



INTRODUCTORY PRESENTATION

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Financial System in Nepal

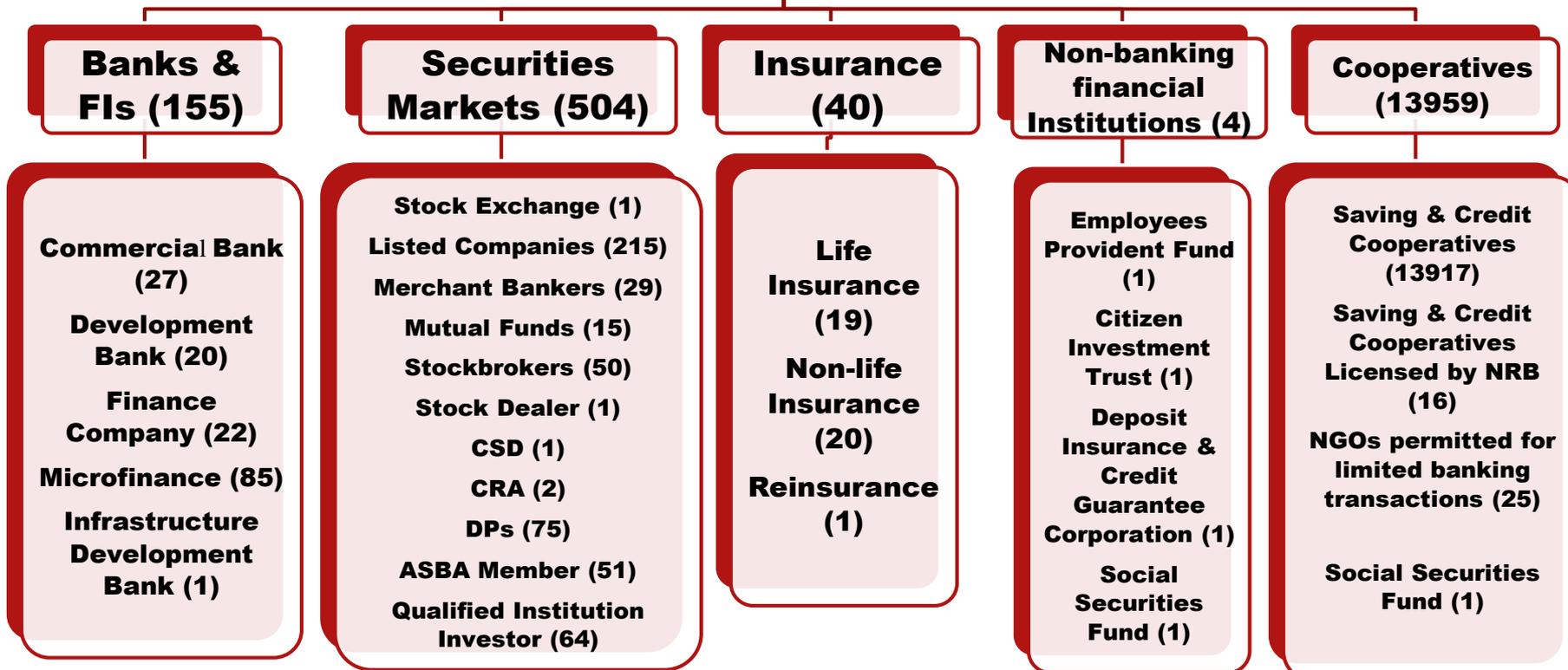
Nepalese financial system consists of banking, Securities markets, insurance companies, non-banking financial institutions and saving and credit cooperatives.

Out of total assets of financial system, 85 percent has been covered by BFIs.



Financial System in Nepal Cntd.....

Financial System in Nepal





Regulatory Bodies of Nepalese Financial Markets.

In Nepalese financial markets, multiple regulators are active to regulate and supervise the overall markets.

S.N.	Regulator	Financial Market
1	Securities Board of Nepal (SEBON)	Overall Securities & Commodities Derivatives Market
2	Nepal Rastra Bank (NRB) (Central Bank of Nepal)	Money Market, Bank & Fis, Foreign exchange management
3	Insurance Board	Insurance Market
4	The ministry of Finance	Non-Banking Financial Institutions
5	Department of Co-operatives (under the the Government of Nepal, Ministry of Land Management, Co-operative and Poverty Alleviation)	Co-operatives



Securities Board of Nepal (SEBON).

