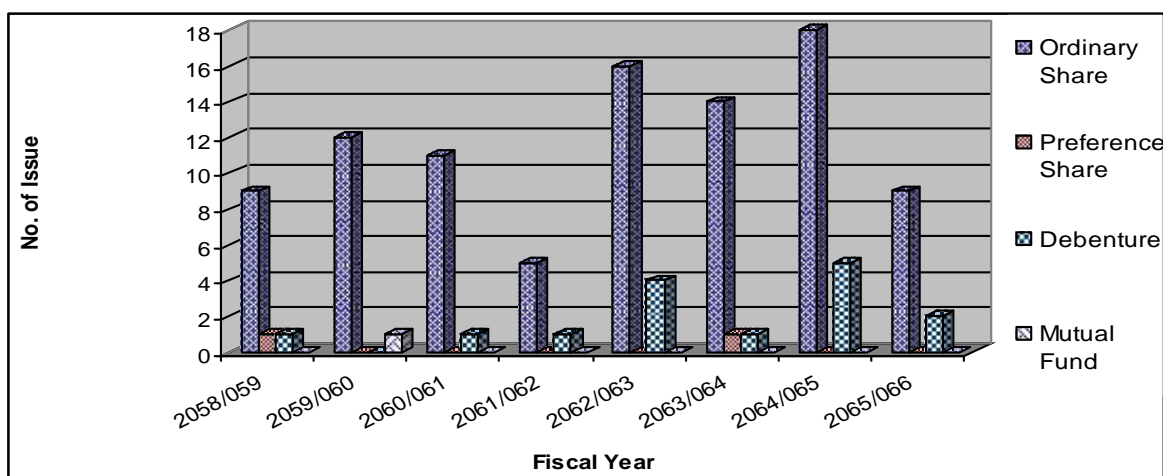
Table 4.6
Year wise types of security issue

Fiscal Year	Types of securities & No. of securities			
	Ordinary Share	Preference Share	Debenture	Mutual Fund
2058/059	9	1	1	0
2059/060	12	0	0	1
2060/061	11	0	1	0
2061/062	5	0	1	0
2062/063	16	0	4	0
2063/064	14	1	1	0
2064/065	18	0	5	0
2065/066	9	0	2	0
Total	94	2	15	1

Table 4.6 shows that the year wise number and types of securities issued in the Nepalese capital market. The number of primary issue company during the period of 2058/059 to 2065/066 was 112. In fiscal year 2058/59, total 11 companies were issued primary securities in which 9 ordinary shares, 1 preference share and 1 debenture has issued. . In fiscal year 2059/60, total 12 companies were issued primary securities in which total were ordinary share. In fiscal year 2060/61, total 12 companies were issued primary securities in which 11 ordinary shares and 1 debenture has issued. In fiscal year 2061/62, total 6 companies were issued primary securities in which 5 ordinary shares and 1 debenture has issued. From Fiscal year 2062/63 number of primary security has increased gradually. In fiscal year 2062/63, total 20 companies were issued primary securities in which 16 ordinary shares and 4 debentures. In fiscal year 2063/64, total 16 primary securities have been issued in which 14 ordinary shares, 1 preference share and 1 debenture has issued. Highest number of company issued primary security is 23 which are in the fiscal year 2064/65 in which 18 ordinary share and 5 debentures. Lastly total 11 companies had issued primary securities in the fiscal year 2065/066. In which, 9 were ordinary shares and 2 debentures. Among these highest number of issued in every year is ordinary share (See at Figure 4.4).

Figure 4.4

No. of Primary Securities issued in different year



Trend analysis of all type of securities is shown below from table 4.7 to 4.10

4.5.1 Trend of ordinary share issue

In table 4.7 we have found that number of company which issues ordinary shares minimally increasing day by day. So in both coming fiscal years 2066/067 and 2067/068, the prediction of primary issue company will be stable i.e. 15 We can see it's trend line in figure 4.5 where the trend line is minimally increases from fiscal year 2058/059 to 2065/066.

Table 4.7
Trend of ordinary share issue

Year	No of ordinary share issue (Y)	Deviation (X)	XY	X ²	Trend of issue Y _c =a+bX
2058/59	9	-7	-63	-49	9.51
2059/60	12	-5	-60	25	10.15
2060/61	11	-3	-30	9	10.79
2061/62	5	-1	-5	1	11.43
2062/63	16	+1	16	1	12.07
2063/64	14	+3	42	9	12.71
2064/65	18	+5	90	25	13.35
2065/66	9	+7	63	49	13.99
N=8	Y=94	X=0	XY=53	X ² =162	

Here, Y_c =a+bX

Since, X=0,

$$a = \frac{Y}{N} = \frac{94}{8} = 11.75 \quad \& \quad b = \frac{XY}{X^2} = \frac{53}{168} = 0.32$$

For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively.

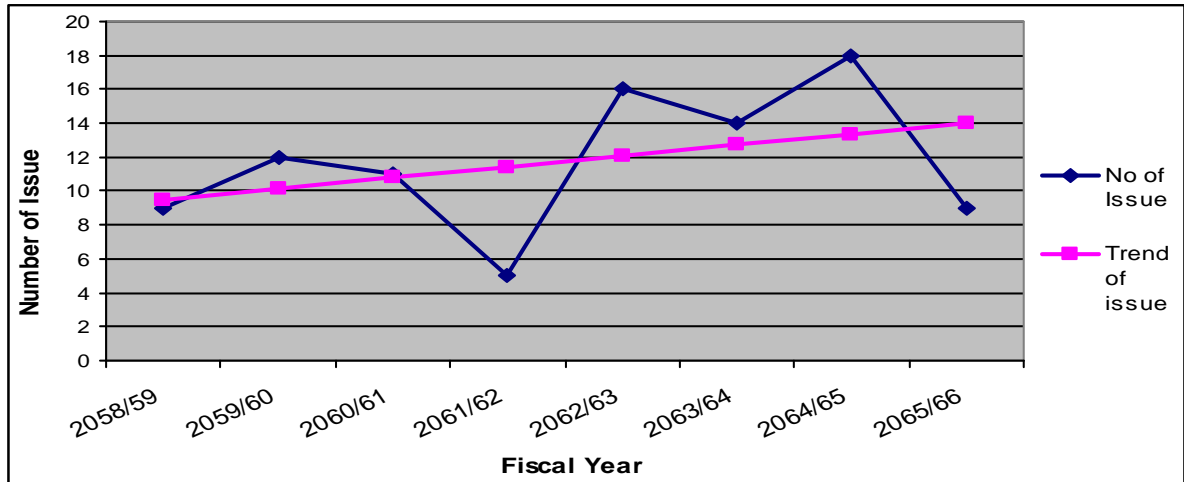
$$Y_{2066/67} = 11.75 + 0.32 \times 9 = 14.63 \approx 15 \text{ shares}$$

$$Y_{2067/68} = 11.75 + 0.32 \times 11 = 15.27 \approx 15 \text{ shares}$$

Thus For 2066/67, predicted number of Issue for = almost 15 shares and

For 2067/68, predicted number of Issue for =15 shares

Figure 4.5
Trend of number of Ordinary Share issue



4.5.2 Trend of Preference Share issue

Table 4.8 shows that preference share Issuer Company has decreases since fiscal year 2058/059 to 2065/066. Figure 4.6 has also proved it so that its trend line has become downward. It is proved that people are less interested in preference share.

Table 4.8
Trend of Preference Share issue

Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of Issue Y _c =a+bX
2058/59	1	-7	-7	49	1.93
2059/60	0	-5	0	25	1.45
2060/61	0	-3	0	9	0.97
2061/62	0	-1	0	1	0.49
2062/63	0	+1	0	1	0.01
2063/64	1	+3	3	9	-0.47
2064/65	0	+5	0	25	-0.95
2065/66	0	+7	0	49	-1.43
N=8	Y =2	X=0	XY=-4	X ² =168	

Here, $Y_c = a + bX$

Since, $X=0$,

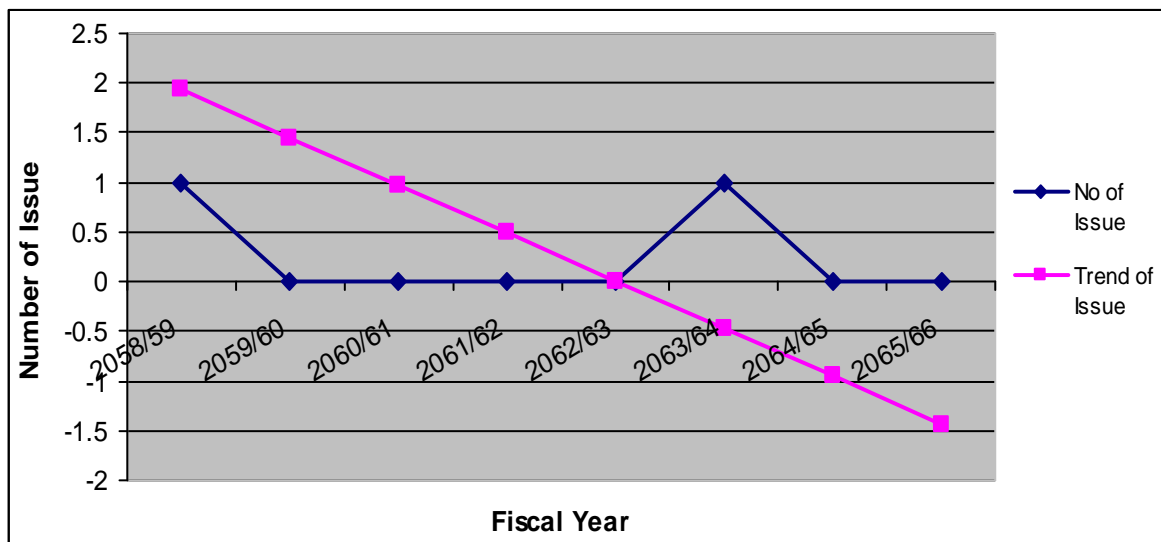
$$a = \frac{Y}{N} = \frac{2}{8} = 0.25 \quad \& \quad b = -\frac{XY}{X^2} = \frac{Z4}{168} = -0.24$$

For the Predicting year 2067 & 2068, X would be +9 & +11

For the year 2067, $Y_{2067} = 0.25 + (-0.24) \times 9 = -1.93$, and

For the year 2068, $Y_{2068} = 0.25 + (-0.24) \times 11 = -2.39$

Figure 4.6
Trend of number of Preference Share issue



4.5.3 Trend of Debenture issue:

Table 4.9 shows that trend of debenture is growing from 0.405 to 3.345 since initial year 2058/059 to 2065/066. Figure 4.7 also proved it so that its trend line has become making downward. It can prove that people were interested in it rather than preference share and Mutual Fund.

Table 4.9
Trend of Debenture issue

Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of Issue Y _c = a + bX
2058/59	1	-7	-7	49	0.405
2059/60	0	-5	0	25	0.825
2060/61	1	-3	-3	9	1.245
2061/62	1	-1	-1	1	1.665
2062/63	4	+1	4	1	2.085
2063/64	1	+5	3	9	2.505
2064/65	5	+5	25	25	2.925
2065/66	2	+7	14	49	3.345
N=8	Y=15	X=0	XY=35	X ² =168	

Here, Y_c = a + bX

Since, X=0,

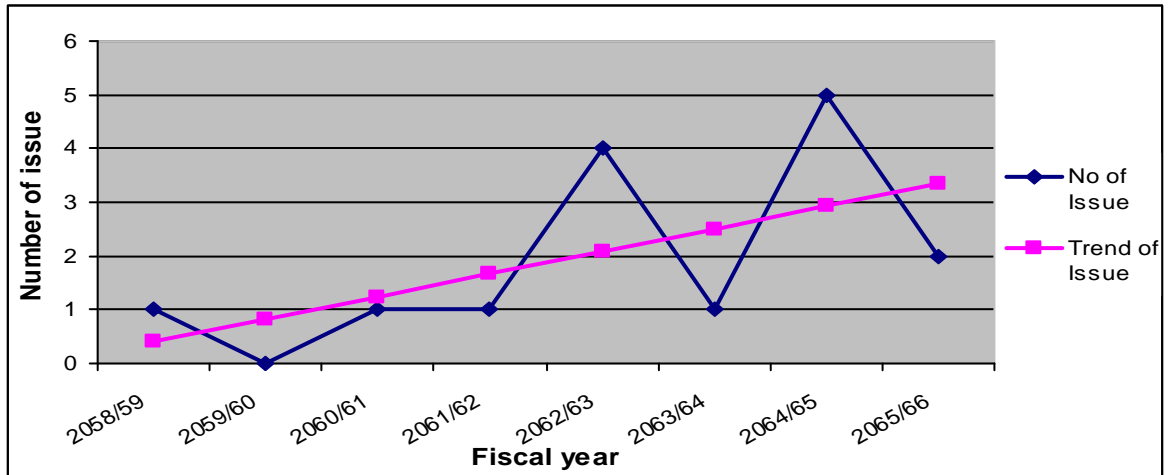
$$a = \frac{Y}{N} = \frac{15}{8} = 1.875 \quad \& \quad b = \frac{XY}{X^2} = \frac{35}{168} = 0.21$$

For the Predicting year 2066/67 & 2067/68, X would be +9 & +11

For the year 2066/67, $Y_{2066/67} = 1.875 + 0.21 \times 9 = 3.765$ – \square 4 Debentures

For the year 2067/68, $Y_{2067/68} = 1.875 + 0.21 \times 11 = 4.185$ – \square 4 Debentures

Figure 4.7
Trend of Debenture issue



4.5.4 Trend of Mutual fund:

Under the study period only one company issues mutual fund in 2059/60. It means people are less interested in mutual fund. In Table 4.10 the trend of issue declining since 2058/059 .Trend line in figure 4.8 also proved it so that it has made downward.

