

5. Capital Market

Primary Market

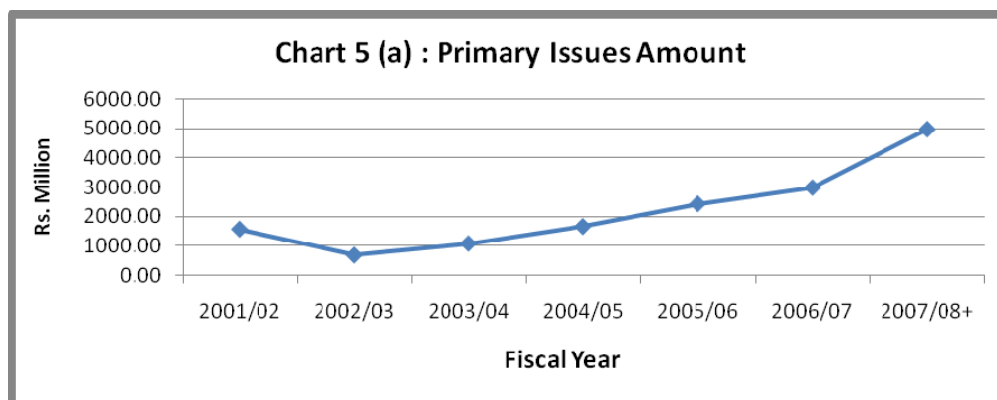
5.01 In the first nine months of FY 2007/08, 26 companies issued securities and mobilized capital equivalent to Rs.4.99 billion. Of the 26 companies, 8 companies issued ordinary shares, 17 issued right shares and one issued debentures. This amount is more than six fold compared to the amount mobilized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

Table 5 (a): Primary Market Trend

Rs.in million

Particular	Fiscal Year						First Nine Months	
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2006/07	2007/08
	1 Capital Mobilization	1579.9	696.6	1090.4	1672.3	2443.3	2295.5	702.9
a. Ordinary Share	319.5	394.3	657.5	377.5	579.8	380.2	177.9	402.4
b. Right Share	621.9	162.2	70.0	949.3	1013.5	1265.3	525.0	3084.1
c. Preference Share	140	-	-	-	-	400.0	-	-
d. Debentures	360	-	300	300	850	250	-	1500
e. Mutual Funds	-	100	-	-	-	-	-	-
f. Citizen Unit Plan	138.5	40.1	62.9	45.5	-	-	-	-
2 No of Companies involved in capital mobilization	12	18	14	14	29	34	14	26

