

## 5. Capital and Money Market

### Primary Market

- 5.1 In the first nine months of FY 2006/07 14 different companies mobilized Rs 700.29 million by issuing ordinary and rights shares in the primary market. As against Rs. 1449.4 million realized by 18 different companies during the same period in the preceeding year. It shows a decline of 51.50 percent.

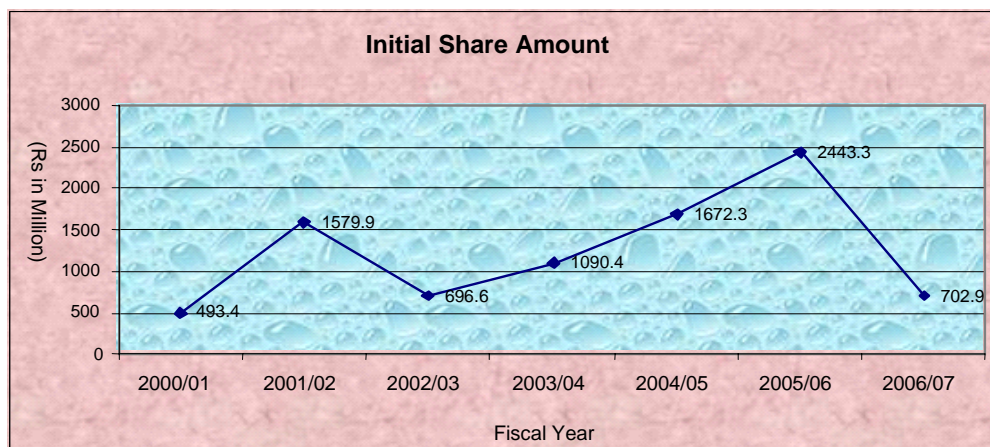
**Table 5 (A): Primary Market Trend**

Rs. in Million

Description		Fiscal year							First nine months+	
		2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2005/06	2006/07	
									2005/06	2006/07
1	Capital Realization	493.40	1579.90	696.60	1090.40	1672.30	2443.30	1449.40	702.90	
(a)	Ordinary Share	278.70	319.50	394.30	657.50	377.50	579.80	490.90	177.90	
(b)	Rights share	131.80	621.90	162.20	70.00	949.30	1013.50	758.50	525.00	
(c)	Preference share	-	140.00	-	-	-	-	-	-	
(d)	Debentures	-	360.00	-	300.00	300.00	850.00	200.00	-	
(e)	Mutual fund	-	-	100.00	-	-	-	-	-	
(f)	Citizens Unit Plan	82.90	138.50	40.10	62.90	455.00	142.90	140.00	37.40	
2	No. of capital realizing companies	90.00	120.00	180.00	140.00	140.00	340.00	180.00	140.00	

+ First nine months

Source : Nepal Stock Exchange Board

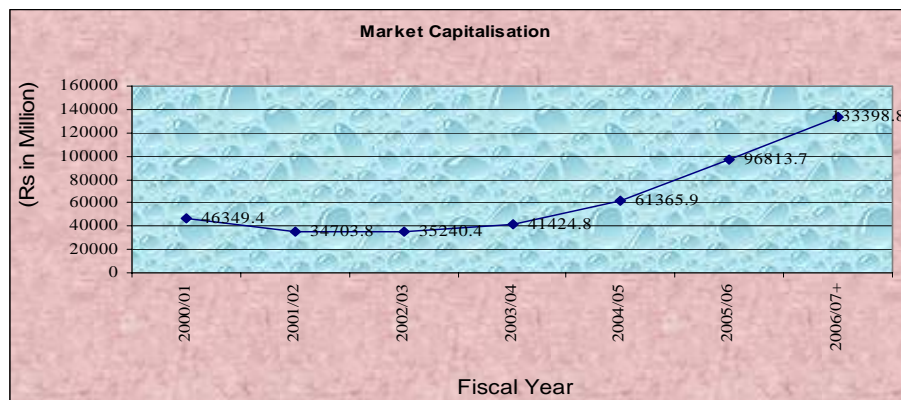


+ First nine months.