Table 4.10
Trend of Mutual fund issue

Fiscal Year	No of issue	Deviation X	XY	X ²	Trend of issue $Y_c = a + bX$
2058/059	0	-7	0	49	0.335
2059/60	1	-5	-5	25	0.275
2060/61	0	-3	0	9	0.215
2061/62	0	-1	0	1	0.155
2062/63	0	+1	0	1	0.095
2063/64	0	+3	0	9	0.035
2064/65	0	+5	0	25	-0.025
2065/66	0	+7	0	49	-0.085
N=8	X=1	X=0	XY=5	X ² =168	

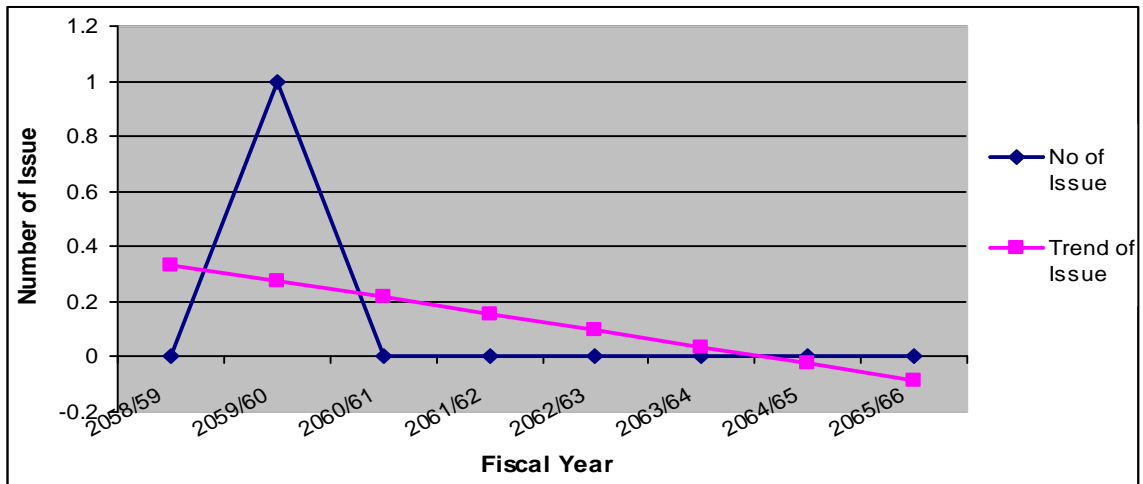
Here, $Y_c = a + bX$

Since, $X=0$,

$$a = \frac{Y}{N} = \frac{1}{8} = 0.125 \quad \& \quad b = -\frac{XY}{X^2} = \frac{Z5}{168} = -0.03$$

Due to negative trend in the previous fiscal year 2065/66 in mutual fund issue, it can be say that it will further negative trend in coming year as well.

Figure 4.8
Trend of Mutual fund issue



4.6 Over and Under Subscription

When the demand of securities is higher than issued securities, the situation is called the case of over subscription but if the demand of securities is lower than issued securities that situation is called under subscription.

Over subscription of the security is the great problem in the primary market. At present, most of the primary issue being oversubscribed. Almost public issue is done by finance sector and commercial banks sector and this public issue is being over subscription.

Over subscription and under subscription of share issued by different companies are presented in the table 4.11

Table 4.11
Over and Under Subscription of Securities

Fiscal Year	No. of Securities issued	Over subscribed		Under Subscribed	
		No.	%	No.	%
2058/059	11	10	90.91 %	1	9.09%
2059/060	13	12	92.30	1	7.70%
2060/061	12	12	100 %	0	0%
2061/062	6	6	100 %	0	0%
2062/063	20	20	100%	0	0%
2063/064	16	16	100%	0	0%
2064/065	23	23	100%	0	0%
2065/066	11	11	100	0	0%
Total	112	110	98.21%	2	1.79%

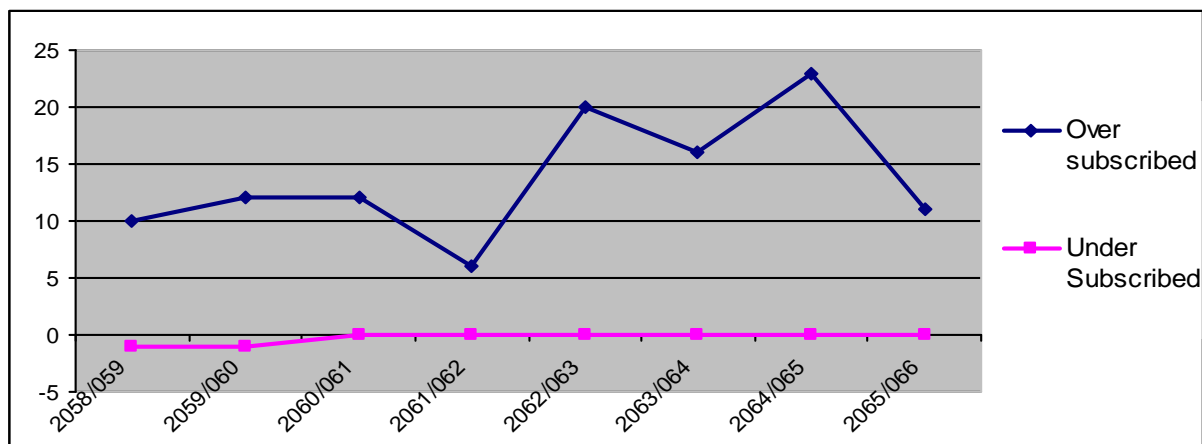
Source: Issue managers

Table 4.11 shows that during the period of fiscal year 2058/059 to 2065/066 total companies 112 companies issued their primary security for public subscription. Furthermore, all those companies who issued their primary security in fiscal year 2060/061 to 2065/066 have been fully oversubscribed i.e. out of the 112 share issuing companies 110 companies (98.21%) shares have been fully oversubscribed during the period. Only 2 companies from manufacturing/ processing sector and Nepal Electricity Authorities from Hydropower sector had undersubscribed. We presented on time series trend of number of oversubscribed and under subscribed securities in different year (see in figure 4.9).

Above data presents that, from fiscal year 2060/061 almost all of the companies has been oversubscribed .Which indicate that in these year primary security is most popular.

Figure 4.9

Graphical Presentation of Over and Under Subscription of Securities



4.7 Sector wise issue amount

NEPSE has categorized total companies into 9 sectors. Although during the study period, there is no new primary issue in trading, hotel and other sector. So I had taken only 6 sectors for study. The detail of sector wise primary securities issue during the period of 2058/059 to 2065/066 of such sectors have been presented in Table- 4.12

Table 4.12

Sector wise issued amount (Rs. In Millions)

Types of sectors	Total amount	% of Total
Commercial bank	7392.5	62.39
Development bank	1070.8	9.04
Finance Companies	1025.504	8.65
Insurance	215	1.81
Manufacturing and Processing	173.46	1.46
Hydropower	1972.17	16.64
Total	11849.434	100

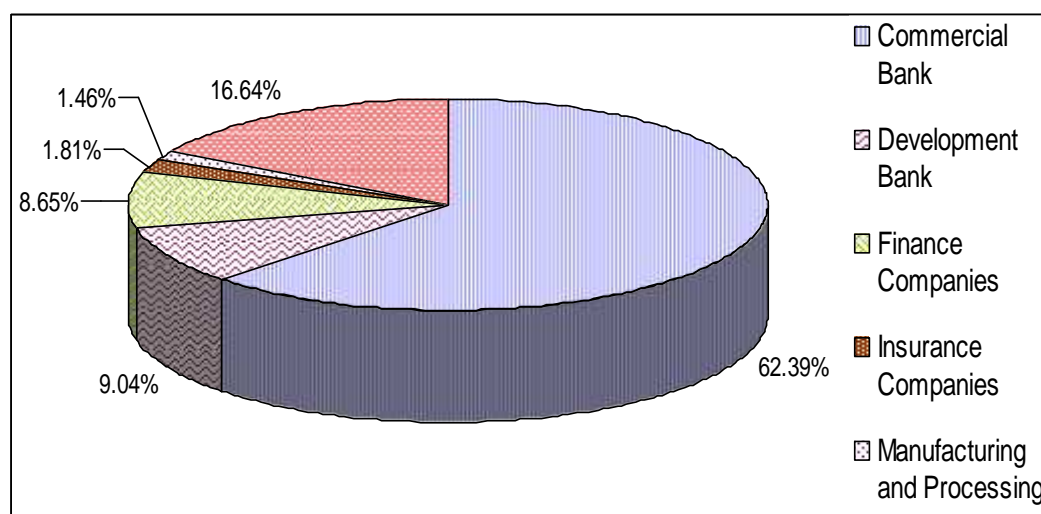
During the study period 112 companies have issued different types of securities to the public. The total amount of the issue is Rs. 11849.434 millions. Among the issues, Commercial bank

sector has issued highest portion to the general public. The total issue amount of the Commercial bank is Rs. 7392.5 millions which represent 62.39% of the total issue approved. Second highest amount of public issue is Hydropower and which is Rs. 1972.17 millions which is 16.64% of the total issued amount.

Similarly, Development banks issued Rs.1070.8 millions which is 9.04% of the total issued amount. Finance Companies issued Rs.1025.504 which is 8.65% of the total issued amount. Approximately 80% of the primary market is covered by banking sector

Similarly, insurance companies are also offered shares to the public. The total amount issued by insurance companies is Rs.215 million, which covers 1.81% of total amount of primary issued. Manufacturing and processing sectors has least issued among all six sectors. During the period, Manufacturing and processing sector issued Rs.173.46 million which is only 1.46% of the total primary issued amount in the study period.

Figure 4.10
Sector wise issued amount



4.8: Sector wise primary issued in different years

The detail of sector wise primary securities issue in different years during the period 2058/059 to 2064/065 have been presented in Table- 4.13

Table 4.13**Sector wise number of primary issue in different years**

Fiscal Year	Com. Bank	Dev. Bank	Finance Company	Insurance Company	Manu. & Processing	Hydro.	Total
2058/059	2	2	5	1	1	0	11
2059/060	2	0	8	2	0	1	13
2060/061	4	2	4	1	0	1	12
2061/062	1	1	4	0	0	0	6
2062/063	5	3	11	1	0	0	20
2063/064	2	9	5	0	0	0	16
2064/065	5	7	8	2	0	1	23
2065/066	6	2	2	0	0	1	11
Total	27	26	47	7	1	4	112

Table 4.13 shows that during the study period of 2058/059 to 2065/066, only 6 sectors issued their primary securities which are - Commercial bank, Development bank, Finance company, Insurance company, Manufacturing company and Hydropower . Finance companies were issued highest securities in every year. During the period, total 47 securities issued from Finance company sector. Commercial bank is in second position. During the period, total 27 securities issued from Commercial bank sectors.

Similarly, Development bank is in third position for number of primary security issue. During the period, Development bank's issued total 26 primary securities. Which means banking sector are forward in issuing primary securities. From total primary security issue, 99 (88.39%) securities were issued from banking sectors.

Similarly, Insurance Company and Hydropower were 4th and 5th position. During the period, 7 insurance companies and 4 Hydropower companies were issued primary securities .Only 1 Manufacturing and processing company issued primary security during the period.

Above data shows that, after the fiscal year 2058/059. Industrial sectors were not issued primary securities because most of the Industries are in loss due to conflict situation and inconsistent government .The trend of sector wise issue of primary security in different year is presented in table. 4.14 to 4.19.

4.8.1 Trend of Number of Commercial Bank Issue:

Table 4.14 shows that trend of primary security issue in commercial bank is increases from 1.667 to 5.083 since 2058/059 to 2065/066. The trend line in figure 4.11 also proved it so that its trend line has upward direction. It has also predicted that it will be 5.5 in 2066/067 and 6 commercial bank's will be issued in 2067/068. It can prove that people were more optimistic in commercial bank.