- ▶ It is the apex regulatory body of Nepalese Securities & commodity derivatives markets. It regulates and supervises to the Securities & commodity derivatives markets, Securities and commodity derivatives market's business persons and both instruments.
- ▶ It was established at 1993 as a separate regulatory body of Securities markets.
- ▶ The Nepalese government has prioritised the securities markets and has recognised it as an important medium for capital accumulation for achieving the sustainable development goal.
- ▶ In Nepal the securities law has provision as a quasi-judicial body that recognises securities regulator for administering securities laws including imposing monetary penalties.



Organization Structure of SEBON

A. Governing Board

The governing Board of SEBON is comprises Seven members including representatives of Government, expert member and private sector representative.

- ▶ **Chairman:** One executive chairman appointed by the Government for tenure of four years to renowned person who have obtained at least master's degree and gained at least seven years of experience in the field of stock exchange management, capital market development, economics, finance, commerce, management or law. the chairperson act as the administrative chief of, and perform the day-to-day business of the Board.
- ▶ **Representative Member:** Ministry of Finance (Joint Secretary), Ministry of Law (Joint Secretary), Central Bank (Executive Director), Institute of Chartered Accountants of Nepal (Vice Chairman), Federation of Nepalese Chamber of Commerce and Industries (Vice Chairman).
- ▶ **Expert Member:** One expert member appointed by the Government of Nepal for the tenure of three years.



Organization Structure of SEBON Contd.....

B. Audit Committee

(Internal and External Audit Committee)

C. Executive Chairman : Head of Organisation

(the chairperson act as the administrative chief and perform the day-to-day business of the Board.)

D. Executive Director : Head of Department

E. Deputy Executive Director : Head of Division

F. Director : Head of Section

G. Assistant Director : Head of Sub Section

H. Senior Assistant

I. Assistant



Objectives of SEBON

Objectives

Protect the interest of the investor.

Make the securities market fair, transparent, efficient, competitive, accessible and credible to the investor.

Develop the securities market to mobilise necessary capital for the economic development of the country.



Functions of SEBON

- ▶ SEBON regulates and manage the activities of the securities markets and persons involved in securities business by regularising the issue, purchase, sale and exchange of securities in order to develop securities market and to protect the interests of investors.
- ▶ SEBON is also mandated to regulate commodities exchange market after the enactment of Commodity Exchange Market Act, 2017.
- ▶ It also regulates and manage alternatives investment fund such as private equity, venture capital and hedge fund.
- ▶ Promote the corporate governance and professionalism of the market participants.



Legal Structures

A. Acts

- ▶ Securities Related Act, 2006
- ▶ Commodity Exchange Market Related Act, 2017

B. Regulations

- ▶ Securities Board of Nepal Regulations, 2007
- ▶ Securities Market Operation Regulations, 2008
- ▶ Securities Businessperson (Stock Broker and Securities Dealer) Regulations, 2008
- ▶ Securities Businessperson (Merchant Banker) Regulations, 2008
- ▶ Mutual Fund Regulations, 2010
- ▶ Securities Central Depository Service Regulations, 2010
- ▶ Credit Rating Regulations, 2011
- ▶ Securities Registration and Issuance Regulations, 2016
- ▶ Commodities Exchange Market Regulations, 2017
- ▶ Securities Listing and Trading Regulations, 2018
- ▶ Specialized Investment Fund Regulations, 2019



Legal Structures contd.....

C. Guidelines

- ▶ Portfolio Management Guidelines, 2010
- ▶ Mutual Fund Guidelines, 2010
- ▶ Securities Purchase (Public Issue) Guidelines, 2017
- ▶ Securities Issue and Allotment Guidelines, 2017