Source : Nepal Security Board

## Secondary Market

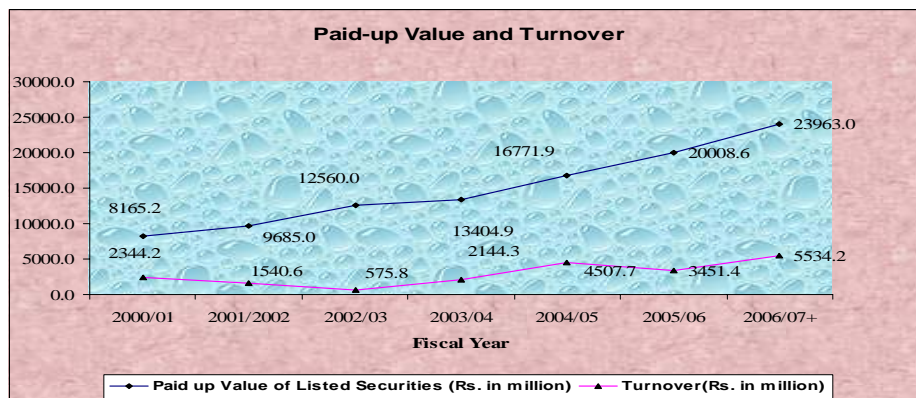
- 5.2 The total number of listed companies at the end of first nine months of FY 2006/07 stood at 131 as against 135 in the preceeding fiscal year, owing to delisting of 12 existing companies and additional listing of 8 new companies in the Stock Market. In this review period, institutional debentures of 3 companies are also registered. At the end of first nine months of FY 2006/07 market capitalization value reached to Rs. 133398.8 million owing to 67.85 percent increment in Rs. 79471.3 of the same period of preceeding year.



+ first nine months

Source : Nepal Security Board

- 5.3 In the first 9 months of FY 2006/07, there was an increase of 161.49 percent in the share transaction amounting to Rs. 5534.2 million with the transaction of 11.08 million shares as compared to transaction held in the same period of the last fiscal year. In the first 9 months of FY 2005/06, the total transaction of 6593830 shares had fetched Rs. 2116.4 million.



+ First nine months

Source : Nepal Security Board

- 5.4 In the first 9 months of FY2006/07, number of transaction increased by 26.83 percent resulting to total transaction of 91036 as compared to 71777 transactions in the preceding fiscal year.

**Table 5 (B) : Trends of Secondary Market**

(Rs. in million)

Item	Fiscal year							
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	First 9 months	
							2005/06	2006/07
Share Transaction value	2344.2	1540.6	575.8	2144.3	4507.7	3451.4	2116.4	5534.2
No. of shares transacted (000)	49890.0	60050.0	24280.0	64680.0	184340.0	122219.3	65938.3	110800.0
Transaction (no)	460950.0	420280.0	691630.0	855330.0	1062460.0	973740.0	717770.0	910360.0
Market capitalization value	46349.4	34703.8	35240.4	41424.8	61365.9	96813.7	79471.3	133398.8
Percent of transaction in market capitalization value	50.6	44.4	16.3	51.8	73.4	35.6	26.6	41.5
Market capitalization value as percent of GDP	105.0	75.5	71.6	77.2	104.1	149.8#	-	-
Paid-up capital value of listed shares	8165.2	9685.0	12560.0	13404.9	16771.90	20008.6	18643.0	23963.0
No. of listed companies	1150.0	960.0*	1080.0	1140.0	1250.0	1350.0	1280.0	1310.0
No. of companies under transaction	670.0	690.0	810.0	920.0	1020.0	1100.0	830.0	1110.0
NEPSE Index (in point)	3484.0	2275.0	2048.6	2220.40	2866.7	3868.6	3347.7	4945.9