Table 4.14
Trend of Number of Commercial Bank Issue

Fiscal Year	No of issue (Y)	Deviation from 2062 (X)	XY	X ²	Trend of issue Y _c =a+bX
2058/59	2	-7	-14	49	1.667
2059/60	2	-5	-10	25	2.155
2060/61	4	-3	-12	9	2.643
2061/62	1	-1	-1	1	3.131
2062/63	5	+1	5	1	3.619
2063/64	2	+3	6	9	4.107
2064/65	5	+5	25	25	4.595
2065/66	6	+7	42	49	5.083
N=8	Y=27	X=0	XY=41	X ² =168	

Here, Y_c =a+bX

Since, X=0,

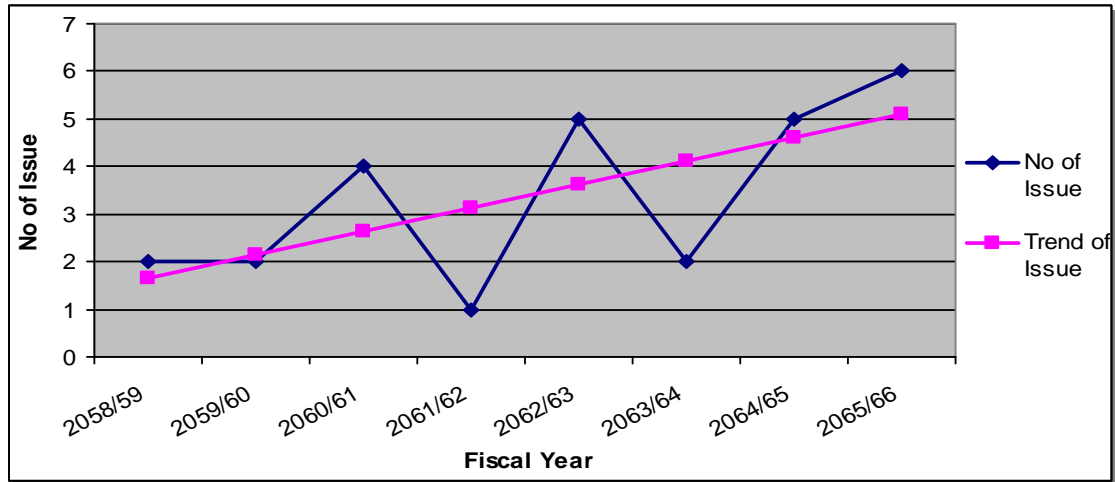
$$a = \frac{Y}{N} = \frac{27}{8} = 3.375 \quad \& \quad b = \frac{XY}{X^2} = \frac{41}{168} = -0.244$$

For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively. So,

For the predicting year 2066/67, $Y_{2066/67} = 3.375 + 0.244 \times 9 = 5.571$

For the predicting year 2067/68, $Y_{2067/68} = 3.375 + 0.244 \times 11 = 6.059$

Figure 4.11
Trend of Commercial Bank issue



4.8.2 Trend of number of Development Bank issue:

Table 4.15 shows that, under the period total 26 Development bank has been issued it is in increasing trend since 2058/059 to now 2065/066. Figure 4.12 also proved it so that its trend line is in upward direction. It can also prove that people are interested to invest its security.

Table 4.15
Trend of number of Development Bank issue

Fiscal Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of issue $Y_c = a + bX$
2058/59	2	-7	-14	49	0.835
2059/60	0	-5	0	25	1.525
2060/61	2	-3	-6	9	2.215
2061/62	1	-1	-1	1	2.905
2062/63	3	+1	3	1	3.595
2063/64	9	+3	27	9	4.285
2064/65	7	+5	35	25	4.975
2065/66	2	+7	14	49	5.665
N=8	Y=26	X=0	XY=58	X ² =168	

Here, $Y_c = a + bX$

Since, $X=0$,

$$a = \frac{Y}{N} = \frac{26}{8} = 3.25 \quad \& \quad b = \frac{XY}{X^2} = \frac{58}{168} = 0.345$$

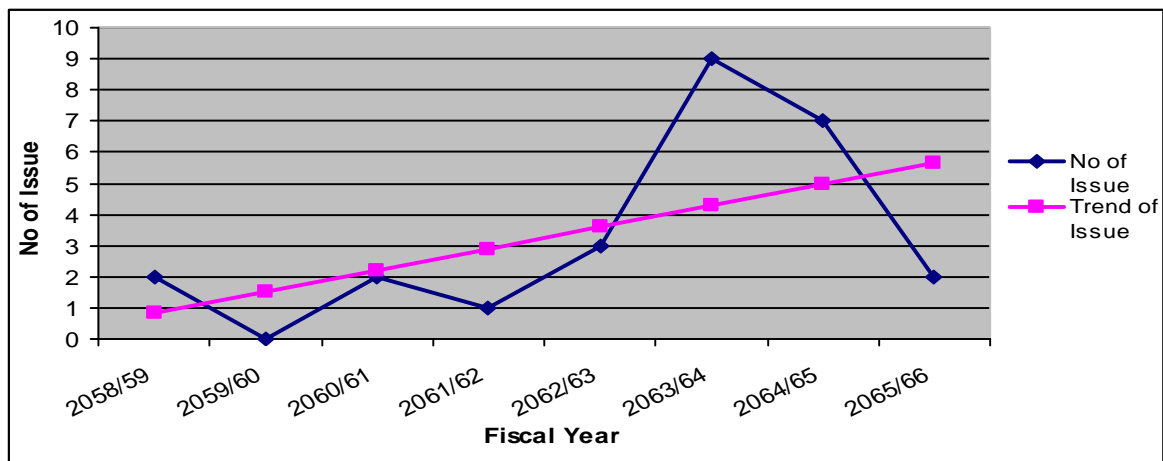
For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively. So,

For the predicting year 2066/67, $Y_{2066/67} = 3.25 + 0.345 \times 9 = 6.355$

For the predicting year 2067/68, $Y_{2067/68} = 3.25 + 0.345 \times 11 = 7.045$

Figure 4.12

Trend of number of Development Bank's issue



4.8.3 Trend of number of Finance Companies issue

Although, large number of finance companies were issued under the study period, it's trend of issue since 2058/059 to now 2065/066 is slightly decreasing which we can see in table 4.16.

The downward trend line of Figure 4.13 also proved it. It gives us a new message that people were slightly less interesting to invest such security.

Table 4.16
Trend of number of Finance Companies issue

Fiscal Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of issue Y _c =a+bX
2058/59	5	-7	-35	49	6.33
2059/60	8	-5	-40	25	6.20
2060/61	4	-3	-12	9	6.07
2061/62	4	-1	-4	1	5.94
2062/63	11	+1	11	1	5.81
2063/64	5	+3	15	9	5.68
2064/65	8	+5	40	25	5.55
2065/66	2	+7	14	49	5.42
N=8	Y=47	X=0	XY=-11	X ² =168	

Here, Y_c =a+bX

Since, X=0,

$$a = \frac{Y}{N} = \frac{47}{8} = 5.875 \quad \& \quad b = \frac{XY}{X^2} = \frac{-11}{168} = -0.065$$

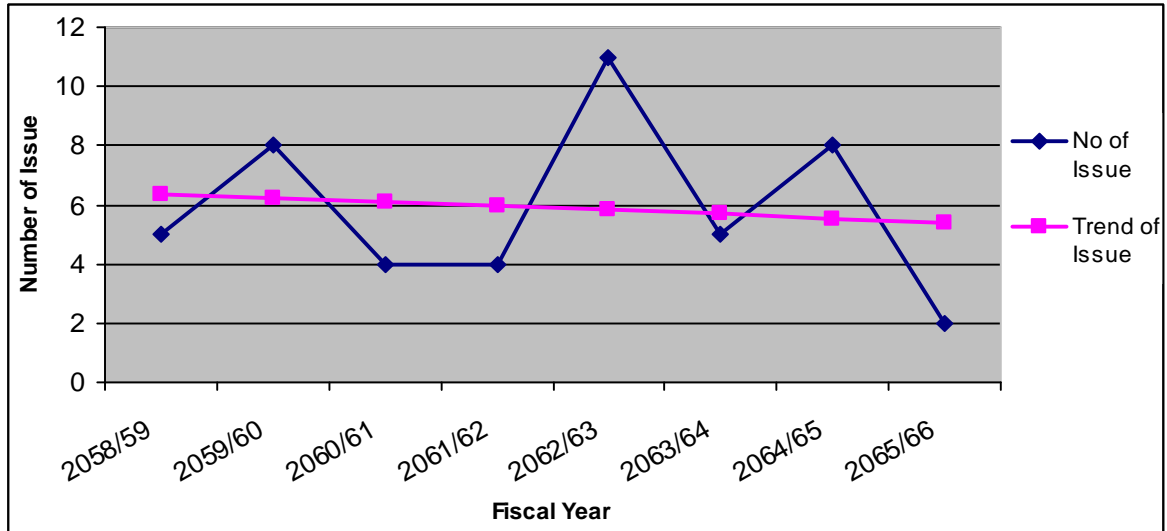
For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively. So,

For the predicting year 2066/67, $Y_{2066/67} = 5.875 + (-0.065) \times 9 = 5.29$

For the predicting year 2067/68, $Y_{2067/68} = 5.875 + (-0.065) \times 11 = 5.16$

Figure 4.13

Trend of number of Finance Companies issue



4.8.4 Trend of number of Insurance Companies issue:

Table 4.17 shows that trend of Insurance company issue is minimally decreasing but up to now it is not in negative point. Figure 4.14 is also proving about it so that its trend line is in downward movement.

Table 4.17

Trend of number of Insurance Companies issue

Fiscal Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of issue $Y_c = a + bX$
2058/59	1	-7	-7	49	1.253
2059/60	2	-5	-10	25	1.145
2060/61	1	-3	-3	9	1.037
2061/62	0	-1	0	1	0.929
2062/63	1	+1	1	1	0.821
2063/64	0	+3	0	9	0.713
2064/65	2	+5	10	25	0.605
2065/66	0	+7	0	49	0.497
N=8	Y=7	X=0	XY=-9	X ² =168	

Here, $Y_c = a + bX$

Since, $X=0$,

$$a = \frac{Y}{N} = \frac{7}{8} = 0.875 \quad \& \quad b = \frac{XY}{X^2} = \frac{Z9}{168} = -0.054$$

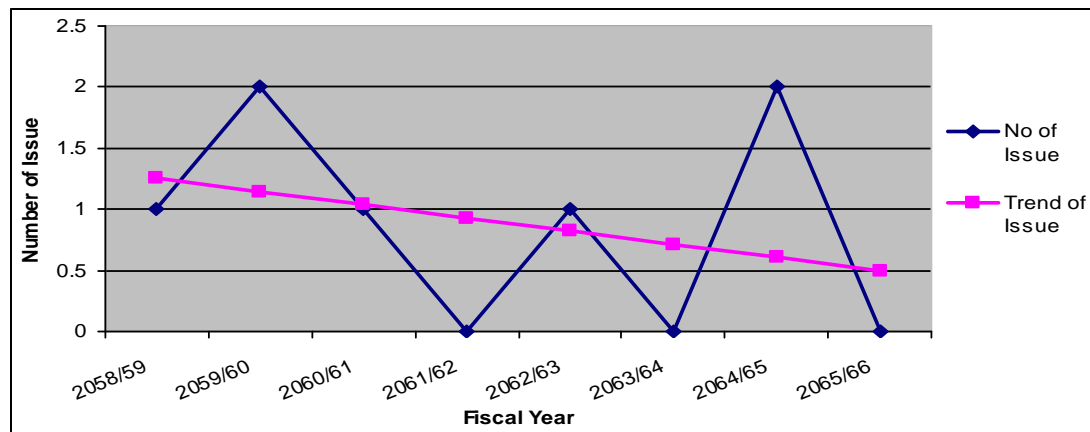
For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively. So,

For the predicting year 2066/67, $Y_{2066/67} = 0.875 + (-0.054) \times 9 = 0.389$

For the predicting year 2067/68, $Y_{2067/68} = 0.875 + (-0.054) \times 11 = 0.294$

Figure 4.14

Trend of number of Insurance Companies issue



4.8.5 Trend of number of Manufacturing & Processing Companies issue:

Table 4.18 shows that trend of manufacturing & processing companies issue is in decreasing and now it is in negative point. It is because since 2058/059 none of the Manufacturing & Processing Company issues primary security. Figure 4.15 shows that its trend line is in downward movement with crossing negative point. It can also proved that people have less interest to invest in Manufacturing & processing companies security

Table 4.18

Trend of number of Manufacturing & Processing Companies issue

Fiscal Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of issue Y _c = a + bX
2058/59	1	-7	-7	49	0.419
2059/60	0	-5	0	25	0.335
2060/61	0	-3	0	9	0.251
2061/62	0	-1	0	1	0.167
2062/63	0	+1	0	1	0.083
2063/64	0	+3	0	9	-0.001
2064/65	0	+5	0	25	-0.085
2065/66	0	+7	0	49	-0.169
N=8	Y=1	X=0	XY=-7	X ² =168	

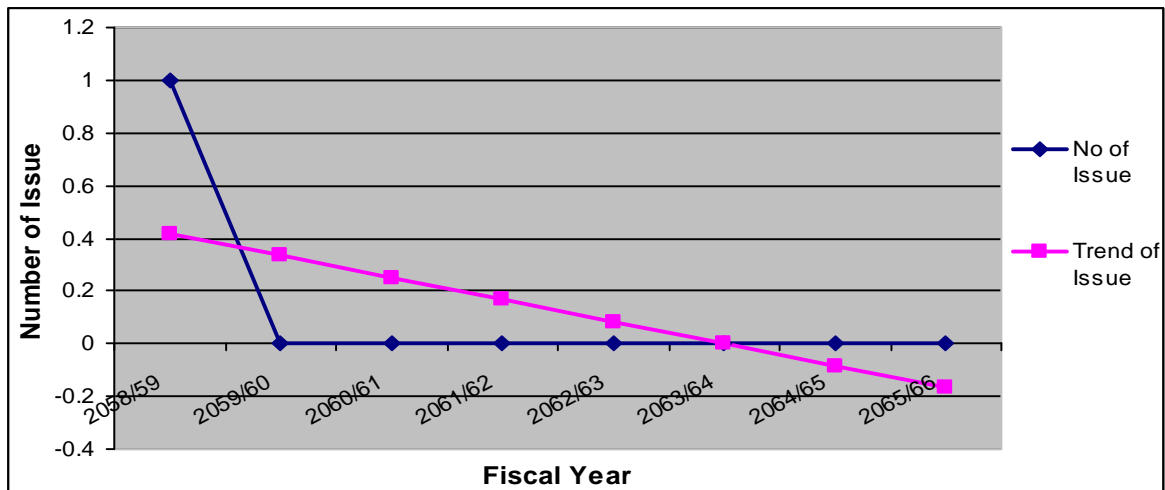
Here, $Y_c = a + bX$

Since, $X=0$,

$$a = \frac{Y}{N} = \frac{1}{8} = 0.125 \quad \& \quad b = -\frac{XY}{X^2} = \frac{-7}{168} = -0.042$$

Figure 4.15

Trend of number of Manufacturing & Processing Companies issue



4.8.6 Trend of number of Hydro Power Companies issue:

Table 4.19 shows that trend line of Hydropower Companies issue is slightly increasing. Figure 4.16 also proved about it so that its trend line is in upward movement. Because of the reason it can say that people are slightly attracting to invest in hydropower companies security.