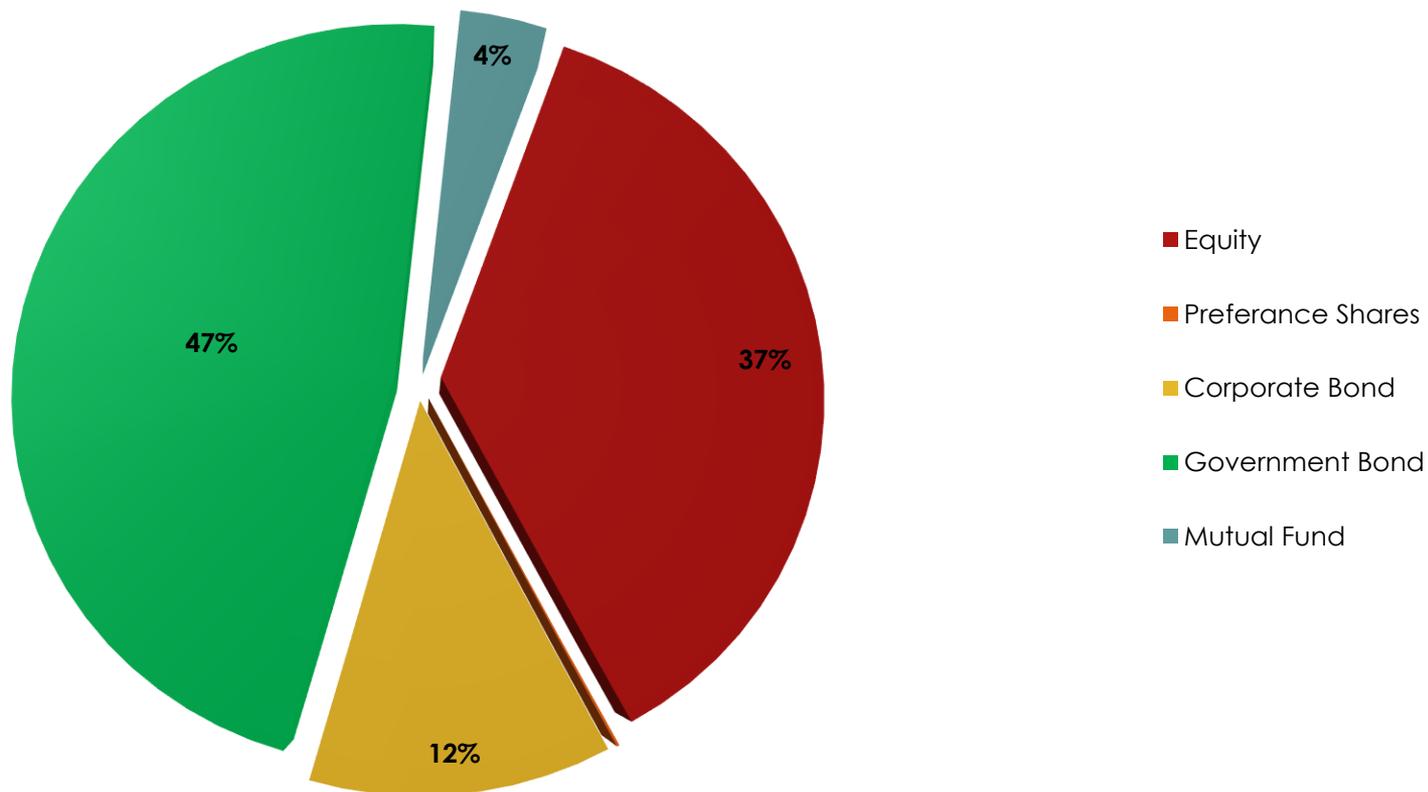
D. Bylaws

- ▶ Secondary Market Trade Operation of Government Debenture Byelaws, 2005
- ▶ OTC Market Operation ByeLaws, 2008
- ▶ Securities' Central Depository Services Byelaws, 2012
- ▶ Securities Transaction Clearing and Settlement Byelaws, 2013
- ▶ Securities Enlistment Byelaws, 2018
- ▶ Securities Trading Byelaws, 2018