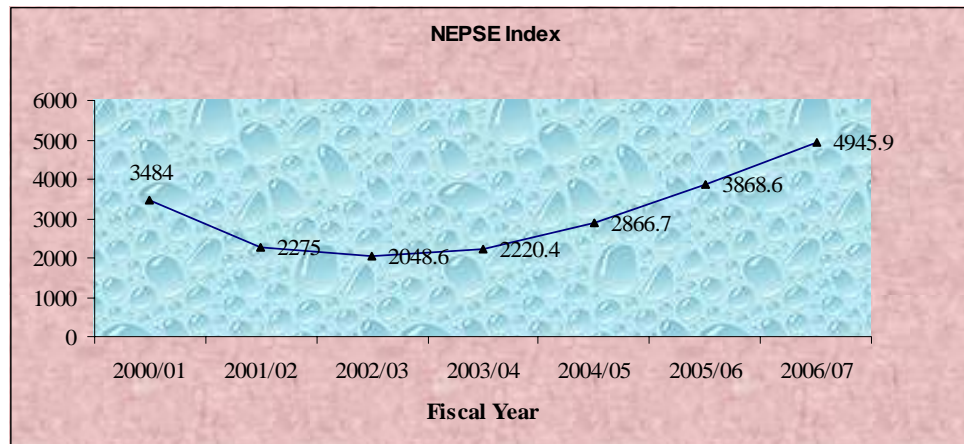
\*25 Companies eliminated from the list

# Based on estimated GDP (at producer price)

Source: Nepal Security Board and Nepal Stock Exchange Market Ltd.

5.5 Paid up value of listed shares in the first 9 months of FY 2005/06 was Rs 18643 million whereas in the same period of FY 2006/07, total value increased to Rs 23963 million with an increase of 28.54 percent.

5.6 At the end of first 9 months of 2006/07 NEPSE index rose by 159.82 points to the total point of 494.59 which was 334.77 during the same period of last year.



### Nepal Stock Exchange Board

5.7 Substituting the Security ordinance 2062, Security Act, 2063 has come into effect since 14 January 2007. The act defines the jurisdiction of Nepal Stock Exchange Board that enables the Board to regulate and monitor vital activities for the development of capital market and function for the benefit of the investors.

- 5.8 Drafting of Nepal Stock Exchange Board Regulations, Share Market Operations Rules and Share Dealers (Security Brokers and Share Traders) Rules are in progress, required for the effective execution of the Security Act, 2063. In addition, Share Registration and Issue Rules, Merchant Banking rules, and the Group Investment Plan Rules are in the drafting stage.
- 5.9 In line with the provisions made to transact government bonds by listing in the stock market, Nepal Stock Board has given license to three market makers and seven brokers. Transaction of government bonds in the secondary market through Nepal Stock Exchange started since 15 December, 2006.
- 5.10 Installation of computerized system of transaction (automation) in the Nepal Stock Exchange Limited and Management Information System in Company Registrar's Office, under Corporate Finance and Governance Project (CFG) executed by Government of Nepal with the co-ordination of Nepal Stock Board, is at the final stage of completion.

### **Nepal Stock Exchange Market Limited**

- 5.11 The Nepal Stock Exchange Market Ltd. has collected Rs. 175.0 million of capital gain tax in the first 9 months of FY 2006/07 as government revenue whereas in FY 2005/06 it was Rs. 22.58 million.
- 5.12 As per the provision of the Stock Exchange By-laws, 2053, a total of 66 out of 131 listed companies have been classified as Class "A". The number of companies so classified during this review period has reached 50, an increment of 17.85 percent.
- 5.13 With a view to update investors with true information as quickly as possible, a separate counting and publication of NEPSE Sensitive Index of Class "A" companies has been started since 1 January 2007. Nepal Stock Exchange Market Ltd. has also started to publish annual report on secondary market based on analysis, to incorporate additional information in the web pages, publication of annual report with added information for annual general meeting. These initiatives are expected to help upgrade the process of information dissemination.
- 5.14 Nepal Stock Exchange Market limited has initiated some important measures towards stabilizing share transaction prices. Such measures, started since 17 July 2006, include prohibition of matching transaction in shares of the listed commercial banks, beginning of trading halt system through application of circuit breaker. In addition, it has also taken steps towards managing blank transfer practices.

### **Stock Dealers**

- 5.15 As of end of first nine months of current fiscal year, there are 24 stockbrokers, 9 share issuer and sales managers, and 2 stock dealers.

