INVESTORS' HANDBOOK ON SECURITIES MARKETS AND COMMODITY DERIVATIVES MARKETS

Securities Board of Nepal

Jawalakhel, Lalitpur, Nepal

9 October 2020

Published on the occasion of World Investor Week 2020

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नेपाल धितोपत्र बोर्ड
(नेपाल सरकारको धितोपत्र तथा वस्तु विनिमय बजारको नियामक निकाय)
Securities Board of Nepal
(Nepal Government's Securities and Commodities Exchange Regulator)

Message

It is my pleasure to present "Investors Handbook on Securities Markets and Commodity Derivatives Markets" published on the occasion of World Investor Week 2020 (WIW 2020). This Handbook is specially designed for the benefits of investors, students of various faculties and those who are interested to gain basic knowledge of securities markets, instruments and infrastructures.

It is obvious that the development of securities markets and literacy rate is required to be moved positively and simultaneously in line with the economic development. These days, securities market services have been expanded over the whole nation and number of investors are also increasing significantly. However, the level of financial literacy rate is not seeming to be satisfactory to the date. Educated and rational investors are essential part for the sustainable development of securities markets. In this context, I hope this Handbook would help in empowering and protecting investors by way of imparting basic knowledge on financial markets, securities markets and commodity derivatives markets.

I would like to extend my profound appreciation to Dr Nabaraj Adhikari, Deputy Executive Director and Coordinator, Ms Deepa Dahal, Deputy Executive Director and Member, Mr Anuj Kumar Rimal, Acting Director and Member, Mr Yam Nath Aryal, Assistant Director, and Ms Sanu Khadka, Assistant Director of Organising Committee WIW 2020 for their commendable efforts, even in the difficult situation of COVID 19 pandemic, in bringing out this Handbook timely. Similarly, I would like to acknowledge Mr Niraj Giri, Executive Director, and Mr Paristha Nath Poudyal, former Executive Director, SEBON, for making contribution to finalise the Handbook.

I would like to invite students, investors and interested individuals to study and use this handbook as a tool for enhancing knowledge and making informed investment decision. I would also like to welcome any comments and suggestion in order to make this book better in the days to come.

Bhisma Raj Dhungana
Chairman
9 September, 2020

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Editorial

The Nepalese securities markets is being modernised due to some structural changes in the recent years. The full-fledged dematerialised transaction of securities, the introduction of ASBA, C-ASBA and Meroshare system in the primary market enabling the applicants from 77 districts to access the service through more than 2500 BFIs as service providers, branch expansion of merchant bankers and stockbrokers outside of Kathmandu valley and adoption of on-line trading system have made Nepalese securities markets techno-friendly, investment friendly and countrywide resulting increased attraction of public towards the securities markets in recent days.

Low level of participation of institutional investors in the markets, lack of diversified instruments and low level of understanding and awareness in securities markets continues to be a cause of concern. Investors and even students tend to use thumb rules or seek advice from friends, market intermediaries and relatives, which are often poor approximations compared to those that follow from a scientific analysis. They will tend to make bad choices, contribute insufficiently, begin saving late, stay away from modern finance, or fall prey to fraud or mis-selling of financial instruments. If they get bad advice, the outcomes will be poor, and they will lose faith in the market system.

Taking note of aforementioned facts, Securities Board of Nepal (SEBON) has been focusing on the investor education and awareness building programme in securities markets and commodity derivatives markets in order to empower and protect the interest of general investors at large. As a continuation of this, World Investor Week (WIW) 2020 Organising Committee is pleased to bring out "Investors' Handbook on Securities Markets and Commodity Derivatives Markets". The purpose of the handbook is to provide the basics of securities markets and commodity derivatives markets to the students of Schools and Colleges at early age and investors at large to enable enhancing their understanding and making informed investment decisions of their hard-earned incomes and savings.

The Handbook is a compilation of the basic information about financial markets, securities markets, commodity derivatives markets, SEBON and its functions, IPO process, shareholders' rights, primary and secondary markets, investment instruments, services provided market participants, most useful terms of the markets, and tips for investment.

We request students and investors to use this handbook as guidance for understanding of securities markets and making better investment decision.

We would like to thank the Chairman of SEBON and Management of SEBON for providing us the opportunity in bringing out this publication. We are also thankful for entrusting us with the task of organising the WIW 2020.

Finally, we welcome valuable comments and suggestions in making this publication more useful and effective in the future.

WIW 2020 Organising Committee

Dr Nabaraj Adhikari, Deputy Executive Director and Coordinator

Deepa Dahal, Deputy Executive Director and Member

Anuj Kumar Rimal, Acting Director and Member

Yam Nath Aryal, Assistant Director and Member

Sanu Khadka, Assistant Director and Member (Invitee Member)

ABBREVIATIONS

SEBON	Securities Board of Nepal
AMC	Asset Management Company
SBAN	Stockbroker Association of Nepal
MBAN	Merchant Banker Association of Nepal
NEPSE	Nepal Stock Exchange Ltd.
BTI	Banker to the Issue
BO	Beneficiary Owner
NOTS	NEPSE Online Trading System Ltd.
CBI	Central Bureau of Investigation
CDSC	CDS and Clearing Ltd. (Central Depository Services)
CIS	Collective Investment Scheme
IPF	Investor Protection Fund
DP	Depository Participant
FAQs	Frequently Asked Questions
F&O	Futures and Options
GoN	Government of Nepal
ICAN	Institute of Chartered Accountants of Nepal
IPO	Initial Public Offering
ISIN	International Securities Identification Number
KIM	Key Information Memorandum
MBs	Merchant Bankers
MFs	Mutual Funds
NAV	Net Asset Value
PSU	Public Sector Undertaking
QIB	Qualified Institutional Buyer
RII	Retail Individual Investor
SRO	Self Regulatory Organisation
CGT	Capital Gain Tax
STT	Securities Transaction Tax
UCC	Unique Client Code
UIN	Unique Identification Number
VCF	Venture Capital Fund
DMAT	Dematerialisation (of securities)
WIW	World Investors Week
DIS	Debit Instruction Slip
SASRF	South Asian Securities Regulators Forum
ANNA	Associations of National Numbering Agencies
AFIE	Asia Forum for Investor Education
OECD	Organisation for Economic Cooperation and Development
APEC	Asia-Pacific Economic Cooperation
US SEC	United States Securities and Exchange Commission
ASIC	Australian Securities & Investment Commission
SEBI	Securities and Exchange Board of India
FSA	Financial Services Agency, Japan
OJK	Otoritas Jasa Keuangan, Indonesia

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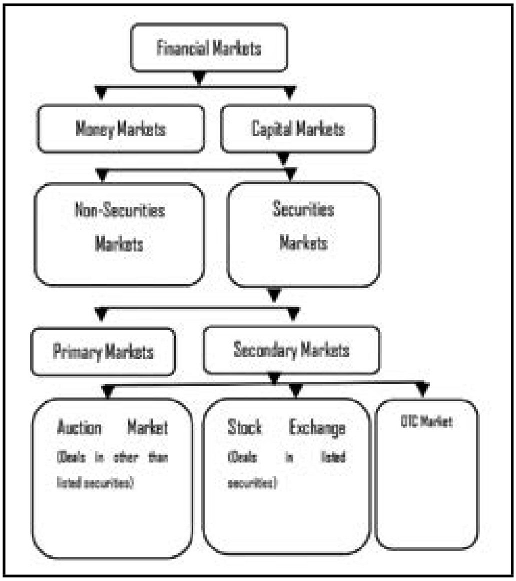
Chapter 1

An Introduction to Financial Markets

Financial markets is a marketplace, where creation and trading of financial assets like shares, debentures, bonds, derivatives, currencies and so forth takes place. It plays very important role in allocating scarce resources in the economy of the country. The financial markets can be broadly classified into (i) money markets and (ii) capital markets as in figure 1.

Figure 1



Money Markets

Money markets is a market for debt securities that pay off in the short-term usually less than one year, for instance, the market for 90-days treasury bills. This market encompasses the issuance and trading of short-term non-equity debt instruments including treasury bills, commercial papers, bankers' acceptance, certificates of deposits, etc.

Capital Markets

Capital markets is a market for long-term debt and equity shares usually for more than one year. In this market, the capital funds comprising both equity and debt, are issued and traded. This includes both private placement sources of debt and equity as well as organised markets like stock exchanges.

Securities Markets

It is composed of two terms "Securities" and "Markets" referring financial instruments issued to raise funds and a place or places where securities are bought and sold respectively. It provides facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. Secondary markets include over-the-counter markets and stock exchange.

The primary function of the securities markets is to enable to flow of capital from those that have it to those that need it. Securities market helps in transfer of resources from those with idle resources to others who have a productive need for them. Securities markets provide channels for allocation of savings to investments and thereby decouple these two activities. As a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively, which inevitably enhances savings and investment in the economy.

Securities markets can be further divided into the (i) primary market and (ii) secondary market.

Primary Market

A market where securities are directly offered to the general public by a company or issuer with the help of merchant bank as an intermediary who acts as an expert of issue management on behalf of the issuer. The issue management is done by issue manager under merchant banking function licensed by the Securities Board of Nepal (SEBON).

Secondary Market

A market where securities, both equity and debt, are traded after being initially offered to the public in the primary market and listed at the stock exchanges. Trading of listed securities take place in the secondary market.

For a company, secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides the management decisions. For an investor, the secondary market provides an efficient platform for trading as well as liquidity of his investment made in securities.

Over the counter market is one of segments of secondary market. Non-listed along with delisted securities of public limited companies can be traded on OTC market platform provided by the NEPSE normally without the involvement of market intermediaries. It is off-exchange trading of shares.

Desirable Characteristic of Financial Markets

(i) Market efficiency, (ii) Market depth, and (iii) Market width are prerequisite of financial market. These factors are the desirable characteristics of financial market.

Market Efficiency

The primary market provides an intermediary function by channeling funds from investors (with savings) to firms and businesses that are seeking funds for investments. Secondary markets, on the other hand, reinforce the primary market by providing the flexibility for investors to liquidate their holdings when desired.

Financial markets also perform an allocative function, by directing investor savings to business and investments with the highest returns. Firms and businesses that are efficiently operated and are able to identify superior investment opportunities will command higher prices for their securities and will attract the needed capital. Resources thus will flow to the best uses in the economy. However, this depends on whether the market is efficient, in the sense that whether stock prices accurately reflect the expectations about companies' performance. Markets are usually classified under one of three levels of efficiency; (i) weak, (ii) semi strong and (iii) strong.

In the weak form efficient market, stock prices are assumed to reflect all past information including price and volume information which means that abnormal profits cannot be mode of trading based on historical information.

The market reflects all publicly available information in the semi strong form efficient markets, while reflecting all information whether public or nonpublic in security prices. In the semi strong form, investors cannot make abnormal profits using publicly available information, and not even inside information if the market is efficient at the strong from level.

In addition to efficiency, liquidity is another desirable property in a market. Liquidity enables an investor to sell a security quickly and easily at a fair price. Money market securities such as government treasury bills tend to be very liquid, while real estate assets are typically illiquid. Market participants are willing to pay a premium for securities that are liquid and inflict a discount on securities that are illiquid. The liquidity of a security is particularly affected by (i) market depth and (ii) market width.

Market Depth

The market for a security is said to have depth, if there are plenty of buy orders and sell orders within a narrow range around the current market price. In a deep market, the existence of many orders means that the price of the security is quickly brought to equilibrium as the demand and supply for that security changes. In contrast, shallow markets are characterised by shortages or oversupply resulting in discontinuity of buy and sell orders and large price jumps. If supply exceeds demand the price of the security declines by a large amount that may cause material losses to holders of the security, which may force them to postpone selling the security. On the other hand, if demand exceeds supply, prices rise to such a degree that potential buyers may postpone the purchase of the security.

Market Width

The market for a security is said to have width or broad, if it is characterised by large transaction volumes. In such markets, not only prices are able to change continuously because of the existence of lots of orders (as in a deep market), but the order sizes above and below the current market price are also large. As a result, there is no incentive for buyers or sellers to postpone their decisions. Market makers are willing to accept smaller margins (spread) as the high turnover volume compensates for the small margins.

Undesirable Activities of the Markets

Developed capital markets need proper regulations in place to prevent undesirable activities that distorts the efficiency of the market are (i) Market cornering (ii) Wash Sales, (iii) Churning, and (iv) Pump-and-Dump

Market Cornering

This happens when a person buys all or most of the available quantities of a certain security, to create a form of monopoly that may later enable him to sell the security at a higher price, he is said to be cornering the market. Market regulation generally prohibits such activity

Wash Sales

It means to create an illusion of trading activity for a given stock. One form of wash sale is when a person sells a security to his son or a family member and then buys back the same security on the same day at either at higher price or lower price, depending on the illusion that the person is intending to create. The primary motive of such actions is to mislead the market in order to make unethical profits.

A deceptive investor could use this technique to artificially raise the price of a security by selling the stock at a high price and buying it back at a lower price on the same day. Encouraged by this false impression of false trading activity other investors enter the market as buyers resulting in a further rise in the security's market price. This allows the deceptive investor to sell his holdings at these artificially higher prices

Churning

Churning happens from a stocker broker's part. It takes place when a broker engages in frequent and unnecessary trading on behalf of the client. This is done by some unscrupulous brokers to generate increased income from trading commissions. It is considered unethical and is an illegal activity

Pump-and-Dump

Pump-and-dump is a scheme that attempts to boost the price of a stock through recommendations based on false, misleading or greatly exaggerated statements. The perpetrators of this scheme already have an established position in the company's stock and sell their positions after the hype has led to a higher share price. This practice is illegal based on securities law and can lead to heavy fines.

Financial Market Styles

Financial markets can operate on different basis or styles. The major basis are (i) Order Driven and (ii) Quote Driven Market.

Order Driven Markets

In an order driven market, potential buyers and sellers of securities indicate how many securities they want to buy or sell and at what price. The trading system brings buyers and sellers together where their requirements match. Most of the major stock markets around the world operate form of order driven trading system, such as the New York Stock Exchange and the London Stock Exchange and Nepal Stock Exchange Ltd.

Quote Driven Markets

A small number of stock exchanges also operate under a quote driven style. In a quote driven style, the exchange enables financial institutions to act as market makers. Market makers are obliged to provide two-way quotes to buy and sell particular securities throughout the standard market hours. In order to generate profit, the market maker will quote a lower price to buy the securities (the bid price), and a higher price to sell the securities (the offer ask price). The difference between the prices is often referred to as the bid-offer ask spread. The key advantage that the quote driven system offers over the order driven system is the ability to trade throughout the trading day. This is because the market makers are obliged to quote prices and be able to trade in at least a set minimum number of securities. In an order driven market, liquidity could dry up, if there are no orders to buy (or to sell). The disadvantage of the quote driven system is that investors are effectively paying for the provision of liquidity through the bid-offer spread, compared to the order driven system where the orders are matched.

Principal and Agency Trading

In both the order driven and quote driven market styles, firms can act in two capacities – (i) agent or (ii) principal. A firm acting as agent simply arranges the trade on behalf of the client, charging a commission. Firms acting as principal actually buy or sell securities themselves, such as market makers in quote driven markets. Clearly, firms taking principal positions take greater risks than those acting as in an agency capacity.

Financial System

In a simple, a financial system allows the exchange of funds between different financial market participants like lenders, investors, and borrowers. The systems operate at national and global levels and consisting of complex, closely related services, markets, and institutions intended to provide an efficient and regular linkage between investors and depositors.

[1]According to OECD a financial system consists of institutional units and markets that interact, typically in a complex manner, for the purpose of mobilising funds for investment, and providing facilities, including payment systems, for the financing of commercial activity.

The financial system is composed of the products and services provided by financial institutions, which includes banks, insurance companies, pension funds, organised exchanges, and the many other companies that serve to facilitate economic transactions. Virtually all economic transactions are effected by one or more of these financial institutions. They create financial instruments, such as stocks and bonds, pay interest on deposits, lend money to creditworthy borrowers, and create and maintain the payment systems of modern economies.

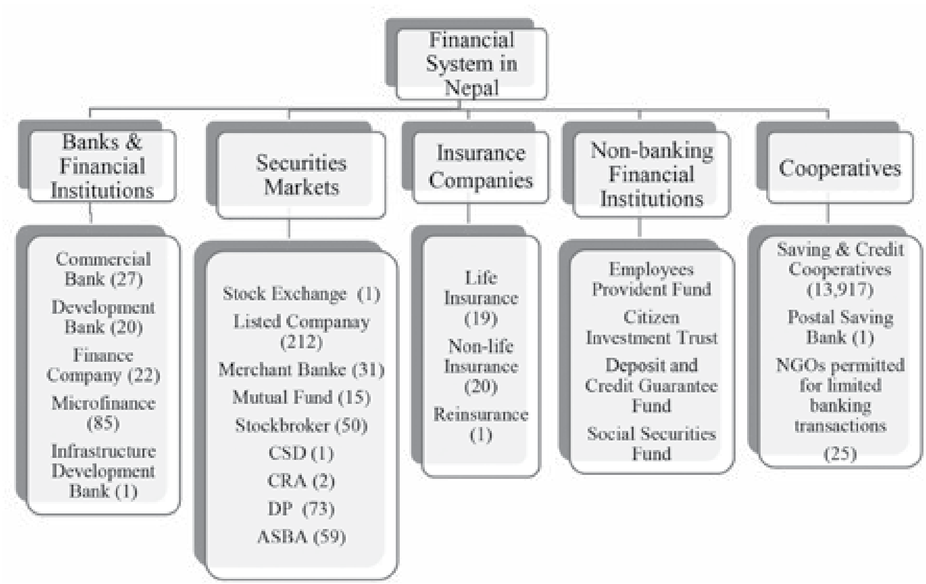
Overview of Nepalese Financial System

The financial system enables lenders and borrowers to exchange funds. Nepal has a financial system that is controlled and regulated by separate independent regulators in the sectors of insurance, banking (money market),

[1]. Glossary of statistical terms-OECD

capital markets, cooperative and other services sectors. Nepalese financial system as at 30 August 2020 is in the figure 2.

Figure 2



Under the financial system of Nepal, there are five sub-systems namely bank and financial institutions (BFIs), securities markets, insurance companies, non-banking financial institutions and co-operatives. Each sector is the sub-system of the financial system since the activities in one sub-system affects not only another sub-system but can affect the entire financial system.

Bank and Financial Institutions

As of 30 August 2020, there are a total of 27 commercial banks, 20 development banks, 22 finance companies, 85 microfinance companies, and one infrastructure development bank. BFIs are regulated by Nepal Rastra Bank (NRB), the-central bank of Nepal with the provisions under .BFIs Act, 2017 and Nepal Rastra Bank Act, 2002.

Securities Markets

It consists of different market participants and their interactions such as (i) stock exchange (NEPSE), (ii) listed companies, (iii) stockbrokers, (iv) merchant bankers, (v) central depository company (CDSC), (vi) depository participants (DPs), (vii) clearing members, (viii) ASBA members, (ix) credit rating companies and so forth. Securities Board of Nepal (SEBON) is the regulatory authority of the securities markets in Nepal. Securities Markets is regulated under the Securities Related Act, 2006.

Insurance Sector

Insurance sector consists of life, non-life and reinsurance companies and their interactions. The objectives of insurance sector regulation is to systematise, regularise, and develop the insurance business in Nepal. Insurance Board is the regulatory authority of insurance sector in Nepal. It regulates insurance companies with the provisions under the Insurance Act, 1992.

The Non-Banking Financial Intermediaries (NBFIs)

They are just intermediaries or middlemen transferring funds from ultimate lenders to ultimate borrowers. The financial intermediaries obtain funds by issuing to the public their own liabilities such as saving deposits and loan shares and then use this money to buy financial assets namely stocks, bonds and mortgages for themselves. In this way the financial intermediaries intermediate between original savers and final borrowers".

Non-banking financial institutions, in Nepal, consist of Employees Provided Fund (EPF), Citizen Investment Trust (CIT), Deposit and Credit Guarantee Fund and Social Security Fund. The EPF and CIT established under special Acts, operate under the supervision of Government of Nepal, Ministry of Finance (MoF).

Cooperatives

A cooperative also called as co-operative, co-op, or coop is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise ". Cooperatives may include (i) non-profit community organisations, (ii) businesses owned and managed by the people who use their services (a consumer cooperative) (ii) organisations managed by the people who work there (worker cooperatives), (iii) organisations managed by the people to whom they provide accommodation (housing cooperatives), (iv) hybrids such as worker cooperatives that are also consumer cooperatives or credit unions, (v) multi-stakeholder cooperatives such as those that bring together civil society and local actors to deliver community needs, (vi) second and third-tier cooperatives whose members are other cooperatives.

Financial cooperatives play an important role in the financial systems of the country. They act as a safe haven for deposits and are major sources of credit for households and small- and medium-sized firms. In Nepal, co-operatives are regulated by the Department of Co-operatives under the Cooperative Act, 2017.

Chapter 2

Introduction to Securities Markets and Commodity Derivatives Markets

Securities Markets

Securities markets is a market for securities (equity, debt and unit), where business enterprises (companies) and Governments can raise long-term funds for the initiation and expansion of business. It is defined as a market in which money is provided for periods longer than a year (raising of short-term funds takes place on other markets like the money market). Financial regulators, such as SEBON regulates and oversee the securities markets in its designated jurisdictions to ensure an orderly development of the markets and protection of investors.

Securities markets normally imply any exchange marketplace where financial assets and securities are traded. So capital markets is a broader term in the sense that it includes trading of bonds, derivatives, and commodities as well as securities or stocks. On the other hand, share/stock markets can be taken as a category of capital markets where securities/stocks are traded. These two terms have been used interchangeably.

Securities market development is essential for the economic development of a country. The objective of economic activity in any country is to promote the well-being and standard of living of its people, which depends upon the distribution of income in terms of goods and services in the economy. For the growth process in the economy, production plays a vital role. Production of output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials; plant, and machinery, etc., Human inputs are in the form of intellectual, managerial and labour manpower. Financial inputs are in the shape of capital, cash, credit etc. The proper availability and utilisation of these inputs promotes the economic development of a country.

The financial inputs, among other sources, emanate from the securities market system. The securities market thrives with investors' confidence based upon their return on investment as well as from anticipated capital appreciation from their investment.

Investors are a heterogeneous group; they comprise wealthy and middle class, educated and illiterate, young and old, expert, professional and non-professional and lay-man. However, all investors are in need protection; not the protection for assured growth of their investments but protection from non-governance, malpractices and fraudulent. Most investors have three investment objectives: (i) safety of the hard-earned or saved invested money, (ii) liquidity of the invested money, and (iii) returns on the investments made. Securities markets regulators have to fulfil dual responsibilities by allowing to raise capital for economic development on one hand and to protect investors at large on the other hand. However, it is beyond debate that unless the interests of investors are protected, raising of capital would be difficult. Efficient securities markets should, therefore, provide a mechanism for efficient raising capital as well as have adequate safeguards to protect the interests of the general investors.

Role of Securities Markets

Securities markets plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient means to channel and mobilise funds to enterprises, and provide an effective source of investment in the economy. It plays an important role in mobilising savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects. It thus acts as a major catalyst in transforming the economy into a more efficient, innovative and competitive marketplace within the country.

In addition to resource allocation, capital markets also provide a medium for risk management by allowing diversification of risk in the economy. A well-functioning securities markets also tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.

Securities market has played a crucial role in supporting periods of technological progress and economic development throughout history. Among other things, liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods.

The existence of deep and broad securities markets is absolutely crucial and critical in spurring the growth of our country. An essential imperative for Nepal has been to develop its capital markets to provide alternative sources of funding for companies and in doing so, achieve more effective mobilisation of investors' accumulative savings. Securities markets provides a valuable source of external finance as well.

Risk Associated with the Securities Markets

One should always keep in mind that investment in securities markets is not risk free. Securities markets risk usually defines the risk involved in the investments. The stark potential of experiencing losses following a fluctuation in the securities prices is the reason behind the capital market risk.

Systematic Risk

Securities market risk, which is not diversifiable, is typically known as systematic risk. Systematic risk is common to the entire class of liabilities or assets. Depending on economic changes, the value of investments can fall enormously. There may be some other financial events also impacting the investment markets. In order to check securities market risk, allocation would be fruitful.

Risk is an integrated part of the investment. Higher the potential of return, higher is the risk associated with it. Examination of the risks involved in the securities market investment is one of the prime aspects of investing. The element of risk is what distinguishes an investment from savings.

Investment in stocks (shares) or bonds normally comes with the types of risks are (i) Market Risk, (ii) Industry Risk, (iii) Business Risk, and (iv) Regulatory Risk

Market Risk

It is the overall risk involved in capital market investments. The stock market rises and falls depending on a number of factors. The collective view of the investors to invest in a particular stock or bond plays a significant role in the stock market rise and fall. Even if the company is going through a bad phase, the stock price may go up due to a rising stock market while conversely, the stock price may fall because the market is not steady even if the company is doing well.

Industry Risk

It may arise from the market forces and regulations relating to a given industry. Thus, all stocks within an industry would be affected by industry related factors. Regulatory Risk are risks arising out of changes in regulations and laws, either specific to the company/industry or the country as a whole.

Business Risk

It may affect the investors if the company goes through some changes in management, strategies, market share and labor force.

It is important for investors to realise that returns on equities can be cyclical and that the market will move in both directions.

Regulatory Risk

It is generally defined as the risk of having the 'license to operate' withdrawn by a regulator, or having conditions applied (retrospectively or prospectively) that adversely impacts the economic value of an enterprise. Regulatory Risk are risks arising out of changes in regulations and laws, either specific to the company/ industry or the country as a whole.

Historical Development of Securities Markets

History of global capital markets dates back to 1602 AD when a stock exchange was established in Amsterdam, Netherlands and shares of Dutch East India Company were traded initially.

