



NEPSE Starts Trading of Promoters' Shares

NEPSE began trading promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoters' shares of the listed companies. For the first trading, the price of the promoters' share of a company that has a positive net worth could not be less than half of five times its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of a company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Earlier, one could have traded the promoters' shares on the basis of the market price of the ordinary share.

Alpic Everest Finance Limited and Machhapuchhre Bank were the first two listed companies to trade promoters' shares based on the new price quoting mechanism. Alpic Everest traded 1,28,000 units of its shares for Rs 12.58 million and Machhapuchhre Bank traded 2,51,410 units of its shares for Rs 125.7 million. NEPSE expects that trading of promoters' shares will make the capital market more vibrant and stabilizes the prices of ordinary shares.

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NEPSE's 26th AGM Held



Nepal Stock Exchange Limited (NEPSE) held its 26th annual general meeting (AGM) on 23 May 2008. The AGM endorsed the Chairman's annual report, the auditor's report and the special proposal to amend NEPSE's article of association and article of memorandum.

The Company Registrar Office approved all the decisions made at the AGM. The approval will allow NEPSE to turn itself into a profit making company, change its board of directors and increase its capital. NEPSE's authorized capital will now be increased to Rs 160 million from Rs 50 million. Likewise, the paid-

up capital will go up to Rs 50 million from the present Rs 34.9 million.

Similarly, there would be a reshuffle in the structure of the NEPSE's board of directors, with the number of directors being reduced to seven from nine. And there would be no representatives from stock brokers and the Securities Board of Nepal on the NEPSE board.

The AGM also passed the decision to name the company as "Nepal Stock Exchange Limited" both in Nepali and English.

OTC Market Starts

NEPSE Exchange started the over-the-counter (OTC) market from 4 June 2008 to give shareholders a chance to sell or buy the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria.

The shares of the 38 companies can now be traded in the OTC market. But NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the OTC, as per the request of Nepal Rastra Bank. The shares trading of Nepal Bank Limited has had negative impact on the ongoing Financial Sector Reform Project.

In the OTC Market one does not have to go to brokers to trade shares; one can come to NEPSE and trade, paying a commission of two per cent for transactions of up to Rs 25,000, 1.5 per cent for transactions of above Rs 25,000 but under Rs 5,00,000. and one per cent for transactions of over Rs 5,00,000.

Ban on Trading of Eight Companies

NEPSE banned the shares trading of five financial institutions that announced a merger to become a commercial bank on 7 May. This step to ban Mahalaxmi Finance, Birgunj Finance, Siddhartha Finance, Butwal Finance and Himchuli Development Bank was taken as they announced the merger, despite Nepal Rastra Bank's restriction on mergers and also because of an unexpected surge in share prices of these companies following the merger announcement. Likewise, the shares of three more companies, namely, National Finance Limited, Narayani Finance Limited and Paschimanchal Finance Limited, were barred trading from 9 May onwards. These companies also had not got permission from Nepal Rastra Bank for a merger.

Editorial

The stock market is one of the most important sources of capital. It allows businesses to go public or raise additional capital for expansion. On the other hand, the liquidity that an exchange provides allow investors to sell securities quickly and easily. This makes investing in stocks more attractive than investing in other less liquid financial instruments.

The historical trends have shown that the prices of shares and other assets are an important part of the dynamics of economic activities, and can influence, or be an indicator of, social mood. Rising share prices, for instance, tend to be associated with increased business investments and vice versa.

The stock exchange also acts as a clearinghouse for each transaction, that is, it collects and deliver shares, and guarantee payment to the seller of a security. The stock exchange's role of a clearinghouse eliminates the risk of a counterparty defaulting on a transaction. The smooth functioning of all these activities facilitates economic growth in that it lowers costs and enterprise risks, promotes the production of goods and services, and opening up of jobs.

In this context, Nepal Stock Exchange Limited (NEPSE) in its role as a market operator has taken steps to facilitate market participation. These steps are the replacing the open-out-cry system of trading by automated trading system, initiation of trading through wide area network, reformation of its organizational structure, effective management of trading, and extensive dissemination information.