### **Collective Fund and Unit Plan**

- 5.16 In the first nine month period of FY 2006/07, collection of funds under various schemes being operated by the Citizens Investment Fund amounted to Rs 1 billion 369.7 million. Together with this amount, total fund collection to date by the Fund amounts to Rs 7 billion 729.5 million. Various schemes currently being operated by the Fund include Citizen Unit Scheme, Employees Savings Increment Approved Retirement Fund, Gratuity Fund scheme, Investor Account Scheme, Insurance Fund Scheme, Defined Contribution Pension Plan, etc. Distribution of the above-mentioned total of funds is as follows: Employees Savings Increment Retirement Fund share 55.88 percent, Citizens Unit Scheme 8.93 percent, Investors Account Scheme 8.12 percent, and Gratuity Fund Scheme 20.66 percent, Insurance Fund Scheme 6.34 percent and the Defined Contribution Pension Plan share 0.06 percent. The Fund invested Rs 1 billion 284.8 million in the first nine month

period of current fiscal year. Total investment by the above period amounted to Rs 7 billion 306.6 million which is distributed as follows: 80.74 percent in government bonds and fixed interest bearing instruments, 5.07 percent in term loans, 7.06 percent in company shares, preferential shares and debentures and 7.14 percent in co-financed credit and house loans.

- 5.17 NCM Mutual Fund of Rs100 million managed by the NIDC Capital Markets Limited with NIDC as trustee has been listed in the Nepal Stock Exchange Market Limited since August/September 2003. Accordingly, the purchase and sale of the units issued under the fund is in operation. By 13 April,2007, the total value of the fund amounted to Rs 261.177 million and per Unit net assets value amounted to Rs 26.12.

### **Challenges**

- 5.18 Role of a trustee is inevitable to safeguard the interest of the participants to the institutional bonds, group investment fund and depository services. In the absence of trustee regulation, stock market development has suffered, for which, therefore, a separate act has become necessary. Absence of a credit rating agency in the context to address investor's need for professional rating of bonds and other stock instruments as well as institutional good governance practices, need for a credit rating agency has become conspicuous.
- 5.19 At present, investment instruments appropriate for institutional investors such as Citizen Investment Fund, Provident Fund, Pension Plan and insurance companies are lacking. Institutional debentures, group, and unit plans are some of the instruments, which can be catered to the institutional investors through stock exchange market. There is also a felt need of regulatory measures for making the institution based capital mobilization activities more professional and transparent.
- 5.20 Stock Exchange Act, 2063 has made the Nepal Stock Exchange Board responsible for regulating the stock exchange market for which certain rights have also been vested to it. To enable the Board fulfill its responsibility effectively and efficiently, there seems much to be improved in miscellaneous aspects of the Board.
- 5.21 At present, the stock market and its professionals, institutional capacity and reach of its services are mostly limited to the capital city. Current practice of stock transaction by auction needs to be made more transparent and efficient through the use of electronic system that ensures professionalism of stock market services and countrywide coverage. Such an endeavor, however, poses a big challenge.
- 5.22 Capital gain from stock transaction is taxed at source at present but there is no provision of write-off in case of capital loss. Tax on interest income is deductible in advance but the rates applied differ between an individual and institutional investors. Tax on dividend payment is also deductible at source, which is not always in the interest of the small investors. Returns from group investment plan and citizen's unit plan are also taxable. Such provision has the effect of discouraging development and promotion of indirect investment vehicle which are attractive to the small savers. It is, therefore, necessary that the taxes on returns from above-mentioned plans be reviewed and evaluated.
- 5.23 Many industries are in the private sector. Public companies lack corporate culture. For the development of a trust-worthy and reliable private sector, promotion of principles of institutional good governance and values has become all the more necessary. Appropriate codes of conduct needs to be developed and practiced in an effective manner.
- 5.24 For any company to be eligible for transaction of its share in the stock market, listing of stock is mandatory. There is no alternative for transaction of stock of those organized institutions that cannot meet the stock listing criteria. As a result, investors are suffering. It

has, therefore, become necessary that an alternative system of stock transaction such as over-the-counter market be put in place.

- 5.25 Nepal Stock Exchange Market limited, as it is owned and managed by the government, experiences difficulties in making its regulatory functions effective as it should have been by an autonomous regulatory agency. Its present ownership and management structure, therefore, needs to be reviewed to let it develop as modern functioning institution of international practice.
- 5.26 Present process of change in stock ownership and rights nomination needs to be made less time consuming and efficient. Identification of investors should also be made easier. For the transparency of secondary market services and its dynamism, there is a need of a central depository system. Necessary steps towards establishing such a system is worth priority.
- 5.27 Certain provisions have also become necessary for making the public issue of shares transparent and dynamic so that it can be developed as an important means of capital mobilization. Some of such provisions which should be brought into practice on a priority basis are preferential allotment of shares, provision for public transaction of shares offered for sale by the promoter or in a private manner, and rights nomination.