Development of Securities Market in Nepal

- In Nepal, for the very first time Nepal Bank Ltd and Biratnagar Jute Mills issued shares to public in 1937,
- SEBON was established by Government of Nepal on June 7, 1993 as an apex regulatory body of Securities Markets)

- Secondary market got momentum formally only in 1976 after establishment of Securities Marketing Center and then separation of regulation and market operation with the establishment of Securities Board as regulator and exchange as secondary market operator. The separate exchange was made with the conversion of Securities Marketing Center into Nepal Stock Exchange Ltd. in 1993.
- Primary issues made by foreign joint venture banks in the early 1983 such as Nabil Bank Ltd. (erstwhile Nepal Arab Bank Ltd.), Standard Chartered Bank Ltd. (erstwhile Nepal Grindlays Bank Ltd.) and Nepal Investment Bank Ltd. (formally Nepal Indosuez Bank Ltd.) were remarkably taken by the market back then.
- Licenses were issued to stockbrokers in 1994,
- Issue and Sales Managers and few Mutual Funds that enabled primary issues of around Rs.5.42 billion by multiple Companies in the decades of 1990s and NEPSE operated on open outcry system of trade through stockbrokers that saw trading volume of around Rs. 9.46 billion during the period, Market index remained to be 204.86 points and listing of 108 Companies at the Mid-July 2000.
- In the decade of 2000s many reforms were made to improve secondary market including replacement of open outcry system by automated computerised trading system (ATS) in 2007, start of real time surveillance system, circuit breaker practice, OTC market and trading of promoter shares, increasing number of stockbrokers, etc.
- CDS and Clearing Ltd. was established on 22 December 2010 as central depository system of securities.
- Credit rating Company ICRA Nepal Ltd. was established in 11 November 2011 as joint venture with ICRA Ltd., India which has collaboration with Moody's rating agency. SEBON granted license to ICRA on 3 October 2012.
- Dematerialisation of securities has been made compulsory through DP along with demat account which has aided in full automation of secondary market on 15 January 2016.
- Centralised application supported by blocked amount (C-ASBA) has begun from 14 January 2017 optionally and it was made compulsory from 16 July 2017 .
- Online trading of securities has begun on 6 November 2018.

Commodity Derivatives Markets

Commodity derivatives markets is a mechanism in which multiple buyers and sellers trade commodity-linked contracts on the basis of rules and processes laid down by the exchange and regulator.

A commodity exchange is considered to be essentially public because anybody who wishes to transact must take the services of registered members.

Most of the trading in the commodity derivatives market is being done by people who have no need for the commodity itself. They just speculate on the direction of the price of these commodities, hoping to make money if the price moves in their favour.

The commodity derivatives market is a direct way to invest in commodities rather than investing in the companies that trade in those commodities.

Products which are traded in commodity derivatives market include financial instruments namely forwards, futures, foreign currencies and indexes. Commodity derivatives, which were traditionally developed for risk management purposes, are now growing in popularity as an investment tool.

The forward contract is an agreement between two parties to buy or sell the underlying assets at a specific time in the future for a specified price determined today and futures is standardised forwards freely exchangeable on the market. The historical role of forward and future contracts has been to 'hedge' against inherent risks existing in commodity markets. There is absence of equity derivative market; however there is unregulated commodity derivative market in Nepal.

Commodity derivative markets can provide benefits to an economy by providing facilities for producers and consumers of commodities to protect themselves against the risk of price fluctuations. Commodity derivative market provides a vehicle through which the traders or participants can hedge their risks or protect themselves from the adverse price movements in the underlying assets in which they deal.

Types of Commodity Markets

- Commodity spot market - a seller would deposit the commodity - in its standardised units - and receive payment for them when delivered to the buyer. The buyer would pay on receipt of the commodity in question.
- Commodity futures market- the buyer and seller would agree to a contract, whereby the buyer would agree to buy, and the seller to sell, a standardised unit of the commodity for a price fixed in the contract at a future date. Once agreed between buyer and seller, the contracts could then be traded again repeatedly between different market participants until such time as they become due for settlement.
- Physical delivery commodity futures market-a buyer of a commodity futures contract who holds the contract at the expiry date will receive the commodity in question and the seller receives cash.
- Cash settlement commodity future market- the contract includes a reference price and, on the date of settlement, the reference price is compared with the price in the contract and one of the parties makes a cash payment to the other, depending on whether the contract price exceeds or is less than the reference price.

Basis of Nepalese Commodity Derivative Market Operation

- The exchanges provide facilities for the buyers and sellers of the contracts to see the best bid and offer price currently in the market. Each of the markets also has liquidity providers in the form of one or more market makers that deal in the commodities and provide bid and offer prices to customers.
- Buyers and sellers access the market through brokers who are licensed by the exchange and trade on the exchanges as agents for the clients.
- Trading is done by buying and selling contracts designed by the exchange. Each of the exchanges design their own contracts and the contracts for any one exchange are different from those in other exchanges.
- Each exchange has one or more "clearing members". A clearing member is responsible for making sure that a trade is settled.
- The clearing member (or members) establish between themselves the overall net obligations of each of the clients of the brokers and make payments between themselves through a settlement bank to settle the accounts.

Adoption of Risk Reduction Mechanism

- Once a trade is made, the client, through the broker, must make a deposit (known as "initial margin") of between 1 - 3 percent of the nominal value of the commodity.
- Every day, the value of the contract is assessed on the basis of movements in the underlying reference price. If the value of the contract has declined during the day, the client is required to pay, via the broker to the clearing member, an amount equivalent to the reduction in the value of the contract during the day.
- If a client fails to make a variation margin payment, clearing member will, in principle close the contract by selling it on the exchange. If the value of the contract has increased, clearing member makes a payment to the client via the broker, of the amount of the gain.
- The reference price is based on the prices on world markets.

Objectives of Commodity Derivatives Market Regulation

- Commodity Derivatives Market is regulated by SEBON with the provision under the Commodities Exchange Market Act, 2017. SEBON has implemented Commodity Exchange Market Regulation, 2017. The major objectives of commodity derivatives market regulation are under:
- Regulate the issue and trading of commodity derivatives products, commodity derivatives exchanges, clearing and settlement houses and warehouses.
- Protect the legal rights of investors.
- Develop the commodity derivatives markets for the proper scope of hedging, arbitrage and speculation in commodity derivatives products and underlying products related commodity markets.
- Promote for integrated development of commodity spot and commodity derivatives markets.

Chapter 3

Introduction to Securities Board of Nepal (SEBON)

SEBON was established by Government of Nepal on June 7, 1993 as an apex regulatory body of Securities Markets. It has been regulating the market with power conferred by the Securities Related Act, 2006. SEBON has been given the power to regulate and manage the activities of the securities markets and persons involved in the business of dealing in securities by regulating the issuance, purchase, sale and exchange of securities for the purpose of protecting the interests of investors in securities, by developing the capital market to mobilise necessary capital for the economic development of the country.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

Major Function, Duties and Power of SEBON

The [2]function, duties and power of SEBON have been defined by the Securities Related Act, 2006 which have been listed as under.

- To offer an advice, as per necessity, to the Government of Nepal on matters incidental to the development of capital market;
- To register the securities of any corporate body established with the authority to make a public issue of its securities;
- To regulate and systematise the issue, transfer, sale and exchange of registered securities;
- To grant permission to any corporate body, which is desirous of operating a stock exchange, to operate the stock exchange subject to this Act or the rules and bye-laws framed under this Act;
- To regulate and monitor the activities of the stock exchange;
- To inspect as to whether or not any stock exchange is executing its activities in accordance with this Act or the rules and bye-laws framed under this Act, and to suspend or revoke the license of such a stock exchange, if it is found that the same has not been done;
- To issue a license to companies or institutions, which are desirous of

[2] Section 5 of Securities Related Act, 2006

carrying on the securities business subject to this Act or the rules and bye-laws framed under this Act;

- To regulate and monitor the activities of securities business person;
- To classify securities businesspersons and fix their standards according to their functions and capability by fulfilling such procedures as prescribed;
- To grant a permission to operate collective investment schemes and investment fund programmes, and to regulate and monitor the same;
- To approve bye-laws of stock exchanges and those bodies which are related with securities business and engaged in securities transactions, and to issue orders to stock exchanges and those bodies which are related with securities business and engaged in securities transactions to make necessary amendment in their bye-laws with a view to making necessary provisions concerning the development of capital market and protecting the interests of investors in securities;
- To systematise the clearance of accounts related to securities transactions;
- To supervise whether or not security business persons have maintained such conduct as prescribed in this Act or the rules, bye-laws and directives framed under this Act, while carrying on securities business, and suspend or revoke the license to carry on securities business where any securities business person is not found to have maintained such a conduct;
- To make or cause to be made, such arrangements as may be necessary to regulate the volume of securities and the mode of securities transactions for the promotion, development and healthy operation of stock exchanges;
- To make such arrangements as may be necessary to prevent insider trading or any other offense relating to securities transactions as referred to in Chapter 9 for the protection of the interests of investors in securities;
- To review, or cause to be reviewed, financial statements submitted by corporate bodies issuing securities and securities business persons, and give such directives to the concerned corporate bodies as it deems necessary in this connection;
- To regulate and make transparent the act of acquiring the ownership of a company thereby gaining control over its management by purchasing its shares in a single lot or in several lots;
- To maintain coordination and exchange cooperation with the concerned agencies in order to supervise and regulate matters concerning securities or company affairs; and
- To perform or cause to be performed such other functions as may be

necessary in relation to securities and the development of capital market.

Legal Framework

The Securities Related Act, 2006 along with various regulations and guidelines, made by the power conferred by the Section of 116 of the Act provides a legal basis for the regulation of securities markets in Nepal. [3]List of Securities laws and rules is incorporated in the Annex-1.

Objectives of Securities Laws of Nepal

- Regulate the issue and trading of securities.
- Protect the legal rights of investors.
- Develop the capital market to mobilise necessary capital for the economic development of the country.
- Promote the development of a broad-based economy.

Implicit throughout provisions under Securities related Act, 2006 is the belief that regulation should facilitate capital formation and economic growth.

International Relations of SEBON

SEBON became Associate member of International Organisation of Securities Commissions (IOSCO) in July 2016.

To internationalise the Nepalese securities markets and enhance its standards, the CDSC under the coordination of Board has obtained membership of Association of National Numbering Agencies (ANNA). The company obtained membership as the 92nd member from the General Assembly of ANNA held in Armenia on June 2 and 3, 2016.

Board has been performing the role of founding member of Asia Forum for Investor Education (AFIE), established on 2010.

SEBON obtained the member of South Asian Securities Regulators Forum SASRF, an association of regulatory bodies of SAARC region, SEBON has been regularly maintaining relations, exchanging required knowledge and information and doing co-ordination and support.

SEBON has been participating in securities markets related programmemes organised by IOSCO, World Bank (WB), Asian Development Bank (ADB), Asia-Pacific Economic Cooperation (APEC), Toronto Centre and regulators of securities markets of different countries around the globe.

[3] Major legal structure is given in Annexure-1

CHAPTER 4

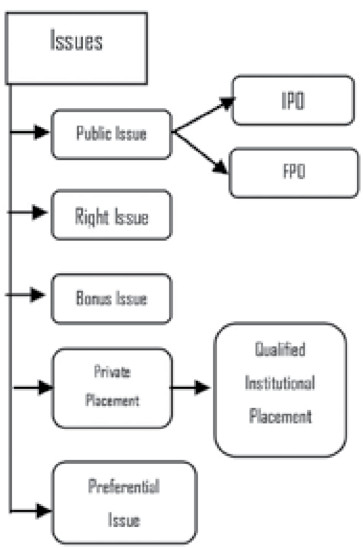
Public Issue of Securities

An introduction of Public Issue

Public issue is related to primary market. Primary market is the market where first time issue of securities is made by a public limited company to the investors. Under it, the existing owners dilute their shareholding in favour of new investors.

According to the Securities Related Act, 2006 "[4]Public issue" means an offer made by a body corporate before the public for the subscription of its securities by publishing a prospectus.

Figure 3



Primarily, public issues can be classified as (i) Initial Public Offering (IPO), (ii) Rights Issue (eligible existing shareholders), (iii) Preferential Issues (also known as private placements), and (iii) Bonus issue.

[4] Section of 1(V) of Securities Related Act, 2006

IPO can be further classified into (i) Initial Public Offerings (IPOs), (ii) Further Public Offerings (FPOs).

Initial Public Offering (IPO)

In an IPO, issue typically made by a company when it needs money for growth-expansion, diversification, or acquisitions or even to meet its increasing working capital requirements.

In a public offering, an issuer makes an offer to new investors to join its shareholding family. To do so, the issuer company is required to make detailed disclosures as per SEBON's Regulations in its offer document released to the public. IPO can be made on fixed price/face value, premium pricing, and free pricing through book-building system.

Further Public Offering (FPO)

In FPO fresh securities are issued. It is typically made by a company when it needs money for growth-expansion or diversification or acquisitions or even to meet its increasing working capital requirements. An FPO is also the preferred route (over a rights issue) when the company wants to bring in new investors-both institutional as well as retail. So, FPO is one when an already listed company makes issue of securities to the public through an offer document.

FPO is allowed or approved to go to public by SEBON only when it is made to satisfy several criteria such as [5](ka) Out of last five years, company should operate in profit at least for three years having

[5] Rule 16 of Securities Registration and Issuance Regulations, (2016

more net worth per share than paid of capital per share., (Kha) Company must have passed three years issuing it's IPO, (Ga) The agenda of FPO should have passed from the AGM of the company, (Gha) If issue is to make more than the paid up value, mechanism of forming FPO price and the basis of the price should be established,

Rights Issue

It is an issue when an issuer or listed company issues fresh securities to its existing shareholders in a particular ratio to the number of securities held prior to the issue as on a record date. This route is normally used by a company who would like to raise capital without diluting the stake of its existing shareholders, as in a rights issue the stake held by each shareholder remains the same even after the issue. There could be some cases where the promoter may not like to bring in his capital or money and therefore allow dilution of his stake by giving up on his rights entitlement to someone else. It is known as [6]right renounce. The same is applicable also in case of public share.

Rights issues are typically made at a discount to the prevailing market price, and hence are seen as a reward to the shareholders particularly for those companies which have been performing well and market price of its share is higher than the face value. On the other hand, it can be financial burden to the shareholders when the company is not performing well and market price of the share is below its face value.

According to Securities Related Act, 2006 [7]"Right issue" means an

offer made to the existing shareholder or any person nominated by such shareholder for the subscription of any securities issued by a body corporate.

- Normally issued to existing shareholders
- Issued at Fixed Price, normally Rs.100
- Shareholder have Right to Renounce (transfer his right to other person)
- Unsubscribed Shares Disposed to Public by way of auction by Merchant Bankers

Right issue also required to meet following criteria :

- Should need the grading of right issue from credit rating company[8]
- Should issue the offer documents
- Should filing application to SEBON with necessary documents, information within 2 months of the agenda passed by AGM regarding issuing right share[9].

Private Placement

Fundamentally, private placement offerings are securities released for sale only to accredited investors such as investment banks, pensions, or mutual funds. Those accredited investors are generally qualified institutional investors (QIB) registered with the regulatory authority.

6 Rule 19 of share registration and issue regulations, 2016

7 Section 1(y) of Securities Related Act, 2006

8 Rule 9Kha(1) of Securities Registration and Issuance Regulations, 2016

9 (1Ka) of Rule 17 of share registration and issue regulations, 2016

A private placement is an issue of securities by a company to a select group of persons, which is neither a public issue nor a rights issue, with the condition that the number of investors should not exceed specified number. This is a faster and economical way for a company to raise capital.

Private Placements by a listed company occurs when the company offer it's issue upto 50 persons.

According to the Securities Related Act [10]"Private placement" means an act to make an offer by a letter, dispatch or any electronic communication media for the sale of securities to a maximum of fifty investors.

Bonus Share Issue

A Bonus issue is issue of securities to its existing shareholders in a particular ratio to the number of securities held on a record date, without any payment for the same. The shares are issued out of the company's free reserves or from the share premium account. Bonus issues are typically seen as a reward to the shareholders. It is one of the returns in the investment made in the securities other being cash dividend which is distributed out of profit that a company makes during a year. It helps to appreciate in the investment of investors since it helps in grow the investors investment in a multiple manner. It is one of the attractions of investment in the securities market. The proportion of dividend declaration depends on the dividend policy of the company. A growing or constant dividend policy is considered to be good from the investment perspective.

[10] Section 1(m) of Securities Related Act, 2006

While public issue and rights issues involve a detailed procedure, preferential issues and bonus issues are relatively simple and easy.

Bonus share is required to registered with SEBON.

The pros and cons of public issue or going to public are given under:

- Access to capital beyond which is privately available,
- Facilitation of mergers and acquisitions,
- Access to secondary equity financing through FPOs,
- Increased publicity and improved financial status
- Provision of an exit strategy for original investors, including venture capitalists and angel investors, as well as owners
- Dilution of ownership,
- Legal hassles,
- High auditing and legal fees
- Increased scrutiny by regulators and public.
- Large number of shareholders.
- Need to comply with good governance and corporate governance
- Need to comply with reporting requirements
- IPO Grading: Every company coming out with an IPO has to go in for an IPO Grading.

Public Issue Process

After getting approval of public issue from SEBON the merchant banker must peruse the following process:

In case of IPO & FPO

- Publish notice along with offered documents regarding public of shares should be published prier to 21 days of issue open
- Arrangement of collection centers (All ASBA members and their branches can be collection centers)
- Application for IPO remains open at least for 4 working days and maximum of 15 days if not fully subscribed with the first 4 working days[11] (application can be made by both on-line as well as submitting forms available in the ASBA member where investors have their bank account).
- Allotment should be made within 30 days if total number of application is 2 lakhs, 40 days if total application is from 2to3 lakhs and 50 days if the total number of application is above 3 lakhs, from the date of close of IPO. [12]
- Amount should be transferred to the account of the issuing company or issue manager from the allotees bank account within 3 days of allotment of share[13].
- Amount of applicants should be released or unlocked within 3 days after transfer of allotees amount to issuer or issue manager bank account.
- In case of IPO for affected local of the project, the issue should be opened minimum of 15 days and maximum of 30 days[14].
- Issue manager scrutinises the applications received for IPO (*applications not meeting all the criteria are excluded from the allotment)
- Allotment and refund of application amount of the IPO
- Application for listing and dematerialization should be given to NEPSE within 7 days after getting IPO approval from SEBON[15].
- Credit the securities in the d-mate account of the allottee

Note:* Not filling up the form in proper way for example not mentioning the PAN for certain amount of application, short of balance or amount in the bank, duplication of application leads to disqualify application for IPO,

In case of Right

- Arrangement of collection centers (All ASBA member and their branches can be collection centers)
- Issue open at least for 21 days and maximum of 15 days if not subscribed with the first 21 days in case of right issue[16] (application can be made by on-line as well as physical forms available in the ASBA member where investors have their bank account)

11 Rule 10(2) of Securities Registration and Issuance Regulations, 2016

12 Section 29(1) of Securities Issue and Allotment Guidelines, 2017

13 Rule 14(1) of Securities Registration and Issuance Regulations, 2016

14 Rule 10(3) of Securities Registration and Issuance Regulations, 2016

15 Share issue and allotment Guidelines, 2017

16 Rule 18(1) of Securities Registration and Issuance Regulations, 2016

- Scrutinise the applications received (*applications not meeting all the criteria are excluded from the allotment)
- Allotment and refund of application amount should be made within 15 days of the close of Right issue[17]
- Public notice should be published as a process of selling the unsubscribed right issue/share through auction process after seven days of the allotment of the right share.
- Listing of share in the NEPSE for trade
- Credit the securities in the d-mate account of the allottee

Note:* Not filling up the form in proper way for example not mentioning the PAN for certain amount of application, short of application amount in the bank, duplication of application,

[18]Investor can renounce his right share if he wish.

SEBON's Role in an Issue of Securities

Disclosure-based regime is under the aegis of SEBON from its establishment. So the public issue is based on the disclosure rather than merit based. The investors are supplied with all the information required to make informed decision for investment in the securities.

Any company making a public issue or a listed company making a rights issue, whatever is size of capital, is required to file a draft offer document with SEBON for its vetting. The company can proceed further on the issue only after getting issue approval from SEBON. In the issue approval process, the company is required to incorporating all changes suggested by SEBON. The validity period of SEBON's issue approval remains for[19] 2 months only, i.e., the company has to open its issue within this period otherwise the company is required to file again to SEBON with updated information and data along with fees. For public issue purpose, an issuer or issuing company is required to appoint a merchant banker to draft the prospectus or offer documents and to manage all issue management activities. There is compulsion of grading of IPO by licensed credit rating agency irrespective of the size of issue public issue. The company's merchant banker has to ensure that it is in compliance with all the requirements of the SEBON Regulations and Guidelines. SEBON examines the compliance with these guidelines and also ensures that all material information have been disclosed in the offer documents.

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17 Rule 21 of Securities Registration and Issuance Regulations, 2016

18 Rule 19 of Securities Registration and Issuance Regulations, 2016

19 Rule 44(1) of Securities Registration and Issuance Regulations, 2016

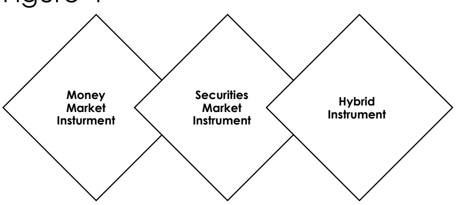
CHAPTER 5

Financial Instruments

Financial Instruments may be certain contracts or any document that acts as financial assets such as debentures and bonds, receivables, cash deposits, bank balances, swaps, cap (interest rate limit), futures, shares, bills of exchange, forwards, Forward Rate Agreement (FRA) etc., to one organisation and as a liability to another organisation and these solely taken into use for trading purposes.

Types of Financial Instruments. Financial instruments are categorised in (i) Money Markets Instrument, (ii) Securities Markets Instrument, and (iii) Hybrid Instrument

Figure 4



Money Market Instruments

Some of the instruments that are traded in the money market are (i) call or notice money, (ii) caps and collars, (iii) letters of credit, (iv) forwards and futures, (v) financial options, (vi) financial guarantees, (vii) swaps, (viii) treasury bills, (ix) certificates of deposits, (x) term money, and (xi) commercial papers.

Securities Markets Instruments

Securities markets is the place where capital/securities markets instruments such as shares, bond, debenture and units are created and traded. Among all investment options available, securities are considered to be the most challenging as well as rewarding. But investment in securities requires considerable skill and expertise and carries the risk of loss if the choice of securities is not right or they are not bought/sold at right time. So, the choice of securities and timing of transaction matters a lot to succeed in the market.

There are a large variety of instruments referred to as securities in common parlance.

Some instrument have that have both the features of money markets and securities markets are (i) Warrants, (ii) dual currency bonds, (iii) exchangeable debt, (iv) equity-linked notes, and (v) convertible debentures, etc. These are called hybrid instruments.

According to the Securities Related Act, 2006[20] "Securities" means any shares, stocks, bonds, debentures, debenture stocks or collective investment scheme certificate issued by a body corporate or treasury bonds, saving bonds or bonds issued by the Government of Nepal or by a body corporate against the guarantee of the Government of Nepal, and this term also includes such other securities as may be specified by the Board to be transacted or transferable through the stock exchange or the instrument to purchase, sell or exchange such securities.

These include

(i) Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;

(ii) Units or any other instrument issued by any collective investment scheme to the investors in such schemes;

[20] Section 2 (f), Securities Related Act, 2006

(iii) Units or any other such instrument issued to the investors under any mutual fund scheme;

(vi) Any certificate or instrument issued to investor by any issuer being a special purpose distinct entity which possesses any debt or receivable including mortgaged debt assigned to such entity and acknowledging beneficial interest of such investor in such debt or receivable including mortgage debt as the case may be;

(vii) Government securities;

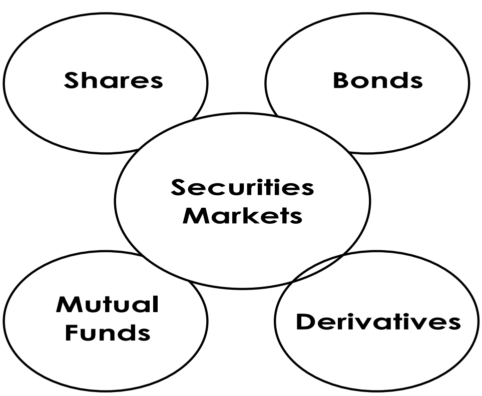
(viii) Such other instruments as may be declared by the central government to be securities;

(ix) Rights or interest in securities;

Common Types of Securities

(i) Shares/Stocks, (ii) Bonds/Debentures, (iii) Units (MF): and (iv) Derivatives.

Figure 5



Shares

Shares are a certificate of ownership of a corporation. Thus, as a stockholder, you share a portion of the profit the company may make as well as a portion of the loss a company may take. As the company keeps doing better, your stocks will increase in value. Holding of share entitles you the ownership of the company. You will have voting right as well as right of nomination of the board of director for being a shareholder of the company. Share have different categories such as (i) Common/Ordinary Share, (ii) Preferential Share. Preferential can be redeemable and non-redeemable. Shares are described as 'high-risk asset classes' when compared with other types of investments. The primary risk of investing in shares is that it can result in loss of capital.

Bonds/Debenture

Companies need money to undertake projects. They then pay back using the money earned through the project. One way of raising funds is through bonds. When a company borrows from the bank in exchange for regular interest payments, it is called a loan. Similarly, when a company borrows from multiple investors in exchange for timely payments of interest, it is called a bond. In Nepal, one unit of bond (par value) is equivalent to Rs.1,000. Public limited company can raise the capital by issuing the bond. In Nepal, most of listed banks and few finance companies have issued the corporate bonds to the public. Issue of bond can be made by private placement as well as to the general public. Fixed interest is offered to the bond which is known as coupon interest.

Thus, a bond is a means of investing money by lending to others. This is why it is called a debt instrument. When you invest in bonds, it will show the face value – the amount of money being borrowed, the coupon rate or yield – the interest rate that the borrower has to pay, the coupon or interest payments, and the deadline for paying the money back called as the maturity date. If you're looking for a bond option that helps you save tax. Decision of issuance of bond depends on the cost of capital that a company assess to raise its fund. Bonds also trades in the secondary market.

In the context of Nepal, there is little transaction of bonds in the secondary market. Development of bond market is very essential for the development of the securities markets. Investment in the bond or debenture is relatively safe because return in it is fixed. So, it is also called fixed income instrument.

Bond and debenture sounds like the same and has been used interchangeably. Though there is a slight difference between these two terms. Normally debentures are issued and purchased only on the creditworthiness and reputation of the company or issuing company. It is not secured by any sort of the physical assets or collateral. Bonds are normally backed by the asset of the issuer. So, the debenture is considered to be slightly risker than the bond often pushing the interest (coupon) rate comparatively higher than of bond.

Categories of Bond

Bond can be of different types such as (i) a bond with out specified maturity period is perpetual bond, (ii) a bond without any coupon interest and sold at substantial discount is zero coupon bond, (iii) a bond with specified coupon interest with a finite maturity is a regular bond, (iv) a bond selling at below its par value is discount bond and (v) a bond setting at above its par value is premium bond.