In line with its objective of continuously improving information sharing, NEPSE started publishing this newsletter from two months back. The newsletter has been received warmly and people have suggested us to make it more informative. We have tried to incorporate some suggestions from our readers in this issue. Readers comments and suggestions will keep us on our toes and help us to improve the newsletter. So we would appreciate and welcome constructive suggestions from our readers.

Regional Co-operation Emphasized

Participants of the SAARC colloquium on Management of the Stock Exchange System and Regulation of Securities Markets held in Kathmandu on 21-22 April called for a greater co-operation in further developing the capital markets of the region. Representatives of the finance ministries, central banks, regulators and operators of stock exchanges from the member states and the Asian Federation of Exchanges (SAFE) participated in the colloquium. It was organized by the SAARC secretariat.

SAARC colloquium on Stock Markets

The colloquium was organized at the recommendation of the Second Meeting of SAARC Finance Secretaries (New Delhi, 14 September 2007). Its objective was to share experiences in the management of the stock exchange systems and the regulation of the Securities Markets, the regulation and management of private operators' involvement in the securities market and improvements in the functioning of the Banking system.

The colloquium was opened by the Director of the SAARC Secretariat, Mr. Vinaya Kwatra on behalf of the Secretary General of SAARC, Dr. Sheel Kant Sharma. In his welcome remarks, Mr. Kwatra underlined the mandate of the colloquium as given by the SAARC Finance Ministers and hoped that the deliberations of the colloquium would facilitate the commencement of cooperation among the stock exchanges of the member states. The member states delegates presented the current status of the management of stock exchanges and regulation of securities in their respective countries. The presentations were followed by a discussions and question and answer session.

The meeting discussed extensively measures that need to be taken and policy approaches that need to be framed regionally to develop capital markets in the SAARC countries. It also discussed a comprehensive capacity building initiative. The meeting made the following important recommendations.

- Variations in the level of development of the capital markets in the SAARC countries need to be clearly codified in detail with reference to existing international benchmarks of G-30 recommendations and International Organization of Securities Commissions (IOSCO) principles;
- SAARC member states may undertake a step to harmonize laws and regulations related to the capital markets, including accounting and corporate governance standards;
- Member States may consider undertaking Standardization and Harmonization of Securities Industries Classification with reference to international best practices;
- Within their national jurisdictions, or through bilateral, sub-regional or regional arrangements, the member states may promote programs related to education, awareness and certifications; and
- There is a need for greater interaction and cooperation between South Asian Securities Regulator Forum (SASRF), South Asian Federation of Exchanges (SAFE) and relevant stock exchanges in the region in order to undertake concrete steps to harmonize rules, regulations and by-laws.

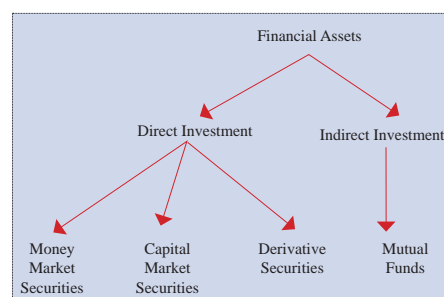
NEPSE Staff Visited DSE



A staff team of NEPSE visited the Delhi Stock Exchange (DSE) from 18 May 2008 to 22 May 2008. The team consisted of Senior Officer Mrs. Samjhana Baral, Officer Mrs. Prabin Pandak, Senior Assistants Mrs. Sharmila Phathak and Miss Sanju Kandel, and Senior Computer Operator Mr. Jagadish Rijal. Mr. Denvinder Arora and Mr. Bharat Bhusan, Executive Director and Director of DSE respectively, welcomed the team and briefed it mainly on the organization, listing and trading system and current developments in the DSE.

Investment Instruments

Investment is the current contribution of money at assets for the expected future benefits. It may be on tangible assets like land, buildings, and machines which is called real investment and for a piece of contract paper of issuer (securities) that is called financial investment. Financial security is a legal contract representing the right to receive future financial benefits under a stated set of conditions. The development of financial market creates lots of financial securities or instruments that are available at market for investment. There are various ways of categorizing the financial securities but broadly they can be classified as follows:



Direct Investment: If investors invest directly in different securities like shares, bonds or Treasury bills (T-bills) and receive the expected benefits directly without paying anything to intermediaries then such investment is called direct investment. Direct investment can further be classified into three groups, namely, money market, capital market and derivative instruments.