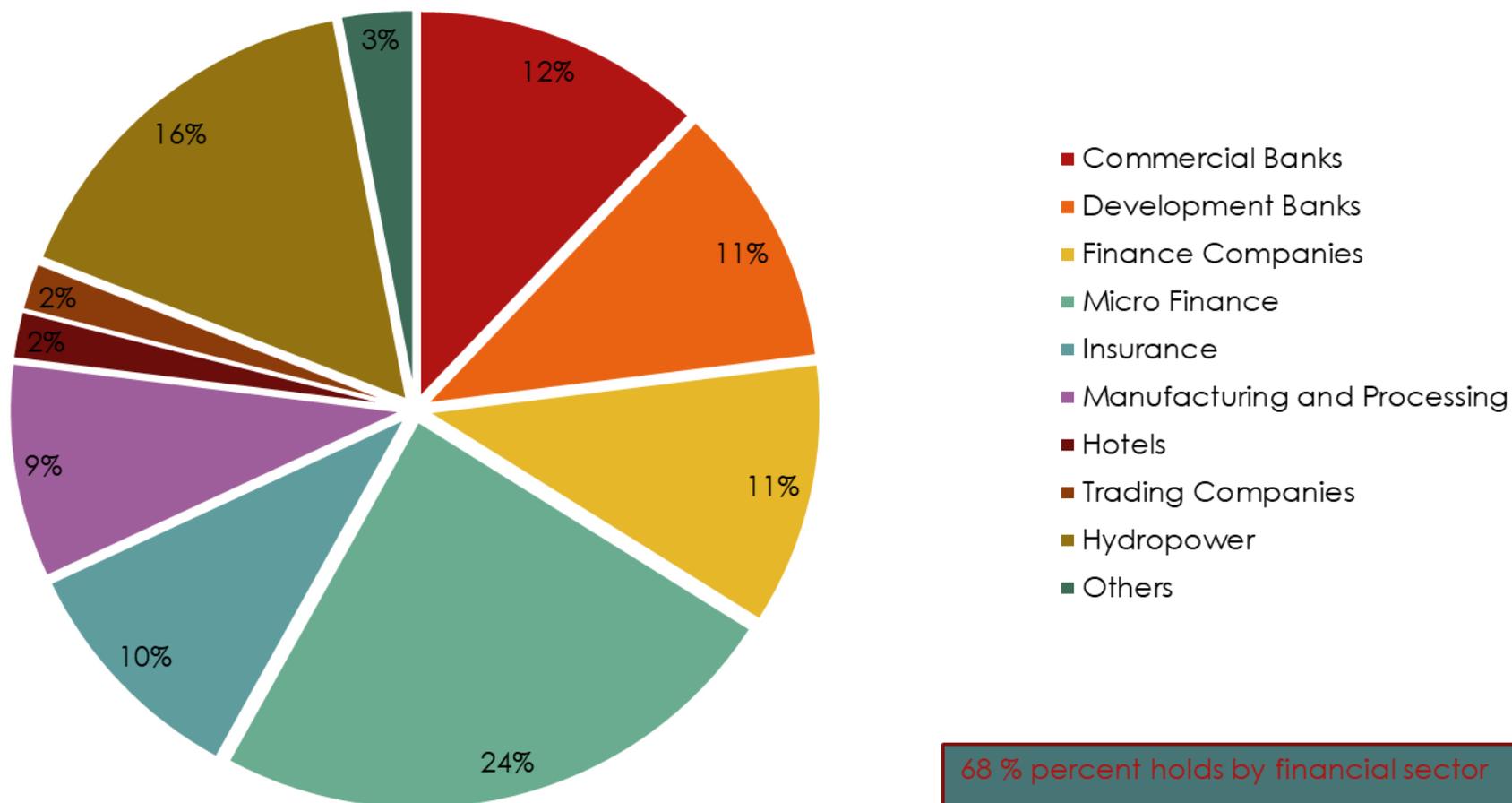
Securities Market Instruments

Instruments Diversification in Nepalese Securities Markets





Sector wise classification of listed companies





Market Size

A. Primary Markets

- ▶ **The primary market was started from 1937 with the issue of IPO by Nepal Bank Ltd. and Biratnagar Jute Mills.**
- ▶ Equity is the major portion of primary issue.
- ▶ Initial public offering (IPO), further public offering (FPO), right issue, debenture issue and mutual Fund and bonus issue are the major methods of capital mobilisation through primary markets in Nepal.
- ▶ The capital mobilisation from primary markets has been around 4.04 billion US Dollar.
- ▶ Primary markets fully automated by applying ASBA system. It has widespread all over the country. The investor can apply the application to the public offerings through internet and mobile device staying at home.
- ▶ In Primary Markets, there are around 1.5 million investors participate in single issue of equity share.



Market Size Contd...