In the Nepalese securities markets, the many corporates such as commercial banks and some finance companies, particularly listed companies, have issued debenture with fixed maturity periods. On the other hand, Nepal Government have been issued bonds. Debenture issued by the listed companies have been traded in the secondary market. Government bonds has not organised trading platform yet.

The Risk Faced by Investors in Bond

An investor who purchases bonds faces risks from a variety of sources such as (i) inflation risk, (ii) default risk, (iii) liquidity risk, and (iv) interest rate risk.

Interest Rate Risk

It is also called Price Risk. The market price of a bond is inversely proportional to the level of interest rates. When interest rates fall, bond prices increase and conversely when interest rates rise, bond prices decrease. As interest rates fluctuate randomly in the economy, the bond will experience random price movements. This random variation in price is termed price risk. Bond investors therefore experience price gains when interest rates fall and suffer price losses when interest rates rise.

Inflation Risk

It is related to the concept of interest rate risk discussed above. As inflation increases so do interest rates, which then affects bond prices. While most financial assets are influenced by inflation, bonds are affected most severely.

Liquidity Risk

A liquid security market is where an investor is able to sell a security at short notice without having to offer a substantial price discount A market for securities that are actively traded tend to be liquid Bond markets, especially corporate bond markets tend to be thin with infrequent trading. Bondholders wishing to sell in such markets may have to offer a price discount and therefore suffer a loss to attract buyers.

Default Risk

It is risk when a corporation that borrows funds by issuing bonds is unable to make the promised interest and principal payments, the bond is, said to be in default. The likelihood that a bondholder may lose his money through such non-payment is termed default risk. While government bonds do not suffer from this problem (because they can ultimately increase taxes or simply print money to repay the bonds), all corporate bonds have some amount of default risk, albeit in varying degrees. Assessing the likelihood of default is not an easy task as it requires a thorough analysis of the financial performance of the borrowing company. Credit rating of company and bond is very important to know the risk factor in such case.

Mutual Funds

These are investment vehicles that allow you to indirectly investing in share or bonds. It pools money from a collection of investors, and then invests that sum in financial instruments available. This is handled by a professional fund manager on the result of rigorous research, therefore thought to be safer investment.

Every mutual fund scheme issues units, which have a certain value just like a share. When you invest, you thus become a unit-holder. When the instruments that the MF scheme invests in make money, as a unit-holder, you get money. In Nepal, one unit is equivalent to Rs.10

This is either through a rise in the value of the units or through the distribution of dividends–money to all unit-holders. There are normally two types of mutual fund in term of its life. They are close-ended and open-ended. Close-ended mutual funds have fixed maturity period and open-end mutual funds have generally no maturity period.

Derivatives

The value of financial instruments like shares keeps on changing. So, it is difficult to fix a particular price. Derivatives instruments come handy in such case.

These are instruments that help you trade in the future at a price that you fix today. Simply put, you enter into an agreement to either buy or sell a share or other instrument at a certain fixed price in nature.

Hybrid Instruments

Some instrument have that have both the features of money markets and capital markets are (i) Warrants, (ii) dual currency bonds, (iii) exchangeable debt, (iv) equity-linked notes, and (v) convertible debentures, etc. These are called hybrid instruments..

Specialised Investment Fund (SIF)

A Specialized Investment Fund (SIF) is a fund dedicated to "well informed and qualified investors" offering adaptability and risk protection. A SIF may invest in all asset classes and follow any type of investment strategy, but a fund is always subject to risk and diversification requirements.

The primary objective of a SIF is the collective investment of the funds raised from its investors, while applying the principle of risk diversification.[21]

The most common fund under SIF are (i) Private Equity (PE), (ii) Venture Capital (VC), and (iii) Hedge Fund (HF).

Private Equity (Pe)

Private equity (PE) is ownership of (or an interest in) an entity that is not publicly traded. Often, it is high net worth individuals and/or firms that purchase shares of privately-held companies or acquire control of publicly-traded companies (and possibly take a public company private). The aim is to invest in companies that have growth potential and then use the private equity investment to turnaround or expand the business. The company can then be sold for a profit.

Private equity firms (also known as private equity funds) offer investment opportunities to a limited number of accredited investors (limited partners) who are better able to understand and financially handle the risks of such investments. These limited partners often consist of university endowment funds, pension funds, wealthy people, and other companies. (Private equity firms typically serve as the general partner.)

Venture Capital (Vc)

Venture capital (VC) is an important source of funding for new businesses (e.g., start-ups) that do not have access to other sources, such as business loans from banks or capital markets, but do have potential for long-term growth. Although these investments often involve high risk, they can also offer above-average returns. The VC investors often negotiate to obtain equity ownership, representation on the company's board of directors, and/or an active role in managing the company's operations.

Hedge Funds (Hf)

Hedge funds (HF) are a type of investment partnership where a number of investors (i.e., the limited partners) pool their funds together to be invested by a professional fund manager (i.e., the general partner) according to the fund's investment strategy — which may be innovative or otherwise nontraditional when compared to more familiar investment options. While structurally similar to a mutual fund, HFs generally invest more aggressively and are limited to "qualified" investors (i.e., those who meet certain net worth requirements, making them better able to tolerate the increased investment risk). Compared to the heavily regulated

21 https://limestone.eu/fund-platforms/specialised-investment-fund/

mutual funds, HFs operate with a wide degree of investment latitude and are often leveraged to maximise their returns.

HFs differ from private equity (PE) firms in that HFs usually focus on short or medium term liquid securities that are more quickly convertible to cash. HFs also do not have direct control over the business or asset in which they are investing. By contrast, PE firms are geared toward longer-term investment strategies in illiquid assets, where they have more control or influence over operations to influence the long-term returns.

The Specialised Investment Fund Regulations, 2019 has explanation of these funds.

Private Equity Fund means a fund injecting initial equity, or other instruments related to equity, or making investments as per the desire of partner of a company[22].

Venture Capital Fund means the funds whose securities are the initial phase of operation and not listed with stock exchange market, or a fund in the business related to innovative knowledge, skills, or competency or new goods, services, technology, or intellectual property[23].

Hedge Fund means a fund established to make investments in any sectors with high risks[24]. However, the existing regulation does not have sufficient modality of operation of hedge fund. SEBON is going to frame a detailed directives in this regard.

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22 Rule 14(2)(a)(1)Specialised Investment Fund, Regulagions, 2019

23 Rule 14(2)(b)(2)Specialised Investment Fund, Regulagions, 2019

24 Rule 14(2)(c)(3)Specialised Investment Fund, Regulagions, 2019

CHAPTER 6

Investment Planning & Process

Investment is important because one needs to invest to maximise returns on one's savings, appreciate one's assets and also to be able to generate cash flows for meeting several financial needs of the future. One must, however, invest with knowledge and full care in order to not only protect one's hard-earned capital but also generate good returns. Therefore, investors need to invest in systemic way or making and following an investment plan.

Investment planning is a planned process of matching one's financial goals and objectives with one's financial resources. It is a part of financial planning.

Determining Steps to Investing

Before making any investment decision assurance of the following points are must:

1, Obtain written documents explaining the investment
2. Read and understand such documents
3. Verify the legitimacy and validity of the investment
4. Find out the costs and benefits associated with the investment
5. Assess risk-return profile of the investment
6. Know the liquidity and safety aspects of the investment
7. Ascertain if the product is appropriate for your specific goals
8. Compare the product with other investments opportunities available
9. Examine if it fits with other investments you are considering or you have already made,
10. Deal only through registered intermediaries
11. Seek all clarifications about the intermediary and the investment,
12. Explore the options available to you should something go wrong, and then, if satisfied, make the investment.

Importance of Investment

One needs to invest to maximise returns on one's savings and also to be able to generate cash flows for meeting several financial needs of the future. One must invest with knowledge and full care in order to not only protect one's hard-earned capital but also generate good returns.

Investment Objectives

There are normally three objectives such as (i) Safety, (ii) Return; and (iii) Liquidity.

This means that one would like an investment to be absolutely safe, while it generates handsome returns and provides high liquidity. However, it is difficult to maximise all three objectives simultaneously. Typically, one objective trades-off against another. For example, if one wants high returns, one may have to take some risks, or if one wants high liquidity, one may have to compromise on returns. For people who have a regular income, growth-oriented investments, with some risks, are ideal.

Specification of the Financial Goals

Investments are made with certain financial objectives. These objectives should be defined clearly and be measurable in money terms. For example, it is not enough to say "I want to retire comfortably". Such an objective should be stated, as "I want to retire with the ability to spend Rs. 2,00,000 annually, adjusted for inflation".

An investor saves today, to meet certain financial needs tomorrow. Unless the investor is clear about the purpose of saving, his efforts would not result in the desired benefits. An investor should therefore first identify his financial needs. For example, an investor may have one or more of the following financial needs:

1. To retire at age 55 with an annual income of Rs.3,00,000. I am now 35 years of age
2. To completely payoff the housing loan by the time I retire 20 years later.
3. To pay for my daughter's college education that would cost me Rs. 1,50,000 per year for 4 years.

The first step for an investor is to clearly write down the financial needs. The financial needs would be expressed in terms of the amount required and the future date on which required. In the above three examples, we would write:

Example	Amount required	When required Number
1	Rs. 3,00,000 p.a.	Each year beginning from the 20th year from now
2	Rs. 5,000 p.m.	For the next 20 years
3	Rs. 1,50,000 p.a.	Beginning from 12th year from now till 16th year.

Every investor should take out time and prepare such a statement of financial goals covering as many requirements as possible. This is the basis on which the financial plan would be prepared. If the financial capability is found to be inadequate to meet all these goals then they have to be prioritised.

The investors' financial needs depend on the age, stage in the career path, size of the family, needs of the other family members etc. Some of the needs can be identified with precision while others can only be tentatively determined. There may be unanticipated needs as well for which provisions have to be made. Sometimes financial needs change with investor's changing circumstances.

In order to prepare a financial plan, these goals have to be stated in clear and determinable terms of age, amounts and time frame. The financial planning process is merely an exercise of allocation of today's money to meet tomorrow's needs. The financial plan is not static. It has to be reviewed from time to time to account for the changing circumstances.

Assessing the Financial Capacity

An investor sets aside some money today to realise the financial goals stated in the financial plan. How much money can be set aside now depends on the present circumstances. This can be understood by understanding the income, assets and liabilities of the individual investor. The balance sheet lists the investor's assets and liabilities. Hopefully, the assets exceed the liabilities and this excess is the net worth. All assets and liabilities should be valued at the current market value instead of any cost basis. For example, if you own an equity share bought at Rs. 1,000 and it is worth Rs.5,000 now, your balance sheet should reflect Rs.5,000.

An investor should live within his means. Means is the income. Out of this income, routine expenses are met. The remaining amount is available for savings. An investor should prepare a statement of income and expense. It is called "Cash Flow Statement". The sources of income are salary, dividends, interest, self-employment earnings etc.

After identifying the income, an investor should identify the expenses. Expenses are generally grouped into living expenses, payments already committed and taxes.

The excess of income over expenses in each year is the amount available to save. The investor tries to achieve his financial goals subject to his saving capacity. The Cash Flow Statement is prepared under different scenarios. These are death, disability and retirement.

Investment Process

As investors, we would all like to beat the market and we would all like to pick "great" investments on instinct. However, while intuition is undoubtedly a part of the process of investing, it is just part of the process. As investors, it is not surprising that we focus so much of our energy and efforts on investment philosophies and strategies, and so little on the investment process. It is far more interesting to read about how Peter Lynch picks stocks and what makes Warren Buffett a valuable investor, than it is to talk about the steps involved in creating a portfolio or in executing trades. Though it does not get sufficient attention, understanding the investment process is critical for every investor for several reasons:

1. The investment process outlines the steps in creating a portfolio, and emphasises the sequence of actions involved from understanding the investors risk preferences to asset allocation and selection to performance evaluation. By emphasising the sequence, it provides for an orderly way in which an investor can create his or her own portfolio or a portfolio for someone else.

2. The investment process provides a structure that allows investors to see the source of different investment strategies and philosophies. By doing so, it allows investors to take the hundreds of strategies that they see described in the common press and in investment newsletters and to trace them to their common roots.

3. The investment process emphasises the different components that are needed for an investment strategy to be successful, and by so doing explain why so many strategies that look good

on paper never work for those who use them.

Investing well has a secret formula– having the right information, planning and making good choices.

Level and Management of Risk

Different securities carry different risk-return profiles. Generally, higher risks carry higher returns and vice-versa. The risk could be in the form of credit risk (counter party may default payment as it may not have integrity), return risk (the return from the investment may depend on several contingent factors) and liquidity risk (it may be difficult to convert security into cash).

Investment decisions are based upon the investors' life cycle stages and other factors such as liquidity, safety, return on investments, tax savings, active involvement required to manage the investment, and minimum amount requirement for selecting the instruments.

It is not always possible to meet all financial goals with available savings. If savings are limited but the needs are substantial, then the savings should be invested in avenues that would offer high returns. But usually, high return also means high risk. All investors are not in a position to take high risks.

There are investment opportunities that are high on risk and there are investment opportunities that are low on risk. Each is called an asset class. An investor allocates his savings to one or more asset classes depending upon his circumstances. This decision is called the asset allocation decision. Asset allocation decision is perhaps the most important decision in the investment process. The essence of asset allocation lies in the fact that, over time, it can determine up to 90 percent of the portfolio's return.

How much risk an investor can take depends on his financial circumstances and the mental make-up. Every investor must know his own unique risk profile and then make the investment decisions. Factors determining the types of investor are (i) Preparedness to take high risks and (ii) Averse (opposed) to taking risks.

There are scientific methods by which an investor can understand his/her risk profile. For example, answering the following set of questions could give an idea about his/her risk profile:

Age Groups

- Between 25-35
- Between 35-50
- Between 50-65
- Above 65

Your Position is Best Described by

- You are self-dependent and do not support anybody
- You have dependent(s)
- Nearing towards retirement
- Already Retired
- How much of the following needs have been taken care of? (Fully, partially, not at all)
- Insurance
- Retirement
- Children's education
- Housing

- Medical
- What proportion of your current expenses is funded from investments?
- Nil
- Up to 15%
- Between 15% and 30%
- Between 30% and 50%
- More than 50%

Future Earnings

- far exceed inflation
- be marginally ahead of inflation
- keep pace with inflation
- not keep pace with inflation
- When the price of the share you have purchased drops steeply you would
- Sell your investment
- Sell part of your investment
- Do nothing
- Buy more of the same investment

Each of the above questions would impact the risk profile of an investor. For example, lower the age, greater is the expected willingness to take risks. This is because younger people have a lifetime of earnings ahead of them and thus can afford to take higher risks with their present savings. Similarly, in case a person does not have any dependents, he can take more risk.

At the very basic level, there are three asset classes from which to choose from based upon an investors' risk profile. They are equity, debt and cash. Equity is risky, debt has low risk and cash has even lower risk. Within each of the above asset classes, the investor has to select specific instruments for investment.

Financial circumstances and the investor profile dictate the investment avenues for an investor. Financial instruments vary in terms of the liquidity, safety, and returns they offer. The challenge in making the investment decision is to choose the right combination of instruments keeping in mind the financial situation and investor profile.

Each investment option has some advantages and some limitations. For example, while bank savings account would be highly liquid (you can withdraw whenever you like), investment in Public Provident Fund would be difficult to withdraw.

Risks are generally positively correlated with probability of returns. For example, returns in equity shares can be high, but the associated risks are also relatively higher than other options. Risks can be classified into unsystematic and systematic. Unsystematic risks are those that can be minimised by diversifying one's portfolio. For example, instead of investing in the shares of steel companies alone, one could invest into other sectors like Pharmaceuticals and Software. In this situation, your portfolio may not be terribly affected even if the steel sector were to register a mediocre performance. On the other hand, systematic risks are those that cannot be minimised through portfolio diversification. For example, a Korean investor could not possibly have minimised or eliminated his loss due to the currency crisis in South East Asia, through a strategy of diversification of his portfolio.

The character of the investor is also important. Some investors have the time and the knowledge to study their investment portfolios carefully- these could be called as 'active' investors. Others do not intend to watch their investments regularly, due to lack of time or knowledge or inclination, and are looking for essentially safer avenues for parking their funds.

Process of Investment

As investors, we would all like to beat the market and we would all like to pick "great" investments on instinct. However, while intuition is undoubtedly a part of the process of investing, it is just part of the process. As investors, it is not surprising that we focus so much of our energy and efforts on investment philosophies and strategies, and so little on the investment process. It is far more interesting to read about how Peter Lynch picks stocks and what makes Warren Buffett a valuable investor, than it is to talk about the steps involved in creating a portfolio or in executing trades. Though it does not get sufficient attention, understanding the investment process is critical for every investor for several reasons:

1. The investment process outlines the steps in creating a portfolio, and emphasises the sequence of actions involved from understanding the investors risk preferences to asset allocation and selection to performance evaluation. By emphasising the sequence, it provides for an orderly way in which an investor can create his or her own portfolio or a portfolio for someone else.
2. The investment process provides a structure that allows investors to see the source of different investment strategies and philosophies. By doing so, it allows investors to take the hundreds of strategies that they see described in the common press and in investment newsletters and to trace them to their common roots.
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Purchasing Process

From Where to Purchase the products?

- Brokers: Brokers offer several services like purchase/sale of equity, debt and derivative products, mutual fund units, IPOs, etc.
- Banks: Many banks offer facilities for purchase/sale of equity, debt and derivative products, mutual fund units, IPOs etc. physically as well as through their websites
- Mutual Funds: Almost all Mutual Funds facilitate online and physical buying/selling of mutual funds.
- Stock Exchanges: Close ended mutual funds are traded on stock exchanges and can be brought

through brokers. Open ended mutual funds can also be bought/ sold on the stock exchange platform.

Steps Involved for Becoming a Securities Market Investor

- The basic requirements are a bank account and a demat account. The demat account is normally linked to a bank account in order to facilitate paying in and out of funds and securities.
- The next step is to select a broker and fill a KYC form and enter into a broker-client agreement.
- The broker then allocates a unique client ID, which acts as the identification.
- You are now ready to buy/sell securities.
- PAN No. is compulsory for the transactions of Rs 5 lakhs and above

Chapter 7

Right of Shareholders

Shareholders or Investors are considered to be the real owners of a company. They are the source of capital required to mobilise via capital market. They benefit, through dividends and capital appreciation, and wealth maximum when the company performs well. On the other hand, they equally carry the risk of losing part or fully their investment to the extent of their investment if the company performs badly and goes for liquidation.

As an owner of the company, a shareholder has some fundamental rights along with he should perform his role responsibly.

Major Rights of Shareholders entrusted by Securities Related Act, 2006 and Company Act, 2006 are as under:

- To participate in the public issue of securities,
- To receive the shares on allotment or purchase within the stipulated time and to be refunded his money back within the stipulated time in case of not allotted.
- To receive dividends in due time once approved in general meetings.
- To receive corporate benefits like rights, bonus, etc. once approved.
- To receive offer in case of takeover, delisting or buyback though buyback is not allowed in Nepal.
- To receive the residual proceeds in case of winding up.

- **Participation and Vote in AGM**

  To participate and vote in Annual general meetings (AGM) and enjoy voting right. (be entitled to attend the general meeting and cast votes at the rate of one vote for each share held by him)[25].

- **Proxy**

  Subject to Sub-section (1) or (2) , where a shareholder who is entitled to vote is not able to personally attend the meeting, he/she may appoint a proxy to vote in his/her stead, by an instrument of proxy executed in the prescribed format and signed by him/her and the proxy so appointed shall be entitled to attend or vote in the meeting[26],

- **Appointment of Proxy**

  Appoint another person as his proxy to attend the general meeting and vote instead of him/herself[27].

- **Signing in the Minutes**

  In the case of a company which has no company secretary, the minutes shall be signed by the Chairperson of the meeting concerned and by a representative of shareholders appointed by a majority of the general meeting[28].

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[25] Section 71(1) Company Act, 2006
[26] Section 71(3) Company Act, 2006
[27] Section 71(2) Company Act, 2006
[28] Section 75(1) Company Act, 2006

- **Getting of Minute**

  If any shareholder wishes to get a copy of any minutes of the general meeting, the company shall provide such copy by collecting such fees as specified by its articles of association[29].

Put a Matter for Discussion and Decision

  If the shareholder or shareholders representing at least five per cent of the total number of votes shall so desire, he/they may, by submitting an application to the directors prior the issue of a notice under Sub-section (2) of Section 67, cause any matter to be presented at the annual general meeting for discussion and decision[30].

- **Call of AGM**

  At least twenty one days prior to the holding of the annual general meeting, every public company shall make arrangement so that the shareholders can inspect and obtain copies of the annual financial statement, directors' report and auditors' report as referred to in Section 84 and publish a notice in a national daily newspapers for information thereof. Information of the statements and reports as referred to in Sub-section (3) may also be disseminated through electronic communication media, as per necessity.[31]

- **Right to Get Annual Financial Statement**

  If any shareholder makes a request for a copy of the annual financial statement, directors' report and auditor's report as referred to in Sub-section (3), the company shall provide a copy of such reports or statements to such shareholder32.

- **Agenda to be Passed During AGM**

  Except as otherwise provided in this Act, matters of distribution of dividends to shareholders, appointment pf directors and their remuneration, appointment of auditor and his remuneration of such other items as required by this Act or the articles of association to be decided by the annual general meeting of the company can be presented at the decided by the annual general meeting of the company can be presented at and decided by that meeting. Provided, however, that on the rate of dividends to be distributed to the shareholders shall be made in a manner to exceed the rate of such dividends fixed by the board of directors.[33]

- **Extra General Meeting**

  If the shareholders holding at least ten percent shares of the paid–up capital of a company or at least twenty five per cent shareholders of the total number of shareholders make an application, setting out the

[29] Section 75(5) Company Act, 2006

[30] Section 77(2) Company Act, 2006

[31] Section 77(3)&(4) Company Act, 2006

[32] Section 77(5) Company Act, 2006

[33] Section 77(6) Company Act, 2006

reasons therefore, to the registered office of the company for calling an extra-ordinary general meeting of the company. (4) If the board of directors does not call the extra-ordinary general meeting within thirty days from the date on which an application is made pursuant to Sub-section (3), the concerned shareholders may make a petition to the Office setting out the matter; and if a such petition's made, the Office may cause to call such meeting.[34]

- **Abstract Financial Report**

Provisions on sending abstract of financial reports to shareholders: (1) Notwithstanding anything contained elsewhere in this Act, a company listed in the stock exchange shall not be required to send the annual financial statement and director's report to its shareholders or debenture-holders Provided, however, that an abstract of financial statement prepared pursuant to Sub-sections (2) and (3) shall be sent to every shareholder along with the notice of annual general meeting.[35]

[34] Section 82(3)&(4) Company Act, 2006

[35] Section 84(1) Company Act, 2006

Chapter 8

Market Participants: Nepal Stock Exchange Ltd.

An Introduction to NEPSE

Stock exchange is a market place where securities are traded. It is related to the secondary market. Nepal Stock Exchange Ltd. has been established (NEPSE) in order to provide trading platform for trading of listed securities to provide liquidity of investment made in the securities market. NEPSE was established under the Company Act, 2006 and operates under Securities Related Act, 2006.

The basic objectives of NEPSE is to impart free marketability and liquidity to the Government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as stock broker, market maker.

Trading Sessions in NEPSE

- Pre-Open Session (10:30 AM to 10:45 AM)
- Special Pre-open Session (10:30 AM to 10:45 AM)
- Regular Session (CT) (11:00 AM to 3:00 PM)

Order Types

- Regular
- Odd-lot
- Negotiated

Order Retention

- End of Day (EOD)
- Good till Cancel (GTC):- 15 days in our case

to either fill the order entirely at once at the time of limit price or better, or do not fill it at all.)

The distinction in AON, FOK and OIC order is that unlike FOK/IOC order, AON order will not be cancelled if it cannot be filled immediately, and can be used in addition to Day order or Good Till Cancelled (GTC) order. If the order is a Day Order, when there is not enough supply to meet the quantity requested by the order at the limit price or better, then the order will be cancelled at the closing of the trading day.

Order Conditions in term of Price can be classified as (i) limit, (ii) market,

- Limit : refers the price quoted by the buyer or seller.
- Market : refers to the price determined in the market, usually last trading price.

Price Range

- <=2% up or down from Last Trading Price (LTP) for each transaction in case of Regular Session.
- <=5% up or down from LTP in case of POS (Pre-Opening Session)
- For a given stock not more than 10% from previous close price can be varied in a day.

Order Matching : An order matching system is an electronic system, matching buy and sell orders for a security on a stock market, a commodity on a commodity market and any other electronically traded financial instruments. It can be (i) Before Matching, and (ii) After Matching.

Trade Management System for Brokers and Clients

Trade Management System (TMS) is defined as an independent, broker-neutral, multi-asset trading platform. It consolidates pre-, at and post-trade analysis, pre-built and broker-provided algorithms, interactive charts and position monitoring, multi-asset and portfolio trading capabilities, order management and FIX connectivity in a multi-broker execution management system.

Invest as an Informed Investor

Investors should not buy securities on impulse, a hot tip or follow the herd mentality. Investors should discriminate between information, casting away irrelevant and illogical pieces of information, and checking for opportunities and facts before buying securities. Examination of the fundamentals of securities before taking a decision to invest is considered to be an important step.

Market Index/Indices

Market index is a yardstick of performance of the stock markets. Market Indices are computed to provide an indication of the overall performance of the stock market or specific segments of the market. The Dow Jones Industrial Average (DJIA), for instance, is an average of the 30 largest stocks in the US, while the Dow Jones Transportation Index is an average for only the stocks of transportation companies. Technically, an average can be constructed by using different weighting schemes: price weighting, value weighting, or equal weighting. The distinctions between these three methods of construction will be considered in more detail in the next section. The purpose of indices is to provide a barometer of the performance of the overall stock market. At a given point in time some stocks may be advancing while others may be declining. The index is the average that provides the general direction of the market. The mutual fund industry uses these indices as benchmarks to assess the performance of particular funds and fund managers.