Money Market Securities: Securities with a short term maturity period or specifically with a life span of less than one year are called money market securities. Companies and government rely on money market securities when they are in need of short term fund. Examples of such money market securities are T-bills, certificates of deposit (CD), commercial papers, repurchase agreements (REPO) etc. The major participants in the money market are the central bank, commercial banks, financial intermediaries, other financial institutions, and insurance companies.

A major component of the money market, T-bills are an important short term source of fund for the government. The monetary authority (Nepal Rastra Bank) also uses them as a tool for implementation of monetary policy. In Nepal, the Central bank issues 28-day, 91-day, 182-day and 364-day T-bills and they are made available for purchase through auctions. Like T-bills, REPO is an important money market instrument which can be defined as an agreement involving the sale of securities by one party to another with a promise to repurchase securities at a specified price and on a specified date in the future. The Nepal Rastra Bank mostly uses REPO and Reverse REPO as an open market operation tool for the implementation of monetary policy. The other money market instruments like commercial papers, certificates of deposits (CD) etc are used by other corporate entities to meet the short term need of fund.

Capital Market Securities: Capital markets are such markets that trade equity and debt instruments with maturities of more than one year. The major issuers of capital market instruments are corporations and the local as well as the central governments, and the supply of fund comes from savings of individuals and corporations. When the securities of the capital market are issued for the first time it is called the primary market. Such securities are further traded at the secondary market usually through the stock

exchange, which provides liquidity to investors and efficiency to the capital market.

Capital market securities can be classified into debt market securities and equity market securities. Debt market securities are fixed income securities, which promise to pay a specific amount at a specific time, and they generally have a specific maturity period. Normally, the debt market is dominated by government securities like development bonds and other long term bonds issued by government as well as municipal bonds issued by municipalities and other local authority. Moreover, bonds issued by corporate entities like commercial banks and other companies are also important instruments of the debt market.

Equity market securities are the most important part of the capital market where trading of such securities transforms ownership of a company. As an owner equity security holders are entitled to the company's earnings and have a claim on the assets of the company.

Equity securities, are traded at the secondary markets in the form of common shares, right shares and bonus shares, are of two types: common shares and preference shares. Common shares holders enjoy dividends and bonus shares, which are a portion of profit, and they have the right to vote for the Board of Directors (BOD). Preference shares holders too get dividends at the rate of fixed percent, but they don't have any voting rights.

Derivative Securities: Derivatives securities are also called contingent claims whose value depends on the value of other underlying securities. A derivative security generally involves an agreement between two parties to exchange a standard quantity of an asset or cash flow at a predetermined price and at a specified date in the future. As the value of underlying security changes at the market, the value of derivative securities also changes. The generalized types of derivative securities are future contracts and option contracts. Future contracts are organized, standardized and exchange-traded contracts. The terms like quantity, quality and delivery time and place are pre-decided and specified in future contracts. As future contracts are actively traded at exchanges, they have enough liquidity and do not have default risk. Option contracts are also traded at the stock exchange and they provide a party the right, but not the obligation, to perform a specified transaction with another party. They are linked with a variety of underlying assets like bonds, currencies, commodities or a basket of assets. There are two forms of options. A "call option" gives the holder a right to buy the underlying asset at a particular date for a certain price. Similarly, a "put option" gives the holder a right to sell the underlying asset at a particular date and for a certain price.

Indirect Investment: When a pool of funds is collected from small and various investors by a fund or investment companies and then the funds collected are invested in different securities then such an investment is called indirect investment. The return from securities is first received by a fund collector and then handed over to investors. So, such indirect investment reduce the risk involved in direct investment because many investors do not have financial capability to go for the diversification of their portfolio nor they have the necessary expertise for the selection and management of portfolios.

Mutual Fund: Normally, indirect investment is made through mutual funds where large pool of

fund is collected by small investors and such fund is invested in equity securities, bonds and money market securities or in combination of any of these securities. Mutual fund companies on their own conduct research in the investment market and develop expertise over a period of time. transition. The investment in such fund is made so easy by the mutual fund companies that investors do not need a huge sum of money and they can exit from the fund easily with complete liquidity guaranteed at any time.