Table 4.19
Trend of number of Hydro Power Companies issue

Fiscal Year	No of issue (Y)	Deviation (X)	XY	X ²	Trend of issue Y _c = a + bX
2058/59	0	-7	0	49	0.332
2059/60	1	-5	-5	25	0.38
2060/61	1	-3	-3	9	0.428
2061/62	0	-1	0	1	0.476
2062/63	0	+1	0	1	0.524
2063/64	0	+3	0	9	0.572
2064/65	1	+5	5	25	0.62
2065/66	1	+7	7	49	0.668
N=8	Y=1	X=0	XY=4	X ² =168	

Here, $Y_c = a + bX$

Since, $X=0$,

$$a = \frac{Y}{N} = \frac{4}{8} = 0.5 \quad \& \quad b = \frac{XY}{X^2} = \frac{4}{168} = 0.024$$

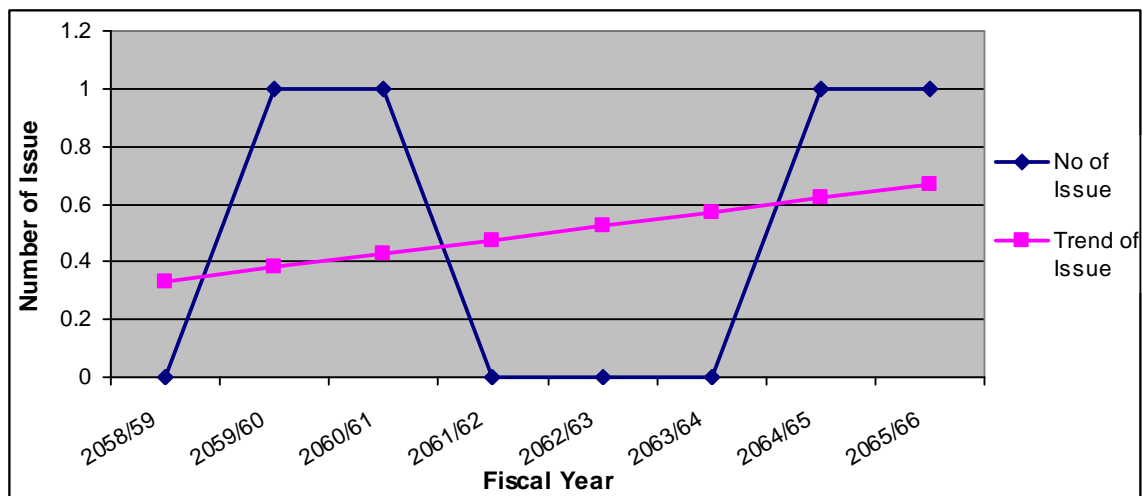
For the Predicting year 2066/67 & 2067/68, X would be +9 & +11 respectively. So,

for the predicting year 2066/67, $Y_{2066/67} = 0.5 + 0.024 \times 9 = 0.716$

for the predicting year 2067/68, $Y_{2067/68} = 0.5 + 0.024 \times 11 = 0.764$

Figure 4.16

Trend of number of Hydro Power Companies issue



4.9 Sector wise number of over and under subscription

The public response to the sector issue during the period of fiscal year 2058/059 to 2065/066, are presented in the table 4.20.

Table 4.20
Sector wise over and under subscription

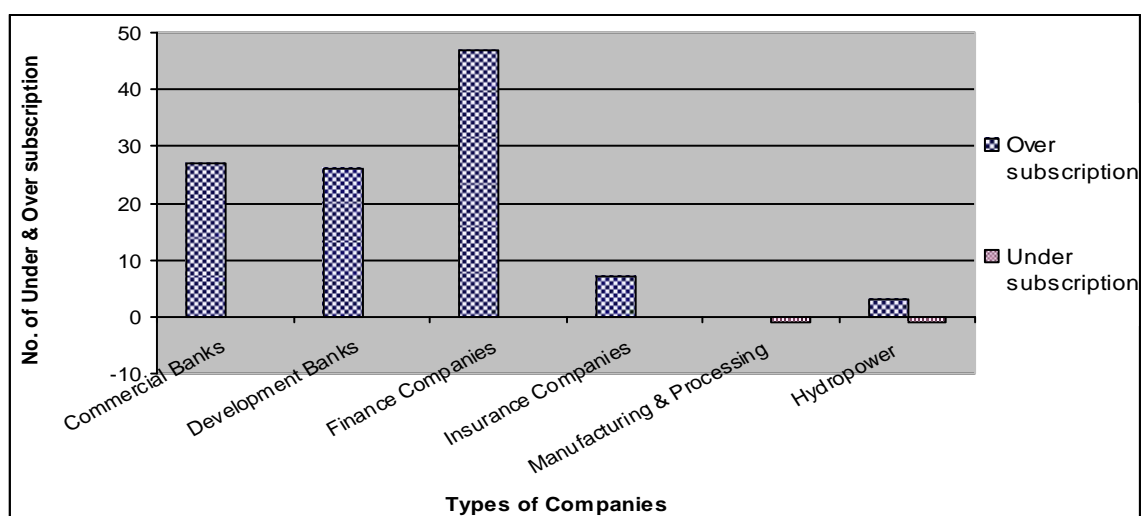
Sector	No. of share issued Companies	Over sub-scribed Co.		Under Sub-scribed Co.	
		No.	%	No.	%
Commercial Banks	27	27	100%	0	0%
Development Banks	26	26	100%	0	0%
Finance Companies	47	47	100%	0	0%
Insurance Companies	7	7	100%	0	0%
Manufacturing & Processing	1	0	0	1	100%
Hydropower	4	3	75%	1	25%
Total	112	110	98.21%	2	1.79%

Source: Issue managers

Table 4.20 shows that out of 112 companies issued the different types of primary securities for the public. Among them the highest securities issued companies are finance sector (47 companies), and it is followed by the commercial bank (27 companies). Third highest no. primary issue is Development bank. Whereas the least share issued companies are of Manufacturing and processing sector (1 company). Hydropower (4 companies) and Insurance companies (7 companies). In Hydropower company, only from Nepal Electricity Authorities primary issue (Debenture) has been undersubscribed.

During the study period of fiscal year 2058/059 to 2065/066 all share issued companies of Commercial bank, development bank, Finance company and Insurance company sector were fully over- subscribed which contains 98.21% of total primary issued. Only 2 Primary securities has under subscribed from Manufacturing and processing sector and Hydropower which contain 1.79% of total primary issued. Under hydropower sector, only from Nepal Electricity Authority's Debenture issue has been under subscribed.

Figure 4.17
Sector wise over and under subscription



4.10 Primary Data Analysis

The researcher conducted the research taking 50 investors as sample for the Public Response to primary market in Nepal. During the research period researcher asked the questions about the preference of the investment alternative, regulation of primary market, type of sector, preference of investment, problem of primary market and its solution at three different places .

The researcher visit and request to fill up the prepared questionnaires with 20 investors at NMB bank, Babarmahal, and Kathmandu who were came there to invest Global Bank's IPO. After 20 days the researcher take 10 investors view by filling questionnaire form at Share Market and Finance, New Road, Kathmandu where people were came for share application of Prime Commercial Bank's IPO. Researcher again requests to fill the questionnaire with 10 persons at Security Board of Nepal. Similarly, researcher request to fill the questionnaire with 10 persons at Nepal Rastra Bank. Findings of such research has presented below:

Preference of market for investment

Out of 50 respondents 70% showed their preference to invest in the primary market and rest 30% in the secondary market. Most of the investor thinks that the share price of companies in primary market is less than secondary market and they able to gain more capital gain from it.

Preference to investment	No. of respondents	% of respondents
Primary Market	35	70
Secondary Market	15	30
Total	50	100

Preference for alternative of investment

Out of 50 investors 84% showed their preference to invest in the common stock, 12% in Debenture and rest of the respondent in preferred stock. Those investors who want to take risk for higher return invest in common stock whereas those who want medium risk and medium return invest in debenture and preferred stock.

Preference to Alternative Investment	No. of respondents	% of respondents
Common stock	42	84
Preferred stock	4	8
Debenture	6	12
Total	50	100

Regulation of primary market

Most of the investor i.e. 80% responded that Nepalese primary market is not properly regulated. 16% investors are not aware about regulation and only 4% were says yes. They argue that limited issue manager are available in the market and their performance related to the primary market is very weak.

Primary market regulation	No. of respondents	% of respondents
Properly regulated	2	4
Not properly regulated	40	80
Don't Know	8	16
Total	50	100

Preferred sector for investment

Out of 50 respondents more than 50% responded to invest in banking sectors, 40% in hydropower sector, 8% in insurance companies and rest in others sector. Secondary market prices of these companies are high and they provide higher return to the investor as compared to other sectors.

Preferred sector	No. of respondents	% of respondents
Banking	25	50
Insurance	4	8
Hydropower	20	40
Other (Manuf., Hotel, Trading)	1	2
Total	50	100

Factor to choose investment alternative

Out of 50 respondents, 50% choose alternative investment for high market price, 30% choose for high profitability, 12% choose for long run profit rest 4% choose for high goodwill.

Factor to choose investment alternative	No. of respondents	% of respondents
High market price.	25	50
High profitability	15	30
Long run profit	6	12
High Goodwill	4	8
Total	50	100

Primary market performance

Out of the 50 investor 90% think that Nepalese primary market is slowly growing and rest think it is steady.

Primary market performance	No. of respondents	% of respondents
Steady	5	10
Slowly growing	45	90
Rapidly growing	0	0
Total	50	100

Problems of primary market

Out of 50 investor 70% think that the major problem of the primary market is unfavorable macroeconomic conditions and political instability of the country. And rest 30% thinks that the major problem of primary market is investor's lack of confident and Lack of Corporate Culture.

Problems of primary market	No. of respondents	% of respondents
Unfavorable macroeconomic condition	15	30
Political instability	20	40
Unconfident investors	11	22
Lack of Corporate Culture	4	8
Total	50	100

Recommendation to solve problem

Out of 50 investor 70% think that the solution of the primary markets problem is favorable macroeconomic conditions and political stability of the country whereas the rest of investor think that awareness of the investor and corporatization is the solution of this problem.

Recommendation to solve problem	No. of respondents	% of respondents
Favorable macroeconomic condition	15	30
Political Stability	20	40
Awareness to Investors	11	22
Corporatization	4	8
	50	100

CDS System performance

Out of 50 persons, 56% think that it can attract more investors in Nepalese security market. 20% think it cannot attract .Rest 24 % unknown about CDS system. This shows that several types of awareness program are need to the Nepalese investors.

Performance of CDS	No. of respondents	% of respondents
More attract to investors	28	56
No change	10	20
Don't know	12	24
Total	50	100

Consequences of compulsory bank account for primary share application

Out of 50 respondents, 62% investors think that it can attract more investors. 26% think it can make barrier for share application to the common investors where as 12% think that it does not affect in share application.

Consequences of provision	No. of respondents	% of respondents
Attract more investor	31	62
Discourage to the common investors	13	26
Does not affect	6	12
Total	50	100

Consequences of new rules regarding the share allotment period

Out of 50 participants, 88% investors are not satisfied with such a long period of time where as rest 12% were satisfied.

Satisfaction of fixed period of share allotment	No. of respondents	% of respondents
Satisfied	6	12
Not satisfied	44	88
Total		

Recommendation for Share allotment period

Out of 50 investors, 76% recommended that 30 to 45 days is suitable period for share allotment where as only 10% think that 45-60 days would be better and rest 14 % are hoping to shorten at 20-30 days. There is no any person who supports current period 60-75 days for share allotment.

Recommendation Allotment period	No. of respondents	% of respondents
20-30 days	7	14
30-45 days	38	76
45-60 days	5	10
60-75 days	0	0
Total	50	100

Procedure to follow investment

Out of 50 persons, 40% investors were invested by analyzing security.20% were invested by setting investment policy. 16% were invested by portfolio construction another 16% were invested after portfolio performance evaluation where as rest 8% were not followed any procedure.

Investment procedure	No. of respondents	% of respondents
Set investment policy	10	20
Analyze security	20	40
Portfolio construction	8	16
Portfolio revision	8	16
Portfolio Performance Evaluation	4	8
Total	50	100

Considerable factors for investment decision

Out of 50 persons, 32% were take investment decision by seeing increasing market price of same kind of shares. 24% were invested for earning per share.22% was invested by rumors in market. Only 18% were invested by analyzing companies overall performance and some 4% investors were invested for other factors like self satisfaction. Government should operate training program for such investors who were invested without any knowledge of security market.