The following table 1 highlights the characteristics of some of well- known international equity indices:

Table 1

The Index	The Exchange	Weighting	Stocks Included
FTSEIOO	London Stock Exchange	Value weighted	100 largest stocks
DAX40	Frankfurt Exchange	Value weighted	40 largest stocks
NIKKEI225	Tokyo Stock Exchange	Price Weighted	225largest stocks
DOWJONES INDUSTRIAL AVERAGE	New York Stock Exchange	Price weighted	30 largest stocks
NYSE Composite	New York Stock Exchange	Value weighted	More than 2,000 largest stocks
NASDAQ Composite	NASDAQ	Value weighted	Almost 5,000 stocks
CAC	Paris Exchange	Value weighted	40 largest stocks
S&PSOO	NYSE and NASDAQ	Value weighted	500 largest stock
NEPSE	Nepal Stock Exchange Ltd.	Value weighted	Whole Price Index

Basis of Indices/Index

Basis of index can of different weigh such as (i) price, (ii) value and, (iii) hybrid of price and value.

In a Price Weighting

It is a scheme a stock with a higher price will have a greater influence on the average.

In a Value Weighted

It is a scheme the stock of a company with a larger value (measured by market capitalisation = price per share times the number of shares outstanding) will have a greater influence on the average.

An Equal Weighting

It is a scheme as the name implies assigns the same importance to every stock comprising the average. The Dow Jones Industrial Average (DJIA) is an example of a price weighted index, while the S&P500 index in the US and the TASI (Tadawul All Shares Index) in Saudi Arabia are examples of value weighted indices. The Dow Jones Industrial Average (DJIA) is the oldest and most widely known index representing the 30 largest and most significant stocks in the US economy. Originally, the Index was computed by dividing the sum of the 30 stock prices by 30. However, over time, the weights have been altered to reflect stock splits, stock dividends, and new stocks replacing older ones. The implied weight for this index is determined by the share price and it is therefore a price weighted index.

A stock market index should capture the behaviour of the overall equity market. Movements of the index should represent the returns obtained by "typical" portfolios in the country.

The ups and downs of an index reflect the changing expectations of the stock market about future dividends of Nepal's corporate sector. When the index goes up, it is because the stock market thinks that the prospective dividends in the future will be better than previously thought. When prospects of dividends in the future become pessimistic, the index drops. The ideal index gives us instant-to-instant readings about how the stock market perceives the future of particular country's corporate sector.

Calculation of NEPSE Index

By multiplying the ratio of current period's total market capitalisation to base period's total market capitalisation by 100, we get the NEPSE index. This method of index calculation is called value weighted method= 119.43. Thus, NEPSE index for the current period is 119.43 with reference to the base period.

Sensitive Index

Sensitive index is the index calculated from the market capitalisation of companies classified under group "A". The sensitive index was introduced by NEPSE from January 01, 2007 and that date marks the base market capitalisation. Unlike NEPSE index, the sensitive index considers only selected companies. These companies are taken if they fulfill the following criteria: Minimum paid-up capital of Rs 1 Arab. z

Sensitive Index =[Current MV of all shares listed in NEPSE under Group "A"/ MV of shares in Base year] *100. (Base year is 26th Bhadra, 2065 or 11th September 2008).

Float Index

NEPSE started calculating float index from 11 September 2008 (Base Date). This index represents the market capitalisation of securities which are floated to public. Float index excludes promoter's holding, government holding, strategic holding and other locked in shares like employees share- that will not come to the market for trading in the normal course. It takes into account the securities held by general public that are readily available for trading in the market.

Float Index =[Current MV of all shares listed in NEPSE floated to general public/ MV of shares in Base year] *100. (Base year is 11 September 2008.)

And there are 12 sectorwise sub-indices calculated by NEPSE.

Circuit Breakers and Trading Halt

Circuit breaker is a mechanism of stabilizing market in order to check sudden rise or fall in the index resulted from falling and rising the prices of shares sharply. The objective of circuit break is to control the stock market movements for unreasonable fluctuations. Circuit breaker is mechanism of halting or stopping securities transaction for a specific period. Trading halt gives market participants time to analyze event, news, announcements and take necessary rational decision.

NEPSE has a provision of circuit breaker. It is index-based circuit breaker which was started for the first time in 21 Sep 2007. It had three stages index breaker for 3 percent, 4 percent and 5 percent index movement increase or decrease. NEPSE amended its circuit breaker rule in 2 April 2019. According to the amended rule circuit breaker now goes as under:

- If NEPSE index fluctuates 4 percent amid first hour of trade, market will halt for 15 minutes
- in case of second hour of trade, if market fluctuates for 5 percent then market will halt for 30 minutes
- if NEPSE fluctuates 6 percent, trading shall be halted for the remaining period of time.

Classification of Listed Companies by NEPSE

NEPSE had started the classification of listed companies into Group 'A' and Group 'B' since fiscal year 1996/97 which was changed to the quarterly classification of 'A", 'B', 'G' and 'Z' (Four) Groups on October 15, 2018[36]. NEPSE classifies listed companies into Group 'A' based on the following criteria:

- Paid up capital should be at least Rs.1000 million.
- Listing of securities was made three years before.

[36] Rule 11 under the Securities Listing and Trading Regulations, 2018 and Securities Listing Byelaws, 2018.

- Should be in profits and dividend distributed in the last three consecutive years.
- Have rated by Credit Ratings Agency average or above the average.
- Should have financial statements in the formats/ standards specified by the Regulators.
- Have conducted AGM within the six months of the fiscal year end.

- **NEPSE classify listed companies into Group 'B' based on the following criteria:**
  - Paid up capital should be at least Rs.500 million.
  - Listing of securities was made three years before.
  - Should be in profits at least two years in the last three years.
  - Have rated by Credit Ratings Agency one level below than the average.
  - Have conducted AGM within the six months of the fiscal year end.
  - Should not have accumulated loss.

NEPSE classify listed companies into Group 'G' if the listed companies have not completed two years after listing.

- **NEPSE classify listed companies into Group 'Z' if the listed companies have not been classified in any of the 'A', 'B' and 'G' Groups.**

  In NEPSE's changed first classification, no any listed company was classified into Group 'A' and Group 'B', 22 companies were classified into Group 'G', and 174 companies in Group 'Z' Group respectively.

Market Participants: Depository Services

An Introduction to the Depository System

A depository takes the ownership guarantee of the shareholders by holding those securities and other market instruments, which are listed, in the secondary market, distributed or allotted and can be deposited into the electronic form. In fact, a depository facilitates the holding and/or transacting securities in book entry form. The investor has to open a demat account to avail the services of depository. Additionally, the depository maintains the record in the account of the investors.

In Nepal, CDS and Clearing Ltd. (CDSC) was established as the sole depository authority in the year 2011 under Company Act 2006, with the authorised capital and issued capital of Rs. 500 million and Rs. 300 million respectively.

It is wholly owned subsidiary company of Nepal Stock Exchange Ltd. (NEPSE).

The major objective of CDSC is to render service of dematerialisation of the securities (such as shares, preference shares, debentures, bond, government securities, etc.) and update the transactions in the record by safeguarding the deposit on behalf of the buyers.

Service Offered by CDSC

- Deposit, withdrawal and transfer of securities,
- Electronic credit of securities directly into the investor's demat account allotted in Initial Public Offering (IPO),
- safeguard the investors' securities into the electronic form and to debit/credit the particular investor's account as per the transactions occurred in the book entry system,
- Quicker distribution of securities allotted by issuers under IPO and corporate actions and benefits of the issuers,
- Provide secure and convenient electronic procedures for pledge and unpledge of securities.
- To provide updated statement and reconciliation

Parties Involved with CDSC

The following parties are involved with CDSC:

Beneficial Owner (BO): The investor Depository Participant (DP): Agent of the depository

Issuer: Issuing Company

Registrar and Transfer Agent (RTA): Agent of the Issuer

Stock Brokers

The purpose of opening a demat account The purpose of opening a demat account are as mentioned below:

- To convert the physical securities into the electronic form,
- To deposit and transfer the NEPSE listed securities in a dematerialised form,
- To credit the securities allotted through IPO and corporate actions (such as rights share issue, bonus issue, merger, etc.) in a dematerialised form, To receive the statement of the securities held in a demat account,
- To pledge the securities held in a demat account,
- To rematerialise the securities held in a demat account.

Dematerialisation (Demat) & Rematerialisation (Remat)

Dematerialisation is a process of converting physical securities into electronic form while rematerialisation is the process of converting securities held in a demat account in electronic form back in physical certificate form.

Beneficial Owner (BO)

A Beneficial Owner is the person who have opened the demat account with CDSC through a registered DP in order to deposit their securities or instruments which are capable of being deposited in demat form.

Depository Participant (DP)

A Depository Participant is an agent of the depository who has received the registration certificate from the Security Board of Nepal and the membership license from CDSC. To be an authorised DP, the DP has to comply following eligibility criteria: Shall be a Bank or Financial Institution, Stock Broker, Registrar and Transfer Agent, custodian or such other entity as may be prescribed by the Board from time to time, Shall have minimum net worth of rupees ten million, Have not been black listed by Credit Information Bureau.

An Issuer

An issuer means any entity such as corporate bodies/ government organisations that issue securities or market instruments to the public to raise its capital and those securities and instruments can be held in depository in electronic form.

Registrar and Transfer Agent (RTA)

Registrar and Transfer Agent (RTA) means any person / body corporate who on behalf of any corporate body, maintains the records of holders of securities issued by such body corporate and deals with all matters connected with the transfer and redemption of its securities.

ISIN (International Securities Identification Number)

An ISIN is a unique 12 digit alphanumeric code given to the securities such as shares, preference shares, debentures, bonds, etc. when the security is admitted in the depository system. The first two digits of the ISIN code indicate country of registration for the security and code 4 to 6 indicate the issuer code.

Beneficial Owner Identification Number (BOID)

It is a unique identification number given to BO which is generated only when BO opens the demat account in CDSC through an authorised DP. BOID must be mentioned in all future transactions. BOID cannot be duplicate. It means two BOs cannot have same BOID which replicates that the securities cannot be transferred into the wrong account. Sample of BOID

DP ID (8 digits)	CLIENT ID (8 digits)
1 3 0 1 0 6 0 0	0 0 0 7 0 2 2 2

It has 16 numbers altogether. The first 8 digits refers to the DP or it is the DP code and the second is client code.

Services rendered by a DP to the investors

DP provides the following services to the investors:

- To open the demat account, Dematerialisation of securities, Rematerialisation of securities,
- To maintain record of securities in the electronic form, Settlement trades by transferring/receiving the securities from/in BO accounts, Settlement of off-market trades that is occurred between BOs outside NEPSE,
- To provide electronic credit of securities allotted by issuers during IPOs,
- To deposit the financial corporate benefits (such as: bonus, right shares, etc.) issued by issuers in

the demat account of BOs,

- To facilitate in pledging of dematerialised securities.

Software used by CDSC for the use depository system

They are as follows:

a. Central Depository Accounting System (CDAS).

b. Clearing and Settlement (CNS)

c. DP Secure (DPS)

CMC Limited is provider of above software. These software are also been used by Central Depository Services (India) Limited (CDSL) and Central Depository Bangladesh Limited (CDBL). CDSL has been providing various advices and technical support to CDSC.

Mechanism of Data Security in the system

The data in CDSC system is very significant. CDSC implies the proper precautions to secure the processed and stored data. This system safeguards the data from unauthorised access, misuse and unpredictable loss. CDSC uses following back up to secure the data:

- Local Back Up
- Remote Back Up
- Disaster Recovery Site
- DP also maintains Back Up for each day transaction.

Benefits of opening a demat account for investors

A demat account has become a necessity for all categories of investors due to numerous following benefits:

- Eliminates risk associated with physical certificates,
- In demat system, the ownership of securities are held in electronic form. Hence, the risk associated with physical certificates such as loss during carrying of certificates from one place to another, worn out, theft, cost incurred while making the duplication of certificates, etc. are eliminated.
- Immediate transfer of securities: When an investor buys securities from the market, the securities are immediately credited into his/her account along with the ownership. The securities do not have to be sent to RTA for transfer of ownership in demat system. Moreover, the investors do not have to wait for a long time period to get registered in the book of RTA as the legal owner of the securities.
- Immediate settlement cycle: The transactions of securities are settled within T+3 settlement cycle in electronic form. At the last day of the settlement NEPSE cycle, the securities are credited into the demat account of the buyer resulting the immediate settlement cycle.
- Immediate distribution of shares allotted in IPO: The shares allotted in IPO can be easily

and immediately credited in the demat account of investor held with CDSC. Hence, the investor does not have to wait to receive the share certificate from the issuers. This aids to list the securities immediately in the stock market. Easy in portfolio management: Investors receive the statement of their account periodically which helps them in managing portfolio and receiving the detail information about their investment. Solve the problem of address change: Investors do not have to inform their individual issuers about the change of address through correspondence separately. Investors can register the change through their DP only. DP updates and informs the change to all issuers of the securities held by an investor through the depository system. Easy in pledge of securities: In case, the dematerialised securities are pledged, such account can be locked in. While pledging the securities, the securities do not need to get transferred from the pledgor's account to pledgee's account.

Market Participants: Merchant Banking Services

Merchant banking can be defined as a professional service provided by the merchant bankers to the issuers or corporates in order to help realise their financial needs. Merchant works as a pool between the issuers and investors to channelise the fund required to the issuer. It helps in facilitating the country's development process by acting as a merchant for sourcing of funds as well as information and lending expertise required managing the funds as a legitimate agent of the business entities. Undertake to subscribe to the securities offered by the company in case these are not fully subscribed by the public.

History of Merchant Banking

"Merchant Banking was originated in the 18th and early 19th centuries in the United Kingdom when trade between countries was financed by bills of exchange, drawn on the principle merchant houses. With the growth in international trade, the established merchants started the practice in lending their names to the new comers and accepting the bills of exchange on their behalf. They would charge a commission for the purpose and thus acceptance business became the hallmark of Merchant bankers. Once these banks had gained the confidence of the government, they also entrusted with the job of issuing bonds in the London market.

In USA, merchant banking came into existence in in the early 19th century after the introduction of Blue Sky Laws to protect investors from fraudulent promoters and security salesmen. In the context of Nepal, Finance Company Act 2042 gave birth to a new dimension to the merchant banking services as the act permits finance companies to sell and purchase the bonds issued by His Majesty"s Government or securities issued by other companies or institutions, to underwrite them and to form syndicate for such purpose or to participate in such syndicates and to act as broker under the Securities

Exchange Act, 1983. Similarly section3 (g) of the same act permits them to perform functions of merchant banking with prior approval of NRB.

Citizen Investment Trust (CIT) is a pioneer merchant banker of the country followed by other finance companies viz. NIDC Capital Market, National Finance Co., Nepal Share Market, etc. At present few financial institutions (basically finance companies) are involved in different merchant banking activities.

SEBON has Securities Businessperson (Merchant Banker) Regulation, 2064 to regulate them. According to the definition of the regulation 2(Gha) under the definition "Merchant banking business" means one or more business as mentioned in Regulation 16.

Functions and Services Offered by Merchant Banker

Generally, merchant banker offers their services to the corporate sectors/issuer and investors who want to place their savings in appropriate investments. The range of service offered by merchant bankers is:

Out of wide range of various services provided by Merchant bankers,

Merchant banks, in Nepali, mainly provide services such as (i) issue management, (ii) underwriting, (iii) share registrar (RTS/RTA), (iv) management of auction of unsubscribed shares, (V) management of merger and acquisition, (vi) corporate advisory service, (vii) qualified institutional buyer (QIB), (viii) Fund manager (MF), (ix) Special Investment Fund Manager (SIF Manager), (x) Depository Participants, (xi) Portfolio management service, etc.,

Capital Structuring

The Merchant Bankers while designing the capital structure take into account the various factors such as leverage effect of the company, the cost of capital, the considerations of management control, size of the company, and general economic factors. These excises are done mainly in order to meet the fund requirement of the company taking due cognisance of the investors' preference.

Project Evaluation and Due Diligence

Due diligence and project evaluation is another major responsibility of the merchant banker. Where a bank/ financial institution the merchant banker has already appraised the project relies on the said appraisal before accepting an assignment. However, where a bank/ financial institution have not appraised the project, the merchant bank undertakes a detailed evaluation of the project before taking up an assignment for issue management.

Legal Aspects

The factors that are looked into in case of the legal aspects: compliance with the SEBON Regulations, Guidelines and the Companies Act, the

Pricing of the Issue

Normally, the merchant banker looks into the various factors while pricing the issue. Some of the factors are past financial performance of the company, Book value per share, Stock market performance of the shares (for existing companies, stock market perception of the company/group promoters, price earnings ratio of the company/industry, brand equity, if any. The Merchant banker has a vital role to play in pricing of the instrument under FPO and book-building system of public issue though these activities may not be significant under the fixed pricing of the securities.

Preparing of Prospectus and Offer Documents

It is the job of merchant banker to prepare and assist in filing a prospectus and offer documents with the SEBON.

Marketing of the Issue

Marketing of the public issue is one of the major responsibilities of the merchant banker. Normally, the first stage is the pre-issue marketing for placement of the issue with the financial institutions, banks, mutual funds, The second stage is the marketing of the issue to the general public through various vehicles such as press, brokers, etc but in the name of marketing issuer is not allowed to induce the general public to subscribe the securities. Such conduct is considered to be punishable.

Arrangement of Collection Center and Collection of Application

Marketing of the issue is a vital responsibility of the Merchant Banker. The first stage is the Pre-issue marketing for placement of the issue with the financial institutions, banks, mutual funds, FII"s and NRI"s. The second stage is the marketing of the issue to the general public through various vehicles such as press, brokers, etc.

Responsibilities of Merchant Banker to the Investors

Investor protection and empowerment is fundamental to a development of capital market. Protection is not to be understood in a way to compensate for the losses if investors suffer. The responsibility of the Merchant Banker ensuring the completeness of the disclosures is of paramount importance in view of the fact that entire reliance is based on offer document either prospectus or letter of offer because an independent and professional market intermediary like a merchant banker has done in the time of public issue.

The list of Merchant Bankers is Presented in Annexure 2.

Market Participants: Stockbroker

A broker is a member of a recognized stock exchange, who is permitted to do trades on the trading system of the stock exchange. In Nepal, stock brokers are a member of Nepal Stock Exchange Limited and they provide buy and sell services to the investors and execute clients order to the NOTS. Stock Broker is enrolled as a member with the NEPSE and is licensed from SEBON. There are 50 brokers at present in Nepal and many of them have at least one or more braches in different major cities of Nepal.

To ensure the stockbroker is licensed/registered in SEBON

One can confirm it by verifying the registration certificate issued by SEBON.

A broker's registration number begins with '1' and goes to '50'. Till date, there is no concept full brokerage service and sub-broker in Nepalese securities market. Brokers service is confined only to buy and sell securities on behalf of clients.

Consideration Required while selecting Stockbrokers

The broker/branch-office must be registered with SEBON and NEPSE which one can verify from the registration certificate displayed at his office. The list of such authorised brokers/branches is available in the web-sites of SEBON and NEPSE. He should have the infrastructure to transact your business with speed and accuracy. Besides, the investor should also look for your convenience such as location, cost and quality of service, etc.

- An investor should consider the following factors when selecting a broker:
- From where the broker/branch has learnt the business?
- How long has he been serving the securities industry?
- Whether he has eligible qualifications as a broker?
- How many clients does he serve?
- What fees and expenses does he charge?
- Does payment is made as per rule?

Responsibilities of a Stockbroker

Entering into an agreement with his client or with sub broker and client;

- Maintenance of separate books of accounts and records for clients;
- Maintenance of money of clients in a separate account and their own money in a separate account;
- Issue of daily statement of collateral utilisation to clients;
- Appointment of authorised representative and compliance officer;
- Issue of contract note to his client within 24hrs of the execution of the contract;
- Delivery/Payment to be made to the client within 24 hrs of pay–out; and
- Maintain and update of KYC form
- Other duties as specified in the SEBO and NEPSE;

Details an Investor need to submit to broker

The brokers have to maintain a database of their clients, for which the investor would have to fill client registration form. In case of individual client registration, the investor has to broadly provide following information:

- Name, date of birth, photograph, address, educational qualifications, occupation, residential status (Resident Nepali/NRN/others), source of income, annual income slab.
- Unique Identification Number (wherever applicable).
- Bank and depository account details.

- PAN which also serves as unique client code.
- Proof of identity submitted either as Citizenship, Pan No./Passport.
- Photo.

In case of Institutional Client, following information has to be provided:

- Name, address of the Company/ Firm.
- Unique Identification Number (wherever applicable).
- Date of incorporation and date of commencement of business.
- Details of PAN Account Number.
- Details of Promoters/Partners/ Key managerial Personnel of the Company/Firm in specified format.
- Bank and Depository Account Details
- Copy of the Resolution of board of directors' approving participation in equity naming authorised persons for dealing in securities.

Unique Client Code

In order to facilitate maintaining database of their clients, it is mandatory for all brokers to use unique client code, which will act as an exclusive identification for the client. For this purpose, Citizenship number with the frequently used bank account number and the depository beneficiary account can be used for identification, in the given order, based on availability.

Brokerage Charge/Commission

The brokerage commission on securities as per the [37]regulation is as under:

[37] Rule 32(1) of Securities businessperson (Securities Broker & Market Maker) Registrations, 2008

Currently, brokers can charge

- Rs. 25 on the trading amount below Rs. 5,000.
- 0.60 % on the trading amount above Rs. 5,000 and up to Rs 50,000;
- 0.55 % on the trading amount of Rs. 50,000-500,000;
- 0.50 % on the trading amount of Rs. 5,00,000 to Rs.20,00,000;
- 0.45 % on the trading of Rs. 20,00,000 to Rs.1,00,00,000; and,
- 0.40 % on the trading of of Rs.1,00,00,000 and above.

Capital Gain Tax (CGT)

Capital gain tax is, tax deducted at source (TDS), being levied on the gain one make in the sell of securities. It is 5 percent for individual investor and 7.50 percent for institutional investors.

The list of Stockboker is presented in Annexure 3.

Market Participants: CRA for Credit Rating Services

Credit Rating Service and IPO Grading

A credit rating is a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. A credit rating can be assigned to any entity that seeks to borrow money—an individual, corporation, state or provincial authority, or sovereign government.

Credit Rating is an assessment of the borrower (be it an individual, group or company) that determines whether the borrower will be able to pay the loan back on time, as per the loan agreement.

Credit Rating History in Nepal

- Credit Rating in Nepal, started when SEBON granted license to the ICRA Limited on October 3, 2012.
- Now there are two credit rating companies. CARE Ratings Nepal Limited (CRNL) is incorporated in Kathmandu, Nepal licensed by the Securities Board of Nepal on November 16, 2017. CRNL provides credit ratings and related services.

Grading of Public Issue

Grading of Initial Public Offerings (IPOs) is a service aimed at facilitating the assessment of equity issues offered to the public. The Grade assigned to any individual IPO is a symbolic representation of Credir Rating company's assessment of the "fundamentals" of the issuer concerned on a relative Grading scale.

IPO Grades are assigned on a five-point point scale, where IPO Grade 1 indicates the highest Grading and IPO Grade 5 the lowest Grading. An IPO Grade is not an opinion on the price of the issue, pre-orpost-listing. The emphasis of the IPO Grading exercise is on evaluating the prospects of the industry in which the issuer company operates, the company's competitive strengths that would allow it to address the risks inherent in the business(es) and effectively capitalise on the opportunities available, and the company's financial position. In case the IPO proceeds are planned to be used to set up projects, either greenfield or brownfield,

Credit Rating company evaluates the risks inherent in such projects, the capacity of the company's management to execute the same, and the likely benefits accruing from the successful completion of the projects in terms of profitability and returns to shareholders. Due weightage is given to the issuer company's management strengths and weaknesses, and to issues, if any, from the corporate governance perspective.

IPO Grade does not comment on the valuation or pricing of the issue that has been graded, nor does it seek to indicate the likely returns to shareholders from subscribing to the IPO.

IPO grading and it's five-point IPO Grading scale have been used by ICRA:

Currently there requires compulsory rating for any new instruments to be offered in securities markets. Furthermore as per monetary policy of fiscal year 2018/19, every bank credit above 5 million requires compulsory credit rating in BFIs.

The list of related websites is presented in Annexure 4.

Chapter 9

Investor Education

Investor education focuses on issues relevant to the education and information needs of individuals who participate, or are considering participating, in the financial markets. In addition, investor education can also help investors better assess the relevance and suitability of investment advice.

Objectives of Investor Education Programme

Main objectives of investor education programmes are:

- Enable investors to understand and manage risk
- Expanding outreach of financial services and products
- Participation in financial markets with esteemed confidence
- Reduce investors vulnerability to fraudulent schemes
- Informed financial and retirement planning
- Protecting investors by educating them on their rights

Investor Education in Nepal

To develop securities market and commodity derivatives market by way of protecting the interest of general investors is one of the duties of SEBON.

It is common understanding among the financial regulators in the world that the financial literacy is one of the effective weapons through which the interest of investors is protected at large. In this limelight, SEBON, as a capital market regulator of Nepal, has been given due emphasis on literacy programme and has been conducting Securities Markets and Commodity Derivatives Markets investors training to the general investors. Mostly, the trainings have been targeted to school/college students, teachers, businesspersons, project affected-locals of the hydropower sites, lawmakers, and economic reporters of the country from one decade. Also, SEBON have been conducting Capital Market Expo in different districts of Nepal in order to promote the financial literacy regarding Share Markets and Commodity Derivatives Markets. SEBON every now and then participating in different trade expo/ fair programmemes conducted by the other regulator, financial reporters and Federation of Nepalese Chamber of Commerce around the country.

SEBON Initiatives Towards Empowering General Investors

Major initiatives by SEBON are:

- Training on securities and commodity market in all the provinces of Nepal in the co-operations of local Federation of Nepalese Chamber of Commerce and Industry (FNCCI)
- Joint training with other participants such as Nepal Stock Exchange ltd. CDSC ltd. in different provinces.
- Bimonthly basic level training on securities markets and commodity markets at SEBON's premises. Virtual training of the same.
- Organising capital market fair

in different provinces and also participating in such programme organised by other regulators throughout the country

- Dissemination of educational materials such as books, journals, law compilations, and other publications in schools, colleges, capital market expo venues, public places.
- Capital market related programme through Kantipur FM radio with direct questions/queries by investors,
- Bimonthly Radio Interaction with investors on securities markets and commodities market from Radio Nepal.
- Training to the employees of market participants such as stockbrokers and merchant bankers.
- Training to the officials of market participants with meeting method

Handling Investors' Grievances

In order to handle and solve the investors' grievances and complains immediately, SEBON has a mechanism of receiving investors grievances and complains through SEBON's Web-site as well. SEBON has set-up a separate sub-section in order to work on such grievance and complain received. In addition, SEBON has provided investors a toll free number for this purpose. The number is: 1660 01 44433

Chapter 10

Mantras for Wise Investment

"Save your hard-earned or saving wisely and invest even more wisely."