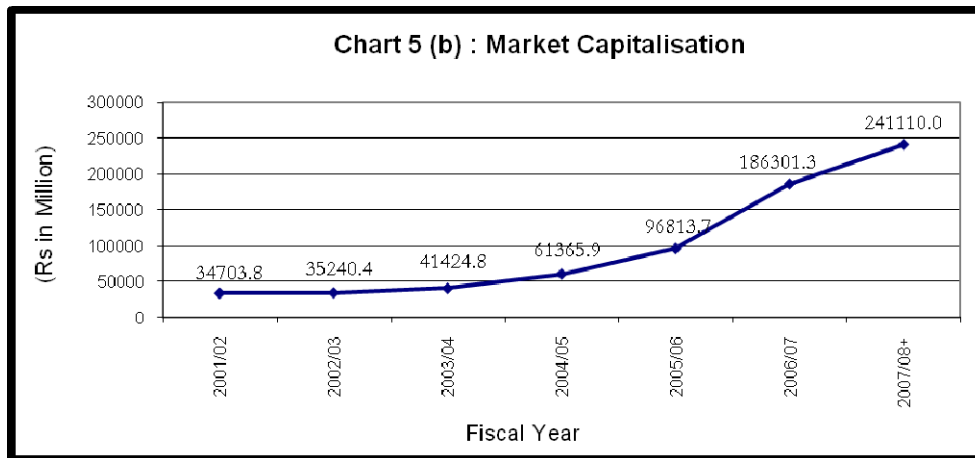
Source: Securities Board of, Nepal



+ First nine months

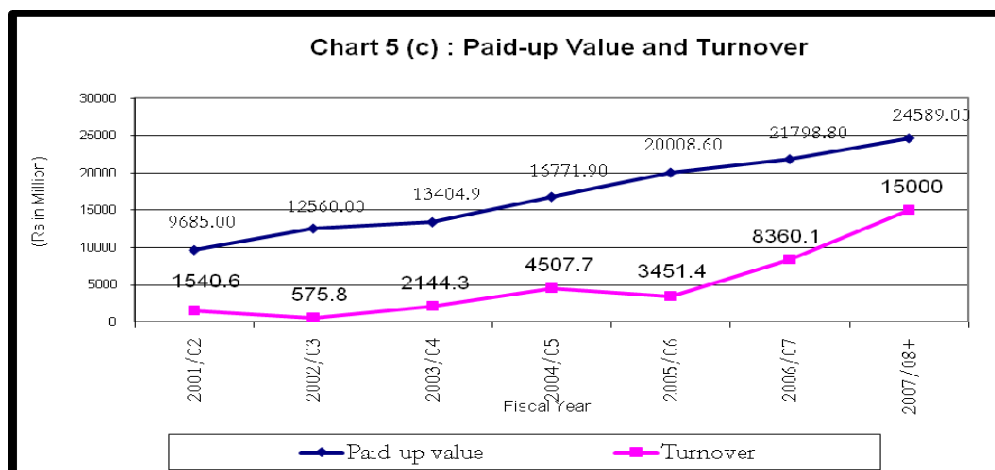
Secondary Market

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



+ First Nine Months

5.03 In the first nine months of FY 2007/08, the total turnover in the NEPSE increased by 171 percent to Rs.15.02 billion, compared to the turnover of Rs.5.53 billion in the same period last year. Altogether, 19.16 million units of shares were traded in the first nine months of FY 2007/08 compared to 11.08 million units of shares in the same period last year.



+ First nine months

5.04 The number of share transactions increased by 7.4 percent to 97,779 in the first nine months of FY 2007/08 compared to 91,036 share transactions in the same period last year.

Table 5 (b): Secondary Market Trend

Rs.in million

Particulars	Fiscal Year							
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	First Nine Months	
							2006/07	2007/08
<i>Share Transaction Value</i>	1540.6	575.8	2144.3	4507.7	3451.4	8360.1	5534.2	15000
<i>No of Share transactions (in 'ooo)</i>	6005	2428	6468	18434	12222	18147	11080	19159
<i>Number of Transactions</i>	42028	69163	85533	106246	97374	120510	91036	97779
<i>Market Capitalization (Rs.)</i>	34703.8	35240.4	41424.8	61365.9	96813.7	186301.3	133398.8	241110
<i>Transaction as percentage of Market Capitalization</i>	4.44	1.63	5.18	7.34	3.56	4.48	4.15	6.22
<i>Market Capitalization as percentage of GDP</i>	7.5	7.2	7.7	10.4	14.8	20.6	-	-
<i>Paid-up Value of listed companies</i>	9685.0	12560.0	13404.9	16771.9	20008.6	21798.8	23963.0	24589.0
<i>No of listed companies</i>	96*	108	114	125	135	135	131	147
<i>No of companies with share transaction</i>	69	81	92	102	110	116	111	109
<i>NEPSE Index (points)</i>	227.50	204.86	222.04	286.67	386.86	683.95	494.59	746.69

* Delisting of 25 companies

Source: Securities Board of Nepal and Nepal Stock Exchange Limited, and Central Bureau of Statistics

5.05 The paid-up value of listed shares increased by 2.6 percent to Rs.24.59 billion in the first nine months of FY 2007/08 compared to Rs.23.96 billion in the same period of FY 2006/07.

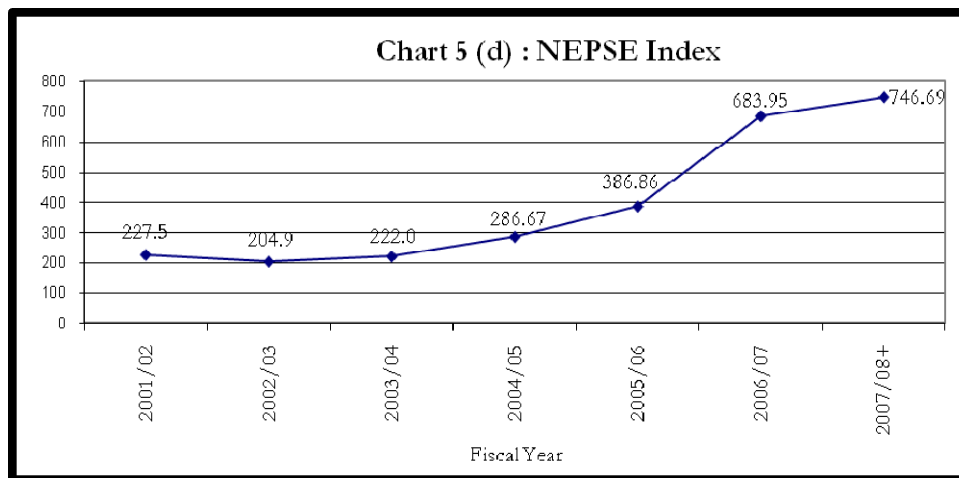
5.06 NEPSE Index increased by 252.1 points to 746.69 points at the end of the first nine months of FY 2007/08 compared to 494.59 points in the same period last year.