Factors for investment decision	No. of respondents	% of respondents
Earnings per share	16	32
High market price of same kind of shares.	12	24
Rumors in the market	11	22
Company's overall performance	9	18
Others (Self satisfaction, Goodwill)	2	4
Total	50	100

Difficulties for investment and future prospects of primary security

The respondents were faced many difficulties they are:

- 1) Information and communication gap.
- 2) Only can apply from selected financial institution.
- 3) Due to long queue of investors it takes long time to apply in share.
- 4) Lack of knowledge about security market.
- 5) Shortcoming on Existing Securities Law and Regulations
- 6) Due to strike and political instability common people can not apply within the period.

Although investors were facing many problems 90% investors were very optimistic towards the future prospects of primary market.

4.10.1 Responses gained from the SEBO about the growth trend and problems of primary market and how could be problems resolved.

- The growths of primary market in Nepal are growing slowly.
- There is still dominance of common stock issue as the practice of issuing different instruments such as debenture and other advance modern instruments are yet to be popular.
- Accounting and auditing standards and practices should be improved.
- Disclosure and corporate governance practice should be improved.
- Initiatives should be taken to establish and promote C.R Agency.
- Open and Cry trading system hence should be improved and lack of adequate institutional development should be done.
- Trading system should be immediately automated, stock trading service should be availed to the investors operating in all the five regions, and institutional capability of the major relating agencies should be strengthened.
- The government should keep stock market development under its priority programs and efforts should be made to implement the programs accordingly.

4.10.2 Responses gained from NRB and Others:

- People invest in shares to get higher return than other kinds of investment whereas some people invest in share with speculative motive.
- Stock market is not heading towards the right direction now it is the position of stagnant for the long time.
- The situation can be improved by making conducive (helping) policy strict implementation of policy making clarity in rules and regulations.
- There are some problems in primary issue of shares.
- In transparency in share allocation, company takes longer time to refund the invested amount if the shares are not allocated for them.
- Invested in shares, hoping to get more benefit.

4.11 Prospects of Nepalese Primary Market

At present, individual Nepalese savers have extremely limited opportunities for investing their long-term savings. To secure maximum returns, these investors should have opportunities to invest into long-term corporate equities rather than depositing on the bank. However, because of the present state of the stock market, both individuals and institutions are putting far more of their saving into bank deposits and fixed interests government securities that they would if the market were working properly. Thus, long-term savings that should be invested in the stock market are going into short-term instruments.

After the adoption of liberal economic policy, large number of companies established in the past 13 year. These companies cover a broad range of industries including airlines, hydropower, water supply, gas, pharmaceuticals, paper, food and beverages, cement, iron and steel, textiles, banking, insurance, finance services, hotels and resorts. Though, still there is enough liquidity in the market at present, investors are willing to invest in the common stocks of public companies but the corporate bodies are not coming ahead to collect fund from the primary market through public issues. They are obtains loan from banking and financial institutions for their long-term capital requirement.

The retail investors are in search for long-term instrument with higher return for their savings. The number of insurance companies is growing and government is planning to establish a pension fund for its employees. Provident fund, pension fund as well as insurance companies would prefer to invest in the equity of profitable companies through IPO rather than depositing on the bank. Entrepreneurs, who are establishing new business in response to liberalizations, will be constrained in realizing their capital gains if they cannot sell part of their original equity in successful company after some years of growth. Thus, there exists opportunities for the investors to invest in the stock of corporate bodies and the corporate bodies have the opportunities of collecting required capital through the issue of stock through primary market. However, there are a lot of things to be done to transform the present state of primary market in to a healthy and efficient one where corporate bodies can easily raise funds according to their requirements and investors can invest their savings into a long-term instrument with higher return.

4.12 Obstruction and Future Prospects.

The capital market needs laws that make the procedures for public issue simple, transparent and unambiguous and defines clear roles and responsibilities of regulatory bodies. Lack of such laws is the main hindrance to the development of capital market. Lack of investor education, lack of professionalism in the part of the companies involved in securities business and inadequate attention to enhance the institutional capabilities are some of the factors that are also contributing to the impediments to primary stock market development.

Although there are many hurdles, the availability of enough liquidity in the market and the government's liberal economic policy, which is encouraging foreign as well as domestic investors to invest in various sectors such as hydropower, telecommunication, and infrastructure projects, is certainly going to have high prospects for primary market in Nepal.

4.13 Major findings of the study

Major findings of the study are described as follows:

- The total number of issue of the Nepalese capital market is increasing day by day. Although, total number of issue was less than the previous year in the year 2065/066, the

trend line is in upward direction which indicates that people are gradually interested to invest in primary market.

- After studying annual amount of issue approval from SEBO, it is finding that, in initial period there was less amount issued of primary securities rather than final year. The trend line of primary issue amount also moves in upward direction. That's why we can say that the primary market is increasing day by day.
- Under the study period, only four types of securities Ordinary share, preference share, debenture and Mutual fund are issued. The amount of Rs.5449.434, 840, 5460, and 100 million respectively of different securities has been issued at the study period. Which contains 46.08%, 7.09%, 45.09% and 0.84% of the total primary issued amount of Rs.11849.434 millions. This can prove that most of the people like to invest in ordinary share.
- The trend of ordinary share issue is in increasing so that it's trend line lies in upward direction. By which we can say that people were more attracted in ordinary shares rather than other types of primary security.
- The trend of preference share is decreasing and up to now it reaches at negative point and the trend line moves towards downward which indicates that people were less interested to invest in preference share.
- The trend of debenture issue is considerably increasing. The trend line also moves upward direction which indicates that people were more interested than preference share but not than ordinary share.
- Over the period only one Mutual fund issued so that it's trend line moves towards downward direction and touches negative point.

- Under the study period, Commercial banks were issued highest amount issue as comprised to other sectors. Hydropower Companies were issued the second highest amount. The third highest sector is Development bank. Similarly, Finance companies were issued fourth highest amount. On the other hand, second lowest and lowest amount of primary issue were Insurance Company and Manufacturing sector. After all it is finding banking sector is most investors top most choice of investment area.

- The trend of primary issue in commercial bank, The trend of development bank and the trend of Hydropower are increasing and trend line of all of them are moves towards upward. In contrast although, finance companies were issued highest securities in every year, the trend of finance company moves towards downward. Likewise, the trend of Insurance companies and the trend of Manufacturing and processing companies are decreasing.

- Under the study period, only 2 companies primary issue has been Undersubscribed on the fiscal year 2058/059 and 2059/060 .Which contains 1.87% of total primary issue .After the fiscal year 2059/060 i.e. from 2061/062 to 2065/066 all of the company's primary issue has been oversubscribed .which contains 98.13% of total primary issue. After all, we can conclude that the future prospect of the primary security is very enlightenment.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Primary market is one of the important components of capital market. Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Capital markets provide an effective way of raising money for commercial enterprises and in the meantime provide an investment opportunity for individuals and institutions. Thus, primary markets have increasing both theoretical and practical perspectives. This study mainly aims to examine the primary market's problem and prospectus in Nepalese capital market. The specific objectives of this study are:

After studying annual amount of issue approval from SEBO, it is finding that, in initial period there was less amount issued of primary securities rather than final year. The trend line of primary issue amount also moves in upward direction. That's why we can say that the primary market is increasing day by day. only four types of securities Ordinary share, preference share, debenture and Mutual fund are issued. The amount of Rs.5449.434, 840, 5460, and 100 million respectively of different securities has been issued at the study period. Which contains 46.08%, 7.09%, 45.09% and 0.84% of the total primary issued amount of Rs.11849.434 millions. This can prove that most of the people like to invest in ordinary share.

Over the period only one Mutual fund issued so that it's trend line moves towards downward direction and touches negative point. The trend of ordinary share issue is in increasing so that it's trend line lies in upward direction. By which we can say that people were more attracted in ordinary shares rather than other types of primary security. The total number of issue of the Nepalese capital market is increasing day by day. Although, total number of issue was less than the previous year in the year 2065/066, the trend line is in upward direction which indicates that people are gradually interested to invest in primary market.

Although, some studies regarding the different issues of primary market are already conducted in Nepal, the study based on the primary market its problems and prospectus in Nepalese capital market is probably the first in Nepal. This study is based on the primary and secondary data with large sample of primary issue companies from different sectors. This study covers almost all sectors/companies (i.e. banking sector, finance sector, development bank sector, manufacturing and processing sector, hydropower sector and insurance sector) issuing securities to the public. For the purpose of this study, the necessary secondary data has been collected since 2058/059 to 2065/066 with respect to annual reports, other bulletin of NEPSE and the annual reports of SEBO/N and the annual reports of specific companies. This study is based on time series data analysis of 112 observations of the sample companies. The time series data are used to trace out the current situation of primary market problem in Nepal. This study used different tools to accomplish its objectives. The multiple bar diagram, pie-chart were used to analyze the picture of primary market condition in Nepal.

5.2 Conclusions

Based on the findings of the study, it is be concluded that companies have issued basically four types of securities in Nepalese Primary market.(that are ordinary shares, preference shares, mutual fund's and debentures). The total number of primary issue in the Nepalese capital market is increasing day by day.

- Although number of security issue decreases in fiscal year 2065/066 average trend line is in upward direction. That's why we can say that future prospect of primary issue is higher.
- Although, number of primary issue is in second last position in 2065/066, it is in second position regarding the amount of primary issue. Amount of issue is in increasing trend over the period. Which can proved that primary security is most popular among the public.
- The highest amount of primary issue was debenture and Ordinary share which is around 46% of total issue amount. Preference shares and mutual fund are issues approximately 9% and 1% of total issue amount respectively. It proved that ordinary share is most popular among the investors.
- Likewise, highest number of primary issue is from ordinary share. Debenture and Preference share are second and 3rd position. Only 1 company issued mutual fund. The trend line of

ordinary share and debentures are in upward direction where as preference shares and mutual funds are in downward movement so that we can conclude that ordinary share is most popular security among the investors.

- Under the sector wise primary issue, maximum amount i.e. around 80% of total issue has been from banking sector(i.e. Commercial bank, Development bank and Finance company). Hydropower, Insurance company and Manufacturing company sector are 2nd, 3rd and 4th position. After all it can be proved that most popular sector for the primary issue is banking sector.
- Under the sector wise issue, Commercial bank, Development bank and Hydropower sectors trend line are in upward direction where as Insurance company, finance company and Manufacturing / processing companies trend lines are in downward movement .which can proved that banking sectors and hydropower sectors are more popular for investment.
- Under the study period, only 2 companies primary issue has been Undersubscribed on the fiscal year 2058/059 and 2059/060 .Which contains 1.87% of total primary issue. After the fiscal year 2059/060 i.e. from 2061/062 to 2065/066 all of the company's primary issue has been oversubscribed which contains 98.13% of total primary issue. It indicates that future prospect of primary security is very high.
- Likewise, the situation of sector-wise issue also indicate that most of the primary share issued from banking (i.e. Commercial Bank, Development bank and Finance Company) and insurance sector are fully over-subscribed while Manufacturing sector is undersubscribed. Although, majority of such issues were also over-subscribed by many times. It can prove that primary security is emerging sector for Investment opportunity?

These all indicate the problem and prospectus of primary market in Nepalese capital market.

5.3 Recommendations

To develop and expand the Nepalese primary market more effective and efficiently, the following recommendations have been recommended:

- The Security Board of Nepal and other concerned authorities should conduct public awareness and investors education programs to increase the level of investors' awareness.

- The government should make clear and specific plans and policies to expand the capital market and should implement these.
- The information and financial statements of the companies should be disseminated properly and timely.
- The market intermediaries should be educated, trained and professionalized.
- Large and ineffective government corporations should be privatized in order to develop the Nepalese stock market through the wide spread distribution of shares to public investors.
- Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial health and future prospects of organizations/Instruments.
- Encourage active participation of other sectors of the economy besides banks, finance companies and insurance through the enforcement of good corporate governance. Investment in corporate sectors should be encouraged.
- A professional independent analysis on the latest security offers in the capital market should be encouraged. Economic journalism is encouraged to come forward to fulfill their responsibility to the society and the expectation of the investor which help to take investment decision
- Encourage to the issue of debenture, preference share and other instruments to the public because most of the companies issues common stock for the public.
- Due to the training and orientation program about investment of share, its advantages disadvantages, how we select the right company to invest etc. should be provide to the public investors.