Investment is necessary because (i) savings will depreciate in value/ purchasing power, to maintain the value of money caused by the inflation that takes place in the economy, in (iii) in order to maintain security in the old age. But bear in mind that mindless or reckless investing is hazardous to wealth. Investment with the following mantras would help you from reckless investment and lose your money.

Mantra: 1

- Financial education empowers the new investors so obtain at least basic level training from recognised institution if you do not know much about the securities market before you jump to the market for investment.

Mantra: 2

- Select and invest only in fundamentally strong companies (companies which can run its operations from its "share capital" plus "reserves")
- Do not go for momentum or market trend.
- Invest only in companies with strong fundamentals; these are the ones that will withstand market pressures, and perform well in the long term.
- Bear in mind that equity investments cannot be sold back to the company/promoters.
- Strong stocks are also liquid stocks.
- Bear in mind that the share issued without issuing prospectus cannot be sold for three years from the date of allotment of the share (example: promotor share has 3 years of lock-in period)[38].

Mantra: 3

- Read carefully prospectus and offer documents
- Do not gamble away your hard-earned money or saving.
- Due diligence is a must.
- Read about the offer. This is an advice difficult to practice with offer documents now running many pages. You must, at least sections on risk factors, litigations, promoters, company history, project, objects of the issue and key financial data and so forth.

Mantra: 4

- Follow life-cycle of investment
- You can afford to take greater risks when you are young.
- As you cross 50, start getting out of risky instruments.
- By 55/60, you should be totally out of equity. (You can't afford to lose your capital when you have stopped earning new money).

Mantra: 5

- Start with primary market and invest in IPO
- IPOs are a good entry point in the securities market. They are issued

38 Rule 38(1) of Securities Registration and Issuance Regulation, 2016 (2073)

through the primary market.

- IPOs have to be bought; these are not forced upon the investors.
- The problem is that we put IPOs on a pedestal and expect them to perform forever. An IPO becomes a listed stock on the listing date. It will then behave like that.
- Decide whether you are investing in an IPO or in a company. If as an IPO, then exit on listing date. If as a company, then remain invested as you would in a listed stock.
- In any case, invest only if the qualified institutional buyer (QIB) oversubscription is healthy.
- Be familiar with ASBA, C-ASBA, and Meroshare in order to invest.

Mantra: 6

- IPOs are only from very good and profitable company with very little risk of fraud.
- Also invest in Public Sector Undertaking (PSU) i.e., A state-owned enterprise.
- Don't get bothered by the listing price; stay invested.
- Invest in mutual funds, but select the right fund and scheme
- In Nepal, mutual funds are dominated by small investors.
- Mutual funds are a better vehicle for a small investor.
- There are too many mutual funds, too many schemes; select the right one.
- Monitor the periodic NAV constantly, the higher is the NAV the better is position of you investment is.
- Bear in mind the type of fund whether it is open-end or close-end

Mantra: 7

- Learn to sell
- Most investors buy and then just hold on (most advice by experts on the media is also to buy or hold, rarely to sell).
- Profit is profit only when it is in your bank (and not in your register or excel sheet) in a way that a bird in hand is better than two at the bush.
- Remember, you cannot maximise the market's profits so don't be greedy.
- Set a profit target or margin, and sell it once you meet it.

Mantra: 8

- Find and deal only with licensed/ registered intermediaries
- Many unauthorised operators in the market who will lure you with promises of high returns, and every now and then vanish with your money.
- Dealing with registered intermediaries is safer and allows recourse to regulatory action.
- Visit SEBO'N website to know about licensed intermediaries (stock brokers and merchant banks for PMS service providers) before investing in secondary market.

Mantra: 9

- Let not greed make you an easy prey!
- Many scamsters are roaming around, to exploit your greed.
- Most scams rob small investors.
- Be careful about the entity seeking your money.

- Invest in those securities registered in the SEBON

Mantra: 10

- Beware of the media, especially the stock-specific advice based on exaggerated analysis on on-line media and electronic media
- Too many "saints" in the capital market offering free advice, in reality, many of these advisors have vested interests.
- Also beware of the get-rich schemes being sold through SMS and emails.
- Don't get carried away by attractive headlines, appealing visuals, catchy messages.

Mantra: 11

- Beware of fixed/guaranteed returns schemes
- Any one who is offering a return much greater than the bank lending rate is suspicious.
- Remember plantation companies-promised huge returns
- Beware of the grey market premia
- These are artificial and normally created by the promoter himself.

Mantra: 12

- Don't get overwhelmed by sectoral specific frenzies.
- Remember, all companies in a sector are not good. Each sector will have some very good companies, some reasonably good companies and many bad companies.
- Be also wary about companies that change their names to reflect the current sectoral fancy.

Mantra: 13

- Go through the grading/rating provided by credit rating company but don't over-depend upon 'comfort' factors like
- IPO Grading
- Make sure that the company has independent directors.
- Don't blindly take decisions based on accounts just because these are audited,
- High incidence of fraudulent accounts and of mis-advertising of financial results. Satyam case is a wake up call.
- Read qualifications and notes to the accounts.
- Look out especially for unusual entries-related party transactions, sundry debtors, subsidiaries' accounts.

Mantra: 14

- Cheap shares are not necessarily worth buying
- Do not chase price, chase value.
- Price can be low because the company in fact is not doing well (but hype over the company/sector may induce you).
- Worse, the price can be low because the face value has been split.
- Consider whether there is split of share provision.
- Keep in mind that you can exercise right renounce i.e., give your right for right share to other and obtain the right for right share from other in order not to miss in making gain.

Mantra: 15

- Be wary of companies where promoters issue shares/warrants to themselves.
- Preferential allotments to promoters are almost always made for the benefit of the promoters only. (The fair route should be rights issue).
- Don't be fooled by Corporate Governance Awards/CSR
- There is a high incidence of fraudulent companies upping their CG and CSR activities.

Mantra: 16

- Be honest and patient
- Be patient and honest, Honest to yourself as only then you can demand honesty.
- Need to form/join strong investor associations and fight for our rights.
- Keep yourself IT-friendly, as investment in not possible without it these days.

Chapter 11

DO'S & DON'TS : Primary Market

DO's

Read the Prospectus/Debenture Indenture/Abridged Prospectus carefully, with special attention to:

- ✓ Risk factors
- ✓ Background of promoters
- ✓ Company history
- ✓ Outstanding litigations and defaults
- ✓ Financial statements
- ✓ Object of the issue
- ✓ Basis of Issue price
- ✓ Paid-up capital
- ✓ Industry-specific
- ✓ Past financial data and financial projection
- ✓ Instructions for making an application
- ✓ In case of any doubts/problems, contact the compliance officer named in the offer document.
- ✓ In case you do not receive, within due period, the credit to demat account or refund of application money, lodge a complaint with the compliance officer of the issuer company and with the issue manager.

DON'Ts

- ☒ Don't be influenced by any implicit/explicit promise made by the issuer or any one else.
- ☒ Don't invest only based on the prevailing bull run of the market index or of scrips of other companies in the same industry or scrips of the issuer company/group companies.
- ☒ Don't expect the price of the shares of the issuer company to necessarily go up upon listing, and forever.

DO'S & DON'TS : Secondary Market

DO's

- ✓ Before investing, please check about the credentials of the company, its management, fundamentals and recent announcements made by them and other disclosures made under various regulations. Corporate governance practices of the company. The sources of information are the websites of companies, databases of data vendors, business newspapers and magazines etc.
- ✓ Adopt trading/investment strategies commensurate with your risk-bearing capacity as all investments carry different degree of risk, the degree of which varies according to the investment strategy adopted.
- ✓ Assess the risk-return profile of the investment as well as the liquidity and safety aspects before making your investment decision.
- ✓ Transact only through SEBON-recognised stock exchanges.
- ✓ Deal only through SEBON-registered brokers/sub-brokers.
- ✓ Read carefully and complete all required formalities for opening an account with the broker (Client registration, Client-Trade Member agreement etc).
- ✓ Sign the "Know Your Client" Agreement.
- ✓ Give clear and unambiguous instructions to your broker/sub-broker/DP.
- ✓ Insist on a contract note for each

transaction and verify details in the contract note, immediately on receipt. If in doubt, crosscheck details of your trade available with the details on the exchange's website.

- ✓ Pay the required margins in the prescribed time.
- ✓ Deliver the shares/depository slip in case of sale and pay the money in case of purchase within the prescribed time.
- ✓ Pay the brokerage/payments/ margins etc. to an authorised person only.
- ✓ Diversify & find the right time to buy and sell.
- ✓ Invest with long horizon-Short-term investments in the securities market can result in big losses, and losses become less and less frequent, the longer the time horizon of the investment.
- ✓ Scrutinise both the transactions and the holding statements that you receive from your DP.
- ✓ Handle Delivery Instruction Slips (DIS) Book issued by the DP carefully. Insist that the DIS numbers are pre-printed and your account number (Client ID) is pre-stamped.
- ✓ In case you are not transacting frequently, make use of the freezing facility provided for in your demat account.
- ✓ Keep copies of all investment documents. Ask all relevant questions and clear your doubts before transacting.
- ✓ Invest based on fundamental and technical analysis as for as possible
- ✓ Check your tax paid receipt annually

DON'Ts

- ☒ Don't forget to take account of the potential risks that are involved in any investment.
- ☒ Don't undertake off-market transactions.
- ☒ Don't deal with unregistered intermediaries.
- ☒ Don't fall prey to promises of unrealistic returns or guaranteed returns.
- ☒ Don't invest on the basis of hearsays, rumors and tips.
- ☒ Don't be influenced into buying into fundamentally unsound companies based on sudden spurts in trading volumes or prices or favourable articles/stories in the media.
- ☒ Don't follow the herd and don't play on momentum.
- ☒ Don't blindly follow investment advice given on TV channels/ websites/SMS and online medias.
- ☒ Don't invest under peer pressure or blindly imitate investment decisions of others who may have profited from their investment decisions.
- ☒ Don't try to time the market.
- ☒ Don't get misled by companies

showing approvals/registrations from Government agencies as the approvals could be for certain other purposes.

- ☒ Don't get carried away with advertisements about the financial performance of companies.
- ☒ Don't blindly follow media reports on corporate developments, as some of these could be misleading.
- ☒ Don't show irrational exuberance as there is limit of everything.
- ☒ Don't get misled by guarantees of repayment of your investments (and returns) through post-dated cheques.
- ☒ Don't hesitate to approach the proper authorities for redressal (SEBON, NEPSE, CDS ect) of your doubts/grievances.
- ☒ Don't leave signed blank Delivery Instruction Slips (DIS) of your demat account in the open.
- ☒ Don't give signed blank DIS to your DP or to your broker.

DO'S & DON'TS: Dealing with Stockbrokers

DO'S

- ✓ Deal only with SEBON licensed/ registered brokers/broker branch offices and verify that the broker/ broker branches have a valid SEBON registration certificate.
- ✓ Submit your detailed KYC as required by the securities laws.
- ✓ State clearly who will be placing orders on your behalf and give clear and unambiguous instructions to your broker.
- ✓ Insist on client registration form to be signed by the broker before commencing operations.
- ✓ Insist on a bill for every settlement.
- ✓ Insist on periodical statement of accounts.
- ✓ Issue account payee cheques/ drafts only or use IPS in the trade name of the broker.
- ✓ Ensure receipt of payment/deliveries within 72 hours (T+3) of payout.
- ✓ In case of disputes, with broker file written complaint to intermediary/ stock exchange/SEBON within a reasonable time.
- ✓ In case of disputes with the branch broker, inform the main broker immediately.
- ✓ Familiarise yourself with the rules, regulations and circulars issued by stock exchanges/CDSC/SEBON.
- ✓ Keep track of your portfolio in your demat account on a regular basis.
- ✓ Ensure that you have money before you buy.
- ✓ Ensure that you are holding securities before you place an order.

DON'TS

- ☒ Don't deal with unregistered brokers/branches-brokers or other unregistered intermediaries.
- ☒ Don't execute any document with any intermediary without fully understanding its terms and conditions.
- ☒ Don't leave the custody of your Demat Transaction Slip (DIS) book in the hands of any broker/sub-broker.
- ☒ Don't forgo obtaining all documents of transactions even if the broker is well known to you.

Chapter 12

Frequently Asked Questions (FAQ)

FAQ : Primary Market

Whom should an investor approach if there are any problems with the disclosures?

In case a person has any information about the issuer or its directors or any other aspect of the company which is material but has not been disclosed or some information has been disclosed incorrectly, he can notify SEBON about the same.

Is Grading Optional?

IPO grading is mandatory. Any issuer who wishes to offer shares through an IPO is required to obtain a grade for his IPO.

Who is Authorised to Award the IPO Grades?

IPO grades are awarded by the SEBON-registered CRAs:

What are the factors that are evaluated by the CRA to assess the fundamentals of the IPO while arriving at the grade?

The IPO grading process is expected to take into account the prospects of the industry in which the company operates, the competitive strengths of the company that would allow it to

address the risks inherent in its business and capitalise on the opportunities available, as well as the company's financial position.

While the actual factors considered for grading may not be identical or limited to the following, the areas listed below are generally looked into by the CRAs while arriving at an IPO grade

– Business Prospects and Competitive Position

  (a) Industry Prospects

  (b) Company Prospects

– Financial Position

– Management Quality

– Corporate Governance Practices

– Compliance and Litigation History

– New Projects—Risks and Prospects

Does IPO grading consider the price at which the shares will be offered in the IPO?

No. IPO grading is done without taking into account the price at which the security will be offered in the IPO. Since IPO grading does not consider the issue price, the investor needs to make an independent judgment regarding the price at which to bid for the shares offered through the IPO, irrespective of the IPO grade.

Does an IPO grade, which indicates 'above average or strong fundamentals' mean high safety?

An IPO grade is not a suggestion or recommendation as to whether one should subscribe to the IPO or not. IPO grade needs to be read together with the disclosures made in the prospectus including the risk factors as well as the price at which the shares are offered in the issue.

Empirical data now clearly shows that a high graded IPO may not provide positive returns and vice versa.

At What Stage is an Issue Required to Obtain the IPO Grade?

IPO grading can be obtained either before filing the draft offer documents with SEBO or thereafter. However, the Prospectus must contain the grade given to the IPO.

Can the Issuer Reject an IPO Grade?

IPO grade/s cannot be rejected. Irrespective of whether the issuer finds the grade given by the CRA acceptable or not, the grade has to be disclosed in the offer document/issue advertisements. However, the issuer has the option of approaching another CRA. In such an event too, all grades obtained for the IPO will have to be disclosed.

What is the Roll of SEBON in the IPO Grading Exercise?

SEBON does not play any role in the assessment made by the CRA. The grading is intended to be an independent opinion of the CRAs licensed by SEBON.

Who Bears the Cost of the IPO Grading Process?

The company making the IPO or issuing shares is required to bear the expenses incurred for grading its IPO.

What is the categorisation of Investors?

Investors are classified under the following two categories-:

i. Small Investor : Investors investing below Rs.50,000 in an IPO.

ii. Big Investor : Investors investing above Rs.50,0000 in an IPO.

Reservation in IPO

SEBON guidelines provide that an issuer making an issue to public can allot shares on a firm basis to some categories as specified below:

i. To the locals of project affected area (at most 10%)

ii. Mutual Funds (5% at most)

iii. Employees of the issuing company (5% at most)

Is it Compulsory for the Investors to have a Dmat Account?

All applications in public issues are to made compulsorily in the demat mode. Investor should open a demat account in case he wishes to apply for shares in an IPO/FPO.

Is it Compulsory for an Investor to have a Pan No.to Apply in An IPO/ FPO?

Yes. It is compulsory to have a PAN to apply above Rs.10 lakhs and has to be disclosed in the application form. (Photocopy of the PAN is no longer required to be attached with the application form).

How does one know if he has been allotted any shares?

The issue manager is required to make available the list of the allotees. Issue manager normally puts the allotees list in its website where investors can check whether they have been allotted or not.

How long does it take after the issue for the shares to get listed?

The listing on the stock exchanges is done within 7 days from the finalisation of the basis of allotment.

What is Book Building?

Book Building means a process by which a demand for the securities proposed to be issued is elicited and built up and the price for the securities is assessed on the basis of the bids obtained. The regulation is under the drafting process.

Book building is a process of price discovery. The applicants bid for the shares quoting the price and the quantity that they would like to bid at. The bids have to be made within the price band specified by the issuer. Lower price is known as floor price and higher price is known as cap within the price band. Retail investors also have the option of not bidding at a particular price but rather using the 'cut-off' option. After the bidding process is complete, the 'cut-off' price i.e. the final issue price is arrived at by the issuer depending upon the bids received at various prices. Though an issuer can stipulate the final price to be any price including the highest price of the price band in case the entire quantity of shares proposed to be sold are bid for at that price, he can also choose any lower price point within the band. All applicants who have bid at or above the cut off price are then eligible for allotment and are allotted shares at the same cut off price even if they had bid at a higher price (Dutch auction process). The basis of allotment is then finalised and allotment/refund is undertaken.

What is Systematic Risk?

Systematic risk is most simply defined as the inherent risk an investor takes by having money invested into a specific asset class. It is a risk that can be managed through strategies like asset allocation and diversification, but the only way that it can be eliminated entirely is to not be invested in the market.

Put another way systematic risk is the opportunity cost associated with choosing one type of investment over another. The investing mantra "stocks beat bonds; bonds beat cash" reflects the concept of systematic risk and associated reward. There is potentially a higher reward for investing in stocks, but also a higher opportunity cost.

Systematic risk in the market deals with macroeconomic, or general economic, factors. These include things like interest rates, inflation, and unemployment. Macroeconomic features look at the economy as a whole as opposed to a specific industry (such as technology stocks or utility stocks).

Like many things, the best way to understand systematic risk is to understand unsystematic risk. Unsystematic risk is related to a specific asset class or even a group of securities within an asset class. For example, there are times when a specific stock sector like industrials is declining while another, like technology, may be advancing. Likewise, different asset classes like stocks and 10-year Treasury bonds tend to move in different directions. Unsystematic risk usually lies in company-specific or sector-specific concerns.

FAQ : Secondary Market

What is the process of trading?

Step 1. Investor / trader decides to trade

Step 2. Places order with a broker to buy / sell the required quantity of respective securities

Step 3. Best priced order matches based on price-time priority

Step 4. Order execution electronically communicated to the broker's terminal

Step 5. Trade confirmation slip issued to the investor / trader by the broker

Step 6. Within 24 hours of trade execution, contract note is issued to the investor / trader by the broker

Step 7. Pay-in of funds and securities before T+3 day

Step 8. Pay-out of funds and securities on T+3 day

In case of short or bad delivery of funds / securities, the exchange orders for an auction to settle the delivery. If the shares could not be bought in the auction, the transaction is closed out as per NEPSE rule.

In case of purchase of shares, when does an investor have to make payment to the broker?

It is advisable to make payment by way of account payee cheque in the name of the broker/branch office only. A proper receipt should be collected from the intermediary. You should receive payment for securities within 72 hours of declaration of pay-out by the respective stock exchange.

Is there any provision where an investor can get faster delivery of shares in his account?

The investors/clients can get direct delivery of shares in their beneficiary accounts. To avail this facility, you have to give details of your beneficiary account and the DP-ID of your DP to your broker along with the Standing Instructions for 'Delivery-In' to your Depository Participant for accepting shares in your beneficiary account. Given these details, the Clearing Corporation/Clearing House shall send pay out instructions to the depositories so that you receive pay out of securities directly into your beneficiary account.

Are all the investors mandated to comply with PAN requirement?

No, in primary market investors investing above Rs.10 lakhs and in secondary investors investing above Rs.5 lakh for single transaction require the PAN No.

What is Trade for Trade Segment?

In a Trade for Trade segment, settlement of trades is done on the basis of gross obligations for the day. No netting is allowed and every trade is being settled separately.

What is auction?

The stock exchange purchases the requisite quantity in the Auction Market and gives them to the buying trading member. The shortages are met through auction process and the difference in price indicated in contract note and price received through auction is paid by member to the exchange, which is then liable to be recovered from the client.

What is Margin Trading Facility?

Margin Trading is trading with borrowed funds/securities. It is essentially a leveraging mechanism which enables investors to take exposure in the market over and above what is possible with their own resources. SEBON has been prescribing eligibility conditions and procedural details for allowing the Margin Trading Facility from time to time.

Corporate brokers with net worth of at least Rs. 5 crore are eligible for providing Margin trading facility to their clients subject to their entering into an agreement to that effect. Before providing margin trading facility to a client, the member and the client have been mandated to sign an agreement for this purpose in the format specified by SEBON. It has also been specified that the client shall not avail the facility from more than one broker at any time.

The facility of margin trading is available only for group of securities as prescribed by NEPSE.

For providing the margin trading facility, a broker may use his own funds or borrow from commercial banks. A broker is not allowed to borrow funds from any other source.

SEBON'S Role in the Secondary Market

SEBON is the regulatory authority of securities markets and commodity markets and has the responsibility to protect the interests of the investors and to promote the development of, and to regulate, the securities market and for matters connected therewith and incidental thereto.

Factors that should be taken into account before investing in securities

An investor must have account trading in securities market

Beneficial owner Account (B.O. account)/Demat Account: It is an account opened with a depository participant in the name of client for the purpose of holding and transferring securities.

Trading Account: An account which is opened by the broker in the name of the respective investor for the maintenance of transactions executed while buying and selling of securities.

Client Account/Bank Account: A bank account which is in the name of the respective client and is used for debiting or crediting money for trading in the securities market.

Following factors should also be considered before investing in securities:

i. whether there is a regulatory framework in place in respect of the security and you are protected in case of any eventuality;

ii. whether the offer of the security is in compliance with the due process of law;

iii. whether the security has any counter party risk;

iv. whether the security can be liquidated to cash easily so that you can meet your liquidity needs;

v. whether the security generates returns compatible with its risk; and

vi. whether the security fits into your investment portfolio and meets your investment goals (diversification, investment horizon, regularity of income, growth opportunities, the quality of the issuer, etc.).

vii. One can convert a security to cash if it is listed and traded actively on stock exchanges. One can sell securities on an exchange and get cash as per the settlement cycle of the exchange. Since transactions on stock exchanges enjoy settlement guarantee, one will invariably get cash in time. If one does not get cash for whatsoever reason, there is an institutional arrangement to settle the claims. However, all securities are not listed on exchanges and not all listed securities are actively traded. If liquidity is of paramount importance, one should look at the history of trading of that particular security.

viii. It is advisable to trade only through a stock exchange. Stock exchange lists securities and provides investors an opportunity to trade in the listed securities. It ensures certain compliances and disclosures from companies in the investor's interest. It guarantees settlement of trades executed on behalf of the investors and provides the protection if the broker becomes a defaulter.

Any trade in securities outside stock exchanges other than spot transactions is not backed by regulatory framework of exchanges or SEBON. Hence, an investor does not get any protection if he trades outside an exchange.

The brokers/branches are the investor's link to the stock exchange. They are intermediaries in the market, under the regulatory discipline of SEBON/the stock exchange. They enter into transactions in securities on the investor's behalf. An investor's relationship with them is governed by the terms set out in the client- broker agreement.

Besides, the stock exchanges offer a ready market for the securities. Larger number of buyers and sellers available at a stock exchange ensures liquidity to the investors.

Moreover, when one deals through an exchange, the investor gets the best price prevailing at that time for the trade and the right to receive the money or securities on time.

The other benefit of trading on an exchange is that an investor does not have to take any counterparty risk which is assumed by a clearing corporation. If an investor were to deal (buy or sell) directly with another person, he is exposed to the counter party risk, i.e. the risk of nonperformance by that party. However, when one deals through a stock exchange, this counter party risk is removed due to trade/ settlement guarantee offered by the stock exchange mechanism though NEPSE does not have the settlement Guarantee Fond yet.

ix. Investor also has several protection mechanisms against defaults by the broker. Finally, an investor has an access to the investor grievance redressal mechanism of the stock exchanges.

FAQ-Mutual Fund (MF) and CIS

Mutual Fund

An investor can either select an existing scheme of a mutual fund or invest in a New Fund Offer of a mutual fund.

How to choose a scheme from a number of schemes available?

An investor should first define his investment objectives, for example, short-term returns or long term capital appreciation. Accordingly, suitable schemes matching the investment objective offered by various mutual funds should be identified.

One must study the offer document of the mutual fund scheme carefully. The past track record of performance of the scheme or other schemes of the same mutual fund is an important input in the decision making. Though past performance of a scheme is not an indicator of its future performance and good performance in the past may or may not be sustained in the future, this is one of the important factors for making the investment decision. One may also compare the performance with other schemes having similar investment objectives. Special attention should be paid to the scheme highlights, scheme specific risk factors, details of fees, expenses and load and past performance, apart from the investment objectives and policies and comparing it with other schemes.

If schemes in the same category of different mutual funds are available, should one choose a scheme with a lower NAV?

Many investors are tempted to invest in schemes that are available at a low NAV. Investors should understand that in case of mutual funds schemes, lower or higher NAVs of similar type schemes of different mutual funds have no relevance. At the entry point for the investor in an existing scheme, the NAV reflects the present value of the underlying assets, and a higher NAV in fact shows a comparative high quality of assets.

What is the Net Asset Value (NAV) of a scheme?

The performance of a particular scheme of a mutual fund is denoted by Net Asset Value (NAV).

Mutual funds invest the monies collected in a scheme from the investors in the securities markets. The NAV is the market value of the securities held by the scheme. Since market value of securities changes every day, NAV of a scheme also varies daily. The NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on any particular date. For example, if the market value of securities of a mutual fund scheme is Rs. 200 lakh and the mutual fund has issued 10 lakh units, the NAV per unit of the scheme would be Rs.20. NAV is required to be disclosed by the mutual funds on a daily basis for open ended schemes and on a weekly basis for close-ended schemes.

How does one know the performance of a mutual fund scheme?

The performance of a scheme is reflected in its net asset value (NAV). NAVs of mutual fund schemes are published in the newspapers. NAVs are also available on the websites of the respective fund manager.

Mutual funds are also required to publish their performance in weekly, monthly and half-yearly and yearly basis. From these statements, an investor can also look into other details like percentage of expenses of total assets as these have an affect on the yield.