Securities Board of Nepal

5.07 The Securities Board of Nepal (SEBON) has introduced Security Board Regulations 2007, Securities Market Operation Regulation 2007, and Securities Dealers (Broker, Trader and Market-maker) Regulation 2007 on November 5, 2007 and Merchant Banker Regulation on March 15, 2008. These regulations have been formulated for the implementation of the legal rights given by the Securities Act 2006 to develop capital market, regulate and inspect important activities in the market that relate to the

benefit of the investors and are under the jurisdiction of the SEBON. The SEBON has developed Securities Registration and Issue Regulation 2008, and has been submitted to the GON for final approval.

- 5.08 With the grants assistance from the International Development Association (IDA), the SEBON has launched a project on March 19, 2008 to establish securities data management system. This is intended to establish a central data bank related to securities by setting up internal and external direct information relation, management of data system and information related to securities. Once the project is completed, companies listed as well as making fresh issues can submit required statements electronically to the SEBON as per the Securities Act and Regulations.



+ First nine months

- 5.09 With an aim to enforce regulations related to securities brokers more strictly, the SEBON organised an orientation program for the securities brokers on February 8, 2008. And an interaction program on “Capital Markets and Economic Journalists” was organised on January 04-05, 2008 jointly with the Society of Economic Journalists to make the publication and broadcasting of news related to capital markets more reliable and authentic. Further, the SEBON organized a seminar jointly with the Institute of Chartered Accountants of Nepal on February 25, 2008 to inform and train the stakeholders about the International Financial Information Dissemination System (IFIDS). This is for the improvement of information dissemination practices and bringing about similarity in financial information dissemination of the country’s organized sector

- 5.10 In the first nine months of FY 2007/08, the programs to mechanize securities transaction in the NEPSE and installation of management information system in the Company Registrar's Office have been completed. These programs are the components of the financial governance project and are brought into operation by the GON and coordinated by the SEBON.
- 5.11 In the initiation of the SEBON, a high-level discussion program among regulatory institutions including the NRB, Company Registrar's Office, SEBON and Insurance Board was organized on March 27, 2008. This is to initiate mutual sharing of information and experiences regarding the market inspection and regulation, and to resolve common issues of financial sector through coordination at the higher level.
- 5.12 The SEBON revoked the license of Om Securities and Allied Services (Pvt.) Ltd. on December 13, 2007. It took such an action since these brokers were involved in unfair practices in the securities trading. The SEBON has provided a hotline landline telephone (No. 4238326) for those interested to lodge any complaint to the SEBON.
- 5.13 With an aim to provide investment information and training to the general investors, the SEBON has started weekly training for 450 investors divided into a group of 30 individuals. The program started since February 22, 2008 and is organized on every Friday. The first phase of the program has already been completed and the participants were imparted knowledge on securities market, investment, measures to increase investor awareness, and entry into the primary and secondary markets. The SEBON has also started quarterly SEBON Newsletter from mid-March 2007 to provide information related to the SEBON, investors and on other relevant subjects.
- 5.14 With an aim to open up secondary market, the SEBON has prepared a concept paper regarding the basic requirement for letting foreign organized sector and Non-Resident Nepalese (NRN) investing in the Nepalese share market and has submitted the same to the MOF.

Nepal Stock Exchange Limited

- 5.15 In the first nine months of FY 2007/08, the NEPSE has collected Rs. 661.2 million capital gain taxes from the share transactions in the NEPSE. The capital gain tax in the review period of FY 2007/08 is 2.5 times the capital gain tax collected in the same period last year, which was Rs.175.0 million.

- 5.16 As per the provision in the Securities Listing Regulations 2006, a total number of 71 companies have been listed as category 'A' institutions in FY 2007/08. The number of companies in category A in FY 2006/07 was 66.
- 5.17 The NEPSE started Automated Trading System on August 24, 2007 replacing the previous open-out-cry system. With this, market has entered into the modern era as errors due to human involvement could now be avoided. Further, process has begun to enter more securities brokers into the securities market and make it more competitive as per the provision in the Securities Broker Regulations, 2007.
- 5.18 The NEPSE has reconstructed its website and has started to include real time information since October 2007.
- 5.19 The NEPSE has increased the daily transaction time in the secondary market for the benefit of small and large number of investors. The time has been increased from 2 hours to 3 hours since December 23, 2007.
- 5.20 As mentioned in the budget statement of FY 2007/08 to privatize NEPSE, a concept paper regarding the transfer of government assets to listed companies, employees and locals has been prepared and submitted to the MOF. The NEPSE Newsletter has also been launched in order to disseminate information related to the securities market.