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Appendix -I

Public Issue Approval

((Fiscal Year 2058/059))

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permission Date	Issue Manager/ Fund Manager
1	Himalayan Distillery Ltd.	Ordinary Share	173.46	10/08/2001	NCML
2	Nepal Housing & Merchant Finance Ltd.	Rights Share	15.00	20/11/2001	NSML
3	Union Finance Co. Ltd.	Ordinary Share	24.00	20/12/2001	NCML
4	Development Credit Bank Ltd.	Ordinary Share	48.00	02/01/2002	NMB
5	Ace Finance Ltd.	Rights Share	45.00	02/01/2002	NSML
6	Nepal SBI Bank Ltd.	Rights Share	287.87	15/01/2002	NMB
7	NIDC Capital Markets Ltd.	Rights Share	40.00	18/03/2002	CIT
8	Nepal Bank Of Ceylon Ltd.	Ordinary Share (Not issued)	150.00	25/03/2002	NCML, CIT, NSMB
9	United Finance Ltd.	Ordinary Share	24.00	08/05/2002	NMB
10	Himalayan Bank Ltd.	Debenture	360.00	04/06/2002	NMB
11	Nepal Life Insurance Co. Ltd.	Ordinary Share	50.00	07/06/2002	NMB
12	Nirdhan Utthan Bank Ltd.	Ordinary Share	3.30	14/06/2002	CIT
13	Everest Bank Ltd.	Pref. Share	140.00	18/06/2002	NSML
14	International Leasing & Finance Co. Ltd.	Ordinary Share	30.00	26/06/2002	NMB
15	Gorkha Finance Ltd.	Ordinary Share	10.00	05/07/2002	NSML
16	Shree Investment & Finance Co. Ltd.	Ordinary Share	16.00	16/07/2002	CIT
	Citizen Unit Scheme	Additional Sale	138.48*		
	Total		1555.11		

** Only the amount as per the renewed issue approval is included*

CIT	Citizen Investment Trust
NCML	NIDC Capital Markets Limited
NFCL	National Finance Company Limited
NSML	Nepal Share Markets Limited

Appendix-II

Public Issue Approval

((Fiscal Year 2059/060))

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permission Date	Issue Manager/ Fund Manager
1	Life Insurance Corporation (Nepal) Ltd.	Ordinary Share	50.00	22/07/2002	NCML
2	Nepal Srilanka Merchant Bank Ltd.	Ordinary Share	40.00	23/07/2002	NCML
3	NIDC Capital Markets Ltd.	Mutual Fund	100.00	09/08/2002	Mgmt.: NCML Trusty: NIDC
4	Nepal Investment Bank Ltd.	Rights Share	57.24	19/08/2002	NCML
5	Janaki Finance Co. Ltd.	Ordinary Share	8.00	28/08/2002	NEFINSCO
6	Central Finance Co. Ltd.	Ordinary Share	8.00	17/09/2002	NCML
7	Navadurga Finance Co. Ltd.	Ordinary Share	8.00	4/12/2002	NEFINSCO
8	Premier Finance Co. Ltd.	Ordinary Share	8.00	24/12/2002	NCML
9	Machhauchhre Bank Ltd.	Ordinary Share	165.00	31/12/2002	NMB
10	Nepal Share Markets & Finance Ltd.	Rights Share	60.00	06/01/2003	CIT
11	Mahalaxmi Finance Ltd.	Rights Share	25.00	12/02/2003	NFCL
12	NB Insurance Co. Ltd.	Ordinary Share	20.00	02/04/2003	CIT
13	Peoples Finance Ltd.	Rights Share	20.00	05/05/2003	NCML
14	Butwal Finance Ltd.	Ordinary Share	20.00	22/05/2003	NMB
15	Om Finance Ltd.	Ordinary Share	8.00	18/06/2003	NEFINSCO
16	Laxmi Bank Ltd.	Ordinary Share	192.50	30/06/2003	CIT
17	Standard Finance Ltd.	Ordinary Share	24.00	01/07/2003	NMB
	Citizen Unit Scheme	Additional Sale	40.09*		
Total			853.83		

** Only the amount as per the renewed issue approval is included*

CIT Citizen Investment Trust

NCML	NIDC Capital Markets Limited
NEFINSCO	Nepal Finance and Savings Company Limited
NFCL	National Finance Company Limited
NMB	Nepal Merchant Banking and Finance Company Limited

Appendix-III

Public Issue Approval

((Fiscal Year 2060/061))

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permissi on Date	Issue Manager/ Fund Manager
1	Alpic Everest Finance Ltd.	Rights Share	20.00	21/08/2003	NEFINSCO
2	Nepal Investment Bank Ltd.	Debenture	300.00	14/10/2003	AFCL
3	Cosmic Merchant Banking & Finance Ltd.	Ordinary Share	24.00	21/10/2003	NMB
4	Kumari Bank Ltd.	Ordinary Share	150.00	12/11/2003	NCML, CIT
5	Siddhartha Finance Ltd.	Rights Share	20.00	14/11/2003	NEFINSCO
6	Fewa Finance Co. Ltd.	Ordinary Share	8.00	06/02/2004	NMB
7	Nepal Credit & Commerce Bank Ltd.	Ordinary Share	210.00	13/02/2004	NCML, CIT
8	Prudential Insurance Co. Ltd.	Ordinary Share	20.00	22/04/2004	NMB
9	NB Finance & Leasing Co. Ltd.	Rights Share	30.00	10/05/2004	NSMBL
10	Pashchimanchal Development Bank Ltd.	Ordinary Share	6.00	24/05/2004	NCML
11	Chhimake Development Bank Ltd.	Ordinary Share	3.00	24/05/2004	NMB
12	Lumbini Bank Ltd.	Ordinary Share	150.00	02/06/2004	CIT
13	Kist Merchant Banking & Finance Ltd.	Ordinary Share	20.00	08/06/2004	NMB

1 4	NB Bank Ltd.	Rights Share	359.92	17/06/2004	NSMBL
1 5	World Merchant Banking & Finance Ltd.	Ordinary Share	24.00	08/07/2004	NMB
1 6	National Hydro Power Co. Ltd.	Ordinary Share	140.00	15/07/2004	NCML, NSMBL
	Citizen Unit Scheme	Additional Sale	62.87*		
	Total		1547.79		

** Only the amount as per the renewed issue approval is included*

AFCL	Ace Finance Company Limited
CIT	Citizen Investment Trust
NCML	NIDC Capital Markets Limited
NEFINSCO	Nepal Finance and Savings Company Limited
NMB	Nepal Merchant Banking and Finance Company Limited
NSMBL	Nepal Sri Lanka Merchant Bank Limited

Appendix-IV

Public Issue Approval

(Fiscal Year 2061/062)

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permission Date	Issue Manager/ Fund Manager
1	Annapurna Finance Company Ltd.	Rights Share	20.00	07/10/2004	NCML
2	Birgunj Finance Ltd.	Ordinary Share	24.00	05/11/2004	NMB
3	Diprosch Bikash Bank Ltd.	Ordinary Share	3.48	12/01/2005	NMB
4	Nirdhan Udthan Bank Ltd.	Rights Share	15.00	28/03/2005	NMB
5	Everest Bank Ltd.	Debenture	300.00	30/03/2005	CIT
6	Nepal SBI Bank Ltd.	Rights Shares	215.93	6/04/2005	NMB
7	Everest Finance Ltd.	Ordinary Share	8.00	02/05/2005	NMB
8	Nepal Investment Bank Ltd.	Rights Shares	295.29	02/05/2005	AFCL
9	Capital Merchant Banking & Finance	Ordinary Share	28.00	24/05/2005	CIT
10	National Finance Ltd. (Bittiya Samsthan)	Rights Shares	43.20	02/06/2005	NCML
11	Development Credit Bank Ltd.	Rights Shares	80.00	14/07/2005	NMB

12	Chilime Hydropower Limited (for staffs including retired, director, ex-director of Nepal Bidhut Pradhikarn and staffs of the issuing companies)	Ordinary Share	237.41	14/07/2005	CIT
	Total		1270.31		

AFCL Ace Finance Company Limited

CIT Citizen Investment Trust

NCML NIDC Capital Markets Limited

NMB Nepal Merchant Banking and Finance Company Limited

Appendix-V

Public Issue Approval

(Fiscal Year 2062/063)

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permission Date	Issue Manager/ Fund Manager
1	Siddhartha Bank Limited	Ordinary Share	150.00	03/08/2005 (2062/4/19)	NCML & NMB
2	Srijana Finance Limited (Bittiya Sansthan)	Ordinary Share	4.00	03/08/2005 (2062/4/19)	NCML
3	Prudential Financial Institute Limited	Ordinary Share	24.50	17/08/2005 (2062/5/1)	NCML
4	Bank of Kathmandu Limited	Debenture	200.00	07/09/2005 (2062/5/22)	NMB
5	Merchant Finance Company Limited	Ordinary Share	12.00	20/09/2005 (2062/6/4)	NEFINSCO
6	Kumari Bank Ltd.	Rights Share	125.00	23/11/2005 (2062/8/6)	NCML

7	Nepal Development Bank	Rights Share	160.00	26/12/2005 (2062/9/11)	NCML
8	Fewa Finance Company Ltd.	Rights Share	30.00	26/12/2005 (2062/9/11)	NMB
9	Om Finance Ltd.	Rights Share	30.00	26/12/2005 (2062/9/11)	NMB
10	Gandaki Financial Institution Limited	Ordinary Share	15.00	28/12/2005 (2062/9/13)	NMB
11	Goodwill Finance Co. Ltd.	Rights Share	25.00	03/01/2006 (2062/9/19)	NCML
12	Business Financial Institution Limited	Ordinary Share	12.00	05/01/2006 (2062/9/21)	NCML
13	Royal Merchant Banking & Finance Ltd.	Ordinary Share	17.50	25/01/2006 (2062/10/12)	CIT
14	Bajuratna Finance & Saving Co. Ltd.	Ordinary Share	10.50	31/01/2006 (2062/10/18)	NCML
15	Central Finance Ltd. (Bittiya Sansthan)	Rights Share	12.00	02/02/2006 (2062/10/20)	NCML
16	Taragaon Regency Hotels Ltd.	Rights Share	446.45	07/02/2006 (2062/10/25)	NCML
17	Janaki Finance Co. Ltd. (Bittiya Sansthan)	Rights Share	10.00	21/02/2006 (2062/11/9)	NEFINSCO
18	Guheshwori Merchant & Banking Ltd.	Ordinary Share	20.00	21/03/2006 (2062/12/8)	NCML
19	Siddhartha Bikash Bank Ltd. (B. S.)	Ordinary Share	20.00	27/03/2006 (2062/12/14)	NMB
20	Shikhar Insurance Co. Ltd.	Ordinary Share	25.00	19/04/2006 (2063/1/6)	NMB
21	IME Financial Institution Limited.	Ordinary	17.50	26/04/2006	NMB

		Share		(2063/1/13)	
22	Machhapuchchre Bank Ltd.	Rights Share	165.00	01/05/2006 (2063/1/18)	NMB
23	Bhrikuti Bikash Bank Ltd. (B.S.)	Ordinary Share	6.42	02/05/2006 (2063/1/19)	NCML
24	Nepal Share Markets & Finance Ltd. (B.S.)	Rights Share	40.00	10/05/2006 (2063/1/27)	CIT
25	Kist Merchant Banking & Finance (B.S.)	Rights Share	50.00	11/05/2006 (2063/1/28)	NMB
26	Patan Finance Limited (B.S.)	Ordinary Share	20.00	29/05/2006 (2063/2/15)	NEFINSCO
27	Nepal Investment Bank Ltd.	Debenture	250.00	30/05/2006 (2063/2/16)	ACE
28	Nepal Industrial and Commercial Bank Ltd.	Debenture	200.00	31/05/2006 (2063/2/17)	ACE
29	Nepal SBI Bank Ltd.	Debenture	200.00	25/06/2006 (2063/3/11)	CIT
30	Narayani Audhogik Bikash Bank Ltd. (B.S.)	Ordinary Share	6.00	29/06/2006 (2063/3/15)	NEFINSCO
31	Pokhara Finance Ltd. (B.S.)	Rights Share	20.00	29/06/2006 (2063/3/15)	NCML
32	Sanima Bikash Bittiya Sanstha Ltd.	Ordinary Share	96.00	04/07/2006 (2063/3/20)	NMB
33	Paschimanchal Bikash Bank Ltd (BS)	Rights Share	28.00	09/07/2006 (2063/3/25)	NCML
34	Lumbini Bank Limited	Rights Share	100.00	13/07/2006 (2063/3/29)	NCML
	Total		2547.87		

NCML NIDC Capital Markets Limited (Bittiya Sanstha)

NMB Nepal Merchant Banking and Finance Company Limited (Bittiya Sanstha)

NEFINSCO	Nepal Finance and Saving Company Limited (Bittiya Sanstha)
CIT	Citizen Investment Trust
ACE	Ace Finance Company Limited (Bittiya Sanstha)

Appendix-VI**Public Issue Approval****(Fiscal Year 2063/064)**

S. N.	Name of Issuing Company	Types of securities	Amount of Issue Approved (Rs. in million)	Permission Date	Issue Manager
1	Bageshwori Bikash Bank Ltd.(B.S)	Ordinary Share	9.00	18/07/2006 (2063/4/2)	NMB
2	Peoples Finance Ltd. (B.S.)	Rights Share	40.00	03/08/2006 (2063/4/18)	NCML
3	Chhimek Bikash Bank Ltd. (B.S.)	Rights Share	20.00	01/09/2006 (2063/5/16)	NMB
4	Sahayogi Bikash Bank Ltd. (B.S.)	Ordinary Share	6.00	03/09/2006 (2063/5/18)	NCML
5	Alpic Everest Finance Ltd. (B.S.)	Rights Share	20.00	07/09/2006 (2063/5/22)	NMB
6	Nepal Development Bank Ltd. (B.S.)	Rights Share	160.00	30/10/2006 (2063/7/13)	NCML
7	Navadurga Finance Co. Ltd. (B.S.)	Rights Share	11.00	12/12/2006 (2063/8/26)	NEFINSCO
8	Gorkha Development Bank Ltd.	Ordinary Share	96.00	31/12/2006 (2063/9/16)	NMB & NCML
9	Ace Finance Co. Ltd. (B.S.)	Rights Share	194.00	12/01/2007 (2063/9/28)	NCML
10	Annapurna Finance Co. Ltd. (B.S.)	Rights Share	80.00	15/01/2007 (2063/10/1)	NCML
11	Swabalamban Bikash Bank Ltd. (B.S.)	Ordinary Share	6.00	26/01/2007 (2063/10/14)	NMB
12	Himchuli Bikash Bank Ltd.	Ordinary Share	12.00	04/02/2007 (2063/10/21)	NCML