B. Secondary Markets

- ▶ The Secondary market was initiated in 1976 in a primitive way with the establishment of Securities Marketing Centre (SMC) which was converted into Nepal stock Exchange Ltd. In 1993.
- ▶ NEPSE started trading at the secondary market from 100 points in January 1994. The highest point of indices is 2526.92 whereas the record lowest points is 292.02.
- ▶ Total Market Capitalisation 29.11 trillion US Dollar at 4th February, 2021. Then the market Cap and GDP ratio is 95 percent, Average annual turnover is around 8.37 percent on the total market capitalisation. Average Daily Turnover is USD 8.55 million.
- ▶ Total demat account opened is more than 2.7 million till 4th February, 2021.
- ▶ In Secondary Market there are around four hundred thousand active investor has participated. In this around 99 percent are the retail investors.



Use of Technology in Securities Markets.

- ▶ Primary markets is fully automated by applying ASBA system. It has widespread all over the country. The investor can apply the application to the public offerings through internet and mobile device staying at home.
- ▶ The Secondary Markets is Semi-automated (Only securities transaction is automated but other Clearing and settlement is manual). It has not developed as much as primary markets.



Securities market trend in last five years

Particulars	2015/16	2016/17	2017\18	2018/19	2019/20
Number of Public Issue	55	101	87	65	34
Ammount of Public Issue (USD in billion)	17.79	57.73	48.74	45.50	29.65
Capital Mobilisation through Securities Market	37.52	91.58	79.02	69.92	59.33
NEPASE Index	1718.15	1582.67	1212.36	1259.02	1362.65
Market Capitalisation (USD in billion)	1770.94	1805.20	1312.54	1433.33	1579.52
Annual Turnover (USD in billion)	154.26	199.32	111.03	100.67	132.18
Market Capitalisation to GDP Percentage	84.10	71.44	47.70	45.25	47.59



Challenges of Nepalese Securities Market.

Service improvement and professional dev.

- ▶ Effective development of mutual funds and trustee services, secondary debt market and OTC market.
- ▶ Implementation of free-pricing system in IPO and attracting real sector companies in the securities markets.
- ▶ Making securities market investment/market friendly by improving in disclosure practices.
- ▶ Reducing cost of public issue of securities.
- ▶ Establishment of settlement guarantee funds for the compensation for losses due to system deficiencies and failure of counterparty.
- ▶ Allow the BFI's subsidiaries to be involved in brokerage business as per Securities Act.
- ▶ Margin financing through brokers based on international practice.
- ▶ Inviting foreign technology, expertise and capital in the stockbrokerage services.
- ▶ conduct the fully automate trading system with integrating the investor's bank account and demat account at TMS.



Challenges of Nepalese Securities Market contd.

Developing institutional and regulatory capability of SEBON

- ▶ Organisational development, quantitative and qualitative development of human resources including expert and professionals
- ▶ Capacity enhancement of IT & to increase its uses.

Attracting real/manufacturing sector

- ▶ In order to attract real/manufacturing sector a package of program is needed
- ▶ a. Compulsory conversion of private ltd cos. into public ltd cos. with certain paid up capital including financial transparency and corporate governance
- ▶ b. Incentive packages through fiscal, monetary and other policies. It includes income tax rebate for such cos., credit priority by mon. policy to listed cos. like agri & hydropower & free pricing in IPO.



Challenges of Nepalese Capital Market contd.

Strengthening legal framework

- ▶ converting some regulations into Acts such as CDS Regulation and Mutual Funds Regulation, there is need of Trust Act and other Acts for robust regulation and management of CDS and Mutual Funds and trustee services.
- ▶ Strict enforcement on insider trading.

Other challenges

- ▶ Institutional and functional arrangement of commodity derivatives markets.
- ▶ Facilitating and regulating to the alternative investment fund such as venture capital/private equity.
- ▶ Establishing Securities Markets Institute (SMI) in order to conduct regular investors' education program and professionalise securities market human resources.
- ▶ Develop and implement the modern securities instrument



Major Roles and Responsibilities in Organisation.

- ▶ Presently, I am working under the Regulation Department.
- ▶ In this Department I work licensing related function such as, review and study of the documents received from various market participants, (such as, Stock exchange, Central depository, Credit Rating, Stock broker, Stock dealer, Depository participants, fund manager, ASBA member, mutual fund and alternative investment fund and qualified institutional investors)

Similarly,

- ▶ Assess the fit and proper test of promoters, directors, and applicant of market participants (intermediaries) as per rules and regulation.
- ▶ Examine the sources of funds of the applicants' promoters from anti-money laundering perspective.
- ▶ Conduct onsite inspections of applicants before granting operating license of securities market or business related works.



**Thank you
Namaste**