Securities Traders

- 5.21 A total of 23 brokers, 9 issue managers and 2 dealers were in the securities market for the organized trading of the securities as of mid-April 2008. There were 24 securities brokers, 9 issue managers and 2 dealers a year ago. In the first nine months of FY 2007/08, 7 securities brokers and 3 issuing brokers have been authorised to carry out transactions in the government securities.

Mutual Fund and Unit Scheme

- 5.22 The trading of NCM Mutual Fund worth Rs.100 million is being carried out in the NEPSE since its listing in August 2003. The mutual fund is being managed by NIDC Capital Market Limited under the trustee of NIDC. Total value of the NCM Mutual fund in mid-April, 2008 was Rs. 388.94 million and per unit net assets value was Rs.39.
- 5.23 The CIT mobilized capital worth Rs.2.30 billion in the first nine months of FY 2007/08 through the Citizen Unit Scheme, Gratuity Fund Scheme, Investor Accounts Scheme, Insurance Fund Scheme, Employees Savings Increment Approved Retirement Fund, Defined Contribution Pension Plan, etc. With this, the total accumulated fund of the CIT has reached

Rs.11.66 billion. Of the collected amount in the review period, 54.44 percent was collected from Employees Savings Increment Approved Retirement Fund, 6.82 percent from Citizen Unit Scheme, 11.90 percent from Investor Account Scheme, 17.63 percent from Gratuity Fund Scheme, 9.09 percent from Insurance Fund Scheme, and 0.12 percent from Defined Contribution Pension Plan. In the first nine months of FY 2006/07, there is an additional investment of Rs.4.51 billion, after which total investment has reached Rs.11.06 billion. Of this, the investment in government securities and fixed interest bearing bonds is 75.77 percent, periodic lending is 6.51 percent, shares, preference shares and debentures of organised companies 3.39 percent and participatory lending and house credit 14.32 percent.

Challenges

- 5.24 To safeguard the benefit of those involved in organized securities, mutual funds and depositor services, there is a need for trustees. As there is not any arrangement regarding the regulation of trustees, this has also affected the development of capital market. In this context, there is a need to formulate a new Act relating to the trustees. Also, the establishment of Credit Rating Agency is necessary to provide information related to the securities and other market instruments besides contributing to the institutional good governance and practice of professional ratings of the institutions.
- 5.25 Given the present context of lacking the appropriate investment infrastructure for institutional investors, such as the CIT, EPF, and Insurance Companies, there is a need to promote and manage the issuance of debentures, mutual funds, and unit plans through the stock exchange. Furthermore, to make the capital mobilization activities more professional and transparent, there is a need of clear regulatory measures for these institutions.
- 5.26 There is a need to enhance the legal strength of the SEBON and consolidate its inspection and supervisory capacity.
- 5.27 Given the growing concept of international listing and trading in the South Asian region, it is necessary to strengthen the professional and institutional capability of securities market and brokers. Establishment of Central Depository System (CDS) is necessary in this regard. This will spread up the securities transfer process. Further, there is a challenge to develop the securities market, to make it a better avenue for NRNs and FIIs.

- 5.28 The current practice of taxing dividend at the source and levying capital gain tax has not benefited small investors. In this context, there is a need to rationalize the tax policy related to securities. There is also a need to review the current tax system on small deposit schemes such as mutual fund scheme and CIT schemes to promote investment from small investors.
- 5.29 Since there are a large number of industries being run in the private sector and there is a lack of organization culture in public companies, a need is strongly felt to develop good governance and discipline and enforce necessary measures effectively.
- 5.30 For the balanced development of the SEBON, which is at the central place of the securities market regulation, there is a need to introduce IFRS and improve the institutional information flow, encouraging the entry of organized institutions in the securities market.
- 5.31 Since the NEPSE is being run under the government ownership and management, it would be difficult for an autonomous regulatory institution to regulate and supervise it. In this context, there is a need to review the ownership and management and develop it as a modern institution operating as per the international practice.
- 5.32 It is already late to establish the Central Depository System (CDS) of the securities to make the secondary market service more transparent and dynamic by identifying the investors involved in efficient trading and speed up the transfer of securities.
- 5.33 To make the primary issue of securities more dynamic and transparent and develop it as an important means for capital mobilization, efforts should be made to implement public trading and rights nomination of the securities of those sold under preferential allotment, and offer or sale.
- 5.34 Since there is a demand for derivatives and futures, there is a need for the study to develop the infrastructure regarding these instruments.
- 5.35 Additional investors are entering the securities market, but the market prices of securities of secondary market are becoming less realistic and stable. As efforts are on to open up investment for the NRNs and FIIs, ordinary investors have to be imparted knowledge on the entry and exit in the market and create awareness about the risk and gain factors through trainings. This is necessary for the sustainable development of the market.