Investors should study these reports and keep themselves informed about the performance of various schemes of different mutual funds. They can also compare the performance of the schemes in which they have invested with similar schemes of the other mutual funds as also with the benchmarks like NEPSE Index.

If a Mutual Fund Scheme is wound up, what happens to the money invested?

In case of winding up of a scheme, the mutual fund pays a sum based on prevailing NAV after adjustment of expenses.

What is a Collective Investment Scheme?

According to the Securities Related Act, 2006 39"Collective investment scheme" means such an investment fund, unit trust or similar other participatory fund management programme as specified by the Board, from time to time as may be operated by a scheme manager in accordance with this Act in order to distribute returns, to the participants of the concerned programme proportionately, accrued from the efficient investment service on saving investment amount which has been undertaken in custody of the manager and so mobilised that various persons or bodies that have participation in it.

Schemes offered by Citizen Investment Trust (CIT) is example of a CIS, under open-end scheme.

FAQ : Depository & DP Services

What is a Depository?

A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant (DP). It also provides services related to the transactions in securities.

How is a depository similar to a bank?

It can be compared with a bank, which holds the funds for depositors. According to the Securities Related Act, 2006 [40]"Depository" means a bank or financial institution that makes agreement with the scheme manager and thereby undertakes the responsibility of providing custodial services such as safely holding and operating the assets of any collective investment scheme.

Depositories are required to be registered with SEBON. At present, Central Depository and Clearing Limited (CDSC) is only one Depository registered with SEBON.

Who is a Depository Participant?

A depository interfaces with the investors through its agents called Depository Participants (DPs). If you want to avail of the services offered by a depository,

[39] Section 1(w) of Securities Related Act, 2006

[40] sectoion 1(d) of Securities Related Act, 2006

you need to open an account with a DP. This is similar to opening an account with any branch of a bank in order to utilise the bank's services.

What is Dematerialisation of Securities?

Dematerialisation is the process by which physical share certificates held by an investor are converted into an equivalent number of securities in electronic form and credited into the investor's account.

What are the benefits of Dematerialisation?

- A safe, convenient way to hold securities Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc.
- Reduction in paperwork involved in transfer of securities
- Reduction in transaction cost
- No odd lot problem, even one share can be sold
- Nomination facility
- Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately
- Transmission of securities is done by DP eliminating correspondence with companies
- Automatic credit into demat account of shares, arising out-of bonus/ split/ consolidation/ merger etc.
- Holding investments in equity and debt instruments in a single account

What is the process of convert physical shares into electronic holding (dematerialise the securities)

In order to dematerialise physical (paper) securities, one has to fill in a DRF (Demat Request Form) which is available with the DP and submit the same along with physical certificates that are to be dematerialised. Separate DRF has to be filled for each ISIN. The complete process of dematerialisation is outlined below:

- Surrender certificates for dematerialisation to the DP.
- DP intimates to the Depository regarding the request for dematerialisation through the system.
- DP submits the certificates to the RTA of the Company.
- RTA confirms the dematerialisation request from the depository.
- After dematerialising the certificates, the RTA updates the accounts and informs the depository regarding completion of dematerialisation.
- Depository updates its accounts and informs the DP.
- DP updates the demat account of the investor.

What is an ISIN?

ISIN (International Securities Identification Number) is a unique

12 digit alpha-numeric identification number allotted for each security (e.g. INE383C01018). ISIN is not assigned to a company; in fact, for even equity shares issued by a company of different types like equity-fully paid up, equity-partly paid up, equity with differential voting / dividend rights issued by the same issuer will have different ISINs.

Do Dematerialised shares have distinctive number?

Unlike physical shares, dematerialised shares do not have any distinctive numbers. These shares are fungible, which means that all the holdings of a particular security are identical and interchangeable.

Can odd lot shares be dematerialised?

Yes. Odd lot share certificates can also be dematerialised.

Is it compulsory for every investor to open a beneficial owner (BO) account to trade in the capital markets?

Though trading in physical format is permitted, because of the inherent strengths of the electronic mode, over 80% settlements presently takes place in the electronic demat mode. For better prices of shares to be bought or sold and for the convenience of operations, an investor should have a depository account.

Moreover, SEBON now allows issue of securities through an IPO/FPO only in the demat format, and as such investors wishing to participate in the primary market should have a depository account.

Can different securities issued by the same issuer have same ISIN?

No, different securities issued by the same issuer will have different ISIN code.

What are the services provided by a DP to the investors?

DP provides the following services to the investors: To open the demat account, Dematerialization of securities, Rematerialization of securities, To maintain record of securities in the electronic form, Settlement trades by transferring/receiving the securities from/in BO accounts, Settlement of off-market trades that is occurred between BOs outside NEPSE, To provide electronic credit of securities allotted by issuers during IPOs, To deposit the non-financial corporate benefits (such as: bonus, right shares, etc.) issued by issuers in the demat account of BOs, To facilitate in pledging of dematerialised securities.

Which software does CDSC use for depository system? Who is the provider of that software?

CDSC uses three different software for depository system. They are as follows: a. Central Depository Accounting System (CDAS) b. Clearing and Settlement (CNS) c. DP Secure (DPS) The above mentioned software is provided by CMC Limited. These software are also been used by Central Depository Services (India) Limited (CDSL) and Central Depository Bangladesh Limited (CDBL). CDSL has been providing various advices and technical support to CDSC. 18. What kind of company is CDSL? CDSL is sponsored by the Bombay Stock Exchange Limited (BSE) and a cross-section of leading Indian & foreign banks. While 36.61% of the equity capital of CDSL is held by BSE, more than 62% is held by leading banks. CDSL facilitates the holding of securities that are listed in secondary market of India in electronic form and enables securities transactions to be processed by book entry through a DP.

Which software does CDSC use for depository system? Who is the provider of that software?

CDSC uses three different software for depository system. They are as follows: (i) Central Depository Accounting System (CDAS) (ii) Clearing and Settlement (CNS) c.DP Secure (DPS) The above mentioned software is provided by CMC Limited. These software are also been used by Central Depository Services (India) Limited (CDSL) and Central Depository Bangladesh Limited (CDBL). CDSL has been providing various advices and technical support to CDSC.

What kind of company is CDSL?

CDSL is sponsored by the Bombay Stock Exchange Limited (BSE) and a cross-section of leading Indian & foreign banks. While 36.61% of the equity capital of CDSL is held by BSE, more than 62% is held by leading banks. CDSL facilitates the holding of securities that are listed in secondary market of India in electronic form and enables securities transactions to be processed by book entry through a DP.

What precaution does CDSC apply for the security of data in the system?

The data in CDSC system is very significant. CDSC implies the proper precautions to secure the processed and stored data. This system safeguards the data from unauthorised access, misuse and unpredictable loss. CDSC uses following back up to secure the data: (i) Local Back Up, (ii) Remote Back Up (iii) Disaster Recovery Site Additionally, DP also maintains Back Up for each day transaction.

With the CDSC's centralised database, the issuer can get upto-the-moment information on any changes in its holding pattern of a security. Thus, the company effectively monitors the change in holding and is alert to any undue threat. Issuers can save substantial time of managing the share department. It reduces the work load of the department and allows the management to use the excess manpower in other productive departments. New technology like e-Voting system for corporate improves transparency and corporate governance standards and also helps in reducing the administrative cost associated with postal ballot while facilitating declaration of results immediately after the close of the voting. Issuers can hugely benefit from such advanced technology which is possible to achieve through a central depository company.

Can a demat account be directly opened with CDSC?

A demat account cannot be directly opened with CDSC. The demat account has to be opened only through a DP of CDSC. 22. Can an investor, already having a demat account with CDSC; open another account? An investor, already having demat account with CDSC; can open another demat account.

What are the benefits of opening a demat account for investors?

A demat account has become a necessity for all categories of investors due to numerous following benefits: Eliminates risk associated with physical certificates: In demat system, the ownership of securities are held in electronic form. Hence, the risk associated with physical certificates such as loss during carrying of certificates from one place to another, worn out, theft, cost incurred while making the duplication of certificates, etc. are eliminated. Immediate transfer of securities: When an investor buys securities from the market, the securities are immediately credited into his/her account along with the ownership. The securities do not have to be sent to RTA for transfer of ownership in demat system. Moreover, the investors do not have to wait for a long time period to get registered in the book of RTA as the legal owner of the securities. Immediate settlement cycle: The transactions of securities are settled within T+3 settlement cycle in electronic form. At the last day of the settlement cycle, the securities are credited into the demat account of the buyer resulting the immediate settlement cycle. Immediate distribution of shares allotted in IPO:

The shares allotted in IPO can be easily and immediately credited in the demat account of investor held with CDSC. Hence, the investor does not have to wait to receive the share certificate from the issuers. This aids to list the securities immediately in the stock market. Easy in portfolio management: Investors receive the statement of their account periodically which helps them in managing portfolio and receiving the detail information about their investment. Solve the problem of address change: Investors do not have to inform their individual issuers about the change of address through correspondence separately. Investors can register the change through their DP only. DP updates and informs the change to all issuers of the securities held by an investor through the depository system. Easy in pledge of securities: In case, the dematerialised securities are pledged, such account can be locked in. While pledging the securities, the securities do not need to get transferred from the pledgor's account to pledgee's account. 24. DO all DPs have access to account details of all BOs of CDSC? A DP does not have access to account details of BO of any other DP except that account only which it has rendered the depository services.

How can an investor avail the services of the Depository?

To avail the services of a depository, an investor is required to open a Beneficial Owner (BO) account with a Depository Participant (DP) of any depository.

How should an investor select the right DP?

The most important factors are:

- Credibility of the DP (reputation,

antecedents, experience of other investors, infrastructure)

- Various charges that are levied by the DP
- Location of the DP office (proximity to your office/residence, business hours)
- Other services offered by the DP like banking, broking etc. to ensure one-window dealing and convenience.

How is a Depository Account opened?

The DP will provide an account opening form. This form must be supported by copies of any one of the approved documents to serve as proof of identity (POI) and proof of address (POA) as specified by SEBON. PAN card in original at the time of opening of account is not mandatory.

The investor should carry all documents in original for verification by the DP. The investor would also be required to sign an agreement with the DP in a depository prescribed standard format, which details the rights and duties of the investor and the DP. The DP is required to provide the investor with a copy of this agreement and also the detailed schedule of charges.

The DP will open the account and give an account number, which is called the BO ID (Beneficiary Owner Identification Number).

Why is an investor required to give his bank account details at the time of account opening?

Bank account details are necessary for the protection of interest of the investors. When any cash or non-cash corporate benefits such as rights or bonus or dividend is announced for a particular scrip, the depositories provide to the concerned company/ RTA, the details of the investors and their electronic holdings as on record / book closure date for reckoning the entitlement of corporate benefit. The disbursement of cash benefits such as dividend is credited directly by the company/ RTA to the beneficiary owner through the ECS (Electronic Clearing Service) facility wherever available or by issuing warrants on which the bank account details are printed for the towns where the ECS facility is not available. The printing of the bank account number on the dividend warrant prevents any fraudulent misuse.

Can multiple account be opened by a person?

Yes, an investor can open not more than two accounts in the same name from different DP.

Can an investor operate joint account on "either or survivor" basis just like a bank account?

No. The demat account cannot be operated on "either or survivor" basis like a bank account.

Is addition or deletion of names of accountholders permitted after opening the account?

No. The names of the account holders of a BO account cannot be changed. If any change has to be effected by addition or deletion, a new account has to be opened in the desired holding pattern (names) and the securities then need to be transferred to the newly opened account, and the old account may be closed.

Does the investor have to keep any minimum balance of securities in his account?

No.

DP Charges/Fees

The investors are required to pay only the following charges:

- Transactions fees (only for sell transactions) : Rs. 25 for each transaction
- Account opening: Rs; 50
- Annual account maintenance charges: Rs.100

Also charges some fees for dematerialization, family transfer, death transfer, Mero share account, freeze/ fnfreeze and issue of DIS:

Flexibility is provided by the depositories and SEBON to fix the above charges (The DP may revise the charges any time but has to provide a 30 days' notice to all its account holders).

Can an investor change the details of his Bank Account?

Yes. The investor must immediately inform the DP regarding the change in his bank account and corresponding change in MICR / IFSC code (as all monetary benefits like dividends are directly credited to the bank account/ bank account is printed on the warrants).

What should be done if the Address of the investor changes?

The investor should immediately inform his DP of any change in his address, who in turn will update the record with the depository. There is no need any more to inform all the companies/RTAs individually.

What is the procedure for buying or selling dematerialised securities?

The procedure for buying and selling dematerialised securities is almost similar to the procedure for buying and selling physical securities. The only difference lies in the process of delivery (in case of sale) and receipt (in case of purchase) of securities.

In case of purchase:

- The broker will receive the securities in his account on the payout day.
- The broker will give instruction to its DP to debit his account and credit BO's account.

BO will give 'Receipt Instruction' to DP for receiving credit by filling appropriate form. However, the BO can give standing instruction for credit to his account that will obviate the need of giving Receipt Instruction every time.

In case of sale:

BO will give delivery instruction through a Delivery Instruction Slip (DIS) to DP to debit his account and credit the broker's account. Such instruction should reach the DP's office at least 24 hours before the pay-in, failing which the DP will accept the instruction only at the BO's risk.

What is Delivery Instruction Slip (DIS)? What precautions should one take with respect to the DIS?

A DIS is like a bank cheque book. To give the delivery of the sold shares, the investor needs to fill the DIS. The following precautions should be taken:

Obtain from DP the DIS booklet and ensure the DP issues an acknowledgment for the DIS booklet issued to the investor.

Ensure that DIS numbers are pre-printed.

Ensure that the investor's account number [Client ID] is pre-stamped on each DIS sheet.

For joint accounts, all the joint holders need to sign the DIS before delivering it to the broker.

Do not use loose DIS slips.

Do not leave blank signed DIS with anyone (broker/ sub-broker, DP or any other person).

Keep the DIS book safely.

If only one sale entry is made in the DIS slip, strike out the remaining space to prevent misuse by any one.

The BO should personally fill all details in the DIS.

If the DIS booklet is lost / stolen / not traceable, the investor should inform the DP immediately in writing. On receipt of such intimation, the DP will cancel the unused slips of the DIS booklet.

Is it possible to give delivery instructions to the DP over the internet?

Yes, now it is compulsory to send DIS through internet with is called EDIS.

Are shares allotted in public issues credited directly in the electronic form?

Yes.

How does one know that the DP has updated the account after each transaction?

The DP provides to the investor a Transaction Statement periodically, which gives details of current balances and various transactions made during the period. If desired, the DP can be asked to provide the Transaction Statement at intervals shorter than the stipulated ones, at a small cost.

The depositories also provide an SMS Alert facility whereby investors can receive alerts for debits to their demat accounts and for credits in respect allotment under an IPO/FPO. The investor needs to provide his mobile number to the depository for this purpose.

The DPs can provide the transaction statement in electronic form under digital signature subject to their entering into a legally enforceable arrangement with the BOs to this effect.

What if there are any discrepancies in the statement of holdings?

In case of any discrepancy in the statement of holdings, the investor should contact his DP and in case of discrepancies in corporate benefits, he should contact the company / RTA. If the discrepancy is not resolved, the investor should approach the concerned Depository.

Can one pledge Dematerialised securities?

Yes.

What should one do to pledge demat securities?

The procedure to pledge demat securities is as follows:

- Both BOs, investor (pledger) and the lender (pledgee) must have BO accounts with the same depository;
- The pledger will need to instruct his DP to create a pledge by submitting the Pledge Request Form.
- The pledgee will need to confirm the request through his DP.
- Once this is done, securities are pledged.

All financial transactions between the pledger and the pledgee are handled outside the depository system, as per the usual practice.

What is the procedure for closure of pledge after repayment of the loan?

After the repayment of loan, the pledger can request for a closure of the pledge by instructing the DP in a prescribed format. The pledgee, on receiving the payment, will instruct his DP accordingly for the closure of the pledge.

Can a pledger change the securities offered in a pledge?

Yes. If the pledgee agrees, the pledger can change the securities offered in a pledge.

Who receives the corporate benefits on the pledged securities?

Only the securities pledged are blocked in the account of pledger in favour of the pledgee. The pledger would continue to receive all the corporate benefits.

What is lending and borrowing of securities?

If an investor required to deliver a particular security does not readily have that security, he can borrow the same from another person who is willing to lend, as per the Securities Lending and Borrowing Scheme.

Can lending and borrowing be done directly between two persons?

No. Lending and borrowing has to be done through an 'Approved Intermediary' registered with SEBON. The approved intermediary would borrow the securities for further lending to the borrower. Lenders of the securities and borrowers of the securities are required to enter into separate agreements with the approved intermediary for lending and borrowing the securities. Lending and borrowing is effected through the depository system.

How does an investor lend the securities lying in his account?

Yes. The investor needs to enter into an agreement with an approved intermediary. After that, one can lend securities any time by submitting the lending instructions to the DP.

How does the investor get back the securities lent by him?

The intermediary may return the securities at any time or at the end of the agreed period of lending. The intermediary will return the securities together with any benefits received during the period of the loan.

How does one receive the corporate benefits which accrue on the securities during the period of lending?

Initially, the benefits are given to the intermediary. However, whenever the securities are returned / recalled, the intermediary will need to return the benefits to the lender.

Who can nominate?

Nomination can be made only by individuals holding beneficiary accounts either singly or jointly. Non-individuals including society, trust, body corporate, karta of Hindu Undivided Family and holders of power of attorney cannot nominate.

Who can be a nominee?

Only an individual can be a nominee. A nominee cannot be a society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family or a power of attorney holder.

Why is it important to nominate?

Nomination is helpful in a smooth transmission of shares to the nominee upon the death of the BO.

Can nomination once made be changed?

The nomination once made can be changed at a later date by the BO.

What is transmission of demat securities?

Transmission is the process by which the securities of a deceased account holder are transferred to the account of his legal heir/nominee. Transmission in the case of demat holdings is very convenient as the transmission formalities for all securities held in a demat account can be completed by submitting documents just to the DP, whereas in case of physical securities, the legal heirs/nominees/surviving joint holders have to independently correspond with each company of which the securities are held.

In the event of death of the sole holder, how should the successor claim the securities lying in the demat account?

The claimant should submit to the concerned DP the Transmission Request Form (TRF) along with the following supporting documents

1. In case of death of sole holder where the sole holder has appointed a nominee, a notarised copy of the death certificate.

2. In case of death of the sole holder, where the sole holder has not appointed a nominee, a notarised copy of the death certificate and any one of Succession certificate or copy of the probated will or the Letter of Administration.

   The DP will then transfer securities to the account of the claimant.

Can electronic holdings be converted back into physical certificates?

Yes. This process is called rematerialisation.

If an investor wishes to get back his securities in the physical form, he will need to fill the RRF (Remat Request Form) and request his DP for rematerialisation of the specified securities in his account. The process of rematerialisation is outlined below:

Investor makes a request for rematerialisation.

DP intimates the depository of the request.

Depository confirms rematerialisation request to the RTA.

RTA updates accounts and prints the share certificates.

Depository updates the accounts and downloads the details to the DP.

Registrar dispatches the certificates to the investor.

What procedure does a company follow for transfer of securities?

On receipt of request for transfer, the company proceeds to transfer the securities as per provisions of the law. In case they find some mistakes in transfer deed and cannot effect the transfer, the company returns back the securities giving details of the grounds under which the transfer could not be effected. This is known as company objection.

What should one do in case a company sends company objection?

When one receives a company objection for transfer, he should proceed to get the errors/discrepancies corrected. He may have to contact the transferor (the seller) either directly or through your broker for rectification or replacement with good securities. Then one can resubmit the securities and the transfer deed to the company for affecting the transfer. In case one is unable to get the errors rectified or get them replaced, he has recourse to the seller and his broker through the stock exchange to get back the money.

What is ASBA?

ASBA means "Application Supported by Blocked amount". ASBA is an application containing an authorisation to the investor's bank to block in his bank account an amount equivalent to the application money. The money remains in the bank. Upon finalisation of the basis of allotment, only the amount equivalent to the allotment amount is debited to the bank account, and the rest is freed up. If the allotment is nil, then the entire blocked application amount gets released.

Who can apply through the ASBA process?

All investors are allowed to apply through the ASBA process.

What are the benefits for the investor applying through ASBA?

Applying through ASBA process has the following benefits for the investor:

(i) The investor need not pay the application money by cheque. He only issues an authorisation to his bank to block the bank account to the extent of the application money.

(ii) The investor does not have to bother about refunds, as in ASBA only that much money which is required for allotment of securities, is taken from the bank account.

(iii) The investor continues to earn interest on the blocked money as the same remains in his bank account.

(iv) The ASBA application form is much simpler.

(v) The investor deals with a known intermediary i.e. his own bank.

Is it mandatory for investors to apply through ASBA only?

Yes, it is mandatory.

Where can one submit the ASBA application forms?

At present, almost all the commercial banks and most of development banks and finance companies are participating in the ASBA process.

Can one use the existing application form for public issues for applying through ASBA?

No. The application form for ASBA is different from the regular application form for public issues. The ASBA application forms are available with the designated branches.

Is there any different treatment in allotment for ASBA and non-ASBA forms?

No. ASBA forms are treated at par with the non-ASBA forms

Who is a Portfolio Manager?

Any person who pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the client, as the case may be is a portfolio manager. In Nepal, merchant banks are allowed to serve PMS services as per merchant bank regulation.

What is the difference between a discretionary portfolio manager and a non- discretionary portfolio manager?

The discretionary portfolio manager individually and independently manages the funds of each client in accordance with the needs of the client in a manner which does not partake character of a Mutual Fund, whereas the non-discretionary portfolio manager manages the funds in accordance with the directions of the client.

Visit https://cdsc.com.np/frequentlyaskquestionFor more FAQ

FAQ : Derivative Markets

What is a derivative?

Derivatives are financial contracts which derive their value from movements in the spot price of an underlying asset. For example, wheat farmers may wish to enter into a contract to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction would take place through a forward or futures market. This market is the "derivatives market", and the prices of this market would be driven by the spot market price of wheat which is the "underlying". The term "contracts" is often applied to denote the specific traded instrument, whether it is a derivative contract in wheat, gold or equity shares. The world over, derivatives are a key part of the financial system. The most important contract types are futures and options, and the most important underlying markets are equity, treasury bills, commodities, foreign exchange, real estate etc.

The term 'Derivative' indicates that it has no independent value, i.e. its value is entirely "derived" from the value of the underlying asset. The underlying asset can be securities, commodities, bullion, currency, live stock or anything else. In other words, Derivative means a forward, future, option or any other hybrid contract of pre determined fixed duration, linked for the purpose of contract fulfillment to the value of a specified real or financial asset or to an index of securities.

The term Derivative has been defined in Securities Contracts (Regulations) Act, as:-

(a) a security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(b) a contract which derives its value from the prices, or index of prices, of underlying securities;

How are derivatives categorised?

Derivatives are usually broadly categorised by the:

- relationship between the underlying and the derivative (e.g. forward, option, swap)
- type of underlying (e.g. equity____derivatives, foreign exchange__derivatives, interest rate___derivatives, commodity derivatives or credit_derivatives)
- market in which they trade (e.g., exchange traded or over-the-counter)
- pay-off profile (Some derivatives have non-linear payoff diagrams due to embedded optionality)
- There is no definitive rule for distinguishing one from the other, so the distinction is mostly a matter of custom.

Why should an investor use derivatives?

Derivatives are used by investors to:

- provide leverage or gearing, such that a small movement in the underlying value can cause a large difference in the value of the derivative. Since the investor is required to pay a small fraction of the value of the total contract as margin, trading in futures is a leveraged activity since the investor is able to control the total value of the contract with a relatively small amount of margin. Thus the leverage enables the investors to make a larger profit (or loss) with a comparatively small amount of capital.

- speculate and to make a profit if the value of the underlying asset moves the way they expect (e.g. moves in a given direction, stays in or out of a specified range, reaches a certain level)
- hedge or mitigate risk in the underlying, by entering into a derivative contract whose value moves in the opposite direction to their underlying position and cancels part or all of it out
- obtain exposure to underlying where it is not possible to trade in the underlying (e.g. weather derivatives)
- create optionality where the value of the derivative is linked to a specific condition or event (e.g. the underlying reaching a specific price level)

What are the benefits of investing in derivatives?

Derivatives facilitate the buying and selling of risk and many people consider this to have a positive impact on the economic system. Although someone loses money while someone else gains money with a derivative, under normal circumstances, trading in derivatives should not adversely affect the economic system because it is not zero sums in utility.

What are the downsides of derivatives?

A major disadvantage of derivatives is the risk of losing money. While derivatives help increase profits and reduce risks, they may also make an investor lose out on a lot of money or other assets. For example, a cotton farmer enters into a contract with a weaver. The cotton producer may agree on a fixed price to sell the cotton to the weaver on harvest time. This ensures a fixed income and a sure customer for the cotton farmer. On the other hand, the weaver is also ensured of a supply of cotton. This agreement could be a disadvantage when the price of cotton fluctuates. If the price of cotton goes up, the farmer would still have to sell the cotton at the earlier agreed cost. This makes the farmer lose out on the profit. Price fluctuations on the cotton could affect the weaver too. If the price of cotton goes down, he still has to pay the high cost that was agreed in the contract, regardless of the decrease in cotton's price or value.

Investors must understand that investment in derivatives has an element of risk and is generally not an appropriate avenue for someone of limited resources/ limited investment and/or trading experience and low risk tolerance. An investor should therefore carefully consider whether such trading is suitable for him or her in the light of his or her financial condition. An investor must accept that there can be no guarantee of profits or no exception from losses while executing orders for purchase and / or sale of derivative contracts, Investors who trade in derivatives at the Exchange are advised to carefully read the Model Risk Disclosure Document and the details contained therein. This document is given by the broker to his clients and must be read, the implications understood and signed by the investor. The document clearly states the risks associated with trading in derivatives and advises investors to bear utmost caution before entering into the markets.

What is hedging?

Hedging is a technique that attempts to reduce risk. It helps in reducing the risk associated with exposures in underlying market by taking a counter- positions in the futures market. For example, an investor who has purchased a portfolio of stocks may have a fear of adverse market conditions in future which may reduce the value of his portfolio. He can hedge against this risk by shorting the index which is correlated with his portfolio, say the Nifty 50 or the BSE Sensex. In case the markets fall, he would make a profit by squaring off his short Nifty 50/ BSE Sensex position. This profit would compensate for the loss he suffers in his portfolio as a result of the fall in the markets.