Broadly, mutual funds may be classified as closed ended fund and open ended funds. Close ended mutual funds have a fixed number of outstanding shares and such shares are offered to the general public for a fixed period. The amount collected through the offering is invested in various portfolios. Once one subscribes the shares, one can not withdraw them but could sell them in the secondary market. The close end mutual funds collect dividends, interests and realized capital gains and then distribute them to shareholders. In the same way, open end mutual funds also collect funds by offering shares to the general public but the offering is made not for a fixed period but through out. That means any investor can buy the shares of open ended mutual funds at any desired time and when needed could exit from the fund by selling one's shares to the fund itself. The shares are bought and sold on the basis of Net Assets Value (NAV) of mutual funds.

Terms Used in Financial Markets

Bid and Asked Prices: A bid is the price someone is willing to pay for a security; an asked price is the price at which someone is willing to sell the security. A bid is lower than an asked price, or else the security would be traded at a mutually agreeable price.

Blue Chip: A term usually applied to high grade equity securities.

Dow Jones Industrial Average (DIJA): The weighted average price of 30 blue chip U.S. stocks listed on the New York Stock Exchange.

Mutual Funds: A mutual fund is a portfolio of investment securities held in the name of the fund, which is owned by people who have bought shares in the fund itself.

Call option: A contract sold for a price that gives the holder the right to buy from the writer of the option over a specified period a specified amount of securities at a specified price.

Put option: A contract sold for a price that gives the holder the right to sell to the writer of the contract over a period a specified amount of securities at a specified price.

Seed Capital/Financing: Equity and Loan capital provided for a new venture or existing business. The first people/firm contributing capital for a start-up business, normally other than the proprietors.

Warrants: They sometimes come with a new issue of corporate bonds to make them more attractive. Normally, they are options to buy more shares in the company at a fixed price at any time before a certain date. Sometimes, you get the right to buy something else such as a bond or commodity such as gold. After the initial sale, they are usually detachable and traded separately.



Mr. Karki participated in AIISMD

Mr. Rewat Bahadur Karki, General Manager of NEPSE participated in the Annual International Institute for Securities Market Development (AIISMD) organized by the U. S. Securities and Exchange Commission in Washington DC, USA from 7 – 17 April, 2008. Senior level officials from securities regulator and stock exchanges as well as professionals from 76 developing countries attended the program.

NEPSE Newsletter Launched

NEPSE in its bid to make investors more aware of the secondary market launched an English language newsletter, called 'NEPSE Newsletter', on 20 March 2008. Published one every two months, the newsletter will provide information on the capital market activities.

On the eve of the launch, Rewat Bahadur Karki, General manager and Chief Executive Officer of NEPSE said that the newsletter was published in an attempt to reduce uncertainty and provide greater market efficiency through the dissemination of relevant information to investors and other concerned agencies and persons. 'We hope that the publication would benefit investors in particular and, students, researchers, analysts, security business person, and the public in general,' he said. 'Informed investors are the pillar of the stock market. So the greater dissemination of market related information among investors would contribute to the sustainable development of the capital market.'

Thapa and Regmi, New Directors of NEPSE



Mr. Gokul Ram Thapa



Mr. Ramji Regmi

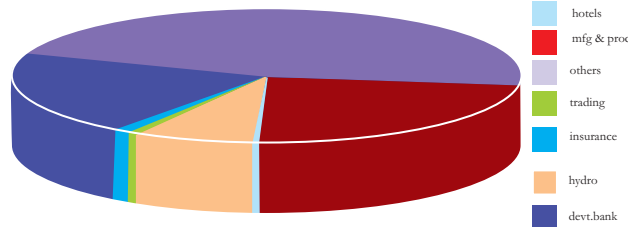
Mr. Gokul Ram Thapa, Executive Director of Nepal Rastra Bank (NRB) and Mr. Ramji Regmi Executive Director of Nepal Rastra Bank has been appointed directors to NEPSE's Board of Directors. Mr. Thapa and Mr. Regmi replaced representatives of NRB Mr. Ganesh Kumar Shrestha and Mr. Rabindra Prasad Pandey as board members.