13	Imperial Financial Institution Ltd.	Ordinary Share	19.50	06/02/2007 (2063/10/23)	NMB
14	Annapurna Bikash Bank Ltd. (B.S.)	Ordinary Share	29.40	21/02/2007 (2063/11/9)	NEFINSCO
15	Yeti Finance Ltd. (B.S.)	Rights Share	6.25	05/03/2007 (2063/11/21)	NCML
16	ICFC Bittiya Sanstha Ltd.	Ordinary Share	24.354	08/03/2007 (2063/11/24)	NMB
17	Civil Merchant Bittiya Sanstha Ltd.	Ordinary Share	20.00	15/03/2007 (2063/12/1)	NEFINSCO
18	Capital Merchant Banking & Finance Ltd.	Rights Share	84.00	28/03/2007 (2063/12/14)	CIT
19	Laxmi Bank Limited	Rights Share	122.00	04/04/2007 (2063/12/21)	NMB
20	Business Development Bank Ltd.	Rights Share	30.00	18/04/2007 (2064/1/5)	ACE
21	Nepal Express Finance Limited	Ordinary Share	15.00	23/04/2007 (2064/1/10)	NCML
22	Kist Merchant Banking & Finance Ltd.	Rights Share	100.00	04/05/2007 (2064/1/21)	NCML
23	Siddhartha Bank Ltd.	Rights Share	100.00	16/05/2007 (2064/2/2)	ACE
24	Excel Development Bank Ltd.	Ordinary Share	6.00	17/05/2007 (2064/2/3)	NMB
25	Biratlaxmi Development Bank Ltd.	Ordinary Share	20.00	18/05/2007 (2064/2/4)	NCML
26	Malika Development Bank Ltd.	Ordinary Share	15.00	27/05/2007 (2064/2/13)	NMB
27	Lumbini Bank Ltd.	Rights Share	150.00	29/05/2007 (2064/2/15)	ACE
28	Nepal Investment Bank Ltd.	Debenture	250.00	30/05/2007 (2064/2/16)	ACE

29	Nepal Credit & Commerce Bank Ltd.	Rights Share	700.00	06/06/2007 (2064/2/23)	CIT
30	Everest Bank Ltd.	Preference Share	400.00 (with Rs. 100 premium on face value of Rs. 100)	26/06/2007 (2064/3/12)	CIT
31	Merchant Finance Co. Ltd.	Ordinary Share	12.00	15/07/2007 (2064/3/31)	NEFINSCO
	Total		2757.504		

NMB Nepal Merchant Banking and Finance Company Limited (Bittiya Sanstha)

NCML NIDC Capital Markets Limited (Bittiya Sanstha)

NEFINSCO Nepal Finance and Savings Company Limited (Bittiya Sanstha)

CIT Citizen Investment Trust

Appendix-VII

Issue Approval

(Fiscal Year 2064/065)

N.	S.	Name of Issuing Company	Type of Securities	Amount of Issue Approved	Permission Date	Issue Manager
1		Lumbini General Insurance Co. Ltd.	Ordinary Share	25.00	29/07/2007 (2064/4/13)	NMB
2		Central Finance Company Ltd.	Rights Share (2:1)	24.00	03/08/2007 (2064/4/18)	NCML
3		Siddhartha Insurance Ltd.	Ordinary Share	25.00	12/08/2007 (2064/4/27)	NMB
4		Seti Bittiya Sansthan Limited	Ordinary Share	4.90	23/09/2007 (2064/6/6)	NCML
5		Nirdhan Uttan Bank Limited	Rights Share (1:1.20)	39.52	26/09/2007 (2064/6/9)	NCML
6		Nepal Share Markets & Finance Ltd.	Rights Share (1:1.5)	240.00	28/09/2007 (2064/6/11)	CIT
7		Infrastructure Development Bank Ltd.	Ordinary Share	24.00	03/10/2007 (2064/6/16)	NMB
8		Agriculture Development Bank Ltd.	Ordinary Share (for its existing shareholder of Group B)	125.00	04/10/2007 (2064/6/17)	ACE
9		Kuber Merchant Banking & Finance Ltd.	Ordinary Share	22.50	09/10/2007 (2064/6/22)	NMB
10		Prabhu Finance Company Limited	Ordinary Share	48.00	14/10/2007 (2064/6/27)	NMB
11		IME Financial Institution Ltd.	Rights Share (1:1)	50.00	31/10/2007 (2064/7/14)	NMB
12		Paschimanchal Development Bank Ltd.	Rights Share (1:0.9)	47.50	04/11/2007 (2064/7/18)	ACE
13		Bhrikuti Bikash Bank Ltd.	Rights Share (1:1.25)	30.03	12/11/2007 (2064/7/26)	NCML
14		Capital Merchant Banking & Finance Ltd.	Rights Share (1:1)	161.00	12/11/2007 (2064/7/26)	ACE

15	Premier Finance Company Ltd.	Rights Share (2:1)	14.40	28/11/2007 (2064/8/12)	NCML
16	Development Credit Bank Ltd.	Rights Share (1:3)	806.40	13/12/2007 (2064/8/27)	NMB
17	Nepal Merchant Banking & Finance Ltd. .	Rights Share (1:4)	800.00	13/12/2007 (2064/8/27)	NFL
18	Nepal Investment Bank Ltd.	Rights Share (5:1)	201.28	09/01/2008 (2064/9/25)	ACE
19	Sagarmatha Insurance Company Ltd.	Rights Share (10:3)	23.56	14/01/2008 (2064/9/30)	ACE
20	Siddhartha Development Bank Ltd.	Rights Share (1:1)	50.00	16/01/2008 (2064/10/2)	ACE
21	Prudential Bittiya Sanstha Ltd.	Rights Share (1:1)	50.00	16/01/2008 (2064/10/2)	ACE
22	Nepal Electricity Authority	Debenture	1500.00	25/01/2008 (2064/10/11)	NMB
23	Nepal Development & Employment Bank	Ordinary	128.00	06/02/2008 (2064/10/23)	ACE
24	Siddhartha Bank Ltd.	Rights Share (5:1)	138.00	06/02/2008 (2064/10/23)	NMB
25	NIC Bank Ltd.	Rights Share (5:1)	158.40	15/02/2008 (2064/11/3)	NCML
26	Lumbini Bank Ltd.	Rights Share (3:1)	250.00	10/03/2008 (2064/11/27)	ACE
27	Kumari Bank Ltd.	Rights Share (5:1)	180.00	24/03/2008 (2064/12/11)	NCML
28	Laxmi Bank Ltd.	Rights Share (4:1)	183.00	03/04/2008 (2064/12/21)	NMB

29	Sanima Bikash Bank Ltd.	Rights Shares (5:1)	64.00	03/04/2008 (2064/12/21)	NCML
30	Paschimanchal Finance Co. Ltd.	Rights Share (2:1)	27.83	04/04/2008 (2064/12/22)	NFL
31	Kumari Bank Ltd.	Debenture	400.00	04/24/2008 (2065/1/12)	NMB
32	Kist Merchant Banking and Finance	Rights Share (1:3)	600.00	04/24/2008 (2065/1/12)	ACE
33	Ace Development Bank Ltd.	Rights Share (10:3)	96.00	05/04/2008 (2065/1/22)	NCML
34	Goodwill Finance Ltd.	Rights Share (1:1)	50.00	05/04/2008 (2065/1/22)	ACE
35	Gorkha Development Bank	Rights Share (2:1)	160.00	05/06/2008 (2065/1/24)	CIT
36	Business Development Bank	Rights Share (1:2.5)	150.00	05/08/2008 (2065/1/26)	ACE
37	Himchuli Bikash Bank Ltd.	Rights Share (1:2)	60.00	05/08/2008 (2065/1/26)	NCML
38	United Finance Ltd.	Rights Share (1:1)	75.00	05/08/2008 (2065/1/26)	NCML
39	Nepal Express Finance Ltd.	Rights Share (5:3)	30.00	05/12/2008 (2065/1/30)	NCML
40	Royal Merchant Banking & Finance	Rights Share (1:1)	60.14	05/12/2008 (2065/1/30)	ACE
41	ICFC BittiyaSanstha	Rights Share (1:3)	224.81	05/13/2008 (2065/1/31)	NMB

42	Kaski Finance Ltd.	Ordinary	20.00	05/18/2008 (2065/2/5)	NMB
43	Shikhar Bittiya Sansthan Ltd.	Ordinary	20.00	05/18/2008 (2065/2/5)	NEFINSCO
44	International Leasing and Finance Ltd.	Rights Share (1:3.5)	504.00	05/18/2008 (2065/2/5)	NCML
45	Annapurna Bikash Bank Ltd.	Rights Share (1:2.5)	150.00	05/18/2008 (2065/2/5)	NEFINSCO
46	Clean Energy Development Bank	Ordinary	96.00	05/23/2008 (2065/2/10)	NMB
47	Reliable Investment Bittiya Sanstha	Ordinary	24.75	05/26/2008 (2065/2/13)	NMB & NCML
48	Lord Buddha Financial Institution	Ordinary	22.50	05/26/2008 (2065/2/13)	ACE
49	Nepal Housing & Merchant Finance	Rights Share (1:1)	80.44	05/26/2008 (2065/2/13)	ACE
50	Sahayogi Bikash Bank	Rights Share (2:1)	10.00	05/26/2008 (2065/2/13)	NCML
51	Subechchha Bikash Bank	Ordinary	12.00	05/27/2008 (2065/2/14)	ACE
52	Sagarmatha Merchant and Finance	Ordinary	20.00	05/27/2008 (2065/2/14)	CIT
53	Triveni Bikash Bank	Ordinary	15.00	06/01/2008 (2065/2/19)	ACE
54	Himalayan Bank Ltd.	Debenture	500.00	06/01/2008 (2065/2/19)	ACE

55	Shree Investment Finance Ltd.	Rights Share (4:1)	16.80	06/01/2008 (2065/2/19)	NMB
56	Premier Insurance Co Ltd.	Rights Share (1:1.3)	39.00	06/01/2008 (2065/2/19)	ACE
57	Standard Finance Ltd.	Rights Share (1:1)	72.60	06/03/2008 (2065/2/21)	NCML
58	Guheshwori Merchant Banking & Finance	Rights Share (5:3)	37.01	05/06/2008 (2065/2/23)	NCML
59	Narayani Finance Ltd.	Rights Share (1:2.25)	150.07	05/06/2008 (2065/2/23)	NMB
60	Himalayan General Insurance	Rights Share (5:3)	37.80	06/06/2008 (2065/2/24)	ACE
61	Nepal Investment Bank	Debenture	250.00	06/16/2008 (2065/3/2)	ACE
62	Gorkha Finance Ltd.	Rights Share (1:1)	30.00	06/22/2008 (2065/3/8)	CIT
63	Nepal Awas Bikash Bitta Company	Rights Share (1:1)	70.49	06/24/2008 (2065/3/10)	NFL
64	Kathmandu Finance Limited	Rights Share (1:1)	37.95	06/25/2008 (2065/3/11)	ACE
65	Nabil Bank Ltd.	Debenture	300.00	06/29/2008 (2065/3/15)	NCML
66	Neco Insurance Company Ltd.	Rights Share (1:1)	55.00	06/30/2008 (2065/3/16)	CIT
67	Global Bank Ltd.	Ordinary	300.00	07/01/2008 (2065/3/17)	NCML

68	National Hydro Power Company Ltd.	Rights Share (1:1)	694.94	07/01/2008 (2065/3/17)	NCML
69	Machhapuchchhre Bank Ltd.	Rights Share (10:6)	492.99	07/02/2008 (2065/3/18)	NMB
70	Yeti Finance Ltd.	Rights Share (1:1)	31.25	07/02/2008 (2065/3/18)	ACE
71	Gandaki Bikash Bank Ltd.	Rights Share (1:1)	50.00	07/07/2008 (2065/3/23)	NMB
72	Pasupati Development Bank Ltd.	Ordinary	80.00	07/13/2008 (2065/3/29)	NEFINSCO & NCML
	Total		11567.86		

Appendix-VIII

Issue Approval

(Fiscal Year 2065/066)

S. N.	Name of Issuing Company	Type of Securities	Amount of Issue Approved	Permission Date	Issue Manager
1	Om Finance Ltd.	Rights(5:1)	14.00	065/04/02	NEFINSCO
2	Union Finance Ltd.	Rights(1:1)	72.52	065/06/07	NCML
3	Kist Merchant & Fin . Ltd.	Rights(1:1.5)	1200.00	065/06/08	ACE
4	Siddhartha Bank Ltd.	Debenture	400.00	065/06/09	ACE
5	Laxmi Bank Ltd.	Debenture	350.00	065/06/13	NMB
6	Peoples Finance Ltd.	Rights(1:2)	168.00	065/06/17	ACE
7	Srijana Finance Ltd.	Rights(1:1)	14.00	065/07/03	NCML