Hedging can be done by using derivatives. Derivatives allow transferring the risk associated with the underlying asset from one party to another. For example, a wheat farmer and a miller could sign a futures contract to exchange a specified amount of cash for a specified amount of wheat in the future. Both parties have reduced a future risk: for the wheat farmer, the uncertainty of the price, and for the miller, the availability of wheat. However, there is still the risk that no wheat will be available because of events unspecified by the contract, like the weather, or that one party will renege on the contract. Although a third party, called a clearing house, insures a futures contract, not all derivatives are insured against counterparty risk.

What is a forward contract?

In a forward contract, two parties agree to do a trade at some future date, at a stated price and quantity. No money changes hands at the time the deal is signed.

Why is forward contracting useful?

Forward contracting is very valuable in hedging and speculation. The classic hedging application would be that of a wheat farmer forward -selling his harvest at a known price in order to eliminate price risk. Conversely, a bread factory may want to buy bread forward in order to assist production planning without the risk of price fluctuations. If a speculator has information or analysis which forecasts an upturn in price, then he can go long on the forward market instead of the cash market. The speculator would go long on the forward, wait for the price to rise, and then take a reversing transaction making a profit.

What are the problems of forward markets?

Forward markets worldwide are afflicted by several problems:

a. lack of centralisation of trading,

b. illiquidity, and

c. counterparty risk.

The forward market is like the real estate market in that any two persons can form contracts against each other. This often makes them design terms of the deal which are very convenient in that specific situation for the specific parties, but makes the contracts non-tradeable if more participants are involved. Also the "phone market" here is unlike the centralisation of price discovery that is obtained on an exchange, resulting in an illiquid market place for forward markets. Counterparty risk in forward markets is a simple idea: when one of the two sides of the transaction chooses to declare bankruptcy, the other suffers. Forward markets have one basic issue: the larger the time period over which the forward contract is open, the larger are the potential price movements, and hence the larger is the counter-party risk.

Even when forward markets trade standardised contracts, and hence avoid the problem of illiquidity, the counterparty risk remains a very real problem.

What is a Futures Contract?

A futures contract is a legally binding agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Future contracts are organised/standardised contracts in terms of quantity, quality (in case of commodities), delivery time and place for settlement on any date in future. The contract expires on a pre-specified date which is called the expiry date of the contract. On expiry, futures can be settled by delivery of the underlying asset or cash. Cash settlement enables the settlements of obligations arising out of the future/ option contract in cash.

What is the difference between futures and forward contracts?

Futures markets were designed to solve all the three problems of forward markets. Futures markets are exactly like forward markets in terms of basic economics. However, contracts are standardised and trading is centralised (on a stock exchange). There is no counterparty risk (thanks to the institution of a clearing corporation which becomes counterparty to both sides of each transaction and guarantees the trade). In futures markets, unlike in forward markets, increasing the time to expiration does not increase the counter party risk. Futures markets are highly liquid as compared to the forward markets.

What is an Option Contract?

Option contract is a type of derivatives contract which gives the right, but not an obligation, to buy or sell the underlying at a stated date and at a stated price. The buyer/holder of the option, purchases the right from the seller/writer for a consideration which is called the premium. While a buyer/ holder of an option pays the premium and buys the right to exercise his option, the seller/writer of an option is the one who receives the option premium and is therefore obliged to sell/buy the asset if the buyer exercises it on him. The underlying asset could include securities, an index of prices of securities etc.

Options are of two types - Call and Put options:

"Calls" give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date.

"Puts" give the buyer the right, but not the obligation to sell a given quantity of underlying asset at a given price on or before a given future date.

Further, Options are classified based on when they can be exercised. The two most popular types are European or American. American options are options contracts that can be exercised at any time upto the expiration date. This request for exercise is submitted to the exchange, which randomly assigns the exercise request to the sellers of the options, who are obligated to settle the terms of the contract within a specified time frame. European options are options that can be exercised only on the expiration date. The price at which the option is to be exercised is called Strike price or Exercise price.

As in the case of futures contracts, option contracts can also be settled by delivery of the underlying asset or cash. However, unlike futures, cash settlement in an option contract entails paying/ receiving the difference between the strike price/exercise price and the spot price of the underlying asset either at the time of expiry of the contract or at the time of exercise/ assignment of the option contract.

What are index future and index option contracts?

Futures contract based on an index i.e. the underlying asset is the index, are known as Index Futures Contracts. For instance, futures contracts on NIFTY Index and BSE-30 Index. These contracts derive their value from the value of the underlying index.

Similarly, option contracts, which are based on some index, are known as Index Options Contracts. However, unlike Index Futures, the buyer of Index Option Contracts has only the right but not the obligation to buy / sell the underlying index on expiry. Index Option Contracts are generally European Style options.

An index in turn derives its value from the prices of securities that constitute the index and is created to represent the sentiments of the market as a whole or of a particular sector of the economy. Indices that represent the whole market are broad based indices and those that represent a particular sector are sectoral indices.

What are the benefits of trading in Index Futures compared to any other security?

An investor can trade the 'entire stock market' by buying index futures instead of buying individual securities with the efficiency of a mutual fund.

The advantages of trading in Index Futures are:

- The contracts are highly liquid
- Index Futures provide higher leverage than any other stocks
- It requires low initial capital requirement
- It has lower risk than buying and holding stocks
- It is just as easy to trade the short side as the long side
- Only have to study one index instead of 100s of stocks

What is a mini derivative contract?

The lower minimum contract size means that smaller investors are able to hedge their portfolio using these contracts with a lower capital outlay. This means a better hedge for portfolio and also results in more liquidity in the market.

Why longer dated index options?

Longer dated derivatives products are useful for those investors who want to have a long term hedge or long term exposure in derivative market. The premiums for longer term derivatives products are higher than for standard options in the same stock because the increased expiration date gives the underlying asset more time to make a substantial move and for the investor to make a healthy profit.

What is the Expiration Day?

It is the last day on which the contracts expire. Futures and Options contracts expire on the last Thursday of the expiry month. If the last Thursday is a trading holiday, the contracts expire on the previous trading day. For E.g. The January 2019 contracts mature on January 31,2019.

What are Currency Futures?

Currency futures are contracts to buy or sell a specific underlying currency at a specific time in the future, for a specific price. Currency futures are exchange-traded contracts and they are standardised in terms of delivery date, amount and contract terms.

Currency future contracts allow investors to hedge against foreign exchange risk. Since these contracts are marked-to market daily, investors can—by closing out their position—exit from their obligation to buy or sell the currency prior to the contract's delivery date.

What are the disclosure requirements to the listed companies?

Companies whose shares are listed in stock exchange or stock exchanges are called listed companies. Listed companies are required to issue annual report and periodic report such as quarterly reports to their shareholders. The responsibilities of financial statements preparation rests with the company's management. Financial statements of listed companies are required to prepare under Nepal Financial Reporting Standard (NFRS).

Investors are one of the major stakeholders of financial statements. These are used to assess the present and the future business and profitability of an enterprise as the investors' primary interest is in the future growth of a company's stock price and/ or the likelihood of the company paying dividends. Financial statement is must for the fundamental analysis.

Financial statement consists of components such as (i) Balance Sheet, (ii) Profit & Loss Account or Income Statement, (iii) Funds Flow Statement, (iv) Change in equity, and (v) Notes to Accounts, It also encompasses Auditor Report and Directors and CEO Report.

Reporting provisions by listed companies is mentioned in Rule 26 of Securities Registration and Issuance Regulation,2016[41]

The summary of reporting requirements are: (i) Quarterly Report is required to publish as per Annax-14, in a National daily paper within 30 days after the expiry of quarter period and required to submit the same to SEBON, (ii) Annual report should be submitted to SEBON within 5 months of the expiry of the fiscal year as per Annax-15) and the report should be prepared in line with the accounting standard i.e.,NFRS issued by Institute of Chartered Accountants of Nepal (ICAN) and by their primary regulator (iii) Required to submit the agenda of AGM prior to conducting the AGM and discussed agenda and minute of the same will be submitted to SEBON after 30 days of AGM. (iv) Required to submit the price sensitive information mentioned in Annax-16 before 3 days if the company has any such information.

[41] Rule 26 of Securities Registration and Issuance Regulation,2016

Chapter 13

Most Useful Terms of the Markets

Accelerators

Programmemes which support early-stage, growth-driven FinTech companies through education, mentorship, and financing. Start-ups enter accelerators for a fixed period of time, and as part of a cohort of companies. The accelerator experience is a process of intense, rapid, and immersive education aimed at accelerating the life cycle of young innovative companies, compressing years' worth of learning-bye-doing into just a few months.

Analyst Ratings

These ratings from stock brokers and ratings agencies urge traders to "buy," "sell," or "hold," and are determined by the projected performance of a stock and its current level of risk. Some serious investors often live and die (if only proverbially) by the words of their favorite analysts and will base their trading strategy on their expertise and insight—while others will only take their ratings with a grain of salt.

Analyst Ratings Trading

Analysts may suggest additional actions with ratings like "underperform" and "outperform" to give more nuance to their projections beyond "buy," "sell," and "hold."

An Angel Investor

An angel investor also known as a private investor, seed investor or angel funder is someone who has a high net worth individual and has an ability to provide financial backing for small startups or entrepreneurs, typically in exchange for ownership equity in the company. Quite often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

Annuity

A series of equal payment at equal interval of time for a fixed number of periods. Series of equal payments at the end of each year is ordinary annuity and series of equal payments at the start of each period is annuity due.

Arbitrage

When a particular security or commodity trades on two different markets, investors can create a profit by leveraging the temporary price differences in each venue. This strategy has become a particularly popular method of making money with cryptocurrency, since the individual currencies may be traded on multiple markets, and its price may be different. Investors with an eye on the markets or serious foresight can buy low in one market, and sell high in another.

Asset Allocation

Balancing out the percentage of various asset classes (such as stocks, bonds, and cash) in your portfolio is called asset allocation; the goal is to minimise risk and maximise reward.

Average Daily Trade Volume-ADTV

The number of trades for a particular security, divided by a specific number of days, will yield its ADTV, or average daily trading volume.

52- Week high

The highest closing prices of a given stock within the past 52 weeks are captured in this technical indicator to assess value and predict prices.

52-Week low

The lowest prices of a stock at closing that occurs within the past 52 weeks. The data captured serves as a technical benchmark for predicting prices and assessing a stock's value.

Back-End Load

When investors sell their shares in a mutual fund, they pay this sales commission.

Balance Sheet

An accounting of a company's assets, liabilities (debt), and the capital it receives from shareholders.

Balanced Fund

A mutual fund with a mixture of stocks, commodities, and/or bonds.

Bar Chart

This price evaluation tool gives a visual representation of a particular security's change in price over time.

Bear Market

When prices in the market have declined by 20% or more during the last two months or beyond, this is called a Bear Market. It's common for pessimism, fear, and other negative sentiments from investors to accompany a bear market, and even fuel its downward spiral. Cyclical bear markets can last from a few weeks to a few years, while secular bear markets can last 1-2 decades

Beta

This measurement tracks the relative volatility of a given security in comparison to a particular standard.

Bid-Ask Spread

Market makers facilitate orderly trading with this tool, which helps them buy and sell securities.

Black Swan

Black swan is used to describe an extremely rare and unpredictable event that triggers a perfect storm of catastrophic consequences.

Blockchain

This decentralised, digital ledger provides a secure record of digital currency transactions. Though blockchain started out as a way to keep a record of digital currency, the premise of decentralised record-keeping carries huge implications for how information is stored. Companies in all types of industries from health to supply chain are exploring the possibilities offered by a secure, decentralised accounting system.

Blue-Chip Shares

Known for the stability of the stock and the lasting quality of the company, blue-chip stocks tend to have market capitalisations of over $5 billion. These companies tend to be household brand names that have imprinted their name on the American conscious, such as Coca-Cola, Disney, and IBM. Many of these companies are also attractive to investors because they issue dividends.

Bollinger Bands

A way to analyze the relative stability or volatility of a particular security by showing its price activity with bandwidths that represent the space between its highs and lows.

Bond

An organisation such as a government or company can issue loans, represented by fixed-income bonds that offer the investor a relatively more stable return. After a certain period of time, established at the outset of the bond, it can be redeemed for a particular price. Government bonds are regarded as one of the most secure investment vehicles, since it is extremely unlikely that the U.S. government will default on its obligation to repay the loan.

Book Value per Share (BVPS))

A ratio that compares common shareholder equity in a company to the volume of outstanding, unowned shares.

Bull and Bear Market

Investors get buyers fever and continue to drive up prices, whenever a particular market or asset class rises in value; this is called a bull market. Though the term commonly relates to the stock market, it can also be applied to other asset classes such as bonds, currencies, commodities, and even real estate. Though stock prices always rise and fall, the upward trend indicated by the term "bull market" can last for months or years.

Buyback

Companies can actually purchase back their shares of stock in what is called a share repurchase programme or stock buyback.

Buy-Side Analysts

Institutional investors such as hedge, mutual, and pension funds employ buy-side analysts to do equity research.

Call Option

Investors buy the right to purchase a specific number of shares of stock at an agreed price, without locking themselves into the obligation.

Call Option Volume

The amount of buying and selling of a certain security is called its volume. Stocks, currencies, and other types of asset classes all have a trading volume.

Candlestick

This technical indicator shows investors the opening and closing prices of a particular security during a certain amount of time.

The positive difference in value between an asset's selling price and what the investor first paid for that asset is its capital gain.

Capital Gains Distribution

This is a payment distributed to shareholders of a mutual fund once certain stocks and securities have been liquidated and the dividends and interest earned have been calculated.

Cash Asset Ratio

This measurement tool allows investors to compare short-term liabilities and highly liquid assets.

Cash Flow

The amount of cash and/or equivalents a company brings in, obtained by calculating its income and subtracting its expenses. Cash flow also applies to individual investors as well, if they have income-generating assets such as stocks that pay dividends, rental properties, or ownership in a business. Investors often regard cash flow as the wellspring and fuel of their financial success and growth. Cash coming or receiving is cash inflow and going out or giving out is cash outflow.

Current Yield

It is coupon interest dividend market price of bond.

Coupon Interest Rate

Fixed interest rate at which bond holders are paid at the end of each period.

CD Ladder

This investing strategy divides a fixed amount of money equally between multiple CDs (certificates of deposit) even if they were purchased at different maturity dates.

Certificate of Deposit (CD)

This financial product allows banks, credit unions, and brokerage firms to hold deposited funds until the mature at a fixed date; in return, they offer the depositor a fixed rate of return.

Capital Gains (CG)

This trading strategy relies on technical analysis on price movement patterns that create and inform defined trading channels.

Circuit breakers

Circuit breakers are a security measure that has been put in place by the Securities & Exchange Commission (SEC) as an effort to reduce panic-selling on U.S. stock exchanges.

Closed-Ended Mutual Funds

These special mutual funds have their shares traded in the open market, much like stocks or EFTs.

Commodities

Raw materials used every day by millions or billions of consumers, the prices of which are based on supply and demand.

Compound Annual Growth Rate (CAGR)

This rate represents the mean average rate of growth of a particular security over a specific time period.

Compound Interest (Rate)

Interest accrued on both the principal and the interest from the previous period is called compound interest.

Conflict of Interest

It normally refers to a situation where an individual's personal interests conflict with the professional interests of their employer or the company in which they are invested.

Consumer Price Index (CPI)

This index examines the average cost of particular services and consumer goods ranging from food to tech to health.

Convertible Shares

This class of preferred shares give shareholders an actual ownership stake in the company.

Corporate Governance

Corporate governance in the business deals with the systems of rules, practices, and processes by which companies are governed. In this way, the corporate governance model followed by a specific company is the distribution of rights and responsibilities by all participants in the organisation.

According to OECD good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies. The principles of OECD cover six key areas of corporate governance framework such as (i) the rights of shareholders; (ii) the equitable treatment of shareholders; (iii) the role of stakeholders in corporate governance; (v) disclosure and transparency; and (vi) the responsibilities of the board.

Correction

A statistical even where security or assets prices decline at least 10% from a recent peak.

Cost of Capital

This amount of money is what's needed to make capital budgeting worthwhile.

Cost of Debt

The effective interest rate, expressed as a percentage, that a company will pay on all of its outstanding debts

Cost of Equity

The return a business can expect from received equity financing. For individual investors, this is the expected return in exchange for their investment through buying shares.

Cost of Fund

It is the interest rate paid by financial institutions for the collection of funds or deposits that they deploy in their business.

Cost of Goods Sold (COGS)

Also referred to as the cost of sales, this business stat shows how much cost is associated with each sale the business makes.

Coverage Ration

A series of ratios used by investors to assess the ability of a company to meet their financial obligations.

Cryptocurrencies

A digital currency formed from a series of coded transactions, the record of which is kept on a digital ledger called blockchain. The first digital currency was Bitcoin, which has since skyrocketed in price even as others such as Ethereum have come on the scene. Though cryptocurrency seems strange to most consumers, it's becoming increasingly accepted as payment, even among online retailers.

Current Ration

One of the financial rations that explains the liquidity position. Also called the working capital ratio, this metric allows investors to gauge a company's liquidity.

Day Trading

Buying and selling securities within a single day, even within several hours or minutes. Investors with either a serious understanding of the market or a high-risk tolerance track the market all day, buying low and selling high. Some investors use these profits as their primary source of income, though many amateurs who have not put in the requisite research have failed.

Dead Cat Bounce

This type of event occurs as part of a long-lasting downtrend in price. When the price falls significantly from a previous high, it may appear to bounce back or suggest a reversal of the downtrend.

Death Cross

A technical chart pattern indicating that a particular security could be exposed to major selling pressure.

Debt- To-Equity Ration

This metric shows how much debt a company has, in relation to the value of their stock.

Depreciation

This accounting practice allows a company to record a portion of an asset's cost over its lifespan as an operating expense.

Derivative

A contract between two parties, the value of which is determined by underlying securities such as stocks, bonds, commodities, or precious metals.

Diluted Earnings Per Share

This metric helps analysts estimate the quality of earnings per share (EPS) offered by a particular stock.

Discount and Premium Bond

Bond that sells below par value is discount bond whereas bond that sells above the par value is premium bond.

Discount Rate

The interest rate the Federal Reserve Banks charge to financial institutions borrowing money from their short-term (usually overnight) discount window. This is the most common definition.

Diversification

Allocating capital in a way that reduces risk and volatility, by investing in a variety of asset classes is called diversification. For example, investors diversifying their investments might invest their capital in stocks, real estate, commodities, and angel investing. Even within a particular asset class, investors may diversify their holdings, for example purchasing stock in many different types of industries.

Dividend

An investing strategy that focuses on stocks that pay out higher dividend yields or have dividends that are growing quickly. These stocks are issued by companies who disburse a portion of their profit on a regular basis. A dividend payout for each stock might only be pennies, but if an investor owns many shares of that stock, their earnings can snowball into a massive amount. Some investors derive the majority of their income from dividends.

Dividend Achievers

A company the common stock of which has posted increasingly larger dividend payouts at least annually over the last 10 years.

Dividend Kings

Dividend kings are companies who have increased their dividend payout for at least 50 consecutive years.

Dividend Reinvestment Plan (DRIP)

This plan is a programme that allows investors to reinvest the profits disbursed by the securities they own which have paid dividends.

Dividend Yield

This stat, also called a dividend-price ratio, shows a company's dividend as a percentage of its stock price.

Dow Jones Industrial Average (DJIA)

One of the most-watched indices worldwide, these 30 blue chip stocks are tracked as an indicator of the market's overall health.

Earning Per Share (EPS)

EPS is a metric that divides company profit by the number of outstanding common shares to show how much earning power each individual share carries.

Earnings Reports

These reports are part and parcel of the legal obligation that publicly held companies have to reveal an accurate picture of their financial performance.

Economic Bubble

When an asset class rises in value based on investor sentiment rather than actual stat-driven analysis.

Economic Report

These reports offer a variety of data about different sectors of the economy, both domestic and global; they are published regularly by several departments in the Federal Government.

Efficient Market Hypothesis (EMH)

Refers to a model that implies stock prices reflect all available information, in other word, stocks are neither underpriced nor overpriced, and always fairly priced considering the available information. The reason for this is as there is a large numbers of rational market participants are constantly trading based on the available information, and their active trading sets the stock price such that all available information is priced in.

Equal Weight Rating

This analyst rating indicates the performance of a particular security will match the average return of other stocks covered by the analyst.

Equity Income

Income generated from stock dividends, which are cash earnings paid out to shareholders by the company.

Exchange-Traded Funds (ETFs)

These pooled investment products are comprised of securities in a specific type of index or industry. In this way, an ETF is like a cross between owning individual stocks and participating in a mutual fund.

Ex-Dividend

Once the issuing company announces a date of record for their dividend, the first day of trading after that date is ex-dividend for that security.

FAANG Stocks

These are stocks issued by Facebook, Amazon, Apple, Netflix, and Google (Alphabet).

Fiscal Policy

It is the guiding force that helps the Government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly. The examples of expansionary fiscal policy are tax cuts and increased Government spending.

Federal Reserve

The Fed plays a crucial role in guiding domestic monetary policy; it is the central bank of the United States. The centralised control of the monetary system was implemented in 1913 in order to alleviate and mitigate potential financial crises—further crises such as the Great Depression have led to an increase in its responsibilities and roles.

Fiduciary (role/responsibility)

One with an ethical and legal duty to put the needs of their client above their own interests, such as a broker or financial planner. A fiduciary figure is contractually bound to provide their client with well-intentioned financial advice. Deviating from this responsibility is regarded as unethical, and in many cases, could be a crime.

FinTech

It is a culturally shortened derivation of the words Financial Technology. It refers to the use of technology that is used to automate and provide innovation to, financial services.

Float

The number of shares issued by a company, which are traded without restriction on a secondary market.

Forex

The Foreign Exchange Market (FX) is the largest in the world, with the highest amount of liquidity.

Front-End Load

A sales charge paid by investors when they purchase into a mutual fund.

Fundamental Analysis

It is when an investor analyses a company's future profitability based on its business environment and financial performance. Both qualitative and quantitative aspects of the company are considered. On the basis of these aspects, investor decide whether or not to invest in the shares of the company. The basic idea here is to assess general efficiency of a company's operations, its future growth and profit-making potential.

Fundamental analysis is further divided in to two categories (i) Qualitative and, (ii) Quantitative. Under qualitative analysis key quantifiable aspects of the performance of a company is accessed. Particularly (i) ratio analysis and, (ii) earnings projection are looked into it.

Under quantitative analysis, an understanding of the important aspects that cannot be explained in numbers is developed. Particularly (i) industry structure, (ii) management analysis, (iii) corporate governance, (iv) earning quality, and (v) asset liability analysis are looked into it. So, it is also informally referred to as hygiene check.

In order to perform quantitative or qualitative analysis, an investor must look at a company's revenue generating capabilities, balance sheet, cash flow, operational activities, management track record,

Fundamental analysis is distinct from the other branch of equity analysis called technical analysis. There, not much attention is paid to the financial performance of the company. Investment decisions are taken based on patterns of the company's historical share price.

Green Investing

Investing in stocks, bonds, or mutual funds that focus on companies and/or projects dedicated to conserving natural resources, producing natural energy, and clean air and water is called Green Investing.

Gross Domestic Products (GDP)

This measurement indicates the monetary value of all final services and goods produced by a specific country within a specific time frame.

Growth and Income Funds

This mutual fund or ETF attempts to grow in value through capital appreciation and provide income through dividends.

Growth Stocks

These are stocks issued by companies that increase in value, rather than producing higher dividends. Their rising prices optimally outperform the general trend of the greater market.

High-Yield Dividend Stocks

Stocks that pay out generous dividends are regarded as a proven way for investors to increase their assets. They are a solid choice for investors of all types, and not just those who are averse to risk.

Hold Rating

A hold rating indicates investors should neither buy nor sell a particular security since it will most likely stay at a relatively constant price.

Holder of Record

The registered owner of a security is the holder of record; it can be an individual investor or entity like a financial institution.

Index Funds

This mutual fund includes securities picked to match or track specific market indices like the S&P 500. They are regarded by some as the most stable form of investing for individuals saving for retirement.

Indenture

The legal agreement or contract that contains terms and conditions of a bond issue.

Inflation

The general decline in a currency's purchasing power, which is often accompanied by a price increase of goods and services.

Initial Coin Offering (ICO)

Also called a token offering, this crowdfunding tool allows an investor to provide a cryptocurrency startup with existing traditional currency or cryptocurrency in return for tokens of the new cryptocurrency.

Initial Public Offering (IPO)

This formal process involves a private company raising capital through the sale of stock to institutional investors on a major stock exchange, for the first time. On rare occasions, individual investors can purchase stock in the IPO.

Innovation Hub

In simple, an innovation hub is a physical or virtual space that has resources dedicated towards innovation and entrepreneurial outcomes. From financial perspective it refers to places where FinTech innovators can effectively engage in discussions and experience information sharing with each other and with the financial regulatory authority

Insider Trading

Buying or selling a security based on information that is not available to the public. Participants in insider trading are often leveraging information that should be or will soon be public. As a result, insider trading is regarded as an illegal activity.

Institutional Investors

These large companies or firms buy and sell securities along the lines of their investment strategy, along with facilitating trades for members and shareholders.

Intrinsic Value

This stat helps determine whether a particular security is overvalued or undervalued.

Interest Rate Risk

The risk arising from the fluctuation of interest rate to the bond holder.

Invested Yield Curve

This curve indicates market conditions in which short-term debt instruments (like 2-year bonds) have a higher yield than long-term debt instruments (like a 10-year bond). Both the short-term and long-term instruments of debt must be of the same quality, for example, U.S. Treasury Bonds.

International Organisation of Securities Commissions (IOSCO)

It is an association of organisations that regulate the world’s securities and futures markets. It is in international regulatory authority of securities regulators of the world.

World Investor Week (WIW)

World Investor Week (WIW) is a week-long, global campaign promoted by IOSCO to raise awareness about the importance of investor education and protection and highlight the various initiatives of securities regulators in these two critical areas.

In October, IOSCO securities regulators and other IOSCO members on six continents will provide a range of activities, such as launching investor-focused communications and services, promoting contests to increase awareness of investor education initiatives, organising workshops and conferences, and conducting local/national campaigns in their own jurisdictions.

Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) is an international organisation that works to build better policies for better lives. It’s goal is to shape policies that foster prosperity, equality, opportunity and well-being for all. It draws on almost 60 years of experience and insights to better prepare the world of tomorrow. Together with governments, policy makers and citizens, we work on establishing evidence-based international standards and finding solutions to a range of social, economic and environmental challenges. From improving economic performance and creating jobs to fostering strong education and fighting international tax evasion, we provide a unique forum and knowledge hub for data and analysis, exchange of experiences, best-practice sharing, and advice on public policies and international standard-setting

Leveraged Buyout (LBO)

This financial transaction involves acquiring a company through borrowed money. The buying party does not have to put their own capital at risk, and instead has leveraged capital from other sources.

Liquidity

A measurement of how easily an asset such as stocks, cash, real estate, or valuables could be bought or sold without affecting the standard price.

Lock-Up Period Expiration

Also known as a lock-up agreement, investors are restricted from buying or redeeming shares for a period of time usually numbering 90-180 days.

Management Fee

Compensation for an investment manager to manage the fund for the trader.

Margin

Collateral supplied by a trader to their broker in order to trade securities, futures, and currencies.

Market Perform

This rating suggests a neutral outlook on a stock's projected performance when compared to benchmark indexes; it's also referred to as a hold rating.

Market Timing

A trading strategy that focuses on changing the ratio of different assets within a portfolio to take advantage of changing prices within each asset class.

Momentum Indicators

These technical indicators help traders confirm the veracity of a buy or sell rating.

Monthly Dividend Stocks

These securities are issued by companies that pay dividends every month, which some investors rely on as a regular source of income.

Monetary Policy

It is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Most Active Stocks

Also called a road map for day traders, this list of the most active stocks is a useful index for those investors poised to buy and sell for profit.

Moving Average (MA)

This lagging indicator, also called a moving average or rolling average, gives investors a projected view of how a security is trending, without committing to particular prices.

Municipal Bonds (MB)

Also known as "munis," these government-issued certificates of debt fund daily operating expenses or larger public works projects.

Mutual Funds (MF)

A mutual fund is a company that pools money from multiple investors and uses a proprietary investing strategy to place that capital into select securities. Many mutual funds are comprised of stocks in a particular index or industry, while others offer more diversification. Mutual funds are a safer way for the average retail investor to place money in stocks while mitigating risk.

NASDAQ

This American Stock exchange is the second-largest marketplace in the world in terms of market cap.

Net Asset Value (NAV)

This value is found by subtracting the liabilities of a mutual fund from the market value of its shares, and then dividing that number by the number of shares.

Net Income (NI)

A company's earnings after expenses, this stat indicates whether or not a company is making money and retaining profit.

Net Margin

Also known as profit margin, this is the amount of remaining revenue after a specific period of time.

Neutral Rating

Analysts use this rating to indicate that a stock will trade within a tight range.

No Load Funds

These funds do not charge a sales fee for transactions, in contradistinction to the standard 4-6% charged by most funds.

Operational Income (OI)

The income of a business after deducting its operational expenses.

Option Trading

This sale of buyer-seller contract allows the purchaser to have the right without obligation to buy or sell a certain security at a certain price and on or before a certain date.

Outperform Rating

This rating indicates that analysts expect a stock to beat the market or index in which that particular stock is located.

Outstanding Shares

All the shares of a corporation that have been authorised, issued, purchased, and held by investors. These investors have ownership in the corporation and have shareholder rights.

Overbought

A security with this rating is trading above its true value.

Oversold

A security with this rating is trading below its true value.

Price-to-earnings growth is a refined variation of the P/E ratio that also assesses a company's potential for growth.

Regulatory Oversight Body

The regulatory authority that has the right of supervision and monitoring other market participants entrusted with a fair and orderly in trading of securities markets and derivatives markets. For example, SEBON being the regulatory oversight body, supervises and monitors NEPSE and CDSC with regard to listing, trading, clearing, settlement, dematerialization of securities and depository operation to ensure NEPSE and CDSC performs its regulatory duties and obligations in an effective manner.

Self-Regulatory Authority (SRO)

A Self-Regulatory Organisation or SRO can be defined as an organisation that is formed to regulate certain professions or industries. They are usually non-governmental organisations, established with the aim of creating rules to promote order among businesses and organisations.

Par Value

Stated price that is redeemed to bond holder at maturity also stated price of equity shares.

Percentage Decliners

These are securities that show the biggest losses in terms of percentage.

Percentage Gainers

These stocks show the greatest gains in terms of percentage changes, though this stat does not take trading volume into account.

Portfolio Manager

A financial professional or group thereof who purchases and sells assets in a mutual fund, closed-end fund, or ETF (exchange-traded fund).

Preferred Stock

These stocks grant the shareholders a stronger claim of ownership and company earnings than common stock.

Price Target

This estimate of the future price level of a stock, futures contract, ETF, or commodity, is made by investment analysts and financial advisors.

Price to Earning Ration (PE)

This stat compares the current price of each share to its earnings and is frequently used in determining the value of a stock and its issuing company. Some investors feel strongly about the PE ratio's ability to accurately reflect the true value of a stock and advise investors against purchasing shares of stock with high PE ratios. Though the price of those stocks may point to good health, the PE ratio indicates they are actually overvalued.

PE Growth (PEG)

This valuation allows investors to see to what degree a stock is accurately priced, by comparing stock prices to company revenue.

Producer Price Index (PPI)

This weighted index of prices reflects the views of producers and wholesalers of that item. It is released monthly by the BLS (Bureau of Labor Statistics).

Profit Margin

A commonly used stat, profit margin helps investors see the profitability of their trading activity.

Put Option

This financial contract between buyer and seller gives the owner of the put the right (but not obligation) to sell 100 shares of a certain stock at an agreed price to the buyer before or on the expiration date.

Quantitative Easing

A programme in which the central bank of a given nations leverages a supply of newly minted currency to purchase assets like government bonds from banks, pension funds, and insurance companies.

Quick Ration

It is one of the financial rations, also known as the acid-test ratio, this measure of liquidity shows how quickly a company could extinguish its current liabilities if it chose to do so.

Quiet Period

The waiting period that begins once the company and underwriters agree to proceed with an initial public offering (IPO).

Quiet Period Expirations

The date on which the SEC (Securities & Exchange Commission) approves a company's registration for an IPO and the end of the quiet period or waiting period.

Range Trading - A strategy based on technical analysis of price movement between support and resistance.

Real Estate Investment Trust (REIT) ETF

A company that owns income-producing real estate and sells shares of ownership to investors, similar to a stock. REITs create an opportunity for retail investors to get involved in real estate when the costs of doing so on their own might be prohibitive.

Recession

A downturn in economic activity through multiple consecutive quarters of increasing decline. Recessions are also often associated with a drop in spending, spurring economic reforms to stimulate the economy. However, some investors view low stock prices during a recession as a prime motivator for maximising the value of their dollar and purchasing more shares.

Relative Strength Index

This momentum oscillator measures price by speed and change, moving between 0 and 100.

Resistance Level

The price point at which an assets price begins to slow, or even reverses with an increase in transaction volume.

Retained Earnings

A company's profit after paying out dividends to shareholders. This is to the company what disposable income is to a private individual.

Return on Assets (ROA)

This particular profitability measure helps investors gauge their return on investment as it relates to their assets.

Return on Equity (ROE)

How efficiently a company leverages its assets provided by shareholders (e.g. stock sales) to create more income.

Return on Investment (ROI)

ROI indicates profit on a particular investment as a percentage of earnings in comparison to the cost of investing in that particular security or asset.

Reverse Stock Split

Also called a stock merge, this deliberate corporate action is made by a company that wants to reduce the number of outstanding shares while increasing the price per share proportionally.

Risk Tolerance- How willing an investor is to take on volatility and variability in their investment returns.

Rule 72

It is the rule relating to return of investment. This simplified equation helps investors estimate the number of years it would take to double their investment or money, based on its rate of return. The period or years that takes to double your investment is derived by dividing 72 by the annual rate of return.

Regulatory Sandbox

A framework set up by a financial sector regulator to allow small scale, live testing of innovations by private firms in a controlled environment (operating under a special exemption, allowance, or other limited, time-bound exception) under the regulator's supervision.

In other word it is a regulatory approach, typically summarised in writing and published, that allows live, time-bound testing of innovations under a regulator's oversight. Novel financial products, technologies, and business models can be tested under a set of rules, supervision requirements, and appropriate safeguards.

Rolling Settlements

A rolling settlement implies that all trades have to be settled by the end of the day. Hence, the entire transaction – where the buyer pays for securities purchased and seller delivers the shares sold – have to be completed in a day. Supposing your friend agrees to buy a book for you from a bookshop, you will have to pay him for it eventually. Similarly, after you have bought or sold shares through your broker, the trade has to be settled. Meaning, the buyer has to receive his shares and the seller has to receive his money. Settlement is the process whereby payment is made by the buyers, and shares are delivered by the sellers.

S&P Index

500 different large cap companies are listed in The Standard and Poor's Index. a popular stock market index that follows their price and performance.

Sell-Side Analysts

These analysts work for investment banks or brokerage firms and track the performance of various securities such as stocks, bonds, and commodities.

Short Selling

The sale of a stock not actually owned by the seller. They may have borrowed it or have it lined up for a transaction, despite their lack of ownership. This strategy is motivated by an expected drop in price.

Special Dividends

Cash payments made to shareholders that are separate from regularly paid dividends.

Stochastic Momentum Index (SMI)

This index helps gauge momentum for a given security and is used in technical analysis as an alternative to stochastic oscillators.

Stock Portfolio Tracker

An online stock trading tool that replaces manual spreadsheets and paper statements, providing minute-by-minute information on all the securities in a portfolio.

Stock Split

This corporate action increases the number of outstanding shares by dividing each share.

Stock Symbol

An abbreviation used to quickly identify publicly traded shares of stock, it may consist of numbers, letters, or even both.

Stocks Increasing Dividends

Investors focused on stable income love dividend stocks that consistently up their payouts to shareholders.

Stop Order

This trading order will execute a buy or sell action when a stock reaches a particular price.

Straddles

This options trading strategy takes advantage of expected volatility, even if investors do not know which way the stock price will move.

Strangles

This options trading strategy is predicated on anticipating price movements that move with conviction in one direction or another.

Street Name

Investors holding securities in "street name" means their name will not be listed in company records.

Strike Price

Also called the exercise price, this is the price at which a buyer of an option contract can exercise his option (right to buy or sell).

Support Level

A technical metric of movement in terms of price, when an asset has reached a price floor.

Swap

A derivative instrument where two parties contractually agree to exchange a sequence of ash flows, taking place on a certain date or at targeted intervals, as stipulated in their contract.

Simple moving average (SMA)

This is right out of middle-school math. You take the mean of a set of values. In the case of a stock chart, the values that are averaged are the prices over a period of time. To calculate the simple moving average you add up the prices in the time frame and then divide by the number of prices in that set. So to calculate a 10-day SMA, you would add the closing price of a stock for the last 10 trading days and divide it by 10. For a standard moving average, all values are weighted equally.

Short-selling

An investor sells short when he anticipates that the price of a stock may fall from the existing price. So, the investor borrows a share and sells it. Once the share price dips, he will buy the same share at a lower price, and return it back, while pocketing a profit in the bargain. Simply put, you first sell at a high and then buy at a low. Short-selling helps traders profit from declining stock and index prices. Since this is usually conducted in anticipation of a stock movement, short-selling is considered a risky proposition. An example, suppose you expect shares of Standard Chartered Bank Ltd. to fall tomorrow for whatever reason, you enter an order to sell shares of that bank at the current market price. Once the share price falls adequately tomorrow, you buy at the lower rate. The difference in the sale and buying prices is your profit. However, if the share prices increase after you sold at a reduced price, then you end up with a loss.

Standard Deviation

This is a statistic that measures the historical volatility of an investment. A large standard deviation means that there is a greater variance between its price and the mean, indicating a wider price range. Calculating the standard deviation requires finding the mean of all the data points, calculating the difference between each data point and the mean, squaring and then finding the mean of all those differences, and then taking the square root of that number. Most trading programmes will calculate the standard deviation for you.

Relative Strength Index (RSI)

This is a simple calculation that measures the magnitude of recent price changes to track momentum that may indicate when stocks are overbought or oversold. The calculation of the relative strength index is as follows:

$RSI = 100 - 100/(1 + RS)$

RS (Relative Strength) = the average gain of up periods during the time frame being measured divided by the average loss of down periods during the time frame being measured. RSI is usually calculated over 14 trading days.

An RSI can range from 0 to 100. An RSI at or above 70 usually indicates an overbought condition. An RSI of 30 or below usually indicates an oversold condition.

Technical Analysis

It is the study of chart patterns and statistical figures to understand market trends and pick stocks accordingly. One day the share price is up; another day it may be down. But over time, if you look at the stock price's movement, you may see trends and patterns emerge. The study of these chart patterns and trends in stock prices is called technical analysis of stocks. When you learn technical analysis of stocks, you will understand the big role that technical indicators play. Technical analysis has stood in premises of assumption that the history repeats. Fundamentals of technical analysis are (i) market prices reflect all the information about a stock, (ii) patterns tend to repeat, and (iii) stock prices follow trends. Technical analysis is useful before entering to the securities market.

The Bottom Line on Technical Analysis

The allure of technical analysis is that there are great gains that can be made if only you know how to accurately interpret the price movement of different stocks. But investors should take caution that they are not using technical analysis merely to support their own assumptions. In this way, it's a lot like fundamental analysis. Both methods require investors to allow the facts to inform their trading.

Technical analysis is not for everyone, but if you are the kind of investor that has enough time, enough restraint, and enough trust in statistics, there can be a lot of satisfaction in accurately predicting price movements. However, as much as we would like to believe otherwise, nobody can predict the market with 100% certainty all the time. Human behavior gets in the way of even the most accurate technical predictions. Technical analysis allows traders to analyze price trends and make decisions that are in sync with their tolerance for risk.

Total Return

The actual rate of return of an investment portfolio over a defined time period.

Trade Deficit

A condition in which one country imports more goods and services than it exports.

Trade Cycle (Business Cycle)

It is economy-wide fluctuations in total national output, income, and employment usually lasting for a period of 2-10 years, marked by widespread expansion or contraction in most sectors of the economy. Upward and downward movements in macroeconomic variable such as in output, inflation, interest rates, and employment form the business cycle that characterizes all market economies.

Trade War

An economic policy carried out when one country attempts to rectify an imbalance in trade, by raising import tariffs on imported goods and services from a specific country or countries.

Annexures

Annexure 1. List of Securities Acts, Regulations, Directives, Bye-Laws

Acts

1. Securities Related Act, 2006
2. Commodities Exchange Market Act, 2017
3. Asset (Money) Laundering Prevention Act, 2008

Securities Market and Commodities Exchange Market Related Regulations

1. Specialised Investment Fund Regulations , 2019
2. Securities Listing and Trading Regulation, 2018
3. Commodities Exchange Market Regulations , 2017
4. Credit Rating Regulations, 2011
5. Central Depository Service Regulations, 2010
6. Securities Registration and Issue Regulations, 2016
7. Securities Businesspersons (Merchant Banker) Regulations, 2008
8. Securities Businesspersons (Stockbroker, Dealer & Market Maker) Regulations, 2008
9. Stock Exchange Operation Regulations, 2007
10. Securities Board Regulations, 2007

Bylaws

1. CDS Bylaws, 2011
2. Securities Transaction Operation Bylaws, 2019
3. Securities Listing Bylaws, 2019
4. Securities Transaction Clearing and Settlement Bylaws, 2012
5. Government Securities Bylaws of SEBON, 2005
6. Government Securities Transaction Bylaws of NEPSE, 2005

Directives/ Guidelines and Policy

1. Book Building Directives, 2020
2. SEBON Information Technology Policy, 2019
3. AML Related Directions, 2019
4. Corporate Governance for Listed Company Related Directives, 2017
5. Securities Purchase (Public Issue) Related Directives, 2016
6. Portfolio Management Directives, 2010

Annexure 2. List of Merchant Bankers

SN	Company	Area	Address
1	Sunrise Capital Ltd.	Issue Manger, Underwriter, Share registrar, Portfolio Management	Kamalpokhari, Kathmandu Contact No. 4428550,4428660, Fax : 4428688
2	NMB Capital Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Naksal, Kathmandu, Contact No: 4253096
3	Citizen Investment Trust	Issue Manger, Underwriter, Share Registrar	New Baneshwor, Contact No: 4785321/4785319, Fax: 4785320
4	Global IME Capital Limited	Issue Manger, Underwriter, Share Registrar, Portfolio Management	Jamal, Kathmandu, Contact No: 422640, Fax: 4222534
5	Muktinath Capital Limited	Issue Manger, Underwriter, Share Registrar, Portfolio Management	Hattisar Marga, Kamaladi Mode, Kathmandu, Contact No: 4446108/4446109
6	Civil Capital Market Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Kamaladi, Kathmandu, Contact : 4168654/416664, Fax: 4168734
7	Prabhu Capital Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Kamaladi, Kathmandu, Contact: 4221946/4221952, Fax: 4222802
8	NABIL Investment Banking Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Naxal, Kathmandu, Contact: 4411604,4411733, Fax: 4410554
9	Laxmi Capital Market Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Pulchowk, Lalitpur, Contact: 5551363,5551463, Fax: 5537743
10	NIBL Capital market Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Lazimpat, Kathmandu, Contact: 4005080 Fax: 4005084

SN	Company	Area	Address
11	Kriti Capital and Investment Limited	Portfolio Management	Ravibhawan, Kathmandu, Contact: 4276786,4281776
12	Samridhi Capital Ltd.	Portfolio Management	Ravibhawan, Kathmandu, Contact: 4781501,6201789
13	National Merchant Banker Limited	Portfolio Management	Kalikasthan, Kathmandu, Contact: 4430746
14	Siddhartha Capital Limited	Issue Manger, Underwriter, Share registrar, Portfolio Management	Naxal, Kathmandu, Contact: 4257767,4257768, Fax: 4257764
15	Provident Merchant Banker Limited	Share registrar, Portfolio Management	Pepsicola, Kathmandu, Contact: 4993450,5147097, Fax: 4993450
16	CBIL Capital Ltd	Issue Manger, Underwriter, Share registrar, Portfolio Management	Batuleghar, Dillibazar, Kathmandu, Contact No. 4418667, 4417723, Fax No. 4428958
17	Sanima Capital Ltd	Issue Manger, Underwriter, Share registrar, Portfolio Management	Naxal, Kathmandu, Contact No. 4428956, 57,44, Fax No. 4428958
18	BOK Capital Ltd	Issue Manger, Underwriter, Share Registrar, Portfolio Management	Kathmandu Plaza, 2nd Floor, Kamaladi, Y-Block, Kathmandu, Contact No. 4168701, 4168702
19	Nepal SBI Merchant Banking Ltd	Issue Manger, Underwriter, Share registrar, Portfolio Management	Hattisar, Kathmandu, Contact No. 4435671, Fax No. 4435612
20	NIC Asia Capital Ltd	Issue Manger, Underwriter, Share registrar, Portfolio Management	Babarmahal, Kathmandu, Contact No. 4221994, Fax No. 4222458
21	RBB Merchant Banking Ltd	Issue Manger, Underwriter, Share registrar, Portfolio Management	Teku, Kathmandu, Contact No. 4253595

SN	Company	Area	Address
22	Aakash Capital Ltd.	Portfolio Management	Putalisadak, Kathmandu Contact No.:4430196
23	Arkash Capital Advisors Ltd.	Portfolio Management	Thapathali, Kathmandu Contact No.:4101676
24	Wealth Management and Merchant Banking Ltd.	Portfolio Management	Maitidevi, Kathmandu Contact No.:4418664
25	K.C.L Astosh Capital Ltd.	Portfolio Management	Hattisar, Kathmandu, Contact No. 4429149
26	Kumari Capital Ltd.	Issue Manger, Underwriter, Share registrar, Portfolio Management, Corporate Advisory	Naxal Kathmandu Contact No: 01-4415173,4445500
27	Nepal Bangladesh Capital Ltd.	Issue Manger, Underwriter, Share registrar, Portfolio Management, Corporate Advisory	Kamladi kathmandu Contact No: 01-4233780
28	Janta capital ltd.	Issue Manger, Underwriter, Share Registrar, Portfolio Management, Corporate Advisory	Thapathali Kathmandu: 01-4265272
29	Century Capital Markets Ltd.	Issue Manger, Underwriter, Share Registrar, Portfolio Management, Corporate Advisory	Kamladi Kathmandu Contact No: 01-4168698
30	Mega Capital markets Ltd.	Issue Manger, Underwriter, Share registrar, Portfolio Management, Corporate Advisory	Tripureshwor, Kathmandu Contact No: 01-4262775
31	Himalayan Capital Ltd.	Portfolio Management	Thamel, Kathmandu Contact No. 01-42588345
32	Machhapuchhre Capital Ltd.	Portfolio Management	Jamal, Kathmandu Contact No. 01-4229941

Annexure 3. List of Stockbrokers

S.N.	Stockbroker Name	B.N.	Address	Phone	Fax
1	Kumari Securities Service Pvt. Ltd.	1	DilliBazaar, KTM	4418036	4423689
2	Arun Securities pvt ltd	3	PutaliSadak, KTM	4239567	4239565
3	Opal Securities Pvt. Ltd.	4	Baluwatar, KTM	4423509	4423509
4	Market Securities Exchange Co. Pvt. Ltd.	5	Newroad, KTM	4248973	4249558
5	Agrawal Securities Pvt. Ltd.	6	DilliBazaar, KTM	4424406	4424657
6	J F Securities Pvt. Ltd.	7	PutaliSadak, KTM	4256099	4433673
7	Aasutosh Brokerage & Securities Pvt. Ltd.	8	Newroad, KTM	4227510	4240162
8	Pragyan Securities Pvt. Ltd.	10	Kamaladi, KTM	4413392	4415958
9	Malla&Malla Stock Broking Co. Pvt. Ltd.	11	DilliBazaar, KTM	4432088	4425750
10	Thrive Brokerage House Pvt. Ltd.	13	Naxal, KTM	4419051	4416018
11	Nepal Stock House Pvt. Ltd.	14	Anamnagar, KTM	4265888	4255732
12	Primo Securities Pvt. Ltd.	16	PutaliSadak, KTM	4168175	4168214
13	ABC Securities Pvt. Ltd.	17	Newroad, KTM	4230787	4226507
14	Sagarmatha Securities Pvt. Ltd.	18	PutaliSadak, KTM	4439315	4439315
15	Nepal Investment & Securities Trading Pvt. Ltd.	19	Baneshwor, KTM	4495450	4490727
16	Sipla Securities Pvt. Ltd.	20	Newroad, KTM	4255782	4255078
17	Midas Stock Broking Co. Pvt. Ltd.	21	Kamaladi, KTM	4240089	4240115
18	Siprabi Securities Pvt. Ltd.	22	Kupondol, Lalitpur	5530701	5011206
19	Sweta Securities Pvt. Ltd.	25	PutaliSadak, KTM	4444791	4416936
20	Asian Securities Pvt. Ltd.	26	PutaliSadak, KTM	4424351	4431395

S.N.	Stockbroker Name	B.N.	Address	Phone	Fax
21	Shree Krishna Securities Ltd.	28	Dillibazar, KTM	4441225	4431592
22	Trishul Securities & Investment Ltd.	29	PutaliSadak, KTM	4440709	4438197
23	Premier Securities Co. Ltd.	32	PutaliSadak, KTM	4231339	4266422
24	Daksinkali Investment & Securities Pvt.Ltd.	33	Kamaladi, KTM	4168640	4168742
25	Vision Securities Pvt.Ltd.	34	Anamnagar, KTM	4770408	4438124
26	Kohinoor Investment & Securities Pvt.Ltd.	35	Kamalpokhari, KTM	4442858	4442857
27	Secured Securities Pvt. Ltd.	36	PutaliSadak, KTM	4262861	4224523
28	Swornalaxmi Securities Pvt.Ltd.	37	Kamalpokhari, KTM	4417178	4417177
29	Dipshikha Dhitopatra Karobar Co. Ltd.	38	Anamnagar, KTM	4102532	4254490
30	Sumeru Securities Pvt. Ltd.	39	Hattisar, KTM	4444740	4424209
31	Creative Securities Pvt. Ltd.	40	PutaliSadak, KTM	4168205	4168203
32	Linch Stock Market Ltd.	41	New Baneshwor, KTM	4469367	4469068
33	Sani Securities Pvt.Ltd.	42	Jamal, KTM	4166005	4166006
34	South Asian Bulls Pvt. Ltd.	43	Kuleshwor, KTM	4284785	4284785
35	Dynamic Money Managers Securities Pvt.Ltd.	44	Kamalpokhari, KTM	4413421	4414522
36	Imperial Securities Co. Pvt. Ltd.	45	Anamnagar, KTM	4231004	4232344
37	Kalika Securities Co. Pvt.	46	PutaliSadak, KTM	4011074	4011144
38	Neev Securities Pvt.Ltd.	47	Kamaladi, KTM	4168601	4168573
39	Trisakti Securities Pvt. Ltd.	48	PutaliSadak, KTM	4232132	4232133
40	Online Securities Pvt. Ltd.	49	PutaliSadak, KTM	4168298	4246392

S.N.	Stockbroker Name	B.N.	Address	Phone	Fax
41	Crystal Kanchanjangha Securities Pvt.Ltd.	50	New Plaza, KTM	4011176	4011072
42	Oxford Securities Pvt. Ltd.	51	Kalimati, KTM	4273850	4278113
43	Sundhara Securities Pvt.Ltd.	52	Sundhara, KTM	4212215	4263583
44	Investment Management Nepal Pvt. Ltd.	53	Tripureshwor, KTM	4256589	4256590
45	Sewa Securities Pvt.Ltd.	54	Tripureshwor, KTM	4256642	4256644
46	Bhrikuti Stock Broking Co. Pvt. Ltd.	55	Newroad, KTM	4223466	4224648
47	Sri Hari Securities Pvt. Ltd.	56	Kamaladi, KTM	4437562	4437465
48	Aryatara Investment & Securities Pvt. Ltd.	57	Anamnagar, KTM	4233596	4233597
49	Naasa Securities Co Ltd	58	Naxal, KTM	4440384	4440385
50	Deevya Securities & Stock House Pvt. Ltd.	59	PutaliSadak, KTM	4421488	4422313

Annexure 4. The List of Related Websites

MoF: https://mof.gov.np

CRO: http://application.ocr.gov.np

SEBON: https://www.sebon.gov.np

NEPSE: http://nepalstock.com.np

CDSC: https://cdsc.com.np

ICRA Nepal: https://www.icranepal.com

CARE Rating: https://www.careratingsnepal.com

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