Market Review

Turnover

The Nepal Stock Exchange, the only secondary market of the country, witnessed a remarkable growth in trading activities in the first eleven months of FY 2007/08. Major indicators of the secondary market, for example the amount of shares traded, number of listed shares, number of transactions, turnover, total

Groupwise distribution of turnover



market capitalization of listed shares, have increased in the review period.

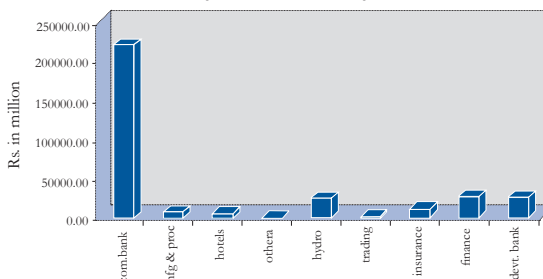
Total trading volume of the listed shares recorded an upsurge of 175.02 per cent in first eleven month of FY 2007/08 compared to the same period of the previous year. The trading volume increased to Rs. 19.05 billion from Rs. 6.92 billion in the same period last year.

The commercial banking groups had a greater turnover than the rest of the groups. Their turnover was Rs. 10.37 billion, 57 per cent of the total market turnover. The turnover of the hydropower groups was Rs. 3.01 billion, which accounted for 16 per cent of the total transaction. The development bank group occupied 13 per cent, the financial group 11 per cent, and the manufacturing and processing group two percent. The hotel, trading and other groups had a joint turnover of less than one per cent.

Market Capitalization

Market capitalization of listed shares increased by 109 per cent and reached Rs. 324.50 billion in the first eleven months of the current fiscal year. It was Rs. 155.24 billion in the corresponding period last year. The total market capitalization moved up swiftly because of a significant rise in the share prices of commercial banks and other financial institutions. With this increase the market capitalization to GDP ratio reached 44.75 per cent in the review period.

Groupwise market capitalization



The commercial banks group has the most number of shares in the total market capitalization structure, worth Rs. 219.39 billion (67 percent). Similarly, the finance

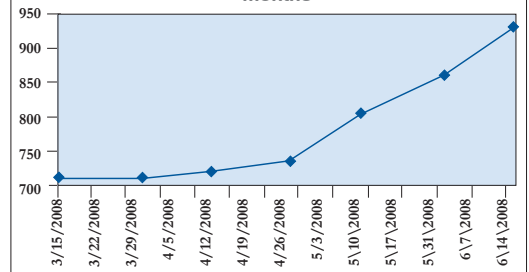
group occupied 9 percent, the development bank and hydropower groups each occupied 8 percent, the manufacturing and hotel groups each occupied 2 percent, and the trading group occupied less than one per cent of the total market capitalization.

NEPSE

All share index NEPSE registered a 217.69 points increase during the past three months. It was 712.52 points on 16 March 2008 and reached 930.65 on 15

June 2008. Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index has continuously increased despite some ups and downs in the current fiscal year. Restoration of peace, listed companies' improved financial performance and most importantly the Central Bank's directives dated 26 March 2007 to double the paid-up capital of banks and financial institutions contributed to a remarkable increase in share prices and, subsequently, the stock

NEPSE movement in past three months



market indices.

The sensitive index, which measures the share price movement of 71 companies classified as group A, reached the highest point on 12 June 2008. The index stood at 243.48 points on that day. The index registered the lowest of 209.19 points on 18 May 2008.

Listing

The total number of listed companies reached 148 in the first eleven months of FY 2007/08; it was just 134 in the same period last year. At the end of the review period 15 companies were listed under commercial bank group. Similarly, there were 24 companies in the development bank group, 17 companies in the insurance group, 57 companies in the finance group, 21 companies in the manufacturing and processing group, four companies in the hotel group, five in the trading group, and two in others' group. The paid-up value of these companies reached Rs. 26.61 billion in the review period (it was Rs.21.45 billion last year). IN the last three months 39 companies listed a total of 41.07 million shares, amounting to Rs. 4.10 billion. Among these companies, 24 listed bonus shares, amounting to Rs.957.74 million, 10 listed rights shares amounting to 2866.78 million and five companies listed ordinary shares amounting to 279.27 million.