8	Swabalamban Dev. Bank Ltd.	Rights(1:1.4)	35.00	065/07/03	NMB
9	Nepal Srilanka Mer. Bank Ltd.	Rights(1:2)	200.00	065/07/05	NCML
10	National Finance Ltd.	Rights(1:0.4)	62.8	065/07/06	NMB
11	Samjhana Finance Ltd.	Rights(1:1.25)	27.84	065/07/10	NCML
12	Nepal Bangladesh Bank Ltd.	Rights(1:1.5)	1116.89	065/07/11	NMB
13	Bageswori Bikas Bank Ltd.	Rights(2:1)	16.5	065/07/26	NMB
14	Pokhara Finance Ltd.	Rights(1:3)	180.00	065/07/26	NMB
15	IME Financial Ins. Ltd.	Rights(1:1)	125.00	065/09/28	NMB
16	Bank of Asia Nepal Ltd.	Ordinary	300.00	065/09/23	NMB
17	Nepal Dev. Bank Ltd.	Rights(1:1)	320.00	065/09/27	NCML
18	Infrastructure Dev.Bank Ltd.	Rights(1:3)	240.00	065/10/08	NMB
19	Nepal Investment Bank Ltd.	Rights(2:1)	803.03	065/10/10	NCML
20	Citizen Bank Ltd.	Ordinary	300.00	065/10/13	ACE
21	Universal Fin. Ltd.	Rights Share (1:1)	60.22	065/10/13	NEFINSCO
22	Api Finance Ltd.	Ordinary	18.00	065/10/21	NCML
23	National Life Insurance co. Ltd.	Rights(1:1)	132.00	065/10/27	CIT
24	Siddhartha Dev.Bank Ltd.	Rights(1:5)	537.86	065/10/27	ACE
25	Civil Mer. Bittiya Sanstha Ltd.	Rights(1:1)	50.00	065/12/23	NEFINSCO
26	Premier Fin. Ltd.	Rights(1:1)	47.52	065/12/23	NCML
27	United Ins. Co. (Nepal) Ltd.	Rights(5:2)	28.8	065/12/23	NCML
28	Sunrise Bank Ltd.	Ordinary	375.00	065/12/26	NMB
29	World Mer. Banking & Fin. Ltd.	Rights(1:1)	72.00	065/12/26	NMB
30	Imperial Finance Ltd.	Rights(1:1)	50.00	065/12/31	NCML
31	Prime Commercial Bank Ltd.	Ordinary	300.00	066/01/07	CIT
32	Sanima Bikash Bank	Rights(1:1)	384.00	066/01/07	CIT

33	Madhyamanchal R ..Dev Bank	Ordinary	30.00	066/01/07	NEFINSCO
34	Ace Dev. Bank Ltd.	Rights(1:0.64)	292.86	066/01/10	Elite
35	NMB Bank	Rights(10:3)	330.00	066/01/13	DCBLBank
36	DCBL Bank	Rights(2:1)	553.73	066/01/13	NMB
37	Arun Valley Hydropower Dev	Ordinary	94.76	066/01/14	NMB
38	Lumbini Fin & Leasing Com.	Rights(2:1)	45.00	066/01/15	ACE
39	Narayani Devt Bank	Rights(5:2)	10.00	066/01/27	Elite
40	Patan Finance Ltd	Rights(1:1)	50.00	066/01/27	NCML
41	Nepal Share Markets Ltd	Rights(1:3.629)	1567.73	066/01/28	CIT
42	Excel Development Bank	Rights(1:3)	60.00	066/01/28	ACE
43	Central Finance Ltd.	Rights(4:1)	120.00	066/01/30	ACE
44	Gorkha Devt Bank	Rights(4:1)	25.38	066/01/30	ACE
45	Standard Finance Ltd	Rights(1:5)	834.9	066/01/31	NCML
46	Bhrikuti Bikas Bank Ltd.	Rights(1:2)	140.99	066/01/31	NCML
47	Crystal Finance Ltd.	Rights(2:1)	21.00	066/01/31	NMB
48	Nepal Dev.& Employment	Ordinary	160.00	066/01/31	ACE
49	Chilimeh Jalbidhut Company Ltd.	Ordinary	745.81	066/02/04	CIT & NCML
50	Vibhor Bikas Bank Ltd.	Rights Share (2:1)	10	05/26/2008 (2065/2/13)	NCML
51	Navadurga Finance Ltd.	Rights(1:1.2)	54.72	066/02/08	NMB
52	Everest Finance Ltd.	Rights(1:1)	20.00	066/02/10	ACE Dev.
53	Prabhu Finance Ltd.	Rights(2:1)	80.00	066/02/11	Elite
54	Public Dev. Bank Ltd.	Ordinary	60.00	066/02/13	NCML
55	Fewa Finance Ltd.	Rights(1:2)	182.00	066/02/14	Elite
56	General Finance Ltd.	Rights(1:1)	24.24	066/02/21	NCML

57	Nepal Express Finance Ltd.	Rights(10:3)	24.00	066/02/24	NCML
58	Lumbini Bank Ltd.	Rights (10:3)	300.00	066/02/31	NCML
59	Malika Bikas Bank Ltd.	Rights (1:3)	150.07	066/03/04	NMB
60	Annapurna Finance Ltd.	Rights(1:1.6)	419.32	066/03/30	ACE
61	sagarmatha Merchant Banking & Finance Ltd.	Rights(1:1.5)	75.00	066/03/30	CIT
62	Kaski Finance Ltd.	Rights(1:2)	100.00	066/03/30	ACE
63	Lord Buddha Finance Ltd.	Rights(2:1)	37.5	066/03/30	ACE
	Total		14875.1223		

CIT Citizen Investment Trust
 NCML NIDC Capital Markets Limited
 ACE Ace Finance Company Limited (Bittiya Sanstha)
 NEFINSCO Nepal Finance and Savings Company Limited
 NMB Nepal Merchant Banking and Finance Company Limited

APPENDIX-1

RESEARCH QUESTIONNAIRE

I hereby request you to fill up the questionnaire designed for proposed survey of the surveyor. The precious views and opinions from your side will be helpful for facilitating the research entitled **Problems and Prospects of Primary Capital Market in Context of Nepal** the views expressed by you here in the questionnaire will be used for the research purpose only and kept confidential.

I) For individual investor only :

Name (Optional) :

Address :

Qualification :

Occupation :

II) For institutional investors only :

Name (Optional) :

Address :

Qualification :

Occupation :

.....X.....X.....

1. Please consider the following financial instruments in Nepalese security market, Place a number that best describe your preference on a scale of 1 to 5 on the line before each of these securities.

1 2 3 4 5

Most preferred

Least preferred

1. Common stock
2. Preferred stock
3. Debentures/Bonds
4. Government Bonds

2. Following are the eight industrial sectors. In your opinion, which of the sectors is attractive so far as the matter of investing in securities is concerned? Please rank in order of their attractiveness as per the given scheme.

More attractive

Least attractive

1 2 3 4 5

1. Bank..... ()
2. Development bank..... ()
3. Finance..... ()
4. Hotel ()
5. Manufacturing and Processing Company..... ()

6. Insurance Company ()

7. Trading Company ()

8. Others..... ()

3. Which of the followings best matches with your investment purposes? Please rank in order of their importance to you.

1. Sufficient return..... ()

2. Less risk..... ()

3. Marketability..... ()

4. Social status..... ()

5. Other (please specify) ()

4. Following are the some of the features of common stock. Please rank in order of their following importance to you.

1. Power to exercise rights..... ()

2. Participation in management..... ()

3. Sense of ownership..... ()

4. Participation in earnings..... ()

5. Bulk transaction..... ()

6. Marketability..... ()

7. Others (please specify) ()

5. In Nepalese capital market, financial instruments except common stock have not been used frequently. How far do you agree/disagree with the following reasons of not using debt and preferred stock as frequently a common stock? Please make a tick mark as the appropriate number as per the following scheme:

1= strongly agree, 2= agree, 3= don't know, 4= disagree, 5= strongly disagree

S. No	Statements	1	2	3	4	5
1	No provision of handsome return that compensates the perceived risk of investors.					
2	These financial instruments provides only certain return					
3	Overburden of legal formalities					
4	Due to the lack of professional practices.					
5	Lack of marketability and liquidity					
6	No legal protection on favor of investors					
7	Due to the lack of wide varieties in these kinds of securities					

6. Followings are some descriptions about different types of bonds. Which bond(s) do you prefer most? Please rank in order of their importance (If you prefer bond).

1. Bond that gets you participates in profit and loss.
2. Bond that adjusts promised interest rate according to the rate in the market.
3. Bond that is pledged against the firm's assets
4. Simple debt that pay regular interest.

7. Which of the following factors, in your opinion, is the most important factor to select securities to invest in? Please rank in order of their importance.

1. Earnings ()
2. Availability..... ()
3. Rumors..... ()
4. Company's overall performance..... ()

5. Others (please specify) ()

8. What may be the main attraction of government securities? Please rank in order of their importance.

1. Risk free/safe..... ()
2. Advantages for portfolio construction..... ()
3. High interest rate..... ()
4. Less legal formalities..... ()
5. Protection against mal practices..... ()
6. Others (Please specify) ()

9. When making investment decision, do you think, it is necessary to make risk and return analysis? Please make a tick mark in the box.

Yes

2. No

3. Don't know

10. Following are the general investment processes. Do you follow one or others process or processes please make a tick mark in the box.

Yes

No

Don't know

1. Set investment policy
2. Analyze security
3. Portfolio construction
4. Portfolio revision
5. Portfolio Performance Evaluation

11. While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which of the following legal provision is relevant in this regard?

1. The order will be assumed to remain outstanding for 15 days.
2. The order will be assumed to remain outstanding for 10 days
3. The order will be assumed to remain outstanding for 7 days.
4. The order will automatically be terminated.
5. The order is put aside to execute in the future.
6. Don't know.

12. What sort of information do you generally take after having filled the order specification?

Please make a tick mark.

1. Certificate that describes you have submitted the order form to broker
2. Information as to the execution of order.
3. Financial aspects of the broker company.
4. Procedures of transaction of the securities.
5. Information about listed company.
6. Overall position of the Security market.

13. If you did not receive sales proceeds from the concerned broker company within which period do you report it to Stock exchange?

1. Within 7 or 8 transaction days.
2. Within 8 or 9 transaction days.
3. Within 11 days.
4. Within 23 days.
5. Don't know.

14. If your order is purchase order and you did not receive financial security within the given periods. Which of the following statement is true in this regard?

1. Such case should be reported to stock exchange within one month.
2. Such case should be reported to stock exchange within 8 days.
3. Such case should be kept secret.
4. Nothing one can do with such a case.
5. Don't know.

15. Are there any difficulties, in your opinion, to invest in financial security?

Please list them.....
.....
.....

16. If yes, do you have any idea that can be done to decrease or eliminate the difficulties?

.....
.....

17. Following are some of the observations that can be done to develop security market in Nepal. Please rank in order of their importance.

1. The access of the securities services, professionalism of the stock market and traders, institutional capacity and services not only in capital city.
2. Making clear- cut arrangements for regulations concerning the involvement of Employee's Provident Fund, Citizen's Investment Trust, construction, extractive and IT sector and Mutual Fund in security market.
3. Sufficient publicity as to the security and security market.
4. Amendment and strict implementation of current rules and regulations.

5. Others (Please Specify).

18. Following are the subject matter of grievances against Issuer Company that issues security in the primary market. Please make a tick mark on the subject matter related to you.

1. Issuer Company does not provide the prospectus/security purchase application form.
2. Company wants to influence unduly through prospectus and other advertisements.
3. Company does not provide the article of association, memorandum of association and other related documents for detail perusal.
4. Company rejects to receive the share application form duly filled by the investor.
5. Irregularities while allocating the security to the investors.
6. Others (Please specify)

Give short description of the nature of the grievances (not more than 150 words):

.....

.....

19. Following are the subject matter of grievances against Issuer Company that issues security in the primary market. Please make a tick mark on the subject matter related to you.

1. Issuer Company does not provide the prospectus/security purchase application form.
2. Company wants to influence unduly through prospectus and other advertisements.
3. Company does not provide the article of association, memorandum of association and other related documents for detail perusal.

4. Company rejects to receive the share application form duly filled by the investor.
5. Irregularities while allocating the security to the investors.
6. Others (please specify)

Give short description of the nature of the grievances (not more than 150 words):

.....

20. Make a tick mark on the grievances you have against Broker Company:

1. Unavailability of security order form or rejection of the order from the company.
2. No execution of the order given to the company.
3. Execution of order in the prices more or less than the price stipulated.
4. The company takes more commission/transfer fees than it is provided.
5. Wrong information as to the security and market.
6. Other (please specify)

Give short description of the nature of the grievances (not more than 150 words):

.....

21. Following are the subject matter of grievances against Nepal Stock Exchange. Please make a tick mark on the subject matter related to you.

1. Stock exchange does not inform to market as to the price sensitive information and financial statements.

2. Stock exchange does not provide the necessary information of the sold/purchase share.
3. It does not provide information relating to the membership, listing of securities and transactions etc.
4. Other(please specify)

Give short description of the nature of the grievances (not more than 150 words):

.....
.....

THANK YOU FOR YOUR KIND COOPERATION.